DIGNITY PLC
ANNUAL REPORT & ACCOUNTS 2008

BUILDING ON OUR REPUTATION, RELATIONSHIPS & RESPONSIBILITIES

ABOUT DIGNITY

Dignity owns 544 funeral locations and operates 25 crematoria in the United Kingdom. The Group continues to have a strong market presence in pre-arranged funeral plans, where people plan and pay for their funeral in advance.

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

CONTENTS

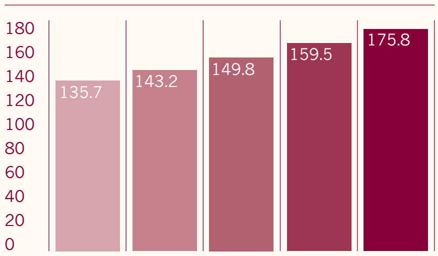
KEY FINANCIAL HIGHLIGHTS

Current period financial highlights	2008	2007	Increase %
Revenue (£million)	**175.8**	159.5	10
Underlying operating profit[a] (£million)	**52.1**	47.6	9
Underlying profit before tax[a] (£million)	**34.3**	30.1	14
Underlying earnings per share[b] (pence)	**38.2**	33.4	14
Cash generated from operations (£million)	**62.3**	57.5	8
Operating profit (£million)	**53.2**	47.7	12
Profit before tax (£million)	**35.4**	30.2	17
Basic earnings per share (pence)	**38.8**	34.4	13
Interim dividend (pence)	**3.66**	3.33	10
Final dividend (pence)	**6.67**	6.06	10

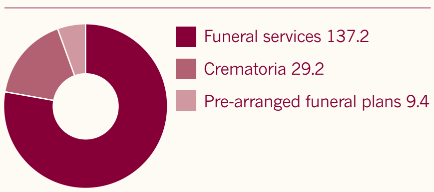
[a] Underlying profit is calculated as profit excluding profit on sale of fixed assets.
[b] Underlying earnings per share is calculated as profit on ordinary activities after taxation, before profit on sale of fixed assets (net of tax) and before exceptional tax items, divided by the weighted average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

Revenue up 10% to £175.8 million

Revenue
(£million)

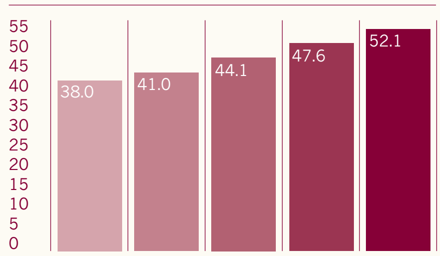


Revenue by area
(£million)

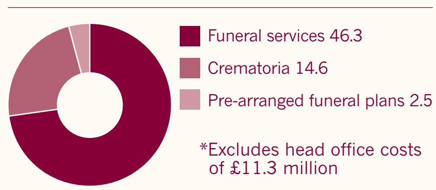


Underlying operating profit up 9% to £52.1 million

Underlying operating profit
(£million)



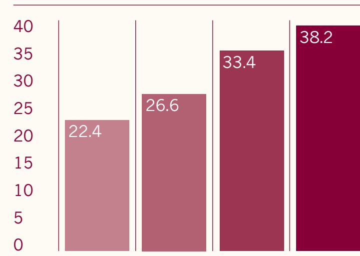
Underlying operating profit by area*
(£million)



*Excludes head office costs of £11.3 million

Underlying earnings per share up 14% to 38.2 pence per share

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



DIGNITY AT A GLANCE

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

FUNERAL SERVICES

BUSINESS OVERVIEW

Funeral services represent 78 per cent of the Group's revenues and relate to the provision of funerals and ancillary items such as memorials and floral tributes. We operate a network of 544 funeral locations throughout the United Kingdom trading under established local trading names. In 2008, the Group conducted 68,700 funerals, which represents approximately 12 per cent of estimated total deaths in Britain. During the period, the Group acquired 9 new funeral locations.

CREMATORIA

Crematoria represent 17 per cent of the Group's revenues and arise from cremation services and the sale of memorials and burial plots at the Group's crematoria and cemeteries. We are the largest single operator of crematoria in Britain. We operate 25 crematoria in England and Scotland and carried out 39,600 cremations in 2008 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. Income represents amounts to cover the costs of marketing and administering the sale of plans. Pre-arranged funeral plans allow people to plan and pay for their funeral in advance. The Group has a strong market presence in the provision of pre-arranged funeral plans with 204,000 unfulfilled funeral plans as at 26 December 2008. Dignity works with a number of reputable affinity partners.

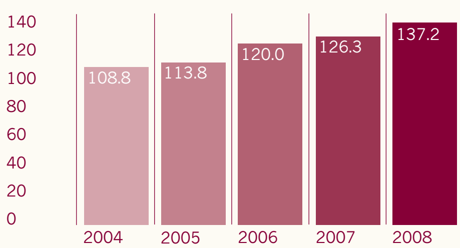
OUR PERFORMANCE IN 2008

The Group has performed strongly in 2008 with revenue up 10 per cent, underlying operating profit up 9 per cent and underlying earnings per share up 14 per cent.

OPERATIONAL AND FINANCIAL SUMMARY

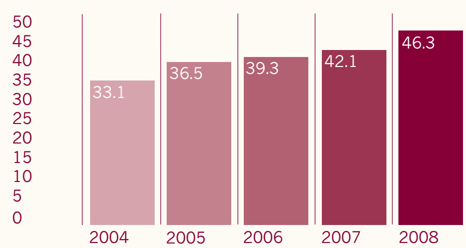
Revenue up 8.6% to £137.2 million

Revenue (£million)



Underlying operating profit up 10.0% to £46.3 million

Underlying operating profit (£million)

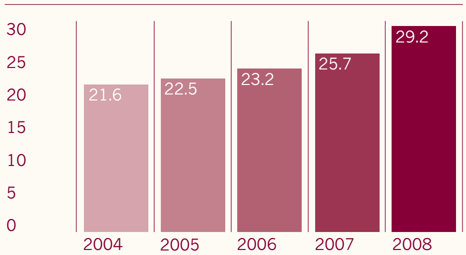


KEY DEVELOPMENTS

- Excellent performance in the period supported by good cost control.
- Nine locations acquired including six in Northern Ireland.

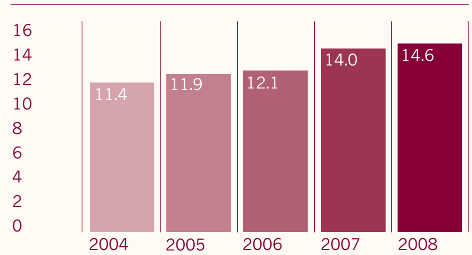
Revenue up 13.6% to £29.2 million

Revenue (£million)



Underlying operating profit up 4.3% to £14.6 million

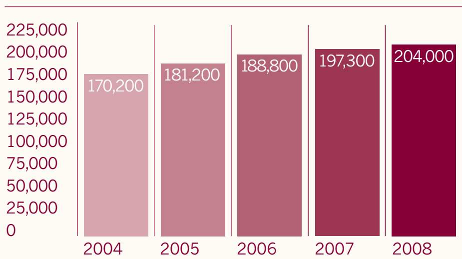
Underlying operating profit (£million)



- Division performed well despite some pressures on costs.
- Two small crematoria acquired from private operators.
- Contract with Rotherham Metropolitan Borough Council started.

Total unfulfilled pre-arranged funeral plans increased to 204,000

Total number of unfulfilled pre-arranged funeral plans



- Plans outstanding continue to grow.
- A number of new partnerships developed.

CHAIRMAN'S STATEMENT

"This performance is a result of maintaining our focus on the same strategy that has served this business so well."

Peter Hindley, Chairman

Results

I am delighted to present my first annual report as Chairman of the Group.

Underlying earnings per share (which excludes profit on sale of fixed assets and exceptional tax items) increased 14 per cent to 38.2 pence per share (2007: 33.4 pence per share). Basic earnings per share were 38.8 pence per share (2007: 34.4 pence per share), an increase of 13 per cent.

This is another strong performance by the Group and is the result of maintaining our focus on the same strategy that has served this business so well in recent years, namely that 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 costs;
- Selective acquisitions of additional funeral locations;
- National marketing, principally through affinity partners, of pre-arranged funeral plans; and
- Developing, managing or acquiring additional crematoria where possible.

Dividends

The Board has proposed that a final dividend of 7.34 pence per Ordinary Share should be paid from profits generated in 2008. This will be paid on 26 June 2009 to members on the register at close of business on 29 May 2009, provided shareholder consent is obtained at the Annual General Meeting on 5 June 2009.

This will follow an interim dividend of 3.66 pence per Ordinary Share, which was paid in October 2008.

These dividends represent a 10 per cent increase year on year, a rate that has been maintained since flotation in 2004.

Changes to the Board

A number of changes were made to the composition of the Board since the last Annual Report.

Richard Connell retired as Chairman. Richard guided the Group through two very successful periods of its history. Firstly during its private equity ownership and more recently as a public company. I would like to thank him, on behalf of the Board, for his contribution and wish him well with his numerous other business interests.

Mike McCollum, the previous Finance Director, was appointed Chief Executive. Mike has over 13 years within the business and has made a significant contribution in guiding the Group through all its significant changes since the management buy out. I am sure that he will be an outstanding Chief Executive.

Steve Whittern has succeeded Mike as Finance Director. Steve was previously the Group's Financial Controller and has been with the Group for ten years in various roles within the finance team.

As well as these changes to the Executive Directors, at the beginning of 2009 we also appointed two additional Non-Executive Directors, Ishbel Macpherson and Alan McWalter. Their biographies on page 19 demonstrate their extensive experience and they are welcome additions to the Board.

Ishbel and Alan's appointments also give the necessary balance to the Board, required by the Combined Code, given our responsibilities as a constituent member of the FTSE 250.

Our people

I know from my time as Chief Executive that our people are a tremendous asset to the Group. Their dedication to doing the best possible job, be it directly with families, or supporting operational staff, is at the heart of this business and I thank them for their individual contributions.

Outlook for 2009

All three business areas continue to perform well in the first quarter of 2009 and the outlook for the Group remains positive for the year ahead.

CHIEF EXECUTIVE'S OVERVIEW

"This strong performance reflects good growth in our core operations, together with benefits from acquisitions made in the period."

Mike McCollum, Chief Executive

Introduction

I would like to begin my first overview as Chief Executive, by recognising the tremendous contribution Peter Hindley made during his 17 years as Chief Executive of this business. I am delighted that Peter agreed to become Non-Executive Chairman, as this will allow the Group to continue to benefit from his vast experience of the industry in the coming years. This experience was clearly recognised by our major shareholders, who were consulted and supported Peter's transition to Chairman.

Delivering profitable growth

Underlying operating profits (which excludes profit on sale of fixed assets) increased 9 per cent to £52.1 million (2007: £47.6 million). Operating profits increased 12 per cent to £53.2 million (2007: £47.7 million).

This strong performance reflects good growth in our core operations, together with benefits from acquisitions made in the period.

This solid operational performance continues to be underpinned by our funding strategy, which helps to improve returns to our shareholders.

Building value for shareholders

The Group continues to be very cash generative. I believe that the Group makes the best use of that cash for the benefit of its shareholders, by using it for three main purposes, in addition to the traditional payment of dividends.

First, the business generates sufficient cash to fund continued programmes of renewal and improvement to its infrastructure. This helps our staff to provide the best possible service. For many years now, we have invested significantly in improving our locations and maintaining a modern fleet of hearses, limousines and other vehicles.

Second, the stability of our cash flows enables us to maintain an efficient balance sheet with long term fixed rate debt. Importantly, the principal of this debt amortises over its life and is scheduled to be fully repaid by 2031.

Third, we have historically been able to finance acquisitions of funeral locations from internally generated cash flows. These acquisitions deliver good incremental shareholder value from the outset.

Valuing our people

The business continues to grow thanks to the dedication of all our staff. Irrespective of their role within the business, they are focused on delivering client service excellence.

Another successful year has allowed the Group to make discretionary payments totalling £1.3 million to permanent members of staff not covered by any bonus scheme, an increase of 8 per cent over that paid in the previous period.

In addition, we continue to maintain our final salary pension scheme, keeping it open to new employees. The scheme continues to show a healthy surplus on an accounting basis and the most recent actuarial valuation, as at 5 April 2008, also showed the scheme to be fully funded.

Building on our reputation, relationships and responsibilities

Our strategy has been consistent for many years and has proved to be very effective. At its core is the service we provide to our customers. We help bereaved people at a sad time by providing a compassionate service whether through our funeral businesses, our crematoria, or our pre-arranged funeral plan business. The result of this focus is that over 70 per cent of our business is generated by previous experience, recommendation and reputation.

We continue to work on improving our already very high levels of service.

BUSINESS REVIEW

78%
Funeral services represent 78 per cent of the Group's revenues.

9 locations
The Group acquired 9 new funeral locations in the period and continues to seek well established, respected businesses that can contribute to the Group's future growth.

DELIVERING CONTINUED GROWTH BY...

Introduction
The Group's operations are managed across three main areas; funeral services, crematoria and pre-arranged funeral plans, which respectively represent 78 per cent, 17 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.

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

In 2007, the ONS changed their reporting systems. Consequently, there is possibly a lack of comparability between 2007 and 2008 estimated deaths. Nonetheless, the figures continue to give a good general background to the Group's performance.

The initial publication of recorded total estimated deaths in Britain for 2008 was 553,000 (2007: 553,000). Historically the ONS has updated these estimates from time to time. As in previous years, the Group does not restate any of its key performance indicators when these figures are restated in the following year.

Funeral services

Overview
The Group operates a network of 544 (2007: 540) funeral locations throughout the United Kingdom, trading under local established names. During the period, the Group conducted 68,700 funerals (2007: 66,500). Approximately 1 per cent of these funerals were conducted in Northern Ireland. Excluding Northern Ireland, these funerals represent approximately 12.3 per cent (2007: 12.0 per cent) of total estimated deaths in Britain.

Developments
Underlying operating profits were £46.3 million (2007: £42.1 million), an increase of 10 per cent. This reflects good growth in our core portfolio arising from increased spend per funeral and continued cost control, together with the incremental benefits from acquisitions made in 2008 and acquisitions made in 2007 having a full year effect for the first time.

Reported operating profits were £47.4 million (2007: £42.2 million), an increase of 12 per cent. The difference between statutory amounts and underlying amounts is represented by profit on sale of fixed assets of £1.1 million (2007: £0.1 million).

The vast majority of our funeral locations comprise those owned and operated by the Group for many years. These locations have continued to perform well and have benefited from the continued investment in our funeral locations and fleet, with a total of approximately £6.9 million being invested in the period. This investment has resulted in the acquisition of a further 31 new hearses and limousines, 99 other vehicles and the refurbishment of approximately one fifth of our property portfolio.

WORKING TOGETHER TO MAKE A DIFFERENCE

From our support staff working behind the scenes to our staff caring for bereaved families, every employee is an essential part of the Dignity team. By working together we are able to make a real difference to the communities we serve. **Left:** Nick Bibby, Funeral Service Manager and Nicola Bradley, Funeral Service Arranger at Middleton & Wood, Wigan, Lancashire.

The Group provides direct support to employees through both in-house training at centres such as this one at Middleton & Wood in Wigan and external training courses. It operates in a traditional market where people use our services based on previous experience, recommendation and reputation. Consequently, maintaining high quality and consistent delivery of client service excellence is of key importance to the Group's continued success and lies at the very heart of our strategy for growth.

We carry out close monitoring of survey results and provide regular training and detailed procedures to ensure our managers have the knowledge to embed Group policies at a local level and we empower them to make decisions and respond appropriately to clients needs.

Above: From left to right: Paul Lambert, Community Manager, Scales Funeral Services, Blackburn, Lancashire; Maureen Smith, Funeral Service Arranger, Scales Funeral Service, Blackburn, Lancashire; Jacqueline Wilkinson, Funeral Service Arranger, Middleton & Wood, Hindley, Lancashire; Barry Crawford, Business Development Manager and Diane Rushworth, Funeral Service Arranger, Sankey Monks, Leigh, Lancashire.

BUSINESS REVIEW CONTINUED

"Approximately 89 per cent of responding families would definitely recommend our services."

70%
Over 70 per cent of our business is generated by previous experience, recommendation and reputation.

25 locations
The Group is the largest private operator of crematoria, with 25 locations serving families across Britain.

The operating results also demonstrate our high level of client service, which has been supported for another year by our client survey results. Approximately 89 per cent of responding families would definitely recommend our services and a further 9 per cent would probably do so. These statistics speak volumes about the quality of service provided by our staff to the families we help at their time of need.

Sometimes, changing demographics or market conditions in local areas mean that individual funeral locations can become unprofitable. The Group has closed five (2007: two) such locations in the period.

Acquisition spend has again been higher than average annual spend since flotation in the period, with £16.3 million invested in acquiring nine funeral locations in the United Kingdom, including six funeral locations in Northern Ireland.

Each of these acquisitions met the Group's criteria of being larger than average, long-established businesses that fit well within the Group's existing network. The Group will also continue to acquire businesses that meet the Group's stringent acquisition criteria. No acquisitions have been completed since the end of 2008.

The funeral business is built on the reputation of each of our funeral locations. Consequently, client service will continue to be a key priority in 2009 and the coming years.

Crematoria

Overview

The Group operates 25 crematoria and performed 39,600 cremations (2007: 38,900) in the period. This represents 7.2 per cent (2007: 7.0 per cent) of deaths in Britain and reflects the Group's position as the largest single operator of crematoria in Britain.

Developments

Revenues of £29.2 million (2007: £25.7 million) have resulted in operating profits of £14.6 million (2007: £14.0 million), an increase of 4 per cent. This reflects a consistent performance by the division, which has experienced some cost pressures during the period, such as an increase in utility prices and some anticipated operating losses at the start of the Rotherham contract.

During the period, the Group has acquired two crematoria from private operators and started to develop and operate the crematorium in Rotherham on behalf of Rotherham Metropolitan Borough Council. The site was initially closed for two days a week to allow redevelopment work to begin. During this period, the site was loss making. However, work is nearing a close, the site is open five days a week and became profitable in December.

In addition, the Group acquired the property interest in five crematoria. At present, the sites are leased to a third party not connected to the Group. Three of these locations were fully operational at the year end with a further one having since become operational and the fifth one expected to become operational in the second quarter of 2009. The leases expire by 2039, at which point the Group will take over operational control of the locations. These properties are not counted within the 25 reported crematoria that we operate.

PROVIDING GREATER CHOICE FOR FAMILIES

We have invested in our crematoria so that bereaved families have a wider choice of memorials and can pay their respects in our peaceful gardens of remembrance.
Left: Natasha Precious, Crematorium Manager and Ivor Lawrence, Head Gardener, Exeter Crematorium.

REPUTATION ➔ RELATIONSHIPS ➔ RESPONSIBILITIES

The Group continues to seek opportunities to build valuable relationships with local authorities to manage their crematoria and cemeteries using our established knowledge and expertise, stability and depth of resources. As the largest single operator of crematoria in the UK, Dignity has a proven track record and infrastructure to deliver these vital added-value services to the community.

In 2008, Dignity was appointed by Rotherham Metropolitan Borough Council to upgrade and operate their crematorium and nine cemeteries across the borough. This innovative Public Private Partnership concession is the first of its kind in the UK and will include a £3.5 million investment by Dignity in the refurbishment and improvement of facilities.

Above: Adrian Barbour, Regional Manager and Clare Chisholm, Liaison Officer, Rotherham Crematorium.

BUSINESS REVIEW CONTINUED

2 acquisitions
The Group acquired two crematoria from private operators.

204,000
The Group has 204,000 unfulfilled pre-arranged funeral plans.

The Group has spent £0.8 million improving the facilities at its operational locations.

The Group continues to look at opportunities to work with local authorities. In addition, the Group is, in conjunction with the developer of the five sites recently acquired, evaluating a number of locations for potential new build crematoria.

Pre-arranged funeral plans

Overview
The Group continues to have a strong market presence in this area. Unfulfilled pre-arranged funeral plans were 204,000 at the end of the period (2007: 197,300). These plans represent future incremental business for the funeral division, as the Group expects to perform the majority of these funerals.

Developments
The Group has continued to work hard at developing its portfolio of affinity partners and has formed a number of new partnerships in the period with organisations in the retail and financial services arena. This activity has been complemented by continued development and marketing of plans endorsed by the actor Christopher Timothy, together with good sales via our funeral locations.

The Group is in discussion with a number of new potential partners with tests planned for 2009.

Central overheads

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

Developments
Costs in the period were £11.3 million (2007: £10.9 million), an increase of 4 per cent. This year on year increase principally reflects the additional cost of bonuses paid to the operational managers of the business.

HELPING PEOPLE PLAN FOR THE FUTURE

Pre-arranged funeral plans represent future incremental business as the Group expects to perform the majority of these funerals. **Left:** Annette Smith and Steve Silver at the Customer Service Centre, Spencer House, Sutton Coldfield.

REPUTATION → RELATIONSHIPS → RESPONSIBILITIES

Dignity continues to have a strong market presence in pre-arranged funeral plans. Good progress has been made in developing plan sales, with two substantial new partnerships launched in 2008. We have also seen continued growth in the sales of our Dignity Funeral Plan, endorsed by the actor Christopher Timothy, and in sales through our IFA channel. Developing further marketing and distribution relationships with reputable affinity partners is a key part of the growth plan in our Pre-Arrangement business.

We have substantially invested in our client services team, ensuring that our training, coaching and development programme reflects ongoing product training, telephone skills and the delivery of excellent customer service to our clients at all times.

Above: Paul Toghill, Head of Business Development and Diane Prescott, Head of Marketing (Pre-Need) at Plantsbrook House, Sutton Coldfield.

CORPORATE AND SOCIAL RESPONSIBILITY

"We are committed to integrating corporate and social responsibility into all areas of our business. We recognise the importance of balancing the needs of our customers, our shareholders, our employees and the communities in which we work."

Introduction
The Dignity Group is committed to integrating corporate and social responsibility into all areas of our 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, Corporate Services Director, is accountable for corporate and social responsibility and under this remit identifies key issues and reports these to his fellow Board members.

In our communities
Making a difference to the local communities we serve is at the heart of everything we do. The staff at Dignity are extremely committed to this ethos and support hundreds of local activities every year. From organising fundraising events for national charities to helping out village fêtes, our employees donate a large amount of their time to helping good causes and charities. By listening to and understanding the needs of local communities our staff are able to respond by providing help where it is really needed.

For example, our funeral directors in Surrey and Berkshire offer the use of their mini-bus to provide transport for local community groups and care homes. D J Evans Forse & Co in Cardiff helped to raise £10,000 to replace a school mini-bus that had been destroyed in an arson attack. Mason and Gerald Martin in Hartlepool donated a new memorial to eight soldiers who had been killed in World War Two and buried in France so that their families could pay their respects in their hometown. Dignity's Easter Egg challenge is still going strong with staff across the United Kingdom donating chocolate gifts to those less fortunate than themselves.

At Dignity, we believe in supporting our staff every step of the way, providing advice and practical support for those who want to give something back to their local community.

Supporting charities
In addition to our commitment to local communities, staff at Dignity raise thousands of pounds each year for national and local charities of their choosing.

In 2008, the staff at Dignity raised over £26,000 for the staff elected charity – Help the Hospices – a sum which was matched by the Group. Help the Hospices is the national membership charity for the hospice movement, supporting over 240 local hospices in their vital work caring for people with terminal illness. Dignity will continue to support this worthwhile cause in 2009.

There were many fund raising initiatives held nationwide during the year including memorial services, tea parties, picnics and barbecues whilst some employees raised money by abseiling, white water rafting and bungee jumping.

The heroes of our armed services were commemorated in November with window dressings and numerous poppy appeals raising much-needed funds for the Royal British Legion. Several funeral locations raised money for Breast Cancer Campaign's 'Wear It Pink' awareness day and at

SUPPORTING OUR LOCAL COMMUNITIES

Making a difference to the local communities we serve is at the heart of everything we do. By listening to and understanding the needs of local communities our staff are able to respond by providing help where it is really needed. **Left:** Hilary Al Rasheed, Community Manager, Philip Ford & Son, Stroud, Gloucestershire and Marianne Sweet, Marketing Manager, Cotswold Care Hospice.

SUPPORTING LOCAL CHARITIES

In addition to our commitment to local communities, staff at Dignity raise thousands of pounds each year for national and local charities. In 2008, the staff at Dignity raised over £26,000 for the staff elected charity – Help the Hospices – a sum which was matched by the business.

CORPORATE AND SOCIAL RESPONSIBILITY CONTINUED

the end of September there were various coffee mornings held in aid of Macmillan and the fabulous work they do.

Our four charity fairground organs continued to be a vital aid in fundraising activities and in 2008 almost £10,000 was raised for a variety of national and local charities.

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 risk over the next twelve months.

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

At our coffin manufacturing facility in East Yorkshire all wood waste from the manufacture of coffins is used to heat the factory. 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 re-use. As this is done when the next delivery is made there is no increase in the use of vehicles or emissions to achieve this.

All raw materials used in the manufacture of our coffins are sourced from well-managed and sustainable sources, 73 per cent of whom have FSC (Forest Stewardship Council) accreditation. We are currently seeking FSC accreditation for our veneered coffins, which account for 23 per cent of demand. Due to inconsistencies in supply-chain sources it is difficult to achieve accreditation for our oak coffins, which comprise 4 per cent of our manufacturing output.

All promotional literature developed by the pre-arranged funeral plan division is printed on paper with FSC Mixed Sources accreditation with up to 70 per cent of marketing literature printed on recycled material.

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 this is practical.

A recycling mission statement was developed and circulated to all premises in 2008.

Health and Safety

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

Dignity 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 role.

MINIMISING OUR IMPACT ON THE ENVIRONMENT

We recognise the impact of our operations on local surroundings and our aim is to reduce this and operate in an environmentally friendly manner. At our head office in Sutton Coldfield paper and card recycling policies have been successfully introduced. **Left:** Debbie Parcell, Plantsbrook House, Sutton Coldfield.

PRIORITISING HEALTH AND SAFETY

Effective heath and safety management is critical to the Group and a key priority of the Directors. As with all Dignity premises, we are committed to the prevention of accidents at our manufacturing unit in Driffield and procedures are regularly reviewed and updated. **Right:** Nigel Turner, Logistics and Health & Safety Manager and Keith Turner, Factory Supervisor, Manufacturing facility, Driffield, Yorkshire.

The Group has a full-time Health and Safety Consultant who is dedicated to these issues and is supported by two Health and Safety Managers, both of whom have completed NEBOSH (National Examination Board in Occupational Safety and Health) General Certificate Training. The manufacturing facility also has its own Health and Safety Manager.

In 2008, Dignity instigated a Health and Safety training programme ranging from a one-day introduction course to the four-day IOSH (Institution of Occupational Safety and Health) course. During the year, approximately half of the Group's 36 Funeral Service Managers were trained to IOSH Managing Safely Certificate standard and 50 per cent of junior managers have been trained to Level 2 Health and Safety Certificate standard. There are now approximately 90 co-ordinators embedded into the business and there are plans for further members of staff to take the IOSH course in 2009 including Operations Director, Andrew Davies and Corporate Services Director, Richard Portman.

The Group has also continued with its staff vaccination programme and plans to conclude this in 2009. During the next twelve months Dignity will also publish its Health and Safety manual and distribute this to all premises.

Supporting our staff

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

The Group provides direct support to employees through both in-house training and external training courses. External training includes both relevant job training and tutoring for professional qualifications. These professional qualifications include the NAFD (National Association of Funeral Directors) Diploma and Membership of the BIE (British Institute of Embalmers). In addition, the Group has five members of staff who are accredited NAFD tutors and three BIE training specialists.

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

Dignity 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. 'Dignity Express' is also circulated to the Group's retired employees. News, useful information and background on the Group is also available to staff via a dedicated employee website which was re-launched in 2008.

SUPPORTING OUR STAFF

Our employees are critical to the continued success of Dignity. External training includes tutoring for professional qualifications such as the NAFD Diploma. In addition, the Group has five members of staff who are accredited NAFD tutors and three specialists in embalming training. **Left:** Susan Lewis, Trainee Funeral Director, A V Band, Worcester.

FINANCIAL REVIEW

"Underlying earnings per share increased 14 per cent to 38.2 pence per share."

Steve Whittern, Finance Director

Introduction

The market conditions in which the Group operates and its trading performance during the 52 week period ended 26 December 2008 are described in the Chairman's Statement, the Chief Executive's Overview and the Business Review.

Financial highlights

	2008	2007	Increase %
Revenue (£million)	**175.8**	159.5	10
Underlying operating profit* (£million)	**52.1**	47.6	9
Underlying profit before tax* (£million)	**34.3**	30.1	14
Underlying earnings per share* (pence)	**38.2**	33.4	14
Cash generated from operations (£million)	**62.3**	57.5	8
Operating profit (£million)	**53.2**	47.7	12
Profit before tax (£million)	**35.4**	30.2	17
Basic earnings per share (pence)	**38.8**	34.4	13
Interim dividend (pence)	**3.66**	3.33	10
Final dividend (pence)	**6.67**	6.06	10

*Underlying amounts exclude profit on sale of fixed assets and exceptional tax items.

The Board has proposed a dividend of 7.34 pence per Ordinary Share as a final distribution of profits relating to 2008 to be paid in 2009. This brings the total dividend in respect of 2008 to 11 pence per share, an increase of 10 per cent.

Capital structure and financing

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

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

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

At the end of November 2008, the Group borrowed £7.4 million to help fund the acquisition of the freehold or long leasehold interests in five crematoria properties. The Group also has the facility to draw down a further £2.6 million in 2009 once the two locations under construction are complete.

This is a five-year facility with all interest cash paid. The principal is repayable in one amount at the end of the facility. The interest rate on this facility is fixed at approximately 5.6 per cent on the first tranche and is capped at approximately 5.6 per cent on the second tranche.

Outstanding net debt as at 26 December 2008 was:

	26 December 2008 £m	28 December 2007 £m
Net amounts owing on Class A and B Secured Notes per financial statements	**(263.0)**	(267.0)
Add: unamortised issue costs on Secured Notes	**(15.9)**	(17.2)
Net amounts owing on crematoria acquisition facility per financial statements	**(7.2)**	–
Add: unamortised issue costs on crematoria acquisition facility	**(0.2)**	–
Gross amounts owing	**(286.3)**	(284.2)
Accrued interest on Class A and B Secured Notes (paid 31 December)	**(9.7)**	(9.9)
Cash and cash equivalents	**46.7**	52.6
Net debt	**(249.3)**	(241.5)

The Group's finance expense substantially consists of the interest on the Class A and B Secured Notes and ancillary instruments. The net finance charge in the period relating to these instruments was £19.9 million (2007: £20.1 million).

Other ongoing finance costs incurred in the period amounted to £0.9 million (2007: £0.8 million), including the unwinding of discounts on the Group's provisions and other financial liabilities. This amount also includes the very small amount of interest incurred on the crematoria acquisition facility in the last month of the period.

+9%
Underlying operating profits have increased 9 per cent to £52.1 million.

+14%
Underlying earnings per share increased 14 per cent to 38.2 pence per share.

+8%
Cash generated from operations has increased 8 per cent to £62.3 million.

Interest receivable on bank deposits was £2.3 million (2007: £2.7 million). These receipts are a direct reflection of the Bank of England Base Rate, which averaged approximately 4.7 per cent (2007: 5.5 per cent) in the period. Given the current low Bank of England Base Rate, the Group is likely to receive less interest on its substantial cash deposits in 2009 and is exploring ways to more effectively generate returns from its cash balances.

Net finance income of £0.7 million (2007: £0.7 million) was recognised in respect of the Group's pension scheme in accordance with IAS 19.

Underlying profit after tax

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

	52 week period ended 26 December 2008 £m	52 week period ended 28 December 2007 £m
Operating profit for the period as reported	**53.2**	47.7
Deduct the effects of:		
Profit on sale of fixed assets	**(1.1)**	(0.1)
Underlying operating profit	**52.1**	47.6
Net finance charges	**(17.8)**	(17.5)
Underlying profit before tax	**34.3**	30.1
Tax charge on underlying profit before tax	**(10.1)**	(9.1)
Underlying profit after tax	**24.2**	21.0
Weighted average number of Ordinary Shares in issue during the period (million)	**63.4**	62.8
Underlying EPS (pence)	**38.2p**	33.4p
Increase in underlying EPS (per cent)	**14%**	

Earnings per share

The Group's earnings were £24.6 million (2007: £21.6 million). Basic earnings per share were 38.8 pence per share (2007: 34.4 pence per share).

However, the Group's reported earnings include a £0.4 million one off charge for taxation described later in this review and £1.1 million profit on sale of fixed assets. Consequently, the Group's underlying profit after tax was £24.2 million (2007: £21.0 million), giving underlying earnings per share of 38.2 pence per share (2007: 33.4 pence per share), an increase of 14 per cent.

This increase demonstrates the strong operating performance combined with the beneficial leveraging effect of the Secured Notes.

The average number of shares increased year on year as a result of the 2005 LTIP scheme maturing in the period.

Cash flow and cash balances

Cash generated from operations was £62.3 million (2007: £57.5 million), demonstrating the cash generative nature of the business and further improvements in working capital management.

Acquisition activity in the period was strong, with £31.5 million (2007: £16.6 million) being spent on funeral and crematoria acquisitions. As described above, £7.4 million of this amount was funded by way of a new loan facility.

Capital expenditure increased year on year, with £8.0 million (2007: £8.3 million) being spent on replacing older vehicles in the Group's fleet, in line with a planned replacement programme, and improvements to the Group's premises and plant. A further £1.1 million (2007: £0.2 million) was spent on branch relocations and £2.1 million (2007: £nil million) was spent on Rotherham and other crematoria property developments. This capital expenditure was offset by disposal proceeds of £2.5 million (2007: £0.9 million).

The Group also paid dividends totalling £6.5 million (2007: £5.9 million) in the period.

Cash balances at the end of the period were £46.7 million. £12.4 million represents amounts legally set aside to fund the Group's liabilities to Class A and B Secured Noteholders. This payment was made on 31 December 2008, which falls in the Group's 2009 financial year as it reports on a 52 week basis rather than on a calendar year. These funds do not qualify as cash or cash equivalents for the purposes of IAS 7, Cash Flow Statements. Accordingly, £10.0 million has been reported within the cash flow statement as 'Payments to restricted bank accounts for finance charges' and £2.4 million has been reported as 'Payments to restricted bank accounts for repayment of borrowings'.

FINANCIAL REVIEW CONTINUED

+10%
Dividends have increased 10 per cent per annum

£10.9 million
The Group has set aside £10.9 million for future acquisitions.

£1.5 million (2007: £1.5 million) represents amounts received as Recoveries from the pre-arranged funeral plan trusts. These amounts are legally required, under the terms of the Group's securitisation, to be retained in a separate bank account for one year following receipt and do not therefore meet the definition of cash for cash flow reporting purposes.

£10.9 million of the remainder has been set aside for acquisitions and developments. Approximately £1.0 million has been spent on Rotherham since the balance sheet date. £10.8 million has also been set aside for future corporation tax and dividend payments. However, these funds could be used for further acquisitions if suitable opportunities arose, with statutory payments being funded out of future operating cash flows.

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

Pensions

During the period, the Group's pension scheme had a formal actuarial valuation, as required once every three years. This reported that the scheme was fully funded on an ongoing basis. As a consequence of the valuation, the Group has agreed the rate of employer contributions for the next three years, which is anticipated to result in a similar cash obligation in 2009 as that experienced in 2008.

The balance sheet shows a surplus of £13.2 million before deferred tax (2007: £6.8 million). This significant increase year on year is principally a result of the changes in assumptions based on increased gilt yields experienced in the market.

Taxation

As anticipated last year, legislation was passed during the period amending the Industrial Buildings Allowances regime. This change resulted in an exceptional charge of £0.4 million in the period.

Furthermore, the rate of Corporation Tax was reduced to 28 per cent with effect from April 2008. This change resulted in the Group's effective tax rate reducing to 29.5 per cent in the period. As the 28 per cent rate will be effective for the whole of 2009, the Group's effective tax rate for 2009 is anticipated to be 29 per cent.

Key performance indicators

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

	52 week period ended 26 December 2008	52 week period ended 28 December 2007
Total estimated number of deaths in Britain (number)	**553,000**	553,000
Number of funerals performed (number)	**68,700**	66,500
Funeral market share excluding Northern Ireland (per cent)	**12.3**	12.0
Number of cremations performed (number)	**39,600**	38,900
Crematoria market share (per cent)	**7.2**	7.0
Unfulfilled pre-arranged funeral plans (number)	**204,000**	197,300
Underlying earnings per share (£million)	**38.2**	33.4
Underlying operating profit (£million)	**52.1**	47.6
Cash generated from operations (£million)	**62.3**	57.5

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

A summary of the Group's financial record for the last five years can be found on pages 78 to 79.

Forward-looking statements

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

BOARD OF DIRECTORS


1


2


3


4


5


6


7


8


9

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

1. Peter Hindley (65) [(n)]
(Non-Executive Chairman)
Peter has extensive experience of the industry having been appointed Chief Executive of Plantsbrook Group plc in 1991. Following the acquisition of Plantsbrook Group plc and Great Southern Group plc by SCI in 1994, he was appointed CEO of SCI (UK). He subsequently led a management buy out of the Group from SCI in 2002. The Company was then floated on the Stock Exchange in 2004. Peter became Non-Executive Chairman in January 2009. Before entering the funeral service industry, Peter spent 25 years in retailing, holding senior positions in Debenhams, Burtons and Harris Queensway.

2. Mike McCollum (41)
(Chief Executive)
Mike joined Dignity's former parent, SCI, in 1995 from KPMG Corporate Finance in London. He was appointed Finance Director at the end of 2001 and became Chief Executive at the beginning of 2009. He has a law degree from Birmingham University (LL.B), is a qualified solicitor and also holds an MBA from Warwick University.

3. Steve Whittern (34)
(Finance Director)
Steve joined the Group in 1999 from KPMG. He was appointed Finance Director at the beginning of 2009, having spent the previous two years as Financial Controller, being responsible for the Group's finance function. Steve was closely involved in the management buy out, the whole business securitisation, the IPO and most recently, the further debt issue and return of value in 2006. Steve is an FCA and holds a mathematics degree from Warwick University.

4. Andrew Davies (47)
(Operations Director)
Andrew joined his family owned business in 1979 and worked as a funeral director and embalmer until the business was sold to Great Southern Group in 1993. He then held various management positions within Great Southern Group and following the acquisition by SCI in 1994, held senior operational positions within SCI (UK). He became Operations Director in 2001 and was a member of the management buy out team in 2002.

5. Richard Portman (47)
(Corporate Services Director)
Richard joined SCI from HSBC as Chief Accountant in 1999. In 2001 he was appointed Head of Finance and was responsible for the running of Dignity's finance department. Richard was part of the team that took Dignity through the management buy out in 2002, the whole business securitisation in 2003 and the IPO in 2004. Following the IPO Richard was appointed as Company Secretary and became Corporate Services Director in 2006. Richard is an FCA, holds a geography degree from Birmingham University and is a Member of the Chartered Management Institute.

6. James Newman (59) [(a)(n)(r)]
(Senior Independent Director)
James is Chairman of a number of AIM listed companies and a Non-Executive Director of Scott Wilson Group plc as well as a Governor of Sheffield Hallam University. He was formerly Deputy Chief Executive and Group Finance Director of Kelda Group plc and a number of other public companies. He has also been Chairman of Waste Recycling Group plc and a Non-Executive Director of Richmond Foods plc before their respective takeovers in 2003 and 2006. James is a Chartered Accountant and Member of the Association of Corporate Treasurers.

7. William Forrester (68) [(a)(n)(r)]
(Non-Executive Director)
Bill is the Chairman of Linpac Group, Chairman of Nuaire Group Ltd and a Director of Brittpac Limited. Prior to this he was Group Chief Executive of SIG plc, Europe's largest distributor of insulation, ceiling, partitioning and roofing products and Chairman of John Laing plc, the infrastructure investment group. He was also the Managing Director at Kuwait Insulation Manufacturing Company and the Sales and Marketing Director at BP Rockwool Limited.

8. Ishbel Macpherson (48) [(a)(n)(r)]
(Non-Executive Director)
Ishbel was appointed to the Board on 12 January 2009. Ishbel is a Non-Executive Director of MITIE Group plc, GAME Group plc and Senior Independent Director of Hydrogen Group plc and Speedy Hire plc. Prior to those roles she held senior positions with Barclays de Zoete Wedd, Hoare Govett and Dresdner Kleinwort Wasserstein.

9. Alan McWalter (55) [(a)(n)(r)]
(Non-Executive Director)
Alan was appointed to the Board on 12 January 2009. Alan is a Non-Executive Director of Trafficmaster plc, Cattles plc, Alphameric plc, Haygarth Group Ltd and is Non-Executive Chairman of Constantine Group plc. Prior to these roles Alan was Marketing Director of Marks and Spencer plc and prior to that held senior positions with Kingfisher plc and Thomson Consumer Electronics.

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements for Dignity plc and its subsidiaries for the 52 week period ended 26 December 2008.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Directors have prepared the parent company financial statements in accordance with United Kingdom generally accepted accounting practice (UK accounting standards and applicable laws and regulations). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRSs as adopted by the European Union; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are also required by the Disclosure and Transparency Rules of the Financial Services Authority to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group and Company.

The Directors are 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 and the Report on Directors Remuneration comply with the Companies Act 1985 (for periods commencing on or after 6 April 2008, the Companies Act 2006) and, as regards the Group financial statements Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed on page 22 of the Annual Report, confirm that, to the best of each person's knowledge and belief:

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

The Directors are responsible for the maintenance and integrity of the Group website www.dignityfuneralsplc.co.uk. Legislation in the UK 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 16 to 18 of the Financial Review. A review of the development of the business in 2008, events affecting the Group since the end of the financial year and likely future developments are referred to in the Business Review, which is incorporated into this Directors' Report by reference. The review of business activities in the Business Review and Financial Review are in line with the requirements of the Companies Act 2006.

Principal risks and uncertainties

Operational and financial risks are considered in the Business Review and the Financial Review.

The Group's principal operational risks are a significant reduction in the death rate and nationwide adverse publicity, which could affect the Group's market share. However, the profile of deaths has historically followed a similar profile to that predicted by the ONS, giving the Group the ability to plan its business accordingly. Adverse publicity is addressed by ensuring appropriate policies and procedures are in place designed to ensure client service excellence.

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.

Share capital

The issued share capital of Dignity plc at 26 December 2008 consists of 63,484,135 Ordinary Shares of 9 pence each. All the Ordinary Shares carry the same rights and obligations. There are no other class or type of share in issue.

During the period the Group issued 243,164 Ordinary Shares of 9 pence each. 242,636 Ordinary Shares of 9 pence each were issued to satisfy Long Term Incentive Plan share awards vesting in the period and 528 shares were issued to satisfy options exercised under the Save As You Earn Scheme. The Long Term Incentive Plan awards were made in 2005 and the SAYE options were granted in 2007.

A special resolution passed at the last Annual General Meeting on 6 June 2008 gives Dignity plc the authority to purchase up to 3,162,048 Ordinary Shares of 9 pence each at not less than nominal value and not more than 5 per cent above the average middle market quotation for the preceding 5 business days. At the same meeting the Company was also given authority to allot Ordinary Shares up to an aggregate nominal value of £1,138,337 of which up to £284,584 may be for cash. These authorities will expire at the conclusion of the next Annual General Meeting on 5 June 2009. It is the intention of the Directors to seek renewal of these authorities at that Annual General Meeting.

Results
The results for the period are set out in the Consolidated Income Statement on page 36. Group profit before tax amounted to £35.4 million (2007: £30.2 million).

Dividends
An interim dividend of 3.66 pence per share was paid on 31 October 2008. The Board has proposed a final dividend of 7.34 pence per share, which, subject to approval at the Annual General Meeting, will be paid on 26 June 2009 to shareholders on the register at close of business on 29 May 2009. This makes a total of 11 pence per share 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 (2007: 31 days). The Company has no trade creditors.

Substantial shareholdings
As at 10 March 2009, the Company had been notified of the following interests of 3 per cent or more of the issued share capital:

Holder	Number of Ordinary Shares	% of issued share capital
Lloyds TSB Group plc	5,611,990	8.84%
Aegon Asset Management UK plc	4,538,717	7.15%
Tiger Global Management LLC	4,247,634	6.69%
BlackRock Inc	3,171,132	4.99%
Standard Life Investments	3,155,528	4.97%
Baillie Gifford and Co	3,136,178	4.94%
Legal and General Investment Management Ltd	2,900,968	4.57%
UBS Global Asset Management Ltd	2,175,289	3.43%
The Goldman Sachs Group	1,902,031	3.00%

Key contractual arrangements
The Directors consider there to be one key contractual arrangement in relation to the supply and maintenance of cremators. This company is responsible for supplying and installing the cremator abatement equipment. If this company ceased to trade, the Group may have difficulties in installing the necessary equipment by the end of 2012.

Employment policies
During the period the Group has maintained its obligations to develop and improve arrangements aimed at involving employees in its affairs. Methods of communication used include an in-house newsletter, an employee website, bulletins and management briefings. This is discussed in more detail in the Corporate and Social Responsibility Report on pages 12 to 15.

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 endeavours 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 26. In accordance with the Articles of Association, at the Annual General Meeting, Peter Hindley and Andrew Davies retire as Directors of the Company and, being eligible, offer themselves for re-election at the Annual General Meeting on 5 June 2009. Steve Whittern was appointed Finance Director on 29 December 2008 and Ishbel Macpherson and Alan McWalter were appointed to the Board on 12 January 2009 as Non-Executive Directors for a fixed term. All three will seek election at the Annual General Meeting on 5 June 2009.

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

DIRECTORS' REPORT CONTINUED

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

Health and safety policy
The Group's operations are designed at all times in such a way as to ensure, so far as reasonably practical, the health, safety and welfare of all of our employees and all other persons who may be attending our premises. This is discussed in the Corporate and Social Responsibility Report on pages 12 to 15.

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 to 15.

Donations
The Group made charitable donations amounting to £0.1 million (2007: £0.1 million) during the period. There were no political donations. Further information can be found on pages 12 to 14.

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
There have been no post balance sheet events.

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

Directors' Responsibility Statement
The Directors confirm to the best of their knowledge that:

(a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and

(b) the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principle risks and uncertainties that they face.

The Directors of Dignity plc and their functions are listed below:

Peter Hindley – Chairman

Mike McCollum – Chief Executive

Steve Whittern – Finance Director

Andrew Davies – Operations Director

Richard Portman – Corporate Services Director

James Newman – Senior Independent Director

William Forrester – Non-Executive Director

Ishbel Macpherson – Non-Executive Director

Alan McWalter – Non-Executive Director

By order of the Board

Richard Portman
Company Secretary
12 March 2009

REPORT ON DIRECTORS' REMUNERATION

for the 52 week period ended 26 December 2008

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

The Board has reviewed the Group's compliance with the 2006 Combined Code ('the Code') on remuneration related matters and has followed the Code in the preparation of the report of the Remuneration Committee. It is the opinion of the Board that the Group complied with all remuneration related aspects of the Code during the period, except that the annual bonus awarded to the former Chief Executive was pensionable. He was not however a member of the Group pension scheme and maintained his own personal pension scheme. As a consequence there was no impact on the Group's pension scheme.

Unaudited information

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

Bill Forrester chairs the Remuneration Committee and its other members are James Newman and the newly appointed independent Non-Executive Directors, Ishbel Macpherson and Alan McWalter. Richard Connell, who retired as Chairman of the Company and retired from the Board at the end of 2008, served as a member of the Committee during the year. The Code requires that a Group of the size of Dignity plc has a Remuneration Committee with a minimum of two members. The Remuneration Committee members have no personal financial interest, other than as shareholders, in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business.

The Chief Executive attends Remuneration Committee meetings when required and the Company Secretary attended meetings when required as Secretary to the Remuneration Committee. No Executive Director takes part in discussions relating to their own remuneration and benefits.

The Remuneration Committee is formally constituted with written terms of reference. A copy of the terms of reference is available for inspection on the Group's investor website www.dignityfuneralsplc.co.uk. The Committee met four times during 2008. At those meetings basic salaries of Executive Directors and senior managers were reviewed, the targets and quantum of annual performance related bonuses for Directors were also agreed, as were options granted under the Group's Long Term Incentive Plan (LTIP). The meetings also approved the payment of the 2007 performance related bonus and the vesting of the shares awarded under the LTIP scheme in 2005. A further meeting was also held in March 2009 to approve the payment of the performance related bonus for 2008, LTIP awards and bonus targets for 2009.

In the 2007 Report on Directors' Remuneration it was noted that in future, following the Group's out performance since flotation and subsequent admission to the FTSE 250, the Committee intended to set elements of the Executive Directors' Remuneration package by reference to the constituent companies of the bottom half of the FTSE 250. In 2008, the Committee retained the external benefit consultants, Hewitt New Bridge Street, to complete a review of the Executive Directors' remuneration. In discussions with the Committee, and in consultation with Hewitt New Bridge Street, it was decided that a 'Comparator Group' would be defined consisting of all companies in the Consumer Goods and Consumer Services Sector of the FTSE 250 filtered to exclude companies deriving more than 50% of their turnover from overseas or having a market capitalisation in excess of £1.4 billion. This gave a group of 32 companies with an average market capitalisation of £628 million at November 2008 as the Comparator Group. At that date Dignity had a market capitalisation of £473 million and an enterprise value (including net debt) of £710 million. The bottom half of the FTSE 250 was also used as a reference point for the benchmarking process.

Remuneration policy

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

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

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

REPORT ON DIRECTORS' REMUNERATION CONTINUED
for the 52 week period ended 26 December 2008

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

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

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

No significant changes were made to the Executive Directors' basic salaries during the period. Changes have been proposed for 2009, based on the review completed by Hewitt New Bridge Street (see above).

It was clear from Hewitt New Bridge Street's analysis that the Company's basic salary levels no longer reflected the Comparator Group and there was a need to ensure that the Company continues to offer competitive salaries in order to attract and reward superior performance. The Committee therefore recommended and the Board approved, an increase in basic salaries to be in line with the lower quartile of the Comparator Group and FTSE 250. Details of the changes, which were effective from 1 January 2009, are:

Name	2008 £'000	2009 £'000
Mike McCollum	275	440
Andrew Davies	200	250
Richard Portman	150	200
Steve Whittern	88	150
Total	713	1,040
Peter Hindley	350	150

The salary reviews also reflect the change in responsibility of Mike McCollum from Finance Director to Chief Executive, the appointment of Steve Whittern to the Board as Finance Director and Peter Hindley moving from Chief Executive to Non-Executive Chairman.

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

The maximum bonus attainable for 2008 by Executive Directors is 100 per cent of basic salary. A bonus of 70 per cent is attainable for meeting the first earnings per share target set by the Committee and a further bonus of 30 per cent may be earned by achieving a second and more demanding earnings per share target. The increase in underlying earnings per share during the period was 14 per cent and the bonus percentage earned by the Executive Directors in the period was 100 per cent.

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

No changes have been proposed to the Annual Performance Related Bonus by Hewitt New Bridge Street. This will continue to be based on demanding earnings per share targets with a maximum bonus equal to 100 per cent of base salary. The scheme is in line with the market median for the bottom half of the FTSE 250 and the lower quartile of the Comparator Group.

Share incentives
Shareholders approved the current discretionary share incentive plan, the LTIP, on 31 March 2004 prior to the Company's admission to the London Stock Exchange on 8 April 2004. If existing LTIPs were to be amended or if there was a new LTIP Scheme, approval would be sought from the shareholders.

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 2008 equivalent to the maximum award. The Committee deemed this award appropriate, as in previous years, mindful of the need to encourage superior performance from the Executive Directors and ensure that a significant proportion of their total remuneration is linked to the performance of the Group. This award is in addition to those granted in all years from 2004 to 2007. Richard Portman, prior to his appointment to the Board, received a conditional share award in 2006 equal to 100 per cent of his salary. Steve Whittern received an award equal to 100 per cent of his salary in 2006 and awards of 4,000 shares in each of the years 2007 and 2008, prior to his appointment to the Board on 29 December 2008. Total awards made to the Executive Directors under the scheme are shown on pages 28 and 29.

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 Group outperforms the FTSE 350 Index over the measurement period in delivering shareholder value, before the Eligible Executives are entitled to receive any of their awards. The constituent companies of the FTSE 350 Index, at the time the awards are made, were selected as a benchmark as there are no directly comparable quoted companies in the United Kingdom and the 'enterprise value' of the Group (debt plus equity) also are a comparable 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.

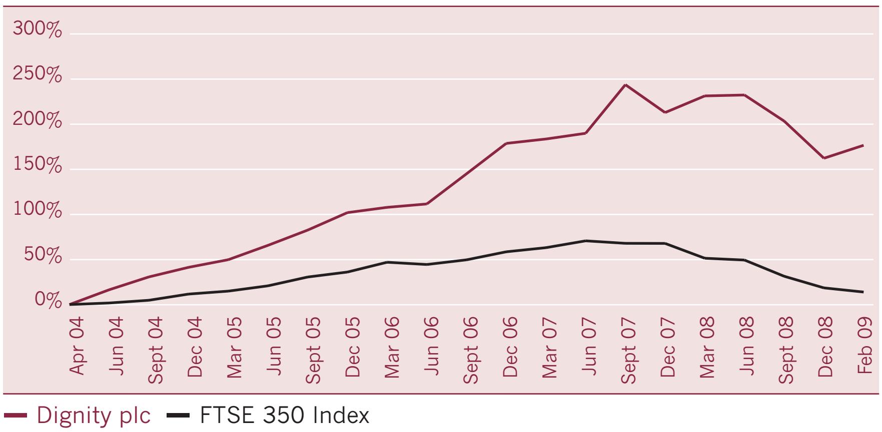
The percentage of the conditional share award exercisable or vesting is calculated as follows:

- 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.

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

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

5 Year Total Shareholder Return



On 14 April 2008 the conditional share awards made in 2005 under the LTIP became capable of vesting. The TSR of the Group over the measurement period was compared to that of the constituent companies of the FTSE 350 at the time the awards were made. The performance of the Group was found to be in the top quintile. On that basis the Remuneration Committee, mindful also of the continued strong performance of the Group, recommended that the entire 2005 share award vest. Shares were issued to Mike McCollum and Andrew Davies on 14 April 2008 and sold in their entirety the following day by the Group's brokers. Peter Hindley's shares vested to the Trustees of the LTIP, Lloyds TSB Offshore Trust Company Limited on 14 April 2008. They were issued to Peter Hindley on 29 August 2008 and sold by the Company's brokers in two tranches on 4 September 2008 and 11 September 2008.

The total conditional awards held by each Director are shown on pages 28 and 29 in the section of the Remuneration Committee's Report that is subject to audit.

In accordance with the ABI guidelines, the Group can issue a maximum of 10 per cent of its issued share capital in a rolling ten year period to employees under all share plans. In addition, of this 10 per cent, the Company can only issue 5 per cent to satisfy awards under discretionary or executive plans. At the period end, conditional awards under the LTIP Scheme to Executive Directors and senior managers amount to 1.19 per cent of the current issued share capital. If the awards in 2004 and 2005, that have vested, are included, that percentage is 2.15 per cent. The total, including SAYE options granted in both the 2004 and 2007 Schemes, is 3.63 per cent.

REPORT ON DIRECTORS' REMUNERATION CONTINUED

for the 52 week period ended 26 December 2008

The Committee, having noted comments from some Institutional Shareholders and the observations made in the report from Hewitt New Bridge Street, recommended to the Board of Directors that the following amendments are made to the current discretionary share incentive plan (the 'LTIP') when it is to be readopted at the Annual General Meeting on 5 June 2009:

(i) The percentage of shares exercisable or vesting for a median ranking will be reduced to 25 per cent from 40 per cent;

(ii) A ranking of performance in the top quartile rather than the top quintile will receive a 100 per cent award of the shares exercisable or vesting; and

(iii) The time period over which the share price is considered for calculating total shareholder return will be increased from an average over a 3 day period to an average of 28 days.

Pensions

The Group provided Peter Hindley with a contribution to his personal pension plan of 10 per cent of his salary and bonus payable during 2008. As this is a personal pension plan, any pension contributions paid on a bonus do not affect the Group's pension scheme. Such payments ceased when he became Non-Executive Chairman at the start of 2009. Mike McCollum and Richard Portman are members of the Group's pension scheme into which the Group contributed 10.5 per cent of salary (details are set out within the audited section of this report on pages 27 and 28). The Group makes no pension contributions for Andrew Davies or Steve Whittern. No Non-Executive Directors receive any pension contributions. Hewitt New Bridge Street have not proposed any changes to the pension arrangements of Executive Directors.

Benefits in kind

Benefits included the following elements: provision of a company car or allowance; fuel; landline telephone at each Executive Director's home residence; and a mobile telephone; together with a pre-arranged funeral plan in accordance with any scheme established by the Group in respect of the funeral of the Executive Director or his wife. All Executive Directors received all of their benefits in kind. As part of their review, Hewitt New Bridge Street, have not proposed any changes to the benefits provided to Executive Directors.

Non-Executive Directors' fees

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

Service contracts

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

Name	Contract date	Notice period	Unexpired term of contract or letter of approval
Mike McCollum	1 April 2004	12 months	Rolling Contract
Andrew Davies	1 April 2004	12 months	Rolling Contract
Richard Portman	1 November 2006	12 months	Rolling Contract
Steve Whittern	1 January 2009	12 months	Rolling Contract
Peter Hindley	1 January 2009	3 months	24 months
James Newman	31 March 2008	3 months	15 months
Bill Forrester	31 March 2008	3 months	15 months
Ishbel Macpherson	12 January 2009	3 months	23 months
Alan McWalter	12 January 2009	3 months	23 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.

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

Audited information

The following information on pages 27 to 29 has been audited.

Directors' interest in shares

The interests of the Directors and their families in the Ordinary Shares of the Company at 26 December 2008 and 28 December 2007 were as follows:

	Ordinary Shares of 9 pence	
Name	26 December 2008 Number	28 December 2007 Number
Peter Hindley	220,256	720,256
Mike McCollum	315,000	363,288
Andrew Davies	188,125	188,125
Richard Portman	106,983	106,983
Steve Whittern	1,238	1,238
Richard Connell (resigned 29 December 2008)	50,000	69,254
James Newman	7,777	7,777
Bill Forrester	7,777	7,777

There have been no changes in Directors' share holdings since the period end. Ishbel Macpherson and Alan McWalter were appointed Directors on 12 January 2009. Neither holds shares in the Company.

Directors' remuneration

The total of Directors' remuneration for the period was £2,338,000 (2007: £2,138,000), including pension contributions of £86,000 (2007: £80,000). The remuneration of individual Directors for the year or from their date of appointment was as follows:

	Salary and fees £'000	Non cash benefits* £'000	Cash benefits* £'000	Annual performance related bonus £'000	Total 2008 £'000	Total 2007 £'000
Executive Directors						
Peter Hindley	350	31	–	350	731	698
Mike McCollum	275	1	15	275	566	511
Andrew Davies	200	7	11	200	418	395
Richard Portman	150	1	15	150	316	281
Non-Executive Directors						
Richard Connell	118	–	–	–	118	81
James Newman**	59	–	–	–	59	53
Bill Forrester	44	–	–	–	44	39
Total	1,196	40	41	975	2,252	2,058

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

Peter Hindley relinquished his responsibilities as Chief Executive on 26 December 2008. On 29 December 2008 he was appointed Chairman, following Richard Connell's retirement from the Board. The planned succession was implemented such that Dignity could retain the knowledge and skills of Peter Hindley and utilise his many contacts and prominence in the funeral industry. It was implemented after consultation with the Group's principal shareholders.

On becoming Chairman Peter Hindley's salary was reduced from £350,000 per annum to £150,000 per annum.

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

Steve Whittern was appointed to the Board on 29 December 2008 at a salary of £150,000 per annum. Ishbel Macpherson and Alan McWalter were appointed to the Board as Non-Executive Directors on 12 January 2009 at fees of £40,000 per annum each.

Directors' pension entitlements

Defined benefit salary scheme

	Change in accrued benefit over the period (1) £	Transfer value at 26 December 2008 (2) £	Transfer value at 28 December 2007 (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 26 December 2008 (3) £
Mike McCollum	21,007	294,303	167,137	109,666	19,666	103,212	47,830
Richard Portman	2,212	154,430	134,204	9,726	1,352	(54)	19,415

(1) Throughout 2008 the above Directors were members of the Dignity Pension and Assurance Scheme, which is a defined benefit and tax approved scheme to which both the Director and the Company contribute and remains open to all employees.

(2) Transfer values have been calculated in accordance with 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.

REPORT ON DIRECTORS' REMUNERATION CONTINUED
for the 52 week period ended 26 December 2008

Pension contribution

	Contribution 2008 £'000	Contribution 2007 £'000
Peter Hindley	68	66

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

Awarded in 2008 for £nil consideration:

	2008			
	Market 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	437,500	125%	60,212	After 17 March 2011
Mike McCollum	343,750	125%	47,309	After 17 March 2011
Andrew Davies	250,000	125%	34,407	After 17 March 2011
Richard Portman	187,500	125%	25,805	After 17 March 2011
Steve Whittern	29,080	33.0%	4,000	After 17 March 2011

Awarded in 2007 for £nil consideration:

	2007			
	Market 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	418,750	125%	63,799	After 27 March 2010
Mike McCollum	312,500	125%	47,611	After 27 March 2010
Andrew Davies	232,500	125%	35,423	After 27 March 2010
Richard Portman	168,750	125%	25,710	After 27 March 2010
Steve Whittern	26,254	32.8%	4,000	After 27 March 2010

Awarded in 2006 for £nil consideration:

	2006			
	Market 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	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
Richard Portman	95,000	100%	20,366	After 23 March 2009
Steve Whittern	58,000	100%	12,434	After 23 March 2009

Awarded in 2005 for £nil consideration:

	2005					
	Number of shares conditionally awarded on 12 April 2005	Value of shares conditionally awarded on 12 April 2005 £	Number of shares vesting in the period to 26 December 2008 (6)	Gain on vesting £	Market value of shares at the date of vesting (7) £	Date options exercised
Peter Hindley	94,669	321,875	94,669	707,176	707,177	29 August 2008
Mike McCollum	68,198	231,875	68,198	507,392	507,393	14 April 2008
Andrew Davies	51,470	175,000	51,470	382,936	382,937	14 April 2008

The total aggregated gain on vesting in 2005 was £1,597,504.

(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 17 March 2008.

(3) Value as a percentage of salary as at the date the awards were made.

(4) Value based on the average mid market share price for the previous 28 days to 28 March 2007.

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

(6) All shares conditionally awarded on 12 April 2005 vested as the TSR of the Group was in the top quintile when compared to the TSR of the constituent companies of the FTSE 350 at the time the awards were made.

(7) Based on a closing market price of £7.44 per share on 14 April 2008 for Mike McCollum and Andrew Davies and a closing market price of £7.47 on 29 August 2008 for Peter Hindley.

Inland Revenue Approved SAYE Share Option Scheme

	Date of grant	Number held at 28 December 2007	Granted	Exercised	Gain on exercise £	Number held at 26 December 2008	Exercise date
Mike McCollum	21 May 2007	Nil	1,322	Nil	Nil	1,322	30 June 2010
Richard Portman	21 May 2007	Nil	1,322	Nil	Nil	1,322	30 June 2010
Steve Whittern	21 May 2007	Nil	1,322	Nil	Nil	1,322	30 June 2010

The SAYE options granted on 21 May 2007 have an exercise price of £7.15 per share and must be exercised within six months of the exercise date shown above. The share price on this day was £7.26.

The market price of the Group's shares on 26 December 2008 was £5.90 per share. The high and low share closing prices in the period were £7.88 per share and £5.87 per share respectively.

On behalf of the Board

Bill Forrester
Chairman of the Remuneration Committee
12 March 2009

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 2006 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 32 and 33 and the Report on Directors' Remuneration on pages 23 to 29 provide a description of how the main and supporting principles of the Code have been applied within Dignity plc during 2008.

The Group has complied with all provisions of the Code during 2008, with the exception of:

- The annual bonus awarded to Peter Hindley, formerly the Chief Executive and now the Non-Executive Chairman, was 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 (Code schedule A, note 6).

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

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 which was formerly reviewed and updated in January 2009.

The Board is responsible for:

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

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

At the start of 2008, the Board comprised four Executive Directors, two Non-Executive Directors and the Non-Executive Chairman. Following the Group's admission to the FTSE 350, the Group embarked on a process of identifying a further two non-executives during 2008, which led to the appointment of Ishbel Macpherson and Alan McWalter on 12 January 2009, thus ensuring compliance with the Code and to provide additional experience and expertise to the Board. There are now the same number of independent Non-Executive Directors and Executive Directors. The Board considers that four Executive Directors are sufficient to manage a Company of this size and organisational structure.

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

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

The Chief Executive is responsible for:

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

There are four independent Non-Executive Directors, Bill Forrester, Ishbel Macpherson, Alan McWalter, and James Newman. James Newman is the appointed Senior Independent Director of the Group. Biographical details, including committee membership, appear on page 19. The Chairman and the Non-Executive Directors have formally confirmed to the Board, mindful of their other commitments they have, that they will have sufficient time to devote to their responsibilities as Directors of the Group.

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

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

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 or herself for election at the next Annual General Meeting. As a consequence Steve Whittern, Ishbel Macpherson and Alan McWalter will be submitted for election at the forthcoming Annual General Meeting in June 2009.

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

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

	Main Board(i)	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings	7	3	4	3
Richard Connell	7	2	4	3
Andrew Davies	7	0	0	0
Bill Forrester	7	3	4	3
Peter Hindley	7	3(ii)	3(ii)	3(ii)
Mike McCollum	6	3(ii)	0	0
James Newman	7	3	4	3
Richard Portman	7	3(iii)	3(iii)	2(iii)
Steve Whittern	0	3(iv)	0	0

(i) Only full Board meetings have been included in the attendance analysis. 18 further meetings were held with a quorum of Directors to approve announcements, documents or the issue of shares under the LTIP and SAYE.

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

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

(iv) Steve Whittern attended the Audit Committee in his previous capacity as Financial Controller.

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

A process exists whereby the Non-Executive Directors can meet without the Executive Directors being present. Three such meetings were held during 2008.

During the year the Board again undertook a formal and rigorous evaluation of its own performance and that of its Committees by way of the issue of a detailed questionnaire to all Directors. This was then followed by a detailed review of the responses, by the Directors, and identification of any actions arising. The Non-Executive Directors, led by the Senior Independent Director, are responsible for the performance evaluation of the Chairman. The Board was satisfied that its performance and that of its individual Directors and Committees was of the appropriate standard. Full evaluations will be completed again during 2009.

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

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE CONTINUED

2. Directors' remuneration

The Remuneration Committee, chaired by Bill Forrester, determines and agrees with the Board, within formal terms of reference, the framework and policy of Directors' and senior management's remuneration and its cost to the Group. The Committee met four times during 2008. The Committee measures the performance of the Executive Directors as a prelude to recommending and approving their annual remuneration, bonus awards and awards of share options to the Board for final determination.

The Committee members during 2008 were the independent Non-Executive Directors, Bill Forrester and James Newman and the former Chairman of the Board, Richard Connell. The two new independent Non-Executive Directors have been appointed to serve on this Committee thus ensuring the Committee is fully independent. The Code requires a Committee of at least two members. The Chief Executive, also attends the meetings by invitation of the Committee. No Director or senior manager is involved in any decisions with regard to their own remuneration.

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

3. Accountability and audit

Audit Committee

The Audit Committee in 2008 comprised the two independent Non-Executive Directors and the former Chairman of the Board, Richard Connell. James Newman, who is a Fellow of the Institute of Chartered Accountants in England and Wales, is considered to have recent and relevant financial experience to chair this Committee. The two new independent Non-Executive Directors have been appointed to serve on this Committee thus ensuring the Committee is fully independent. 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 2008 and again in March 2009. 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. Two such meetings were held during 2008 between the Chairman and the external auditors. The new Chairman of the Board is not a member of the Audit Committee.

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

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

The Committee also keeps under review the relationship with the external auditors, including their terms of engagement, independence, objectivity and effectiveness. The Committee reviews the remuneration received by the external auditors for non-audit work, 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), the Chief Executive's Overview (page 5), the Business Review (pages 6 to 10), the Financial Review (pages 16 to 18), Interim Reports, Interim Management Statements and in price sensitive announcements. The Group will release its Annual Information Update by 3 April 2009. A summary of the Directors' responsibilities for the financial statements is set out on page 20.

Going concern

The Directors regularly receive and review management accounts, cash balances, forecasts and the annual budget. After careful consideration, and mindful of the current market conditions, the Directors confirm they are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors formally considered this matter at the Board meeting held on 5 March 2009. 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.

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

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

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

- Financial reporting – The Group has a comprehensive system of internal budgeting and forecasting. 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 are completed on such areas together with selected areas of the head office function and any area where an Executive Director requests a review. During 2008 (as in 2007), there were quarterly meetings between the Head of Internal Audit, the Executive Directors and the Financial Controller to formally review and discuss Internal Audit's work programme and findings. In addition, regular meetings between Internal Audit and the external auditors, PricewaterhouseCoopers LLP, were held during the year to discuss and plan audit work and to ensure a coordinated approach. The Head of Internal Audit reports to the Audit Committee at every meeting of that Committee;
- Procedures – The Group has established and documented processes and procedures covering most parts of its operations, both client facing and in support departments. These provide clear guidance on the correct or most appropriate course of action in various circumstances. Procedures are supplemented by training where needs have been identified. Both Internal Audit and a comprehensive management structure monitor the adherence to such processes and procedures. A comprehensive review of procedures and training commenced during 2008 and will continue during 2009; and
- Risk assessment – Management has responsibility for the identification and evaluation of significant risks that might arise in their area of responsibility together with the design of suitable internal controls. The Executive Directors and the wider management team continually assess the risks. A Risk Register is maintained, which is formally presented to and reviewed by the Audit Committee twice a year.

Nomination Committee
Richard Connell, the former Chairman, chaired the Nomination Committee during 2008, which met on three occasions during the year. The other members of the Committee during the year were James Newman and Bill Forrester, two of the Non-Executive Directors. The two new independent Non-Executive Directors have also been appointed to serve on this Committee. Peter Hindley, the newly appointed Non-Executive Chairman, has been appointed Chairman of this Committee in 2009.

The Committee regularly reviews and makes recommendations to the Board on the structure, size and composition of the Board and the senior management team. It is also responsible for identifying and nominating for the approval of the Board, replacement or additional Directors and members of the senior management team. The Committee formally considers succession planning annually under the written terms of reference. During 2008, after careful consideration, it proposed to the full Board that Mike McCollum be promoted from Finance Director to Chief Executive and Steve Whittern be appointed Finance Director.

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE CONTINUED

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 or be without any Executive Directors present. The Chairman discusses governance and strategy matters with the major shareholders. During 2008 the Chairman, the Chief Executive and, when required the Senior Independent Director, consulted with the Group's major shareholders regarding the appointment of Peter Hindley as Chairman and the promotion of Mike McCollum to Chief Executive from Finance Director.

The Group has and will arrange visits to its facilities, if requested by a shareholder, where it will not disrupt normal operational activity.

Each year every shareholder receives 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 will be given of the Annual General Meeting at which all Directors and Committee Chairmen plan to 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 26 December 2008 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 26 December 2008 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 presented in the Business Review and Financial Review that is cross referred from the 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 directors' remuneration and other transactions is not disclosed.

We review whether the Directors' Statement on Corporate Governance reflects the company's compliance with the nine provisions of the Combined Code (2006) 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 the Directors' Report, the Chairman's Statement, the Chief Executive's Overview, the Business Review, the Financial Review, the Corporate and Social Responsibility Report, the unaudited section of the Report on Directors' Remuneration, the Directors' Statement on Corporate Governance and all of the other information listed on the contents page. 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated 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 consolidated 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 consolidated 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 26 December 2008 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.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
12 March 2009

CONSOLIDATED INCOME STATEMENT

for the 52 week period ended 26 December 2008

	Note	52 week period ended 26 December 2008 £m	52 week period ended 28 December 2007 £m
Revenue	3	**175.8**	159.5
Cost of sales		**(83.6)**	(77.0)
Gross profit		**92.2**	82.5
Administrative expenses		**(40.5)**	(36.3)
Other operating income		**1.5**	1.5
Operating profit	3	**53.2**	47.7
Finance charges	4	**(21.6)**	(21.7)
Finance income	4	**3.8**	4.2
Profit before tax	5	**35.4**	30.2
Taxation – before exceptional items	6	**(10.4)**	(9.1)
Taxation – exceptional	6	**(0.4)**	0.5
Taxation	6	**(10.8)**	(8.6)
Profit for the period attributable to equity shareholders	3	**24.6**	21.6
Earnings per share for profit attributable to equity shareholders (pence)			
– Basic and diluted	8	**38.8p**	34.4p

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 26 December 2008

	Note	52 week period ended 26 December 2008 £m	52 week period ended 28 December 2007 £m
Profit for the period		**24.6**	21.6
Actuarial gains on retirement benefit obligations	28	**5.6**	5.4
Deferred tax on actuarial gains on retirement benefit obligations	6	**(1.6)**	(1.5)
Net income not recognised in income statement		**4.0**	3.9
Total recognised income for the period		**28.6**	25.5
Attributable to:			
Equity shareholders of the parent		**28.6**	25.5

CONSOLIDATED BALANCE SHEET
as at 26 December 2008

	Note	**26 December 2008 £m**	28 December 2007 £m
Assets			
Non-current assets			
Goodwill	9	**129.8**	119.6
Intangible assets	9	**33.3**	24.7
Property, plant and equipment	10	**101.3**	91.1
Investment properties	10	**9.6**	–
Financial and other assets	11	**4.5**	4.5
Retirement benefit asset	28	**13.2**	6.8
		291.7	246.7
Current assets			
Inventories	13	**3.9**	3.4
Trade and other receivables	14	**22.4**	22.7
Cash and cash equivalents	15	**46.7**	52.6
		73.0	78.7
Total assets		**364.7**	325.4
Liabilities			
Current liabilities			
Financial liabilities	16	**8.0**	7.1
Trade and other payables	17	**34.4**	33.0
Current tax liabilities		**3.9**	1.9
Provisions for liabilities and charges	19	**1.3**	1.3
		47.6	43.3
Non-current liabilities			
Financial liabilities	16	**269.2**	267.1
Deferred tax liabilities	20	**24.4**	14.9
Other non-current liabilities	17	**2.8**	2.8
Provisions for liabilities and charges	19	**2.3**	1.9
		298.7	286.7
Total liabilities		**346.3**	330.0
Shareholders' equity			
Ordinary shares	22	**5.7**	5.7
Share premium account	24	**34.6**	33.8
Capital redemption reserve	24	**80.0**	80.0
Other reserves	24	**(8.9)**	(9.0)
Retained earnings	24	**(93.0)**	(115.1)
Equity attributable to shareholders		**18.4**	(4.6)
Total equity and liabilities		**364.7**	325.4

The financial statements on pages 36 to 72 were approved by the Board of Directors on 12 March 2009, and were signed on its behalf by:

M K McCollum
Chief Executive

S L Whittern
Finance Director

CONSOLIDATED CASH FLOW STATEMENT
for the 52 week period ended 26 December 2008

	Note	52 week period ended 26 December 2008 £m	52 week period ended 28 December 2007 £m
Cash flows from operating activities			
Cash generated from operations	25	**62.3**	57.5
Finance income received		**2.7**	2.1
Finance charges paid		**(20.5)**	(10.3)
Transfer from restricted bank accounts for finance charges		**10.2**	–
Payments to restricted bank accounts for finance charges	15	**(10.0)**	(10.2)
Total cash obligation of finance charges		**(20.3)**	(20.5)
Tax paid		**(6.4)**	(6.4)
Net cash generated from operating activities		**38.3**	32.7
Cash flows from investing activities			
Acquisition of subsidiaries and businesses	26	**(31.5)**	(16.6)
Acquisition of minority interest	26	**–**	(2.0)
Proceeds from sale of property, plant and equipment		**2.5**	0.9
Purchase of property, plant and equipment		**(11.2)**	(8.5)
Transfers to restricted bank accounts	15	**–**	(0.3)
Net cash used in investing activities		**(40.2)**	(26.5)
Cash flows from financing activities			
Proceeds from borrowings	16	**7.4**	–
Issue costs in respect of borrowings	16	**(0.2)**	–
Receipt of debenture loan		**–**	1.0
Repayment of borrowings		**(4.5)**	(2.1)
Transfer from restricted bank accounts for repayment of borrowings		**2.2**	–
Payments to restricted bank accounts for repayment of borrowings	15	**(2.4)**	(2.2)
Total cash obligation of borrowings		**(4.7)**	(4.3)
Dividends paid to shareholders	7	**(6.5)**	(5.9)
Proceeds from issue of shares under SAYE Scheme		**–**	1.5
Net cash used in financing activities		**(4.0)**	(7.7)
Net decrease in cash and cash equivalents		**(5.9)**	(1.5)
Cash and cash equivalents at the beginning of the period		**38.7**	40.2
Cash and cash equivalents at the end of the period	15	**32.8**	38.7
Restricted cash	15	**13.9**	13.9
Cash and cash equivalents at the end of the period as reported in the consolidated balance sheet	15	**46.7**	52.6

NOTES TO THE FINANCIAL STATEMENTS
for the 52 week period ended 26 December 2008

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 consolidated financial statements for the 52 week period ended 26 December 2008 are prepared in accordance with all applicable International Financial Reporting Standards ('IFRSs'), as adopted by the European Union. These financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee ('IFRIC') interpretations (as issued by the International Accounting Standards Board) and those parts of the Companies Act 1985/2006 applicable to companies reporting under IFRS.

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

Preparation of financial statements
The preparation of financial statements in conformity with 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. 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.

The Group owns a 50 per cent shareholding in Kenyon Repatriations Limited (formerly K C H Repatriations Limited). The financial results are excluded from the Group, as the Directors do not exercise significant influence over the operating and financial policies of Kenyon Repatriations Limited. All transactions with Kenyon Repatriations Limited are at market value on an arms length basis.

Exceptional items
Exceptional items, by their nature, are not indicative of the underlying operating performance of the Group. Exceptional items are material to the results for the period and are of a non-recurring nature and are therefore presented separately.

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

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

All amounts are exclusive of VAT.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 52 week period ended 26 December 2008

1 Accounting policies (continued)

Pre-arranged funeral plans

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

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

- A marketing and administration fee in respect of each plan sold. The marketing element is 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

Previously marketed propositions
The Group is the named beneficiary on a number of life assurance products sold by an insurance company 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 the life insurance company.

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

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

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

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

Earnings per Ordinary Share

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

Intangible assets – goodwill

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

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

Intangible assets – trade names

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

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

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

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

Intangible assets – non-compete contracts

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

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

Intangible assets – software

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 52 week period ended 26 December 2008

1 Accounting policies (continued)

Intangible assets – use of third party brand
On 8 January 2007, the Group acquired the remaining 25 per cent voting share capital of Advance Planning Limited for consideration of £2.0 million. As part of this arrangement, the Group obtained a 10-year marketing commitment from Age Concern Enterprises Limited, the previous minority shareholder, giving rights to use the Age Concern brand for the next ten years. The value of this right has been recognised as a separate intangible asset.

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

Investment property
Assets are recorded in the balance sheet at cost less accumulated depreciation and any recognised impairment loss. Costs include, where appropriate, cost of acquiring the property and costs incurred in bringing each asset to its present condition. Depreciation is charged over the expected useful lives using the straight-line method. Valuations are performed internally on an annual basis. An independent external valuation will be obtained every five 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 the cost of assets to their residual value, over their expected useful lives using the straight-line method. The bases and annual depreciation rates in use for the various classes of assets are as follows:

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

Past service cost is recognised immediately to the extent the benefits are vested, and otherwise are amortised on a straight line basis over the average period until the benefits become vested. The current service cost and the recognised element of any past service cost are presented within operating profit. The expected return on plan assets less the interest arising on the pension liabilities is presented within net finance charges. 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 fair value of any relevant scheme assets net of the present value of the defined benefit obligation as adjusted for unrecognised past service cost. The discount rate applied in arriving at the present value represents yields on high quality corporate bonds in a similar economic environment with lives similar to the maturity of the pension liabilities.

The rate of return is determined by identifying an appropriate rate of return for each class of asset held in conjunction with the Group's professional advisor.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the 52 week period ended 26 December 2008

1 Accounting policies (continued)

Dividends

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

Foreign currency

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

Financial instruments

Borrowings

All borrowings are stated at the fair value of consideration received after deduction of transaction costs. The transaction costs 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.

Early termination costs on borrowings

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

Interest rate swaps

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

Trade receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost. A provision for impairment is established based on historical experience. When a trade receivable is not collectable it is written off against the allowance account.

Trade payables

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

Equity instruments

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

Cash and cash equivalents

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

Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions in certain circumstances that affect reported amounts. The most sensitive estimates affecting the financial statements are in the areas of assessing the recoverability of receivables 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 £3.3 million (2007: £2.5 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.

Employee share trust
The assets of the employee share trust are held by a separate limited company, of which the directors consider that Dignity plc has de facto control. In accordance with UITF 38, Accounting for ESOP Trusts and the substance of the transaction, the trust's assets and liabilities are recognised in the Group's balance sheet within share capital and reserves.

Standards, amendments and interpretations effective in 2008
IFRIC 11, IFRS 2, Group and treasury transactions. This provides guidance on whether share-based payments involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payments in the stand-alone accounts of the parent and Group companies. There is no impact as accounting policies are in compliance.

Standards, amendments and interpretations effective in 2008 but not relevant
The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but they are not relevant to the Group's operations:

IFRIC 12, Service concession arrangements.
IFRIC 13, Customer loyalty programs

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted
The following interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 26 December 2008 or later periods but which the Group has not early adopted:

IFRS 2 (Amendment), Share-based payment (effective from 1 January 2009). The amendment to the standard is still subject to endorsement by the European Union (EU). It deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. The Group will apply IFRS 2 (Amendment) from 1 January 2009, subject to endorsement by the EU. It is not expected to have an impact on the Group's financial statements.

IFRS 3 (Amendment), Business combinations. The revision to this standard amends the way business combinations are accounted for. This revision is effective for all business combinations on or after 1 July 2009.

IFRS 5 (Amendment), Non-current assets held-for-sale and discontinued operations (and consequential amendment to IFRS 1, First-time adoption) (effective from 1 July 2009). The amendment to the standard is still subject to endorsement by the EU. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010, subject to endorsement by the EU. It is not expected to have an impact on the Group's financial statements.

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.

IAS 1 (Revised), Presentation of financial statements (effective from 1 January 2009). The standard is still subject to endorsement by the EU. The revised standard will prohibit the presentation of items of income and expenses (that is, non-owner changes in equity) in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. The Group will apply IAS 1 (Revised) from 1 January 2009, subject to endorsement by the EU.

IAS 23 (Amendment), Borrowing costs. The amendment to the standard is still subject to endorsement by the EU. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009, subject to endorsement by the EU. This is not expected to have an impact on the Group.

IAS 32 (Amendment), Financial instruments: presentation and IAS 1, Presentation of financial statements. This amendment is effective for accounting periods beginning on or after 1 January 2009 and introduced new rules on how certain financial instruments should be classified as equity. This is not expected to have an impact on the Group.

IAS 36 (Amendment), Impairment of assets (effective from 1 January 2009). The amendment to the standard is still subject to endorsement by the EU. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009, subject to endorsement by the EU.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 52 week period ended 26 December 2008

1 Accounting policies (continued)

IAS 38 (Amendment), Intangible assets, (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment to the standard is still subject to endorsement by the EU. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This is not expected to have an impact on the Group.

IAS 39 (Amendment), Financial instruments: recognition and measurement and IFRS 7, Financial instruments: disclosures on the reclassification of financial assets. This amendment is effective for accounting periods beginning on or after 1 July 2008 and allow the reclassification of certain financial assets previously classified as held for trading or available for sale to another category under limited circumstances. Various disclosures are required where a reclassification has been made. This is not expected to have an impact on the Group.

IAS 40 (Amendment), Investment property (and consequential amendments to IAS 16) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The Group will apply IAS 40 (Amendment) from 1 January 2009. This is not expected to have an impact on the Group's financial statements.

IFRIC 14, IAS 19, The limit on a defined benefit asset, minimum funding requirements and their interaction. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRC 14 from 1 January 2009, subject to endorsement by the EU. This is not expected to have an impact on the Group's financial statements.

Standards, amendments and 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 26 December 2008 or later periods but are not relevant for the Group's operations:

IFRS 1 (Amendment), First time adoption of IFRS, and IAS 27, Consolidated and separate financial statements, (effective from 1 January 2009). The amended standard is still subject to endorsement by the EU.

IAS 16 (Amendment), Property, plant and equipment (and consequential amendment to IAS 7, Statement of cash flows) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.

IAS 20 (Amendment), Accounting for government grants and disclosure of government assistance (effective from 1 January 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, Financial instruments: Recognition and measurement, and the proceeds received with the benefit accounted for in accordance with IAS 20.

IAS 27 (Amendment), Consolidated and separate financial statements. This standard requires all transactions with non-controlling interests to be recorded in equity if there is no change in control. This amendment is effective for accounting periods on or after 1 July 2009.

IAS 29 (Amendment), Financial reporting in hyperinflationary economies (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost.

IAS 31 (Amendment), Interests in joint ventures, (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, Financial instruments: Presentation, and IFRS 7 Financial instruments: disclosures.

IAS 39 (Amendment), Financial instruments: recognition and measurement of eligible hedged items. This amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. This amendment is effective for accounting periods on or after 1 July 2009.

IAS 41 (Amendment), Agriculture (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value.

IFRIC 15, Agreements for construction of real estates. This interpretation clarifies which standard (IAS 18, Revenue, or IAS 11, Construction contracts) should be applied to particular transactions and is likely to mean that IAS 18 will be applied to a wider range of transactions. This amendment is effective for accounting periods on or after 1 January 2009.

IFRIC 16, Hedges of a net investment in a foreign operation. This interpretation clarifies the following in respect of net investment hedging; Net investment hedging relates to differences in functional currency, not presentation currency and Hedging instruments may be held anywhere in the Group. This amendment is effective for accounting periods on or after 1 October 2008.

IFRIC 17, Distributions of non-cash assets to owners. This interpretation clarifies how an entity should measure distributions of assets, other than cash, when it pays dividends to its owners. This amendment is effective for accounting periods on or after 1 July 2009.

IFRIC 18, (Interpretation), Transfers of assets from customers, (effective from 1 July 2009). This interpretation clarifies the accounting for arrangements where an item of property, plant and equipment, which is provided by the customer, is used to provide an ongoing service. This is particularly relevant to the utility sector with the provision of the service being that of, for example, gas or electricity. The interpretation applies prospectively to transfers of assets from customers received on or after 1 July 2009.

2 Financial risk management

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

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

Market risk

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

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

During the period, the Group obtained a £10 million crematoria acquisition facility ('the Crematoria Acquisition Facility'). £7.4 million was drawn on 24 November 2008 ('the First Tranche'). The First Tranche carries interest at 5.59 per cent per annum. Any remaining funds drawn will carry interest at a rate relative to three month LIBOR, with such rate being capped at 5.59 per cent. Consequently, the Group carries no interest rate risk on this facility. The Crematoria Acquisition Facility is repayable in one bullet payment in five years time.

The Group has significant cash balances that are held by institutions rated at least A-1 by Standard and Poors. These balances earn interest by reference to the Bank of England base rate. If base rates reduced by one per cent at the beginning of 2009 then the Group would receive £0.1 million less interest income on an annualised basis for each £10 million held.

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

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

Liquidity risk
The Group manages its liquidity risk by maintaining sufficient cash reserves, committed undrawn borrowing facilities and regular monitoring and forecasting of cash balances. In addition, the Group is required under the terms of its secured borrowings to maintain a precisely defined EBITDA to total debt service ratio of at least 1.5:1. This ratio was determined when raising the debt as being sufficient to ensure all borrowings could be repaid. At 26 December 2008 the actual ratio was 2.55:1 (2007: 2.31:1).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 52 week period ended 26 December 2008

2 Financial risk management (continued)

Capital risk management

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

In order to achieve these expectations, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or issue further Class A and B Secured Notes.

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

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.

The revenue and operating profit (which includes Recoveries within pre-arranged funeral plans of £1.5 million in both periods), by segment, was as follows:

52 week period ended 26 December 2008	Revenue £m	Underlying operating profit before depreciation and amortisation £m	Depreciation and amortisation £m	Underlying operating profit/(loss) £m	Profit on sale of fixed assets and exceptional tax charge £m	Operating profit/(loss) £m
Funeral services	137.2	52.4	(6.1)	46.3	1.1	47.4
Crematoria	29.2	16.2	(1.6)	14.6	–	14.6
Pre-arranged funeral plans	9.4	2.5	–	2.5	–	2.5
Central overheads	–	(10.9)	(0.4)	(11.3)	–	(11.3)
Group	175.8	60.2	(8.1)	52.1	1.1	53.2
Finance costs				(21.6)	–	(21.6)
Finance income				3.8	–	3.8
Profit before tax				34.3	1.1	35.4
Taxation – continuing activities				(10.1)	(0.3)	(10.4)
Taxation – exceptional				–	(0.4)	(0.4)
Taxation				(10.1)	(0.7)	(10.8)
Underlying earnings for the period				24.2		
Total other items					0.4	
Profit after taxation						24.6

3 Revenue and segmental analysis (continued)

The segment assets and liabilities were as follows:

As at 26 December 2008	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Head office £m	Group £m
Segment assets	**226.9**	**74.9**	**13.4**	**2.7**	**317.9**
Unallocated assets:					
Financial assets – loans and receivables					**0.1**
Cash and cash equivalents					**46.7**
Total assets					**364.7**
Segment liabilities	**(21.7)**	**(2.8)**	**(2.3)**	**(5.0)**	**(31.8)**
Unallocated liabilities:					
Borrowings					**(276.4)**
Accrued interest					**(9.8)**
Corporation tax					**(3.9)**
Deferred tax					**(24.4)**
Total liabilities					**(346.3)**
Other segment items:					
Capital expenditure (including acquisitions)	**24.0**	**18.6**	**–**	**0.6**	**43.2**
Depreciation (note 10)	**6.1**	**1.5**	**–**	**0.3**	**7.9**
Amortisation (note 9)	**–**	**–**	**–**	**0.2**	**0.2**
Impairment of trade receivables (note 21 (c))	**1.4**	**0.6**	**–**	**–**	**2.0**
Other non cash expenses (note 23)	**–**	**–**	**–**	**0.8**	**0.8**
Profit on sale of fixed assets	**1.1**	**–**	**–**	**–**	**1.1**

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

52 week period ended 28 December 2007	Revenue £m	Underlying operating profit before depreciation and amortisation £m	Depreciation and amortisation £m	Underlying operating profit/(loss) £m	Profit on sale of fixed assets and exceptional tax credit £m	Operating profit/(loss) £m
Funeral services	126.3	47.9	(5.8)	42.1	0.1	42.2
Crematoria	25.7	15.2	(1.2)	14.0	–	14.0
Pre-arranged funeral plans	7.5	2.4	–	2.4	–	2.4
Central overheads	–	(9.9)	(1.0)	(10.9)	–	(10.9)
Group	159.5	55.6	(8.0)	47.6	0.1	47.7
Finance costs				(21.7)	–	(21.7)
Finance income				4.2	–	4.2
Profit before tax				30.1	0.1	30.2
Taxation – continuing activities				(9.1)	–	(9.1)
Taxation – exceptional				–	0.5	0.5
Taxation				(9.1)	0.5	(8.6)
Underlying earnings for the period				21.0		
Total other items					0.6	
Profit after taxation						21.6

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 52 week period ended 26 December 2008

3 Revenue and segmental analysis (continued)

The segment assets and liabilities were as follows:

As at 28 December 2007	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Head office £m	Group £m
Segment assets	201.4	56.8	12.7	1.8	272.7
Unallocated assets:					
Financial assets – loans and receivables					0.1
Cash and cash equivalents					52.6
Total assets					325.4
Segment liabilities	(19.9)	(2.7)	(2.1)	(5.2)	(29.9)
Unallocated liabilities:					
Borrowings					(273.4)
Accrued interest					(9.9)
Corporation tax					(1.9)
Deferred tax					(14.9)
Total liabilities					(330.0)
Other segment items:					
Capital expenditure (including acquisitions)	23.9	0.7	–	0.4	25.0
Depreciation (note 10)	5.8	1.2	–	0.3	7.3
Amortisation (note 9)	0.1	–	–	0.6	0.7
Impairment of trade receivables (note 21(c))	1.0	–	–	–	1.0
Other non cash expenses (note 23)	–	–	–	0.8	0.8
Profit on sale of fixed assets	0.1	–	–	–	0.1

4 Net finance charges

	52 week period ended 26 December 2008 £m	52 week period ended 28 December 2007 £m
Finance charges		
Class A and B Secured Notes – issued April 2003	**14.2**	14.4
Class A and B Secured Notes – issued February 2006	**5.2**	5.2
Amortisation of issue costs – issued April 2003	**1.1**	1.1
Amortisation of issue costs – issued February 2006	**0.2**	0.2
Other loans	**0.2**	0.1
Interest payable on finance leases	**0.1**	0.1
Unwinding of discounts	**0.6**	0.6
Finance charges	**21.6**	21.7
Finance income		
Bank deposits	**(2.3)**	(2.7)
Release of premium on Secured Notes – issued February 2006	**(0.8)**	(0.8)
Net finance income on retirement benefit obligations (note 28)	**(0.7)**	(0.7)
Finance income	**(3.8)**	(4.2)
Net finance charges	**17.8**	17.5

5 Profit before tax

Analysis by nature	**52 week period ended 26 December 2008 £m**	52 week period ended 28 December 2007 £m
The following items have been included in arriving at profit before tax:		
Staff costs (note 27)	**60.3**	55.5
Inventories:		
– Cost of inventories recognised as an expense (included in cost of sales)	**13.0**	11.9
Depreciation of property, plant and equipment:		
– Owned assets (note 10)	**7.9**	7.3
Amortisation of intangible assets (included in administrative expenses) (note 9)	**0.2**	0.7
Operating lease rentals:		
– Property	**5.2**	5.0
Recoveries (included within other operating income)	**1.5**	1.5
Trade receivables impairment (included in administrative expenses) (note 21(c))	**2.0**	1.0
Services provided by the Group's auditor		
– Audit fees for the parent company and consolidated financial statements	**0.2**	0.2
– Fees in relation to taxation	**0.1**	0.1
– Fees in relation to other services	**0.1**	–

Amounts payable to the Group's auditor in respect of audit fees relating to the Company's subsidiaries, pursuant to legislation, were not significant.

6 Taxation

Analysis of charge in the period	**52 week period ended 26 December 2008 £m**	52 week period ended 28 December 2007 £m
Current tax – current period	**8.7**	7.0
Adjustments for prior period	**(0.3)**	(0.2)
	8.4	6.8
Deferred tax – current period	**1.8**	2.3
Adjustments for prior period	**0.2**	–
Exceptional adjustment for change in industrial building allowances	**0.4**	–
Exceptional adjustment for rate change – 30% to 28%	**–**	(0.5)
	2.4	1.8
Taxation	**10.8**	8.6

All tax relates to continuing operations.

Tax on items charged to equity	**52 week period ended 26 December 2008 £m**	52 week period ended 28 December 2007 £m
Deferred tax charge on actuarial gains on retirement benefit obligations	**1.6**	1.5
Deferred tax charge on employee share options	**0.3**	0.7
Corporation tax relief relating to maturity of option schemes	**(0.4)**	(1.3)
	1.5	0.9

Total tax charge	**52 week period ended 26 December 2008 £m**	52 week period ended 28 December 2007 £m
Total current tax charge	**8.0**	5.5
Total deferred tax charge	**4.3**	4.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 52 week period ended 26 December 2008

6 Taxation (continued)

The taxation charge in the period is higher (2007: lower) than the standard rate of corporation tax in the UK (28.5 per cent). The differences are explained below:

	52 week period ended 26 December 2008 £m	52 week period ended 28 December 2007 £m
Profit before taxation	**35.4**	30.2
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	**10.1**	9.1
Effects of:		
Adjustments in respect of prior period	**(0.1)**	(0.2)
Exceptional adjustments in respect of opening deferred tax rate change – 30% to 28%	**–**	(0.5)
Exceptional adjustment for change in industrial building allowances	**0.4**	–
Expenses not deductible for tax purposes	**0.4**	0.2
Total taxation	**10.8**	8.6

Under IFRS the tax rate is higher (2007: lower) than the standard UK tax rate of 28.5 per cent due to combination of the impact of disallowable trading expenses and expenditure on the Group's premises that does not attract any deductions for tax purposes, and the one off exceptional charge relating to the change in industrial building allowances.

In June 2007, legislation was passed confirming that the rate of Corporation Tax would reduce from 30 per cent to 28 per cent from 1 April 2008. As a result, the standard UK tax rate for 2008 is 28.5 per cent.

This had the effect of reducing the Group's effective tax rate (excluding the non-recurring adjustment) to 29.5 per cent in 2008, compared to 30 per cent in the previous period.

Further legislation was enacted on 21 July 2008 in respect of industrial building allowances. This has resulted in a one off charge to the Consolidated Income Statement of £0.4 million.

The Group anticipates its effective tax rate will transition to 29 per cent in the 2009 financial period and beyond following these legislative changes.

7 Dividends

	52 week period ended 26 December 2008 £m	52 week period ended 28 December 2007 £m
Final dividend paid: 6.67p per Ordinary Share (2007: 6.06p)	**4.2**	3.8
Interim dividend paid: 3.66p per Ordinary Share (2007: 3.33p)	**2.3**	2.1
Total dividends recognised in the period	**6.5**	5.9

A final dividend of 7.34 pence per share, in respect of 2008, has been proposed by the Board. This will be paid on 26 June 2009 provided approval is gained from shareholders at the Annual General Meeting on 5 June 2009 and will be paid to shareholders on the register at close of business on 29 May 2009.

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, profit on sale of fixed assets 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.

8 Earnings per share (continued)

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 26 December 2008			
Profit attributable to shareholders – Basic and diluted EPS	**24.6**	**63.4**	**38.8**
Deduct: Exceptional items and profit on sale of fixed assets (net of taxation)	**(0.4)**		
Underlying profit after taxation – Basic EPS	**24.2**	**63.4**	**38.2**
52 week period ended 28 December 2007			
Profit attributable to shareholders – Basic and diluted EPS	21.6	62.8	34.4
Deduct: Exceptional items and profit on sale of fixed assets (net of taxation)	(0.6)		
Underlying profit after taxation – Basic EPS	21.0	62.8	33.4

In 2008 and 2007, the potential issue of new shares pursuant to the Group's share option plans in the period would not affect the earnings per share.

9 Goodwill and other intangible assets

	Trade names £m	Use of third party brand name £m	Software £m	Non–compete agreements £m	Sub-total £m	Goodwill £m	Total £m
Cost							
At 29 December 2006	11.5	–	3.8	0.2	15.5	111.3	126.8
Additions	–	–	0.1	–	0.1	–	0.1
Acquisition of subsidiaries and other businesses	10.0	3.2	–	–	13.2	8.3	21.5
At 28 December 2007	21.5	3.2	3.9	0.2	28.8	119.6	148.4
Acquisition of subsidiaries and other businesses (note 26(a))	8.8	–	–	–	8 8	10.2	19.0
At 26 December 2008	**30.3**	**3.2**	**3.9**	**0.2**	**37.6**	**129.8**	**167.4**
Accumulated amortisation							
At 29 December 2006	–	–	(3.3)	(0.1)	(3.4)	–	(3.4)
Amortisation charge	–	(0.2)	(0.5)	–	(0.7)	–	(0.7)
At 28 December 2007	–	(0.2)	(3.8)	(0.1)	(4.1)	–	(4.1)
Amortisation charge	–	(0.2)	–	–	(0.2)	–	(0.2)
At 26 December 2008	**–**	**(0.4)**	**(3.8)**	**(0.1)**	**(4.3)**	**–**	**(4.3)**
Net book amount at 26 December 2008	**30.3**	**2.8**	**0.1**	**0.1**	**33.3**	**129.8**	**163.1**
Net book amount at 28 December 2007	21.5	3.0	0.1	0.1	24.7	119.6	144.3
Net book amount at 29 December 2006	11.5	–	0.5	0.1	12.1	111.3	123.4

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 52 week period ended 26 December 2008

9 Goodwill and other intangible assets (continued)

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:

Amortisation of £0.2 million (2007: £0.7 million) is included within administrative expenses in the income statement.

At 26 December 2008	Intangible assets £m	Goodwill £m	Total £m
Funeral services	**30.3**	**91.8**	**122.1**
Crematoria	**–**	**33.3**	**33.3**
Pre-arranged funeral plans	**2.9**	**4.7**	**7.6**
Head office	**0.1**	**–**	**0.1**
	33.3	**129.8**	**163.1**
At 28 December 2007			
Funeral services	21.6	86.3	107.9
Crematoria	–	28.6	28.6
Pre-arranged funeral plans	3.0	4.7	7.7
Head office	0.1	–	0.1
	24.7	119.6	144.3

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 (2007: 9.2 per cent). This rate is used to analyse each CGU because they are each funded in a similar way. 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 (2007: £nil).

10 Property, plant and equipment

	Freehold land and buildings £m	Leasehold buildings £m	Plant, machinery, fixtures and fittings £m	Motor vehicles £m	Property, plant and equipment total £m	Investment properties £m	Total £m
Cost							
At 29 December 2006	53.2	15.8	15.2	32.0	116.2	–	116.2
Additions	0.3	0.1	3.2	4.8	8.4	–	8.4
Acquisition of subsidiaries and other businesses	0.9	–	–	0.8	1.7	–	1.7
Disposals	(0.1)	(0.1)	(0.1)	(2.0)	(2.3)	–	(2.3)
Reclassification	0.7	0.4	(1.2)	0.1	–	–	–
At 28 December 2007	55.0	16.2	17.1	35.7	124.0	–	124.0
Additions	0.6	0.5	6.6	3.9	11.6	–	11.6
Acquisition of subsidiaries and other businesses (note 26(a))	7.4	–	0.1	0.4	7.9	9.6	17.5
Disposals	(1.0)	(0.1)	(0.3)	(1.7)	(3.1)	–	(3.1)
Reclassification	2.9	1.1	(4.0)	–	–	–	–
At 26 December 2008	**64.9**	**17.7**	**19.5**	**38.3**	**140.4**	**9.6**	**150.0**
Accumulated depreciation							
At 29 December 2006	(4.6)	(4.2)	(6.6)	(11.7)	(27.1)	–	(27.1)
Depreciation charge	(1.2)	(1.1)	(1.6)	(3.4)	(7.3)	–	(7.3)
Disposals	–	–	0.1	1.4	1.5	–	1.5
At 28 December 2007	(5.8)	(5.3)	(8.1)	(13.7)	(32.9)	–	(32.9)
Depreciation charge	(1.5)	(1.0)	(2.0)	(3.4)	(7.9)	–	(7.9)
Disposals	0.2	0.1	0.3	1.1	1.7	–	1.7
Reclassification	(0.3)	(0.3)	0.6	–	–	–	–
At 26 December 2008	**(7.4)**	**(6.5)**	**(9.2)**	**(16.0)**	**(39.1)**	**–**	**(39.1)**
Net book amount at 26 December 2008	**57.5**	**11.2**	**10.3**	**22.3**	**101.3**	**9.6**	**110.9**
Net book amount at 28 December 2007	49.2	10.9	9.0	22.0	91.1	–	91.1
Net book amount at 29 December 2006	48.6	11.6	8.6	20.3	89.1	–	89.1

Depreciation expense of £3.4 million (2007: £3.4 million) is included within cost of sales and £4.4 million (2007: £3.9 million) is included within administrative expenses.

Included within plant, machinery, fixtures and fittings net book value is £2.7 million (2007: £1.5 million) relating to assets held in the course of construction.

Included within freehold land and buildings net book value is £3.5 million (2007: £nil million) relating to investment properties held in the course of construction.

At the balance sheet date, no independent valuation has been performed on investment properties. However, the Directors consider the value taken at the date of acquisition, in November 2008, to be appropriate.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the 52 week period ended 26 December 2008

10 Property, plant and equipment (continued)

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

	26 December 2008 £m	28 December 2007 £m
Cost	**1.1**	1.1
Accumulated depreciation	**(0.5)**	(0.5)
Net book amount	**0.6**	0.6

The Group had capital expenditure authorised by the Board and contracted for at the balance sheet date of £1.0 million (2007: £1.6 million).

11 Non-current financial and other assets

	Note	**26 December 2008 £m**	28 December 2007 £m
Prepayments	(a)	**3.4**	3.4
Deferred commissions	(b)	**0.9**	0.9
Other receivables		**0.2**	0.2
		4.5	4.5

(a) Prepayments

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

(b) Deferred commissions

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

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

12 Investments

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

13 Inventories

	26 December 2008 £m	28 December 2007 £m
Materials	**0.8**	0.6
Finished goods	**3.1**	2.8
	3.9	3.4

The cost of inventories recognised within cost of sales amounted to £13.0 million (2007: £11.9 million).

Finished goods of £1.8 million (2007: £1.5 million) are carried at fair value less costs to sell. There were no inventory write-downs in either period.

14 Trade and other receivables

	26 December 2008 £m	28 December 2007 £m
Trade receivables	**18.3**	17.8
Less: provision for impairment (note 21(c))	**(3.3)**	(2.5)
Net trade receivables	**15.0**	15.3
Receivables due from related parties (note 31)	**3.3**	2.3
Prepayments and accrued income	**2.3**	3.2
Other receivables	**1.8**	1.9
	22.4	22.7

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

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

15 Cash and cash equivalents

	Note	26 December 2008 £m	28 December 2007 £m
Operating cash as reported in the cash flow statement as cash and cash equivalents		**32.8**	38.7
Recoveries: pre-arranged funeral plans	(a)	**1.5**	1.5
Amounts set aside for debt service payments	(b)	**12.4**	12.4
Cash and cash equivalents as reported in the balance sheet		**46.7**	52.6

(a) Recoveries may not be used for one year following receipt and therefore do not meet the definition of cash and cash equivalents in IAS 7, Cash Flow Statements. Movements in these amounts are shown as 'Transfers to restricted bank accounts' in 'Investing activities'.

(b) This amount was transferred to restricted bank accounts which could only be used for the payment of the interest and principal on the Secured Notes, the repayment of liabilities due on the Group's interest rate swaps (see note 16(d)) and commitment fees due on its undrawn borrowing facilities (see note 21(d)) and for no other purpose.

This amount does not meet the definition of cash and cash equivalents in IAS 7, Cash Flow Statements. This amount was used to pay these respective parties on 31 December 2008. £10.0 million (2007:10.2 million) is shown within the cash flow statement as 'Payments to restricted bank accounts for finance charges'. £2.4 million (2007: £2.2 million) is shown within 'Financing activities' as 'Payments to restricted bank accounts for repayment of borrowings'.

16 Financial liabilities

Current	Note	26 December 2008 £m	28 December 2007 £m
Class A Secured Notes – issued April 2003	(a)	**4.2**	3.8
Class A Secured Notes – issued February 2006	(b)	**1.9**	1.8
Premium on Secured Notes – issued February 2006	(b)	**0.8**	0.8
Other current financial liabilities	(d)	**1.1**	0.7
	(f)	**8.0**	7.1

Non-current			
Class A and B Secured Notes – issued April 2003	(a)	**178.0**	180.5
Class A and B Secured Notes – issued February 2006	(b)	**67.0**	68.2
Premium on Secured Notes – issued February 2006	(b)	**11.1**	11.9
Finance lease obligations	(c)	**0.8**	0.8
Other non-current financial liabilities	(d)	**5.1**	5.7
Crematoria acquisition facility	(e)	**7.2**	–
		269.2	267.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 52 week period ended 26 December 2008

16 Financial liabilities (continued)

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

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

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

At 26 December 2008, £95.1 million (2007: £98.3 million) of the principal of the A notes and £100.0 million (2007: £100.0 million) of the principal of the B notes was outstanding.

At 26 December 2008, £6.2 million (2007: £7.0 million) and £6.7 million (2007: £7.0 million) of the transaction costs in respect of the A notes and the B notes respectively remain unamortised.

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

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

At 26 December 2008, £39.4 million (2007: £40.7 million) of the principal of the Further A notes and £32.5 million (2007: £32.5 million) of the principal of the Further B notes was outstanding.

At 26 December 2008, £1.5 million (2007: £1.6 million) and £1.5 million (2007: £1.6 million) of the transaction costs in respect of the Further A notes and the Further B notes respectively remain unamortised.

The Further A notes and Further B notes were issued at a premium of £3.6 million and £10.8 million respectively, which is being released in proportion to the interest cost in the notes. At the balance sheet date £2.7 million (2007: £3.0 million) and £9.2 million (2007: £9.7 million) respectively remained unamortised.

(c) Obligations under finance leases

	26 December 2008 £m	28 December 2007 £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.

16 Financial liabilities (continued)

(d) Other financial liabilities

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

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

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

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

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

(e) Crematoria acquisition facility

During the period, the Group obtained a £10 million crematoria acquisition facility ('the Crematoria Acquisition Facility'). £7.4 million was drawn on 24 November 2008 ('the First Tranche'). The First Tranche carries interest at 5.59 per cent per annum. Any remaining funds drawn will carry interest at a rate relative to three month LIBOR, with such rate being capped at 5.59 per cent. Consequently, the Group carries no interest rate risk on this facility. The Crematoria Acquisition Facility is repayable in one bullet payment in five years time. There is no pricing risk unless the Group chooses to repay the facility within the first two years of draw down.

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

At 26 December 2008, £7.4 million of the principal was outstanding. At 26 December 2008, £0.2 million of the transaction costs remained unamortised.

(f) Current financial liabilities

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

17 Trade and other payables

Current	26 December 2008 £m	28 December 2007 £m
Trade payables	**6.8**	7.1
Tax and social security	**1.2**	1.6
Other current liabilities	**0.8**	0.9
Accruals and deferred income	**25.6**	23.4
	34.4	33.0
Non-current		
Deferred income	**1.3**	1.3
Deferred consideration for acquisitions	**0.4**	0.4
Long service awards	**1.0**	1.0
Other non-current liabilities	**0.1**	0.1
	2.8	2.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 52 week period ended 26 December 2008

18 Obligations under finance leases and operating leases

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

	26 December 2008 £m	28 December 2007 £m
The minimum lease payments under non-cancellable operating leases fall due as follows:		
Not later than one year	**5.3**	4.9
Later than one year but not more than five years	**15.6**	13.6
More than five years	**29.7**	29.3
	50.6	47.8

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 (2007: £0.1 million) are in respect of contingent rentals. The contingent rentals are based on the revenues generated at the specific locations.

Sublease payments received in the year amount to £0.6 million (2007: £0.6 million). Total future sublease payments receivable relating to operating leases amount to £0.6 million (2007: £0.5 million).

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

19 Provisions

	Dilapidations £m (a)	Asbestos rectification £m (b)	Onerous contracts £m (c)	Cancellation provision £m (d)	Total £m
At beginning of period	1.8	0.3	0.8	0.3	3.2
Charged to income statement	0.7	–	–	0.4	1.1
Utilised in period	(0.4)	–	(0.1)	(0.3)	(0.8)
Amortisation of discount	0.1	–	–	–	0.1
At end of period	**2.2**	**0.3**	**0.7**	**0.4**	**3.6**

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

	26 December 2008 £m	28 December 2007 £m
Current	**1.3**	1.3
Non-current	**2.3**	1.9
	3.6	3.2

(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, £0.4 million (2007: £0.4 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 2017.

(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 includes the expected rectification costs of properties not yet surveyed for asbestos plus the estimated costs of surveying these properties. It is anticipated that the provision will be utilised by the end of 2009.

19 Provisions (continued)

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

Included within the provision is an amount of £0.2 million (2007: £0.2 million) relating to the expected costs of ongoing rent reviews, the outcomes of which have been based on recent experience of similar reviews on other properties.

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

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

20 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28 per cent (2007: 28 per cent).

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

	26 December 2008 £m	28 December 2007 £m
At beginning of period	**14.9**	7.2
Charged to income statement (note 6)	**2.0**	2.3
Exceptional adjustment for change in industrial building allowances	**0.4**	–
Adjustment for rate change – 30% to 28% (note 6)	**–**	(0.5)
Taken to equity (note 6)	**1.9**	2.2
Arising on acquisitions (note 26 (a))	**5.2**	3.7
At end of period	**24.4**	14.9

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

Deferred tax liabilities

	Pensions £m	Accelerated tax depreciation £m	Other £m	Total £m
At beginning of period	0.5	10.9	4.6	16.0
Charged to income statement	0.9	0.9	0.8	2.6
Exceptional adjustment for change in industrial building allowances	–	0.4	–	0.4
Taken to equity (note 24)	1.6	–	–	1.6
Arising on acquisitions (note 26(a))	–	4.4	0.8	5.2
At end of period	**3.0**	**16.6**	**6.2**	**25.8**

Deferred tax assets

	Provisions £m	Other £m	Total £m
At beginning of period	(0.3)	(0.8)	(1.1)
Charged/(credited) to income statement	0.2	(0.8)	(0.6)
Share options taken to equity (note 24)	–	0.3	0.3
At end of period	**(0.1)**	**(1.3)**	**(1.4)**

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision at 26 December 2008 was £24.9 million (2007: £14.9 million).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 52 week period ended 26 December 2008

20 Deferred tax (continued)

No deferred tax asset is recognised in respect of losses within the Group amounting to £4.1 million net at 28 per cent (2007: £4.1 million net at 28 per cent). Based on the current debt structure of the Group and the nature of these losses, the Directors do not consider that taxable profits will arise in the relevant company from which the future reversal of the underlying timing differences can be deducted.

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

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

	2008 £m	2007 £m
Deferred tax charge on actuarial gains on retirement benefit obligations	**2.1**	1.5
Deferred tax charge on employee share options	**0.3**	0.8

21 Financial instruments

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

Trade receivables are held net of impairment.

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

	26 December 2008		28 December 2007	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Long term borrowings (note 16)	**(269.2)**	**(231.2)**	(267.1)	(300.4)
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)	**(8.0)**	**(7.1)**	(7.1)	(7.3)
Trade and other payables (note 17)	**(34.4)**	**(34.4)**	(33.0)	(33.0)
Trade and other receivables (note 14)	**(22.4)**	**(22.4)**	22.7	22.7
Cash at bank and in hand (note 15)	**(46.7)**	**(46.7)**	52.6	52.6
Other non–current liabilities (note 17)	**(2.8)**	**(2.8)**	(2.8)	(2.8)

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

	26 December 2008					
	In less than one year £m	**In more than one year but not more than two years £m**	**In more than two years but not more than three years £m**	**In more than three years but not more than five years £m**	**In more than five years £m**	**Total £m**
Cash liabilities						
Class A and B Secured Notes (gross)	**7.4***	**5.5**	**5.9**	**13.1**	**235.1**	**267.0**
Interest payable on Notes	**28.7****	**18.7**	**18.4**	**35.6**	**187.5**	**288.9**
Swaps	**1.0*****	**0.7**	**0.7**	**1.4**	**6.0**	**9.8**
Crematoria acquisition facility	**–**	**–**	**–**	**7.4**	**–**	**7.4**
Interest payable on acquisition facility	**0.4**	**0.4**	**0.4**	**0.9**	**–**	**2.1**
Debt repayments	**37.5**	**25.3**	**25.4**	**58.4**	**428.6**	**575.2**
Other financial liabilities	**34.1******	**0.4**	**0.2**	**0.6**	**2.1**	**37.4**
Total	**71.6**	**25.7**	**25.6**	**59.0**	**430.7**	**612.6**

21 Financial instruments (continued)

	28 December 2007					
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	Total £m
Cash liabilities						
Class A and B Secured Notes (gross)	6.9*	5.1	5.4	12.2	241.9	271.5
Interest payable on Notes	29.1**	19.1	18.7	36.4	205.2	308.5
Swaps	1.0***	0.7	0.7	1.4	6.7	10.5
Debt repayments	37.0	24.9	24.8	50.0	453.8	590.5
Other financial liabilities	33.0****	0.4	0.5	0.7	2.4	37.0
Total	70.0	25.3	25.3	50.7	456.2	627.5

* This amount includes £2.4 million (2007: £2.2 million) that was paid on 31 December 2008 (2007: 31 December 2007). See note 15(b).

** This amount includes £9.6 million (2007: £9.8 million) that was paid on 31 December 2008 (2007: 31 December 2007). See note 15(b).

*** This amount includes £0.3 million (2007: £0.3 million) that was paid on 31 December 2008 (2007: 31 December 2007). See note 15(b).

**** This amount includes £0.1 million (2007: £0.1 million) that was paid on 31 December 2008 (2007: 31 December 2007). See note 15(b).

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

	26 December 2008					
	In less than one year £m	**In more than one year but not more than two years £m**	**In more than two years but not more than three years £m**	**In more than three years but not more than five years £m**	**In more than five years £m**	**Total £m**
Non-cash liabilities						
Issue costs	**1.2**	**1.3**	**1.2**	**2.3**	**9.9**	**15.9**
Premium on Secured Notes	**(0.8)**	**(0.8)**	**(0.8)**	**(1.5)**	**(8.0)**	**(11.9)**
Total	**0.4**	**0.5**	**0.4**	**0.8**	**1.9**	**4.0**

	28 December 2007					
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	Total £m
Non-cash liabilities						
Issue costs	1.3	1.3	1.2	2.4	11.0	17.2
Premium on Secured Notes	(0.8)	(0.8)	(0.8)	(1.5)	(8.8)	(12.7)
Total	0.5	0.5	0.4	0.9	2.2	4.5

(c) Trade receivables

As at 26 December 2008, £6.9 million of the gross trade receivables (2007: £7.0 million) were past due and partially impaired. A provision for impairment is established based on historical experience. The amount of the provision, as at 26 December 2008, was £3.3 million (2007: £2.5 million). The individually impaired receivables principally relate to monies owing for funerals performed by the funeral services division. The aging of these receivables is as follows:

	26 December 2008 £m	28 December 2007 £m
One to six months	**4.8**	4.9
Over six months	**2.1**	2.1
	6.9	7.0

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the 52 week period ended 26 December 2008

21 Financial instruments (continued)

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

	26 December 2008 £m	28 December 2007 £m
At beginning of period	**(2.5)**	(2.8)
Charged to income statement	**(2.0)**	(1.0)
Utilised in period	**1.2**	1.3
At end of period	**(3.3)**	(2.5)

(d) Borrowing facilities

(i) The Group has the following undrawn committed borrowing facilities available at 26 December 2008, all of which were at floating interest rates, in respect of which all conditions precedent had been met at that date:

	26 December 2008 £m	28 December 2007 £m
Expiring within one year	**40.0**	45.0
Expiring between one and two years	**–**	–
Expiring in more than two years	**5.0**	–
	45.0	45.0

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

The remaining £5.0 million facility was renewed in April 2008 for a further five years. Both these facilities incur commitment fees at market rates.

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

	26 December 2008 £m	28 December 2007 £m
Not later than one year	**0.1**	0.1
Later than one year but not more than five years	**0.2**	0.2
More than five years	**2.9**	2.9
	3.2	3.2
Future finance charges on finance leases	**(2.4)**	(2.4)
Present value of finance lease liabilities	**0.8**	0.8

22 Called up share capital

	26 December 2008 £m	28 December 2007 £m
Authorised Equity shares		
77,777,777 (2007: 77,777,777) Ordinary Shares of £0.09 each	**7.0**	7.0
Allotted, called up and fully paid Equity shares		
63,484,135 (2007: 63,240,971) Ordinary Shares of £0.09 each	**5.7**	5.7

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

During the period the Group received £nil million in relation to the 243,164 shares issued under the 2005 LTIP scheme.

22 Called up share capital (continued)

Potential issues of Ordinary Shares

Certain employees hold options to subscribe for shares in the Company under an approved Save As You Earn (SAYE) Scheme started in 2007. In addition, Executive Directors and senior management hold options to subscribe for shares in the Company under Long Term Incentive Plans (LTIPs) awarded in 2006, 2007 and 2008.

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

Year of grant	Exercise price (pence)	Exercise period	2008 Number	2007 Number	2006 Number
2007 – SAYE	714.67	1 July 2010 to 1 January 2011	**239,524**	280,873	n/a
2006 – LTIP	–	23 March 2009 to 23 March 2010	**254,686**	254,686	286,413
2007 – LTIP	–	27 March 2010 to 27 March 2011	**230,021**	232,543	n/a
2008 – LTIP	–	17 March 2011 To 17 March 2012	**227,963**	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 24 and 25. Exercise of an option is subject to continued employment unless an individual ceases to be an employee by reason of death, illness, redundancy or other similar circumstances.

Options were valued using the Monte Carlo option pricing model. Performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	18 March 2008	27 March 2007	23 March 2006	13 April 2005
Share price at grant date	**£7.62**	£6.68	£4.78	£3.40
Exercise price	**–**	–	–	–
Number of employees	**31**	31	7	4
Shares under option	**229,733**	234,543	286,413	263,601
Vesting period (years)	**3**	3	3	3
Expected volatility	**18.1%**	16.6%	25.0%	42.0%
Option life (years)	**10**	10	10	10
Expected life (years)	**3**	3	3	3
Risk free rate	**3.74%**	5.22%	4.36%	4.50%
Expected dividends expressed as a dividend yield	**1.6%**	1.6%	1.8%	3.3%
Possibility of ceasing employment before vesting	**0%**	0%	0%	0%
Fair value per option	**£4.13**	£3.62	£2.67	£1.94

The expected volatility is calculated by reference to historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

During the period nil options (2007: 6,194) under the 2004 LTIP Scheme, nil options (2007: 20,991) under the 2005 LTIP Scheme, nil options (2007: 31,727) under the 2006 LTIP Scheme, 2,522 options (2007: 2,000) under the 2007 LTIP Scheme, and 1,770 under the 2008 LTIP scheme were forfeited. 242,610 options were exercised under the 2005 LTIP Scheme during the period. The share price of the options exercised during the period was £7.45.

The charge to the income statement in the period in respect of the LTIP Schemes was £0.7 million (2007: £0.6 million). All of which are equity based settled.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 52 week period ended 26 December 2008

23 Share-based payments (continued)

SAYE Scheme
One (2007: two) Inland Revenue approved SAYE Schemes were in place during the period, with both carrying the same terms and conditions. Options were valued using the Black-Scholes option pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	2007 Scheme 21 May 2007	2004 Scheme 6 May 2004
Share price at grant date	£7.26	£2.30
Exercise price	£7.15	£2.30
Number of employees	680	807
Shares under option	292,377	799,807
Vesting period (years)	3	3
Expected volatility	16.8%	47.6%
Option life (years)	3.5	3.5
Expected life (years)	3.25	3.25
Risk free rate	5.48%	5.10%
Expected dividends expressed as a dividend yield	1.4%	4.1%
Possibility of ceasing employment before vesting (per annum)	5.8%	5.9%
Fair value per option	£1.34	£0.79

During the period nil options (2007: 29,729) under the 2004 SAYE Scheme and 40,821 (2007: 11,504) under the 2007 SAYE Scheme were forfeited. Nil options (2007: 648,026) under the 2004 SAYE and 528 options (2007: nil) were exercised under the 2007 SAYE Scheme, during the period. The weighted average share price of the options exercised during the period was £7.36.

The charge to the income statement in the period in respect of the SAYE Schemes was £0.1 million (2007: £0.2 million). All of which are equity based settled.

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 29 December 2006	5.6	31.6	80.0	(9.5)	(134.8)	(27.1)	(1.2)	(28.3)
Profit for the 52 weeks ended 28 December 2007	–	–	–	–	21.6	21.6	–	21.6
Actuarial gains and losses on defined benefit plans	–	–	–	–	5.4	5.4	–	5.4
Deferred tax on pensions	–	–	–	–	(1.5)	(1.5)	–	(1.5)
Effects of employee share options	–	–	–	0.8	–	0.8	–	0.8
Tax on employee share options	–	–	–	0.6	–	0.6	–	0.6
Adjustment for tax rate change 30%to 28%	–	–	–	(0.1)	0.1	–	–	–
Share issue under 2004 SAYE scheme	0.1	1.4	–	–	–	1.5	–	1.5
Share issue under 2004 LTIP Scheme	–	0.8	–	–	–	0.8	–	0.8
Gift to Employee Benefit Trust	–	–	–	(0.8)	–	(0.8)	–	(0.8)
Acquisition of minority interest	–	–	–	–	–	–	1 2	1 2
Dividends	–	–	–	–	(5.9)	(5.9)	–	(5.9)
Shareholders' equity as at 28 December 2007	5.7	33.8	80.0	(9.0)	(115.1)	(4.6)	–	(4.6)
Profit for the 52 weeks ended 26 December 2008	–	–	–	–	24.6	**24.6**	–	**24.6**
Actuarial gains and losses on defined benefit plans	–	–	–	–	5 6	**5.6**	–	**5.6**
Deferred tax on pensions	–	–	–	–	(1.6)	**(1.6)**	–	**(1.6)**
Effects of employee share options	–	–	–	0.8	–	**0.8**	–	**0.8**
Tax on employee share options	–	–	–	0.1	–	**0.1**	–	**0.1**
Share issue under 2005 LTIP Scheme	–	0.8	–	–	–	**0.8**	–	**0.8**
Gift to Employee Benefit Trust	–	–	–	(0.8)	–	**(0.8)**	–	**(0.8)**
Dividends	–	–	–	–	(6.5)	**(6.5)**	–	**(6.5)**
Shareholders' equity as at 26 December 2008	**5.7**	**34.6**	**80.0**	**(8.9)**	**(93.0)**	**18.4**	**–**	**18.4**

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.

The capital redemption reserve represents £80,002,465 B shares that were issued on 2 August 2006 and redeemed for cash on the same day.

25 Reconciliation of cash generated from operations

	2008 £m	2007 £m
Net profit for the period	**24.6**	21.6
Adjustments for:		
Taxation	**10.8**	8.6
Net finance charges	**17.8**	17.5
Profit on disposal of fixed assets	**(1.1)**	(0.1)
Depreciation charges	**7.9**	7.3
Amortisation of intangibles	**0.2**	0.7
Changes in working capital (excluding acquisitions)	**1.3**	1.1
Employee share option charges (note 23)	**0.8**	0.8
Cash generated from operations	**62.3**	57.5

Other non-cash transactions

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 52 week period ended 26 December 2008

26 Acquisition and disposals

(a) Acquisition of subsidiary and other businesses

	Carrying values pre acquisition £m	Adjustments £m	Provisional fair value £m
Tangible fixed assets	**4.9**	**(0.2)**	**4.7**
Investment properties	**7.4**	**2.2**	**9.6**
Assets in the course of construction	**1.9**	**1.3**	**3.2**
Intangible assets:			
Trade names	**–**	**8.8**	**8.8**
Other working capital	**0.6**	**(0.2)**	**0.4**
Deferred taxation	**–**	**(5.2)**	**(5.2)**
Net assets acquired	**14.8**	**6.7**	**21.5**
Goodwill arising			**10.2**
			31.7
Satisfied by:			
Cash paid on completion funded from internally generated cash flows			**24.1**
Cash paid on completion funded from crematoria acquisition facility (see note 16(e))			**7.4**
Deferred consideration			**0.2**
Total consideration			**31.7**

During 2008, the Group acquired the operational interest of nine funeral locations and two crematoria. These acquisitions were either acquisitions of trade and assets or acquisitions of the entire share capital of a limited company.

Included in the above is the acquisition of the entire issued share capital of Mercia Crematoria Limited (whose name was subsequently changed to Dignity Crematoria Limited), which included £9.6 million of investment properties and £3.2 million assets held in the course of construction.

All these acquisitions have been accounted for under the acquisition method. None were individually material and consequently have been aggregated.

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill. This represents the value to the Group of the funeral locations.

The fair value adjustments contain some provisional amounts, which will be finalised in 2009. These adjustments reflect the recognition of trade names and associated deferred taxation and adjustments to reflect the fair value of other working capital.

The businesses acquired have their assets and liabilities amalgamated within the existing business structure and as such, it is impractical to determine, without undue expense and delay due to the immaterial size of each, the post acquisition results.

It is also not possible to quantify the results of these businesses prior to acquisition as it represents confidential information relating to the vendors, which the Directors do not have authority to disclose.

(b) Reconciliation to cash flow statement

	2008 £m	2007 £m
Cash paid on completion	**31.5**	16.5
Cash paid in respect of deferred consideration obligations	**0.1**	0.1
Cash acquired on acquisition	**(0.1)**	–
Acquisition of subsidiaries and businesses as reported in cash flow statement	**31.5**	16.6
Acquisition of minority interest as reported in cash flow statement	**–**	2.0

27 Employees and Directors

	2008 £m	2007 £m
Wages and salaries	**53.9**	49.5
Social security costs	**4.4**	4.0
Other pension costs	**1.2**	1.2
Employee share option charges (note 23)	**0.2**	0.2
Key management share option charges (note 23)	**0.6**	0.6
	60.3	55.5

Key management are considered to be the Board of Directors only and thus no additional disclosures are presented than that included in the Report on Directors' Remuneration. The monthly average number of people, including Directors, employed by the Group during the period was as follows:

	2008 Number	2007 Number
Management and administration	**113**	112
Funeral services staff	**2,007**	1,932
Crematoria staff	**232**	214
Pre-arranged funeral plan staff	**40**	35
	2,392	2,293

Directors' emoluments

Details of Directors' emoluments are disclosed in the Report on Directors' Remuneration on pages 27 to 29 which form part of these consolidated financial statements.

28 Pension commitments

Defined contribution plans

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

The pension costs for defined contribution schemes are as follows:

	2008 £m	2007 £m
Defined contribution schemes	**0.1**	0.1

Defined benefit plans

In 2005 the Group operated two defined benefit plans in the UK. On 6 April 2006 the Dignity 1972 Pension Scheme was merged into the Dignity Pension and Assurance Scheme. A full actuarial valuation was carried out as at 6 April 2008. The valuation results of the merged scheme were updated to 31 December 2008 by a qualified independent Actuary.

For 2008 the employer's contribution rate payable was 5.5 per cent of Pensionable Salaries plus £39,750 per month (2007: 5.5 per cent of Pensionable Salaries plus £39,750 per month). The total monetary contribution paid by the employer for 2008 was £1.2 million (2007: £1.2 million).

The principal assumptions used by the actuary were:

Assumptions	2008	2007
Discount rate	**6.25%**	5.85%
Expected long-term rate of return on assets	**5.4%**	6.3%
Rate of increase in salaries	**3.15%**	3.7%
Rate of increase in payment of pre April 1997 excess over GMP pensions – Dignity Pension and Assurance Scheme members	**0%**	0%
Rate of increase in payment of post April 1997 pensionable service	**2.8%**	3.2%
Rate of increase in payment of post April 2005 pensionable service	**2.3%**	2.5%
Price inflation assumption	**2.9%**	3.2%

The underlying mortality assumption is PCA00 on a year of birth usage, with medium cohort future improvement factors subject to a minimum annual rate of future improvement equal to one per cent and rated up by the addition of four years to age for males and by the addition of one year to age for females (2007: PA92 on a year of birth usage with medium cohort future improvement factors).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the 52 week period ended 26 December 2008

28 Pension commitments (continued)

Pensions and other post-retirement obligations

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

	2008 £m	2007 £m
Fair value of plan assets	**69.1**	67.9
Present value of funded obligations	**(55.9)**	(61.1)
Net asset recognised in the balance sheet	**13.2**	6.8

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

	2008 £m	2007 £m
Current service cost	**0.9**	1.0
Past service cost	**0.2**	0.1
Total included within cost of sales (staff costs)	**1.1**	1.1
Interest cost	**3.6**	3.0
Expected return on plan assets	**(4.3)**	(3.7)
Total included within finance income	**(0.7)**	(0.7)

Expected contributions to post employment benefit plans for the 52 week period ended 25 December 2009 are £1.3 million.

Analysis of fair value of plan assets

	2008		2007		2006		2005		2004	
	£m	%	£m	%	£m	%	£m	%	£m	%
Equity and property	**31.1**	**45.0**	37.7	55.5	30.9	51.6	28.1	61.4	23.9	61.1
Debt	**14.8**	**21.4**	–	–	5.7	9.5	14.2	31.0	12.5	32.0
Cash	**23.2**	**33.6**	30.2	44.5	23.3	38.9	3.5	7.6	2.7	6.9
Fair value of plan assets	**69.1**	**100.0**	67.9	100.0	59.9	100.0	45.8	100.0	39.1	100.0

At 26 December 2008 and 28 December 2007 the pension Trustees did not hold, on behalf of the scheme, any direct investments in the Group.

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

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of obligation at beginning of period	**(61.1)**	(59.3)	(57.8)	(52.9)	(46.6)
Current service cost	**(0.9)**	(1.0)	(1.0)	(1.0)	(1.6)
Past service cost	**(0.2)**	(0.1)	–	–	–
Interest cost	**(3.6)**	(3.0)	(2.8)	(2.8)	(2.5)
Benefits paid	**2.8**	2.6	2.3	1.9	1.9
Contributions by participants	**(1.3)**	(1.3)	(1.4)	(0.9)	(1.3)
Actuarial gains/(losses)	**8.4**	1.0	1.4	(2.1)	(2.8)
Present value of obligation at end of period	**(55.9)**	(61.1)	(59.3)	(57.8)	(52.9)

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

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of plan assets at beginning of period	**67.9**	59.9	45.8	39.1	33.9
Expected return on plan assets	**4.3**	3.7	2.8	2.4	2.2
Contributions by Group	**1.2**	1.2	11.2	1.4	1.5
Contributions by participants	**1.3**	1.3	1.4	0.9	1.3
Benefits paid	**(2.8)**	(2.6)	(2.3)	(1.9)	(1.9)
Actuarial (losses)/gains	**(2.8)**	4.4	1.0	3.9	2.1
Fair value of plan assets at end of period	**69.1**	67.9	59.9	45.8	39.1

28 Pension commitments (continued)

Analysis of the movement in the balance sheet asset	2008 £m	2007 £m
At beginning of period	**6.8**	0.6
Total expense as above	**(0.4)**	(0.4)
Actuarial gains	**5.6**	5.4
Contributions by Group	**1.2**	1.2
At end of period	**13.2**	6.8

Cumulative actuarial gains and losses recognised in equity	2008 £m	2007 £m
At beginning of period	**8.9**	3.5
Net actuarial gains recognised in the period	**5.6**	5.4
At end of period	**14.5**	8.9

The actual return on plan assets was £3.3 million (2007: £8.1 million).

History of experience gains and losses	2008	2007	2006	2005	2004
Experience adjustments arising on scheme assets:					
Amount (£m)	**2.8**	(4.4)	(1.0)	(3.9)	(2.1)
Percentage of scheme's assets	**4.1%**	6.5%	1.7%	8.5%	5.4%
Experience adjustments arising on scheme liabilities:					
Amount (£m)	**(1.0)**	(0.9)	0.5	0.5	0.1
Percentage of the present value of the scheme's liabilities	**1.8%**	1.5%	0.8%	0.9%	0.2%
Present value of scheme liabilities (£m)	**(55.9)**	(61.1)	(59.3)	(57.8)	(52.9)
Fair value of scheme assets (£m)	**69.1**	67.9	59.9	45.8	39.1
Surplus/(deficit) (£m)	**13.2**	6.8	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 financial statements 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.

As described in note 26 and elsewhere in this annual report, the Group acquired two partly constructed crematoria as part of an acquisition of the entire issued share capital of a company. As a consequence, the Group has contractual commitments to incur a maximum of £2.3 million to complete the construction of these crematoria.

30 Contingent liabilities

(a) Securitisation

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 in its capacity as Security Trustee in the securitisation:

- The Dignity (2002) Group have granted the Security Trustee fixed and floating charges over the assets and undertakings of the Dignity (2002) Group;
- Dignity plc has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity (2004) Limited;
- Dignity (2004) Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings No.2 Limited and Dignity (2002) Limited;
- Dignity Holdings No. 2 Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings Limited;

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 52 week period ended 26 December 2008

30 Contingent liabilities (continued)

- Dignity Holdings Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Mezzco Limited;
- Dignity Holdings Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loans (both interest and non interest bearing) to Dignity Mezzco Limited;
- Dignity Mezzco Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loan to Dignity (2002) Limited.

At 26 December 2008, the amount outstanding in relation to these borrowings was £278.8 million (2007: £284.2 million).

(b) Contingent consideration
On 28 August 2007, the Group acquired the trade and assets of seven funeral locations. As part of this acquisition there is a contingent consideration clause, payable during 2009. The maximum amount payable in accordance with this clause is £1.8 million. However, at 26 December 2008 and 28 December 2007, no provision has been recognised in respect of this clause as the Board do not believe that any further consideration will be payable, based on information currently available.

(c) Crematoria acquisition facility
On 24 November 2008, the Group obtained a £10 million loan facility from the National Westminster Bank plc (‘Nat West’). £7.4 million was drawn on the same day. As a consequence of the legal structure of this facility:

- Dignity plc has granted Nat West, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity (2008) Limited;
- Dignity (2008) Limited has granted Nat West, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Crematoria Limited;
- Dignity (2008) Limited and Dignity Crematoria Limited have granted Nat West fixed and floating charges over the assets and undertakings of each of Dignity (2008) Limited and Dignity Crematoria Limited; and
- Dignity plc have acted as guarantor in the event that Dignity (2008) Limited fails to pay interest due on the facility.

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

At 26 December 2008, the amount outstanding in relation to these borrowings was £7.4 million (2007: £nil million).

31 Related party transactions

The ultimate controlling party of the Group is Dignity plc.

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.

Related party transactions are summarised below:

	Transactions during the period		Amounts due to the Group at the period end	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Dignity Limited Trust Fund	**0.3**	0.4	**–**	–
National Funeral Trust	**14.9**	13.5	**1.6**	1.3
Trust for Age Concern Funeral Plans	**15.2**	11.7	**1.7**	1.0

32 Post balance sheet events

There have been no post balance sheet events.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIGNITY PLC

We have audited the parent company financial statements of Dignity plc for the 52 week period ended 26 December 2008 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 26 December 2008.

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 Report on Directors' Remuneration 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 Report on Directors' Remuneration 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. The information given in the Directors' Report includes that specific information presented in the Business Review and Financial Review that is cross referred from the Business Review section of the Directors' Report.

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 the Directors' Report, the Chairman's Statement, the Chief Executive's Overview, the Business Review, the Financial Review, the Corporate and Social Responsibility Report, the unaudited section of the Report on Directors' Remuneration, the Directors' Statement on Corporate Governance and all of the other information listed on the contents page. 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 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 Report on Directors' Remuneration 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 26 December 2008;
- 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
Chartered Accountants and Registered Auditors
Birmingham, 12 March 2009

DIGNITY PLC COMPANY BALANCE SHEET
as at 26 December 2008

	Note	**26 December 2008 £m**	28 December 2007 £m
Fixed assets			
Investments	C2	**133.2**	132.4
Current assets			
Debtors: amounts falling due within one year	C3	**57.3**	33.4
Cash at bank and in hand		**15.9**	23.3
Total current assets		**73.2**	56.7
Creditors: amounts falling due within one year	C4	**(15.2)**	(16.4)
Net current assets		**58.0**	40.3
Total assets less current liabilities		**191.2**	172.7
Net assets		**191.2**	172.7
Capital and reserves			
Called up share capital	C5	**5.7**	5.7
Share premium account	C5	**34.6**	33.8
Capital redemption reserve	C5	**80.0**	80.0
Other reserves	C5	**1.3**	1.3
Profit and loss account	C5	**69.6**	51.9
Equity shareholders' funds	C6	**191.2**	172.7

The financial statements on pages 74 to 77 were approved by the Board of Directors on 12 March 2009 and were signed on its behalf by:

M K McCollum
Chief Executive

S L Whittern
Finance Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the 52 week period ended 26 December 2008

	Note	**52 week period ended 26 December 2008 £m**	52 week period ended 28 December 2007 £m
Profit for the period		**24.2**	14.3
Total recognised income for the period		**24.2**	14.3
Prior year adjustment – UITF 44	C1	**–**	(0.4)
Total		**24.2**	13.9

NOTES TO THE DIGNITY PLC FINANCIAL STATEMENTS

C1 Principal accounting policies

Basis of preparation
These financial statements are prepared on a going concern basis under the historical cost convention, as modified by the revaluation of share-based payments and in accordance with the Companies Act 1985 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). A summary of the principal accounting policies, which have been consistently applied, is set out below.

In accordance with the concession granted under section 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 26 December 2008. For the comparative period, the Company's financial statements have been prepared for the 52 week period ended 28 December 2007.

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.

Furthermore, the Company has taken advantage of the exemption provided within FRS 29, Financial Instruments and Disclosures, not to disclose details of any financial instruments held.

Implementation of UITF 44
During 2007, the Group adopted UITF 44 in respect of share option schemes, which required a prior year adjustment to the Company's financial statements. As a result, the charge for such schemes is recognised in a subsidiary of the Company. The Company's financial statements now reflect the cost of the scheme as an increase in the cost of investment in the subsidiary.

Fixed assets investments
Fixed asset investments are stated at historical cost, less any provision for impairment.

Impairment of fixed assets
The carrying values of fixed assets are reviewed for impairment in periods where events or changes in circumstances indicate that the carrying value may not be recoverable or at the end of the first full financial year following the recognition. Any impairment in the value of fixed assets below depreciated historical cost is charged to the profit and loss account within operating profit. A reversal of an impairment loss is recognised in the profit and loss account to the extent that the original loss was recognised.

Employee share schemes
The Company operates two employee share schemes: The Save As You Earn Scheme ('SAYE') and Long Term Incentive Plan Scheme ('LTIP').

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 23 to 29.

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.

Employee share trust
The assets of the employee share trust are held by a separate limited company, of which the directors consider that Dignity plc has de facto control. In accordance with UITF 38, Accounting for ESOP Trusts and the substance of the transaction, the trust's assets and liabilities are recognised in the Company's balance sheet within share capital and reserves.

NOTES TO THE DIGNITY PLC FINANCIAL STATEMENTS CONTINUED

C2 Investments in subsidiary undertakings

Cost and net book amount	£m
At beginning of the period	132.4
Additions in respect of share-based payments	0.8
End of period	**133.2**

	Activity	Number of shares at 26 December 2008	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 and Le Quesne Limited	Funeral directors	100 Ordinary at £1 each	99%
Dignity Pre-Arrangement Limited	Pre-arranged funeral plans	5,001,001 Ordinary at £1 each	100%
Dignity Securities Limited	Pre-arranged funeral plans	19,801 Ordinary at £1 each	100%
		750,000 Redeemable Preference Shares at £1 each	100%
Advance Planning Limited	Pre-arranged funeral plans	7,500 A Ordinary at £1 each	100%
		2,500 B Ordinary at £1 each	100%
		6,911,000 0.0000001 pence Redeemable Preference Shares at £1 each	100%
Dignity Finance PLC	Finance company	50,000 Ordinary at £1 each	100%
Birkbeck Securities Limited	Intermediate holding company	1,102,271 Ordinary at £1 each	100%
Dignity Finance Holdings Limited	Intermediate holding company	50,000 Ordinary at £1 each	100%
Dignity Holdings No. 2 Limited	Intermediate holding company	2,000,000 Ordinary at £1 each	100%
Dignity Mezzco Limited	Intermediate holding company	1,000 Ordinary at £1 each	100%
Dignity Holdings Limited	Intermediate holding company	1,500,000 Ordinary at £1 each	100%
Dignity (2002) Limited	Intermediate holding company	2 Ordinary at £1 each	100%
Dignity (2004) Limited	Intermediate holding company	1,000 Ordinary at £1 each	100%
Dignity (2008) Limited	Intermediate holding company	2 Ordinary at £1 each	100%
Dignity Crematoria Limited	Construction and leasing of crematoria	10,000 A Ordinary at £1 each	100%
		10,000 B Ordinary at £1 each	100%
		10,000 C Ordinary at £1 each	100%
		10,000 D Ordinary at £1 each	100%
		10,000 E Ordinary at £1 each	100%

All of the subsidiaries are incorporated in the United Kingdom except for Pitcher and Le Quesne Limited which is incorporated in Jersey and is effectively 100 per cent controlled. All of the above shareholdings are held indirectly, with the exception of Dignity (2004) Limited.

Additions in the period reflect the effect of capital contributions to subsidiaries as a result of share-based payment schemes operated in those company's over the shares of Dignity plc.

C3 Debtors

	26 December 2008 £m	28 December 2007 £m
Amounts falling due within one year:		
Prepayments	**0.2**	0.5
Corporation tax	**–**	0.2
Amounts due from group undertakings	**57.1**	32.7
	57.3	33.4

C4 Creditors: amounts falling due within one year

	26 December 2008 £m	28 December 2007 £m
Amounts due to subsidiary undertakings	**14.7**	16.3
Accruals and deferred income	**0.2**	0.1
Corporation tax	**0.3**	–
	15.2	16.4

C5 Share capital and reserves

	26 December 2008 £m	28 December 2007 £m
Authorised Equity shares		
77,777,777 (2007: 77,777,777) Ordinary Shares of £0.09 each	**7.0**	7.0
Allotted, called up and fully paid Equity shares		
63,484,135 (2007: 63,240,971) Ordinary Shares of £0.09 each	**5.7**	5.7

During the period the Company received £nil million relating to the 243,164 shares issued.

Reserves and share premium account	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	Total £m
At the beginning of the period	33.8	80.0	1.3	51.9	167.0
Profit for the period	–	–	–	24.2	**24.2**
Share issue under 2005 LTIP scheme	0.8	–	–	–	**0.8**
Dividends paid	–	–	–	(6.5)	**(6.5)**
Effects of long term incentive plan	–	–	0.8	–	**0.8**
Gift to Employee Benefit Trust	–	–	(0.8)	–	**(0.8)**
At end of period	**34.6**	**80.0**	**1.3**	**69.6**	**185.5**

The capital redemption reserve represents £80,002,465 B shares that were issued on 2 August 2006 and redeemed for cash on the same day.

C6 Reconciliation of movement in shareholders' funds

	26 December 2008 £m	28 December 2007 £m
Profit for the period	**24.2**	14.3
Dividends	**(6.5)**	(5.9)
Effects of long term incentive plan	**0.8**	0.7
Gift to Employee Benefit Trust	**(0.8)**	(0.8)
Shares issued under 2004 SAYE Scheme	**–**	1.5
Shares issued under 2005 LTIP Scheme	**0.8**	0.8
Net additions to shareholders' funds	**18.5**	10.6
Opening shareholders' funds	**172.7**	162.1
Closing shareholders' funds	**191.2**	172.7

Amounts payable to the Group's auditors relating to the Company are included in note 5 of the Group financial statements and are not material to disclose separately.

C7 Staff costs

(a) Employees
There were no staff costs in the period (2007: £nil)

The average number of people, including Directors, employed by the Company during the period was:

	2008	2007
Administration and managerial	**4**	4
Total	**4**	4

(b) Directors' remuneration
The Directors are directors of the ultimate parent company, Dignity plc and details of their emoluments are included in pages 27 to 29. They received no emoluments in respect of their services to the Company (2007: £nil).

FINANCIAL RECORD

Summarised consolidated income statement

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Revenue					
Funeral services	**137.2**	126.3	120.0	113.8	108.8
Crematoria	**29.2**	25.7	23.2	22.5	21.6
Pre-arranged funeral plans	**9.4**	7.5	6.6	6.9	5.3
	175.8	159.5	149.8	143.2	135.7
Underlying operating profit					
Funeral services	**46.3**	42.1	39.3	36.5	33.1
Crematoria	**14.6**	14.0	12.1	11.9	11.4
Pre-arranged funeral plans	**2.5**	2.4	2.4	2.1	2.5
Central overheads	**(11.3)**	(10.9)	(9.7)	(9.5)	(9.0)
	52.1	47.6	44.1	41.0	38.0
Finance costs	**(21.6)**	(21.7)	(22.1)	(17.0)	(32.7)
Finance income	**3.8**	4.2	5.9	1.9	1.5
Underlying profit before tax	**34.3**	30.1	27.9	25.9	6.8
Taxation	**(10.1)**	(9.1)	(8.6)	(8.0)	(2.1)
Underlying profit after tax	**24.2**	21.0	19.3	17.9	4.7
Underlying earnings per share (pence)	**38.2p**	33.4p	26.6p	24.4p	7.2p
Operating profit	**53.2**	47.7	43.4	41.6	39.2
Profit after tax	**24.6**	21.6	18.8	18.3	5.5
Basic earnings per share (pence)	**38.8p**	34.4p	25.9p	22.9p	8.5p

Key performance indicators

	2008	2007	2006	2005	2004
Total estimated number of deaths in Britain (number)	**553,000**	553,000	548,100	563,800	574,500
Number of funerals performed (number)	**68,700**	66,500	66,500	67,000	67,600
Funeral market share(2) (per cent)	**12.3%**	12.0%	12.1%	11.9%	11.8%
Number of cremations performed (number)	**39,600**	38,900	38,500	39,500	38,400
Crematoria market share (per cent)	**7.2%**	7.0%	7.0%	7.0%	6.7%
Unfulfilled pre-arranged funeral plans (number)	**204,000**	197,300	188,800	181,200	170,200
Underlying cash generated from operations (£ million)	**62.3**	57.5	41.0	49.5	44.2

Net debt

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Net amounts owing on Class A and B Secured Notes per financial statements	**(263.0)**	(267.0)	(268.4)	(186.6)	(188.2)
Add: unamortised issue costs on Secured Notes	**(15.9)**	(17.2)	(18.6)	(16.0)	(17.1)
Loan notes 2006	**–**	–	–	(0.1)	(0.1)
Net amounts owing on crematoria acquisition facility per financial statements	**(7.2)**	–	–	–	–
Add: unamortised issue costs	**(0.2)**	–	–	–	–
Gross amounts owing	**(286.3)**	(284.2)	(287.0)	(202.7)	(205.4)
Accrued interest on Class A and B Secured Notes (paid 31 December)	**(9.7)**	(9.9)	–	–	–
Cash and cash equivalents	**46.7**	52.6	41.4	37.3	24.9
Net debt	**(249.3)**	(241.5)	(245.6)	(165.4)	(180.5)

Summarised consolidated balance sheet

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Non-current assets					
Goodwill and intangible assets	**163.1**	144.3	123.4	118.1	113.0
Property, plant and equipment	**110.9**	91.1	89.1	86.3	84.0
Financial and other assets	**4.5**	4.5	5.6	5.5	5.4
Retirement benefit asset	**13.2**	6.8	0.6	–	–
	291.7	246.7	218.7	209.9	202.4
Current assets					
Cash	**46.7**	52.6	41.4	37.3	24.9
Other current assets	**26.3**	26.1	22.2	25.8	23.9
	73.0	78.7	63.6	63.1	48.8
Total assets	**364.7**	325.4	282.3	273.0	251.2
Current liabilities	**47.6**	43.3	27.9	27.5	20.7
Non-current liabilities	**298.7**	286.7	282.7	202.1	200.5
Retirement benefit liability	**–**	–	–	12.0	13.8
Total liabilities	**346.3**	330.0	310.6	241.6	235.0
Equity attributable to shareholders	**18.4**	(4.6)	(27.1)	32.6	17.4
Minority interest in equity	**–**	–	(1.2)	(1.2)	(1.2)
Total equity	**18.4**	(4.6)	(28.3)	31.4	16.2
Total equity and liabilities	**364.7**	325.4	282.3	273.0	251.2

NOTES

(1) All financial amounts are reported in accordance with IFRS.

(2) Market share excluding funerals performed in Northern Ireland.

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, Equiniti. They also provide a range of online shareholder information services at www.shareview.co.uk where shareholders can check their holdings and find practical help on transferring shares and updating personal details. Alternatively they can be contacted by telephone on 0871 384 2674 or by fax on 0871 384 2125. Calls to these numbers are charged at 8p per minute from a BT landline. Other telephone providers costs may vary.

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. Calls to this number are charged at local rate.

Annual General Meeting
The Company's Annual General Meeting will be held on Friday 5 June 2009, at 11.00am at DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham, West Midlands, B2 4AJ. A circular to shareholders, which includes the Notice convening the Meeting has been issued as a separate document.

CONTACT DETAILS AND ADVISERS

Registered Office:
Dignity plc
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:
Equiniti
Aspect House
Spencer Road
Lancing
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

12 March 2009
Preliminary announcement of 2008 results

5 June 2009
Annual General Meeting

26 June 2009
2009 financial half year end

26 June 2009 (provisional)
Payment of 2008 final dividend

29 July 2009 (provisional)
Announcement of interim results

30 October 2009 (provisional)
Payment of 2009 interim dividend

25 December 2009
Financial period end

Acknowledgements
Dignity would like to thank all those who participated in producing this Annual Report, particularly the members of staff for their contributions.

Designed & produced by Bexon Woodhouse
www.bexonwoodhouse.com
Main photography by Martyn Woodhouse

Printed in the UK by Royle Print, a Carbon Neutral Printing Company which is ISO 14001 and FSC certified. This Annual Report is printed on material which is FSC certified, 100% Elemental Chlorine Free and completely recyclable.

CarbonNeutral®
protecting our climate

Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. TT-COC-002228
© 1996 Forest Stewardship Council
FSC

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