# Dignity plc Annual Report & Accounts 2011

Dedicated to the local communities we serve

Dignity®
CARING FUNERAL SERVICES

## About Dignity

Dignity owns 600 funeral locations and operates 35 crematoria in the United Kingdom. The Group continues to have a strong market presence in pre-arranged funeral plans, where people plan and pay for their funeral in advance.

We are a FTSE 250 company listed on the London Stock Exchange, with over 2,450 employees serving families and local communities across the United Kingdom for generations.

Helping people at one of the most difficult times in their lives remains at the very heart of everything we do.

## Contents



**Front cover:** Dignity strives to set the highest standard of service for the funeral profession in terms of client service and care for the deceased.

# Key financial highlights

| Current period financial highlights | 2011 | 2010 | Increase % |
|---|---|---|---|
| Revenue (£million) | **210.1** | 199.1 | 6 |
| Underlying operating profit[a] (£million) | **64.5** | 61.0 | 6 |
| Underlying profit before tax[a] (£million) | **41.6** | 40.4 | 3 |
| Underlying earnings per share[b] (pence) | **55.1** | 46.4 | 19 |
| Cash generated from operations[c] (£million) | **74.2** | 74.5 | – |
| Operating profit (£million) | **63.2** | 60.4 | 5 |
| Profit before tax (£million) | **40.3** | 39.8 | 1 |
| Basic earnings per share (pence) | **62.6** | 46.9 | 33 |
| Interim dividend[d,e] (pence) | **4.87** | – | n/a |
| Final dividend[f] (pence) | **8.88** | 8.07 | 10 |

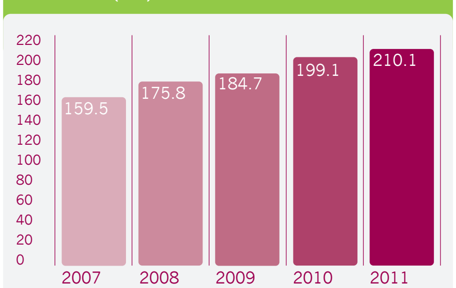
[a] Underlying profit is calculated as profit excluding profit on sale of fixed assets and external transaction costs.
[b] Underlying earnings per share is calculated as profit on ordinary activities after taxation, before profit on sale of fixed assets and external transaction costs (both net of tax), divided by the weighted average number of Ordinary Shares in issue in the period.
[c] Cash generated from operations excludes external transaction costs.
[d] Interim dividend represents the interim dividend that was approved and paid in the period out of earnings generated in the same period.
[e] An interim dividend was not paid separately in 2010, but was instead included within the £1 Return of Value per Ordinary Share paid in October 2010.
[f] The final dividend represents the final dividend that was approved and paid in the period relating to the earnings generated in the previous period.

**+6%**
Revenue up 6% to £210.1 million

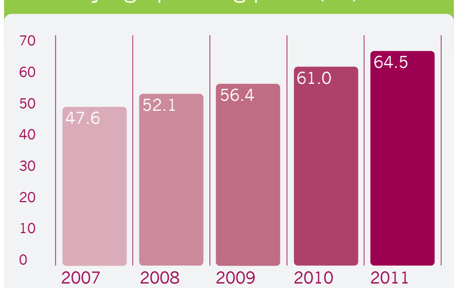
**+6%**
Underlying operating profit up 6% to £64.5 million

**+19%**
Underlying earnings per share up 19% to 55.1 pence per share

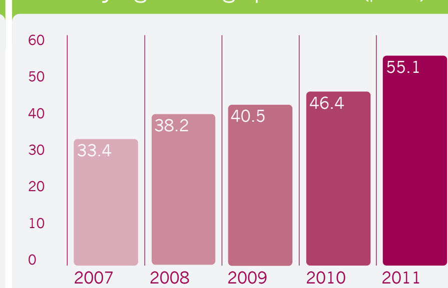
Revenue (£m)



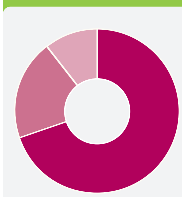

Underlying operating profit (£m)




Underlying earnings per share (pence)

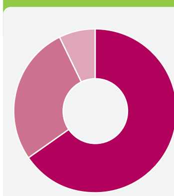



Revenue by area (£m)



Funeral services 146.5
Crematoria 41.6
Pre-arranged funeral plans 22.0

Underlying operating profit by area* (£m)



Funeral services 50.8
Crematoria 21.3
Pre-arranged funeral plans 5.5

*Excludes central overheads of £13.1 million

# Dignity at a glance

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

## Funeral services



### Business overview

Funeral services revenues relate to the provision of funerals and ancillary items such as memorials and floral tributes. We operate a network of 600 funeral locations throughout the United Kingdom generally trading under established local trading names. In 2011, the Group conducted 62,300 funerals, which represents approximately 11.3 per cent of estimated total deaths in Britain.

**65%**
Group operating profits share

**600**
Number of funeral locations in the UK

**62,300**
Number of funerals conducted during 2011

## Crematoria



### Business overview

Crematoria revenues arise from cremation services and the sale of memorials and burial plots at the Group's crematoria and cemeteries. We are the largest single operator of crematoria in Britain. We operate 35 crematoria in England and Scotland and carried out 47,600 cremations in 2011 representing 8.8 per cent of estimated total deaths in Britain.

**28%**
Group operating profits share

**35**
Number of crematoria in England and Scotland

**47,600**
Number of cremations conducted during 2011

## Pre-arranged funeral plans



### Business overview

Pre-arranged funeral plans income represents amounts to cover the costs of marketing and administering the sales of plans. Pre-arranged funeral plans allow people to plan and pay for their funeral in advance. The Group has a strong market presence in the provision of pre-arranged funeral plans with 265,000 unfulfilled funeral plans as at 30 December 2011. Dignity works with a number of reputable affinity partners.

**7%**
Group operating profits share

**265,000**
Number of unfulfilled funeral plans as at 30 December 2011

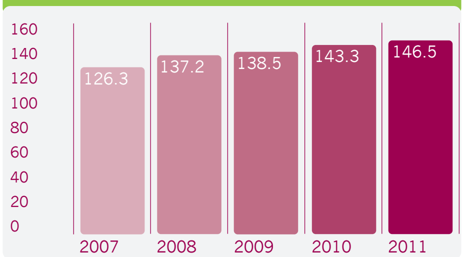
# Our performance in 2011

The Group has performed strongly in 2011 particularly given the challenging 53 week comparable period. Revenue is up 6 per cent, underlying operating profits are up 6 per cent and underlying earnings per share are up 19 per cent. We continue to make good progress across all our operations.

## Operational and financial summary

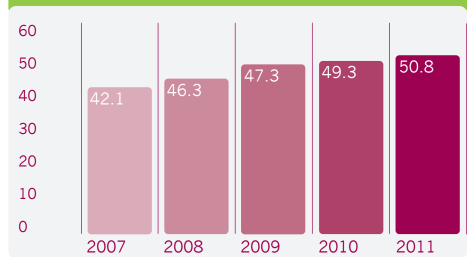
### Revenue up 2% to £146.5 million

Revenue (£m)




### Underlying operating profit up 3% to £50.8 million

Underlying operating profit (£m)



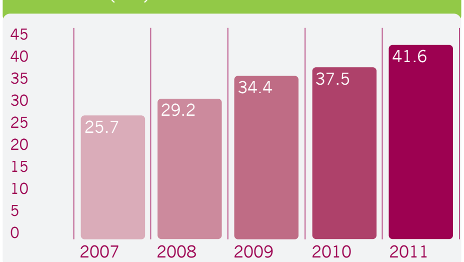

## Key developments

- Good cost control has helped performance.
- 10 locations acquired.
- 25 satellite locations opened.

## Operational and financial summary

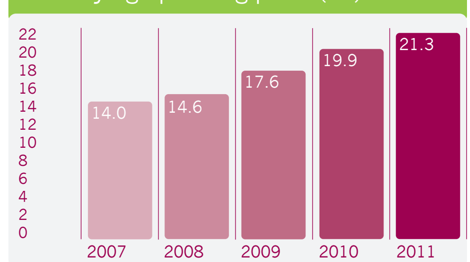
### Revenue up 11% to £41.6 million

Revenue (£m)




### Underlying operating profit up 7% to £21.3 million

Underlying operating profit (£m)



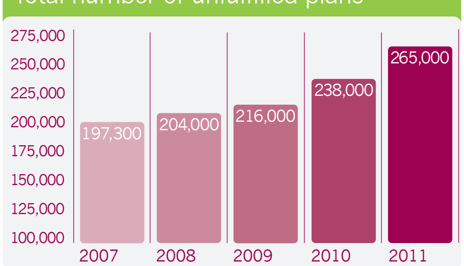

## Key developments

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

## Operational and financial summary

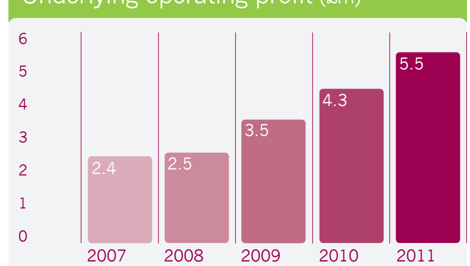
### Total unfulfilled pre-arranged funeral plans increased to 265,000

Total number of unfulfilled plans




### Underlying operating profit up 28% to £5.5 million

Underlying operating profit (£m)




## Key developments

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

# Chairman's statement

"The Board's expectations for 2012 remain positive and unchanged."

**Peter Hindley,** Chairman

### Results

I am pleased to report another successful year for the Group.

Underlying operating profits have increased by 6 per cent to £64.5 million (2010: £61.0 million). Underlying earnings per share have increased 19 per cent to 55.1 pence per Ordinary Share (2010: 46.4 pence per Ordinary Share).

### Dividends

The Board is proposing a final dividend of 9.77 pence per Ordinary Share to be paid on 29 June 2012 to members on the register at close of business on 25 May 2012. This dividend is subject to the approval of shareholders at the Annual General Meeting on 14 June 2012. This final dividend represents a 10 per cent increase on the previous year and is consistent with the annual increases made since flotation in 2004.

### The Board

We have announced a number of changes regarding our Non-Executive Directors, which will be effective from 1 April 2012.

James Newman and Bill Forrester will be retiring from the Board. James has been Senior Non-Executive Director and Chair of the Audit Committee since flotation. Bill has, until recently, been Chair of the Remuneration Committee during the same period.

I would like to thank both of them for their support over the last eight years, which has been a period of great success for the Group.

I am also pleased to welcome Jane Ashcroft and Martin Pexton to the Board. Their biographies describe their background and I am sure they will contribute to the Board enormously and will help Dignity to continue to generate value for its shareholders in the future. Jane and Martin will also sit on the Audit, Remuneration and Nomination Committees.

I am also delighted that Alan McWalter has agreed to become the Senior Non-Executive Director. Alan has also become Chair of the Remuneration Committee. Ishbel Macpherson will become Chair of the Audit Committee.

### Our people

Dignity remains dependent on the quality of its staff, who care for our clients at one of the most difficult times in their lives. They continue to deliver outstanding client service and I am grateful for the part each member of staff has played during the year.

### Outlook for 2012

The number of deaths in the first quarter of 2012 is expected to be a lower proportion of the year as a whole than in 2011. However, the Board's expectations for 2012 remain positive and unchanged.

## Our strategy for growth

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;
- Developing or acquiring additional funeral locations;
- Developing, managing or acquiring additional crematoria; and
- National marketing, principally through affinity partners, of pre-arranged funeral plans.

# Chief Executive's overview

"The Group has performed well despite a challenging comparable 53 week period."

**Mike McCollum,** Chief Executive

## Our performance

The Group has performed well, with underlying operating profits increasing 6 per cent despite a continued reduction in the number of deaths per year and a challenging 53 week comparable period. We remain focused on our commitment to help as many families as possible at one of the most difficult times in their lives, which in turn we believe will allow us to create value for our shareholders.

## Delivering on our strategy

### Continued commitment to client service excellence

Client service excellence remains central to our operations. Given approximately three-quarters of our funeral business is generated through our reputation or through recommendations, this focus has created, and will continue to, create value.

### Continuing to control our costs

We remain focused on cost control and continue to identify ways to minimise our cost base without compromising on the quality of our customer service.

### Acquiring and developing additional funeral locations

This year has witnessed the acquisition of 10 established funeral locations. We have also opened 25 new satellite locations, bringing the total number opened since the project started in 2010 to 43.

### Developing, managing or acquiring additional crematoria

Opportunities continue to arise within the crematoria division. Two newly built locations became operational in 2011 and a further two are due to become operational in 2012.

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

This has been the most successful year to date for pre-arranged funeral plans, both in terms of profitability and the number of plans sold. This reflects continued focus on developing new affinity relationships with reputable third parties as well as strengthening relationships with existing partners such as Age UK.

## A strong platform for sustainable growth

Yet again this year, the Group has been able to invest in the maintenance of its existing assets, grow the business through acquisition and open new locations, all without the need for any additional external funding. This is a testament to the continued highly cash generative nature of the Group as a whole.

## Valuing our people

I am always heartened by the time many families take to write directly to me to record their thanks for the wonderful job we did for their particular family. Similar evidence of the care and dedication shown by our staff can be found in each and every one of our locations. They continue to do a tremendous job and I am very grateful for all their support in an increasingly competitive market.

I was once again delighted that the Group's success was able to be shared with staff with discretionary bonus payments totalling £1.6 million.

## Dedicated to the local communities we serve

Working at the heart of local communities is a crucial part of our success and of our future. We continue to expand our network into areas of the country we do not currently serve. This will allow us to help more families at one of the most difficult times in their lives.

# Our key priorities

### Ensuring the highest levels of client service excellence:

- High levels of client service demonstrably affect client's willingness to recommend our services. Recommendations and our reputation generates approximately 75 per cent of our funeral business.

### Attracting, developing and retaining the best people:

- Our employees are central to the success of the business. We seek to attract and retain the best people through appropriate remuneration and ongoing training.

### Continued investment:

- We invest heavily in our existing business to ensure it is of the best possible standard, both in client facing areas and behind the scenes. We also seek to invest in new businesses that will help Dignity grow and create value for shareholders.

### Delivering long term shareholder returns:

- Our business is driven by relatively predictable factors over long periods of time. This allows us to operate and fund our business in a way that generates value over the long term.

Dedicated to the local communities we serve

# Our history

## Serving local communities for generations

Dignity is a British company and is the leading provider of funeral related services in the UK. We have a rich and proud heritage and our oldest funeral location was established in 1812 and our oldest crematorium in 1903. Many of our businesses have been serving their local communities for generations.



1812

**George S Munn & Co, Glasgow**
George S Munn & Co. is Dignity's oldest funeral directors and is situated on the south side of Glasgow. They have been providing funeral services to their local community since 1812.

1848

**J Rymer Funeral Service, York**
In 1848, James Rymer founded the family business in premises very close to York Minster. By 1925, Jack Rymer, then aged 15, was managing the business after the death of his father. J Rymer Funeral Service joined the Dignity network in 1994 and today is managed by the sixth generation of the Rymer family.

1855

**Ginns & Gutteridge, Leicestershire**
Ginns Funeral Directors was listed in a local trade directory in 1855. In the early 20th century there were several competing funeral businesses bearing this name – all run by different members of the Ginns family, until they amalgamated with another local funeral director and Ginns & Gutteridge was established.

1857

**Lawrence Funeral Service, Halifax**
In 1857, John Lawrence established his family business, J Lawrence & Sons, in Halifax, Yorkshire. They produced furniture but occasionally made coffins for local families. By 1945, the Lawrence family were arranging enough funerals to open a chapel of rest.

1857

**E Finch & Sons, Aldershot**
In 1857, Emmanuel Finch established E Finch & Sons on the High Street of Aldershot. During the 20th century the business built its reputation by conducting military funerals and pioneering many new initiatives, including the first motorised hearse in the area.

1876

**Beckenham Cemetery, Kent**
Beckenham Cemetery, the oldest cemetery operated by Dignity, opened in 1876. It includes the resting place of cricketing legend W G Grace.

1880

**J H Kenyon, London**
James H Kenyon opened his first funeral location on Edgware Road in 1880. The business expanded to include five branches in northwest London and became one of the most well-known names in the profession, conducting funerals for the Royal Family, politicians and other prominent figures.

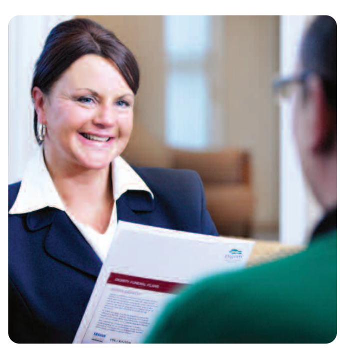
1884

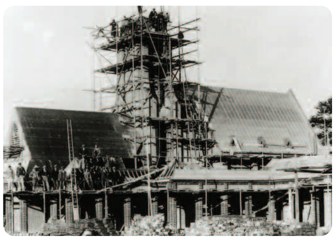
**Frederick W Paine, London**
Charles Paine opened his first funeral location in Station Road, New Malden, in 1884. Ten years later the business was passed on to his eldest son, Frederick W Paine, who opened two further funeral locations over the next few years.

# Our people

## Over 2,450 people dedicated to client service excellence

We are funeral people and this is all we do. Our people come from the local towns and cities they serve or from families that have been in the funeral profession for generations and all are dedicated to delivering client service excellence.






1903

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

1914

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

1928

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

1930

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

1950

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

1994

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

2008

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

Today

**Dignity is a British company that is listed on the London Stock Exchange.**
Dignity maintains the rich heritage of these companies and strives to set the highest standards in the industry.
In 2011, we opened a state-of-the-art crematorium and cemetery in Wyre Forest, Worcestershire.

# Our promise

## Helping our clients every step of the way

Serving the people in our local communities at one of the most difficult times in their lives remains at the heart of everything we do and we are committed to providing the highest standards of service and care and to helping our clients every step of the way when they need us.

### What we are here to do:

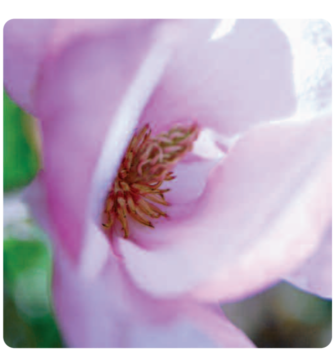
- To help people in one of the most difficult times in their life.

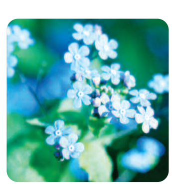
### How we do this:

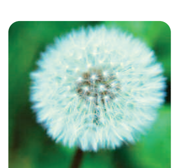
- With compassion, respect, openness and care.

### What we want to be:

- The company everyone knows they can trust in their time of need.







# Business review

"The quality of our client service is borne out in the responses we receive to the surveys we send out to each family we care for with 98 per cent of families responding saying they would recommend us."

We can arrange funerals for all cultures and religions at any of our funeral locations across the UK. Additionally, our Asian Funeral Directors in Birmingham, London and Leicester offer a specialist service for the needs of Asian families.

**Left:** Polish funeral specialists, Joanna Nowak of Henry Paul Funeral Directors, Ealing and Agnieszka Galla of W S Bond, Acton, London.

## Introduction

The Group's operations are managed across three main areas; funeral services, crematoria and pre-arranged funeral plans, which respectively represented 65 per cent, 28 per cent and 7 per cent of the Group's operating profits in 2011. Funeral services relate to the provision of funerals and ancillary items, such as memorials and floral tributes. Crematoria services relate to cremation services and the sale of memorials and burial plots at the Group's crematoria and cemeteries. Pre-arranged funeral plans represents the sale of new plans and administration of existing plan holders.

## Office for National Statistics data

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

The initial publication of recorded total estimated deaths in Britain for the 52 weeks in 2011 was 539,000 compared to 557,000 for the 53 weeks in 2010. 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 600 (2010: 567) funeral locations throughout the United Kingdom, generally trading under local established names. During the period, the Group conducted 62,300 funerals (2010: 64,500). Approximately two per cent of these funerals were conducted in Northern Ireland. Excluding Northern Ireland, these funerals represent approximately 11.3 per cent (2010: 11.4 per cent) of total estimated deaths in Britain.

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

### Delivering client service excellence: the Dignity client survey

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

- 99.3 (2010: 99.2) per cent of respondents said that we met or exceeded their expectations;
- 98.1 (2010: 98.1) per cent of respondents would recommend us;
- 99.9 (2010: 99.9) per cent thought our staff were respectful;
- 99.8 (2010: 99.8) per cent thought our premises were clean and tidy;
- 99.7 (2010: 99.8) per cent thought our vehicles were clean and comfortable;
- 99.7 (2010: 99.7) per cent thought our staff listened to their needs and wishes;
- 99.2 (2010: 99.2) per cent of clients agreed that our staff had fully explained what would happen before and during the funeral;
- 99.3 (2010: 99.2) per cent agreed that our staff were compassionate and caring;
- 98.8 (2010: 98.9) per cent said that the funeral service took place on time; and
- 98.8 (2010: 98.9) per cent said that the final invoice matched the estimate provided.

This consistent level of service underpins our funeral business.

### Developments

Underlying operating profits were £50.8 million (2010: £49.3 million), an increase of 3 per cent. This is a good performance by the division, particularly considering the comparable period is for 53 weeks.

## Continuing to enhance our client service

We continue to invest in staff training initiatives, refurbishment of our funeral locations and the renewal of our fleet, enabling our staff to provide the highest standards of client service excellence.

**Left:** The interior of W S Harrison & Son in Whitley Bay, Tyne and Wear.

**£9.5 million**
During the period Dignity invested £9.5 million on refurbishment of funeral related properties and renewal of fleet.

**33 locations**
The Group's funeral location portfolio increased by 33 reflecting increases from acquisitions and new satellite funeral locations.

# Caring

"Serving families at one of the most difficult times in their lives remains at the very heart of everything we do and everyday we take care and time to understand their individual needs and to help them arrange the funeral they want for their loved one."

## Providing care and compassion when it's needed most

We are the leading provider of funeral related services in the UK with a network of 600 funeral locations trading under locally established and respected names, which in many cases have been serving their local communities for generations. At the heart of what we do is helping people at one of the most difficult times in their lives and we continue to focus on consistently delivering on our promise.

We know that every client is different and as well as providing advice and support, we listen carefully to what a family wants to make sure we understand their individual needs and ensure that we arrange the funeral they want for their loved one. From the first time a family contacts us through to the support we provide after the funeral, our staff devote themselves to delivering the highest quality of service with care and compassion.

**Right:** Kaye Sheen, Funeral Service Arranger at Holland Funeral Service in Malvern, Worcestershire.

# Business review continued

"We are committed to providing the local communities we serve with the highest standard of service and facilities to meet the needs of generations to come."

Dignity continues to invest in the grounds of its crematoria and cemeteries to create a place of beauty and tranquillity where visitors can take their time to reflect and remember the lives of their loved ones.

**Left:** The Gardens of Remembrance at Glynn Valley Crematorium in Bodmin, Cornwall.

This performance has been achieved through successful execution of our strategy. Average revenues have increased, costs have remained well controlled and acquisition activity has generated incremental profits.

Investment in our properties and our fleet remains central to the delivery of our strategy. This year, the funeral services division has received investment of approximately £9.5 million. Approximately 53 per cent of this has funded the routine replacement of our hearses and limousines. The remainder has been used to improve our premises, including investment 'behind the scenes' on mortuary equipment and associated requirements, which we believe is essential to provide the best possible service to our families.

### Funeral location portfolio

The Group's funeral location portfolio has increased by 33 in the year, reflecting acquisitions, disposals and the continuation of the new satellite funeral locations programme, which started in 2010.

Net acquisition investment of £12.0 million increased the portfolio by 10 funeral locations in the United Kingdom (including two 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.

25 new satellite funeral locations (2010: 18) were opened in the year. The principle of these locations is that they must be situated close enough to existing business centres to use their specialist vehicles and mortuary equipment, but far enough away that they service new families. In this way, these funeral locations will provide the same outstanding level of client service that people experience from other Dignity funeral locations without the need for significant capital investment.

Satellite locations are anticipated to be loss making in their first full year of operation and be profitable in their third year of operation. The total portfolio opened under this initiative broadly broke even in 2011.

Two locations were closed in the period. This reflects the disposal of two valuable freehold locations for cash that can be reinvested in the business.

Since the year end, the Group has acquired four established funeral locations and opened a further three new satellite locations.

## Crematoria

### Overview

The Group is the largest single operator of crematoria in Britain, operating 35 (2010: 33) crematoria. The Group performed 47,600 cremations (2010: 45,200) in the period, representing 8.8 per cent (2010: 8.1 per cent) of deaths in Britain.

### Developments

Operating profits were £21.3 million (2010: £19.9 million), an increase of 7 per cent. This reflects a strong performance from the established crematoria and an improving contribution from recently opened locations.

The Group has spent £1.0 million (2010: £2.1 million) during the year as part of its obligations to comply with the mercury abatement legislation, which is effective from the end of 2012. As a result of the investment so far, nine crematoria now have the required equipment installed and operational. Legislation requires any crematorium constructed after October 2006 to have mercury abatement equipment. Consequently an additional four crematoria within the Group's portfolio already comply with the legislation. The Group expects to be fully compliant before the 31 December 2012 deadline, by installing equipment at six further locations.

## Building on our experience and expertise

We leverage our experience and expertise to identify further acquisition opportunities and locations suitable for new build crematoria. We also continue to seek new partnerships with local authorities and to invest in new developments at existing crematoria.

**Left:** Wyre Forest Crematorium and Cemetery in Worcestershire.

**£1.7 million**
We invested £1.7 million in the upgrading of our existing crematoria in the period.

**£9.0 million**
£9.0 million invested in the period in changes to our crematoria portfolio.

# Dedicated

"We know that families get a great deal of comfort from having somewhere peaceful to remember their loved ones and our dedicated team of gardeners take great care and pride in maintaining our memorial gardens to the very highest standards."

## Providing a peaceful place to remember for generations

We are the largest single operator of crematoria in the UK with a growing portfolio of well established and modern, state of the art crematoria. Our oldest crematorium in Birmingham was established in 1903 and played an important role in setting standards and is still serving its local community today. As an industry leader, we continue to raise standards of service and facilities, ensuring we are well positioned to meet the needs of our local communities for generations to come.

Some of our new initiatives include; extended service times, more accessible facilities and providing greater choice for families. We continue to develop our crematoria and grounds which are open 365 days of the year for visitors, and our dedicated team of gardeners take great care and pride in maintaining them to the very highest standards.

**Right:** Andrew Cox, Gardener at Birmingham Crematorium.

# Business review continued

"Our business continues to grow thanks to the dedication of all our people. Whether arranging a funeral, providing a peaceful place to remember or helping people plan ahead, at its core is the service excellence we deliver."

We use valuable customer insight and ongoing training and support to our staff to ensure we consistently maintain and further improve on the services and products we provide.

**Left:** Shah Islam, Client Service Adviser at Dignity's Client Service Centre in Sutton Coldfield.

£1.7 million (2010: £1.3 million) has also been spent on new cremators and other improvements to the crematoria locations. This investment helps our locations provide the best possible service in comfortable surroundings to the funeral directors and families that use them.

During the period, the Group completed the construction of two crematoria in Somerset and Worcestershire. Somerset became operational at the end of the first quarter of 2011, whilst Worcestershire became operational shortly before the end of the year.

Work continues to complete the construction of a new crematorium in Essex. The Group is also the preferred bidder to operate Haringey Council's crematorium.

The changes to the portfolio in the year represented an investment of £9.0 million. A further capital investment of approximately £5.9 million is expected in 2012 to complete the current developments.

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

## Pre-arranged funeral plans

### Overview

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

### Developments

The division has performed strongly in the period. Focused marketing activity with its partners has resulted in the number of unfulfilled pre-arranged funeral plans increasing to 265,000 (2010: 238,000) with operating profits in the division increasing to £4.0 million excluding Recoveries (2010: £2.8 million excluding Recoveries).

In recent years, the Group receives monies from the Trusts, in line with the relevant Trust's deed, which have been assessed by the trustees as not required to ensure the Trust has sufficient assets to meet its future liabilities in respect of current members ('Recoveries'). Recoveries were £1.5 million in both 2010 and 2011.

As with all the Group's operating profits, pre-arranged funeral plan profits convert efficiently into a similar amount of cash.

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.

The number of plan sales and also operating profits have increased strongly for a number of years.

## Central overheads

### Overview

Head office costs relate to central services that are not specifically attributed to a particular operating division. These include the provision of IT, finance, personnel and Directors' emoluments. In addition and consistent with previous periods, the Group records the costs of incentive bonus arrangements, such as Long Term Incentive Plans (LTIPs) and annual performance bonuses, which are provided to over 100 managers working across the business.

### Developments

Costs in the period were £13.1 million (2010: £12.5 million), an increase of 5 per cent. This year on year increase principally reflects the additional cost of bonuses paid to the operational managers of the business, together with some additional pension costs. The Group has also invested in greater numbers of IT and personnel staff to support the ever growing business.


## Maximising our opportunities for growth

We continue to strengthen and develop our marketing and distribution relationships and have formed a number of new partnerships in the period with organisations in the retail and financial services arena to maximise opportunities for growth.

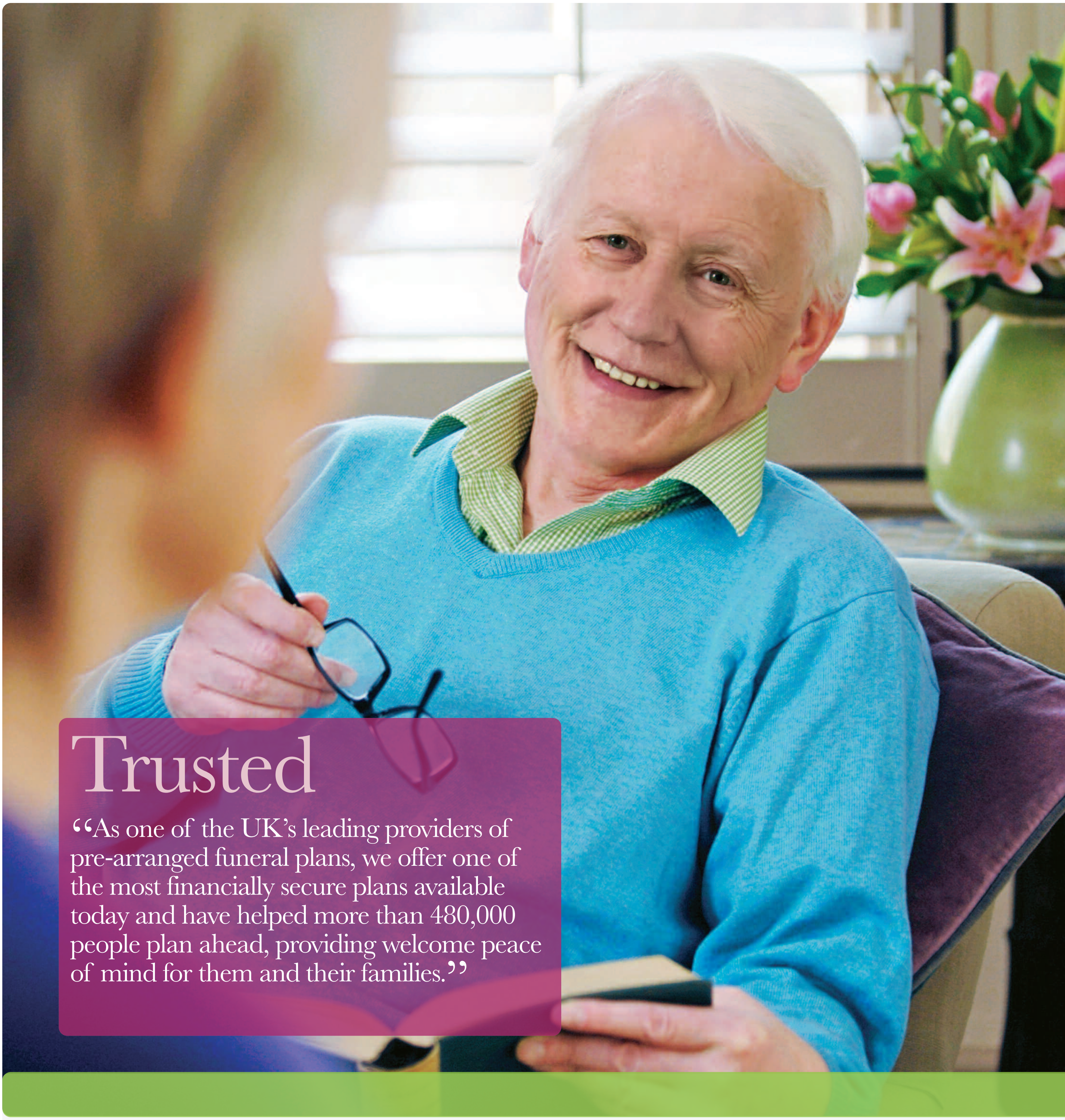
**Left:** Steve Wallis, General Manager for Pre-arrangement and Debbie Hall, Senior Campaign Manager at Dignity's Head Office in Sutton Coldfield.

**265,000**

There were 265,000 unfulfilled pre-arranged funeral plans at the end of the period. This reflects strong sales through the Group's funeral locations and affinity partners.

**Top 5**

Dignity's Client Service Centre achieved a top five place for three consecutive years in the biggest ever survey into UK call centres.



# Trusted

"As one of the UK's leading providers of pre-arranged funeral plans, we offer one of the most financially secure plans available today and have helped more than 480,000 people plan ahead, providing welcome peace of mind for them and their families."

## Providing more people with peace of mind for the future

We continue to have a strong market presence in pre-arranged funeral plans and have already helped more than 480,000 people plan and pay for their funerals in advance.

As interest increases and more people choose to plan ahead for the future, we continue to focus on developing new and financially secure products that meet their needs and bring peace of mind for them and their families. We continue to reach new customers through both our growing portfolio of reputable affinity partners and via our own established network of local funeral locations where previous experience, reputation and recommendation are one of our key drivers for growth.

**Right:** Nicola Brooks, Funeral Service Arranger at Joseph Swift & Asian Funeral Directors in Leicester.

# Financial review

"Earnings per share increased 19 per cent to 55.1 pence per share."

**Steve Whittern,** Finance Director

## Financial highlights

The Group's financial performance is summarised below:

| | 52 week period ended 30 December 2011 | 53 week period ended 31 December 2010 | Increase % |
|---|---|---|---|
| Revenue (£million) | **210.1** | 199.1 | 6 |
| Underlying operating profit* (£million) | **64.5** | 61.0 | 6 |
| Underlying profit before tax* (£million) | **41.6** | 40.4 | 3 |
| Underlying earnings per share* (pence) | **55.1** | 46.4 | 19 |
| Cash generated from operations (£million) | **74.2** | 74.5 | – |
| Operating profit (£million) | **63.2** | 60.4 | 5 |
| Profit before tax (£million) | **40.3** | 39.8 | 1 |
| Basic earnings per share (pence) | **62.6** | 46.9 | 33 |
| Dividends paid in the period: | | | |
| Interim dividend (pence) | **4.87** | – | n/a |
| Final dividend (pence) | **8.88** | 8.07 | 10 |

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

The Board has proposed a dividend of 9.77 pence per Ordinary Share as a final distribution of profits relating to 2011 to be paid on 29 June 2012, subject to shareholder approval.

## 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 30 December 2011 £m | 53 week period ended 31 December 2010 £m |
|---|---|---|
| **Operating profit for the period as reported** | **63.2** | 60.4 |
| Deduct the effects of: | | |
| Profit on sale of fixed assets | **(0.2)** | (0.5) |
| External transaction costs | **1.5** | 1.1 |
| **Underlying operating profit** | **64.5** | 61.0 |
| Net finance costs | **(22.9)** | (20.6) |
| **Underlying profit before tax** | **41.6** | 40.4 |
| Tax charge on underlying profit before tax | **(11.4)** | (11.7) |
| **Underlying profit after tax** | **30.2** | 28.7 |
| Weighted average number of Ordinary Shares in issue during the period (million) | **54.8** | 61.8 |
| Underlying EPS (pence) | **55.1p** | 46.4p |
| Increase in underlying EPS (per cent) | **19%** | 15% |

## Earnings per share

The Group's earnings were £34.3 million (2010: £29.0 million). Basic earnings per share were 62.6 pence per share (2010: 46.9 pence per share).

The Group's measures of underlying performance exclude the effect (after tax) of the profit on sale of fixed assets, external transaction costs and exceptional items. Consequently, underlying profit after tax was £30.2 million (2010: £28.7 million), giving underlying earnings per share of 55.1 pence per share (2010: 46.4 pence per share), an increase of 19 per cent.

This year on year growth reflects the full benefit of the Return of Value and subsequent share consolidation that was completed in 2010. Further details of this transaction may be found in the 2010 Annual Report.

## Cash flow and cash balances

Cash generated from operations was £74.2 million (2010: £74.5 million). This reflects the Group's continued ability to convert profits into cash. The previous year's cash flow was stronger than normal as a result of certain timing differences.

Capital expenditure on property, plant and equipment was £22.8 million (2010: £27.9 million).

This is analysed as:

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| Vehicle replacement programme and improvements to locations | **10.8** | 10.3 |
| Branch relocations | **0.9** | 0.6 |
| Satellite locations | **1.1** | 1.0 |
| Development of new crematoria | **9.0** | 13.9 |
| Mercury abatement project | **1.0** | 2.1 |
| Total property, plant and equipment | **22.8** | 27.9 |
| Partly funded by: | | |
| Disposal proceeds | **(0.9)** | (1.1) |
| Net capital expenditure | **21.9** | 26.8 |

In addition, the Group spent £12.0 million on the acquisition of 10 funeral locations.

+6%
Underlying operating profits have increased six per cent to £64.5 million.

£10.8 million
Capital expenditure on the existing portfolio.

£7 million
Total anticipated investment in mercury abatement.

Capital expenditure on mercury abatement represents the monies incurred to comply with new legislation. The total spent to date is £4.8 million and the total anticipated capital expenditure is approximately £7.0 million. The project will be completed by the end of 2012.

The Group also paid dividends on Ordinary Shares totalling £7.5 million (2010: £5.1 million) in the period. In 2010, no interim dividend was paid, as it was included within the Return of Value. The underlying increase in dividend per Ordinary Share is 10 per cent.

Cash balances at the end of the period were £36.9 million (2010: £48.1 million). £1.5 million (2010: £1.5 million) represents amounts received as Recoveries from the pre-arranged funeral plan trusts. These amounts are legally required, under the terms of the Group's securitisation, to be retained in a separate bank account for one year following receipt and do not therefore meet the definition of cash for cash flow reporting purposes.

Approximately £14.1 million of the remaining cash balance was immediately available for acquisitions and developments and approximately £17.0 million was set aside for future corporation tax and dividend payments.

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

## Pensions

The balance sheet shows a surplus of £1.3 million before deferred tax (2010: £8.5 million). This reduction is explained by the significant reduction in gilt yields during the year and thus the discount rate used by the actuary to calculate the liabilities at the year end.

The scheme remains open to both new and existing members of staff. The Board is currently investigating the implications of auto enrolment, which is expected to impact the Group from April 2013.

## Taxation

The Group's effective tax rate in the period was 27.5 per cent (excluding the exceptional rate change) (2010: 29 per cent). Following the Government's announcement to reduce the rate of Corporation Tax in future years, the Group expects its effective rate in 2012 to be approximately 26.5 per cent.

The Group's consolidated income statement includes exceptional income of £1.8 million which reflects the reduction in the headline Corporation Tax rate from 27 per cent to 25 per cent. Further exceptional credits will be recognised in future years if the Chancellor substantively enacts additional reductions in Corporation Tax rates.

The Group has also recognised a non-recurring tax credit of £3.4 million in the period reflecting the utilisation of losses incurred in the past and previously unrecognised for deferred tax purposes. This follows the completion of an exercise which investigated the Group's ability to simplify its structure. This project became possible following changes to the terms of the Group's Secured Notes in 2010. Approximately 90 per cent of this will be recognised as a cash benefit in 2012, with the balance expected to crystallise in 2013. External transaction costs of £0.4 million have been incurred in relation to this project.

## Capital structure and financing

### Secured Notes

The Group's principal source of long term debt financing is the Class A and B Secured Notes. They are rated A and BBB respectively by Standard and Poor's. Following an upgrade in the year, the Secured Notes are rated A+ and BBB+ by Fitch.

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 amortises fully over their life and is scheduled to be repaid by 2031. The interest rate is fixed for the life of the Secured Notes and interest is calculated on the outstanding principal.

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

The Group's primary financial covenant under the Secured Notes requires EBITDA to total debt service to be above 1.5 times. The ratio at 30 December 2011 was 2.27 times (2010: 2.56 times). This is a direct consequence of the additional debt issued in 2010. Further details may be found in note 24.

### Crematoria Acquisition Facility

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

The principal on this facility is repayable in one amount in November 2013 and interest is either fixed or capped at approximately 5.6 per cent. All interest is payable in cash on a quarterly basis. Further details may be found in note 16.

### Net debt

As set out in note 24, the Group's gross debt outstanding was £349.5 million (2010: £359.1 million). Net debt was £312.7 million (2010: £311.1 million), including the premia on the Secured Notes. The reduction in gross debt reflects the amortisation profile of the Secured Notes and associated premia.

# Financial review continued

£74.2 million
Cash generation remains strong.

A+
The Group's Class A and B Secured Notes are rated A+ and BBB+ respectively by Fitch.

## Net finance costs

The Group's finance expense substantially consists of the interest on the Class A and B Secured Notes and ancillary instruments. The net finance cost in the period relating to these instruments was £23.1 million (2010: £20.3 million). This increase recognises the full year effect of the further Secured Notes that were issued in 2010.

Finance costs of £0.5 million (2010: £0.5 million) were incurred in respect of the Crematoria Acquisition Facility.

Other ongoing finance costs incurred in the period amounted to £0.3 million (2010: £0.6 million), including the unwinding of discounts on the Group's provisions, other financial liabilities and interest capitalised in accordance with IAS 23.

Interest receivable on bank deposits was £0.3 million (2010: £0.4 million). Net finance income of £0.7 million (2010: £0.4 million) was recognised in respect of the Group's pension scheme in accordance with IAS 19.

## 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 30 December 2011 | 53 week period ended 31 December 2010 |
|---|---|---|
| Total estimated number of deaths in Britain (number) | 539,000 | 557,000 |
| Number of funerals performed (number) | 62,300 | 64,500 |
| Funeral market share excluding Northern Ireland (per cent) | 11.3 | 11.4 |
| Number of cremations performed (number) | 47,600 | 45,200 |
| Crematoria market share (per cent) | 8.8 | 8.1 |
| Unfulfilled pre-arranged funeral plans (number) | 265,000 | 238,000 |
| Underlying earnings per share (pence) | 55.1 | 46.4 |
| Underlying operating profit (£million) | 64.5 | 61.0 |
| Cash generated from operations[a] (£million) | 74.2 | 74.5 |

(a) Cash generated from operations excludes external transaction costs.

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

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

A summary of the Group's financial record for the last five years can be found on pages 90 to 91.

## Forward-looking statements

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

# Principal risks and uncertainties

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

## Operational risk management

### Significant reduction in the death rate

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

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

### Nationwide adverse publicity

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

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

### Ability to increase average revenues per funeral or cremation

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

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

### Significant reduction in market share

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

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

### Demographic shifts in population

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

### Competition

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

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

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

## Financial risk management

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

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

### Financial Covenant under the Secured Notes

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

In addition, the Group is required to achieve a more stringent ratio of 1.85 times for the same test in order to be permitted to transfer excess cash from the securitisation group to Dignity plc. If this stricter test is not achieved, then the Group's ability to pay dividends would be impacted. However, the nature of the Group's debt means that the denominator is now fixed unless further Secured Notes are issued in the future. This means that the covenant headroom will change proportionately with changes in EBITDA.

# Corporate and social responsibility

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

**Richard Portman,** Corporate Services Director

**Introduction**

At Dignity we aim to achieve our business objectives in a caring and responsible manner, we strive to ensure that we continue to operate responsibly and deliver the excellent service upon which our business depends. We are committed to meeting the needs of our clients, shareholders and engaging all our employees whilst considering the impact of our activities on the communities and environment in which we work.

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

### Management and accountability

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

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

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

### We foster a responsible culture:

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

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

We have created a culture of workplace safety so that our staff understand and abide by legislation and guidelines ensuring their own health and safety and that of their colleagues and clients.

We promote 'environmental issues' and sustainability, continually seeking new initiatives that reduce the impact of our business activities on our environment.

Making a positive contribution to charities and our local communities is embedded into our corporate culture and is enthusiastically supported by our staff.

### We enable our people to excel:

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

### We build trust and respect:

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

## Our CSR approach


## Our CSR commitments

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

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

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

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


# Responsible

"We aim to achieve our business objectives in a caring and responsible manner and by living these values, we ensure that we continue to operate responsibly and deliver the excellent service upon which our business depends."

## Growing our business responsibly

Dignity has grown through the careful acquisition of other funeral businesses. Upon acquisition, many proprietors continue to be involved in management or consultancy roles and Dignity provides support to all staff that join us as part of an acquisition to enable them to reach their true potential.

The families that choose to use our services do so based on our reputation and through recommendations. We believe our continued commitment to excellent service for our clients will generate a high level of referral and organic growth.

## Our key CSR highlights

**1,300**
Approximately 1,300 delegates attended training courses facilitated by Dignity's Training Department during the past twelve months.

**12%**
The number of accidents reported per thousand staff employed has been reduced by approximately 12 per cent over the last three years.

**15,500**
Approximately 15,500 cremations at Dignity crematoria were mercury abated during 2011.

**£100,000**
Dignity raised approximately £100,000 for its corporate charity, Together for Short Lives, over the past two years.

# Corporate and social responsibility continued

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

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

Dignity's manufacturing facility has gained ISO14001 accreditation, an internationally accepted standard for developing an effective Environmental Management System.

## Our CSR areas of focus

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

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

### Measuring our performance

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

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

**Our environment:**
Dignity submits its carbon data to the Carbon Disclosure Project, a not-for-profit organisation that measures disclosures from thousands of organisations across the world's major economies. The results are disclosed on page 24.

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

## Code of conduct

Our Code of Conduct ensures that all staff are aware of the principles that govern how we operate in the business environment and explains the standards of behaviour that all our employees are expected to adhere to.

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

Our Code of Conduct is also reinforced in a staff handbook, 'Helping our clients every step of the way', which is given to all new employees working in our funeral locations. The aim of the handbook is to embed all new employees into the Dignity culture and to remind existing members of staff of the standards of behaviour and attitudes that are expected of them. A similar handbook, 'Serving our local communities' is provided to our staff working at our crematoria.

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

We adhere to the Bribery and Corruption Act of 2010 and have introduced policies and procedures to minimise the risk of bribery.

## Building trust and acting with integrity

Our business is built upon our reputation and relationships with our clients, our local communities, our people, our partners and shareholders. We demonstrate our values and principles through our day-to-day behaviour and conduct ourselves in a way that is responsible and ethical.

**Left:** Wayne Goddard, Funeral Manager at Ginns & Gutteridge in Leicester.

**98.1%**
98.1 per cent of respondents to our client survey say they would recommend us.

**99.9%**
99.9 per cent of clients that respond to our survey thought our staff were respectful.

## Providing helpful advice and guidance

**Left:** During the past year we have refreshed a range of ten client information leaflets which are intended to offer useful help and guidance for bereaved families. These simple leaflets range from 'A guide to funeral etiquette' to 'Helping friends through bereavement'. They are available at our funeral locations and to download from our website: www.dignityfunerals.co.uk.

### Our people

**Our aim:** We are committed to high standards of employment practice and aim to encourage, retain and develop successful employees.

Our employees are critical to the continued success of Dignity and staff turnover is low. The average length of service for staff is 7.7 years and approximately a third of our staff have over 10 years service. The average age of our employees is 47 years.

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

### The Davies Report

We fully support the principal recommendations of the Davies Report encouraging the increase in the number of women on the Board of Directors. During 2012 the Dignity Board of Directors is set to meet the target it has set itself of having 20 per cent female representation on the Board. Of the 28 senior managers within Dignity, 25 per cent are female.

### Training and development

Dignity's investment in training enables our staff to provide our clients with the highest standards of service and care.

Dignity has a number of training centres around the UK and provides employees with both in-house and external training programmes. External training includes both relevant job training and tutoring for professional qualifications including the National Association of Funeral Directors (NAFD) Diploma in Funeral Directing and Membership of the British Institute of Embalming (BIE).

Dignity's Training Department provides a variety of role specific courses that help to reinforce the understanding each employee has of their role and ensures Dignity's policies and procedures are followed.

During the past twelve months the Training Department has concentrated on providing skills and refresher courses for our Funeral Service Arrangers and delivering the 'Bringing the deceased into our care' and 'Spending time with the deceased' courses. To meet the needs of Dignity's expanding crematoria operation the Training Department have provided induction courses for Crematorium Managers to help them understand their role and the high standard of service we aim to provide. Staff in the Client Service Centre received the highly acclaimed Mary Gober Customer Service training during 2011.

The courses provided by our Training Department are continually assessed via feedback from delegates and line managers to guarantee that they are relevant and add value to the contribution made by each employee.

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

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

## Striving for excellence in all that we do

Dignity's aim is to be the ultimate funeral professional. Whether we are arranging a funeral service, helping mourners attending a service or looking after a client choosing a memorial or pre-arrangement plan, our continued focus on training and development enables us to maintain and strive for the very highest levels of client service excellence.

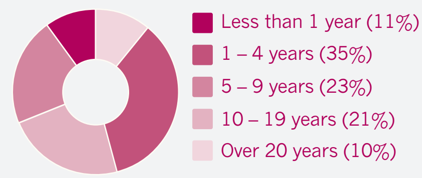
**99.3%**

99.3 per cent of clients that respond to our client survey said that we met or exceeded their expectations.

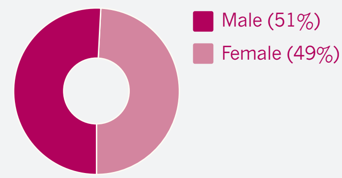
**Left:** Carl Mean, Funeral Manager, North East; Brian Phillips, Area Manager, Worcestershire; Annette McDonald, Business Manager, Aberdeen and Philip Smyth, Business Manager, North West London at Dignity's Training Centre in Bilston, West Midlands.

# Corporate and social responsibility continued

### Employee service




### Employee ratio (%)




In addition, Dignity has five members of staff who are accredited NAFD tutors and three BIE training specialists. During the past year eight Dignity employees achieved recognised qualifications with the NAFD.

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

**Recognising achievement**
Dignity has budgeted to reward its loyal staff with long service awards totalling approximately £0.2 million in 2012.

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

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

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

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

**Health and Safety**
**Our aim:** Effective heath and safety management continues to be vital to Dignity and a key priority of the Directors. Our operations are conducted at all times in such a way as to ensure, as far as is reasonably practical, the health, safety and welfare of all our employees and all persons who may be attending our premises.

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

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

Dignity has 15 managers with qualifications from the National Examination Board in Occupational Safety and Health (NEBOSH). Within this group there are also 10 that possess the NEBOSH Fire Certificate.

## Valuing our people and promoting diversity

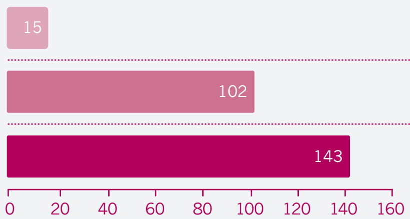
At Dignity there is no discrimination on the grounds of gender, age, race, religion or sexual orientation in terms of recruitment or career advancement and we encourage colleagues to respect each other.

**Left:** Jyotshna Surti, Funeral Service Arranger at Joseph Swift & Asian Funeral Directors in Leicester.

£200,000
Dignity has budgeted to reward its loyal staff with long service awards totalling approximately £200,000 in 2012.

31%
Almost a third of Dignity's employees have over ten years service.

### Health and Safety training (number)




- Employees with NEBOSH qualification: 15
- Employees with IOSH qualification: 102
- Employees with CIEH qualification: 143

Dignity also has 102 managers or officers that have successfully completed the Institution of Occupational Safety and Health (IOSH) course.

There are also 143 employees that have completed the Chartered Institute of Environmental Health (CIEH) Working Safely one-day course.

### Effective health and safety management

Health and safety performance is measured in two ways.

- Proactive monitoring
  Health and safety is proactively monitored via quarterly return analysis, premises inspections, health surveillance, line manager observations of how tasks are performed and regular reports to the Board.

- Reactive monitoring
  Investigating accidents, collation and analysis of statistics and ill-health investigation reactively monitors health and safety.

### Training programmes and initiatives

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

Over 700 Dignity employees attended the Manual Handling training course during 2011. By attending this course it is intended that our employees will have a greater appreciation of the risks of any manual handling required by their role with the objective of reducing the number of injuries incurred by our Funeral Service Operatives.

### Environment

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

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

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

### Minimising our impact on the local environment

Dignity's coffin manufacturing facility in East Yorkshire, has gained ISO14001 accreditation.

ISO14001 is an internationally accepted standard that sets out how you can go about putting in place an effective Environmental Management System. The standard is designed to address the delicate balance between maintaining profitability and reducing environmental impact.

Dignity's voluntary application for ISO14001 began in June 2010 with an assessment of the environmental impact of the business from the sourcing of raw materials to emissions to land, air and water during manufacture

## Prioritising health and safety

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

**Left:** The Health & Safety Regional Managers meeting at Dignity's Head Office in Sutton Coldfield.

260

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

12%

We have seen approximately a 12 per cent reduction in the number of accidents reported per 1,000 employees over the last three years.

# Corporate and social responsibility continued

## Meeting targets

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

**Left:** The installation of mercury abatement technology at Randalls Park Crematorium in Surrey.

to energy sources and transportation. From this the management set targets for reducing the environmental impact of their business and developed a programme for implementing them. The review and improvements were independently approved and regularly audited by a third-party specialist with goals set for continual improvement.

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

Dignity has already installed this specialist technology at nine of its crematoria and during 2011 began the projects to install mercury abatement equipment at Oxford, Chichester, Loughborough, Nuneaton and Weston-super-Mare Crematoria. The installation of this new equipment will be completed in 2012 and has been managed so as to ensure there is no disruption to our usual services at the crematoria.

Approximately 15,500 cremations at Dignity crematoria were mercury abated during 2011.

### Reducing our carbon footprint

Dignity aims to reduce its future carbon footprint and in 2011 Dignity continued to submit its data to the Carbon Disclosure Project. This is a not-for-profit organisation that aims to improve the environment by measuring disclosures from thousands of organisations across the world's major economies.

### Submission to Carbon Disclosure Project

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Scope 1 | 16,798 | 15,005 | 15,875 | 16,048 | 15,992 |
| Scope 2 | 6,938 | 8,366 | 10,923 | 10,633 | 10,351 |
| Total | 23,736 | 23,371 | 26,798 | 26,681 | 26,343 |

All figures are metric tonnes of $CO_2$ equivalent. Dignity does not make any scope 3 disclosures. The return for 2011 will be made in 2012.

### Sustainable sources

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

### Reducing energy consumption

We now have 335 smart meters installed at our premises to help reduce our energy consumption. This figure represents 35 per cent of our target.

## Committed to environmental sustainability

Maintaining the quality of the environment in which we all live is an important concern for Dignity and all areas of the business operate in accordance with the Group's environmental policy.

**Left:** Elaine Smith, Assistant Regional Management Accountant recycling waste paper at Dignity's Head Office.

ISO 14001

Dignity's coffin manufacturing facility in East Yorkshire has gained ISO14001 accreditation.

91%

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

## Environmentally friendly choices

Dignity takes seriously the responsibility of managing global resources and endeavors to source products ethically and with consideration to the environment. As a result, we offer a range of alternative, biodegradable coffins, containers and scatter tubes made from sustainable materials and can arrange burials in designated woodland sites.

### In our communities

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

For example, the staff at W S Harrison & Son in North Tyneside have ensured the survival of a local bowls club that had existed since 1922 by providing sponsorship and financial support that offset their recent increase in running costs. Without Dignity's help local residents were facing the closure of the club and the social centre it provides. Dignity has also continued to support many other bowling clubs and tournaments throughout the UK.

During the past year Dignity has continued to support grass roots sport by providing training equipment and kit to many youth football and cricket teams across the UK.

Both of these initiatives provide different sectors of the local community with a focal point for socialising and healthy exercise.

The Dignity Easter Egg Challenge once again proved popular with staff at our funeral locations with thousands of chocolate gifts being collected and distributed to local hospices, children's hospital wards, special needs centres and others less fortunate.

Last November, many Dignity funeral locations and crematoria chose to support the Royal British Legion's poppy appeal and remember those serving in the Armed Forces that have given their lives defending Britain and its interests. Staff at East London Crematorium alone raised £2,000 by holding a Remembrance Day Service.

In addition to this a war memorial at East London Crematorium, to local civilians that lost their lives during the air raids of World War 2, has also been completely renovated and housed in a new granite memorial.

In December, E F Edwards of Birmingham helped supporters of Aston Villa to mark the centenary of the death of William McGregor, founder of The Football League and Chairman of their club during its formative years. Dignity offered to cover the shortfall in funds raised by Villa supporters who were looking to restore McGregor's grave and provided a limousine and chauffeur to transport high profile guests to the Service of Re-Dedication at a local church and reception at Villa Park.

## At the heart of our local communities

Everyone at Dignity is committed to making a real difference not only to our clients but also to improving the welfare of all who live in the communities we serve. Our staff support hundreds of local initiatives, good causes, clubs and events every year.

**Left:** Joanne Tolley, Funeral Service Arranger/Administrator, at a Macmillan Coffee Morning held at the Dignity funeral location in Droitwich Spa.

# Corporate and social responsibility continued

**Left:** Dignity staff took part in The Southend Bikeathon, an annual event that raises money for Leukaemia & Lymphoma Research.

**Right:** Dignity has continued to support grass-roots sports clubs around the UK.

## Supporting charities

In 2011, Dignity employees and clients continued to raise funds for the staff elected charity – Together for Short Lives (formerly Children's Hospices UK). This worthy cause is the national charity that gives voice and support to 41 children's hospices and provides care for approximately 20,000 children each year. All Dignity funeral locations and crematoria have been linked with a local children's hospice and over the last two years they have raised a total of approximately £100,000.

There were many fund raising initiatives held nationwide during the year including tea parties, car washes, sponsored walks, cycling events, marathons and golf tournaments. Some brave members of staff even took part in The Big Jump! – a sponsored charity skydive that raises funds for children's hospices.

There were also two rather unusual fund raisers for Together for Short Lives that Dignity staff were involved with. One of our business managers in South London took part in a trapeze act as part of an Aerial Skills Circus show and another funeral director organised a concert where he and colleagues not only demonstrated their musical ability but also their professional, organisational and administrative skills to maximise fund raising.

The Dignity Bi-Annual Dinner & Dance organised by staff from the Scotland area raised a staggering £4,000 for their local children's hospice. Dignity employees in Glasgow also raised £1,895 with a Bucket Shake across the city's shopping centre.

'Malverns by Moonlight' is a fundraiser for Macmillan Cancer Support that was initiated and developed by Dignity staff in the South West region. This year the team decided to use their professional skills to help support the event so the business manager drove the Dignity minibus and worked in conjunction with West Midlands Search and Rescue team, providing safety for the hilltop walk. The administrators managed the registration of all participants and a funeral director organised a team of 20 crowd control marshals. The event saw 500 women take to the Malvern Hills and raised £25,000 for Macmillan.

Our five charity fairground organs continued to be a vital aid in fund raising activities and almost £93,000 was raised for a variety of national and local charities in 2011.

Dignity employees also supported Cancer Research UK, Marie Curie Cancer Care, Help for Heroes, Cure Leukaemia and a number of breast cancer charities during the past 12 months.


## Supporting charities and good causes

Making a difference to the communities we serve is at the heart of everything we do. Our staff continue to work tirelessly each year to help raise valuable funds for local and national charities.

**Left:** In 2012 Dignity will support Marie Curie Cancer Care as its corporate charity.

£100,000

Dignity raised £100,000 for its corporate charity, Together for Short Lives, over the past two years.

£93,000

Dignity's five fairground organs helped to raise £93,000 in the past 12 months for a variety of charities and good causes.


# Supportive

“Over the past two years we are delighted to have supported Together for Short Lives, our staff elected corporate charity, which delivers vital care and support for children and families when it’s needed most.”

## Helping to make a real difference

Together for Short Lives care for more than 20,000 children each year and the charity supports and gives a national voice to 41 hospices across the UK. Dignity’s corporate charity continued to be supported by many of our staff who took part in various fund raising events in 2011 and have raised £100,000 over the past two years.

**Above:** Zoe Wakefield, Treasury Assistant; Lindsey Paris, Administration Assistant; Jo Gater, Client Service Centre Support Coordinator and Joe Povey, Post room Assistant who all work at Dignity’s Head Office raised funds for Together For Short Lives (formerly Children’s Hospices UK) by taking part in The Big Jump – a charity skydiving event.

# Board of Directors

(a) Member of the Audit Committee
(n) Member of the Nomination Committee
(r) Member of the Remuneration Committee
(*) Non-Executive Director appointed to the Board on 1 April 2012

**1. Peter Hindley** (68)(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** (44)
(Chief Executive)
Mike joined Dignity's former parent, SCI, in 1995 from KPMG Corporate Finance in London. He was appointed Finance Director at the end of 2001 and became Chief Executive at the beginning of 2009. He has a law degree from Birmingham University (LL.B), is a solicitor and also holds an MBA from Warwick University.

**3. Steve Whittern** (37)
(Finance Director)
Steve joined the Group in 1999 from KPMG. He was appointed Finance Director at the beginning of 2009, having spent the previous two years as Financial Controller, being responsible for the Group's finance function. Steve led the further debt issue and Return of Value in 2010. Steve is an FCA and holds a mathematics degree from Warwick University.

**4. Andrew Davies** (50)
(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** (50)
(Corporate Services Director)
Richard joined SCI from HSBC as Chief Accountant in 1999. Following the IPO, Richard was appointed as Company Secretary and became Corporate Services Director in 2006. Richard is an FCA, holds a geography degree from Birmingham University and is a Member of the Chartered Management Institute and of the Investor Relations Society.

**6. James Newman** (62)(a)(n)(r)
(Senior Independent Director)
James has a portfolio of non-executive directorships in both the private and public sectors. He is currently Chairman of Straight plc and Brulines Group plc and Senior Non-Executive Director of Bglobal plc. He is also Chairman of Finance Yorkshire, and Chairman of the Sheffield City Region Local Enterprise Partnership Board. He was formerly Deputy Chief Executive and Finance Director of Kelda Group plc and a number of other public companies. He has also been Chairman of Waste Recycling, Deputy Chairman of the Governors of Sheffield Hallam University and a Non-Executive Director of Scott Wilson Group plc and Richmond Foods plc. James is an FCA and a Member of the Association of Corporate Treasurers.

**7. Bill Forrester** (71)(a)(n)(r)
(Non-Executive Director)
Bill is the 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** (51)(a)(n)(r)
(Non-Executive Director)
Ishbel was appointed to the Board on 12 January 2009. Ishbel is a Non-Executive Director of GAME Group plc and May Gurney Integrated Services plc, Senior Independent Director of Hydrogen Group plc and Chairman of Speedy Hire plc. Prior to those roles she held senior positions with Barclays de Zoete Wedd, Hoare Govett and Dresdner Kleinwort Wasserstein.

**9. Alan McWalter** (58)(a)(n)(r)
(Non-Executive Director)
Alan was appointed to the Board on 12 January 2009. Alan is a Non-Executive Director of Churchill China plc, Haygarth Group Ltd, Fabris Lane Ltd and is Non-Executive Chairman of Constantine Group plc and Kornicis Group Ltd. Prior to these roles Alan was Marketing Director of Marks and Spencer plc and prior to that held senior positions with Kingfisher plc and Thomson Consumer Electronics.

**Jane Ashcroft** (45)(*)
(Non-Executive Director)
Jane is Chief Executive of Anchor, a leading provider of services to older people and has held a number of senior positions since joining them in 1999. She is also Non-Executive Chair of the English Community Care Association and was previously a Non-Executive Director of Stroud & Swindon Building Society. A graduate of Stirling University, she is a Fellow of the Institute of Chartered Secretaries & Administrators and a Member of the Chartered Institute of Personnel and Development.

**Martin Pexton** (55)(*)
(Non-Executive Director)
Martin was previously Managing Director of LMS Capital plc and prior to that an Executive Director of London Merchant Securities plc and Personnel Director of the law firm Allen & Overy. He has also in the past held a number of non-executive positions including roles with Minerva plc and Inflexion plc as well as a number with private companies. He has an MBA from the London Business School.

# 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 30 December 2011.

The company registration number of Dignity plc is 4569346.

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

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

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

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

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

Each of the Directors, whose names and functions are listed on page 28 of the Annual Report, confirm that, to the best of their knowledge and belief:

- The Group financial statements, which have been 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
- 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 Group, together with a description of the principal risks and uncertainties that it faces.

**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 14 to 16 of the Financial Review. A review of the development of the business in 2011, events affecting the Group since the end of the financial year and likely future developments are referred to in the Business Review, which is incorporated into this Directors' Report by reference.

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

**Principal risks and uncertainties**
Operational risks are considered on page 17.

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**
During the period, the Group issued 52 Ordinary Shares of 10.5 pence each to satisfy options exercised under the Save As You Earn Scheme. The SAYE options were granted in 2010.

The issued share capital of Dignity plc at 30 December 2011 consisted of 54,757,054 Ordinary Shares of 10.5 pence each. All the Ordinary Shares carry the same rights and obligations. There are no other class or type of share in issue.

A special resolution passed at the last Annual General Meeting on 9 June 2011 gives Dignity plc the authority to purchase up to 2,737,852 Ordinary Shares of 10.5 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

# Directors' report continued

up to an aggregate nominal value of £1,916,496 of which up to £287,474 may be for cash. These authorities will expire at the conclusion of the next Annual General Meeting on 14 June 2012. It is the intention of the Directors to seek renewal of these authorities at that Annual General Meeting. There are no restrictions at the period end on the transfer of securities.

## Results

The results for the period are set out in the Consolidated Income Statement on page 46. Group profit before tax amounted to £40.3 million (2010: £39.8 million).

## Dividends

An interim dividend of 4.87 pence per share was paid on 28 October 2011. The Board has proposed a final dividend of 9.77 pence per share, which, subject to approval at the Annual General Meeting, will be paid on 29 June 2012 to shareholders on the register at close of business on 25 May 2012.

## Payments policy

The Group or Company has no formal code or standard that deals specifically with the payment of suppliers. However, the Group or Company 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 40 days (2010: 32 days). The Company has no trade creditors.

## Key contractual arrangements

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

## Employment policies

During the period the Group has maintained its obligations to develop and improve arrangements aimed at involving employees in its affairs. Methods of communication used include an in-house newsletter, an employee website, bulletins and management briefings. This is discussed in more detail in the Corporate and Social Responsibility Report on pages 18 to 27.

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

## Directors and their interests

Details of the Directors of the Company who were in office during the period and up to the date of signing the financial statements are shown in the Report on Directors' Remuneration on page 35. In accordance with the Articles of Association and the UK Corporate Governance Code (2010 Code), at the Annual General Meeting, all Directors will retire as Directors of the Company and, being eligible, offer themselves for re-election at the Annual General Meeting on 14 June 2012.

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.

## The Takeover Directive

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

## Health and safety policy

The Group's operations are designed at all times in such a way as to ensure, so far as reasonably practical, the health, safety and welfare of all of our employees and all other persons who may be attending our premises. This is discussed in the Corporate and Social Responsibility Report on pages 18 to 27.

## Corporate Social Responsibility

Maintaining the quality of the environment in which we all live is an important concern for the Group. This is discussed in the Corporate and Social Responsibility Report on pages 18 to 27 alongside other social and ethical considerations.

## Donations

The Group made charitable donations amounting to £0.1 million (2010: £0.1 million) during the period. There were no political donations. Further information can be found on page 26.

## Going concern

The Directors receive and review regularly management accounts, cash balances, forecasts and the annual budget together with covenant reporting. After careful consideration, and mindful of the current market conditions, the Directors confirm they are satisfied that the Group has adequate resources to continue operating for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing the financial statements. The Directors formally considered this matter at the Board meeting held on 1 March 2012.

## Post balance sheet events

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

## Independent Auditors and disclosure of information to Auditors

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

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

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- The Directors have taken appropriate steps to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

## Corporate Governance Statement

The information that fulfils the requirements of a corporate governance statement in accordance with rule 7.2 of the Disclosure and Transparency Rules can be found in this Directors' Report and in the Directors' Statement on Corporate Governance on pages 39 to 44, which is incorporated by reference.

By order of the Board

**Richard Portman**
Company Secretary

7 March 2012

# Report on Directors' remuneration

for the 52 week period ended 30 December 2011

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 2010 Combined Code (the Code) on remuneration related matters and has followed the Code in the preparation of the report of the Remuneration Committee. It is the opinion of the Board that the Group complied with all remuneration related aspects of the Code during the period.

## Unaudited information

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

Alan McWalter chairs the Remuneration Committee, having assumed the Chairmanship from Bill Forrester, who remains on the Committee, on 27 September 2011. Its other members are the independent Non-Executive Directors: James Newman and Ishbel Macpherson.

At the end of March 2012, Bill Forrester and James Newman will retire from the Board and hence the Remuneration Committee. They will be replaced on the Committee by the two new Non-Executive Directors, Jane Ashcroft and Martin Pexton.

The Code requires that a Group of the size of Dignity plc has a Remuneration Committee comprising a minimum of three non-executives. The Remuneration Committee members have no personal financial interest, other than as shareholders, in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business.

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

The Remuneration Committee is formally constituted with written terms of reference. A copy of the terms of reference is available for inspection on the Group's investor website www.dignityfuneralsplc.co.uk. The Committee met five times during 2011. 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 2010 performance related bonus and dealt with the vesting of the shares awarded under the LTIP scheme in 2008. A further meeting was also held on 1 March 2012 to approve the payment of the performance related bonus for 2011, and the 2012 LTIP awards.

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

## Remuneration policy

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

- Align rewards with the interests of shareholders;
- Motivate and encourage superior performance;
- Allow the Group to retain the talent needed to execute its business strategy;
- Enable the Group to be competitive when recruiting appropriately skilled and experienced management; and
- Ensure that the overall package for each director is linked to strategic objectives.

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

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

## Basic salary

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

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

No changes were made to their basic salaries during the period. The salary review for 2012 was set at 2 per cent by the Remuneration Committee. Salaries effective from 1 January 2012 are:

| Name | 2011 £'000 | 2012 £'000 |
|---|---|---|
| Mike McCollum | 449 | 458 |
| Andrew Davies | 255 | 260 |
| Richard Portman | 204 | 208 |
| Steve Whittern | 204 | 208 |
| Total | 1,112 | 1,134 |

## 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 2011 by Executive Directors was 100 per cent of basic salary. A bonus of 70 per cent is attainable for meeting the first earnings per share target set by the Committee and a further bonus of 30 per cent may be earned by achieving a second and more demanding earnings per share target. The increase in underlying earnings per share during the period was 18.8 per cent and the bonus percentage earned by the Executive Directors in the period was 100 per cent.

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

No changes have been proposed to the Annual Performance Related Bonus for 2012 at the date of the signing of the Annual Report. This will continue to be based on demanding earnings per share targets with a maximum bonus equal to 100 per cent of base salary.

## Share incentives

Shareholders approved the current discretionary share incentive plan, the LTIP, on 5 June 2009. If existing LTIPs were to be amended or if there was a new LTIP Scheme, approval would be sought from the shareholders. The Committee reviewed the performance conditions for LTIPs during 2011 and concluded that the use of Total Shareholder Return (TSR) continued to the most appropriate performance condition to apply.

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 2011 equivalent to the maximum award. The Committee deemed this award appropriate, as in previous years, mindful of the need to encourage superior performance from the Executive Directors and ensure that a significant proportion of their total remuneration is linked to the performance of the Group. This award is in addition to those made in 2004 through to 2011. Total awards made to the Executive Directors under the scheme are shown on pages 36 and 37.

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

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

# Report on Directors' remuneration continued

for the 52 week period ended 30 December 2011

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

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

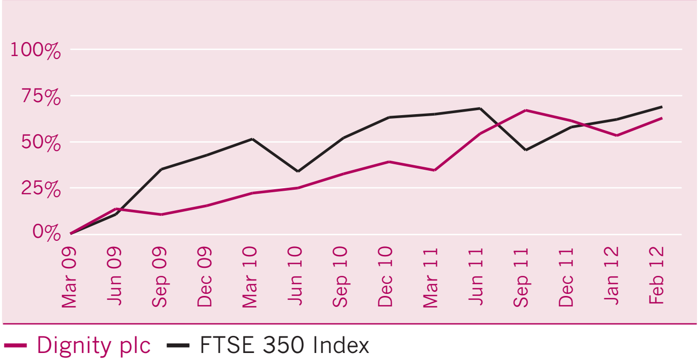
The percentage of the conditional share awards exercisable on vesting from the 2010 awards and onwards is calculated as follows:

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

In addition and irrespective of the TSR performance target, no award will vest unless, in the opinion of the Remuneration Committee, the underlying financial performance of the Group has been satisfactory over the measurement period. The Committee will also introduce claw back provisions during 2012.

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.

3 Year Total Shareholder Return




On 18 March 2011 the conditional share awards made in 2008 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 below the median. As a consequence no shares were capable of vesting and the options lapsed.

The total conditional awards held by each Director are shown on pages 36 and 37 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 five 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 1.48 per cent of the current issued share capital. If the awards in 2004, to 2008, that have vested, are included, that percentage is 3.32 per cent. The total, including SAYE options granted in both the 2004, 2007 and 2010 Schemes, is 5.42 per cent.

## Pensions

Mike McCollum and Richard Portman are members of the Group's pension scheme into which the Group contributed 10.5 per cent of salary (details are set out within the audited section of this report on page 36). The Group makes no pension contributions for Andrew Davies or Steve Whittern. No Non-Executive Directors receive any pension contributions.

## Benefits in kind

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

## Non-Executive Directors' fees

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

## Service contracts

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

| Name | Contract date | Notice period | Unexpired term of contract or letter of approval |
|---|---|---|---|
| Mike McCollum | 1 April 2004 | 12 months | Rolling Contract |
| Andrew Davies | 1 April 2004 | 12 months | Rolling Contract |
| Richard Portman | 1 November 2006 | 12 months | Rolling Contract |
| Steve Whittern | 1 January 2009 | 12 months | Rolling Contract |
| Peter Hindley | 7 December 2010 | 3 months | 24 months |
| James Newman | 31 March 2010 | 3 months | 3 months |
| Bill Forrester | 31 March 2010 | 3 months | 3 months |
| Ishbel Macpherson | 7 December 2010 | 3 months | 12 months |
| Alan McWalter | 7 December 2010 | 3 months | 12 months |
| Jane Ashcroft | 1 April 2012 | 3 months | 24 months |
| Martin Pexton | 1 April 2012 | 3 months | 24 months |

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

Under the Company's Articles of Association, one third of the Directors are required to submit themselves for re-election every year. This requirement has been superseded by the requirements of the Code which requires that all Directors offer themselves for re-election each year. In accordance with the terms of the Code all Directors, as they did in 2011, will submit themselves for re-election at the forthcoming Annual General Meeting in June 2012.

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

## Audited information

The following information on pages 35 to 38 has been audited.

## Directors' interest in shares

The interests of the Directors and their families in the Ordinary Shares of the Company at 30 December 2011 and 31 December 2010 were as follows:

| | Ordinary Shares of 10.5 pence | |
|---|---|---|
| Name | 30 December 2011 Number | 31 December 2010 Number |
| Peter Hindley | 188,790 | 188,790 |
| Mike McCollum | 270,000 | 270,000 |
| Andrew Davies | 161,250 | 161,250 |
| Richard Portman | 106,782 | 106,782 |
| Steve Whittern | 10,737 | 6,987 |
| James Newman | 10,000 | 10,000 |
| Bill Forrester | 6,666 | 6,666 |
| Ishbel Macpherson | 5,695 | 5,695 |
| Alan McWalter | 3,000 | 3,000 |

There has been no change in the interest set out above between 30 December 2011 and 7 March 2012.

A policy on minimum shareholdings for Executive Directors will be implemented during 2012.

# Report on Directors' remuneration continued

for the 52 week period ended 30 December 2011

## Directors' remuneration

The total of Directors' remuneration for the period was £2,710,000 (2010: £2,541,000), including pension contributions of £50,000 (2010: £43,000). 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 2011 £'000 | Total 2010 £'000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Mike McCollum | 449 | 4 | 15 | 449 | 917 | 899 |
| Andrew Davies | 255 | 13 | 15 | 255 | 538 | 526 |
| Richard Portman | 204 | 4 | 15 | 204 | 427 | 418 |
| Steve Whittern | 204 | 3 | 15 | 204 | 426 | 319 |
| **Non-Executive Directors** | | | | | | |
| Peter Hindley | 153 | 1 | – | – | 154 | 151 |
| James Newman** | 66 | – | – | – | 66 | 60 |
| Bill Forrester | 48 | – | – | – | 48 | 45 |
| Ishbel Macpherson | 41 | – | – | – | 41 | 40 |
| Alan McWalter *** | 43 | – | – | – | 43 | 40 |
| Total | 1,463 | 25 | 60 | 1,112 | 2,660 | 2,498 |

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

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

*** No fee reviews were made for 2012 in respect of the Non-Executive Directors, except Alan McWalter who received additional fees when he assumed the Chairmanship of the Remuneration Committee on 27 September 2011.

No Director waived emoluments in respect of the 52 week period ended 30 December 2011 or the 53 week period ended 31 December 2010.

## Directors' pension entitlements

### Defined benefit salary scheme

| | Change in accrued benefit over the period (1) £ | Transfer value at 30 December 2011 (2) £ | Transfer value at 31 December 2010 (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 30 December 2011 (3) £ |
|---|---|---|---|---|---|---|---|
| Mike McCollum | 6,003 | 1,052,797 | 831,170 | 190,211 | 1,484 | (18,596) | 101,184 |
| Richard Portman | 2,678 | 441,228 | 343,210 | 83,738 | 1,138 | (1,380) | 35,664 |

(1) Throughout 2011 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 Group contribute and remains open to all employees.

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

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

## Long Term Incentive Plan

Members approved the LTIP on 5 June 2009.

Awarded in 2011 for £nil consideration:

| | 2011 | | | |
|---|---|---|---|---|
| | Market value of shares conditionally awarded during the period (2) £ | Value of shares conditionally awarded during the period as a percentage of salary (3) | Number of shares conditionally awarded during the period | Date of the end of the holding period when shares may be exercised |
| Mike McCollum | 561,250 | 125% | 81,223 | After 20 March 2014 |
| Andrew Davies | 318,750 | 125% | 46,129 | After 20 March 2014 |
| Richard Portman | 255,000 | 125% | 36,903 | After 20 March 2014 |
| Steve Whittern | 255,000 | 125% | 36,903 | After 20 March 2014 |

Awarded in 2010 for £nil consideration:

| | 2010 | | | |
|---|---|---|---|---|
| | Market value of shares conditionally awarded during the period (4) £ | Value of shares conditionally awarded during the period as a percentage of salary (3) | Number of shares conditionally awarded during the period | Date of the end of the holding period when shares may be exercised |
| Mike McCollum | 550,000 | 125% | 82,011 | After 18 March 2013 |
| Andrew Davies | 312,500 | 125% | 46,597 | After 18 March 2013 |
| Richard Portman | 250,000 | 125% | 37,278 | After 18 March 2013 |
| Steve Whittern | 187,500 | 125% | 27,958 | After 18 March 2013 |

Awarded in 2009 for £nil consideration:

| | 2009 | | | |
|---|---|---|---|---|
| | Market value of shares conditionally awarded during the period (5) £ | Value of shares conditionally awarded during the period as a percentage of salary (3) | Number of shares conditionally awarded during the period | Date of the end of the holding period when shares may be exercised |
| Mike McCollum | 550,000 | 125% | 89,184 | After 20 March 2012 |
| Andrew Davies | 312,500 | 125% | 50,673 | After 20 March 2012 |
| Richard Portman | 250,000 | 125% | 40,538 | After 20 March 2012 |
| Steve Whittern | 187,500 | 125% | 30,404 | After 20 March 2012 |

Awarded in 2008 for £nil consideration:

| | 2008 | | |
|---|---|---|---|
| | Number of shares conditionally awarded on 18 March 2008 | Market value of shares conditionally awarded on 18 March 2008 £ | Number of shares vesting in period to 30 December 2011 (6) |
| Peter Hindley | 60,212 | 437,500 | – |
| Mike McCollum | 47,309 | 343,750 | – |
| Andrew Davies | 34,407 | 250,000 | – |
| Richard Portman | 25,805 | 187,500 | – |
| Steve Whittern | 4,000 | 29,080 | – |

The total options held by Directors at 30 December 2011 were:

| | Ordinary Shares of 10.5 pence | | |
|---|---|---|---|
| | LTIP | SAYE | TOTAL |
| Mike McCollum | 252,418 | – | 252,418 |
| Andrew Davies | 143,399 | – | 143,399 |
| Richard Portman | 114,719 | 1,283 | 116,002 |
| Steve Whittern | 95,265 | 1,283 | 96,548 |
| Total | 605,801 | 2,566 | 608,367 |

(1) Awards under the LTIP up to and including those made in 2009 will only be released if the Group's comparative TSR performance is equal to or greater than the median level of performance over the holding period at which point 40 per cent of the award will be released, with full vesting occurring for upper quintile performance. Vesting occurs on a straight-line basis between those points. The Award in 2010 and all awards thereafter will only be released if the Group's comparative TSR performance is equal or greater than the median level of performance over the holding period at which point 25 per cent of the award will be released with full vesting occurring for an upper quartile performance. Vesting occurs on a straight-line basis between these points.

(2) Value based on the average mid market share price for the previous 28 days to 17 March 2011.

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

(4) Value based on the average mid market share price for the previous 28 days to 18 March 2010.

(5) Value based on the average mid market price for the previous 28 days to 18 March 2009.

(6) None of the options awarded in 2008 vested as the TSR of Dignity was found to be below median when compared to the Competitor Group over the measurement period.

# Report on Directors' remuneration continued

for the 52 week period ended 30 December 2011

## Inland Revenue Approved SAYE Share Option Scheme

| | Date of grant | Number held at 31 December 2010 | Granted | Lapsed | Number held at 30 December 2011 | Exercise date |
|---|---|---|---|---|---|---|
| Richard Portman | 22 October 2010 | 1,283 | – | – | 1,283 | 1 December 2013 |
| Steve Whittern | 22 October 2010 | 1,283 | – | – | 1,283 | 1 December 2013 |

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

The market price of the Group's shares on 30 December 2011 was £8.21 per share. The high and low share closing prices in the period were £8.54 per share and £6.49 per share respectively.

On behalf of the Board

**Alan McWalter**
Chair of the Remuneration Committee
7 March 2012

# Directors' statement on corporate governance

## Introduction

This statement explains how Dignity has incorporated the requirements of the 2010 Code. 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 the 2010 Combined Code (the Code) and, where the provisions have not been complied with, to provide an explanation. Dignity plc is also required to explain how it has applied the principles set out in the Code. This Directors' Statement on Corporate Governance and the Report on Directors' Remuneration on pages 32 to 34 provide a description of how the main and supporting principles of the Code have been applied within Dignity plc during 2011. The Group has complied with all provisions of the Code throughout the 2011 accounting period with the exception of:

On 29 December 2008 Peter Hindley was appointed Chairman upon relinquishing his responsibilities as Chief Executive and the retirement of the then Chairman. This is contrary to provision A.3.1. 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 principles of good governance, which are split into four areas as outlined below:

### 1. The Board and its Effectiveness

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

The Board is responsible for the long term success of the Group which includes:

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

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

The Board comprises eight Directors and the Non-Executive Chairman. There are the same number of independent Non-Executive Directors and Executive Directors which the Board consider to be an appropriate and effective combination. The Board also considers that four Executive Directors are sufficient to manage a Company of this size and organisational structure and they have all confirmed that they are able to devote sufficient time to their roles.

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:

- The leadership of the Board;
- 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;
- Ensuring all Directors receive accurate, timely and clear information;
- Setting the agenda so all relevant issues are discussed, ensuring sufficient time is devoted to discussing issues particularly strategic ones; 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, local operational decisions are the responsibility of the local managers, who are accountable to the Chief Executive and other Board members;
- Formulating and proposing strategy to the Board; and
- Implementing the strategy and policies adopted by the Board.

The four independent Non-Executive Directors who served during the period are Bill Forrester, Ishbel Macpherson, Alan McWalter, and James Newman. Biographical details, including committee membership, appear on page 28. Their role is to constructively challenge the management of the Group and help develop proposals on strategy.

# Directors' statement on corporate governance continued

James Newman is the appointed Senior Independent Director of the Group. His role is to provide a sounding board for the Chairman and act as an intermediary for other Directors if needed and to be available to shareholders if necessary. He will be replaced by Alan McWalter when he retires from the Board on 1 April 2012.

The Chairman and the Non-Executive Directors are required to and 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.

Bill Forrester and James Newman retire as Non-Executive Directors at the end of March 2012. They are to be replaced by Jane Ashcroft and Martin Pexton, whose biographies appear on page 28, and who were appointed by the Board with the assistance of external recruitment consultants. The selection process followed was based on the specific criteria for the new Non-Executive Directors set by the Chairman and the remainder of the Board. Both new Directors will receive full induction training. The terms and conditions of their appointments are available for inspection at the Group's registered offices.

All Directors are able to take independent professional advice on the furtherance of their duties if necessary at the Company's expense. 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. From the start of 2012 the Chairman will regularly meet with each Director to discuss their training and development needs.

The Company maintains appropriate insurance cover in respect of any legal action against its Directors. The level of cover is currently £50 million.

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

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

The Board has established a Remuneration Committee, an Audit Committee and a Nomination Committee, each of which operate within defined terms of reference. The specific terms of reference for each of 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 | 6 | 3 | 5 | 2 |
| Andrew Davies | 6 | – | – | – |
| Bill Forrester | 5 | 2 | 4 | 1 |
| Peter Hindley | 6 | 3(ii) | 5(ii) | 2 |
| Mike McCollum | 6 | 3(ii) | – | – |
| Alan McWalter | 5 | 3 | 5 | 2 |
| Ishbel Macpherson | 6 | 3 | 5 | 2 |
| James Newman | 6 | 3 | 4 | 2 |
| Richard Portman | 6 | 3(iii) | 4(iii) | 2(iii) |
| Steve Whittern | 6 | 3(ii) | – | – |

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

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

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

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

A process exists whereby the Non-Executive Directors can meet with the Chairman without the Executive Directors being present. Three such meetings were held during 2011.

During the year, the Board again undertook a formal and rigorous evaluation of its own performance and that of its Committees and Directors by way of the issue of a detailed questionnaire to all Directors. This was then followed by a detailed review of the responses, by the Directors, and identification of any actions arising. The Non-Executive Directors, led by the Senior Independent Director, are responsible for the performance evaluation of the Chairman taking in to account the views of the other Executive Directors. 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 2012. As required under the Code the Board will implement external facilitation such that it meets the requirement of having external facilitation once every three years. Such an external evaluation will be completed by the end of the 2013 financial period at the latest.

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. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

## 2. Directors' remuneration

The Remuneration Committee, chaired by Alan McWalter, who assumed the Chairmanship from Bill Forrester on 27 September 2011, 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 five times during 2011. The Committee considers the performance of the Executive Directors as a prelude to recommending their annual remuneration, bonus awards and awards of share options to the Board for final approval.

The Committee members during 2011 were the independent Non-Executive Directors, Bill Forrester, James Newman, Ishbel Macpherson and Alan McWalter. The Code requires a Committee of at least three members. The Chief Executive and the Chairman can also attend the meetings by invitation of the Committee. No Director or senior manager is involved in any decisions with regard to their own remuneration. The Chairman of the Board is not a member of the Remuneration Committee.

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

## 3. Accountability and audit

*Audit Committee*

The Audit Committee in 2011 comprised the four independent Non-Executive Directors. The Chairman 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. He will be replaced by Ishbel Macpherson upon his retirement from the Board on 1 April 2012. Its membership is restricted to Non-Executive Directors whose qualifications are shown in their biographies on page 28. She is considered to have the relevant financial experience to chair the Committee. The Committee has specific written terms of reference that explain its authority and duties. The Committee has met three times during 2011. The external auditors, the Chairman, the Chief Executive and the Finance Director have attended all the meetings by invitation. The external auditors and the internal audit function also have the right to private audiences with the Audit Committee or its Chairman if either party requires or requests them. Two meetings were held during 2011 between the Chairman and the external auditors.

The Chairman of the Board is not a member of the Audit Committee.

The Committee reviews the Group's Annual Report, Interim Report and other formal announcements related to the Group's financial performance 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 taking into consideration relevant UK profession and regulatory requirements. The Committee reviews the remuneration received by the external auditors for non-audit work to safeguard the independence of the external auditors, which during the period principally relates to taxation advice. The Committee were satisfied that this work did not affect the external auditors independence and given the nature of the work it was pragmatic and cost effective for them to complete the work. Details of the fees paid to the external auditors for all types of work are shown on page 61.

# Directors' statement on corporate governance continued

During 2011 the Committee adopted a formal policy as to the approach of 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.

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

*Reporting responsibilities*

The Board is required to present a balanced and understandable assessment of the Group's position and prospects, not only in the Directors' Report and Accounts but also in the Chairman's Statement (page 4), the Chief Executive's Overview (page 5), the Business Review (pages 8 to 13), the Financial Review (pages 14 to 16), Interim Reports, Interim Management Statements and in price sensitive announcements. The Group will release its Annual Information Update by 2 April 2012. A summary of the Directors' responsibilities for the financial statements is set out on page 29.

*Going concern*

The Directors receive and review regularly management accounts, cash balances, forecasts and the annual budget together with securitised debt covenant compliance. After careful consideration, and mindful of the current market conditions, the Directors confirm they are satisfied that the Group and the Company has adequate resources to continue operating for the foreseeable future. The Directors formally considered this matter at the Board meeting held on 1 March 2012. For this reason, they continue to adopt the going concern basis for preparing the financial statements.

*Internal control and Risk Management*

The Board recognises it is responsible for the Group's system of internal control and risk management, 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 ongoing process of identifying, evaluating and managing the significant risks faced by the Group exists. This process was in place at the date of approval of the Annual Report and is in accordance with the Code and the Turnbull Guidance.

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

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

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

- Financial reporting – The Group has a comprehensive system of internal budgeting and forecasting. The Group's monthly actual results analysed by operating division are reported to the Board and significant variances to budget are investigated with revised forecasts prepared as necessary. Operational management receives comprehensive management accounts covering their areas of responsibility, which forms the basis for the consolidated accounts;
- Financial controls – The Executive Directors have defined appropriate and necessary financial controls and procedures to be employed by operational management. Key controls over major business risks include reviews against budgets and forecasts, review against key performance indicators and exception reporting;
- Quality and integrity of personnel – One of the Group's core values is integrity. This is regarded as vital to the maintenance of the Group's system of internal financial control. The Directors have put in place an organisation structure appropriate to the size and complexity of the Group with defined lines of responsibility and delegation of authority where the Board considers it necessary and appropriate;
- Internal audit – The Group has a dedicated Internal Audit team, which reports to the Chief Executive and the Audit Committee. 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 a Director requests a review. During 2011 (as in 2010), there were quarterly meetings between the Head of Internal Audit and the Executive Directors to formally review and discuss Internal Audit's work programme and findings. In addition, regular meetings between Internal Audit and the external auditors, PricewaterhouseCoopers LLP, were held during the year to discuss and plan audit work and to ensure a complementary approach. The Head of Internal Audit provides reports to the Audit Committee at every meeting;

- Procedures – The Group has established and documented processes and procedures covering most parts of its operations, both client facing and in support departments. These provide clear guidance on the correct or most appropriate course of action in various circumstances. Procedures are supplemented by training where needs have been identified. Both Internal Audit and a comprehensive management structure monitor the adherence to such processes and procedures. A comprehensive review of procedures and training commenced during 2008 and is ongoing; and
- Risk assessment – Management has responsibility for the identification and evaluation of significant risks that might arise in their area of responsibility together with the design of suitable internal controls. The Executive Directors and the wider management team continually assess the risks. A Risk Register is maintained, which is formally presented to and reviewed by the Audit Committee twice a year.

These procedures are designed to, amongst other things, help to provide assurance around the process of preparing consolidated financial statements and the financial reporting system.

An explanation of how the Group creates and preserves value and the strategy for delivering its objectives is included in the Business Review section on pages 8 to 13.

*Nomination Committee*

Peter Hindley, the Chairman, chaired the Nomination Committee during 2011, which met on two occasions during the year. The other members of the Committee are James Newman, Bill Forrester, Ishbel Macpherson and Alan McWalter.

The Committee regularly reviews and makes recommendations to the Board on the structure, size and composition of the Board and the senior management team. It is also responsible for identifying and nominating, for the approval of the Board, replacement or additional Directors and members of the senior management team. Such appointments would be preceded by the preparation, by the Committee, of a role description and capabilities. The Committee was actively involved in the identification and appointment of the new Non-Executive Directors, Martin Pexton and Jane Ashcroft.

The Nomination Committee and by extension the Board strongly supports the spirit of Lord Davies' Report "Women on Boards" and will work towards a goal of 20 per cent of board positions filled by women by 2015. To facilitate achievement of this aspiration, as retiring Directors are replaced, the Committee will ensure that our executive search agents include the strongest possible field of female candidates. We will however remain mindful of the overall need to recruit the very best candidates regardless of gender. The Board will continue to encourage similar diversity in senior management positions and throughout the workforce.

The Group will continue to publish the details on corporate diversity suggested in Recommendation 2 of the Davies Report, support the changes to the UK Corporate Governance Code in Recommendation 3 and report on our compliance (Recommendation 4) and appointment process (Recommendation 5) in our Annual Report.

The Committee formally considers succession planning annually under the written terms of reference.

### 4. Relations with shareholders

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

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

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

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

# Directors' statement on corporate governance continued

The Board regards the Annual General Meeting, which this year is on 14 June 2012, as an opportunity to communicate directly with all shareholders. At least 20 working days notice will be given of the Annual General Meeting at which all Directors plan to be present and available to answer questions.

## Substantial shareholdings

As at 7 March 2012, the Company had been notified of the following interests of 3 per cent or more of the issued share capital:

| Holder | Number of Ordinary Shares | Percentage of issued share capital |
|---|---|---|
| Franklin Templeton Institutional | 5,428,056 | 9.91% |
| Tiger Global Management LLC | 3,640,829 | 6.65% |
| BAM & Oppenheimer Funds | 2,787,652 | 5.09% |
| Montanaro Group | 2,737,670 | 5.00% |
| Standard Life Investments | 2,704,738 | 4.94% |
| Baillie Gifford and Co | 2,688,153 | 4.91% |
| BlackRock Inc | 2,670,275 | 4.88% |
| Kames Capital | 2,189,991 | 4.00% |
| Legal & General Group plc | 2,182,083 | 3.99% |
| UBS Global Asset Management Ltd | 1,864,533 | 3.41% |

# Independent auditors' report to the members of Dignity plc

for the 52 week period ended 30 December 2011

We have audited the consolidated financial statements of Dignity plc for the 52 week period ended 30 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, set out on page 29, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and, the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the group's affairs as at 30 December 2011 and of its profit and cash flows for the 52 week period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the 52 week period ended 30 December 2011 for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement set out on page 31, in relation to going concern;
- the part of the Directors' Statement on Corporate Governance relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors remuneration.

## Other matter

We have reported separately on the parent company financial statements of Dignity plc for the 52 week period ended 30 December 2011 and on the information in the Report on Directors' Remuneration that is described as having been audited.

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

7 March 2012

# Consolidated income statement

for the 52 week period ended 30 December 2011

| | Note | 52 week period ended 30 December 2011 £m | 53 week period ended 31 December 2010 £m |
|---|---|---|---|
| **Revenue** | 3 | **210.1** | 199.1 |
| Cost of sales | | **(89.2)** | (87.3) |
| **Gross profit** | | **120.9** | 111.8 |
| Administrative expenses | | **(59.2)** | (53.2) |
| Other income | | **1.5** | 1.8 |
| **Operating profit** | 3 | **63.2** | 60.4 |
| Analysed as: | | | |
| Operating profit before profit on sale of fixed assets and before external transaction costs | | **64.5** | 61.0 |
| Profit on sale of fixed assets | | **0.2** | 0.5 |
| External transaction costs | 5 | **(1.5)** | (1.1) |
| **Operating profit** | | **63.2** | 60.4 |
| Finance costs | 4 | **(25.9)** | (22.5) |
| Finance income | 4 | **3.0** | 1.9 |
| **Profit before tax** | 5 | **40.3** | 39.8 |
| Taxation – before exceptional items | 6 | **(11.2)** | (11.5) |
| Taxation – exceptional | 6 | **5.2** | 0.7 |
| Taxation | 6 | **(6.0)** | (10.8) |
| **Profit for the period attributable to equity shareholders** | 3 | **34.3** | 29.0 |
| **Earnings per share for profit attributable to equity shareholders** | | | |
| – Basic and diluted (pence) | 8 | **62.6p** | 46.9p |
| **Underlying Earnings per share (pence)** | 8 | **55.1p** | 46.4p |

# Consolidated statement of comprehensive income

for the 52 week period ended 30 December 2011

| | Note | 52 week period ended 30 December 2011 £m | 53 week period ended 31 December 2010 £m |
|---|---|---|---|
| **Profit for the period** | | **34.3** | 29.0 |
| Actuarial loss on retirement benefit obligations | 28 | **(7.9)** | (2.0) |
| Tax on actuarial loss on retirement benefit obligations | 6 | **2.1** | 0.6 |
| **Other comprehensive loss** | | **(5.8)** | (1.4) |
| **Comprehensive income for the period** | | **28.5** | 27.6 |
| **Attributable to:** | | | |
| Equity shareholders of the parent | | **28.5** | 27.6 |

# Consolidated balance sheet

as at 30 December 2011

| | Note | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 9 | **148.0** | 142.9 |
| Intangible assets | 9 | **46.3** | 39.5 |
| Property, plant and equipment | 10 | **147.6** | 133.6 |
| Financial and other assets | 11 | **12.6** | 12.0 |
| Retirement benefit asset | 28 | **1.3** | 8.5 |
| | | **355.8** | 336.5 |
| **Current assets** | | | |
| Inventories | 13 | **5.9** | 5.2 |
| Trade and other receivables | 14 | **24.6** | 24.0 |
| Cash and cash equivalents | 15 | **36.9** | 48.1 |
| | | **67.4** | 77.3 |
| **Total assets** | | **423.2** | 413.8 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Financial liabilities | 16 | **9.3** | 8.7 |
| Trade and other payables | 17 | **32.6** | 32.0 |
| Current tax liabilities | | **2.3** | 4.8 |
| Provisions for liabilities and charges | 19 | **1.4** | 1.5 |
| | | **45.6** | 47.0 |
| **Non-current liabilities** | | | |
| Financial liabilities | 16 | **329.6** | 338.5 |
| Deferred tax liabilities | 20 | **25.1** | 27.3 |
| Other non-current liabilities | 17 | **2.6** | 2.9 |
| Provisions for liabilities and charges | 19 | **3.1** | 2.9 |
| | | **360.4** | 371.6 |
| **Total liabilities** | | **406.0** | 418.6 |
| **Shareholders' equity** | | | |
| Ordinary share capital | 22 | **5.7** | 5.7 |
| Share premium account | | **17.4** | 17.4 |
| Capital redemption reserve | | **99.3** | 99.3 |
| Other reserves | | **(7.9)** | (8.8) |
| Retained earnings | | **(97.3)** | (118.4) |
| **Equity attributable to shareholders** | | **17.2** | (4.8) |
| **Total equity and liabilities** | | **423.2** | 413.8 |

The financial statements on pages 46 to 83 were approved by the Board of Directors on 7 March 2012 and were signed on its behalf by:

**M K McCollum**
Chief Executive

**S L Whittern**
Finance Director

# Consolidated statement of changes in equity

as at 30 December 2011

| | Ordinary share capital £m | Share premium account £m | Capital redemption reserve £m | Other reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| Shareholders' equity as at 25 December 2009 | 5.7 | 35.8 | 80.0 | (8.9) | (77.1) | 35.5 |
| Profit for the 53 weeks ended 31 December 2010 | – | – | – | – | 29.0 | 29.0 |
| Actuarial loss on defined benefit plans | – | – | – | – | (2.0) | (2.0) |
| Tax on pensions | – | – | – | – | 0.6 | 0.6 |
| Total comprehensive income | – | – | – | – | 27.6 | 27.6 |
| Effects of employee share options | – | – | – | 0.9 | – | 0.9 |
| Tax on employee share options | – | – | – | 0.1 | – | 0.1 |
| Adjustment for tax rate change 28% to 27% | – | – | – | – | 0.1 | 0.1 |
| Share issue under 2007 LTIP Scheme | – | 0.9 | – | – | – | 0.9 |
| Gift to Employee Benefit Trust (1) | – | – | – | (0.9) | – | (0.9) |
| Issue of B Shares in respect of Capital Option (see note 7) | – | (19.3) | – | – | – | (19.3) |
| Redemption of B Shares in respect of Capital Option (see note 7) | – | – | 19.3 | – | (19.3) | – |
| Dividend in respect of Special Dividend Option and Deferred Dividend Option (see note 7) | – | – | – | – | (44.6) | (44.6) |
| Dividends (see note 7) | – | – | – | – | (5.1) | (5.1) |
| Shareholders' equity as at 31 December 2010 | 5.7 | 17.4 | 99.3 | (8.8) | (118.4) | (4.8) |
| Profit for the 52 weeks ended 30 December 2011 | – | – | – | – | 34.3 | **34.3** |
| Actuarial loss on defined benefit plans | – | – | – | – | (7.9) | **(7.9)** |
| Tax on pensions | – | – | – | – | 2.1 | **2.1** |
| Total comprehensive income | – | – | – | – | 28.5 | **28.5** |
| Effects of employee share options | – | – | – | 1.1 | – | **1.1** |
| Tax on employee share options | – | – | – | (0.1) | – | **(0.1)** |
| Adjustment for tax rate change 27% to 25% | – | – | – | (0.1) | 0.1 | **–** |
| Dividends (see note 7) | – | – | – | – | (7.5) | **(7.5)** |
| **Shareholders' equity as at 30 December 2011** | **5.7** | **17.4** | **99.3** | **(7.9)** | **(97.3)** | **17.2** |

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

The above amounts relate to transactions with owners of the Company except for the profit for the period and also pension items (net of tax) of £5.8 million loss (December 2010: £1.4 million loss).

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

# Consolidated statement of cash flows

for the 52 week period ended 30 December 2011

| | Note | 52 week period ended 30 December 2011 £m | 53 week period ended 31 December 2010 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations before external transaction costs and exceptional pension contributions | 25 | **74.2** | 74.5 |
| Costs in respect of redemption of B and C Shares | | **–** | (0.8) |
| Exceptional contribution to pension scheme | | **–** | (1.0) |
| External transaction costs in respect of acquisitions | | **(1.2)** | (0.3) |
| **Cash generated from operations** | | **73.0** | 72.4 |
| Finance income received | | **0.3** | 0.4 |
| Finance costs paid | | **(24.9)** | (32.6) |
| Transfer from restricted bank accounts for finance costs | | **–** | 9.9 |
| Total payments in respect of finance costs | | **(24.9)** | (22.7) |
| Tax paid | | **(10.4)** | (10.1) |
| **Net cash generated from operating activities** | | **38.0** | 40.0 |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries and businesses (net of cash acquired) | 26 | **(12.0)** | (5.8) |
| Proceeds from sale of property, plant and equipment | | **0.9** | 1.1 |
| Vehicle replacement programme and improvements to locations | | **(10.8)** | (10.3) |
| Branch relocations | | **(0.9)** | (0.6) |
| Satellite locations | | **(1.1)** | (1.0) |
| Development of new crematoria | | **(9.0)** | (13.9) |
| Mercury abatement project | | **(1.0)** | (2.1) |
| Purchase of property, plant and equipment | | **(22.8)** | (27.9) |
| **Net cash used in investing activities** | | **(33.9)** | (32.6) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of Secured Notes | | **–** | 87.1 |
| Issue costs in respect of borrowings of Secured Notes | 16 | **–** | (4.5) |
| Repayment of borrowings | | **(7.7)** | (8.9) |
| Transfer from restricted bank accounts for repayment of borrowings | | **–** | 2.6 |
| Total payments in respect of borrowings | | **(7.7)** | (6.3) |
| Dividends paid to shareholders on Ordinary Shares | 7 | **(7.5)** | (5.1) |
| Redemption of B Shares in respect of Capital Option | 7 | **–** | (19.3) |
| Redemption of C Shares in respect of Special Dividend Option | 7 | **–** | (44.5) |
| Purchase of C Shares in respect of Deferred Dividend Option | 7 | **(0.1)** | – |
| **Net cash (used)/generated in financing activities** | | **(15.3)** | 7.4 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(11.2)** | 14.8 |
| Cash and cash equivalents at the beginning of the period | | **46.6** | 31.8 |
| **Cash and cash equivalents at the end of the period** | 15 | **35.4** | 46.6 |
| Restricted cash | 15 | **1.5** | 1.5 |
| **Cash and cash equivalents at the end of the period as reported in the consolidated balance sheet** | 15 | **36.9** | 48.1 |

# Notes to the financial statements

for the 52 week period ended 30 December 2011

## 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 30 December 2011 are prepared in accordance with all applicable International Financial Reporting Standards ('IFRSs'), as adopted by the European Union. These financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee ('IFRIC') interpretations (as issued by the International Accounting Standards Board) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements are prepared on a going concern basis and have been prepared under the historic cost convention, as modified by financial assets and liabilities at fair value through the income statement.

### Preparation of financial statements

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

### Basis of consolidation

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

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

### Exceptional items

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

### External transaction costs

External transaction costs are of a non-recurring nature to the results for the period and are therefore presented separately. They relate wholly to external costs incurred by the Group.

### Pre-arranged funeral plan trusts

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

### Revenue

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

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

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

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

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

All amounts are exclusive of VAT.

## Pre-arranged funeral plans

### Trust plans

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

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

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

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

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

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

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

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

### Insurance plans

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

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

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

## Share-based payments

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

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

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 1 Accounting policies (continued)

### 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 websites) is recognised if and only if the costs are directly associated with the production of identifiable and unique software products, controlled by the Group and it is probable that future economic benefits will flow to the Group. All other costs incurred in research or development are expensed as incurred. Capitalised costs will include, where appropriate, directly attributable payroll costs and a portion of direct overheads.

Costs recognised as assets are amortised over their estimated useful lives (three to eight years) using the straight-line method.

### Intangible assets – use of third party brand name

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

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

### 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 (based on historical data) 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.

### Borrowing costs

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

### Repairs and renewals

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

### Property, plant and equipment held under leases

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

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

### Profit on sale of fixed assets

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within profit on sale of fixed assets in 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. For goodwill this is considered at a business segment level as that is the level at which the return on assets acquired is monitored. For other intangibles (principally trade names) this is considered at a regional level for each business segment as this is the level where cash inflows are largely independent. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future discounted cash flows of the cash-generating unit are estimated, based on latest management expectations for the following year and an annual growth rate in subsequent years. These cash flows are discounted at rates that management estimate to be the risk affected average cost of capital for the particular segment and compared to the carrying value of the relevant asset. Any impairment in the value of an asset below its carrying value is charged to the income statement within operating profit. A reversal of an impairment loss is recognised in the income statement to the extent that the original loss was recognised.

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 1 Accounting policies (continued)

### 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 assets and liabilities are offset to generate a net asset or liability.

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.

### Pensions

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

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

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

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

### Provisions

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

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

### Employee share trust

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

## Dividends

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

## Foreign currency

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

## Financial instruments

### Borrowings

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

### Early termination costs on borrowings

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

### Interest rate swaps

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

### Trade receivables

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

### Trade payables

Trade payables are not interest bearing and are initially recognised at fair value and subsequently measured at amortised cost.

### Equity instruments

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

### Cash and cash equivalents

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

## Critical accounting estimates

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

### Provision for doubtful trade receivables

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

### Pensions

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

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

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 1 Accounting policies (continued)

### Goodwill

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

### Other intangible assets

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

### Standards, amendments and interpretations effective in 2011

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Group.

IAS 1, Presentation of financial statements, effective 1 January 2011.This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity. This has no material impact on the Group's financial statements.

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

The following interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 30 December 2011 or later periods but which the Group has not early adopted:

IAS 12, Income taxes on deferred tax, effective 1 January 2012, subject to endorsement by the EU. This amendment introduces an exception to the existing principal for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The impact of this standard is currently being assessed but is not expected to have an impact on the Group.

IAS 19, Employee benefits was amended in June 2011. The impact on the Group will be as follows: to immediately recognise all past service costs and to replace interest costs and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit asset. The Group is yet to assess the full impact of the amendment.

IFRS 9, Financial instruments (to replace) IAS 39, Financial instruments: Recognition and measurement. This standard introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for financial assets. The standard is not applicable until 1 January 2015 subject to endorsement by the EU. The impact of this standard is currently being assessed.

IFRS 10, Consolidated financial statements, builds on existing principals by identifying the concept on control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. This is not expected to have any impact on the Group.

IFRS 12, Disclosure of interests in other entities, effective 1 January 2013 subject to endorsement by the EU. This standard includes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess the full impact of this standard but it is not expected to have a significant impact on the Group.

IFRS 13, Fair value measurement, effective 1 January 2013, subject to endorsement by the EU. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurements and disclosure requirements for use across IFRSs. The Group is yet to assess IFRS13's full impact.

## 2 Financial risk management

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

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

### Market risk

#### Currency risk

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

#### Interest rate risk and other price risk

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

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

The Group has significant cash balances that are held by institutions rated at least A-1 by Standard and Poors. These balances earn interest by reference to the Bank of England base rate. If base rates reduced by one per cent at the beginning of 2011 then the Group would receive £0.1 million less interest income on an annualised basis for each £10.0 million held.

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

#### Credit risk

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

#### Liquidity risk

The Group manages its liquidity risk by maintaining sufficient cash reserves, committed undrawn borrowing facilities and regular monitoring and forecasting of cash balances. In addition, the Group is required under the terms of its secured borrowings to maintain a precisely defined EBITDA to total debt service ratio of at least 1.5 times. This ratio was determined when raising the debt as being sufficient to ensure all borrowings could be repaid. This covenant test has been satisfied on each quarterly testing date in the period. At 30 December 2011 the actual ratio was 2.27 times (2010: 2.56 times).

#### Capital risk management

The Group's objective under managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, repay holders of Class A and B Secured Notes and benefit other shareholders. It also aims to reduce its cost of capital by maintaining an optimal capital structure. The Group's capital comprises equity and net debt as set out in note 24. The Group's principal source of long term debt financing is the Class A and B Secured Notes, rated A and BBB respectively by Standard & Poor's and A+ and BBB+ respectively by Fitch.

The Group monitors its capital structure based on gross debt, as summarised in note 24, to underlying earnings before interest, taxation, depreciation and amortisation.

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

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

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 3 Revenue and segmental analysis

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

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

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

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

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

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

The operating profit (which includes Recoveries within pre-arranged funeral plans of £1.5 million in both periods and £nil dividend from a fixed asset investment received (2010: £0.3 million)), by segment, was as follows:

| 52 week period ended 30 December 2011 | 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, external transaction costs and exceptional items £m | Operating profit/(loss) £m |
|---|---|---|---|---|---|---|
| Funeral services | 146.5 | 57.8 | (7.0) | 50.8 | (1.5) | 49.3 |
| Crematoria | 41.6 | 23.6 | (2.3) | 21.3 | – | 21.3 |
| Pre-arranged funeral plans | 22.0 | 5.6 | (0.1) | 5.5 | – | 5.5 |
| Central overheads | – | (12.7) | (0.4) | (13.1) | 0.2 | (12.9) |
| Group | 210.1 | 74.3 | (9.8) | 64.5 | (1.3) | 63.2 |
| Finance costs | | | | (25.9) | – | (25.9) |
| Finance income | | | | 3.0 | – | 3.0 |
| Profit before tax | | | | 41.6 | (1.3) | 40.3 |
| Taxation – continuing activities | | | | (11.4) | 0.2 | (11.2) |
| Taxation – exceptional | | | | – | 5.2 | 5.2 |
| Taxation | | | | (11.4) | 5.4 | (6.0) |
| Underlying earnings for the period | | | | 30.2 | | |
| Total other items | | | | | 4.1 | |
| Profit after taxation | | | | | | 34.3 |
| **Earnings per share for profit attributable to equity shareholders** | | | | | | |
| – Basic and diluted (pence) | | | | 55.1p | | 62.6p |

## 3 Revenue and segmental analysis (continued)

The segment assets and liabilities were as follows:

| As at 30 December 2011 | Funeral services £m | Crematoria £m | Pre-arranged funeral plans £m | Head office £m | Group £m |
|---|---|---|---|---|---|
| Segment assets | **249.5** | **117.5** | **16.7** | **2.6** | **386.3** |
| Unallocated assets: | | | | | |
| Cash and cash equivalents | | | | | **36.9** |
| **Total assets** | | | | | **423.2** |
| Segment liabilities | **(23.5)** | **(4.9)** | **(6.0)** | **(5.9)** | **(40.3)** |
| Unallocated liabilities: | | | | | |
| Borrowings – excluding finance leases | | | | | **(338.2)** |
| Accrued interest | | | | | **(0.1)** |
| Corporation tax | | | | | **(2.3)** |
| Deferred tax | | | | | **(25.1)** |
| **Total liabilities** | | | | | **(406.0)** |
| **Other segment items:** | | | | | |
| Additions to non-current assets (other than financial instruments and deferred tax) | **23.0** | **11.6** | **–** | **0.4** | **35.0** |
| Depreciation (note 10) | **7.0** | **2.3** | **–** | **0.4** | **9.7** |
| Amortisation (note 9) | **–** | **–** | **0.1** | **–** | **0.1** |
| Impairment of trade receivables (note 21 (c)) | **1.1** | **(0.2)** | **–** | **–** | **0.9** |
| Other non cash expenses (note 23) | **–** | **–** | **–** | **1.1** | **1.1** |
| Profit on sale of fixed assets | **–** | **–** | **–** | **0.2** | **0.2** |

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

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

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 3 Revenue and segmental analysis (continued)

The segment assets and liabilities were as follows:

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

## 4 Net finance costs

| | 52 week period ended 30 December 2011 £m | 53 week period ended 31 December 2010 £m |
|---|---|---|
| **Finance costs** | | |
| Class A and B Secured Notes – issued April 2003 | **13.5** | 13.8 |
| Class A and B Secured Notes – issued February 2006 | **4.9** | 5.0 |
| Class A and B Secured Notes – issued September 2010 | **5.1** | 1.3 |
| Amortisation of issue costs – issued April 2003 | **1.0** | 1.0 |
| Amortisation of issue costs – issued February 2006 | **0.2** | 0.2 |
| Amortisation of issue costs – issued September 2010 | **0.4** | 0.1 |
| Crematoria Acquisition Facility | **0.5** | 0.5 |
| Other loans | **0.3** | 0.2 |
| Interest payable on finance leases | **0.1** | 0.1 |
| Unwinding of discounts | **0.5** | 0.5 |
| **Finance costs** | **26.5** | 22.7 |
| Less: interest capitalised (note 10) | **(0.6)** | (0.2) |
| **Net finance costs** | **25.9** | 22.5 |
| **Finance income** | | |
| Bank deposits | **(0.3)** | (0.4) |
| Release of premium on Secured Notes – issued February 2006 | **(0.8)** | (0.8) |
| Release of premium on Secured Notes – issued September 2010 | **(1.2)** | (0.3) |
| Net finance income on retirement benefit obligations (note 28) | **(0.7)** | (0.4) |
| **Finance income** | **(3.0)** | (1.9) |
| **Net finance costs** | **22.9** | 20.6 |

## 5 Profit before tax

| Analysis by nature | 52 week period ended 30 December 2011 £m | 53 week period ended 31 December 2010 £m |
|---|---|---|
| The following items have been included in arriving at profit before tax: | | |
| Staff costs (note 27) | **66.3** | 64.7 |
| Cost of inventories recognised as an expense (included in cost of sales) (note 13) | **12.5** | 12.7 |
| Depreciation of property, plant and equipment – owned assets (note 10) | **9.7** | 9.0 |
| Amortisation of intangible assets (included in administrative expenses) (note 9) | **0.1** | 0.2 |
| Operating lease rentals – property | **6.6** | 6.4 |
| External transaction costs | **1.5** | 1.1 |
| Recoveries (included within other operating income) | **(1.5)** | (1.5) |
| Trade receivables impairment (included in administrative expenses) (note 21(c)) | **0.9** | 1.3 |
| **Services provided by the Group's auditors and its associates:** | | |
| Fees payable to the Company's auditors for the audit of parent company and consolidated financial statements | **0.1** | 0.1 |
| Fees payable to the Company's auditors and its associates for other services: | | |
| – The audit of Company's subsidiaries pursuant to legislation | **0.1** | 0.1 |
| – Other services pursuant to legislation | **–** | – |
| – Tax services | **0.6** | 0.1 |
| – Fees in relation to issue of Secured Notes | **–** | 1.4 |
| | **0.8** | 1.7 |

The external transaction costs comprise £nil (2010: £0.8 million) in respect of the Return of Value and £1.5 million (2010: £0.3 million) of acquisition expenses. The impact on taxation of these is a credit of £0.3 million (2010: £0.3 million).

## 6 Taxation

| Analysis of charge in the period | 52 week period ended 30 December 2011 £m | 53 week period ended 31 December 2010 £m |
|---|---|---|
| Current tax – current period | **8.0** | 11.2 |
| Adjustments for prior period | **(0.3)** | (0.3) |
| | **7.7** | 10.9 |
| Deferred tax – current period | **3.2** | 0.4 |
| Adjustments for prior period (note 20) | **0.3** | 0.2 |
| Exceptional adjustment for rate change – 27% to 25% (2010: 28% to 27%) | **(1.8)** | (0.7) |
| Exceptional adjustment for recognition of brought forward losses (note 20) | **(3.4)** | – |
| | **(1.7)** | (0.1) |
| Taxation | **6.0** | 10.8 |

All tax relates to continuing operations.

| Tax on items charged to equity | 52 week period ended 30 December 2011 £m | 53 week period ended 31 December 2010 £m |
|---|---|---|
| Deferred tax credit on actuarial losses on retirement benefit obligations | **(1.9)** | (0.2) |
| Deferred tax credit relating to maturity of option schemes | **(0.2)** | – |
| Corporation tax credit on actuarial losses on retirement benefit obligations | **(0.2)** | (0.4) |
| Corporation tax relief relating to maturity of option schemes | **0.3** | (0.1) |
| Adjustment for rate change – 27% to 25% (2010: 28% to 27%) | **–** | (0.1) |
| | **(2.0)** | (0.8) |

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 6 Taxation (continued)

| Total tax charge | 52 week period ended 30 December 2011 £m | 53 week period ended 31 December 2010 £m |
|---|---|---|
| Total current tax charge | 7.8 | 10.4 |
| Total deferred tax credit | (3.8) | (0.4) |

The taxation charge in the period is lower (2010: lower) than the standard rate of corporation tax in the UK 26.5 per cent (2010: 28 per cent). The differences are explained below:

| | 52 week period ended 30 December 2011 £m | 53 week period ended 31 December 2010 £m |
|---|---|---|
| Profit before taxation | 40.3 | 39.8 |
| Profit before taxation multiplied by the standard rate of corporation tax in the UK of 26.5% (2010: 28%) | 10.7 | 11.1 |
| Effects of: | | |
| Adjustments in respect of prior period | – | (0.1) |
| Exceptional adjustment in respect of closing deferred tax rate change – 27% to 25% (2010: 28% to 27%) | (1.8) | (0.7) |
| Exceptional adjustment for recognition of brought forward losses | (3.4) | – |
| Expenses not deductible for tax purposes | 0.5 | 0.5 |
| Total taxation | 6.0 | 10.8 |

Under IFRS the tax rate is lower (2010: lower) than the standard UK tax rate of 26.5 per cent (2010: 28 per cent) principally due to the exceptional adjustments in both periods. Without these exceptional adjustments the rate would be higher (2010: higher) due to a combination of the impact of disallowable trading expenses and expenditure on the Group's premises that does not attract any deductions for tax purposes. The standard rate of corporation tax in the UK changed from 28 per cent to 26 per cent with effect from 1 April 2011. Accordingly the Group's profits for this accounting period are taxed at an effective rate of 27.5 per cent. As a result, the Group recognised exceptional tax income of £1.8 million (2010: £0.7 million) through its income statement to reflect the one off reduction in the period of the Group's deferred tax position.

In addition to the changes in rates of corporation tax disclosed above a number of further changes to the UK corporation tax system were announced in the March 2011 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 26 per cent to 25 per cent from 1 April 2012 was substantively enacted at the balance sheet date and so the deferred tax balance has been calculated at 25 per cent.

Further rate changes are anticipated, if these are subsequently enacted in the form expected then the corporation tax rate will reduce by a further 1 per cent per annum until 2014 when it will be 23 per cent. The changes had not been substantively enacted at the balance sheet date and therefore are not recognised in these financial statements.

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

## 7 Dividends

| | 52 week period ended 30 December 2011 £m | 53 week period ended 31 December 2010 £m |
|---|---|---|
| Final dividend paid: 8.88p per Ordinary Share (2010: 8.07p) | 4.9 | 5.1 |
| Interim dividend paid: 4.87p per Ordinary Share (2010: nil p) | 2.6 | – |
| **Dividend on Ordinary Shares (excluding special dividend)** | 7.5 | 5.1 |
| Special dividend relating to Return of Value: £1 per C Share | – | 44.6 |

### Current year

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

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

## 7 Dividends (continued)

Consequently, total dividends recognised in the period were £7.5 million, 13.75 pence per share (2010: £49.7 million, 108.07 pence per share).

A final dividend of 9.77 pence per share, in respect of 2011, has been proposed by the Board. This will be paid on 29 June 2012 provided that approval is gained from shareholders at the Annual General Meeting on 14 June 2012 and will be paid to shareholders on the register at close of business on 25 May 2012.

### Prior year

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

(a) A return of capital (the ‘Capital Option’);
(b) A special dividend (the ‘Special Dividend Option’); or
(c) A deferred income option (the ‘Deferred Dividend Option’).

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

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

## 8 Earnings per share

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

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

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

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

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

On 8 October 2010, shareholders approved a share capital consolidation together with a Special Dividend of £1 per Ordinary Share. The overall effect of the transaction was that of a share repurchase at fair value. The reduction in the number of Ordinary Shares is the result of a corresponding reduction in resources.

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

| | Earnings £m | Weighted average number of shares millions | Per share amount pence |
|---|---|---|---|
| **52 week period ended 30 December 2011** | | | |
| **Profit attributable to shareholders – Basic and diluted EPS** | **34.3** | **54.8** | **62.6** |
| Deduct: Exceptional items, profit on sale of fixed assets and external transaction costs (net of taxation of £0.2 million) | **(4.1)** | | |
| Underlying profit after taxation – Basic EPS | **30.2** | **54.8** | **55.1** |
| 53 week period ended 31 December 2010 | | | |
| Profit attributable to shareholders – Basic and diluted EPS | 29.0 | 61.8 | 46.9 |
| Deduct: Exceptional items, profit on sale of fixed assets and external transaction costs (net of taxation of £0.2 million) | (0.3) | | |
| Underlying profit after taxation – Basic EPS | 28.7 | 61.8 | 46.4 |

In 2011 and 2010, the potential issue of new shares pursuant to the Group’s share option plans would have no impact on the calculation of earnings per share.

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 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 25 December 2009 | 33.1 | 3.2 | 3.9 | 0.2 | 40.4 | 139.7 | 180.1 |
| Additions | – | – | 0.1 | – | 0.1 | – | 0.1 |
| Acquisition of subsidiaries and other businesses | 3.7 | – | – | – | 3.7 | 3.2 | 6.9 |
| At 31 December 2010 | 36.8 | 3.2 | 4.0 | 0.2 | 44.2 | 142.9 | 187.1 |
| Acquisition of subsidiaries and other businesses (note 26(a)) | 6.9 | – | – | – | 6.9 | 5.1 | 12.0 |
| **At 30 December 2011** | **43.7** | **3.2** | **4.0** | **0.2** | **51.1** | **148.0** | **199.1** |
| **Accumulated amortisation** | | | | | | | |
| At 25 December 2009 | – | (0.5) | (3.8) | (0.2) | (4.5) | – | (4.5) |
| Amortisation charge | – | (0.1) | (0.1) | – | (0.2) | – | (0.2) |
| At 31 December 2010 | – | (0.6) | (3.9) | (0.2) | (4.7) | – | (4.7) |
| Amortisation charge | – | (0.1) | – | – | (0.1) | – | (0.1) |
| **At 30 December 2011** | **–** | **(0.7)** | **(3.9)** | **(0.2)** | **(4.8)** | **–** | **(4.8)** |
| **Net book amount at 30 December 2011** | **43.7** | **2.5** | **0.1** | **–** | **46.3** | **148.0** | **194.3** |
| Net book amount at 31 December 2010 | 36.8 | 2.6 | 0.1 | – | 39.5 | 142.9 | 182.4 |

### Impairment tests for goodwill and other intangible assets

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

For the purpose of impairment testing:

(i) Goodwill is tested at a business segment level.

(ii) Other intangible assets are allocated to the Group's cash-generating units ('CGUs') which are considered to be on a regional basis.

The segmental allocation is shown below:

Amortisation of £0.1 million (2010: £0.2 million) is included within administrative expenses in the income statement.

| **At 30 December 2011** | Intangible assets £m | Goodwill £m | Total £m |
|---|---|---|---|
| Funeral services | **43.6** | **103.0** | **146.6** |
| Crematoria | **–** | **40.3** | **40.3** |
| Pre-arranged funeral plans | **2.6** | **4.7** | **7.3** |
| Head office | **0.1** | **–** | **0.1** |
| | **46.3** | **148.0** | **194.3** |
| At 31 December 2010 | | | |
| Funeral services | 36.8 | 97.9 | 134.7 |
| Crematoria | – | 40.3 | 40.3 |
| Pre-arranged funeral plans | 2.6 | 4.7 | 7.3 |
| Head office | 0.1 | – | 0.1 |
| | 39.5 | 142.9 | 182.4 |

### 9 Goodwill and other intangible assets (continued)

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

The value-in-use calculations use cash flow projections based on the latest management expectations. Key assumptions used to produce the annual budget are the estimated UK death rates (based on historical death rates supplied by ONS), anticipated market share (based on actual experience) and anticipated price increases (based on actual experience). Cash flows beyond the initial 12 month period are extrapolated using a growth rate of 2.25 per cent (2010: 2.25 per cent). The cash flows are discounted at a pre-tax rate of 10.2 per cent (2010: 9.2 per cent). This rate is used to analyse each CGU because they all have similar risk profiles. Based on these calculations, the discount rate would have to increase to at least 20 per cent (2010: 19 per cent), or the growth rate would have to reduce to at least minus 9 per cent (2010: minus 9 per cent) to result in any impairment of goodwill, intangible assets, property, plant and equipment and working capital.

On the basis of the above, the review indicated that no impairment arose in any segment (2010: £nil).

### 10 Property, plant and equipment

| | Freehold land and buildings £m | Leasehold buildings £m | Plant, machinery, fixtures and fittings £m | Motor vehicles £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 25 December 2009 | 73.8 | 23.4 | 24.6 | 40.0 | 161.8 |
| Additions | 0.6 | 2.7 | 18.5 | 4.0 | 25.8 |
| Acquisition of subsidiaries and other businesses | 0.2 | – | – | 0.4 | 0.6 |
| Disposals | (0.2) | (0.1) | (1.1) | (1.8) | (3.2) |
| Reclassification | 4.6 | 2.7 | (7.3) | – | – |
| At 31 December 2010 | 79.0 | 28.7 | 34.7 | 42.6 | 185.0 |
| Additions | 3.8 | 3.4 | 10.3 | 5.3 | 22.8 |
| Acquisition of subsidiaries and other businesses (note 26(a)) | 0.9 | – | – | 0.7 | 1.6 |
| Disposals | (0.2) | – | (0.8) | (1.9) | (2.9) |
| Reclassification | 2.9 | 3.7 | (6.6) | – | – |
| **At 30 December 2011** | **86.4** | **35.8** | **37.6** | **46.7** | **206.5** |
| **Accumulated depreciation** | | | | | |
| At 25 December 2009 | (9.0) | (7.5) | (10.7) | (17.8) | (45.0) |
| Depreciation charge | (1.9) | (1.0) | (2.6) | (3.5) | (9.0) |
| Disposals | – | 0.1 | 1.1 | 1.4 | 2.6 |
| At 31 December 2010 | (10.9) | (8.4) | (12.2) | (19.9) | (51.4) |
| Depreciation charge | (2.2) | (1.3) | (2.8) | (3.4) | (9.7) |
| Disposals | – | – | 0.8 | 1.4 | 2.2 |
| **At 30 December 2011** | **(13.1)** | **(9.7)** | **(14.2)** | **(21.9)** | **(58.9)** |
| **Net book amount at 30 December 2011** | **73.3** | **26.1** | **23.4** | **24.8** | **147.6** |
| Net book amount at 31 December 2010 | 68.1 | 20.3 | 22.5 | 22.7 | 133.6 |

Depreciation expense of £3.4 million (2010: £3.5 million) is included within cost of sales and £6.3 million (2010: £5.5 million) is included within administrative expenses.

Included within plant, machinery, fixtures and fittings net book value is £7.3 million (2010: £8.9 million) relating to assets held in the course of construction.

In 2011, borrowing costs of £0.6 million (2010: £0.2 million) were capitalised as components of the cost of construction of qualifying assets, applying an annualised average capitalisation rate of 6.9 per cent (2010: 6.7 per cent).

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

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 10 Property, plant and equipment (continued)

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

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

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| Cost | **1.0** | 1.0 |
| Accumulated depreciation | **(0.3)** | (0.3) |
| Net book amount | **0.7** | 0.7 |

The Group had capital expenditure authorised by the Board and contracted for at the balance sheet date of £4.8 million (2010: £9.3 million). This includes amounts in respect of the crematoria being developed at Weston-super-Mare and Essex.

## 11 Non-current financial and other assets

| | Note | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|---|
| Prepayments | (a) | **10.1** | 10.2 |
| Deferred commissions | (b) | **2.5** | 1.8 |
| | | **12.6** | 12.0 |

### (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

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| Materials | **0.2** | 0.9 |
| Finished goods | **5.7** | 4.3 |
| | **5.9** | 5.2 |

The cost of inventories recognised within cost of sales amounted to £12.5 million (2010: £12.7 million).

There were no inventory write-downs in either period.

## 14 Trade and other receivables

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| Trade receivables | **16.5** | 19.6 |
| Less: provision for impairment (note 21(c)) | **(3.1)** | (3.7) |
| Net trade receivables | **13.4** | 15.9 |
| Receivables due from related parties (note 31) | **2.6** | 2.4 |
| Prepayments and accrued income | **4.2** | 3.7 |
| Other receivables | **4.4** | 2.0 |
| | **24.6** | 24.0 |

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 | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|---|
| **Operating cash as reported in the consolidated statement of cash flows as cash and cash equivalents** | | **35.4** | 46.6 |
| Recoveries: pre-arranged funeral plans | (a) | **1.5** | 1.5 |
| **Cash and cash equivalents as reported in the balance sheet** | | **36.9** | 48.1 |

(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.

## 16 Financial liabilities

| **Current** | Note | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|---|
| Class A Secured Notes – issued April 2003 | (a) | **3.5** | 3.2 |
| Class A Secured Notes – issued February 2006 | (b) | **1.6** | 1.5 |
| Class A Secured Notes – issued September 2010 | (c) | **1.5** | 1.4 |
| Premium on Secured Notes – issued February 2006 | (b) | **0.8** | 0.7 |
| Premium on Secured Notes – issued September 2010 | (c) | **1.2** | 1.2 |
| Other current financial liabilities | (e) | **0.7** | 0.7 |
| | (g) | **9.3** | 8.7 |
| **Non-current** | | | |
| Class A and B Secured Notes – issued April 2003 | (a) | **168.4** | 171.9 |
| Class A and B Secured Notes – issued February 2006 | (b) | **62.5** | 64.1 |
| Class A and B Secured Notes – issued September 2010 | (c) | **63.8** | 65.3 |
| Premium on Secured Notes – issued February 2006 | (b) | **8.8** | 9.5 |
| Premium on Secured Notes – issued September 2010 | (c) | **11.2** | 12.4 |
| Finance lease obligations | (d) | **0.7** | 0.7 |
| Other non-current financial liabilities | (e) | **4.3** | 4.7 |
| Crematoria Acquisition Facility | (f) | **9.9** | 9.9 |
| | | **329.6** | 338.5 |

### (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.

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 16 Financial liabilities (continued)

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 30 December 2011, £81.8 million (2010: £86.0 million) of the principal of the A notes and £100.0 million (2010: £100.0 million) of the principal of the B notes was outstanding.

At 30 December 2011, £4.3 million (2010: £4.9 million) and £5.6 million (2010: £6.0 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 on page 67. 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 30 December 2011, £33.9 million (2010: £35.6 million) of the principal of the Further A notes and £32.5 million (2010: £32.5 million) of the principal of the Further B notes was outstanding.

At 30 December 2011, £1.0 million (2010: £1.1 million) and £1.3 million (2010: £1.4 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 £1.8 million (2010: £2.1 million) and £7.8 million (2010: £8.2 million) respectively remained unamortised.

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

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

The Second Further A notes carry interest at 6.31 per cent, payable half yearly in arrears. The Second Further A notes are repayable in instalments ending in December 2023. The transaction costs incurred on issue of the Second Further A notes totalled £2.4 million. The Second Further B notes carry interest at 8.151 per cent, payable half yearly in arrears. The Second Further B notes are repayable in instalments ending in December 2030. The transaction costs incurred on issue of the Second Further B notes totalled £2.1 million. The principal outstanding on the Secured Notes and related issue costs have been presented on a net basis in the table on page 67. Both the Second Further A notes and the Second Further B notes are secured by first ranking security in respect of the undertakings and assets of Dignity (2002) Limited and its subsidiaries.

At 30 December 2011, £36.2 million (2010: £38.0 million) of the principal of the Second Further A notes and £33.1 million (2010: £33.1 million) of the principal of the Second Further B notes was outstanding.

At 30 December 2011, £2.1 million and £1.9 million (2010: £2.4 million and £2.0 million) of the transaction costs in respect of the Second Further A notes and the Second Further B notes respectively remain unamortised.

The Second Further A notes and Second Further B notes were issued at a premium of £5.7 million and £8.2 million respectively, which is being released in proportion to the interest cost in the notes. At the balance sheet date £4.8 million and £7.6 million (2010: £5.5 million and £8.1 million) respectively remained unamortised.

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

## 16 Financial liabilities (continued)

### (d) Obligations under finance leases

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| Obligations under finance leases and hire purchase payable: | | |
| Within one year | – | – |
| Between one and two years | – | – |
| Between two and five years | 0.2 | 0.2 |
| After five years | 0.5 | 0.5 |
| | 0.7 | 0.7 |

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

### (e) Other financial liabilities

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

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

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

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

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

### (f) Crematoria Acquisition Facility

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

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

At 30 December 2011, £10.0 million (2010: £10.0 million) of the principal was outstanding. At 30 December 2011, £0.1 million (2010: £0.1 million) of the transaction costs remained unamortised.

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

### (g) Current financial liabilities

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

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 17 Trade and other payables

| Current | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| Trade payables | **9.3** | 10.2 |
| Tax and social security | **1.3** | 1.3 |
| Other current liabilities | **1.4** | 1.4 |
| Other current liabilities – Deferred Dividend Option | **–** | 0.1 |
| Accruals and deferred income | **20.6** | 19.0 |
| | **32.6** | 32.0 |
| **Non-current** | | |
| Deferred income | **1.1** | 1.1 |
| Deferred consideration for acquisitions | **0.2** | 0.3 |
| Long service awards | **1.0** | 1.1 |
| Other non-current liabilities | **0.3** | 0.4 |
| | **2.6** | 2.9 |

## 18 Obligations under finance leases and operating leases

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

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| The minimum lease payments under non-cancellable operating leases fall due as follows: | | |
| Not later than one year | **7.6** | 7.0 |
| Later than one year but not more than five years | **20.6** | 20.3 |
| More than five years | **86.9** | 89.3 |
| | **115.1** | 116.6 |

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

Of the total operating lease payments charged to trading expenses, £nil million (2010: £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 £0.3 million (2010: £0.4 million). Total future sublease payments receivable relating to operating leases amount to £0.6 million (2010: £0.5 million).

In addition, the Group has operating lease commitments with rentals determined in relation to revenues. No operating lease commitment disclosures are required for these arrangements, as future lease payments represent contingent rental payments.

## 19 Provisions for liabilities and charges

| | Dilapidations £m (a) | Onerous contracts £m (b) | Cancellation provision £m (c) | Total £m |
|---|---|---|---|---|
| At beginning of period | 2.7 | 0.5 | 1.2 | 4.4 |
| Charged/(released) to income statement | 0.3 | (0.1) | 0.7 | 0.9 |
| Utilised in period | (0.3) | (0.1) | (0.5) | (0.9) |
| Amortisation of discount | 0.1 | – | – | 0.1 |
| **At end of period** | **2.8** | **0.3** | **1.4** | **4.5** |

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

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| Current | **1.4** | 1.5 |
| Non-current | **3.1** | 2.9 |
| | **4.5** | 4.4 |

## 19 Provisions for liabilities and charges (continued)

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

It is anticipated that the element of provision relating to dilapidation notices served, £0.8 million (2010: £0.8 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 2020.

### (b) 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 by 2038.

Included within the provision is an amount of £0.1 million (2010: £0.1 million) relating to the expected costs of ongoing rent reviews, the outcomes of which have been based on recent experience of similar reviews on other properties.

### (c) 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 25 per cent (2010: 27 per cent).

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

| | **30 December 2011 £m** | 31 December 2010 £m |
|---|---|---|
| At beginning of period | **27.3** | 26.0 |
| Charged to income statement (note 6) | **3.5** | 0.6 |
| Adjustment for rate change – 27% to 25% (2010: 28% to 27%) | **(1.9)** | (0.8) |
| Exceptional adjustment for recognition of brought forward losses | **(3.4)** | – |
| Taken to equity (note 6) | **(2.1)** | (0.2) |
| Arising on acquisitions (note 26(a)) | **1.7** | 1.7 |
| **At end of period** | **25.1** | 27.3 |

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

### Deferred tax liabilities

| | **Pensions £m** | **Accelerated tax depreciation £m** | **Other £m** | **Total £m** |
|---|---|---|---|---|
| At beginning of period | 2.3 | 16.9 | 9.5 | 28.7 |
| Charged to income statement (note 6) | – | 0.5 | 0.3 | 0.8 |
| Adjustment for rate change – 27% to 25% (2010: 28% to 27%) | (0.1) | (1.2) | (0.8) | (2.1) |
| Taken to equity (note 6) | (1.9) | – | – | (1.9) |
| Arising on acquisitions | – | 0.2 | 1.5 | 1.7 |
| **At end of period** | **0.3** | **16.4** | **10.5** | **27.2** |

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 20 Deferred tax (continued)

### Deferred tax assets

| | Losses £m | Other £m | Total £m |
|---|---|---|---|
| At beginning of period | – | (1.4) | (1.4) |
| Charged to income statement (note 6) | 2.7 | – | 2.7 |
| Adjustment for rate change – 27% to 25% (2010: 28% to 27%) | – | 0.2 | 0.2 |
| Adjustment for recognition of brought forward losses | (3.4) | – | (3.4) |
| Taken to equity (note 6) | – | (0.2) | (0.2) |
| **At end of period** | **(0.7)** | **(1.4)** | **(2.1)** |

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision at 30 December 2011 was £25.1 million (2010: £27.3 million).

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

During the period, a deferred tax asset was recognised in respect of previously unrecognised losses within the Group. These amounted to £3.4 million net, of which £2.7 million has been utilised in the period. These were not recognised previously as due to the nature of these losses, the Directors did not consider that taxable profits would arise in the relevant company from which the future reversal of the underlying timing differences can be deducted. The Directors now consider that sufficient taxable profits will arise in the relevant company from which the reversal of the underlying timing differences can be deducted. There are no further unrecognised deferred tax losses within the Group.

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:

| | 2011 £m | 2010 £m |
|---|---|---|
| Deferred tax credit on actuarial losses on retirement benefit obligations | **(1.9)** | (0.2) |
| Deferred tax credit relating to maturity of option schemes | **(0.2)** | – |
| Adjustment for rate change – 27% to 25% (2010: 28% to 27%) | **–** | (0.1) |

## 21 Financial instruments

### Fair values of non-derivative financial assets and financial liabilities

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

Trade receivables are held net of impairment.

#### Fair value estimation

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

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

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

## 21 Financial instruments (continued)

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

| | 30 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Book value £m | Fair value £m | Book value £m | Fair value £m |
| Long term borrowings (excluding finance lease obligations and including swaps) (note 16) | **(328.9)** | **(415.8)** | (337.8) | (398.9) |
| Finance lease obligations (note 16) | **(0.7)** | **(0.7)** | (0.7) | (0.7) |
| | **(329.6)** | **(416.5)** | (338.5) | (399.6) |
| Fair values of other financial assets and financial liabilities | | | | |
| Primary financial instruments held or issued to finance the Group's operations: | | | | |
| Short term borrowings (excluding finance lease obligations) (note 16) | **(9.3)** | **(10.9)** | (8.7) | (9.7) |
| Trade and other payables (excluding statutory liabilities) (note 17) | **(31.3)** | **(31.3)** | (30.7) | (30.7) |
| Trade and other receivables (excluding prepayments) (note 14) | **20.4** | **20.4** | 20.3 | 20.3 |
| Cash and cash equivalents (note 15) | **36.9** | **36.9** | 48.1 | 48.1 |
| Other non-current financial liabilities (note 17) | **(2.6)** | **(2.6)** | (2.9) | (2.9) |

### (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.

| 30 December 2011 | 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) | **8.3** | **8.9** | **9.7** | **21.6** | **269.0** | **317.5** |
| Interest payable on Notes | **23.0** | **22.4** | **21.8** | **41.8** | **173.1** | **282.1** |
| Swaps | **0.7** | **0.7** | **0.7** | **1.4** | **3.9** | **7.4** |
| Crematoria Acquisition Facility | **–** | **10.0** | **–** | **–** | **–** | **10.0** |
| Interest payable on Crematoria Acquisition Facility | **0.5** | **0.5** | **–** | **–** | **–** | **1.0** |
| Finance leases | **–** | **0.1** | **0.1** | **0.1** | **2.7** | **3.0** |
| **Debt repayments** | **32.5** | **42.6** | **32.3** | **64.9** | **448.7** | **621.0** |
| Other financial liabilities | **32.3** | **0.3** | **0.2** | **0.4** | **1.2** | **34.4** |
| | **64.8** | **42.9** | **32.5** | **65.3** | **449.9** | **655.4** |

| 31 December 2010 | 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) | 7.7 | 8.3 | 8.9 | 20.0 | 280.3 | 325.2 |
| Interest payable on Notes | 23.5 | 23.0 | 22.4 | 43.0 | 193.7 | 305.6 |
| Swaps | 0.7 | 0.7 | 0.7 | 1.4 | 4.6 | 8.1 |
| Crematoria Acquisition Facility | – | – | 10.0 | – | – | 10.0 |
| Interest payable on Crematoria Acquisition Facility | 0.5 | 0.5 | 0.5 | – | – | 1.5 |
| Finance leases | – | 0.1 | 0.1 | 0.2 | 2.7 | 3.1 |
| **Debt repayments** | 32.4 | 32.6 | 42.6 | 64.6 | 481.3 | 653.5 |
| Other financial liabilities | 31.6 | 0.3 | 0.3 | 0.5 | 1.3 | 34.0 |
| | 64.0 | 32.9 | 42.9 | 65.1 | 482.6 | 687.5 |

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 21 Financial instruments (continued)

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.

| | 30 December 2011 | | | | | |
|---|---|---|---|---|---|---|
| | 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 on Secured Notes | **1.6** | **1.5** | **1.5** | **2.7** | **8.9** | **16.2** |
| Premium on Secured Notes | **(1.9)** | **(1.8)** | **(1.8)** | **(3.4)** | **(13.1)** | **(22.0)** |
| Issue costs on Crematoria Acquisition Facility | **–** | **0.1** | **–** | **–** | **–** | **0.1** |
| | **(0.3)** | **(0.2)** | **(0.3)** | **(0.7)** | **(4.2)** | **(5.7)** |

| | 31 December 2010 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 1.6 | 1.6 | 1.5 | 2.8 | 10.3 | 17.8 |
| Premium on Secured Notes | (1.9) | (1.9) | (1.8) | (3.5) | (14.8) | (23.9) |
| Crematoria Acquisition Facility | – | – | 0.1 | – | – | 0.1 |
| | (0.3) | (0.3) | (0.2) | (0.7) | (4.5) | (6.0) |

### (c) Trade receivables

As at 30 December 2011, £6.9 million of the gross trade receivables (2010: £8.4 million) were past due and partially impaired. A provision for impairment is established based on historical experience. The amount of the provision, as at 30 December 2011, was £3.1 million (2010: £3.7 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:

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| One to six months | **4.3** | 5.7 |
| Over six months | **2.6** | 2.7 |
| | **6.9** | 8.4 |

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

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

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| At beginning of period | **(3.7)** | (3.6) |
| Charged to income statement | **(0.9)** | (1.3) |
| Utilised in period | **1.5** | 1.2 |
| At end of period | **(3.1)** | (3.7) |

### (d) Borrowing facilities

(i) The Group has the following undrawn committed borrowing facilities available at 30 December 2011, all of which were at floating interest rates, in respect of which all conditions precedent had been met at that date:

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| Expiring within one year | **50.0** | 50.0 |
| Expiring between one and two years | **5.0** | – |
| Expiring in more than two years | **–** | 5.0 |
| | **55.0** | 55.0 |

## 21 Financial instruments (continued)

£50.0 million (2010: £50.0 million) of the amount above is a liquidity facility relating to the Class A and B Secured Notes. This facility may only be used to repay interest and principal on the Secured Notes in the event of insufficient cash to service these instruments. The facility is subject to annual renewal. However, if the bank providing the facility does not renew it, then the provider is required to place £50.0 million (2010: £50.0 million) in a bank account, which the Group may access as if it represented a borrowing facility on the same terms. The facility is available on these terms until the Secured Notes have been repaid in full.

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

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

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| Not later than one year | **–** | – |
| Later than one year but not more than five years | **0.2** | 0.2 |
| More than five years | **2.8** | 2.9 |
| | **3.0** | 3.1 |
| Future finance costs on finance leases | **(2.3)** | (2.4) |
| Present value of finance lease liabilities | **0.7** | 0.7 |

## 22 Ordinary share capital

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| **Allotted and fully paid Equity shares** | | |
| 54,757,054 (2010: 54,757,002) Ordinary Shares of £0.105 (2010: £0.105) each | **5.7** | 5.7 |

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

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

During the period the Group received £nil million in relation to the 52 shares issued with a nominal value of 10.5 pence per share.

### Potential issues of Ordinary Shares

Certain employees hold options to subscribe for shares in the Company under an approved Save As You Earn (SAYE) Scheme started in 2010. In addition, Executive Directors and senior management hold options to subscribe for shares in the Company under Long Term Incentive Plans (LTIPs) awarded in 2009, 2010 and 2011.

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 | 2011 Number | 2010 Number | 2009 Number |
|---|---|---|---|---|---|
| 2010 – SAYE | 701.00 | 1 December 2013 to 31 May 2014 | **185,031** | 207,231 | n/a |
| 2009 – LTIP | – | 21 March 2012 to 21 March 2013 | **265,391** | 267,272 | 267,272 |
| 2010 – LTIP | – | 19 March 2013 to 19 March 2014 | **255,844** | 255,844 | n/a |
| 2011 – LTIP | – | 21 March 2014 to 21 March 2015 | **285,430** | n/a | n/a |

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 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 33 and 34. 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 | 17 March 2011 | 19 March 2010 | 20 March 2009 |
|---|---|---|---|
| Share price at grant date | **£7.21** | £6.55 | £5.66 |
| Exercise price | **–** | – | – |
| Number of employees | **29** | 32 | 30 |
| Shares under option | **285,430** | 255,844 | 268,799 |
| Vesting period (years) | **3** | 3 | 3 |
| Expected volatility | **26.5%** | 26.4% | 23.1% |
| Option life (years) | **10** | 10 | 10 |
| Expected life (years) | **3** | 3 | 3 |
| Risk free rate | **1.71%** | 1.92% | 1.89% |
| Expected dividends expressed as a dividend yield | **1.2%** | 2.2% | 2.1% |
| Possibility of ceasing employment before vesting | **0%** | 0% | 0% |
| Fair value per option | **£4.50** | £4.19 | £3.11 |

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, 1,881 options (2010: nil) under the 2009 LTIP Scheme, nil (2010: nil) under the 2010 LTIP scheme and nil (2010: nil) under the 2011 LTIP scheme were forfeited. Nil options were exercised under the 2008 LTIP Scheme during the period as the vesting criteria were not met. The options under the 2009, 2010 and 2011 LTIP Schemes have not yet vested.

The charge to the income statement in the period in respect of the LTIP Schemes was £1.0 million (2010: £0.9 million), all of which are equity based settled.

### SAYE Scheme

One Inland Revenue approved SAYE Scheme was in place during the period. 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 | 2010 Scheme 22 October 2010 |
|---|---|
| Share price at grant date | £6.46 |
| Exercise price | £7.01 |
| Number of employees | 489 |
| Shares under option | 207,231 |
| Vesting period (years) | 3 |
| Expected volatility | 26.6% |
| Option life (years) | 3.5 |
| Expected life (years) | 3.25 |
| Risk free rate | 1.02% |
| Expected dividends expressed as a dividend yield | 2.2% |
| Possibility of failing to save | 0% |
| Fair value per option | £0.86 |

During the period 22,200 options (2010: nil options) under the 2010 SAYE Scheme were forfeited and 52 options (2010: nil options) were exercised with a weighted average share price of £7.09.

## 23 Share-based payments (continued)

The expected volatility is calculated by reference to historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The options under the 2010 SAYE Scheme have not yet vested.

The charge to the income statement in the period in respect of the SAYE Schemes was £0.1 million (2010: £0.1 million). All of which are equity based settled.

## 24 Net debt

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| Net amounts owing on all Class A and B Secured Notes per financial statements | **(323.3)** | (331.3) |
| Add: unamortised issue costs (notes 16(a) and 16(b)) | **(16.2)** | (17.8) |
| Gross amounts owing on all Class A and B Secured Notes per financial statements | **(339.5)** | (349.1) |
| Net amounts owing on Crematoria Acquisition Facility per financial statements | **(9.9)** | (9.9) |
| Add: unamortised issue costs on Crematoria Acquisition Facility (note 16(f)) | **(0.1)** | (0.1) |
| Gross amounts owing | **(349.5)** | (359.1) |
| Accrued interest on Crematoria Acquisition Facility | **(0.1)** | (0.1) |
| Cash and cash equivalents (note 15) | **36.9** | 48.1 |
| Net debt | **(312.7)** | (311.1) |

In addition to the above, the consolidated balance sheet also includes finance lease obligations and other financial liabilities which totalled £5.7 million (2010: £5.9 million). These amounts do not represent sources of funding for the Group and are therefore excluded from the calculation of net debt.

The Group's primary financial covenant in respect of the Secured Notes requires EBITDA to total debt service to be at least 1.5 times. At 30 December 2011, the actual ratio was 2.27 times (2010: 2.56 times). This is a direct consequence of the additional debt issued in 2010.

These ratios are calculated for EBITDA and total debt service on a 12 month rolling basis and reported quarterly. In addition, both terms are specifically defined in the legal agreement relating to the Secured Notes. As such, they cannot be accurately calculated from the contents of this report.

## 25 Reconciliation of cash generated from operations

| | 2011 £m | 2010 £m |
|---|---|---|
| Net profit for the period | **34.3** | 29.0 |
| Adjustments for: | | |
| Taxation | **6.0** | 10.8 |
| Net finance costs | **22.9** | 20.6 |
| Profit on disposal of fixed assets | **(0.2)** | (0.5) |
| Depreciation charges | **9.7** | 9.0 |
| Amortisation of intangibles | **0.1** | 0.2 |
| Movement in inventories | **(0.7)** | (1.0) |
| Movement in trade receivables | **1.8** | (2.4) |
| Movement in trade payables | **–** | 5.0 |
| External transaction costs | **1.2** | 1.1 |
| Changes in other working capital (excluding acquisitions) | **(2.0)** | 1.7 |
| Employee share option charges (note 23) | **1.1** | 1.0 |
| Cash generated from operations before external transaction costs and exceptional pension contributions | **74.2** | 74.5 |

### Other non-cash transactions

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

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 26 Acquisitions

### (a) Acquisition of subsidiary and other businesses

| | Provisional fair value £m |
|---|---|
| Tangible fixed assets | 1.6 |
| Intangible assets: | |
| Trade names | 6.9 |
| Cash acquired | 5.7 |
| Other working capital | (0.2) |
| Deferred taxation (note 20) | (1.7) |
| **Net assets acquired** | 12.3 |
| Goodwill arising | 5.3 |
| | 17.6 |
| **Satisfied by:** | |
| Cash paid on completion funded from internally generated cash flows | 17.6 |

During 2011, the Group acquired the operational interest of 10 funeral locations. These transactions were either acquisitions of trade and assets or acquisitions of the entire issued share capital of a limited company.

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

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

The fair value adjustments contain provisional amounts, which will be finalised in 2012. These adjustments reflect the recognition of trade names and associated deferred taxation and adjustments to reflect the fair value of other working capital movements such as debtors, inventories and accruals and are immaterial.

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

| | 2011 £m | 2010 £m |
|---|---|---|
| Cash paid on completion | 17.6 | 7.0 |
| Cash paid in respect of deferred consideration obligations | 0.1 | 0.1 |
| Cash acquired on acquisition | (5.7) | (1.3) |
| Acquisition of subsidiaries and businesses as reported in the cash flow statement | 12.0 | 5.8 |

## 27 Employees and Directors

| | 2011 £m | 2010 £m |
|---|---|---|
| Wages and salaries | 59.1 | 57.7 |
| Social security costs | 4.6 | 4.6 |
| Other pension costs (note 28) | 1.5 | 1.4 |
| Employee share option charges (note 23) | 0.1 | 0.1 |
| Key management share option charges (note 23) | 1.0 | 0.9 |
| | 66.3 | 64.7 |

## 27 Employees and Directors (continued)

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:

| | 2011 Number | 2010 Number |
|---|---|---|
| Management and administration | 130 | 117 |
| Funeral services staff | 2,004 | 2,031 |
| Crematoria staff | 283 | 263 |
| Pre-arranged funeral plan staff | 59 | 56 |
| | 2,476 | 2,467 |

### Directors' emoluments

Details of Directors' emoluments are disclosed in the Report on Directors' Remuneration on pages 36 to 38 which form part of these consolidated financial statements.

## 28 Pension commitments

### Defined contribution plans

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

The pension costs for defined contribution schemes are as follows:

| | 2011 £m | 2010 £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 30 December 2011 by a qualified independent Actuary.

A full actuarial valuation was carried out as at 6 April 2011 and is expected to be approved by the pension trustees at their meeting on 28 March 2012.

For 2011, the employer's contribution rate payable was 9.2 per cent of Pensionable Salaries (2010: 9.2 per cent of Pensionable Salaries). The total monetary contribution paid by the employer for 2011 was £1.4 million (2010: £1.3 million). In addition special contributions of £nil (2010: £1 million) have been paid to make the total contribution for the year £1.4 million (2010: £2.3 million).

The principal assumptions used by the actuary were:

| Assumptions | 2011 | 2010 |
|---|---|---|
| Discount rate | 4.85% | 5.4% |
| Expected long term rate of return on assets | 5.0% | 5.7% |
| Rate of increase in salaries | 3.25% | 3.75% |
| Rate of increase in payment of post April 1997 pensionable service | 2.9% | 3.4% |
| Rate of increase in payment of post April 2005 pensionable service | 2.3% | 2.5% |
| RPI price inflation assumption | 3.0% | 3.5% |
| CPI price inflation assumption | 2.0% | 3.0% |

The underlying mortality assumption is based upon the standard table known as S1PA on a year of birth basis, with CMI_2009 future improvement factors, a long term rate of improvement of 1.25 per cent per annum and rated up two years for males and down two years for females (2010: 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).

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 28 Pension commitments (continued)

### Pensions and other post-retirement obligations

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

| | 2011 £m | 2010 £m |
|---|---|---|
| Fair value of plan assets | **84.5** | 84.6 |
| Present value of funded obligations | **(83.2)** | (76.1) |
| **Net asset recognised in the balance sheet** | **1.3** | 8.5 |

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

| | 2011 £m | 2010 £m |
|---|---|---|
| Current service cost | **1.4** | 1.1 |
| Past service cost | **–** | 0.2 |
| **Total included within cost of sales (staff costs)** | **1.4** | 1.3 |
| Interest cost | **4.1** | 3.9 |
| Expected return on plan assets | **(4.8)** | (4.3) |
| **Total included within finance income** | **(0.7)** | (0.4) |

Expected contributions to the Group's pension scheme for the 52 week period ended 28 December 2012 are £1.4 million.

### Analysis of fair value of plan assets

| | 2011 | | 2010 | | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | % | £m | % | £m | % | £m | % | £m | % |
| Equity and property | **45.1** | **53.4** | 49.1 | 58.0 | 48.0 | 62.2 | 31.1 | 45.0 | 37.7 | 55.5 |
| Debt | **22.5** | **26.6** | 27.2 | 32.2 | 14.3 | 18.6 | 14.8 | 21.4 | – | – |
| Cash | **16.9** | **20.0** | 8.3 | 9.8 | 14.8 | 19.2 | 23.2 | 33.6 | 30.2 | 44.5 |
| **Fair value of plan assets** | **84.5** | **100.0** | 84.6 | 100.0 | 77.1 | 100.0 | 69.1 | 100.0 | 67.9 | 100.0 |

At 30 December 2011 and 31 December 2010 the Pension Trustees did not hold, on behalf of the scheme, any direct investments in the Group, nor did the Group occupy any property or other assets included with the fair value of plan assets.

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

| | 2011 £m | 2010 £m | 2009 £m | 2008 £m | 2007 £m |
|---|---|---|---|---|---|
| Present value of obligation at beginning of period | **(76.1)** | (68.0) | (55.9) | (61.1) | (59.3) |
| Current service cost | **(1.4)** | (1.1) | (0.8) | (0.9) | (1.0) |
| Past service cost | **–** | (0.2) | (0.1) | (0.2) | (0.1) |
| Interest cost | **(4.1)** | (3.9) | (3.5) | (3.6) | (3.0) |
| Benefits paid | **3.1** | 3.1 | 2.9 | 2.8 | 2.6 |
| Contributions by participants | **(1.4)** | (1.4) | (1.3) | (1.3) | (1.3) |
| Actuarial (losses)/gains | **(3.3)** | (4.6) | (9.3) | 8.4 | 1.0 |
| **Present value of obligation at end of period** | **(83.2)** | (76.1) | (68.0) | (55.9) | (61.1) |

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

| | 2011 £m | 2010 £m | 2009 £m | 2008 £m | 2007 £m |
|---|---|---|---|---|---|
| Fair value of plan assets at beginning of period | **84.6** | 77.1 | 69.1 | 67.9 | 59.9 |
| Expected return on plan assets | **4.8** | 4.3 | 3.8 | 4.3 | 3.7 |
| Contributions by Group | **1.4** | 2.3 | 1.3 | 1.2 | 1.2 |
| Contributions by participants | **1.4** | 1.4 | 1.3 | 1.3 | 1.3 |
| Benefits paid | **(3.1)** | (3.1) | (2.9) | (2.8) | (2.6) |
| Actuarial (losses)/gains | **(4.6)** | 2.6 | 4.5 | (2.8) | 4.4 |
| **Fair value of plan assets at end of period** | **84.5** | 84.6 | 77.1 | 69.1 | 67.9 |

## 28 Pension commitments (continued)

### Analysis of the movement in the balance sheet asset

| | 2011 £m | 2010 £m |
|---|---|---|
| At beginning of period | **8.5** | 9.1 |
| Total expense as above | **(0.7)** | (0.9) |
| Actuarial losses | **(7.9)** | (2.0) |
| Contributions by Group | **1.4** | 2.3 |
| **At end of period** | **1.3** | 8.5 |

### Cumulative actuarial gains and losses recognised in equity

| | 2011 £m | 2010 £m |
|---|---|---|
| At beginning of period | **7.7** | 9.7 |
| Net actuarial losses recognised in the period | **(7.9)** | (2.0) |
| **At end of period** | **(0.2)** | 7.7 |

The actual return on plan assets was £0.2 million (2010: £6.9 million).

### History of experience gains and losses

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Experience adjustments arising on scheme assets: | | | | | |
| Amount (£m) | **(4.6)** | (2.6) | (4.5) | 2.8 | (4.4) |
| Percentage of scheme's assets | **5.4%** | 3.0% | 5.8% | 4.1% | 6.5% |
| Experience adjustments arising on scheme liabilities: | | | | | |
| Amount (£m) | **1.0** | (1.1) | (0.3) | (1.0) | (0.9) |
| Percentage of the present value of the scheme's liabilities | **1.2%** | 1.4% | 0.4% | 1.8% | 1.5% |
| Present value of scheme liabilities (£m) | **(83.2)** | (76.1) | (68.0) | (55.9) | (61.1) |
| Fair value of scheme assets (£m) | **84.5** | 84.6 | 77.1 | 69.1 | 67.9 |
| Surplus (£m) | **1.3** | 8.5 | 9.1 | 13.2 | 6.8 |

| Change in assumptions | Liabilities £m | Assets £m | Surplus/(deficit) £m | Increase/(decrease) in surplus £m |
|---|---|---|---|---|
| No change | **(83.2)** | **84.5** | **1.3** | **–** |
| 0.25% rise in discount rate | **(79.6)** | **84.5** | **4.9** | **3.6** |
| 0.25% fall in discount rate | **(87.0)** | **84.5** | **(2.5)** | **(3.8)** |
| 0.25% rise in inflation | **(85.0)** | **84.5** | **(0.5)** | **(1.8)** |
| 0.25% fall in inflation | **(81.5)** | **84.5** | **3.0** | **1.7** |

## 29 Pre-arranged funeral plans

### (a) Contingencies and commitments

Dignity Pre-arrangement Limited, Dignity Securities Limited and Advance Planning Limited are fellow members of the Dignity Group in the United Kingdom. These companies have sold pre-arranged funeral plans to their clients in the past. All monies from these sales are held and controlled by three independent Trusts, being the National Funeral Trust, the Dignity Limited Trust Fund and the Trust for Age UK Funeral Plans respectively. Further details of the transactions can be found in the financial statements of these companies, which are available from 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

The Group has given commitments to certain of these clients to perform their funeral. The agreed amounts payable to either the Group or to third party funeral directors will be paid out of the funds held in the Trusts.

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

### (b) Pre-arranged funeral plan trust assets

The market value of the assets of the pre-arranged funeral plan trusts was £446.8 million at 30 December 2011 (2010: £373.8 million) in respect of 220,000 (2010: 200,000) unfulfilled pre-arranged funeral plans. The remaining 45,000 (2010:38,000) unfulfilled pre-arranged funeral plans related to those backed by Insurance Plans, as described in note 1 to the consolidated financial statements.

# Notes to the financial statements continued

for the 52 week period ended 30 December 2011

## 29 Pre-arranged funeral plans (continued)

The majority of the trustees of the pre-arranged funeral plan trusts are unconnected to the Group, as required by current UK legislation. The trustees are required to have the Trusts' liabilities actuarially valued once a year. The latest valuations were performed as at 30 September 2011 (2010: 24 September 2010) using assumptions determined by the trustees. These valuations showed the Trusts to have liabilities in respect of the pre-arranged funeral plan trusts of £373.3 million as at 30 September 2011 (2010: £305.2 million). The corresponding market value of the assets of the pre-arranged funeral plan trusts was £415.7 million (2010: £357.9 million) as at the same date. Consequently the actuarial valuation recorded total surpluses of £42.4 million at 30 September 2011 (2010: £52.7 million).

### (c) Accounting reporting date

The end of the reporting period of the financial statements of the Trusts may be different to the reporting period of the financial statements of Dignity plc, but by no more than 7 days.

## 30 Contingent liabilities

### (a) Securitisation

On 11 April 2003, the Group refinanced its debt by way of a whole business securitisation. On 21 February 2006 and 27 September 2010 further Secured Notes were issued on identical terms. As a result, the following guarantees and charges were granted to BNY Mellon Corporate Trustee Services Limited (formerly BNY Corporate Trustee Services Limited) in its capacity as Security Trustee in the securitisation:

- The Dignity (2002) Group have granted the Security Trustee fixed and floating charges over the assets and undertakings of the Dignity (2002) Group;
- Dignity plc has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity (2004) Limited;
- Dignity (2004) Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings No.2 Limited and Dignity (2002) Limited;
- Dignity Holdings No. 2 Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings Limited;
- Dignity Holdings Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Mezzco Limited;
- Dignity Holdings Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loans (both interest and non interest bearing) to Dignity (2002) Limited;
- Dignity Mezzco Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loan to Dignity (2002) Limited.

At 30 December 2011, the amount outstanding in relation to these borrowings was £339.5 million (2010: £349.1 million).

### (b) Crematoria Acquisition Facility

On 24 November 2008, the Group obtained a £10.0 million loan facility from the National Westminster Bank plc ('Nat West'), which is fully drawn. As a consequence of the legal structure of this facility:

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

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

At 30 December 2011, the amount outstanding in relation to these borrowings was £10.0 million (2010: £10.0 million).

## 31 Related party transactions

On 19 May 2010, the Group entered into a contract with Bglobal to have smart meters fitted at some of its locations, £76,500 has been charged for the period. James Newman is a Non-Executive Director of Bglobal and the transaction has been formally approved by the Board and is at arm's length.

## 31 Related party transactions (continued)

### Pre-arrangement trusts

During the period, the Group entered into transactions with the Trusts associated with the pre-arranged funeral plan businesses. The nature of the relationship with the Trusts is set out in the accounting policies. Amounts may only be paid out of the Trusts in accordance with the relevant Trust Deeds.

Transactions principally comprise:

- The recovery of marketing and administration expenses in relation to plans sold net of cancellations; and
- Receipts from the Trusts in respect of carrying out funerals.

Transactions also include:

- Receipts from the Trusts in respect of cancellations by existing members;
- Reimbursement by the Trusts of expenses paid by the Group on behalf of the respective Trusts; and
- The payment of realised surpluses generated by the Trust funds as and when the trustees sanction such payments.

Related party transactions are summarised below:

| | Transactions during the period | | Amounts due to the Group at the period end | |
|---|---|---|---|---|
| | **2011 £m** | 2010 £m | **2011 £m** | 2010 £m |
| Dignity Limited Trust Fund | **0.3** | 0.3 | **–** | – |
| National Funeral Trust | **24.3** | 21.2 | **1.4** | 1.1 |
| Trust for Age UK Funeral Plans | **26.3** | 25.0 | **1.2** | 1.3 |

## 32 Post balance sheet events

The Group has acquired four funeral locations since the balance sheet date for a total consideration of £1.1 million.

# Independent auditors' report to the members of Dignity plc

for the 52 week period ended 30 December 2011

We have audited the parent company financial statements of Dignity plc for the 52 week period ended 30 December 2011 which comprise the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 29, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 30 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Report on Directors Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the 52 week period ended 30 December 2011 for which the parent company financial statements are prepared is consistent with the parent company financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Report on Directors Remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Other matter

We have reported separately on the consolidated financial statements of Dignity plc for the 52 week period ended 30 December 2011.

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

7 March 2012

# Dignity plc Company balance sheet

as at 30 December 2011

| | Note | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | C2 | **136.3** | 135.2 |
| **Current assets** | | | |
| Debtors | C3 | **120.5** | 94.5 |
| Cash at bank and in hand | | **29.1** | 33.0 |
| **Total current assets** | | **149.6** | 127.5 |
| **Creditors: amounts falling due within one year** | C4 | **(14.1)** | (13.8) |
| **Net current assets** | | **135.5** | 113.7 |
| **Total assets less current liabilities** | | **271.8** | 248.9 |
| **Net assets** | | **271.8** | 248.9 |
| **Capital and reserves** | | | |
| Called up share capital | C5 | **5.7** | 5.7 |
| Share premium account | C5 | **17.4** | 17.4 |
| Capital redemption reserve | C5 | **99.3** | 99.3 |
| Other reserves | C5 | **2.2** | 1.1 |
| Profit and loss account | C5 | **147.2** | 125.4 |
| **Total shareholders' funds** | C6 | **271.8** | 248.9 |

The financial statements on pages 85 to 89 were approved by the Board of Directors on 7 March 2012 and were signed on its behalf by:

**M K McCollum**
Chief Executive

**S L Whittern**
Finance Director

# Notes to the Dignity plc financial statements

for the 52 week period ended 30 December 2011

## C1 Principal accounting policies

### Basis of preparation

These financial statements are prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). A summary of the principal accounting policies, which have been consistently applied, is set out below.

In accordance with the concession granted under Section 408 of the Companies Act 2006, the profit and loss account of the Company has not been separately presented in the financial statements.

In the current period, the Company's financial statements have been prepared for the 52 week period ended 30 December 2011. For the comparative period, the Company's financial statements have been prepared for the 53 week period ended 31 December 2010.

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

### Fixed assets investments

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

### Impairment of fixed assets

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

### Employee share schemes

The Company operates two employee share schemes: The Save As You Earn Scheme ('SAYE') and Long Term Incentive Plan Scheme ('LTIP'). See note 23 of the notes to the consolidated financial statements.

The Company applies UITF 44 in respect of share option schemes resulting in the charge for such schemes being recognised in a subsidiary of the Company. The Company's financial statements reflect the cost of the scheme as an increase in the cost of investment in the subsidiary.

### Employee share trust

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

## C2 Investments in subsidiary undertakings

| Cost and net book amount | £m |
|---|---|
| At beginning of the period | 135.2 |
| Additions in respect of share-based payments | 1.1 |
| **End of period** | **136.3** |

| Company name | Principal activity | Number of shares at 30 December 2011 | Percentage held |
|---|---|---|---|
| Dignity Services | Intermediate holding company | 203,746,505 Ordinary at 1p each | 100% |
| Dignity Funerals Limited | Funeral services | 577,376,905 Ordinary at 0.1p each | 100% |
| Pitcher and Le Quesne Limited | Funeral directors | 100 Ordinary at £1 each | 99% |
| Dignity Pre-arrangement Limited | Pre-arranged funeral plans | 5,001,001 Ordinary at £1 each | 100% |
| Dignity Securities Limited | Pre-arranged funeral plans | 19,801 Ordinary at £1 each | 100% |
| | | 750,000 8 pence Redeemable Preference Shares at £1 each | 100% |
| Advance Planning Limited | Pre-arranged funeral plans | 7,500 A Ordinary at £1 each | 100% |
| | | 2,500 B Ordinary at £1 each | 100% |
| | | 3,863,291 0.0000001 pence Redeemable Preference Shares at 1p each | 100% |
| Dignity Finance PLC | Finance company | 50,000 Ordinary at £1 each | 100% |
| Birkbeck Securities Limited | Intermediate holding company | 1,102,271 Ordinary at £1 each | 100% |
| Dignity Finance Holdings Limited | Intermediate holding company | 50,000 Ordinary at £1 each | 100% |
| Dignity Holdings No. 2 Limited | Intermediate holding company | 2,000,000 Ordinary at £1 each | 100% |
| Dignity Mezzco Limited | Intermediate holding company | 1,000 Ordinary at £1 each | 100% |
| Dignity Holdings Limited | Intermediate holding company | 1,500,000 Ordinary at £1 each | 100% |
| Dignity (2002) Limited | Intermediate holding company | 110,000,002 Ordinary at 0.01p each | 100% |
| Dignity (2004) Limited | Intermediate holding company | 1,000 Ordinary at £1 each | 100% |
| Dignity (2008) Limited | Intermediate holding company | 1 Ordinary at £1 each | 100% |
| Dignity Crematoria Limited | Construction and leasing of crematoria | 10,000 A Ordinary at £1 each | 100% |
| | | 10,000 B Ordinary at £1 each | 100% |
| | | 10,000 C Ordinary at £1 each | 100% |
| | | 10,000 D Ordinary at £1 each | 100% |
| | | 10,000 E Ordinary at £1 each | 100% |
| Dignity (2011) Limited | Intermediate holding company | 1 Ordinary share at £1 each | 100% |
| Dignity Funerals No.2 Limited | Funeral services | 1 Ordinary share 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

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Amounts owed by group undertakings | **120.5** | 94.5 |

## C4 Creditors: amounts falling due within one year

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| Amounts due to subsidiary undertakings | **13.8** | 13.4 |
| Accruals and deferred income | **0.2** | 0.3 |
| Deferred Dividend Option | **–** | 0.1 |
| Corporation Tax | **0.1** | – |
| | **14.1** | 13.8 |

# Notes to the Dignity plc financial statements continued

for the 52 week period ended 30 December 2011

## C5 Called up share capital and reserves

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| **Allotted and fully paid Equity shares** | | |
| 54,757,054 (2010: 54,757,002) Ordinary Shares of £0.105 (2010: £0.105) each | **5.7** | 5.7 |

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

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

During the period, the Group received £nil million in relation to the 52 shares issued with a nominal value of 10.5 pence per share.

| 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 | 17.4 | 99.3 | 1.1 | 125.4 | 243.2 |
| Profit for the period | – | – | – | 29.3 | **29.3** |
| Dividends paid on Ordinary Shares | – | – | – | (7.5) | **(7.5)** |
| Effects of employee share options | – | – | 1.1 | – | **1.1** |
| **At end of period** | **17.4** | **99.3** | **2.2** | **147.2** | **266.1** |

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

£4.9 million (2010: £3.8 million) in other reserves relates to investments in own shares and therefore reduces profit available for distribution.

## C6 Reconciliation of movements in shareholders' funds

| | 30 December 2011 £m | 31 December 2010 £m |
|---|---|---|
| Profit for the period | **29.3** | 110.3 |
| Dividends | **(7.5)** | (5.1) |
| Effects of employee share options | **1.1** | 0.9 |
| Gift to Employee Benefit Trust | **–** | (0.9) |
| Shares issued under 2007 LTIP Scheme | **–** | 0.9 |
| Issue of B Shares in respect of Capital Option | **–** | (19.3) |
| Dividend in respect of Special Dividend Option and Deferred Dividend Option | **–** | (44.6) |
| Net additions to shareholders' funds | **22.9** | 42.2 |
| Opening shareholders' funds | **248.9** | 206.7 |
| **Closing shareholders' funds** | **271.8** | 248.9 |

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 (2010: £nil).

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

| | 2011 | 2010 |
|---|---|---|
| Administration and managerial | **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 36 to 38. They received no emoluments in respect of their services to the Company (2010: £nil).

## C8 Related party transactions

There are no related party transactions for either period.

# Financial record

## Summarised consolidated income statement

| | 2011 £m | 2010 £m | 2009 £m | 2008 £m | 2007 £m |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Funeral services | **146.5** | 143.3 | 138.5 | 137.2 | 126.3 |
| Crematoria | **41.6** | 37.5 | 34.4 | 29.2 | 25.7 |
| Pre-arranged funeral plans | **22.0** | 18.3 | 11.8 | 9.4 | 7.5 |
| | **210.1** | 199.1 | 184.7 | 175.8 | 159.5 |
| Underlying operating profit | | | | | |
| Funeral services | **50.8** | 49.3 | 47.3 | 46.3 | 42.1 |
| Crematoria | **21.3** | 19.9 | 17.6 | 14.6 | 14.0 |
| Pre-arranged funeral plans | **5.5** | 4.3 | 3.5 | 2.5 | 2.4 |
| Central overheads | **(13.1)** | (12.5) | (12.0) | (11.3) | (10.9) |
| | **64.5** | 61.0 | 56.4 | 52.1 | 47.6 |
| Finance costs | **(25.9)** | (22.5) | (21.6) | (21.6) | (21.7) |
| Finance income | **3.0** | 1.9 | 1.6 | 3.8 | 4.2 |
| Underlying profit before tax | **41.6** | 40.4 | 36.4 | 34.3 | 30.1 |
| Taxation | **(11.4)** | (11.7) | (10.6) | (10.1) | (9.1) |
| Underlying profit after tax | **30.2** | 28.7 | 25.8 | 24.2 | 21.0 |
| Underlying earnings per share (pence) | **55.1p** | 46.4p | 40.5p | 38.2p | 33.4p |
| Operating profit | **63.2** | 60.4 | 57.5 | 53.2 | 47.7 |
| Profit after tax | **34.3** | 29.0 | 26.6 | 24.6 | 21.6 |
| Basic earnings per share (pence) | **62.6p** | 46.9p | 41.8p | 38.8p | 34.4p |

## Key performance indicators

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Total estimated number of deaths in Britain (number) | **539,000** | 557,000 | 545,000 | 553,000 | 553,000 |
| Number of funerals performed (number) | **62,300** | 64,500 | 65,000 | 68,700 | 66,500 |
| Funeral market share* (per cent) | **11.3%** | 11.4% | 11.8% | 12.3% | 12.0% |
| Number of cremations performed (number) | **47,600** | 45,200 | 42,700 | 39,600 | 38,900 |
| Crematoria market share (per cent) | **8.8%** | 8.1% | 7.8% | 7.2% | 7.0% |
| Unfulfilled pre-arranged funeral plans (number) | **265,000** | 238,000 | 216,000 | 204,000 | 197,300 |
| Cash generated from operations (£million) | **74.2** | 74.5 | 65.3 | 62.3 | 57.5 |

## Net debt

| | 2011 £m | 2010 £m | 2009 £m | 2008 £m | 2007 £m |
|---|---|---|---|---|---|
| Net amounts owing on Class A and B Secured Notes per financial statements | **(323.3)** | (331.3) | (258.6) | (263.0) | (267.0) |
| Add: unamortised issue costs on Secured Notes | **(16.2)** | (17.8) | (14.6) | (15.9) | (17.2) |
| Net amounts owing on Crematoria Acquisition Facility per financial statements | **(9.9)** | (9.9) | (9.8) | (7.2) | – |
| Add: unamortised issue costs | **(0.1)** | (0.1) | (0.2) | (0.2) | – |
| Gross amounts owing | **(349.5)** | (359.1) | (283.2) | (286.3) | (284.2) |
| Accrued interest on Class A and B Secured Notes (paid 31 December) | **–** | – | (9.6) | (9.7) | (9.9) |
| Accrued interest on Crematoria Acquisition Facility | **(0.1)** | (0.1) | (0.1) | – | – |
| Cash and cash equivalents | **36.9** | 48.1 | 45.8 | 46.7 | 52.6 |
| Net debt | **(312.7)** | (311.1) | (247.1) | (249.3) | (241.5) |

## Summarised consolidated balance sheet

| | 2011 £m | 2010 £m | 2009 £m | 2008 £m | 2007 £m |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Goodwill and intangible assets | **194.3** | 182.4 | 175.6 | 163.1 | 144.3 |
| Property, plant and equipment | **147.6** | 133.6 | 116.8 | 110.9 | 91.1 |
| Financial and other assets | **12.6** | 12.0 | 9.4 | 4.5 | 4.5 |
| Retirement benefit asset | **1.3** | 8.5 | 9.1 | 13.2 | 6.8 |
| | **355.8** | 336.5 | 310.9 | 291.7 | 246.7 |
| **Current assets** | | | | | |
| Cash and cash equivalents | **36.9** | 48.1 | 45.8 | 46.7 | 52.6 |
| Other current assets | **30.5** | 29.2 | 25.6 | 26.3 | 26.1 |
| | **67.4** | 77.3 | 71.4 | 73.0 | 78.7 |
| **Total assets** | **423.2** | 413.8 | 382.3 | 364.7 | 325.4 |
| Current liabilities | **45.6** | 47.0 | 48.6 | 47.6 | 43.3 |
| Non-current liabilities | **360.4** | 371.6 | 298.2 | 298.7 | 286.7 |
| **Total liabilities** | **406.0** | 418.6 | 346.8 | 346.3 | 330.0 |
| Equity attributable to shareholders | **17.2** | (4.8) | 35.5 | 18.4 | (4.6) |
| **Total equity and liabilities** | **423.2** | 413.8 | 382.3 | 364.7 | 325.4 |

NOTES

* Market share excluding funerals performed in Northern Ireland.

# Notice of Meeting

Notice is hereby given that the 2012 Annual General Meeting of Dignity plc ('the Company') will be held at DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham, West Midlands, B2 4DL on Thursday 14 June 2012 at 11.00am for the following purposes:

## Ordinary Resolutions

To propose the following as ordinary resolutions:

1. To receive and consider the Group's financial statements, and the reports of the Directors and auditors thereon for the 52 week period ended 30 December 2011.

2. To approve the Report on Directors' Remuneration for the 52 weeks ended 30 December 2011 as set out on pages 32 to 38 of the Annual Report 2011.

   The Chairman confirms that, following a formal evaluation, the Directors nominated for re-appointment in resolutions 3 to 11 (inclusive) below continue to be effective and demonstrate a commitment to the role. Full biographical details are on page 28.

3. To re-appoint Peter Hindley, as a Director of the Company.
4. To re-appoint Mike McCollum, as a Director of the Company.
5. To re-appoint Andrew Davies, as a Director of the Company.
6. To re-appoint Richard Portman, as a Director of the Company.
7. To re-appoint Steve Whittern, as a Director of the Company.
8. To re-appoint Ishbel Macpherson, as a Director of the Company.
9. To re-appoint Alan McWalter, as a Director of the Company.
10. To re-appoint Jane Ashcroft, as a Director of the Company.
11. To re-appoint Martin Pexton, as a Director of the Company.

12. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company to hold office from conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.

13. To approve the proposed dividend of 9.77 pence per Ordinary Share and to authorise its payment on 29 June 2012 to shareholders on the register of members on 25 May 2012.

14. That the Directors be and are hereby generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 ('the Act') to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £1,916,496 provided that (unless previously revoked, varied or renewed) such authority shall expire at the conclusion of the next Annual General Meeting after passing this resolution or on 13 September 2013 (whichever is earlier), save that the Company may before such expiry make an offer or agreement which would or might require shares or grant such rights to be allotted after such expiry and the Board may allot shares or grant such rights in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

    This authority is in substitution for all existing authorities under Section 551 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

## Special Resolutions

To propose the following as special resolutions:

15. That subject to the passing of resolution 14 the Directors be and are hereby empowered pursuant to Section 570 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by resolution 14 as if Section 561(1) of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:

    a) in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise):

       (i) to holders of Ordinary Shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of Ordinary Shares held by them; and

       (ii) to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

       but subject to such exclusion or other arrangements as the Board may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange;

b) to the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal amount of £287,474;

and (unless previously revoked, varied or renewed) shall expire at the conclusion of the next Annual General Meeting after passing this resolution or on 13 September 2013 (whichever is earlier), save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted for cash after such expiry and the Board may allot equity securities for cash in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

This power is in substitution for all existing powers under Section 570 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

16. That the Company be and is hereby generally and unconditionally authorised for the purposes of Section 701 of the Act to make market purchases (as defined in Section 693(4) of the Act) of Ordinary Shares, subject as follows:

a) the maximum aggregate number of Ordinary Shares which may be purchased is 2,737,852;

b) the minimum price (including expenses) to be paid for each Ordinary Share shall be the nominal value of the Ordinary Share and the maximum price is the higher of:

(i) an amount equal to 105 per cent of the average of the middle market quotation of the Company's Ordinary Shares as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately prior to the day on which the purchase is made; and

(ii) an amount equal to the higher of the price of the last independent trade of an Ordinary Share and the higher current independent bid for an Ordinary Share on the trading venue where the purchase is carried out.

Unless previously revoked, varied or renewed the authority conferred by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on 13 September 2013 (whichever is earlier), except in relation to the purchase of shares the contract for which was entered into before the expiry of such authority and such purchase will or may be executed or completed wholly or partly after such expiry and accordingly the Company may make a purchase of Ordinary Shares pursuant to any such contract as if this authority had not expired.

17. That a general meeting (other than an annual general meeting) may be called on with not less than 14 clear days notice.

Registered office:
4 King Edwards Court
King Edwards Square
Sutton Coldfield
West Midlands B73 6AP

By order of the Board

**Richard Portman**
Company Secretary
7 March 2012

Notes

1. The right to vote at the meeting is determined by reference to the register of members. Only those shareholders registered in the register of members of the Company as at 6.00pm on 12 June 2012 (or, if the meeting is adjourned 6.00pm on the date which is two working days before the date of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after that time shall be disregarded in determining the rights of any person to attend or vote (and the number of votes they may cast) at the meeting.

2. A member of the Company entitled to attend and to vote may appoint, one or more proxies to attend and vote instead. A proxy need not be a member of the Company. A proxy form is enclosed. Completed proxy forms must be received by the Company's Registrar, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, no later than 48 hours before the time of the Annual General Meeting or in the event the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting. A shareholder may appoint more than one proxy in relation to the meeting and should do on a separate proxy form, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Failure to specify the number of shares each proxy appointment relates to or specifying a number which when taken together with the numbers of shares set out in the other proxy appointments is in excess of the number of shares held by the shareholder may result in the proxy appointment being invalid. Additional proxy forms may be obtained by contacting the Company's registrar on 0871 384 2674* if calling from within the UK, or +44 (0) 121 415 7047 if calling from outside the UK or you may photocopy the proxy form. You will need to state clearly on each proxy form the number of shares in relation to which the proxy is appointed. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. The right of a member under Section 324 of the Companies Act 2006 ("the Act") to appoint a proxy does not apply to a person nominated to enjoy information rights under Section 146 of the Act.

   *At the time of publication, calls to this number was charged at 8 pence per minute from a BT landline. The prices charged by BT and other telephony providers may change from time to time. Lines are open from 8.30am to 5.30pm Monday to Friday.

3. The appointment of a proxy will not preclude a member of the Company from attending, speaking and voting in person at the meeting if he or she so wishes.

4. In the case of shares held in uncertificated form, the Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only members registered on the register of members of the Company at 6.00pm on 12 June 2012 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 6.00pm on 12 June 2012 shall be disregarded in determining the rights of any person to attend, speak or vote at the meeting.

# Notice of Meeting continued

5. The following are available for inspection at the Company's registered office during normal business hours on any weekday (excluding public holidays) and will be available for at least 15 minutes prior to, and during, the Annual General Meeting:

   • the register of Directors' interests and those of their immediate families in the share capital of the Company;

   • copies of the Directors' service contracts and letters of appointment; and

   • a copy of the Company's memorandum and articles of association.

6. Biographical details of those Directors who are offering themselves for re-election at the meeting are set out on page 28.

7. Total Voting Rights: As at 13 April 2012 (being the last practicable date before the publication of this notice), the Company's issued share capital consists of 54,757,054 Ordinary Shares of 10.5 pence, (carrying one vote each).

8. Shareholders have the right to ask questions at the meeting relating to the business being dealt with at the meeting in accordance with Section 319A of the Act. The Company must answer any such question unless:

   (a) to do so would interfere unduly with the preparation for the meeting or would involve the disclosure of confidential information;

   (b) the answer has already been given on a website in the form of an answer to a question; or

   (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

9. The information required by Section 311 of the Act to be published in advance of the meeting, which includes the matters set out in this notice and information relating to the voting rights of shareholders, is available at www.dignityfunerals.co.uk/corporate.

10. Members can appoint proxies electronically by logging on to the website www.sharevote.co.uk. You will need your voting reference numbers (the voting ID, Task ID and shareholder reference number shown on your form of proxy). Alternatively, if you have registered for a Shareview portfolio, please access the Equiniti shareview website at www.shareview.co.uk, by entering your portfolio identification particulars and click on the link 'vote' under your Dignity plc holding details. For an electronic proxy appointment to be valid, the appointment must be received by no later than 11.00am on 12 June 2012.

11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available at www.euroclear.com/CREST). CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

    In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (formerly CRESTCo's) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA 19) by no later than 11.00am on 12 June 2012. No such message received through the CREST network after this time will be accepted. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

    CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

    The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. Where a copy of this notice is being received by a person who has been nominated to enjoy information rights under Section 146 of the Act ("nominee"):

    (a) the nominee may have a right under an agreement between the nominee and the member by whom he was nominated, to be appointed, or to have someone else appointed, as a proxy for the meeting; or

    (b) if the nominee does not have any such right or does not wish to exercise such right, the nominee may have a right under any such agreement to give instructions to the member as to the exercise of voting rights.

    The statement of the rights of the shareholders in relation to the appointment of proxies in notes 2, 3, 10 and 11 does not apply to a nominee. The rights in such notes can only be exercised by shareholders of the Company.

13. A shareholder which is a corporation may authorise one or more persons to act as its representative(s) at the meeting. Each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual shareholder, provided that (where there is more than one representative and the vote is otherwise than on a show of hands) they do not do so in relation to the same shares.

14. A shareholder or shareholders meeting the qualification criteria set out in note 17 below may require the Company to give shareholders notice of a resolution which may properly be proposed and is intended to be proposed at the meeting in accordance with Section 338 of the Act.

    A resolution may properly be proposed unless (i) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (ii) it is defamatory of any person, or (iii) it is frivolous or vexatious.

    The business which may be dealt with at the meeting includes a resolution circulated pursuant to this right.

    Any such request must:

    (a) identify the resolution of which notice is to be given, by either setting out the resolution in full or, if supporting a resolution requested by another shareholder, clearly identifying the resolution which is being supported;

    (b) comply with the requirements set out in note 18 below; and

    (c) be received by the Company no later than six weeks before the meeting.

15. A shareholder or shareholders meeting the qualification criteria set out in note 17 below may require the Company to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may properly be included in the business in accordance with Section 338 of the 2006 Act.

A matter may properly be included unless (i) it is defamatory of any person, or (ii) it is frivolous or vexatious.

Any such request must:

(a) identify the matter to be included in the business, by either setting out the matter in full or, if supporting a matter requested by another shareholder, clearly identifying the matter which is being supported;

(b) set out the grounds for the request;

(c) comply with the requirements set out in note 18 below; and

(d) be received by the Company no later than six weeks before the meeting.

16. A shareholder or shareholders who meet the qualification criteria set out in note 17 below may require the Company to publish on its website a statement setting out any matter that such shareholders propose to raise at the meeting relating to either the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the meeting or any circumstances connected with an auditor of the Company ceasing to hold office since the last annual general meeting of the Company in accordance with Section 527 of the Act.

Any such request must:

(a) identify the statement to which it relates, by either setting out the statement in full or, if supporting a statement requested by another shareholder, clearly identifying the statement which is being supported;

(b) comply with the requirements set out in note 18 below; and

(c) be received by the Company at least one week before the meeting.

Where the Company is required to publish such a statement on its website:

(i) it may not require the shareholders making the request to pay any expenses incurred by the Company in complying with the request;

(ii) it must forward the statement to the Company's auditors no later than the time when it makes the statement available on the website; and

(iii) the statement may be dealt with as part of the business of the meeting.

17. In order to require the Company (i) to circulate a resolution to be proposed at the meeting as set out in note 14, (ii) to include a matter in the business to be dealt with at the meeting as set out in note 15, or (iii) to publish audit concerns as set out in note 16, the relevant request must be made by:

(a) a shareholder or shareholders having a right to vote at the meeting and holding at least five per cent of the total voting rights of the Company; or

(b) at least 100 shareholders having a right to vote at the meeting and holding, on average, at least £100 of paid up share capital.

For information on voting rights, including the total voting rights of the Company, see note 7 above and the website referred to in note 9 above.

18. Any request by a shareholder or shareholders to require the Company (i) to circulate a resolution to be proposed at the meeting as set out in note 14, (ii) to include a matter in the business to be dealt with at the meeting as set out in note 15, or (iii) to publish audit concerns as set out in note 16:

(a) may be made either:

(i) in hard copy, by sending it to Dignity plc, 4 King Edwards Court, King Edwards Square, Sutton Coldfield, B73 6AP; or

(ii) in electronic form, by faxing it to +44 (0) 121 321 5644, marked for the attention of the Company Secretary or by e-mail to CompanySecretary@dignityuk.co.uk (please state "Dignity plc: AGM" in the subject line of the email);

(b) must state the full name(s) and address(es) of the shareholder(s); and

(c) (where the request is made in hard copy form) must be signed by the shareholder(s).

19. Except as provided above, shareholders who wish to communicate with the Company in relation to the meeting should do so using the following means:

(a) calling our shareholder helpline on +44 (0) 871 384 2674; or

(b) by post, by sending it to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

20. You may not use any electronic address provided in either this Notice of General Meeting or any related documents (including the Proxy form) to communicate with the Company for any purpose other than those expressly stated.

# Shareholder information

General enquiries may be addressed to the Company Secretary, Richard Portman, at the Company's registered office. Other useful information is as follows:

## General information

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the United Kingdom.

## Company registrars

Enquiries concerning shareholdings, change of address or other particulars, should be directed in the first instance to the Company's Registrars, Equiniti. They also provide a range of online shareholder information services at www.shareview.co.uk where shareholders can check their holdings and find practical help on transferring shares and updating personal details. Alternatively they can be contacted by telephone on +44 (0) 871 384 2674* if calling from within the UK, or +44 (0) 121 415 7047 if calling from outside the UK, or by fax on +44 (0) 871 384 2100* if faxing from within the UK, or +44 (0) 190 369 8403 if faxing from outside the UK.

*At the time of publication, calls to these numbers were charged at 8 pence per minute from a BT landline. The prices charged by BT and other telephony providers may change from time to time. Lines are open from 8.30am to 5.30pm Monday to Friday.

## Shareholder communications

Shareholder documents are only sent in paper format to shareholders who have elected to receive documents in this way. This approach enables the Company to reduce printing and distribution costs and its impact on the environment. Shareholders who have not elected to receive paper copies are sent a notification whenever shareholder documents are published to advise them how to access the documents via the Group website at www.dignityfuneralsplc.co.uk. Shareholders may also choose to receive this notification via email with a link to the relevant page on the website.

Shareholders who wish to receive email notification should register online at www.shareview.co.uk click on 'Register' under the 'Portfolio' section. You will require your Shareholder Reference Number, which is given on your share certificate or tax dividend voucher. Choosing e-mail notification will result in you joining the Equiniti Shareview Service in accordance with its terms and conditions, which you can find at www.shareview.co.uk/terms.

## Share price information

The latest Dignity plc share price can be obtained via the Company's investor website www.dignityfuneralsplc.co.uk. It can also be obtained in the UK on Ceefax.

## Unsolicited mail

The Company is obliged by law to make its share register available upon request to the public and to other organisations which may use it as a mailing list resulting in shareholders receiving unsolicited mail. Shareholders wishing to limit the receipt of such mail should write to the Mailing Preference Service, Freepost 29 LON20771, London W1E 0ZT 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 14 June 2012, at 11.00am at DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham, West Midlands, B2 4DL.

# Contact details and advisers

**Registered Office:**
Dignity plc
4 King Edwards Court
King Edwards Square
Sutton Coldfield
West Midlands B73 6AP

Tel: +44 (0) 121 354 1557
Fax: +44 (0) 121 321 5644
Email: enquiries@dignityuk.co.uk
www.dignityfuneralsplc.co.uk

**Company Secretary:**
Richard Portman FCA

**Registered Number:**
4569346

**Registrars:**
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Tel: +44 (0) 871 384 2674
Fax: +44 (0) 871 384 2100
www.shareview.co.uk

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

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

Investec
A division of Investec Bank plc
2 Gresham Street
London EC2V 7EE

**Principal Bankers:**
Royal Bank of Scotland plc
West Midlands Corporate Office
2 St Philips Place
Birmingham B3 2RB

**Legal Adviser:**
DLA Piper UK LLP
Victoria Square House
Victoria Square
Birmingham B2 4DL

# Financial calendar

**7 March 2012**
Preliminary announcement of 2011 results

**14 June 2012**
Annual General Meeting

**29 June 2012**
2012 financial half year end

**29 June 2012 (subject to shareholder approval)**
Payment of 2011 final dividend

**31 July 2012 (provisional)**
Announcement of interim results

**26 October 2012 (provisional)**
Payment of 2012 interim dividend

**28 December 2012**
Financial period end

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

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From responsible sources
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Dignity plc

4 King Edwards Court
King Edwards Square
Sutton Coldfield
West Midlands B73 6AP

For more information on Dignity,
please visit our investor relations website:

www.dignityfuneralsplc.co.uk

Dignity
CARING FUNERAL SERVICES