



Dignity (2002) Limited

Unaudited Investor Report

for the 52 week period ended 25 June 2010

To: BNY Corporate Trustee Services Limited

Fitch Ratings Limited

Standard & Poor's

From: Dignity (2002) Limited (as Borrower)

Terms defined in the Issuer / Borrower Loan Agreement ('IBLA') shall have the same meaning herein.

NOTICE TO THE READER

The information contained in this report represents information on Dignity (2002) Limited and its subsidiaries (the 'Dignity (2002) Group'), a sub-group of the Dignity plc group ('Group').

The information set out herein is not necessarily representative of the performance of the Group as a whole and should not be relied upon in this respect. For example it does not include the costs of non-executive directors or any dividends declared to shareholders of Dignity plc.

Furthermore, the Group reports its results in accordance with International Financial Reporting Standards ('IFRS'), whilst the Dignity (2002) Group will continue to apply UK Generally Accepted Accounting Principles ('UK GAAP').

Dignity (2002) Limited

Unaudited Investor Report

for the 52 week period ended 25 June 2010

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Dignity (2002) Limited

Financial Overview

Review of operations

- Unaudited EBITDA for the 52 week period ended 25 June 2010 was £65.5m compared to £64.0m for the audited 52 week period ended 25 December 2009.
- This performance is due to a £5.3m growth in revenues. EBITDA margin for the 52 week period ended 25 June 2010 was 34.5% compared to 34.7% for the 52 week period ended 25 December 2009. This reflects broadly flat operating margins in the Funeral division and improved margins within the Crematoria division.
- On 21 January 2010, the trustees approved the payment of actuarial surpluses of £1.5m from the pre-arranged funeral plan trust. This is not included within EBITDA as presented in this report, but has been paid into the Elective Capex Account in accordance with the IBLA.

Trading locations

- The number of funeral locations at the period end was 554, which compares to 546 at 25 December 2009. The movement in the portfolio is shown below:

Number of locations at 25 December 2009 ^{§1}	546
Acquisitions – short leasehold ^{§2}	4
Satellite openings – short leasehold	5
Branch closure – short leasehold	(1)
Number of locations at 25 June 2010 ^{§3}	<u>554</u>

- The Dignity (2002) Group operates from 30 crematoria (Dec 2009: 30).
- The Dignity (2002) Group continues to pursue other opportunities to acquire small, 'bolt-on' funeral locations as part of its stated strategy of developing its portfolio of funeral homes and crematoria.

Quarterly reference dates

The Dignity (2002) Group prepares accounts drawn up to the nearest Friday before the Quarter End Date each quarter. As a result the combined and consolidated information reflects the 52 week period ending 25 June 2010 and 52 week period ending 25 December 2009.

^{§1} Excludes 5 telephone branches.

^{§2} This includes both Funeral Home Start-Ups and Permitted Acquisitions.

^{§3} Excludes 7 telephone branches.

Dignity (2002) Limited

Consolidated EBITDA and capital expenditure

for the 52 week period ended 25 June 2010

		<i>Funeral services</i>	<i>Crematoria</i>	<i>Pre- arranged funeral plans</i>	<i>Portfolio</i>	<i>Central overheads</i>	52 week period ending 25 Jun 2010	<i>52 week period ending 25 Dec 2009</i>
	<i>Note</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net revenue		138.6	35.4	16.0	190.0	-	190.0	184.7
Operating expenses	1	(85.8)	(15.8)	(13.5)	(115.1)	(9.4)	(124.5)	(120.7)
EBITDA	1	52.8	19.6	2.5	74.9	(9.4)	65.5	64.0
Movement in provisions		n/a	n/a	n/a	n/a	n/a	-	-
Taxation	2	n/a	n/a	n/a	n/a	n/a	(6.7)	(5.2)
Minimum Capex Maintenance Amount	3	n/a	n/a	n/a	n/a	n/a	(8.4)	(8.3)
Free Cashflow		n/a	n/a	n/a	n/a	n/a	50.4	50.5
Actual Capital Maintenance Expenditure – <i>calendar YTD</i>		3.5	0.8	-	4.3	0.3	4.6	8.2
Expenditure on Permitted Developments – <i>52 week period</i>		-	2.8	-	2.8	-	2.8	1.3

Dignity (2002) Limited

Consolidated Net Assets, Cash balances, Financial Indebtedness, Permitted Acquisitions and Permitted Disposals

as at 25 June 2010

	<i>Note</i>	<i>25 Jun</i> <i>2010</i> <i>£m</i>	<i>25 Dec</i> <i>2009</i> <i>£m</i>
Consolidated Net Assets:	4		
Fixed assets		235.7	231.3
Total current assets	5	68.0	58.1
Creditors: amounts falling due within one year		(50.6)	(46.8)
Net current assets		17.4	11.3
Total assets less current liabilities		253.1	242.6
Creditors: amounts falling due after more than one year		(388.3)	(385.3)
Provisions for liabilities and charges		(9.6)	(9.6)
Pension asset (net of deferred tax)		4.8	6.5
Net liabilities		(140.0)	(145.8)
 Cash balances – amounts standing to the credit of:			
Capex Reserve Account		-	-
Funeral Home Reserve Account		-	-
Loan Payments Account	6	22.0	13.1
Issuer Transaction Account		12.4	12.4
Crematorium Reserve Account		-	-
Principal Reserve Account		-	-
Elective Capex Account	6	1.9	3.0
Special Capex Account		-	-
Restricted Payments Account		-	-
Upgrade Reserve Account	6	0.8	1.6
 Permitted Acquisitions and Permitted Disposals:			
Permitted Acquisitions (gross) in the Relevant Period	7	8.9	14.7
Permitted Disposals (gross) in the Relevant Period (where Net Sale Proceeds exceeds £50,000 x RPI)	8	2.1	1.8
 Financial Indebtedness:			
	10	414.3	412.5

Dignity (2002) Limited

Coverages and covenants

for the 52 week period ended 25 June 2010

		<i>52 week period ending</i>	<i>52 week period ending</i>
	<i>Note</i>	<i>25 Jun 2010 £m</i>	<i>25 Dec 2009 £m</i>
EBITDA for the Relevant Period		65.5	64.0
Free Cashflow for the Relevant Period		50.4	50.5
Debt Service for the Relevant Period	9	24.9	24.6

Financial Covenant

EBITDA DSCR ('Debt Service cover ratio') :

Target	>= 1.5 : 1	>= 1.5 : 1
Actual	2.63:1	2.60:1

Restricted Payment Condition

Free Cashflow DSCR :

Target	>= 1.4 : 1	>= 1.4 : 1
Actual	2.02:1	2.05:1

EBITDA DSCR :

Target	>=1.85 : 1	>=1.85 : 1
Actual	2.63:1	2.60:1

Confirmations

The Dignity (2002) Group confirms that the Financial Covenant has been observed for the Relevant Period ending 25 June 2010.

On 31 December 2009, a Restricted Payment totalling £6.6m was paid as a dividend to Dignity (2004) Limited and onwards to Dignity plc.

On 30 June 2010, a Restricted Payment totalling £14.2m was paid as a dividend to Dignity (2004) Limited and onwards to Dignity plc.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 25 June 2010

1 EBITDA

EBITDA has been calculated in accordance with the definition in the IBLA. Pension costs are stated on a cash basis and have been allocated on a divisional basis.

For the benefit of users of this report, divisional EBITDA for the Relevant Periods was as follows:

<i>52 week period ended 25 Jun 2010</i>	<i>Funeral services £m</i>	<i>Crematoria £m</i>	<i>Pre-arranged funeral plans £m</i>	<i>Central overheads £m</i>	<i>Group £m</i>
Net revenue	138.6	35.4	16.0	-	190.0
Operating expenses	(85.8)	(15.8)	(13.5)	(9.4)	(124.5)
EBITDA	52.8	19.6	2.5	(9.4)	65.5
<i>52 week period ended 25 Dec 2009</i>					
Net revenue	138.5	34.4	11.8	-	184.7
Operating expenses	(85.6)	(15.7)	(9.8)	(9.6)	(120.7)
EBITDA	52.9	18.7	2.0	(9.6)	64.0

2 Taxation

Taxation represents amounts paid in cash or falling due in respect of Tax during the Relevant Period.

3 Capex Maintenance Amount

The IBLA requires the Minimum Capex Maintenance Amount rather than actual spend to be deducted in arriving at Free Cashflow.

4 Consolidated net assets

The consolidated net assets as at 25 December 2009 as disclosed in this Investor Report represents the final audited figures as per the 2009 statutory accounts. This differs to the figures reported in the December 2009 Investor Report.

The movements of £0.4m to total current assets and £0.2m to creditors: amounts falling due after more than one year relate to a deferred tax adjustment.

These changes did not result in any changes to the financial covenants.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 25 June 2010

5 Total current assets

Total current assets include cash at bank and in hand of £40.2m (Dec 2009: £30.9m) of which £2.6m (Dec 2009: £0.3m) is cash held for operations.

6 Reserve account balances

Loan Payments Account

Of the balance held at 25 June 2010, a Restricted Payment totalling £14.2m was paid as dividend to Dignity (2004) Limited and onwards to Dignity plc on 30 June 2010.

Issuer Transaction Account

Of the balance held at 25 June 2010, £12.2m was used to make the debt interest and principal repayments that became due on 30 June 2010.

Elective Capex Account

The balance in this account represents the receipt of the actuarial surplus from the pre arranged funeral plan trust and proceeds from the sale of freehold properties. £1.5m of this balance is restricted until February 2011.

Upgrade Reserve Account

The balance on the Upgrade Reserve Account is £0.8m. The movement in the balance during the Relevant Period is net of contributions and withdrawals.

As anticipated in the prospectus published when the Notes were issued in April 2003, environmental legislation has been passed in January 2005 requiring all crematoria in the UK to reduce their emissions of mercury by 50% by 2012.

Emission reductions can be achieved either by fitting abatement equipment at some of its sites operated by the Dignity (2002) Group or by trading emissions through the CAMEO trading scheme set up by the Federation of British Cremation Authorities. The Dignity (2002) Group has decided to install equipment at some of its sites and is working with its suppliers to ensure compliance by the end of 2012.

Two locations are now fully fitted with mercury abatement equipment with a further two under construction. The Dignity (2002) Group is on track to complete the project by the end of 2012 as required by law.

The necessary capital expenditure is being financed by a levy on each cremation. An Annual Upgrade Update was provided to the Note Trustee and the Rating Agencies on 28 May 2010.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 25 June 2010

7 Permitted Acquisitions

The expenditure in the Relevant Period relates to the acquisition of businesses and properties other than crematoria properties.

8 Permitted Disposals

Asset disposals in the Relevant Period, where the market value exceeded £50,000, comprised of seven freehold properties that were not directly EBITDA-generating.

9 Debt Service and Financial Covenant

The Dignity (2002) Group confirms that none of the following occurred in the Relevant Period ending 25 June 2010:

- Loan Event of Default
- Potential Loan Event of Default
- Financial Adviser Appointment Event

The Company made the following debt repayments during the Relevant Period (paid on 31 December 2009 and 30 June 2010):

	<i>Interest</i>	<i>Principal</i>
	<i>£'000</i>	<i>£'000</i>
Class A Secured 6.310% Notes due 2023	8,110	5,241
Class B Secured 8.151% Notes due 2030	10,813	-

The interest payments above include the 1bp margin payable under the IBLA. The actual payments to bondholders were £8,097,000 and £10,800,000 under the Class A and Class B Notes respectively.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 25 June 2010

9 Debt Service and Financial Covenant (continued)

Debt Service for the Relevant Period ending 25 June 2010 has been calculated as follows:

	<i>Principal</i>	<i>Annual rate</i>	<i>Interest</i>
Senior Interest accruing in the period	£'000	%	£'000
£110m Class A Notes	89,838	6.32%	5,735
£100m Class B Notes	100,000	8.161%	8,161
£45.5m Class A Notes – issued February 2006	37,201	6.32%	2,376
£32.5m Class B Notes – issued February 2006	32,500	8.161%	2,652
Working capital facility	5,000	0.45%	22
Liquidity facility	40,000	0.35%	140
Hedging documents	202,500	0.3404% ^{§1}	688
Senior Interest accrued in the period			19,774
Interest received in the period	Variable	Variable	(159)
Scheduled repayments of principal in the period		n/a	5,241
Debt Service for the Relevant Period			24,856

^{§1} Net rate payable on notional principal.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 25 June 2010

10 Financial Indebtedness

Following the issue of further Class A and B secured notes on 21 February 2006, the IBLA was amended and restated. This incorporated an amendment that replaced the requirement to report Permitted Financial Indebtedness with that of Financial Indebtedness, which is defined as follows:

“Financial Indebtedness” means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instruments;
- (d) the amount of any liability in respect of any lease, credit sale, conditional sale agreement or hire purchase contract which would, in accordance with UK GAAP, be treated as a finance or capital lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);
- (h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
- (i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 25 June 2010

11 Dignity plc

For the avoidance of doubt, the financial information contained elsewhere in this report relates to the unaudited consolidated results and financial position of Dignity (2002) Limited and its subsidiaries ('the Dignity (2002) Group') as required under the IBLA. The ultimate parent undertaking of Dignity (2002) Limited is Dignity plc.

Consequently, the financial information set out elsewhere in this report does not include the results of either the ultimate or intermediate parent undertakings of Dignity (2002) Limited, nor any adjustments necessary as to present the consolidated results and financial position of the combined groups.

Specifically, the financial information set out elsewhere in this report does not include certain adjustments, including, but not limited to, the following:

- Certain administrative expenses accruing to the parent undertakings of the Dignity (2002) Group;
- Interest payable and receivable on borrowings or loans between the Dignity (2002) Group and its parent undertakings;
- Interest payable or receivable on borrowings or loans held by either the ultimate or intermediate parent undertakings of Dignity (2002) Limited;
- Dividends declared or receivable by either the ultimate or intermediate parent undertakings of Dignity (2002) Limited;
- The non-cash effects of FRS 17 in the Relevant Period;
- The net assets of either the ultimate or intermediate parent undertakings of Dignity (2002) Limited; and
- Any adjustments necessary in order to present the combined results and financial position of any entity outside the control of the Dignity (2002) Group.

This report has been prepared under UK Generally Accepted Accounting Principles ('UK GAAP'). Dignity plc prepares its consolidated financial statements under IFRS principles.

12 Terminology

The following capitalised terms and phrases used in this report are defined in the Issuer / Borrower Loan Agreement ('IBLA') and have the same meanings in this report as defined in the IBLA:

Additional Obligors	Annual Upgrade Update	Debt Service	EBITDA	Financial Adviser Appointment	Financial Covenant
Financial Indebtedness	Free Cashflow	Funeral Home Start-Ups	Loan Event of Default	Maintenance Capex	Permitted Acquisition
Permitted Development	Permitted Disposal	Portfolio	Potential Loan Event of Default	Relevant Period	Restricted Payment
Restricted Payment Condition	Senior Interest	Security Trustee	Secured Notes	Tax	Tax Deed of Covenant

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 25 June 2010

13 Acquisition outside Securitisation group

On 21 January 2010, the Note Trustee and the Security Trustee exercised their discretionary power following a rating affirmation to authorise Dignity Crematoria Limited, a wholly owned subsidiary of Dignity plc to build a new crematorium in Shepton Mallet, Somerset. The crematorium will be partially funded by way of a loan from the Royal Bank of Scotland group, who will obtain security over the assets. The new crematorium will be leased to and operated by Dignity Funerals Limited.

14 Amendment to the Tax Deed of Covenant

On 8 February 2010, the Note Trustee and the Security Trustee exercised their discretionary power following a rating affirmation to authorise an amendment to the Tax Deed of Covenant ('TDC'). This change allows losses to be group relieved in a different order to that originally contemplated in the TDC, provided certain conditions are met. Crucially, these conditions prevent the securitisation group incurring a higher total tax liability than would have otherwise have been the case. This change was made to relieve an administrative burden arising from the effects of transfer pricing legislation on companies acquired by the securitisation group.

15 Acquisition outside Securitisation group

On 25 May 2010, the Note Trustee and the Security Trustee exercised their discretionary power following a rating affirmation to authorise Dignity Crematoria Limited, a wholly owned subsidiary of Dignity plc to build a new crematorium in Kidderminster, Worcestershire. The crematorium will be partially funded by way of a loan from the Royal Bank of Scotland group, who will obtain security over the assets. The new crematorium will be leased to and operated by Dignity Funerals Limited.