Dignity plc Annual Report & Accounts 2006

Dignity
CARING FUNERAL SERVICES

Delivering client service excellence

About Dignity

Dignity is Britain's largest single provider of funeral-related services. The Group owns 521 funeral homes and operates 22 crematoria in Britain. The Group is also the market leader in pre-arranged funeral plans, where people plan and pay for their funeral in advance.

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, funded by internally generated cash flows;
- national marketing, principally through affinity partners, of pre-arranged funeral plans; and
- developing, managing or acquiring additional crematoria where possible.

Contents

Key financial highlights

Current period financial highlights

	2006	2005
Underlying earnings per share[a] (pence)	**26.6**	22.4
Revenue (£million)	**149.8**	143.2
Underlying operating profit[b] (£million)	**44.1**	41.0
Underlying profit before tax[b] (£million)	**27.9**	25.9
Cash generated from operations[c] (£million)	**51.7**	49.5
Earnings per share (pence)	**25.9**	22.9
Operating profit (£million)	**43.4**	41.6
Profit before tax (£million)	**27.2**	26.5

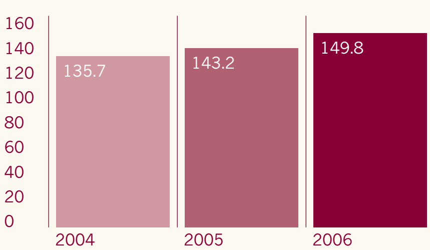
[a] Underlying earnings per share is calculated as profit on ordinary activities before exceptional items and after taxation divided by the weighted average number of Ordinary Shares in issue in the period.
[b] Before profit on sale of fixed assets and non-recurring costs expensed relating to return of £1 per share in August 2006.
[c] Before lump sum payment to final salary pension scheme of £10 million in August 2006 and £0.7 million payment in respect of return of £1 per share in August 2006.

Revenue up 5% to £149.8 million

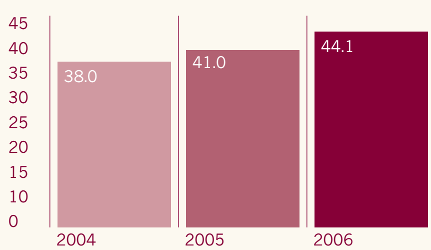
Underlying operating profit up 8% to £44.1 million

Underlying earnings per share up 19% to 26.6 pence per share

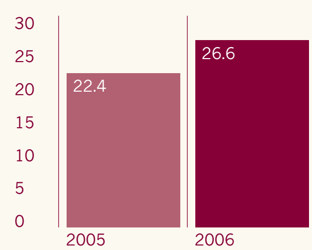
Revenue
(£million)



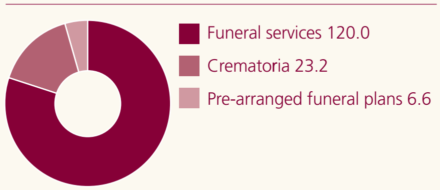
Underlying operating profit
(£million)



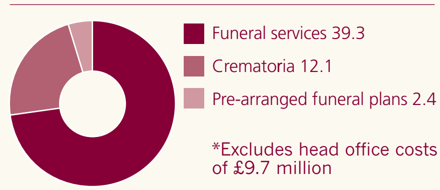
Underlying earnings per share
(pence) (2004 not included as not comparable)



Revenue by area
(£million)



Underlying operating profit by area*
(£million)



*Excludes head office costs of £9.7 million

Dignity at a glance

The Group's operations are managed across three main areas, namely funeral services, crematoria and pre-arranged funeral plans.

Business overview

Funeral services

Funeral services represent 80 per cent of the Group's revenues and we operate a network of 521 funeral locations throughout Britain, trading under established local trading names. In 2006, the Group conducted 66,500 funerals, which represents approximately 12.1 per cent of estimated total deaths in Britain. During the period, the Group acquired six new funeral locations.

Crematoria

Crematoria represent 15 per cent of the Group's revenues and we are the largest single operator of crematoria in Britain. We operate 22 crematoria in England and Scotland and carried out 38,500 cremations in 2006 representing 7 per cent of estimated total deaths in Britain.

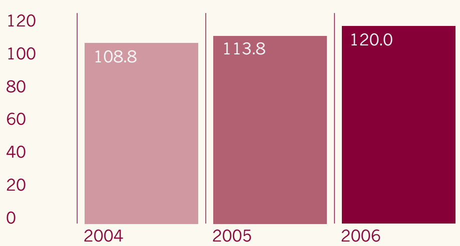
Pre-arranged funeral plans

Pre-arranged funeral plans represent 5 per cent of the Group's revenues. Pre-arranged funeral plans allow people to plan and pay for their funeral in advance. The Group is the market leader in the provision of pre-arranged funeral plans with 188,800 unfulfilled funeral plans as at 29 December 2006. Dignity works with affinity partners such as Age Concern, AXA, Royal London and Liverpool Victoria to market funeral plans.

Operational and financial summary

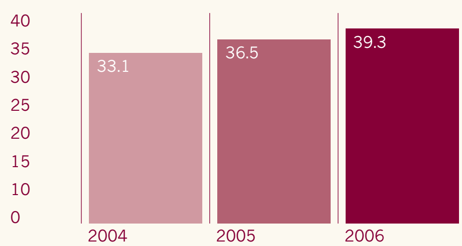
Revenue up 5.4% to £120.0 million

Revenue (£million)



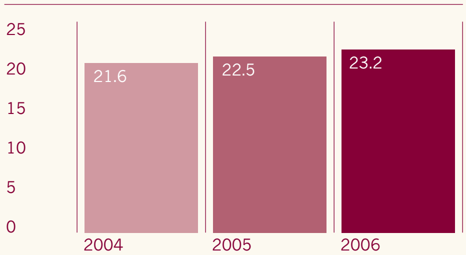
Underlying operating profit up 7.7% to £39.3 million

Underlying operating profit (£million)



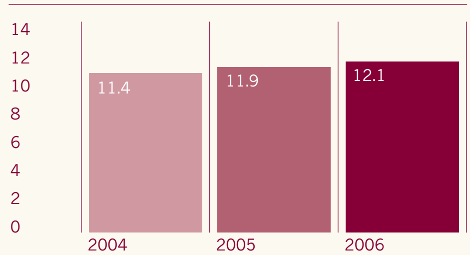
Revenue up 3.1% to £23.2 million

Revenue (£million)



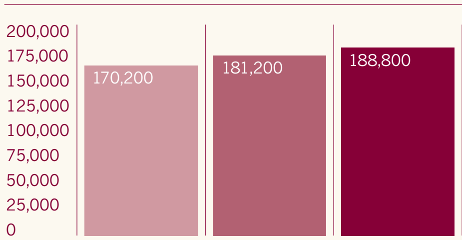
Underlying operating profit up 1.7% to £12.1 million

Underlying operating profit (£million)



Total unfulfilled pre-arranged funeral plans increased to 188,800

Total number of unfulfilled pre-arranged funeral plans



Chairman's statement

"Another successful year saw us return £80 million to shareholders whilst also continuing to invest in the development of the business."

Richard Connell, Chairman

R.A. Connell

Introduction

Dignity is the single largest provider of funeral-related services, namely funeral services, crematoria and pre-arranged funeral plans in Britain, and is the only UK listed company in this area.

Results

The Group has performed well in the period. Underlying earnings per share (which excludes profit on sale of fixed assets and costs of redeeming the B shares) have increased 19 per cent to 26.6 pence per share (2005: 22.4 pence per share). Underlying operating profit has increased 8 per cent to £44.1 million (2005: £41.0 million).

Basic earnings per share has increased 13 per cent to 25.9 pence per share (2005: 22.9 pence per share). Operating profit has increased by 4 per cent to £43.4 million (2005: £41.6 million).

New Secured Notes and use of proceeds

During the period, the Group issued further Secured Notes, receiving £85.8 million net of fees and returned £80.0 million (£1 per share) to shareholders.

In addition, our pension scheme has been returned to surplus primarily through a £10.0 million lump sum payment to the scheme.

Dividends

The Group paid an interim dividend of 3.03 pence per share.

The Board has declared a final dividend of 6.06 pence per share. This will be paid on 29 June 2007 to shareholders on the register at 8 June 2007, provided appropriate consent is received at the Annual General Meeting, which takes place on 8 June 2007.

Our staff

Client service excellence continues to be fundamental in our strategy to grow the business. This cannot be achieved without the dedication and loyalty of each and every member of our staff.

I would like to thank our staff throughout the business for their support and commitment throughout the period.

Changes in Directors

Jim Wilkinson has recently left Dignity. I would like to take this opportunity to thank Jim for his input into the business.

I am delighted that Richard Portman joined the Board as Corporate Services Director following six years as Head of Finance. Richard will also continue to serve as Company Secretary.

As in previous years, I am grateful to all my fellow Directors for their support and wise counsel.

Outlook for 2007

We continue to focus on the core elements of our strategy developing the business both organically and by acquisition.

Initial trading in 2007 has been positive and the Group remains well placed for the year ahead.

Board of Directors

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

1. Richard Connell (52) (a)(n)(r)
(Non-Executive Chairman)
Richard has held senior positions within a number of financial institutions including 3i Group, Amvescap and HSBC. In addition to his current role at Dignity, he is Chairman of Ideal Stelrad Group, a major European heating business. Richard has a PPE degree from Oxford University and is an FCA.

2. Peter Hindley (63)
(Chief Executive)
Peter has extensive experience of the industry, and led the management buyout of the Group from SCI in 2002. In 1991, he was appointed Chief Executive of Plantsbrook Group plc. Following the acquisition of both Plantsbrook Group plc and Great Southern Group plc by SCI in 1994, he was appointed CEO of SCI (UK). Before entering the funeral services industry, Peter spent 25 years in retailing, holding senior positions in Debenhams, Burtons and Harris Queensway.

3. Mike McCollum (39)
(Finance Director)
Mike joined Dignity's former parent, SCI, in 1995 from KPMG Corporate Finance in London to manage acquisition activity in the UK and later in Europe. In 1999, he became responsible for the pre-arranged funeral plan division. As Finance Director, he has overseen the management buyout and bank refinancing, both in 2002, the whole business securitisation in 2003, the IPO in 2004 and the recent bond issue and return of value in February 2006. He has a law degree from Birmingham University (LL.B), is a qualified solicitor and also holds an MBA from Warwick University.

4. Andrew Davies (45)
(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 buyout team in 2002.

5. Richard Portman (45)
(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 buyout 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.

6. James Newman (57) (a)(n)(r)
(Non-Executive Director)
James is Chairman of Straight plc, Brulines (Holdings) plc and Infoserve Group plc and a Non-Executive Director of Scott Wilson Group plc and The Scarborough Building Society as well as a governor of Sheffield Hallam University. He was formerly Deputy Chief Executive and Group Finance Director of Kelda Group plc and Group Finance Director of a number of other public companies. James is an FCA and a member of the Association of Corporate Treasurers.

7. William Forrester (66) (a)(n)(r)
(Non-Executive Director)
Bill is the Chairman of Linpac Group 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.

Business review

"More families than ever would definitely recommend our services."

Peter Hindley, Chief Executive

Introduction

The Group is firmly established as Britain's largest single provider of funeral-related services.

Fundamental to our success is the consistency of our strategy. It focuses on client service excellence, improving revenues, cost control and selective additions to our funeral locations, crematoria and pre-arranged funeral plan partners.

The Group's operations are managed across three main areas, namely funeral services, crematoria and pre-arranged funeral plans, which respectively represent 80 per cent, 15 per cent and 5 per cent of the Group's revenues. 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 plans.

Performance in the period

Total estimated deaths for the 52 week period to 29 December 2006 in Great Britain were 548,100 compared to 563,800 in the comparative 52 week period in 2005, a reduction of 2.8 per cent and below government forecasts of 560,000 deaths. The historic number of deaths quoted is based on the initial Office of National Statistics (ONS) estimates for each calendar year. These death rates are revised by the ONS from time to time but to maintain consistency of reporting, Dignity quotes the original reported numbers. Based on historical evidence Dignity estimates that final deaths reported might fluctuate by around 1 per cent.

Funeral services

The Group operates a network of 521 (2005: 519) funeral homes throughout Britain, trading under local established names. In 2006, the Group conducted 66,500 funerals (2005: 67,000), representing approximately 12.1 per cent (2005: 11.9 per cent) of estimated total deaths in Britain.

Revenue within funeral services was £120.0 million (2005: £113.8 million). Underlying operating profits were £39.3 million (2005: £36.5 million), an increase of 8 per cent. Reported operating profit was £39.3 million (2005: £37.1 million), an increase of 6 per cent.

The small increase in the portfolio reflects three distinct activities. Firstly, we acquired six funeral locations, investing £7.3 million, funded from internally generated cash flows. They are all long established, highly reputable businesses.

Secondly, we have opened two funeral locations under existing trading names.

Finally, we have also taken the opportunity, primarily where property leases expired, to close six under performing funeral locations.

Opposite page, left to right:
Christopher Bond, Memorial Consultant, Alex Lyons, Crematorium Manager and Raymond Rodd, Gardener, all from Randalls Park Crematorium, Leatherhead.

89%

Levels of client service satisfaction remain high with 89% of families saying they would definitely recommend our services.

Left: Our crematorium staff work hard to keep our memorial gardens looking beautiful all year round. As part of our commitment to providing our clients with the highest levels of service we opened two new memorial gardens for bereaved parents in 2006.

Teamwork

Working together to care for our clients

Teamwork is vital to us. From our support staff working behind the scenes, to our staff who look after families every day, every single member of staff is an essential part of the Dignity team. By caring about the individual jobs we do and working together to care for and listen to our clients, we make sure we are delivering the highest levels of service at every step of the way.

Business review continued

Left: We have continued to concentrate on the 'Helping Our Clients Every Step of the Way' programme. Staff excellence in client service is recognised by a number of regional award schemes.

Left: We are constantly thinking of new ways to improve the service we offer our clients. In 2006 our funeral locations in Kent launched an ashes scattering service in a beautiful spot on the River Medway.

Crematoria

The Group operates 22 crematoria and carried out 38,500 cremations in 2006 (2005: 39,500) representing 7.0 per cent (2005: 7.0 per cent) of estimated total deaths in Britain. The Group is the largest single operator of crematoria in Britain.

Turnover within crematoria was £23.2 million (2005: £22.5 million). Operating profits were £12.1 million (2005: £11.9 million).

The small reduction in operating margins has been caused by a combination of lower cremation volumes and memorial sales, as well as significant increases in certain costs such as utilities.

Pre-arranged funeral plans

The Group is the market leader in the provision of pre-arranged funeral plans. Unfulfilled pre-arranged funeral plans increased to 188,800 from 181,200 during the period. These unfulfilled pre-arranged funeral plans underpin the future performance of the funeral division, as the Group expects to perform the majority of these funerals.

The Group sells pre-arranged funeral plans through its network of funeral homes and primarily through affinity partners, notably Age Concern, AXA, Royal London and Liverpool Victoria.

Liverpool Victoria is a new relationship established in early 2006 following some successful test mailings. This continued in the second half of 2006 with a number of successful campaigns.

Client service

Client service excellence remains at the heart of our strategy, with families continuing to recommend our services.

We have continued to concentrate on the 'Helping Our Clients Every Step of the Way' programme and the results of the new survey questions that were both introduced in 2005.

This programme has helped to focus employees on delivering consistently high levels of client service and satisfaction.

As we continue to receive a high level of responses to our surveys, we are able to use that feedback to identify elements of our services that are being performed well or could be improved.

The combination of these approaches has resulted in levels of client service satisfaction remaining at a very high level, with 89 per cent of families saying they would definitely recommend our services, with a further 9 per cent saying they would probably do so.

Our employees

Our employees continue to play a vital role in this business, whether they deal with clients on a daily basis, or work in the support functions throughout the business.

I am delighted that once again this year, we have been able to share the success of the business with the staff. This was achieved through a bonus of £500 for each permanent, full time member of staff. This recognises the significant part they play in the Group's performance and I would like to thank them for their hard work throughout the year.

Opposite page, left to right:
Cordelia Hunt, Funeral Director and Darryl Mogg, Community Business Manager of A V Band, Worcester, Hilary Al Rasheed, Community Manager of Holland Funeral Service, Malvern.

Left: Caring for the local community is at the heart of everything we do. Staff in Bury St Edmunds planted a tree for bereaved families in their local cemetery, underneath which they bury signed tags from their annual memorial Christmas trees.

120,000

Every year we place memorial Christmas trees in our funeral locations and crematoria. Over 120,000 memorial tags were hung on these trees in December 2006.

Sharing best practice

Sharing ideas to deliver client service excellence

We learn how to improve the service we give to our clients by sharing stories of our success. Whether it is finding a special piece of music for a family or meeting with a client out of hours, our staff regularly share ideas on how to give extraordinary service to our clients. We know from our client surveys and the thousands of thank you letters that we receive every year that our care and attention to detail means a great deal to the families we serve.

Business review continued

Left: All staff with over 10 years long service are presented with an award by a Dignity manager. We also recognise long service by naming everyone with a long service award each quarter in our staff newsletter, 'Dignity Express.'

2,800

Hundreds of Dignity staff have been serving local families for many years. In this period, 200 staff marked over 2,800 years of long service between them.

The support and safety of our staff is of paramount importance to us. This subject is discussed further in the Corporate and Social Responsibility Report.

The first 'Save As You Earn' share scheme (SAYE) will mature in May 2007. An employee who has been saving the maximum £193 per month for the three year period will receive shares worth approximately £21,000 based on a share price of £6.54. Given the success of this scheme, we are currently investigating the possibility of starting a new SAYE scheme in 2007.

Pensions

The Group operated two final salary pension schemes until 6 April 2006, when the schemes were merged in order to achieve savings in administrative expenses. Benefits offered were maintained and the scheme remains open to current and new employees.

In addition, the Group made a one-off contribution to the scheme of £10.0 million in August 2006, demonstrating our commitment to existing and prospective members of the scheme.

As a result, the scheme has an actuarial surplus on an IAS 19 basis of £0.6 million as at 29 December 2006 and is well placed for the future.

Investment for the future

The period witnessed total capital expenditure of £8.0 million. This provided the Group with 45 new Mercedes hearses and limousines, 33 new ambulances, 74 other new vehicles, 22 major refurbishments and helped to improve facilities at a number of our funeral and crematoria locations.

We anticipate a similar amount of investment in 2007. In addition, we will be setting aside further funds, which will be used to improve approximately 50 funeral locations.

The Group intends to continue to identify and acquire funeral locations that compliment our existing portfolio. In the first three months of 2007, we have invested £3 million in acquiring two funeral businesses, which has added six more funeral locations to our portfolio.

In January 2007, the Group signed a new 10 year marketing agreement with Age Concern, which secures what has historically been an important route to market. As part of this arrangement, the Group paid £2 million to acquire the 25 per cent held by Age Concern in Advance Planning Limited, one of the subsidiaries of the Group.

The pre-arranged funeral plan division is also testing with a number of parties including JD Williams, the Mirror Group, News International and Reader's Digest.

Opposite page, left to right:
Sheila Threader, Funeral Service Arranger and Andy Threader, Funeral Director of Frederick W Paine, Isleworth, Jan Haworth, Funeral Service Arranger and Bruce Haworth, Funeral Director of Frederick W Paine, Malden.

Left: During the year we have invested in 45 new Mercedes hearses and limousines, 33 new ambulances, 74 other new vehicles, 22 major refurbishments and helped to improve facilities at a number of our funeral and crematoria locations.

Left: Strong relationships with local organisations are very important to us. Every year we support the Royal British Legion's Poppy Appeal by planting poppies for hundreds of families in our memorial poppy fields.

Long service

Dedicating their working lives to the communities they serve

Our staff are totally dedicated to the local communities they serve. In fact many of our staff have been living in their local communities and looking after local families for decades, often arranging funerals for several generations of the same family. From the first time a family comes to us, through to keeping in contact after the funeral, our staff devote themselves to building a relationship of trust with our clients.

Corporate and social responsibility

Left: Our staff display a huge commitment to their local communities by fundraising for local good causes and supporting local events. Holland Funeral Service in Malvern won three business awards for their community involvement in 2006.

Left: In 2006 our pre-arranged funeral plan division planted over 1,000 trees with the Woodland Trust to offset paper used in direct mail campaigns.

"We aim to achieve our business objectives in a caring and responsible manner, recognising the economic, social and environmental impact of our activities."

Introduction

The Group is committed to achieving its strategic objectives and integrating corporate and social responsibility into all areas of the business. We recognise the importance of balancing the needs of our customers, our shareholders, our employees and the communities in which we work. This is central to the service we provide to our clients and is reflected in our business policies and procedures. The Group also believes in creating the appropriate culture for our staff, who are the most important asset of the business. We aim to achieve our business objectives in a caring and responsible manner recognising the economic, social and environmental impact of our activities.

Richard Portman, the Corporate Services Director, is the Board member responsible for Corporate and Social Responsibility. It is his responsibility to identify key social and environmental impacts and report to the Board on such matters.

In our communities

Making a difference to the local communities we serve, is at the heart of everything we do. Dignity staff are extremely committed to this ethos and support hundreds of local activities every year. From organising fundraising events for national charities to helping out at local church fêtes, our staff give their time to help good causes and charities.

By listening to and understanding the needs of the local community, our staff are able to provide help where it is really needed. Glynn Valley Crematorium in Bodmin worked with a local charity to create a much needed memorial garden for bereaved parents. Staff in Dignity's South East area made a donation of £2,000 to help buy essential equipment for the local ambulance service's community response unit. In Wembley three funeral locations, Asian Funeral Directors, A Spicer & Son and Sydney Hurry, organised the area's first ever memorial service for Hindu families. Mason and Gerald Martin in Hartlepool donated new lighting to improve security at their local allotments. These are just a few examples of many local initiatives developed and implemented by our staff in 2006. We also help a wide range of community groups ranging from schools to nursing homes by providing the free use of our community minibuses.

The expertise of our staff is invaluable to many local groups. In 2006, staff in London held a training day for Metropolitan police officers involved in policing funerals and liaising with bereaved families. At Ginns & Gutteridge in Leicester staff provide regular seminars to local nursing home and hospital staff.

Supporting charities

As part of our commitment to local communities, staff also raise thousands of pounds every year for national and local charities of their choosing.

For the past two years, as well as organising and taking part in local fundraising activities, staff have been raising money to help World Vision's work with survivors of the 2004 Indian Ocean Tsunami. Based on staff suggestions in the immediate aftermath of the tsunami we chose to support a long-term project and pledged to raise £50,000 for World Vision by the end of 2006. Through hundreds of events including coffee mornings, golf days, book sales and marathons staff managed to reach this target. This money has helped hundreds of families in Sri Lanka to rebuild their lives.

The Chief Executive of World Vision, Charles Badenoch commented: "The support, commitment and generosity of staff at Dignity has been incredible. The money raised has enabled World Vision to work alongside devastated communities in Sri Lanka as they continue to rebuild their lives and livelihoods. The creativity and energy of staff at Dignity shows great solidarity with those that lost so much. Your partnership is helping to transform communities and give hope to thousands of children across the hardest-hit areas."

Environment

As in previous years our business continues to have a low environmental impact and its activities are not expected to give rise to any significant environmental risks over the next 12 months.

Maintaining the quality of the environment in which we all live is an important concern for the Group. All areas of the Group operate in accordance with the Group's Environmental Policy. We recognise the impact of our

£0.5 million

Staff have used our four charity fairground organs to raise over £0.5 million since 2000.

Left: From sponsored bike rides to charity quiz nights, our staff arranged and took part in hundreds of events in 2006 raising over £140,000 for national and local good causes.

Right: In 2006 Dignity staff raised over £5,000 for Macmillan Cancer Relief by holding coffee mornings for their local communities.

£50,000

The Dignity Tsunami Appeal reached its target of £50,000 for World Vision's work with survivors of the 2004 Indian Ocean Tsunami.

operations on the environment and our aim is to reduce this impact and to operate in an environmentally responsible manner. There are a number of specific initiatives that have been implemented by the Group to help maintain the quality of the environment.

At our coffin manufacturing facility in East Yorkshire all wood waste from the manufacture of coffins is used to heat the factory. This facility produces the vast majority of the coffins used by the Group. A significant and increasing proportion of packaging which coffins are packed in for transit to our funeral locations is now returned to the factory for reuse. As this is done when the next delivery is made there is no increase in the use of vehicles to achieve this.

The funeral services division is progressively introducing embalming fluids that do not contain formaldehyde. These products eliminate the exposure of embalmers to formaldehyde, reduce emissions to the environment but still maintain the high standards of service provided by the Group. On a Group wide basis all disinfectants used have no significant toxic element and are totally biodegradable. Such initiatives are a function of the proactive approach taken in respect of Health and Safety matters.

All marketing information despatched by the Group's pre-arranged funeral plan division is now printed on recycled paper and the Group continues to explore ways to increase the use of recycled materials in the business. In 2006, our pre-arranged funeral plan division also planted over 1,000 trees with the Woodland Trust to offset paper used in direct mail campaigns.

The Group and its employees undertake to act whenever necessary to meet or exceed the standards of current environmental legislation and 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 practical.

Health and Safety

Effective Heath and Safety management is critical to the Group and is 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 of our employees and all persons who may be attending our premises.

The Group is committed to the prevention of accidents and regularly reviews and updates procedures and training to ensure that staff minimise any risks associated with their tasks. The Group has a full time dedicated Health and Safety Manager plus a further manager specifically dedicated to Health and Safety matters in respect of embalming. They are supported by a network of co-ordinators who are based and work in all areas of the business. During the period, there were no major injuries suffered by any member of staff, no prohibition notices were served on the Group, nor were there any prosecutions for Health and Safety offences.

Supporting our staff

Our employees are critical in the continued success of the Group. We are committed to high standards of employment practice and aim to encourage and develop successful employees.

The Group provides direct support to employees through both in-house training and external training courses. Such external training includes relevant job training and tutoring for professional qualifications including the National Association of Funeral Directors (NAFD) Diploma and Membership of the British Institute of Embalmers. In addition the Group has four members of staff who are qualified to act as tutors for the NAFD Diploma. In 2006, the Group supported staff development and welfare through its Welfare Trust, which provides funds for staff for professional training and hardship grants.

The Group publishes a quarterly in-house magazine 'Dignity Express' which is supplemented by monthly news bulletins to keep all employees informed of what is happening in the Group. Copies of 'Dignity Express' are also provided to retired employees. In addition, the Group has developed a dedicated employee website which contains news and useful information for employees.

Financial review

"Underlying earnings per share increased by 19 per cent to 26.6 pence per share."

Mike McCollum, Finance Director

The market conditions in which the Group operates and its trading performance during the 52 week period ended 29 December 2006 are described in the Chairman's Statement and the Business Review.

Financial highlights

- Underlying earnings per share have increased 19 per cent to 26.6 pence per share (2005: 22.4 pence per share).
- Revenue has increased 5 per cent to £149.8 million (2005: £143.2 million).
- Underlying operating profit has increased 8 per cent to £44.1 million (2005: £41.0 million).
- Underlying profit before tax has increased 8 per cent to £27.9 million (2005: £25.9 million).
- Cash generated from operations has increased 4 per cent to £51.7 million (2005: £49.5 million) before the £10 million lump sum payment to the Group's pension scheme and £0.7 million payment in respect of the redemption of the B shares.
- Earnings per share has increased 13 per cent to 25.9 pence (2005: 22.9 pence).
- Operating profit has increased 4 per cent to £43.4 million (2005: £41.6 million).
- Profit before tax has increased 3 per cent to £27.2 million (2005: £26.5 million).
- The Group has paid an interim dividend of 3.03 pence per share with a further 6.06 pence final dividend proposed.
- The Group returned £80 million (£1 per share) to shareholders in August 2006.

Capital structure and financing

The Group's only material external debt financing is the Class A and B Secured Notes, rated A and BBB respectively.

During the period, the Group issued a further £45.55 million Class A Secured 6.310 per cent Notes due 2023 and £32.50 million Class B Secured 8.151 per cent Notes due 2030. To ensure that the new Class A Notes issued were identical with those already in issue, Notes with a nominal value of £45.55 million were issued. This however, after deemed repayments, equates to a nominal value outstanding at the date of issue of £42.5 million. The Notes were issued at a premium and raised a total of £85.8 million after fees and expenses.

The Board believes that this fund raising and the subsequent return of value to shareholders is consistent with the strategy of maximising total shareholder returns through an efficient balance sheet, which nevertheless leaves sufficient flexibility to continue to grow the business.

The Board is of the opinion that the following provides additional indicative information regarding the net debt position of the Group:

	29 December 2006 £m	30 December 2005 £m
Class A and B Secured Notes*		
– issued April 2003	**(199.7)**	(202.6)
– issued February 2006	**(87.3)**	–
Loan Notes 2006	**–**	(0.1)
Cash balances	**41.4**	37.3
Net debt	**(245.6)**	(165.4)

* These amounts exclude any costs incurred in issuing the Secured Notes.

The Group's financial expense substantially consists of the interest on the Class A and B Secured Notes and related ancillary instruments. The net finance charge in the period relating to these instruments was £19.4 million (2005: £15.7 million). This charge consisted of interest costs on the Secured Notes of £19.9 million (2005: £14.8 million) and amortisation of debt issue costs of £1.2 million (2005: £0.9 million), offset by a release of premium of £0.9 million (2005: £nil million) and the release of prepaid interest of £0.8 million (2005: £nil million). The prepaid interest represents an element of the gross proceeds received by the Group because interest was due to Noteholders on the new Notes from 1 January 2006, even though the Notes were not issued until February 2006.This will not recur.

Other ongoing finance costs incurred in the period amounted to £1.0 million (2005: £1.3 million), representing the unwinding of discounts on the Group's provisions, finance expense on retirement obligations and other loans.

Interest receivable in the period was £4.0 million (2005: £1.7 million). As a result of the terms of the securitisation, the net proceeds of the Secured Notes issued in February 2006 remained on deposit for five months before being used. This resulted in approximately £1.8 million of interest receipts.

+5%
Revenue has increased 5 per cent to £149.8 million.

+8%
Underlying operating profit has increased 8 per cent to £44.1 million.

+4%
Cash generated from operations has increased 4 per cent to £51.7 million before exceptional payments.

Return of value and share consolidation

As planned, the Group returned £80.0 million to shareholders in August 2006 using the majority of the proceeds of the issue of the Secured Notes by issuing and then redeeming 80 million £1 B shares.

In addition, following approval by shareholders, the ordinary share capital of the Company was consolidated on a seven for nine basis in order to maintain the comparability of financial indicators such as share price.

Combined with the return of value, the effect was the same as buying back 17.8 million shares at a market price of £4.50.

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 obtained by excluding significant non-recurring transactions. Accordingly, the following information is presented to aid understanding of the performance of the Group:

	52 week period ended 29 December 2006 £m	52 week period ended 30 December 2005 £m
Operating profit for the period as reported	**43.4**	41.6
Add/(deduct) the effects of:		
Exceptional costs of redemption of B shares	**0.7**	–
Profit on sale of fixed assets	**–**	(0.6)
Underlying operating profit	**44.1**	41.0
Net finance costs	**(16.2)**	(15.1)
Underlying profit before tax	**27.9**	25.9
Tax charge on underlying profit before tax	**(8.6)**	(8.0)
Underlying profit after tax	**19.3**	17.9
Weighted average number of Ordinary Shares in issue during the period (million)	**72.6**	80.0
Underlying EPS	**26.6p**	22.4p
% increase in underlying EPS	**19%**	

Earnings per share

Following the return of value in August 2006, the Company had 62.2 million Ordinary Shares in issue, compared to 80 million previously. Therefore, the weighted average number of shares in issue during the period was 72.6 million Ordinary Shares.

Underlying earnings per share increased 19 per cent to 26.6 pence per share (2005: 22.4 pence per share). Basic earnings per share were 25.9 pence per share (2005: 22.9 pence per share), an increase of 13 per cent.

Cash flow and cash balances

Cash generated from operations was £51.7 million in the period (2005: £49.5 million). This is before the £10.0 million lump sum payment to the Group's defined benefit pension scheme and the £0.7 million payment in respect of costs of redeeming the B shares. Expenditure on funeral home acquisitions amounted to £7.3 million (2005: £6.7 million). A further £8.0 million (2005: £7.6 million) was spent on capital expenditure, the majority of which was spent on replacing or enhancing existing assets, principally the Group's vehicle fleet and its property portfolio.

Cash balances at the end of the financial period amounted to £41.4 million (2005: £37.3 million). £22 million of this amount has been set aside for acquisitions, of which £5 million has since been spent, as described in the Business Review. Of the remainder, £15 million has been set aside for tax and dividend payments to be made in 2007. However, this amount could also be used for acquisitions if suitable possibilities arose, with statutory payments being funded out of future operating cash flows.

Taxation

The overall effective tax rate was approximately 31 per cent and is not expected to vary significantly in the short term (see note 32). This tax rate is marginally higher than the standard UK tax rate of 30 per cent due to the impact of disallowable trading expenses and expenditure on the Group's premises that does not attract any deductions for tax purposes.

As a result of the quarterly accounting regime, corporation tax payments in any financial year represent 50 per cent of the estimated corporate tax liability for profits made in that same period and 50 per cent of the estimated corporate tax liability in respect of profits made in the previous period. As a result of the Group's ownership prior to flotation, no corporation tax was due on profits made in 2004. For these reasons tax payments in 2006 are substantially higher than in 2005.

Directors' report

The Directors present their report and the audited consolidated financial statements for Dignity plc and its subsidiaries for the 52 week period ended 29 December 2006.

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of the affairs of the Company and the Group and of the profit or loss of the Group for that period. The Directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors confirm that suitable accounting policies have been applied consistently, as explained in note 1 to the financial statements. They also confirm that reasonable and prudent judgments and estimates have been made in preparing the financial statements for the 52 week period ended 29 December 2006 and that applicable accounting standards have been followed.

The Directors are also responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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 confirm that as far as each Director is aware there is no relevant audit information of which the Group's auditors are unaware. The Directors further confirm each of them have taken all steps that they ought to have done as Directors to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

The maintenance and integrity of the Dignity plc websites are the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the Dignity plc investor website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 6 to 10 of the Business Review and on pages 14 to 15 of the Financial Review, which is incorporated into this Directors' report by reference. A review of the development of the business in 2006, events affecting the Group since the end of the year and likely future developments are referred to in the Business Review. The review of business activities in the Business Review and Financial Review are in line with the requirements of the Companies Act 1985.

Risks and uncertainties

Operational and financial risks are considered in the Business Review and Financial Review. 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 20 February 2006, Dignity Finance PLC, a subsidiary of the Group, issued £45.55 million Class A Secured 6.310 per cent Notes due 2023 and £32.50 million Class B Secured 8.151 per cent Notes due 2030. This raised a total of £85.8 million after expenses. The Company returned £80.0 million (£1 per share) to shareholders through the issue and redemption of a class of B shares. This was approved at an Extraordinary General Meeting of the Company on 28 July 2006. The Company also completed at the same time a consolidation of its share capital on the basis of seven new Ordinary Shares of 9 pence each for every nine old shares of 7 pence each.

Results

The results for the period are set out in the Consolidated Income Statement on page 30. Group profit before tax amounted to £27.2 million (2005: £26.5 million).

Dividends

An interim dividend of 3.03 pence was paid on 27 October 2006. The Board has declared a final dividend of 6.06 pence per share, which subject to approval at the Annual General Meeting, will be paid on 29 June 2007 to shareholders on the register at 8 June 2007. This makes a total of 9.09 pence for the period.

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 31 days (2005: 34 days). The Company has no trade creditors.

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 internal website, bulletins and management briefings. This is discussed in more detail in the Corporate and Social Responsibility Report on page 13.

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 makes every effort to treat disabled persons equally with others.

Directors and their interests
Details of the Directors of the Company who served during the period are shown in the Report on Directors' Remuneration on page 21. In accordance with the Articles of Association, at the Annual General Meeting, Richard Connell and Bill Forrester retire as Directors of the Company and, being eligible, offer themselves for re-election. Richard Portman was appointed to the Board as Corporate Services Director on 19 October 2006 and will seek re-election at the Annual General Meeting on 8 June 2007.

Substantial shareholdings
As at 20 March 2007 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	Percentage of issued share capital
Lloyds TSB Group plc	5,069,741	8.15%
BlackRock Inc	4,562,207	7.33%
Baillie Gifford and Co	4,515,161	7.26%
Tiger Global Management LLC	3,513,901	5.65%
Morgan Stanley Securities Ltd	3,077,993	4.94%
Legal and General Investment Management Ltd	2,468,046	3.97%
Aegon Asset Management UK plc	2,416,457	3.88%
UBS Global Asset Management Ltd	2,175,289	3.50%
The Goldman Sachs Group	1,902,031	3.06%
Standard Life Investments	1,879,078	3.02%

Health and safety policy
The Group's operations are executed 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 page 13.

Environmental policy
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 and 13.

Donations
The Group made charitable donations amounting to £0.1 million (2005: £0.1 million) during the period. Further information can be found on page 12. There were no political donations.

Going concern
The Directors have formed a judgment at the time of approving the financial statements that both the Company and the Group have adequate resources available to continue operating in the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

Post balance sheet events
See note 32 to the financial statements for further information.

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

By order of the Board

Richard Portman
Company Secretary
21 March 2007

Report on Directors' remuneration

for the 52 week period ended 29 December 2006

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 1985 (as amended by the Directors' Remuneration Report Regulations 2002).

The Board has reviewed the Group's compliance with the Combined Code ('the Code') on remuneration related matters. It is the opinion of the Board that the Group complied with all remuneration related aspects of the Code during the period except that:

- The annual bonus awarded to the Chief Executive is pensionable. He is however not a member of the Group pension scheme and maintains his own personal pension scheme. As a consequence there is no impact on the Group pension scheme.
- The Chairman, Richard Connell, is a member of the Remuneration Committee. This is to provide additional experience and balance given the small number of Non-Executive Directors.

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 James Newman and the Non-Executive Chairman, Richard Connell. The Code requires that a Group of this size has a Remuneration Committee with a minimum of two members. The Chairman is specifically excluded from discussions regarding his remuneration. 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.

Executive Directors have attended Remuneration Committee meetings when required except that Richard Portman attended all meetings in his role as Company Secretary and hence 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 to members by writing to the Company Secretary at the Registered Office and is also available for inspection on the Group's investor website www.dignityfuneralsplc.co.uk. The Committee met four times during 2006.

Remuneration policy

The Remuneration Committee's policy is to progressively set the main elements of the Executive Directors' remuneration at the following quartiles in comparison to a comparable group of companies ('the Comparator Group'). The Comparator Group is a group of 20 companies originally from the FTSE All Share Support Services Index (prior to the reorganisation of classifications effected from January 2006) with similar corporate attributes.

- Basic salary – median.
- Annual bonus potential – median to upper quartile.
- Share incentives – median to upper quartile.
- Total compensation – median to upper quartile.

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

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

The Remuneration Committee believes that the 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 based on the measurable delivery of strong financial targets and improved returns to shareholders.

The Remuneration Committee will continue to review the policy on an annual basis to ensure that it is in line with the Group's objectives and shareholders' interests.

Basic salary

As was noted in the 2005 Annual Report it was the Remuneration Committee's intention to review Executive Directors' base salaries, as they were below the median of the Comparator Group, with the aim of aligning them closer to the comparator median. This review was completed at the start of the period and Executive Directors' salaries were increased after comparison to both the Comparator Group and available market information.

When determining the salary of the Executive Directors the Remuneration Committee also 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.

The total remuneration package for Executive Directors will remain linked to performance.

Annual performance related bonus

The Committee's policy is to set the maximum annual bonus potential for Executive Directors between the median and the upper quartile in relation to the Comparator Group. The targets for the year 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. They are entirely linked to the annual financial objectives of the Group.

The maximum bonus attainable for 2006 by Executive Directors was 100 per cent of basic salary. A bonus of 70 per cent is attainable for meeting the first target set by the Committee and a further bonus of 30 per cent may be earned by achieving a second and more demanding target. The bonus percentage earned by the Executive Directors' in the period was 85 per cent. These bonuses are paid when the annual accounts have been audited and signed by the Directors.

In addition the Executive Directors' received a further bonus in the period equal to 30 per cent of their 2005 basic salary. This was awarded at the total discretion of the Committee in recognition of the successful completion of the issue of further Secured Notes in February 2006, raising £85.8 million net of fees, and the subsequent return of £80.0 million through the issue and redemption of B shares in August 2006 thus delivering a significant return of value to all shareholders. This bonus was paid during 2006.

Share incentives

Shareholders approved the current discretionary share incentive plan, the Long Term Incentive Plan (LTIP) on 31 March 2004 prior to admission to the London Stock Exchange on 8 April 2004.

The Remuneration Committee aims to provide annual awards to Executive Directors at the median to upper quartile level compared to the Comparator Group. 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 2006 equivalent to the maximum award in addition to those granted in 2005 and 2004. Richard Portman, prior to his appointment to the Board, received a conditional share award in 2006 equal to 100 per cent of his salary. Total awards made to Directors under the scheme are shown on pages 22 and 23.

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, a 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 Executive Directors outperform the FTSE 350 Index over the measurement period in delivering shareholder value, before being entitled to receive any of their awards irrespective of general market conditions. The FTSE 350 Index was selected as a benchmark as there are no directly comparable quoted companies in the UK and the 'enterprise value' of the Group (debt plus equity) gives it a comparative value to FTSE 350 companies. 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.

The percentage of options exercisable or share award vesting is calculated 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.

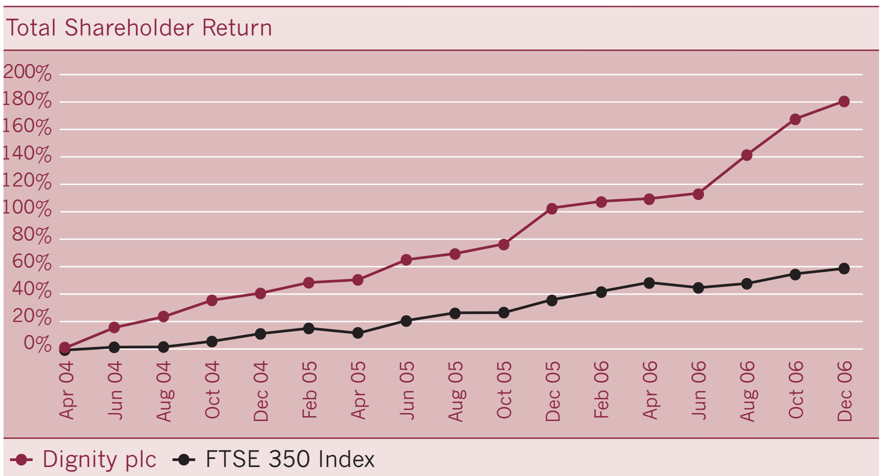
Report on Directors' remuneration continued

for the 52 week period ended 29 December 2006

The Remuneration Committee has set the percentage of options exercisable at 40 per cent for median performance. This is based on the Committee's assessment of an appropriate and necessary award for achieving such a performance after considering all elements of the total remuneration package.

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.



The total options held by each Director are shown on pages 22 and 23 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.

Pensions

The Group provides Peter Hindley with a contribution to his personal pension plan of 10 per cent of his salary and any bonus payable. As this is a personal pension plan any pension contributions paid on a bonus do not affect the Group's pension scheme. Mike McCollum, Richard Portman and Jim Wilkinson are members of the Group 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 22). The Group makes no pension contributions for Andrew Davies.

Benefits in kind

Benefits included the following elements: provision of a company car or allowance, fuel, landline telephone at each Executive Directors' 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 their spouse. All Executive Directors received all of their benefits in kind.

Service contracts

Details of the service contracts with all current Directors (both Executive and Non-Executive) are as follows:

Name	Contract Date	Notice Period	Unexpired Term of Contract
Peter Hindley	1 April 2004	12 months	Rolling Contract
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
Richard Connell	1 March 2006	3 months	14 months
James Newman	31 March 2006	3 months	15 months
Bill Forrester	31 March 2006	3 months	15 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.

Under the Company's Articles of Association one third of the Directors are required to submit themselves for re-election every year. The Board may agree additional terms on a case-by-case basis.

The Board determines the remuneration 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 remuneration of the Non-Executive Directors reflects the time commitment and responsibility of their respective roles. The remuneration of the Chairman and the Non-Executive Directors was reviewed in the first quarter of the period. This review was completed after comparing remuneration for the same or similar positions within the Comparator Group used for Executive Directors.

Directors' interest in shares

The interests of the Directors and their families in the Ordinary Shares of the Company at 30 December 2005 (or at date of appointment) and 29 December 2006 were as follows:

	Ordinary Shares of 9 pence	
Name	29 December 2006 Number	30 December 2005 or date of appointment Number
Peter Hindley	720,256	720,256
Mike McCollum	360,125	360,125
Andrew Davies	360,125	360,125
Richard Portman (appointed 19th October 2006)	103,820	103,820
Richard Connell	69,254	69,254
James Newman	7,777	7,777
Bill Forrester	7,777	7,777

Comparative shareholdings have been restated following the share consolidation of seven 9 pence shares for every nine 7 pence shares.

There have been no changes in Directors' share holdings since the period end.

The following information on pages 21 to 23 has been audited.

Directors' remuneration

The total of Directors' remuneration for the period was £2,144,000 (2005: £1,458,000), including pension contributions of £45,000 (2005: £47,000). The remuneration of individual Directors for the year or from their date of appointment was as follows:

	Salary and fees £'000	Benefits* £'000	Annual performance related bonus £'000	Additional bonus £'000	Total 2006 £'000	Total 2005 £'000
Executive Directors						
Peter Hindley	325	29	277	77	708	467
Mike McCollum	235	11	200	55	501	320
Andrew Davies	180	20	154	42	396	245
Jim Wilkinson**	128	9	110	40	287	234
Richard Portman***	27	2	11	–	40	–
Non-Executive Directors						
Richard Connell	79	–	–	–	79	68
James Newman****	51	–	–	–	51	44
Bill Forrester	37	–	–	–	37	33
Total	1,062	71	752	214	2,099	1,411

*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 their spouse.

**Jim Wilkinson resigned as a Director on 19 October 2006. Remuneration is shown for the period to that date. Subsequent to the period end he left the employment of the Group and received a payment of £173,045 in lieu of notice in accordance with the terms of his contract of employment.

***Richard Portman was appointed as a Director on 19 October 2006. Remuneration is shown for the period from that date.

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

Report on Directors' remuneration continued

for the 52 week period ended 29 December 2006

Directors' pension entitlements

Defined benefit salary scheme

	Change in accrued benefit over the period (1) £	Transfer value at 29 December 2006 (2) £	Transfer value at 30 December 2005 or date of appointment (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 29 December 2006 (3) £
Mike McCollum	2,105	101,362	74,179	1,285	1,569	19,854	17,002
Jim Wilkinson(4)	(1,851)	95,877	96,143	(27,955)	(2,236)	(5,747)	8,835
Richard Portman(5)	167	68,981	67,012	123	167	935	9,219

(1) Throughout 2006 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.

(2) Transfer values have been calculated in accordance with Guidance Note GN11 issued by the Faculty and Institute of Actuaries. The transfers represent the actuarial liability of the pension plan and not the sum paid or due to an individual.

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

(4) The information provided only relates to benefits accrued up until ceasing to be a director on 19 October 2006.

(5) The information provided only relates to benefits accrued since being appointed a director on 19 October 2006.

Pension contribution

	Contribution 2006 £'000	Contribution 2005 £'000
Peter Hindley	31	175

The comparative period includes £150,000 in respect of pension contributions in lieu of bonus, as explained in the 2005 Annual Report.

Long Term Incentive Plan

Members approved the Long Term Incentive Plan on 31 March 2004.

Granted in 2006:

	2006			
	Value of shares conditionally awarded during the period (2)	Value of shares conditionally awarded during the year 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	406,250	125%	87,092	After 23 March 2009
Mike McCollum	293,750	125%	62,974	After 23 March 2009
Andrew Davies	225,000	125%	48,236	After 23 March 2009
Jim Wilkinson	200,000	125%	42,876	After 23 March 2009
Richard Portman	95,000	100%	20,366	After 23 March 2009

Granted in 2005:

	2005			
	Value of shares conditionally awarded during the period (4)	Value of shares conditionally awarded during the year 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	321,875	125%	94,669	After 13 April 2008
Mike McCollum	231,875	125%	68,198	After 13 April 2008
Andrew Davies	175,000	125%	51,470	After 13 April 2008
Jim Wilkinson	167,500	125%	49,264	After 13 April 2008

Granted in 2004:

	2004			
	Value of shares conditionally awarded during the period (5)	Value of shares conditionally awarded during the year 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	312,501	125%	135,870	After 8 April 2007
Mike McCollum	225,000	125%	97,826	After 8 April 2007
Andrew Davies	162,500	125%	70,652	After 8 April 2007
Jim Wilkinson	162,500	125%	70,652	After 8 April 2007

(1) Awards under the LTIP 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.

(2) Value based on the average mid market share price for the previous 28 days to 22 March 2006.

(3) Value as a percentage of salary as at the date the options were granted.

(4) Value based on the mid market price of the Group's Ordinary Shares on 12 April 2005.

(5) Value based on the price of the Group's Ordinary Shares on 7 April 2004.

Inland Revenue Approved SAYE Share Option Scheme

	Date of grant	Number held at 30 December 2005	Granted	Exercised	Gain on exercise	Number held at 29 December 2006	Exercise date
Mike McCollum	6 May 2004	3,163	Nil	Nil	Nil	3,163	31 May 2007
Richard Portman	6 May 2004	3,163	Nil	Nil	Nil	3,163	31 May 2007

Save as you earn options (SAYE) have an exercise price of £2.30 per share and must be exercised within six months of the exercise date shown above.

The market price of the Group's shares on 29 December 2006 was £6.555 per share. The high and low share prices in the period were £6.62 and £4.37 respectively. The low for the year was before the shares were consolidated on a seven for nine basis on 2 August 2006.

On behalf of the Board

Bill Forrester
Chairman of the Remuneration Committee

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 2003 Combined Code on Corporate Governance (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. The following paragraphs, together with the Audit Committee report on pages 26 and 27 and the report on Directors' remuneration on pages 18 to 23 provide a description of how the main and supporting principles of the Code have been applied within Dignity plc during 2006.

The Group has complied with all provisions of the Code during 2006, with the exception of:

- The annual bonus awarded to the Chief Executive, which is pensionable. He is however not a member of the Group pension scheme and maintains his own personal pension scheme. As a consequence there is no impact on the Group pension schemes; and
- The Chairman, Richard Connell, is a member of both the Audit and Remuneration Committees. This is to provide additional experience and balance given the small number of Non-Executive Directors.

The Board is accountable to the Group's shareholders for good governance and a narrative statement on how the Company has applied the principles of the Code and a statement explaining how the provisions of the Code have been applied and complied with are described below.

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;
- Strategy;
- Approval of major capital expenditure projects and consideration of significant financial matters;
- Monitoring the exposure to key business risks;
- Reviewing the strategic direction of the Group; and
- Setting annual budgets and reviewing progress towards achievement of these budgets.

All Directors are provided with all 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 four Executive Directors and three Non-Executive Directors including the Chairman Richard Connell. The Chief Executive is Peter Hindley and the Finance Director is Mike McCollum. 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. The Chairman is responsible for:

- Ensuring the Board functions in all aspects of its role;
- Facilitating the effective contribution of 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.

There are two further Non-Executive Directors, Bill Forrester and James Newman. James Newman is the appointed Senior Independent Director of the Group. Biographical details, including committee memberships, appear on page 5.

The Board considers that four Executive Directors, supported by an experienced Senior Management team, are sufficient to manage a Company of this size. As the Company was not part of the FTSE 350 throughout 2006, the Board considers that two independent Non-Executive Directors is sufficient and appropriate for the Group and is specifically permitted under 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. The Company maintains appropriate insurance cover in respect of any legal action against its Directors. The level of cover is currently £30 million.

All Directors, in accordance with the Code, submit themselves for re-election at least once every three years. In addition any Director appointed in the year must submit himself for re-election.

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 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	4	2
Richard Connell	8	3	4	2
Andrew Davies	7	0	0	0
Bill Forrester	7	2	4	2
Peter Hindley	8	3(ii)	3(ii)	2(ii)
Mike McCollum	8	3(ii)	0	0
James Newman	8	3	4	2
Richard Portman	8	3(iii)	3(iii)	2(iii)
Jim Wilkinson	5	0	0	0

(i) Only full Board meetings have been included in the attendance analysis. Twelve further meetings were held with a quorum of Directors to approve announcements or documents.

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

(iii) Richard Portman attended Committee meetings in his capacity as Company Secretary. He also attended all full Board meetings, six in his capacity as Company Secretary prior to his appointment to the Board and two subsequent to his appointment.

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 the Non-Executive Directors can meet without the Executive Directors being present. Three such meetings were held during 2006. During the year the Board again undertook a formal and rigorous evaluation of its own performance and that of its Committees and individual Directors. The Non-Executive Directors led by the Senior Independent Director were 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 2007.

Bill Forrester and James Newman are independent of management, as defined by the Combined Code.

The Company Secretary, Richard Portman, is responsible for the preparation and distribution of all agendas, minutes and related Board and Committee papers. During the year he was appointed to the Board as Corporate Services Director but has retained his role as Company Secretary. Prior to his appointment he attended all the above meetings in his capacity as Company Secretary and will continue to attend the Committee meetings in that capacity. 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 Managements' remuneration and its cost to the Group. The Committee met four times during 2006. The Committee measures 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 determination.

The Committee members are the independent Non-Executive Directors and the Chairman. This reflects the requirements of the Code to have a Committee of at least two members. The Chairman is a member of the Committee to provide additional experience and balance given the small number of Non-Executive Directors. The Chief Executive, Peter Hindley, also attends the meetings by invitation of the Committee and on occasion the Finance Director Mike McCollum has also attended by invitation. No Director or Senior Manager is involved in any decisions with regard to their own remuneration.

Directors' statement on corporate governance continued

The Executive Directors recommend the remuneration of Non-Executive Directors and recommendations take into account time commitment and role responsibilities 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 comprises the two Non-Executive Directors and the Chairman. James Newman who is a Fellow of the Institute of Chartered Accountants in England and Wales is considered to have the relevant financial experience to chair this Committee. Its membership is restricted to Non-Executive Directors. The Committee has specific written terms of reference that explain its authority and duties. The Committee has met three times during 2006 and again in March 2007. The external auditors, 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 discrete private audiences with the Audit Committee or its Chairman if either party requires or requests them. One such meeting was held during 2006 between the Chairman and the Head of Internal Audit and one between the Chairman and the external auditors.

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, which ongoing principally relates to taxation advice. Where considered necessary, the Committee approves such work. The external auditors have confirmed their audit independence in writing to the Committee. The Committee also retains responsibility for the appointment and removal of the external auditors.

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) and the Business and Financial Reviews (pages 6 to 10 and 14 to 15 respectively), in interim reports, quarterly trading updates and in price sensitive announcements. The Group will release its Annual Information Update by 11 April 2007. A summary of the Directors' responsibilities for the financial statements is set out on page 16.

Going concern

The Directors regularly receive and review management accounts, cash balances, forecasts and the annual budget. After careful consideration the Directors confirm they are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing the accounts.

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 Turnbull guidance (as revised in 2005) within the Code.

The Audit Committee on behalf of the Board, as part of an ongoing process, has formerly 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. 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;

- 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;
- 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 will be completed on such areas together with selected areas of the head office function and any area where an Executive Director has requested a review. During 2006, quarterly meetings between the Head of Internal Audit, the Executive Directors and the Financial Controller were instituted to formerly 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. The Head of Internal Audit reports to the Audit Committee on a regular basis;
- 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; 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 formerly presented to and reviewed by the Audit Committee twice a year.

Internal controls are formally reviewed on an ongoing basis. Internal Audit completes a programme of work each year that provides assurance that internal controls are working effectively and proposes 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.

Nomination Committee

Richard Connell chairs the Nomination Committee, which has met two times this year. The other members of the Committee are James Newman and Bill Forrester, the Non-Executive Directors.

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 appointment of Richard Portman as a Director of the Group during the year was considered and ratified by the Committee. The Committee formally considered succession planning during 2006. The Committee concluded that appropriate succession planning exists within the Group.

4. Relations with shareholders

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

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 of the Chairman and the Senior Independent Director without any Executive Directors present. Further, the Group has and will arrange visits to their facilities, if requested by a shareholder, where it will not disrupt normal operational activity.

Each year every shareholder will receive a full Annual Report and Accounts and an Interim Report at the half year. The Group has a separate investor relations website www.dignityfuneralsplc.co.uk upon which, users can access the latest financial and corporate news and information. The Company Secretary is also available to answer general investor queries.

The Board regards the Annual General Meeting as an opportunity to communicate directly with all shareholders. At least 20 working days notice has been given of the Annual General Meeting at which all Directors and Committee Chairmen will be present and available to answer questions.

Independent auditors' report to the members of Dignity plc

We have audited the consolidated financial statements of Dignity plc for the 52 week period ended 29 December 2006 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Dignity plc for the 52 week period ended 29 December 2006 and on the information in the Report on Directors' Remuneration that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the consolidated financial statements. The information given in the Directors' Report includes that specific information given in the Business Review and Financial Review that is cross referred from the principal activities and Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

We review whether the Directors' Statement on Corporate Governance reflects the Group's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Business Review and Financial Review, the Report on Corporate and Social Responsibility, the unaudited section of the Directors' Remuneration Report and the Directors' Statement on Corporate Governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 29 December 2006 and of its profit and cash flows for the 52 week period then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the consolidated financial statements.

As explained in Note 1 to the consolidated financial statements, the consolidated in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the consolidated financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 29 December 2006 and of its profit and cash flows for the 52 week period then ended.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
21 March 2007

Consolidated income statement
for the 52 week period ended 29 December 2006

	Note	52 week period ended 29 December 2006 £m	52 week period ended 30 December 2005 £m
Revenue	3	**149.8**	143.2
Cost of sales		**(73.2)**	(70.0)
Gross profit		**76.6**	73.2
Administrative expenses		**(34.4)**	(32.8)
Other operating income		**1.2**	1.2
Operating profit before exceptional (charges)/income	3	**44.1**	41.0
Exceptional (charges)/income	5	**(0.7)**	0.6
Operating profit	3	**43.4**	41.6
Finance charges	4	**(22.1)**	(17.0)
Finance income	4	**5.9**	1.9
Profit before tax	5	**27.2**	26.5
Taxation	6	**(8.4)**	(8.2)
Profit for the period		**18.8**	18.3
Profit attributable to minority interest		**–**	–
Profit attributable to equity shareholders		**18.8**	18.3
		18.8	18.3
Earnings per share for profit attributable to equity shareholders (pence)			
– Basic and diluted	8	**25.9p**	22.9p

The results have been derived wholly from continuing activities throughout the period.

Consolidated statement of recognised income and expense
for the 52 week period ended 29 December 2006

	Note	52 week period ended 29 December 2006 £m	52 week period ended 30 December 2005 £m
Profit for the period		**18.8**	18.3
Actuarial gains on retirement benefit obligations	28	**2.4**	1.8
Deferred tax on actuarial gains on retirement benefit obligations	6	**(0.7)**	(0.5)
Net income not recognised in income statement		**1.7**	1.3
Total recognised income for the period		**20.5**	19.6
Attributable to:			
Minority interest		**–**	–
Equity shareholders of the parent		**20.5**	19.6

Consolidated balance sheet
as at 29 December 2006

	Note	29 December 2006 £m	30 December 2005 £m
Assets			
Non-current assets			
Goodwill	9	**111.3**	109.1
Other intangible assets	9	**12.1**	9.0
Property, plant and equipment	10	**89.1**	86.3
Financial assets	11	**5.6**	5.5
Retirement benefit asset	28	**0.6**	–
		218.7	209.9
Current assets			
Inventories	13	**3.0**	3.3
Trade and other receivables	14	**19.2**	22.3
Assets held for sale		**–**	0.2
Cash and cash equivalents	15	**41.4**	37.3
		63.6	63.1
Total assets		**282.3**	273.0
Liabilities			
Current liabilities			
Financial liabilities	16	**4.6**	2.2
Trade and other payables	17	**19.2**	21.9
Current tax liabilities		**2.7**	2.4
Provisions for liabilities and charges	19	**1.4**	1.0
		27.9	27.5
Non-current liabilities			
Financial liabilities	16	**271.0**	191.9
Deferred tax liabilities	20	**7.2**	5.2
Retirement benefit obligation	28	**–**	12.0
Other non-current liabilities	16	**2.9**	2.9
Provisions for liabilities and charges	19	**1.6**	2.1
		282.7	214.1
Total liabilities		**310.6**	241.6
Shareholders' equity			
Ordinary shares	22	**5.6**	5.6
Share premium account	24	**31.6**	111.6
Capital redemption reserve	24	**80.0**	–
Other reserves	24	**(9.5)**	(10.4)
Retained earnings	24	**(134.8)**	(74.2)
Equity attributable to shareholders		**(27.1)**	32.6
Minority interest in equity	24	**(1.2)**	(1.2)
Total equity		**(28.3)**	31.4
Total equity and liabilities		**282.3**	273.0

The financial statements on pages 30 to 62 were approved by the Board of Directors on 21 March 2007, and were signed on its behalf by:

Peter Hindley

P T Hindley
Chief Executive

M K McCollum
Finance Director

Consolidated cash flow statement

as at 29 December 2006

	Note	**52 week period ended 29 December 2006 £m**	52 week period ended 30 December 2005 £m
Cash flows from operating activities			
Cash generated from operations before exceptional payments	25	**51.7**	49.5
Exceptional costs in respect of redemption of B shares		**(0.7)**	–
Exceptional contribution to pension scheme		**(10.0)**	–
Cash generated from operations	25	**41.0**	49.5
Finance income received		**4.2**	1.8
Finance charges paid		**(20.8)**	(15.6)
Tax paid		**(6.1)**	(2.5)
Net cash generated from operating activities		**18.3**	33.2
Cash flows from investing activities			
Acquisition of subsidiaries and businesses	26	**(7.3)**	(6.7)
Proceeds from sale of property, plant and equipment		**0.6**	1.2
Purchase of property, plant and equipment		**(8.0)**	(7.6)
Net cash used in investing activities		**(14.7)**	(13.1)
Cash flows from financing activities			
Proceeds from issue of Secured Notes		**90.2**	–
Issue costs in respect of Secured Notes		**(3.7)**	–
Repayment of borrowings		**(4.1)**	(2.5)
Dividends paid to shareholders	7	**(1.9)**	(5.2)
Redemption of B shares		**(80.0)**	–
Net cash used in financing activities		**0.5**	(7.7)
Net increase in cash and cash equivalents		**4.1**	12.4
Cash and cash equivalents at the beginning of the period		**36.1**	23.7
Cash and cash equivalents at the end of the period	15	**40.2**	36.1

Notes to the consolidated financial statements
for the 52 week period ended 29 December 2006

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.

Basis of preparation
European law requires that the Group's financial statements for the 52 week period ended 29 December 2006 are prepared in accordance with all applicable International Financial Reporting Standards ('IFRS'), 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 1985 applicable to companies reporting under IFRS.

Preparation of financial statements
The preparation of financial statements in conformity with generally accepted accounting principles 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 and recognising any minority interests in those entities. 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.

Exceptional items
Exceptional items are those significant items which are disclosed separately by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Transactions which may give rise to exceptional items are principally profits or losses on disposal of tangible fixed assets and professional fees relating to capital restructuring where they cannot be offset against amounts borrowed in accordance with IAS 23.

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.

Acquisition or disposal of subsidiary undertakings
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.

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.

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 UK as one geographical segment, given each local business exhibits similar long term characteristics.

All amounts are exclusive of VAT.

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, some of whom are not owned by the Group.

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

1 Accounting policies (continued)

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 refundable in the event that the plan is subsequently cancelled. A provision is made for cancellations, 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; 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 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

Sun Life

The Group is the named beneficiary on a number of life assurance products sold by Sun Life Assurance Society plc ('Sun Life') in consideration for which the Group has committed to performing the funeral (including some disbursements) of the plan holder at no further charge. Marketing of these policies has now ceased.

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 Sun Life.

AXA Sun Life PLC

The Group is the named beneficiary on a number of life assurance products sold by AXA Sun Life PLC ('AXA'), 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.

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 and minority interests by the weighted average number of shares in issue during the period. Diluted EPS is calculated by dividing profit on ordinary activities after taxation and minority interests 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).

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. For this reason, the cash-generating units typically consist of those business segments, which are engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

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 regular 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 reviewed on a regular 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 websites) 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).

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

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

1 Accounting policies (continued)

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.

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.

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. 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 budgets for the following year and an annual growth rate of UK GDP 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.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within one year from classification and the asset is available for immediate sale in its present condition.

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 taxation. 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.

The Group is able to control the timing of dividends from its subsidiaries and hence does not expect to remit overseas earnings in the foreseeable future in a way that would result in a charge to taxable profit. Hence, deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary.

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 interest payable. Actuarial gains and losses are recognised in full in the period in which they occur, outside of the income statement and presented in the consolidated statement of recognised income and expense.

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 retirement benefit net asset recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost net of the fair value of any relevant scheme assets. 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 net interest payable and similar charges.

Dividends
Dividends payable are only recognised when they are appropriately approved.

Financial instruments
Borrowings
All borrowings are stated at the fair value of consideration received after deduction of transaction costs. The transaction costs and interest payable on debt finance are charged to the income statement, as finance costs, 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.

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

1 Accounting policies (continued)

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 derivatives such as interest rate swaps. The cash flows from, and losses arising on terminations of, these contracts are recognised as cash flows from operating activities. The Group's interest rate swaps are accounted for as onerous contracts. See note 16(e) for further information.

Trade receivables
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

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. 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.

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

Standards, amendments and interpretations effective in 2006 but not relevant
The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2006 but they are not relevant to the Group's operations:

IAS 21 (amendment), Net Investment in a Foreign Operation
IAS 39 (amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 (amendment), The Fair Value Option
IFRS 1 (amendment), First-time Adoption of International Financial Reporting Standards
IFRS 6, Exploration for and Evaluation of Mineral Resources
IFRIC 5, Rights to Interests Arising From Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6, Liabilities Arising From Participating in Specific Market – Waste Electrical and Electronic Equipment.

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 the Group's accounting periods beginning on or after 30 December 2006 or later periods but which the Group has not early adopted:

IFRIC 10, Interim Financial Reporting and Impairment. Prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

IFRS 7, Financial Instruments: Disclosure. This standard is effective for accounting periods beginning on or after 1 January 2007 and introduces rules on the disclosure of financial instruments.

IFRS 8, Operating Segments. This standard is effective for accounting periods beginning on or after 1 January 2009 and introduces new rules on the disclosure of operating results by business segment.

Interpretations to existing standards that are not yet effective and not relevant for the Group's operations
The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 30 December 2006 or later periods but are not relevant for the Group's operations:

IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies. Provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the Group's entities has a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations.

IFRIC 8, Scope of IFRS 2. Requires consideration of transactions involving the issuance of equity instruments (where the consideration received is less than the fair value of the equity instruments issued) to establish whether or not they fall within the scope of IFRS 2. The Group is not intending to issue any such instruments, save for those under the established SAYE and LTIP schemes. Consequently IFRIC 8 is not relevant.

IFRIC 9, Re-assessment of Embedded Derivatives. IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessments is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is not relevant to the Group's operations because none of the terms of the Group's contracts have been changed.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions. IFRIC 11 is not relevant to the Group's operations as it does not have any group or treasury shares.

IFRIC 12, Service Concession Arrangements. IFRIC 12 is not relevant to the Group's operations as it does not have any service concession arrangements.

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 and post-retirement benefits.

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.

The Group held a provision for impairment of trade receivables at the balance sheet date of £2.8 million (2005: £3.3 million).

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 expected return on plan assets.

2 Financial risk management

The Group finances its operations by a mixture of shareholders' funds, Secured Notes, bank borrowings, intercompany loans and Loan Notes as required. The Group manages its funding requirements by the careful selection of appropriate financing methods. This approach seeks to minimise financing costs.

The Group uses derivatives to generate the appropriate balance between fixed and floating interest rates. It is not the Group policy to actively trade in derivatives.

Foreign currency
Assets and liabilities denominated in foreign currencies are translated into Sterling at the closing rate and the exchange differences are included in the income statement. Foreign currency transactions recognised in the income statement are translated into Sterling at the exchange rate on the date the transaction took place.

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

2 Financial risk management (continued)

Interest rate risk

The Group's aim is to minimise the effects of interest rate fluctuations. However, the Group does not have a definitive stance on the balance between fixed and floating rate debt.

Liquidity risk

The Group's objective is to maintain a balance between certainty of funding and a flexible, cost-effective borrowings structure, and consequently seeks facilities that have, for the most part, a maturity of five years or longer.

Currency risk

All the Group's financial assets and liabilities are denominated in Sterling.

Credit risk

The Group uses well-established financial institutions with high credit ratings.

3 Revenue and segmental analysis

As described in the Business Review and Financial Review, the Group is organised into three main business segments: funeral services, crematoria and pre-arranged funeral plans.

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 at the time of need and in advance.

Pre-arranged funeral plans represent the revenue from 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.

3 Revenue and segmental analysis (continued)

The segment revenue and segment result were as follows:

52 week period ended 29 December 2006	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Head office £m	Group £m
Revenue	120.0	23.2	6.6	–	149.8
Segment result before exceptional charges	39.3	12.1	2.4	(9.7)	44.1
Exceptional charges	–	–	–	(0.7)	(0.7)
Segment result	39.3	12.1	2.4	(10.4)	43.4
Finance costs					(22.1)
Finance income					5.9
Profit before tax					27.2
Taxation					(8.4)
Profit for the period					18.8
Attributable to:					
Minority interest					–
Equity shareholders of the parent					18.8

The segment assets and liabilities were as follows:

As at 29 December 2006	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Head office £m	Group £m
Segment assets	174.0	55.6	8.4	1.8	239.8
Unallocated assets:					
Financial assets – loans and receivables					1.1
Cash and cash equivalents					41.4
Total assets					282.3
Segment liabilities	(17.7)	(2.4)	(1.8)	(4.0)	(25.9)
Unallocated liabilities:					
Borrowings					(274.8)
Corporation tax					(2.7)
Deferred tax					(7.2)
Total liabilities					(310.6)
Other segment items:					
Capital expenditure (including acquisitions)	14.1	0.9	–	0.2	15.2
Depreciation	5.4	1.2	–	0.3	6.9
Amortisation	0.1	–	–	0.5	0.6
Impairment of trade receivables	1.0	0.1	–	–	1.1
Other non cash expenses	0.2	–	–	0.8	1.0

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

3 Revenue and segmental analysis (continued)

52 week period ended 30 December 2005	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Head office £m	Group £m
Revenue	113.8	22.5	6.9	–	143.2
Segment result before exceptional income	36.5	11.9	2.1	(9.5)	41.0
Exceptional income	0.6	–	–	–	0.6
Segment result	37.1	11.9	2.1	(9.5)	41.6
Finance costs					(17.0)
Finance income					1.9
Profit before tax					26.5
Taxation					(8.2)
Profit for the period					18.3
Attributable to:					
Minority interest					–
Equity shareholders of the parent					18.3

The segment assets and liabilities were as follows:

As at 30 December 2005	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Head office £m	Group £m
Segment assets	165.8	56.0	8.6	2.2	232.6
Unallocated assets:					
Financial assets – loans and receivables					1.2
Accrued fees on Secured Notes issue					1.9
Cash and cash equivalents					37.3
Total assets					273.0
Segment liabilities	(26.4)	(3.5)	(2.2)	(6.7)	(38.8)
Unallocated liabilities:					
Borrowings					(193.3)
Accrued fees on Secured Notes issue					(1.9)
Corporation tax					(2.4)
Deferred tax					(5.2)
Total liabilities					(241.6)
Other segment items:					
Capital expenditure (including acquisitions)	14.5	0.6	–	0.4	15.5
Depreciation	5.1	1.2	–	0.3	6.6
Amortisation	–	–	–	0.6	0.6
Impairment of trade receivables	1.0	(0.1)	–	–	0.9
Other non-cash expenses	0.2	–	–	0.3	0.5

4 Net finance costs

	52 week period ended 29 December 2006 £m	52 week period ended 30 December 2005 £m
Finance costs		
Class A and B Secured Notes – issued April 2003	**14.6**	14.8
Class A and B Secured Notes – issued February 2006	**5.3**	–
Amortisation of issue costs – issued April 2003	**0.9**	0.9
Amortisation of issue costs – issued February 2006	**0.3**	–
Other loans	**0.1**	0.1
Interest payable on finance leases	**0.1**	0.1
Net finance expense on retirement benefit obligations	**–**	0.4
Unwinding of discounts	**0.8**	0.7
Finance costs	**22.1**	17.0
Finance income		
Bank deposits	**(4.0)**	(1.7)
Release of premium on Secured Notes – issued February 2006	**(0.9)**	–
Prepaid interest on issue of Class A and B Secured Notes	**(0.8)**	–
Debenture loan	**(0.2)**	(0.2)
Finance income	**(5.9)**	(1.9)
Net finance costs	**16.2**	15.1

5 Profit before tax

	52 week period ended 29 December 2006 £m	52 week period ended 30 December 2005 £m
The following items have been included in arriving at profit before tax		
Staff costs (note 27)	**52.5**	50.8
Inventories		
– Cost of inventories recognised as an expense (included in cost of sales)	**11.1**	11.0
– Written down to net realisable value (note 13)	**(0.1)**	(0.1)
Depreciation of property, plant and equipment:		
– Owned assets (note 10)	**6.9**	6.6
Amortisation of intangible assets (included in trading expenses) (note 9)	**0.6**	0.6
Operating lease rentals:		
– Property	**4.7**	4.1
Recoveries (included within other operating income)	**1.2**	1.2
Trade receivables impairment	**1.1**	0.9
Services provided by the Group's auditor		
– Audit fees and expenses	**0.2**	0.3
– Fees in relation to taxation	**0.1**	0.1
– Fees in relation to issue of Secured Notes and redemption of B Shares	**1.4**	–
Exceptional items		
Professional fees in relation to redemption of B Shares	**0.7**	–
Profit on disposal of property, plant and equipment	**–**	(0.6)
Total exceptional items	**0.7**	(0.6)

Services provided by the Group's auditors

During 2006, the Group paid fees of £1.4 million to the auditors in connection with issue of Secured Notes and redemption of B shares. Costs of £0.4 million have been expensed and £1.0 million has been deferred under IAS 23.

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

6 Taxation

Analysis of charge in the period

	52 week period ended 29 December 2006 £m	52 week period ended 30 December 2005 £m
Current tax – current period	**6.6**	4.9
Adjustment for prior period	**(0.2)**	(0.1)
	6.4	4.8
Deferred tax – current period	**1.8**	3.9
Adjustment for prior period	**0.2**	(0.5)
	2.0	3.4
Taxation	**8.4**	8.2

All tax relates to continuing operations.

Tax on items charged to equity

	52 week period ended 29 December 2006 £m	52 week period ended 30 December 2005 £m
Deferred tax charge on actuarial gains on retirement benefit obligations	**0.7**	0.5
Deferred tax credit on employee share options	**(1.0)**	(0.3)
	(0.3)	0.2

Total tax charge

Total current tax charge	**6.4**	4.8
Total deferred tax charge	**1.7**	3.6

The taxation charge in the period is higher (2005: higher) than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	52 week period ended 29 December 2006 £m	52 week period ended 30 December 2005 £m
Profit before taxation	**27.2**	26.5
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	**8.2**	8.0
Effects of:		
Adjustments in respect of prior period	**–**	(0.6)
Expenses not deductible for tax purposes	**0.2**	0.8
Total taxation	**8.4**	8.2

Under IFRS the tax rate is higher (2005: higher) than the standard UK tax rate of 30 per cent due to the impact of disallowable trading expenses and expenditure on the Group's premises that does not attract any deductions for tax purposes.

7 Dividends

	52 week period ended 29 December 2006 £m	52 week period ended 30 December 2005 £m
Final dividend paid: nil pence per Ordinary Share (2005: 3.75 pence)	**–**	3.0
Interim dividend paid: 3.03 pence (2005: 2.75 pence) per Ordinary Share	**1.9**	2.2
Total dividends recognised in the period	**1.9**	5.2

A final dividend of 6.06 pence per share was approved by the Board on 21 March 2007.

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 issueable 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 issueable shares have been excluded from the diluted EPS calculations.

The Board believes that profit on ordinary activities before 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' in the Financial Review.

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.

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**
52 week period ended 29 December 2006			
Profit attributable to shareholders – Basic and diluted EPS	**18.8**	**72.6**	**25.9**
Add back: Exceptional items (net of taxation)	**0.5**		
Underlying profit after taxation – Basic EPS	**19.3**	**72.6**	**26.6**
52 week period ended 30 December 2005			
Profit attributable to shareholders – Basic and diluted EPS	18.3	80.0	22.9
Deduct: Exceptional items (net of taxation)	(0.4)		
Underlying profit after taxation – Basic EPS	17.9	80.0	22.4

The potential issue of new shares pursuant to the Group's share option plans in the period would affect the earnings per share by less than 0.1 pence per share if exercised.

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

9 Intangible assets

	Trade names £m	Software £m	Non-compete agreements £m	Sub-total £m	Goodwill £m	Total £m
Cost						
At 31 December 2004	3.5	4.2	0.1	7.8	107.8	115.6
Additions	–	0.1	–	0.1	–	0.1
Disposals	–	(0.2)	–	(0.2)	–	(0.2)
Acquisition of subsidiaries and other businesses (note 26(b))	4.3	–	0.1	4.4	1.3	5.7
At 30 December 2005	7.8	4.1	0.2	12.1	109.1	121.2
Disposals	–	(0.3)	–	(0.3)	–	(0.3)
Acquisition of subsidiaries and other businesses (note 26(a) and (b))	3.7	–	–	3.7	2.2	5.9
At 29 December 2006	**11.5**	**3.8**	**0.2**	**15.5**	**111.3**	**126.8**
Accumulated amortisation						
At 31 December 2004	–	(2.6)	–	(2.6)	–	(2.6)
Amortisation charge	–	(0.6)	–	(0.6)	–	(0.6)
Disposals	–	0.1	–	0.1	–	0.1
At 30 December 2005	–	(3.1)	–	(3.1)	–	(3.1)
Amortisation charge	–	(0.5)	(0.1)	(0.6)	–	(0.6)
Disposals	–	0.3	–	0.3	–	0.3
At 29 December 2006	**–**	**(3.3)**	**(0.1)**	**(3.4)**	**–**	**(3.4)**
Net book amount at 29 December 2006	**11.5**	**0.5**	**0.1**	**12.1**	**111.3**	**123.4**
Net book amount at 30 December 2005	7.8	1.0	0.2	9.0	109.1	118.1
Net book amount at 31 December 2004	3.5	1.6	0.1	5.2	107.8	113.0

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, the goodwill and other intangibles are allocated to the Group's cash generating units ('CGUs') according to business segment. The segmental allocation is shown below:

As at 29 December 2006	Intangible assets £m	Goodwill £m	Total £m
Funeral services	**11.6**	**78.0**	**89.6**
Crematoria	**–**	**28.6**	**28.6**
Pre-arranged funeral plans	**–**	**4.7**	**4.7**
Head office	**0.5**	**–**	**0.5**
	12.1	**111.3**	**123.4**
As at 30 December 2005			
Funeral services	8.0	76.3	84.3
Crematoria	–	28.1	28.1
Pre-arranged funeral plans	–	4.7	4.7
Head office	1.0	–	1.0
	9.0	109.1	118.1

9 Intangible assets (continued)

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.

The value-in-use calculations use cash flow projections based on the latest annual budgets approved by management. 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 the historic UK GDP growth rate. The cash flows are discounted at a pre-tax rate of 9.2 per cent (2005: 9.2 per cent). Given the stability and predictability of the industry, cash flows for the following 20 years have been taken into account.

On the basis of the above, the review indicated that no impairment arose in any segment (2005: £nil).

10 Property, plant and equipment

	Freehold land and buildings £m	Leasehold buildings £m	Plant, machinery, fixtures and fittings £m	Motor vehicles £m	Total £m
Cost					
At 31 December 2004	48.8	14.9	14.5	24.6	102.8
Additions	1.1	–	5.1	2.2	8.4
Acquisition of subsidiaries and other businesses (note 26(b))	0.6	0.1	0.2	0.2	1.1
Disposals	(0.1)	(0.1)	(2.4)	(1.2)	(3.8)
Reclassification	0.4	0.4	(3.6)	2.8	–
At 30 December 2005	50.8	15.3	13.8	28.6	108.5
Additions	0.3	–	3.1	4.8	8.2
Acquisition of subsidiaries and other businesses (note 26(a))	1.6	0.1	0.1	0.3	2.1
Disposals	(0.1)	–	(0.7)	(1.8)	(2.6)
Reclassification	0.6	0.4	(1.1)	0.1	–
At 29 December 2006	**53.2**	**15.8**	**15.2**	**32.0**	**116.2**
Accumulated depreciation					
At 31 December 2004	(2.5)	(2.0)	(6.1)	(8.2)	(18.8)
Depreciation charge	(0.9)	(1.2)	(1.8)	(2.7)	(6.6)
Disposals	–	0.1	2.1	1.0	3.2
At 30 December 2005	(3.4)	(3.1)	(5.8)	(9.9)	(22.2)
Depreciation charge	(1.2)	(1.1)	(1.5)	(3.1)	(6.9)
Disposals	–	–	0.7	1.3	2.0
At 29 December 2006	**(4.6)**	**(4.2)**	**(6.6)**	**(11.7)**	**(27.1)**
Net book amount at 29 December 2006	**48.6**	**11.6**	**8.6**	**20.3**	**89.1**
Net book amount at 30 December 2005	47.4	12.2	8.0	18.7	86.3
Net book amount at 31 December 2004	46.3	12.9	8.4	16.4	84.0

Depreciation expense of £3.1 million (2005: £2.7 million) is included within cost of sales and £3.8 million (2005: £3.9 million) is included within administrative expenses.

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

	29 December 2006 £m	30 December 2005 £m
Cost	**1.1**	1.1
Accumulated depreciation	**(0.4)**	(0.4)
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 £1.3 million (2005: £0.5 million).

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

11 Non-current financial assets

	Note	29 December 2006 £m	30 December 2005 £m
Debenture loan	(a)	**1.0**	1.0
Prepayments	(b)	**3.4**	3.5
Deferred commissions	(c)	**0.8**	0.6
Other receivables		**0.4**	0.4
		5.6	5.5

(a) Debenture loan

The Group's investment represents a £1,000,000 debenture loan to Kenyon Christopher Henley Limited ('KCH'), a company incorporated in the United Kingdom.

The debenture loan to KCH is secured on the assets of that business, earns interest at 15 per cent per annum and is repayable in 2022.

(b) 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.

(c) Deferred commissions

The Group is the named beneficiary on a number of life assurance products sold by AXA Sun Life PLC ('AXA').

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.

All non-current financial assets are valued at fair value.

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

	29 December 2006 £m	30 December 2005 £m
Materials	**0.6**	0.8
Finished goods	**2.4**	2.5
	3.0	3.3

The cost of inventories recognised within cost of sales amounted to £11.1 million (2005: £11.0 million).

Finished goods of £1.3 million (2005: £1.3 million) are carried at fair value less costs to sell. During the period £0.1 million (2005: £0.1 million) was credited in relation to inventory write-downs within cost of sales.

14 Trade and other receivables

	29 December 2006 £m	30 December 2005 £m
Trade receivables	**16.3**	17.4
Less: provision for impairment	**(2.8)**	(3.3)
Net trade receivables	**13.5**	14.1
Receivables due from related parties (note 31)	**2.1**	2.8
Prepayments and accrued income	**3.0**	3.0
Other receivables	**0.6**	2.4
	19.2	22.3

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.

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	29 December 2006 £m	30 December 2005 £m
Cash and cash equivalents		**41.4**	37.3
Represented by:			
Operating cash		**40.2**	24.6
Cash for acquisitions	(a)	**1.2**	4.9
Amounts set aside for intercompany loan	(b)	**–**	7.8
		41.4	37.3

(a) Recoveries of £1.2 million (2005: £1.2 million) (see note 1), may not be used for one year following receipt and hence do not meet the definition of cash and cash equivalents in IAS 7, Cash Flow Statements. Under the terms of the Group's secured borrowings, these amounts are required to be retained in a separate bank account. This bank account may, in normal circumstances, only be used for acquiring tangible fixed assets and businesses (either trade and assets or share purchases).

(b) This amount has been used to pay the interest and principal due on a loan between Dignity (2002) Limited and Dignity Mezzco Limited, both of whom are wholly owned subsidiaries of the Company.

Movements in this amount were treated as cash equivalents in the cash flow statement as they became available for the Group's use once the intercompany payment was made on 31 January 2006. There were no amounts set aside at 29 December 2006 as the loan was repaid in full during the period.

16 Financial liabilities

Current	Note	29 December 2006 £m	30 December 2005 £m
Class A Secured Notes – issued April 2003	(a)	**2.1**	1.9
Class A Secured Notes – issued February 2006	(b)	**1.0**	–
Premium on Secured Notes – issued February 2006	(b)	**0.8**	–
Floating rate unsecured Loan Notes 2006	(c)	**–**	0.1
Other current financial liabilities	(e)	**0.7**	0.2
		4.6	2.2

Non-current	Note	29 December 2006 £m	30 December 2005 £m
Class A and B Secured Notes – issued April 2003	(a)	**182.5**	184.7
Class A and B Secured Notes – issued February 2006	(b)	**69.3**	–
Premium on Secured Notes – issued February 2006	(b)	**12.7**	–
Finance lease obligations	(d)	**0.8**	0.8
Other non-current financial liabilities	(e)	**5.7**	6.4
		271.0	191.9

(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.

In order to show the Group's net borrowing, the notes and the transaction costs have been offset.

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 29 December 2006, £99.7 million (2005: £102.6 million) of the principal of the A notes and £100.0 million (2005: £100.0 million) of the principal of the B notes was outstanding.

At 29 December 2006, £7.6 million (2005: £8.4 million) and £7.5 million (2005: £7.6 million) of the transaction costs in respect of the A notes and the B notes respectively remain unamortised.

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

16 Financial liabilities (continued)

(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 £2.0 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. In order to show the Group's net borrowing, the notes and the transaction costs have been offset.

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 29 December 2006, £41.3 million of the principal of the Further A notes and £32.5 million of the principal of the Further B notes was outstanding.

At 29 December 2006, £1.8 million and £1.7 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 costs on the notes. At the balance sheet date £3.3 million and £10.2 million respectively remained unamortised.

(c) Floating rate unsecured Loan Notes 2006

£1 par value Loan Notes to the value of £371,950 were issued on 30 August 1995 as part consideration for the purchase of a funeral business. The notes were unlisted and unsecured. Interest was payable in arrears on 31 January, 30 April, 31 July and 30 October each year. The rate payable was one per cent below the offered rate for six-month Sterling deposits of £1.0 million with a minimum level of six per cent per annum. Repayment of the Loan Notes could have been made on any date by the holder giving not less than thirty days notice in writing. At 30 December 2005, £0.1 million of the Loan Notes were in issue. The remaining notes were repaid during the 52 week period ended 29 December 2006.

(d) Obligations under finance leases

	29 December 2006 £m	30 December 2005 £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	**0.6**	0.6
	0.8	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 are subject to a common master agreement which allows for the settling of the net amount under the swap agreement, which is undertaken in practice.

Accordingly, the overall transaction represents a derivative financial liability, which has been fair valued at the balance sheet date. 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 contract 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.

17 Trade and other payables

Current	29 December 2006 £m	30 December 2005 £m
Trade payables	**5.7**	7.0
Tax and social security	**1.6**	1.6
Other current liabilities	**0.4**	0.4
Accruals and deferred income	**11.5**	12.9
	19.2	21.9
Non-current		
Deferred income	**1.4**	1.5
Deferred consideration for acquisitions	**0.5**	0.4
Long service awards	**0.9**	0.9
Other non-current liabilities	**0.1**	0.1
	2.9	2.9

18 Obligations under finance leases and operating leases

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

	29 December 2006 £m	30 December 2005 £m
The minimum lease payments under non-cancellable operating leases fall due as follows:		
Not later than one year	**4.4**	4.5
Later than one year but not more than five	**11.7**	11.9
More than five years	**27.2**	29.4
	43.3	45.8

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 (2005: £0.1 million) are in respect of contingent rentals. The contingent rentals are based on the revenues generated at the specific locations.

Total future sublease payments receivable relating to the above operating leases amounted to £0.8 million (2005: £1.2 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

	Dilapidations £m (a)	Asbestos rectification £m (b)	Onerous contracts £m (c)	Cancellation provision £m (d)	Total £m
At beginning of period	1.3	0.3	0.9	0.6	3.1
Charged to income statement	0.2	0.1	0.1	0.1	0.5
Utilised in year	(0.2)	(0.1)	(0.2)	(0.3)	(0.8)
Amortisation of discount	0.1	–	0.1	–	0.2
At end of period	**1.4**	**0.3**	**0.9**	**0.4**	**3.0**

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

	29 December 2006 £m	30 December 2005 £m
Current	**1.4**	1.0
Non-current	**1.6**	2.1
	3.0	3.1

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

19 Provisions (continued)

(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 (£0.6 million) (2005: £0.6 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 2015.

(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 comprises the expected rectification costs of properties not yet surveyed for asbestos plus the estimated costs of surveying the relevant properties. It is anticipated that the provision will be utilised by the end of 2007.

(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 eight years.

Included within the provision is an amount of £0.1 million (2005: £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 five years.

20 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30 per cent (2005: 30 per cent).

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

	2006 £m	2005 £m
At beginning of period	**5.2**	1.6
Charged to income statement (note 6)	**2.0**	3.4
Arising on acquisitions (note 6)	**0.3**	–
Taken to equity	**(0.3)**	0.2
At end of period	**7.2**	5.2

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

	Accelerated tax depreciation £m	Other £m	Total £m
At beginning of period	8.8	0.7	9.5
Charged to income statement	1.0	0.2	1.2
Arising on acquisitions	0.3	–	0.3
At end of period	**10.1**	**0.9**	**11.0**

Deferred tax assets

	Provisions £m	Tax losses £m	Pensions £m	Other £m	Total £m
At beginning of period	(0.1)	(0.1)	(3.7)	(0.4)	(4.3)
Charged to income statement	–	–	1.0	(0.2)	0.8
Pensions taken to equity (note 24)	–	–	0.7	–	0.7
Stock options taken to equity (note 24)	–	–	–	(1.0)	(1.0)
At end of period	**(0.1)**	**(0.1)**	**(2.0)**	**(1.6)**	**(3.8)**

20 Deferred tax (continued)

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision at 29 December 2006 was £7.2 million (2005: £5.2 million).

No deferred tax asset is recognised in respect of losses within the Group amounting to £4.4 million net (2005: £4.4 million net). 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 of a significant 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 credited/(charged) to equity during the period was as follows:

	2006 £m	2005 £m
Deferred tax charge on actuarial gains on retirement benefit obligations	**0.7**	0.5
Deferred tax credit on employee share options	**(1.0)**	(0.3)

21 Financial instruments

Fair values of derivatives financial instruments

The Group has interest rate swaps with a net fair value of £6.4 million (2005: £6.6 million). These swaps are described further in note 16(e).

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 prevailing interest rates. The carrying values of short term borrowings approximate to book value.

(a) Fair value of non-current borrowings

	29 December 2006		30 December 2005	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Long term borrowings	**(271.0)**	**(344.2)**	(191.9)	(256.0)
Fair values of other financial assets and financial liabilities				
Primary financial instruments held or issued to finance the Group's operations:				
Short term borrowings (note 16)	**(4.6)**	**(4.9)**	(2.2)	(2.5)
Trade and other payables (note 17)	**(19.2)**	**(19.2)**	(21.9)	(21.9)
Trade and other receivables (note 14)	**19.2**	**19.2**	22.3	22.3
Cash at bank and in hand (note 15)	**41.4**	**41.4**	37.3	37.3
Other non-current liabilities (note 17)	**(2.9)**	**(2.9)**	(2.9)	(2.9)

(b) Maturity of financial liabilities

	29 December 2006				30 December 2005			
	Debt £m	Finance leases £m	Other financial liabilities £m	Total £m	Debt £m	Finance leases £m	Other financial liabilities £m	Total £m
In not more than one year	**3.9**	**–**	**0.7**	**4.6**	1.9	–	0.3	2.2
In more than one year but not more than five years	**19.5**	**0.2**	**2.2**	**21.9**	10.1	0.2	1.1	11.4
In more than five years	**245.0**	**0.6**	**3.5**	**249.1**	174.6	0.6	5.3	180.5
	268.4	**0.8**	**6.4**	**275.6**	186.6	0.8	6.7	194.1

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

21 Financial instruments (continued)

(c) Borrowing facilities

(i) The Group has the following undrawn committed borrowing facilities available at 29 December 2006 in respect of which all conditions precedent had been met at that date:

	29 December 2006				30 December
	Floating rate £m	Fixed rate £m	No interest £m	Total £m	2005 Total £m
Expiring within one year	**40.0**	**–**	**–**	**40.0**	30.0
Expiring between one and two years	**5.0**	**–**	**–**	**5.0**	–
Expiring in more than two years	**–**	**–**	**–**	**–**	5.0
	45.0	**–**	**–**	**45.0**	35.0

The facilities expiring within one year are annual facilities subject to review in 2007. All these facilities incur commitment fees at market rates.

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

	29 December 2006 £m	30 December 2005 £m
Not later than one year	**0.1**	0.1
Later than one year but not more than five years	**0.2**	0.3
More than five years	**3.0**	3.0
	3.3	3.4
Future finance charges on finance leases	**(2.5)**	(2.6)
Present value of finance lease liabilities	**0.8**	0.8

22 Called up share capital

	2006 £m	2005 £m
Authorised equity shares		
100,000,000 Ordinary Shares of £0.07 each	**–**	7.0
77,777,777 Ordinary Shares of £0.09 each	**7.0**	–
Allotted, called up and fully paid equity shares		
80,000,260 Ordinary Shares of £0.07 each	**–**	5.6
62,224,139 Ordinary Shares of £0.09 each	**5.6**	–

Changes in issued share capital

On 2 August 2006, the Ordinary Share capital of the Company was consolidated such that shareholders received seven Ordinary Shares of £0.09 each in exchange for every nine Ordinary Shares of £0.07 each held as at close of business on 1 August 2006.

On 2 August 2006, the Company issued 80,002,465 B shares and redeemed them for cash on the same day. The B shares carried no voting rights and were classified as debt for accounting purposes.

Potential issues of Ordinary Shares

Certain employees hold options to subscribe for shares in the Company under an approved Save As You Earn Scheme (SAYE) started in 2004. In addition, Executive Directors hold options to subscribe for shares in the Company under long term incentive plans (LTIP) awarded in 2004, 2005 and 2006.

The number of 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	2006 Number	2005 Number	2004 Number
2004 – SAYE	230.00	31 May 2007 to 30 November 2007	673,830	717,139	763,413
2004 – LTIP	–	8 April 2007 to 8 April 2008	375,000	375,000	375,000
2005 – LTIP	–	13 April 2008 to 13 April 2009	263,601	263,601	n/a
2006 – LTIP	–	23 March 2009 to 23 March 2010	286,413	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 19 and 20. 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 MonteCarlo 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	**23 March 2006**	13 April 2005	8 April 2004
Share price at grant date	**£4.78**	£3.40	£2.30
Exercise price	**–**	–	–
Number of employees	**7**	4	4
Shares under option	**286,413**	263,601	375,000
Vesting period (years)	**3**	3	3
Expected volatility	**25%**	42%	37.6%
Option life (years)	**1**	1	1
Expected life (years)	**Immediate**	Immediate	Immediate
Risk free rate	**4.36%**	4.5%	4.5%
Expected dividends expressed as a dividend yield	**1.8%**	3.3%	3.2%
Possibility of ceasing employment before vesting	**0%**	0%	0%
Fair value per option	**£2.67**	£1.94	£1.34

The expected volatility is calculated by reference to the estimated volatility over the last three years of the members of the Comparator Group. 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.

No options were exercised, forfeited or lapsed during the period. However, on 2 January 2007, one executive forfeited his rights to 6,194 options under the 2004 LTIP scheme, 20,991 options under the 2005 LTIP scheme and 31,727 options under the 2006 LTIP scheme.

The charge to the income statement in the period in respect of the LTIP schemes was £0.5 million (2005: £0.3 million).

SAYE Scheme

The Inland Revenue approved SAYE Scheme was granted on 6 May 2004. 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:

Grant date	6 May 2004
Share price at grant date	£2.30
Exercise price	£2.30
Number of employees	807
Shares under option	799,807
Vesting period (years)	3.25
Expected volatility	47.6%
Option life (years)	4
Expected life (years)	Immediate
Risk free rate	5.1%
Expected dividends expressed as a dividend yield	4.1%
Possibility of ceasing employment before vesting (per annum)	5.9%
Fair value per option	£0.79

38,836 (2005: 44,357) were forfeited during the period and 4,473 (2005: 1,917) were exercised during the period.

The charge to the income statement in the period in respect of the SAYE scheme was £0.2 million (2005: £0.2 million).

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

24 Statement of changes in shareholders' equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
Shareholders' equity as at 31 December 2004	5.6	111.6	–	(12.5)	(87.3)	17.4	(1.2)	16.2
Profit for the 52 weeks ended 30 December 2005	–	–	–	–	18.3	18.3	–	18.3
Actuarial gains and losses on defined benefit plans	–	–	–	1.8	–	1.8	–	1.8
Deferred tax on pensions	–	–	–	(0.5)	–	(0.5)	–	(0.5)
Effects of employee share options	–	–	–	0.5	–	0.5	–	0.5
Deferred tax on employee share options	–	–	–	0.3	–	0.3	–	0.3
Dividends	–	–	–	–	(5.2)	(5.2)	–	(5.2)
Shareholders' equity as at 30 December 2005	5.6	111.6	–	(10.4)	(74.2)	32.6	(1.2)	31.4
Profit for the 52 weeks ended 29 December 2006	–	–	–	–	18.8	**18.8**	–	**18.8**
Reclassification of actuarial gains and losses on defined benefit plans (net of deferred tax)*	–	–	–	(0.8)	0.8	**–**	–	**–**
Actuarial gains and losses on defined benefit plans	–	–	–	–	2.4	**2.4**	–	**2.4**
Deferred tax on pensions	–	–	–	–	(0.7)	**(0.7)**	–	**(0.7)**
Effects of employee share options	–	–	–	0.7	–	**0.7**	–	**0.7**
Deferred tax on employee share options	–	–	–	1.0	–	**1.0**	–	**1.0**
Issue of B shares (see note 22)	–	(80.0)	–	–	–	**(80.0)**	–	**(80.0)**
Redemption of B shares (see note 22)	–	–	80.0	–	(80.0)	**–**	–	**–**
Dividends	–	–	–	–	(1.9)	**(1.9)**	–	**(1.9)**
Shareholders' equity as at 29 December 2006	**5.6**	**31.6**	**80.0**	**(9.5)**	**(134.8)**	**(27.1)**	**(1.2)**	**(28.3)**

* These amounts have been reclassified in accordance with IAS 19 (Revised).

Included within other reserves is the merger accounting consolidation difference of £12.3 million, which arose on 20 December 2002 as part of the Group reconstruction effected at that time.

25 Reconciliation of cash generated from operations

	2006 £m	2005 £m
Net profit for the period	**18.8**	18.3
Adjustments for:		
Taxation	**8.4**	8.2
Net finance costs	**16.2**	15.1
Profit on disposal of fixed assets	**–**	(0.6)
Depreciation charges	**6.9**	6.6
Amortisation of intangibles	**0.6**	0.6
Changes in working capital (excluding acquisitions)	**0.1**	0.8
Employee share options	**0.7**	0.5
Cash generated from operations before exceptional items	**51.7**	49.5
Exceptional costs in respect of redemption of B shares	**(0.7)**	–
Exceptional contribution to pension scheme	**(10.0)**	–
Cash generated from operations	**41.0**	49.5

Other non-cash transactions

Non-cash charges comprise amortisation of deferred debt issue costs, as discussed in note 16(a) and (b).

26 Acquisition and disposals

(a) Acquisition of subsidiary and other businesses – 2006

	Carrying values pre acquisition £m	**Adjustments £m**	**Provisional fair value £m**
Tangible fixed assets	**1.3**	**0.8**	**2.1**
Intangible assets:			
Trade names	**–**	**3.7**	**3.7**
Other working capital	**(0.1)**	**(0.2)**	**(0.3)**
Net assets acquired	**1.2**	**4.3**	**5.5**
Goodwill arising			**2.0**
			7.5
Satisfied by:			
Cash paid on completion			**7.2**
Deferred consideration			**0.3**
Total consideration			**7.5**

During 2006, the Group acquired the entire issued share capital of four funeral businesses. These have been accounted for under the acquisition method.

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 2007.

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

26 Acquisition and disposals (continued)

(b) Acquisition of businesses – 2005

	Carrying values pre acquisition £m	Provisional fair value At 30 December 2005 £m	Revision to fair value £m	**Fair value at 29 December 2006 £m**
Tangible fixed assets	0.9	1.1	–	**1.1**
Intangible assets:				
Trade names	–	4.3	–	**4.3**
Non compete agreement	–	0.1	–	**0.1**
Cash acquired	0.5	0.5	–	**0.5**
Other working capital	(0.7)	(0.2)	(0.2)	**(0.4)**
Net assets acquired	0.7	5.8	(0.2)	**5.6**
Goodwill arising		1.3	0.2	**1.5**
		7.1	–	**7.1**
Satisfied by:				
Cash paid on completion		7.0	–	**7.0**
Deferred consideration		0.1	–	**0.1**
Total consideration		7.1	–	**7.1**

During 2005, the Group acquired the trade and assets of one funeral business and the entire issued share capital of three funeral businesses. The fair value of the assets acquired and the liabilities assumed were provisional at 30 December 2005. All fair values were finalised during 2006. Revisions to fair values represents corrections to anticipated amounts of trade debtors, trade creditors and other 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 disclose 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.

(c) Reconciliation to cash flow statement

	2006 £m	2005 £m
Cash paid on completion	**7.2**	7.0
Cash paid in respect of deferred consideration obligations	**0.1**	0.2
Less: cash acquired on acquisition	**–**	(0.5)
Acquisition of subsidiaries and businesses as reported in cash flow statement	**7.3**	6.7

27 Employees and Directors

Employees	**2006 £m**	2005 £m
Wages and salaries	**47.3**	45.4
Social security costs	**4.0**	3.9
Other pension costs	**1.2**	1.5
	52.5	50.8

The monthly average number of people (including Directors) employed by the Group during the period was as follows:

	2006 Number	2005 Number
Management and administration	**114**	119
Funeral services staff	**1,906**	1,899
Crematoria staff	**221**	222
Pre-arranged funeral plan staff	**30**	30
	2,271	2,270

Directors' emoluments

Details of Directors' emoluments are disclosed in the Report on Directors' Remuneration on pages 21 to 23.

28 Pension commitments

Defined contribution plans

The Group contributes to certain individuals' personal pension schemes. These contributions are accounted for as defined contributions.

The pension costs for defined contribution schemes are as follows:

	2006 £m	2005 £m	2004 £m
Defined contribution schemes	**0.2**	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 in respect of both plans at 6 April 2005. The valuation results of the merged scheme were updated to 29 December 2006 by a qualified independent Actuary.

The employer contribution rate paid to the Dignity Pension and Assurance Scheme for the period was 10.5% to 5 April 2006 and 5.5% plus £39,750 per month thereafter (2005: 10.5%). In addition special contributions of £10.0 million have been paid to make the total contribution for the year £11.2 million.

The principal assumptions used by the actuary were:

Assumptions	**2006**	2005	2004
Discount rate	**5.1%**	4.8%	5.3%
Expected long-term rate of return on assets	**6.2%**	5.7%	6.1%
Rate of increase in salaries	**3.6%**	3.25%	3.25%
Rate of increase in payment of pre April 1997 excess over GMP pensions – Dignity Pension and Assurance Scheme members	**0%**	0%	0%
Rate of increase in payment of post April 1997 pensions	**3.1%**	2.75%	2.75%
Rate of increase in payment of post April 2005 pensionable service	**2.5%**	2.25%	n/a
Price inflation assumption	**3.1%**	2.75%	2.75%

The underlying mortality assumptions are PA92, scaled to 2007 for current pensioners and PA92, scaled to 2020 for deferred pensioners and active members.

Pensions and other post-retirement obligations

The amounts recognised in the balance sheet are determined as follows:

	2006 £m	2005 £m	2004 £m
Fair value of plan assets	**59.9**	45.8	39.1
Present value of funded obligations	**(59.3)**	(57.8)	(52.9)
Net asset/(liability) recognised in the balance sheet	**0.6**	(12.0)	(13.8)

Analysis of amount charged to income statement in respect of defined benefit schemes

	2006 £m	2005 £m	2004 £m
Current service cost	**1.0**	1.0	1.6
Interest cost	**2.8**	2.8	2.5
Expected return on plan assets	**(2.8)**	(2.4)	(2.2)
Total included within staff costs (note 27)	**1.0**	1.4	1.9

Of the total charge £1.0 million (2005: £1.0 million) and £nil million (2005: £0.4 million) were included, respectively, in cost of sales and finance expenses.

Expected contributions to post employment benefit plans for the 52 week period ended 28 December 2007 are £1.2 million.

Notes to the consolidated financial statements continued

for the 52 week period ended 29 December 2006

28 Pension commitments (continued)

Analysis of fair value of plan assets

	2006		2005		2004	
	£m	%	£m	%	£m	%
Equity and property	**30.9**	**51.6**	28.2	61.4	23.8	61.0
Debt	**5.7**	**9.5**	14.2	30.9	12.5	32.1
Cash	**23.3**	**38.9**	3.5	7.7	2.7	6.9
Fair value of plan assets	**59.9**	**100.0**	45.9	100.0	39.0	100.0

Changes in the present value of the defined benefit obligation are as follows:

	2006 £m	2005 £m	2004 £m
Present value of obligation at beginning of period	**(57.8)**	(52.9)	(46.6)
Service cost	**(1.0)**	(1.0)	(1.6)
Interest cost	**(2.8)**	(2.8)	(2.5)
Benefits paid	**2.3**	1.9	1.9
Contributions by participants	**(1.4)**	(0.9)	(1.3)
Actuarial gains/(losses)	**1.4**	(2.1)	(2.8)
Present value of obligation at end of period	**(59.3)**	(57.8)	(52.9)

Changes in the fair value of plan assets are as follows:

	2006 £m	2005 £m	2004 £m
Fair value of plan assets at beginning of period	**45.8**	39.1	33.9
Expected return on plan assets	**2.8**	2.4	2.2
Contributions by Group	**11.2**	1.4	1.5
Contributions by participants	**1.4**	0.9	1.3
Benefits paid	**(2.3)**	(1.9)	(1.9)
Actuarial gains	**1.0**	3.9	2.1
Fair value of plan assets at end of period	**59.9**	45.8	39.1

Analysis of the movement in the balance sheet asset/(liability)

	2006 £m	2005 £m	2004 £m
At beginning of period	**(12.0)**	(13.8)	(12.7)
Total expense as above	**(1.0)**	(1.4)	(1.9)
Actuarial gains	**2.4**	1.8	(0.7)
Contributions by Group	**11.2**	1.4	1.5
At end of period	**0.6**	(12.0)	(13.8)

Cumulative actuarial gains and losses recognised in equity

	2006 £m	2005 £m	2004 £m
At beginning of period	**1.1**	(0.7)	–
Net actuarial gains recognised in the period	**2.4**	1.8	(0.7)
At end of period	**3.5**	1.1	(0.7)

The actual return on plan assets was £3.8 million (2005: £6.3 million).

History of experience gains and losses

	2006	2005	2004
Experience adjustments arising on scheme assets:			
Amount (£ million)	**(1.0)**	(3.9)	(2.1)
Percentage of schemes' assets	**1.7%**	8.5%	5.4%
Experience adjustments arising on scheme liabilities:			
Amount (£ million)	**0.5**	0.5	0.1
Percentage of the present value of the schemes' liabilities	**0.8%**	0.9%	0.2%
Present value of scheme liabilities (£ million)	**(59.3)**	(57.8)	(52.9)
Fair value of scheme assets (£ million)	**59.9**	45.8	39.1
Surplus/(deficit) (£ million)	**0.6**	(12.0)	(13.8)

29 Other 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 Concern Funeral Plans respectively. Full details of the transactions can be found in the annual reports of these companies, which are available from Plantsbrook House, 94 The Parade, Sutton Coldfield, West Midlands, B72 1PH.

The Group has given commitments to certain of these clients to perform their funeral. The cost of the performance of these funerals will be paid out of the funds held in the Trusts.

It is the view of the Directors that none of these commitments are onerous to the Group.

30 Contingent liabilities

On 11 April 2003, the Group refinanced its debt by way of a whole business securitisation. Furthermore on 21 February 2006 further Secured Notes were issued on identical terms. As a result, the following guarantees and charges were granted to BNY Corporate Trustee Services Limited (formally known as JP Morgan Corporate Trustee Services Limited) in its capacity as Security Trustee in the securitisation:

- Dignity (2002) Limited and its wholly owned subsidiaries (‘Dignity (2002) Group’) have granted the Security Trustee fixed and floating charges over the assets and undertakings of the Dignity (2002) Group;
- 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 its 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 Mezzco 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 (2002) Limited; and
- Dignity Mezzco Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right and interest in the loan to Dignity (2002) Limited.

At 29 December 2006, the amount outstanding in relation to these borrowings was £287.0 million (2005: £202.6 million).

In the opinion of the Directors no liability is likely to crystallise in respect of these guarantees.

31 Related party transactions

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 polices. Transactions represent:

- expenses paid by the Group on behalf of the respective Trusts;
- transfers of funds in relation to payments in respect of deaths and cancellations of existing members;
- the recovery of marketing and administration expenses in relation to plans sold net of cancellations; and
- the payment of realised surpluses generated by the Trust funds as and when the trustees sanction such payments.

Notes to the consolidated financial statements continued
for the 52 week period ended 29 December 2006

31 Related party transactions (continued)

Related party transactions are summarised below:

	Transactions during the period		Amounts due to the Group at the period end	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Dignity Limited Trust Fund	**0.4**	0.4	**–**	–
National Funeral Trust	**12.7**	12.4	**1.2**	1.3
Trust for Age Concern Funeral Plans	**11.4**	11.4	**0.9**	1.5

Age Concern
During the period, the Group paid commissions to Age Concern Enterprises Limited totalling £2.3 million (2005: £3.8 million). Age Concern Enterprises Limited owned 25 per cent of the issued share capital of Advance Planning Limited at the balance sheet date. See note 32 for further information.

32 Post balance sheet events

The Group acquired six funeral locations subsequent to the balance sheet date for total consideration of £3 million.

On 8 January 2007, the Group acquired all the allotted and issued ordinary B shares in Advance Planning Limited from Age Concern Enterprises Limited, for consideration of £2 million. As the Group already owned all the allotted and issued A shares capital of Advance Planning Limited, the company became a wholly owned subsidiary of the Group.

A number of changes have been proposed in the recent Chancellor's Budget to the UK Corporation tax system, including a reduction in the corporation tax rate to 28 per cent from 30 per cent. The impact of these changes to the financial statements is not considered to be significant.

Independent auditors' report to the members of Dignity plc

We have audited the parent company financial statements of Dignity plc for the 52 week period ended 29 December 2006 which comprise the Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Report on Directors' Remuneration that is described as having been audited.

We have reported separately on the consolidated financial statements of Dignity plc for the 52 week period ended 29 December 2006.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Report on Directors' Remuneration and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Business Review and Financial Review, the Corporate and Social Responsibility Report, the unaudited section of the Report on Directors' Remuneration and the Directors' Statement on Corporate Governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Report on Directors' Remuneration to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Report on Directors' Remuneration to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 29 December 2006 and of its profit for the 52 week period then ended;
- the parent company financial statements and the part of the Report on Directors' Remuneration to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
21 March 2007

Dignity plc company balance sheet

As at 29 December 2006

	Note	29 December 2006 £m	30 December 2005 £m
Fixed assets			
Investments	C2	**130.3**	130.3
Current assets			
Debtors: amounts falling due within one year	C3	**14.4**	0.1
Debtors: amounts falling due after more than one year	C3	**1.8**	0.6
Cash at bank and in hand		**32.7**	18.9
Total current assets		**48.9**	19.6
Creditors: amounts falling due within one year	C5	**(16.7)**	(13.6)
Net current assets		**32.2**	6.0
Total assets less current liabilities		**162.5**	136.3
Net assets		**162.5**	136.3
Capital and reserves			
Called up share capital	C6	**5.6**	5.6
Share premium account		**31.6**	111.6
Capital redemption reserve	C6	**80.0**	–
Other reserves	C6	**2.8**	1.1
Profit and loss account	C6	**42.5**	18.0
Equity shareholders' funds	C7	**162.5**	136.3

The financial statements on pages 64 to 67 were approved by the Board of Directors on 21 March 2007 and were signed on its behalf by:

Peter Hindley.

P T Hindley
Chief Executive

M K McCollum
Finance Director

Notes to the Dignity plc financial statements
for the 52 week period ended 29 December 2006

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 1985 and applicable accounting standards. A summary of the principal accounting policies, which have been consistently applied, is set out below.

In accordance with the concession granted under section 230 of the Companies Act 1985, 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 52 week period ended 29 December 2006. For the comparative period, the Company's financial statements have been prepared for the 52 week period ended 30 December 2005.

The Company has taken advantage of the exemption contained in FRS 1, 'Cash Flow Statements' and has not prepared a cash flow statement as the Company is included in the consolidated financial statements of Dignity plc, which include a cash flow statement.

Furthermore, the Company has taken advantage of the exemption provided within FRS 8, 'Related Party Transactions', not to disclose transactions with subsidiary undertakings, 90 per cent or more of whose voting rights are controlled within the Group.

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 Sharesave Scheme and Long Term Incentive Plan ('LTIP').

The expected fair value of the share options awarded under the LTIP scheme are charged to the profit and loss account over the period in which the right to the options is earned. The fair value is calculated by reference to the market value of the shares at the date on which the options are awarded reduced by any consideration payable by the relevant employee.

Details of Directors' remuneration can be found in the Report on Directors' Remuneration on pages 21 to 23.

Taxation including deferred taxation
Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, except that deferred tax assets are only recognised to the extent that they are regarded as more likely than not to be recoverable. Deferred tax balances are not discounted.

No deferred taxation is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

Notes to the Dignity plc financial statements continued

for the 52 week period ended 29 December 2006

C2 Investments in subsidiary undertakings

Cost and net book amount	£m
At beginning and end of period	**130.3**

	Activity	Number of shares at 29 December 2006	Percentage held
Dignity Services	Intermediate holding company	203,746,505 Ordinary at £1 each	100%
Dignity Funerals Limited	Funeral services	577,376,905 Ordinary at 10p each	100%
Pitcher & 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	Nil
		6,911,000 0.0000001 pence Redeemable Preference Shares at £1 each	100%
Phillips Funeral Plans Limited	Pre-arranged funeral plans	5,000 Ordinary 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	2 Ordinary at £1 each	100%
Dignity (2004) Limited	Intermediate holding company	1,000 Ordinary at £1 each	100%

All of the subsidiaries are incorporated in the United Kingdom except for Pitcher & 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.

On 8 January 2007, the Group acquired the 2,500 'B' Ordinary Shares of £1 each in Advance Planning Limited.

C3 Debtors

	2006 £m	2005 £m
Amounts falling due within one year:		
Prepayments	**0.1**	0.1
Amounts due from group undertakings	**14.3**	–
	14.4	0.1
Amounts falling due after more than one year:		
Deferred tax asset (see note C4)	**1.8**	0.6
	1.8	0.6

C4 Deferred tax

	2006 £m	2005 £m
Asset at beginning of period	**0.6**	0.1
Credit to profit and loss account	**0.2**	0.1
Credit to equity reserves	**1.0**	0.4
Asset at end of period	**1.8**	0.6

The major components of deferred taxation are as follows:

	2006 £m	2005 £m
Long term incentive plans	**1.8**	0.6

C5 Creditors: amounts falling due within one year

	2006 £m	2005 £m
Amounts due to subsidiary undertakings	**16.3**	13.4
Accruals and deferred income	**0.1**	0.2
Corporation tax	**0.3**	–
	16.7	13.6

C6 Share capital and reserves

	2006 £m	2005 £m
Authorised equity shares		
100,000,000 Ordinary Shares of £0.07 each	**–**	7.0
77,777,777 Ordinary Shares of £0.09 each	**7.0**	–
Allotted, called up and fully paid equity shares		
80,000,260 Ordinary Shares of £0.07 each	**–**	5.6
62,224,139 Ordinary Shares of £0.09 each	**5.6**	–

Changes in issued share capital

On 2 August 2006, the Ordinary Share capital of the Company was consolidated such that shareholders received seven Ordinary Shares of £0.09 each in exchange for every nine Ordinary Shares of £0.07 each held as at close of business on 1 August 2006. Equal voting rights are attributable to Ordinary Shares. All of the issued shares are ranked *pari passu*.

On 2 August 2006, the Company issued 80,002,465 B shares and redeemed them for cash on the same day. The B shares carried no voting rights and were classified as debt for accounting purposes.

Reserves and share premium account	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	Total £m
At beginning of period	111.6	–	1.1	18.0	130.7
Profit for the period	–	–	–	106.4	106.4
Issue of B shares	(80.0)	–	–	–	(80.0)
Redemption of B shares	–	80.0	–	(80.0)	–
Dividends paid	–	–	–	(1.9)	(1.9)
Effects of long term incentive plan	–	–	0.7	–	0.7
Deferred tax on long term incentive plan	–	–	1.0	–	1.0
At end of period	**31.6**	**80.0**	**2.8**	**42.5**	**156.9**

C7 Reconciliation of movement in shareholders' funds

	2006 £m	2005 £m
Profit for the period	**106.4**	19.8
Dividends	**(1.9)**	(5.2)
Effects of long term incentive plan	**0.7**	0.5
Deferred tax on long term incentive plan	**1.0**	0.4
Redemption of B shares	**(80.0)**	–
Net additions to shareholders' funds	**26.2**	15.5
Opening shareholders' funds	**136.3**	120.8
Closing shareholders' funds	**162.5**	136.3

Notice of Meeting

Notice is hereby given that the 2007 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 Friday 8 June 2007 at 11.00 am for the following purposes:

Ordinary Business

1. To receive and consider the Company's accounts, and the reports of the Directors and auditors thereon for the 52 week period ended 29 December 2006.
2. To approve the Report on Directors' remuneration for the 52 weeks ended 29 December 2006 as set out on pages 18 to 23 of the Annual Report 2006.
3. To re-appoint Richard Connell as a Director.
4. To re-appoint William Forrester as a Director.
5. To re-appoint Richard Portman as a Director.
6. 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.

Special Business

To propose the following as ordinary resolutions:

7. That, in substitution for all existing authorities to the extent unused, the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ('the Act') to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate nominal amount of £1,120,000 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 after 15 months (whichever is earlier), save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

8. That the Company may:
   a) send or supply any documents or information to members by making them available on a website for the purposes of paragraph 10(2) of schedule 5 to the Companies Act 2006 or otherwise; and
   b) use electronic means (within the meaning of the Disclosure Rules and Transparency Rules sourcebook published by the Financial Services Authority) to convey information to members.

To propose the following as special resolutions:

9. That subject to the passing of resolution 7 the Directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) and Section 94(3A) of the Act) for cash pursuant to the authority conferred by resolution 7 as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that this power shall be limited:
   a) to the allotment of equity securities in connection with an issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective number of Ordinary Shares in the capital of the Company ('Ordinary Shares') held by them, but subject to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with fractional entitlements or legal problems which may arise in any overseas territory or under the requirements of any regulatory body or any stock exchange;
   b) to the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal amount of £280,000;

   and (unless previously revoked, varied or renewed) shall expire at the conclusion of the next Annual General Meeting after passing this resolution or after 15 months (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 after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

This power applies in relation to the sale of shares, which is an allotment of equity securities by virtue of Section 94(3A) of the Act as if in the first paragraph of this resolution the words 'pursuant to the authority conferred by the previous resolution' were omitted.

10. That the Company be and is hereby generally and unconditionally authorised for the purposes of Section 166 of the Act to make market purchases (as defined in Section 163(3) of the Act) of Ordinary Shares, subject as follows:
    a) the maximum number of Ordinary Shares which may be purchased is 3,111,111;
    b) the minimum price to be paid for each Ordinary Share shall not be less than the nominal value of the Ordinary Share and the maximum price shall not be more than 5 per cent above the average of the middle market quotation of the Company's Ordinary Shares for the five business days immediately prior to the day on which the purchase is made;
    c) 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 after 15 months (whichever is earlier), except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which may be executed wholly or partly after such expiry.

Registered office:
Plantsbrook House
94 The Parade
Sutton Coldfield
West Midlands B72 1PH

By order of the Board
Richard Portman
Company Secretary
30 April 2007

Notes
1. 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, Lloyds TSB Registrars, The Causeway, Worthing, 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.
2. The appointment of a proxy will not preclude a member of the Company from attending and voting in person at the meeting if he or she so wishes.
3. 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 6.00 pm on 6 June 2007 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 6.00 pm on 6 June 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. 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;
   - a copy of the Company's memorandum and articles of association.

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:

Company registrars

Enquiries concerning shareholdings, change of address or other particulars, should be directed in the first instance to the Company's Registrars, Lloyds TSB Registrars. They also provide a range of online shareholder information services at www.shareview.com where shareholders can check their holdings and find practical help on transferring shares and updating personal details.

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 and Teletext.

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.

Annual General Meeting

The Company's Annual General Meeting will be held on Friday 8 June 2007, at 11.00 am at DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham, West Midlands, B2 4DL. A circular to shareholders, which includes the Notice convening the Meeting is included on pages 68 and 69 of this document.

Dignity plc Form of Proxy – Annual General Meeting

Dignity
CARING FUNERAL SERVICES

If you are not able to attend the Annual General Meeting, you can appoint another person or persons (proxy or proxies) to attend and vote on your behalf. Before completing this Form of Proxy, please read the notes below carefully.

I/We, the undersigned, being a member/members of Dignity plc, hereby appoint the Chairman of the meeting, or (Note1)

____

as my/our proxy to vote for me/us at the Annual General Meeting of the Company to be held on Friday 8 June 2007 at DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham, West Midlands, B2 4DL and at any adjournment thereof.

Ordinary Resolutions	**For**	**Against**	**Withheld**
1. To receive the report and accounts for the 52 weeks ended 29 December 2006			
2. To approve the Directors' remuneration report for the 52 weeks ended 29 December 2006			
3. To re-appoint Richard Connell as a Director			
4. To re-appoint William Forrester as a Director			
5. To re-appoint Richard Portman as a Director			
6. To re-appoint PricewaterhouseCoopers LLP as auditors and to authorise the Directors to fix their remuneration			
7. To grant the Directors authority to allot relevant securities up to an aggregate nominal amount of £1,120,000 pursuant to section 80 of the Companies Act 1985			
8. To authorise the Company to send or supply documents to members electronically			
Special Resolutions			
9. To disapply the pre-emption rights contained in section 89 of the Companies Act 1985 in respect of an aggregate nominal amount of £280,000			
10. To authorise the Company to make market purchases of 3,111,111 Ordinary Shares pursuant to section 166 of the Companies Act 1985			

Please indicate which way you wish your proxy to vote by inserting "X" in the appropriate box. If you do not give such an indication regarding any resolution the proxy will be authorised to vote or abstain from voting as he/she thinks fit.

Dated this ______________________

Signature(s) or common seal ______________________

Full name(s) ______________________
(Please use block letters)

Address ______________________
(Please use block letters)

Dignity plc Admission Card

Annual General Meeting at DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham, West Midlands, B2 4DL, Friday 8 June 2007 at 11:00 am.

If you come to the meeting please bring this card with you. It is evidence of your right to attend and vote at the meeting and will help you gain admission as quickly as possible.

Notes:

1. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and (on a poll) vote instead of him/her. A proxy need not be a member of the Company.

2. To be valid your signed and dated proxy form must be completed and deposited together with any power of attorney or authority under which it is signed or a certified copy of such power or authority (whether delivered personally or by post), at the offices of the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6ZX as soon as possible and no later than 11:00 am on 6 June 2007. In the case of a corporation, the proxy form should be executed under its common seal and/or the hand of a duly authorised officer or person.

3. The "Withheld" box is provided to enable you to abstain on any particular resolution. However, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of votes "for" and "against" a resolution but will be counted to establish if a quorum is present.

4. Only those members registered in the register of members of the Company at 6:00 pm on 6 June 2007 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 the entries on the register of members after 6:00 pm on 6 June 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

5. In the case of joint registered holders, the signature of one holder on a proxy card will be accepted and the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the relevant joint holding.

6. Return of this form of proxy will not prevent a registered member from attending the meeting and voting in person.

RESPONSE LICENCE NO.
SEA 10855

1

Lloyds TSB Registrars
The Causeway
Worthing
BN99 6ZX

Map and Directions to AGM Venue

DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham, West Midlands, B2 4DL.

Directions
DLA Piper UK LLP's office is located at Victoria Square House, Victoria Square, in the centre of Birmingham, close to New Street Station.

DLA Piper UK LLP's reception is situated on the 2nd floor.

Directions to the Birmingham office of DLA Piper UK LLP
Leave M6 at Junction 6 onto the A38 (M).

Continue along A38 (M).

Go over the flyover and continue under St Chads Queensway.

On exiting the Queensway move to the left-hand lane and proceed up Great Charles Street.

Go straight on at the traffic lights and stay in the left-hand lane as you go under Paradise Circus Tunnel.

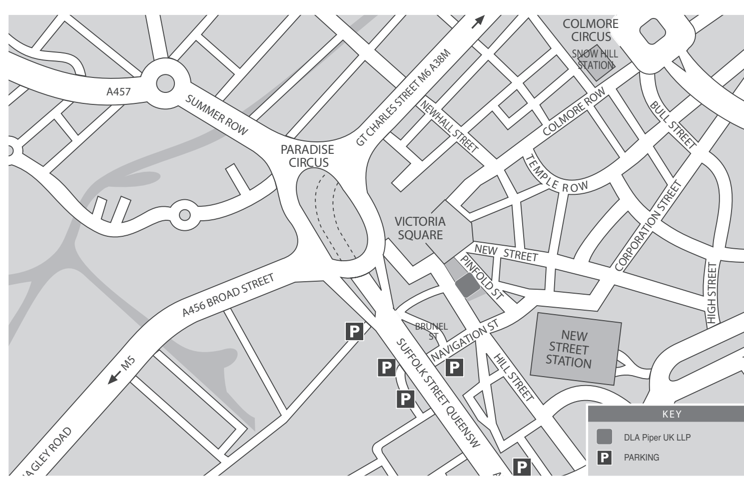
As you exit the tunnel take the first left onto Suffolk Street Queensway and first left again onto Brunel Street.

At the end of Brunel Street turn left onto Navigation Street and go straight on through the traffic lights.

Turn left onto Pinfold Street.

Victoria Square House car park is on your left.

Advance bookings only please. **(0121 262 5705)**



Contact details and advisers

Registered Office:
Plantsbrook House
94 The Parade
Sutton Coldfield
West Midlands B72 1PH

Tel: 0121 354 1557
Fax: 0121 321 5644
Email: enquiries@dignityuk.co.uk
www.dignityfuneralsplc.co.uk

Company Secretary:
Richard Portman FCA

Registered Number:
4569346

Registrars:
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Tel: 0870 600 3970
Fax: 0870 600 3980
www.shareview.co.uk

Auditors:
PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT

Joint Brokers:
Panmure Gordon & Co plc
Moorgate Hall
155 Moorgate
London EC2M 6XB

Investec
A division of Investec Bank (UK) Limited
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 Advisor:
DLA Piper UK LLP
Victoria Square House
Victoria Square
Birmingham B2 4DL

Financial calendar

22 March 2007
Preliminary announcement
of 2006 results

8 June 2007
Annual General Meeting

29 June 2007
2007 financial half year end

29 June 2007
Payment of 2006 final dividend

13 September 2007
Announcement of interim results

26 October 2007
Payment of 2007 interim dividend

28 December 2007
Financial period end

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This Annual Report is printed on material which is made
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Dignity plc
Plantsbrook House
94 The Parade
Sutton Coldfield
West Midlands
B72 1PH

For more information on investor relations please visit:

www.dignityfuneralsplc.co.uk

Dignity
CARING FUNERAL SERVICES