



Dignity plc Interim Report 2011

Serving local communities for generations



About Dignity

Dignity owns 584 funeral locations and operates 34 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.

What we believe in:

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

Our strategy

We plan to grow the profitability of our business by:

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

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Key financial highlights

for the 26 week period ended 1 July 2011

| Current period financial highlights | 2011 | 2010 | Increase/ (decrease) per cent |
|--|--------------|-------|-------------------------------------|
| Revenue (£million) | 107.7 | 100.9 | 6.7 |
| Underlying operating profit ^(a) (£million) | 36.3 | 33.8 | 7.4 |
| Underlying profit before tax ^(a) (£million) | 24.7 | 24.0 | 2.9 |
| Underlying earnings per share ^(a) (pence) | 32.7 | 26.6 | 22.9 |
| Cash generated from operations ^(b) (£million) | 36.9 | 41.8 | (11.7) |
| Operating profit (£million) | 36.1 | 34.1 | 5.9 |
| Profit before tax (£million) | 24.5 | 24.3 | 0.8 |
| Basic earnings per share (pence) | 33.8 | 27.0 | 25.2 |
| Interim dividend ^(c) (pence) | 4.87 | – | n/a |

| Trading overview | 26 week period ended | |
|--|----------------------|-------------------|
| | 1 Jul 2011 £m | 25 Jun 2010 £m |
| Revenue | | |
| Funeral services | 76.5 | 73.2 |
| Crematoria | 21.8 | 18.5 |
| Pre-arranged funeral plans | 9.4 | 9.2 |
| | 107.7 | 100.9 |
| Underlying operating profit^(a) | | |
| Funeral services | 27.5 | 26.4 |
| Crematoria | 11.6 | 10.3 |
| Pre-arranged funeral plans ^(d) | 3.0 | 3.0 |
| Central overheads | (5.8) | (5.9) |
| | 36.3 | 33.8 |

(a) Underlying profit and underlying earnings are calculated as profit excluding profit on sale of fixed assets, transaction costs and exceptional items.

(b) Cash generated from operations excludes transaction costs.

(c) 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.

(d) Pre-arranged funeral plans includes Recoveries of £1.5 million (2010: £1.5 million).

(e) A reconciliation between statutory and underlying amounts is detailed in note 2.

Chairman's statement

“Underlying operating profits have increased 7.4 per cent.”

Peter Hindley, Chairman

Results

All the divisions have performed well in the first half of 2011, trading in line with the Board's expectations. Underlying operating profits were £36.3 million (2010: £33.8 million), an increase of 7.4 per cent. Operating profits were £36.1 million (2010: £34.1 million).

Underlying earnings per share increased 22.9 per cent to 32.7 pence per share (2010: 26.6 pence per share).

These results demonstrate the robust operating performance of the Group and the benefits of the releveraging and Return of Value undertaken in the second half of 2010.

Basic earnings per share were 33.8 pence per share (2010: 27.0 pence per share), an increase of 25.2 per cent.

Dividends

The Board has declared an interim dividend of 4.87 pence per share (2010: nil pence per share). This dividend will be paid on 29 October 2011 to shareholders who are on the register at close of business on 30 September 2011.

No separate interim dividend was paid in 2010, as it was included in the Return of Value of £1 per Ordinary Share in October 2010.

This dividend represents a 10 per cent compound increase on the interim dividend paid in 2009.

Our staff

I continue to be proud of the staff that work for Dignity. Their focus on providing excellent service to our clients is central to the Group's strategy and continuing success.

Outlook

The Group remains on track to achieve the Board's expectations for the full year.

Business and financial review

Mike McCollum, Chief Executive

Introduction

The Group's operations are managed across three main areas, namely funeral services, crematoria and pre-arranged funeral plans. Funeral services revenues relate to the provision of funerals and ancillary items such as memorials and floral tributes. Crematoria revenues arise from cremation services and the sale of memorials and burial plots at the Group's crematoria and cemeteries. Pre-arranged funeral plan revenue represents amounts to cover the costs of marketing and administering the sale of plans.

Office for National Statistics Data

Some of the Group's key performance indicators rely on the total number of estimated deaths for each period.

This information is obtained from the Office for National Statistics (ONS) and helps to provide good general background to the Group's performance.

Initial estimated deaths in Great Britain for the first half of 2011 were 281,000 (2010: 284,000). Historically, the ONS has updated these estimates from time to time. As in previous years, the Group does not restate any of its key performance indicators when these figures are restated in the following year.

Funeral services

The Group operates a network of 584 (June 2010: 554; December 2010: 567) funeral locations throughout the United Kingdom. The change to the portfolio reflects the acquisition of seven additional funeral locations, 11 new satellite locations and one closure.

In the first half of 2011, the Group conducted 33,400 funerals (2010: 33,600) in the United Kingdom. Approximately two per cent of these funerals were performed in Northern Ireland (2010: one per cent). Excluding Northern Ireland, these funerals represent approximately 11.7 per cent (June 2010: 11.7 per cent; December 2010: 11.4 per cent) of total estimated deaths in Great Britain. Whilst funerals divided by estimated deaths is a reasonable measure of our market share, the Group does not have a complete national presence and this calculation can only ever be an estimate.

Underlying operating profits were £27.5 million (2010: £26.4 million), an increase of 4.2 per cent.

Client service excellence

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

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

Crematoria

The Group operates 34 crematoria (June 2010: 30; December 2010: 33) and is the largest single operator of crematoria in Great Britain. The Group performed 25,400 cremations (2010: 23,000), reflecting the increase in the number of crematoria being operated.

These volumes represent approximately 9.0 per cent (June 2010: 8.1 per cent; December 2010: 8.1 per cent) of total estimated deaths in Great Britain.

Underlying operating profits were £11.6 million (2010: £10.3 million), an increase of 12.6 per cent.

Business and financial review continued

Pre-arranged funeral plans

Unfulfilled pre-arranged funeral plans were approximately 248,000 at the end of the period (June 2010: 226,500; December 2010: 238,000). These plans continue to represent future potential incremental business for the funeral division.

The division has had a good start to the year, contributing operating profits of £3.0 million (2010: £3.0 million) in the period. Plan sales were consistent with the previous period. The result includes Recoveries of £1.5 million (2010: £1.5 million).

The Group continues to seek additional ways to increase plan sales.

Central overheads

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 centrally the costs of incentive bonus arrangements, such as Long Term Incentive Plans and annual performance bonuses, which are provided to over 100 managers working across the business.

Costs were broadly flat on the prior year at £5.8 million (2010: £5.9 million).

Acquisition activity

The Group has invested £11.0 million in acquiring seven funeral locations during the period.

In addition, £0.5 million has been invested in new funeral satellite locations, with 11 opening in the period.

The Group's newly constructed crematorium in Somerset opened in the first quarter of the year and the new crematorium in Worcestershire is due to open in the fourth quarter of 2011. The Group has also committed to build a new crematorium in Essex, which is due to be become operational in the second quarter of 2012. These activities represent a total investment of £8.0 million in 2011 to date.

Earnings per share

Underlying earnings per share increased 22.9 per cent to 32.7 pence per Ordinary Share. This reflects the benefit of the releveraging and effective share buy back undertaken in the second half of 2010.

Cash flow and cash balances

The Group continues to be strongly cash generative. Cash generated from operations, before transaction costs, was £36.9 million (2010: £41.8 million). This reduction reflects timing differences caused by the Group's period end dates.

During the period, the Group spent £13.0 million (2010: £10.4 million) on purchases of property, plant and equipment.

This is analysed as:

| | 1 July 2011 £m | 25 June 2010 £m |
|---|-------------------|--------------------|
| Vehicle replacement programme and improvements to locations | 3.7 | 5.1 |
| Branch relocations | 0.3 | 0.6 |
| Satellite locations | 0.5 | 0.3 |
| Development of new crematoria | 8.0 | 3.2 |
| Mercury abatement project | 0.5 | 1.2 |
| Total property, plant and equipment | 13.0 | 10.4 |
| Partly funded by: | | |
| Disposal proceeds | (0.6) | (0.8) |
| Net capital expenditure | 12.4 | 9.6 |

The mercury abatement project is on track for completion by the end of 2012 as required by legislation.

Cash balances at the end of the period were £35.4 million. Of this amount, £1.5 million (2010: £1.5 million) in respect of Recoveries is disclosed as a restricted cash balance, as it is not available for general use by the Group until February 2012.

Taxation

The Group's effective tax rate for 2011 is expected to be 27.5 per cent following the changes to the rate of Corporation Tax announced by the Chancellor of the Exchequer.

In the same announcement, the Chancellor indicated a headline Corporation Tax Rate of 26 per cent. As this has now been substantively enacted, an exceptional tax credit of £0.8 million for deferred tax balances has been recognised in the Group's consolidated income statement.

Capital structure and financing

The Group's principal source of external debt financing continues to be the A and BBB rated Class A and B Secured Notes.

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 on the Secured Notes 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.

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 1 July 2011 was 2.35 (2010: 2.63). Further details may be found in note 9. The expected reduction in the ratio reflects the anticipated increases in debt service resulting from the further issue of Secured Notes in 2010.

The Group also has a £10.0 million Crematorium Acquisition Facility, which is fully drawn. The whole amount is repayable in one bullet payment in 2013. Interest is partly fixed and partly capped at approximately 5.6 per cent. All interest is payable in cash on a quarterly basis.

As set out in note 9, the Group's gross debt outstanding was £354.4 million (June 2010: £280.2 million; December 2010: £359.1 million). Net debt was £319.1 million (June 2010: £238.5 million; December 2010: £311.1 million). The increase in net debt since June 2010 is largely explained by the issue of further Secured Notes in the second half of 2010, which is described further in the Group's 2010 Annual Report.

As a result of the increase in debt, net finance costs were £11.6 million compared to £9.8 million in the comparative period.

Key performance indicators

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

| | 26 weeks ended 1 Jul 2011 | 26 weeks ended 25 Jun 2010 | 53 weeks ended 31 Dec 2010 |
|--|------------------------------|-------------------------------|-------------------------------|
| Total estimated number of deaths in Britain (number) | 281,000 | 284,000 | 557,000 |
| Number of funerals performed (number) | 33,400 | 33,600 | 64,500 |
| Funeral market share excluding Northern Ireland (per cent) | 11.7 | 11.7 | 11.4 |
| Number of cremations performed (number) | 25,400 | 23,000 | 45,200 |
| Crematoria market share (per cent) | 9.0 | 8.1 | 8.1 |
| Unfulfilled pre-arranged funeral plans (number) | 248,000 | 226,500 | 238,000 |
| Underlying earnings per share (pence) | 32.7 | 26.6 | 46.4 |
| Underlying operating profit (£million) | 36.3 | 33.8 | 61.0 |
| Cash generated from operations (£million) ^(a) | 36.9 | 41.8 | 74.5 |

(a) Cash generated from operations excludes transaction costs.

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

Forward-looking statements

Certain statements in this Interim 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.

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 Interim Report.

Principal risks and uncertainties

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

The principal risks and how they are managed have not changed since the year-end. These principal risks and uncertainties will continue to affect the Group in the second half of the year.

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 of the Group's 2010 Annual Report.

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

Financial Covenant under the Secured Notes

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

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

Consolidated income statement (unaudited)

for the 26 week period ended 1 July 2011

| | Note | 26 week period ended | | 53 week period ended 31 Dec 2010 (audited) £m |
|---|------|----------------------|-------------------|---|
| | | 1 Jul 2011 £m | 25 Jun 2010 £m | |
| Revenue | 2 | 107.7 | 100.9 | 199.1 |
| Cost of sales | | (45.0) | (43.2) | (87.3) |
| Gross profit | | 62.7 | 57.7 | 111.8 |
| Administrative expenses | | (28.1) | (25.1) | (53.2) |
| Other income | | 1.5 | 1.5 | 1.8 |
| Operating profit | 2 | 36.1 | 34.1 | 60.4 |
| Analysed as: | | | | |
| Operating profit before profit on sale of fixed assets and before transaction costs | | 36.3 | 33.8 | 61.0 |
| Profit on sale of fixed assets | | 0.3 | 0.5 | 0.5 |
| Transaction costs | | (0.5) | (0.2) | (1.1) |
| Operating profit | | 36.1 | 34.1 | 60.4 |
| Finance costs | 3 | (13.2) | (10.6) | (22.5) |
| Finance income | 3 | 1.6 | 0.8 | 1.9 |
| Profit before tax | 2 | 24.5 | 24.3 | 39.8 |
| Taxation – before exceptional items | 4 | (6.8) | (7.1) | (11.5) |
| Taxation – exceptional | 4 | 0.8 | – | 0.7 |
| Taxation | 4 | (6.0) | (7.1) | (10.8) |
| Profit for the period attributable to equity shareholders | | 18.5 | 17.2 | 29.0 |
| Earnings per share for profit attributable to equity shareholders | | | | |
| – Basic and diluted (pence) | 5 | 33.8p | 27.0p | 46.9p |
| Underlying earnings per share (pence) | 5 | 32.7p | 26.6p | 46.4p |

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

Consolidated statement of comprehensive income (unaudited)

for the 26 week period ended 1 July 2011

| | | 26 week period ended | | 53 week period ended 31 Dec 2010 (audited) £m |
|---|--|----------------------|-------------------|---|
| | | 1 Jul 2011 £m | 25 Jun 2010 £m | |
| Profit for the period | | 18.5 | 17.2 | 29.0 |
| Actuarial loss on retirement benefit obligations | | (0.4) | (2.8) | (2.0) |
| Tax on actuarial loss on retirement benefit obligations | | 0.1 | 0.8 | 0.6 |
| Other comprehensive loss | | (0.3) | (2.0) | (1.4) |
| Comprehensive income for the period | | 18.2 | 15.2 | 27.6 |
| Attributable to: | | | | |
| Equity shareholders of the parent | | 18.2 | 15.2 | 27.6 |

Consolidated balance sheet (unaudited)

as at 1 July 2011

| | Note | 1 Jul 2011 £m | 25 Jun 2010 £m | 31 Dec 2010 (audited) £m |
|--|------|------------------|-------------------|--------------------------------|
| Assets | | | | |
| Non-current assets | | | | |
| Goodwill | | 148.4 | 140.9 | 142.9 |
| Intangible assets | | 45.8 | 38.3 | 39.5 |
| Property, plant and equipment | | 142.4 | 122.1 | 133.6 |
| Financial and other assets | | 12.3 | 9.7 | 12.0 |
| Retirement benefit asset | | 8.4 | 6.6 | 8.5 |
| | | 357.3 | 317.6 | 336.5 |
| Current assets | | | | |
| Inventories | | 5.3 | 4.6 | 5.2 |
| Trade and other receivables | | 23.0 | 21.7 | 24.0 |
| Cash and cash equivalents | 7 | 35.4 | 51.3 | 48.1 |
| | | 63.7 | 77.6 | 77.3 |
| Total assets | | 421.0 | 395.2 | 413.8 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Financial liabilities | | 9.0 | 8.9 | 8.7 |
| Trade and other payables | | 25.9 | 37.5 | 32.0 |
| Current tax liabilities | | 6.4 | 6.1 | 4.8 |
| Provisions for liabilities and charges | | 1.5 | 1.3 | 1.5 |
| | | 42.8 | 53.8 | 47.0 |
| Non-current liabilities | | | | |
| Financial liabilities | | 334.2 | 263.7 | 338.5 |
| Deferred tax liabilities | | 29.2 | 26.1 | 27.3 |
| Other non-current liabilities | | 2.8 | 2.9 | 2.9 |
| Provisions for liabilities and charges | | 3.0 | 2.6 | 2.9 |
| | | 369.2 | 295.3 | 371.6 |
| Total liabilities | | 412.0 | 349.1 | 418.6 |
| Shareholders' equity | | | | |
| Ordinary share capital | | 5.7 | 5.7 | 5.7 |
| Share premium account | | 17.4 | 36.7 | 17.4 |
| Capital redemption reserve | | 99.3 | 80.0 | 99.3 |
| Other reserves | | (8.4) | (9.3) | (8.8) |
| Retained earnings | | (105.0) | (67.0) | (118.4) |
| Equity attributable to shareholders | | 9.0 | 46.1 | (4.8) |
| Total equity and liabilities | | 421.0 | 395.2 | 413.8 |

Consolidated statement of changes in equity (unaudited)

| | Ordinary share capital £m | Share premium account £m | Capital redemption reserve £m | Other reserves £m | Retained earnings £m | Total £m |
|--|------------------------------------|-----------------------------------|--|-------------------------|----------------------------|-------------|
| Shareholders' equity as at 25 December 2009 | 5.7 | 35.8 | 80.0 | (8.9) | (77.1) | 35.5 |
| Profit for the 26 weeks ended 25 June 2010 | – | – | – | – | 17.2 | 17.2 |
| Actuarial loss on defined benefit plans | – | – | – | – | (2.8) | (2.8) |
| Tax on pensions | – | – | – | – | 0.8 | 0.8 |
| Effects of employee share options | – | – | – | 0.4 | – | 0.4 |
| Tax on employee share options | – | – | – | 0.1 | – | 0.1 |
| Share issue under 2007 LTIP scheme | – | 0.9 | – | – | – | 0.9 |
| Gift to Employee Benefit Trust ⁽¹⁾ | – | – | – | (0.9) | – | (0.9) |
| Dividends | – | – | – | – | (5.1) | (5.1) |
| Shareholders' equity as at 25 June 2010 | 5.7 | 36.7 | 80.0 | (9.3) | (67.0) | 46.1 |
| Profit for the 27 weeks ended 31 December 2010 | – | – | – | – | 11.8 | 11.8 |
| Actuarial gain on defined benefit plans | – | – | – | – | 0.8 | 0.8 |
| Tax on pensions | – | – | – | – | (0.2) | (0.2) |
| Effects of employee share options | – | – | – | 0.5 | – | 0.5 |
| Adjustment for tax rate change 28% to 27% | – | – | – | – | 0.1 | 0.1 |
| Issue of B Shares in respect of Capital Option | – | (19.3) | – | – | – | (19.3) |
| Redemption of B Shares in respect of Capital Option | – | – | 19.3 | – | (19.3) | – |
| Dividend in respect of Special Dividend Option and Deferred Dividend Option | – | – | – | – | (44.6) | (44.6) |
| Shareholders' equity as at 31 December 2010 | 5.7 | 17.4 | 99.3 | (8.8) | (118.4) | (4.8) |
| Profit for the 26 weeks ended 1 July 2011 | – | – | – | – | 18.5 | 18.5 |
| Actuarial loss on defined benefit plans | – | – | – | – | (0.4) | (0.4) |
| Tax on pensions | – | – | – | – | 0.1 | 0.1 |
| Effects of employee share options | – | – | – | 0.5 | – | 0.5 |
| Tax on employee share options | – | – | – | (0.1) | – | (0.1) |
| Adjustment for tax rate change 27% to 26% | – | – | – | – | 0.1 | 0.1 |
| Dividends (note 6) | – | – | – | – | (4.9) | (4.9) |
| Shareholders' equity as at 1 July 2011 | 5.7 | 17.4 | 99.3 | (8.4) | (105.0) | 9.0 |

(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 £0.3 million loss (June 2010: £2.0 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 (unaudited)

for the 26 week period ended 1 July 2011

| | Note | 26 week period ended | | 53 week |
|---|------|----------------------|---------------|--|
| | | 1 Jul 2011 | 25 Jun 2010 | period ended 31 Dec 2010 (audited) |
| | | £m | £m | £m |
| Cash flows from operating activities | | | | |
| Cash generated from operations before transaction costs and exceptional pension contributions | 8 | 36.9 | 41.8 | 74.5 |
| Costs in respect of redemption of B and C Shares | | - | - | (0.8) |
| Exceptional contribution to pension scheme | | - | - | (1.0) |
| Transaction costs in respect of acquisitions | | (0.4) | (0.2) | (0.3) |
| Cash generated from operations | | 36.5 | 41.6 | 72.4 |
| Finance income received | | 0.2 | 0.1 | 0.4 |
| Finance costs paid | | (12.5) | (10.1) | (32.6) |
| Transfer from restricted bank accounts for finance costs | 7 | - | 9.9 | 9.9 |
| Payments to restricted bank accounts for finance costs | 7 | - | (9.8) | - |
| Total payments in respect of finance charges | | (12.5) | (10.0) | (22.7) |
| Tax paid | | (4.7) | (5.0) | (10.1) |
| Net cash generated from operating activities | | 19.5 | 26.7 | 40.0 |
| Cash flows from investing activities | | | | |
| Acquisition of subsidiaries and businesses (net of cash acquired) | 10 | (11.0) | (3.8) | (5.8) |
| Proceeds from sale of property, plant and equipment | | 0.6 | 0.8 | 1.1 |
| Vehicle replacement programme and improvements to locations | | (3.7) | (5.1) | (10.3) |
| Branch relocations | | (0.3) | (0.6) | (0.6) |
| Satellite locations | | (0.5) | (0.3) | (1.0) |
| Development of new crematoria | | (8.0) | (3.2) | (13.9) |
| Mercury abatement project | | (0.5) | (1.2) | (2.1) |
| Purchase of property, plant and equipment | | (13.0) | (10.4) | (27.9) |
| Net cash used in investing activities | | (23.4) | (13.4) | (32.6) |
| Cash flows from financing activities | | | | |
| Proceeds from issue of Secured Notes | | - | - | 87.1 |
| Issue costs in respect of borrowings of Secured Notes | | - | - | (4.5) |
| Repayment of borrowings | | (3.8) | (2.6) | (8.9) |
| Transfers from restricted bank accounts for repayment of borrowings | 7 | - | 2.6 | 2.6 |
| Payments to restricted bank accounts for repayment of borrowings | 7 | - | (2.7) | - |
| Total payments in respect of borrowings | | (3.8) | (2.7) | (6.3) |
| Dividends paid to shareholders on Ordinary Shares | | (4.9) | (5.1) | (5.1) |
| Redemption of B Shares in respect of Capital Option | | - | - | (19.3) |
| Redemption of C Shares in respect of Special Dividend Option | | - | - | (44.5) |
| Purchase of C Shares in respect of Deferred Dividend Option | | (0.1) | - | - |
| Net cash (used)/generated in financing activities | | (8.8) | (7.8) | 7.4 |
| Net (decrease)/increase in cash and cash equivalents | | (12.7) | 5.5 | 14.8 |
| Cash and cash equivalents at the beginning of the period | | 46.6 | 31.8 | 31.8 |
| Cash and cash equivalents at the end of the period | 7 | 33.9 | 37.3 | 46.6 |
| Restricted cash | | 1.5 | 14.0 | 1.5 |
| Cash and cash equivalents at the end of the period as reported in the consolidated balance sheet | | 35.4 | 51.3 | 48.1 |

Notes to the interim financial information 2011 (unaudited)

for the 26 week period ended 1 July 2011

1 Accounting policies

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

Basis of preparation

The interim condensed consolidated financial information of Dignity plc (the 'Company') is for the 26 week period ended 1 July 2011 and comprises the results, assets and liabilities of the Company and its subsidiaries (the 'Group').

The interim condensed consolidated financial information has been reviewed, not audited and does not constitute statutory accounts within the meaning of s434 of the Companies Act 2006. This interim condensed consolidated financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Service Authority and with IAS 34 'interim financial reporting' as adopted by the European Union.

The interim condensed consolidated financial information has been prepared in accordance with all applicable International Financial Reporting Standards, as adopted by the European Union, that are expected to apply to the Group's Financial Report for the 52 week period ended 30 December 2011. The interim condensed consolidated financial information is also consistent with the audited consolidated financial statements for the 53 week period ended 31 December 2010. This does not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the 53 week period ended 31 December 2010. The Directors approved this interim condensed consolidated financial information on 27 July 2011.

The accounting policies applied by the Group in this interim condensed consolidated financial information are the same as those applied by the Group in its audited consolidated financial statements as at and for the 53 week period ended 31 December 2010, which are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The basis of consolidation is set out in the Group's accounting policies in those financial statements.

The preparation of interim condensed consolidated financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. In preparing this interim condensed consolidated financial information, the significant judgments made by the management in applying the Group's accounting policies and key source of estimation uncertainty were the same as those applied to the audited consolidated financial statements as at and for the 53 week period ended 31 December 2010.

Comparative information has been presented as at and for the 26 week period ended 25 June 2010 and as at and for the 53 week period ended 31 December 2010.

The comparative figures for the 53 week period ended 31 December 2010 do not constitute statutory accounts for the purposes of s434 of the Companies Act 2006. A copy of the Group's statutory accounts for the 53 week period ended 31 December 2010 have been delivered to the Registrar of Companies and contained an unqualified auditors' report in accordance with s498 of the Companies Act 2006.

Pre-arranged funeral plans – Recoveries

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 being 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.

2 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 operating and reporting segments, funeral services, crematoria and pre-arranged funeral plans. The Group also reports central overheads, which comprise unallocated central expenses.

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

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

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

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

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

Notes to the interim financial information 2011 (unaudited) continued

for the 26 week period ended 1 July 2011

2 Revenue and segmental analysis (continued)

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

26 week period ended 1 July 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, transaction costs and exceptional items £m | Operating profit/(loss) £m |
|------------------------------------|---------------|--|--|--|---|----------------------------------|
| Funeral services | 76.5 | 31.0 | (3.5) | 27.5 | (0.5) | 27.0 |
| Crematoria | 21.8 | 12.7 | (1.1) | 11.6 | - | 11.6 |
| Pre-arranged funeral plans | 9.4 | 3.1 | (0.1) | 3.0 | - | 3.0 |
| Central overheads | - | (5.7) | (0.1) | (5.8) | 0.3 | (5.5) |
| Group | 107.7 | 41.1 | (4.8) | 36.3 | (0.2) | 36.1 |
| Finance costs | | | | (13.2) | - | (13.2) |
| Finance income | | | | 1.6 | - | 1.6 |
| Profit before tax | | | | 24.7 | (0.2) | 24.5 |
| Taxation – continuing activities | | | | (6.8) | - | (6.8) |
| Taxation – exceptional | | | | - | 0.8 | 0.8 |
| Taxation | | | | (6.8) | 0.8 | (6.0) |
| Underlying earnings for the period | | | | 17.9 | | |
| Total other items | | | | | 0.6 | |
| Profit after taxation | | | | | | 18.5 |

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

– Basic and diluted 32.7p 33.8p

26 week period ended 25 June 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 and transaction costs £m | Operating profit/(loss) £m |
|------------------------------------|---------------|--|--|--|--|----------------------------------|
| Funeral services | 73.2 | 29.6 | (3.2) | 26.4 | 0.3 | 26.7 |
| Crematoria | 18.5 | 11.3 | (1.0) | 10.3 | - | 10.3 |
| Pre-arranged funeral plans | 9.2 | 3.0 | - | 3.0 | - | 3.0 |
| Central overheads | - | (5.7) | (0.2) | (5.9) | - | (5.9) |
| Group | 100.9 | 38.2 | (4.4) | 33.8 | 0.3 | 34.1 |
| Finance costs | | | | (10.6) | - | (10.6) |
| Finance income | | | | 0.8 | - | 0.8 |
| Profit before tax | | | | 24.0 | 0.3 | 24.3 |
| Taxation | | | | (7.0) | (0.1) | (7.1) |
| Underlying earnings for the period | | | | 17.0 | | |
| Total other items | | | | | 0.2 | |
| Profit after taxation | | | | | | 17.2 |

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

– Basic and diluted 26.6p 27.0p

2 Revenue and segmental analysis (continued)

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, 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 (pence) | | | | | | |
| – Basic and diluted | | | | 46.4p | | 46.9p |

3 Net finance costs

| | 26 week period ended | | 53 week period ended 31 Dec 2010 £m |
|--|----------------------|-------------------|--|
| | 1 Jul 2011 £m | 25 Jun 2010 £m | |
| Finance costs | | | |
| Class A and B Secured Notes – issued April 2003 | 6.8 | 6.9 | 13.8 |
| Class A and B Secured Notes – issued February 2006 | 2.5 | 2.5 | 5.0 |
| Class A and B Secured Notes – issued September 2010 | 2.5 | – | 1.3 |
| Amortisation of issue costs – issued April 2003 | 0.5 | 0.5 | 1.0 |
| Amortisation of issue costs – issued February 2006 | 0.1 | 0.1 | 0.2 |
| Amortisation of issue costs – issued September 2010 | 0.3 | – | 0.1 |
| Crematoria acquisition facility | 0.2 | 0.3 | 0.5 |
| Other loans | 0.2 | 0.1 | 0.2 |
| Interest payable on finance leases | – | – | 0.1 |
| Unwinding of discounts | 0.3 | 0.3 | 0.5 |
| Finance costs | 13.4 | 10.7 | 22.7 |
| Less: interest capitalised | (0.2) | (0.1) | (0.2) |
| Net finance costs | 13.2 | 10.6 | 22.5 |
| Finance income | | | |
| Bank deposits | (0.2) | (0.2) | (0.4) |
| Release of premium on issue of Secured Notes – issued February 2006 | (0.4) | (0.4) | (0.8) |
| Release of premium on issue of Secured Notes – issued September 2010 | (0.6) | – | (0.3) |
| Net finance income on retirement benefit obligations | (0.4) | (0.2) | (0.4) |
| Finance income | (1.6) | (0.8) | (1.9) |
| Net finance costs | 11.6 | 9.8 | 20.6 |

Borrowing costs of £0.2 million (2010: £0.1 million) were capitalised as components of the cost of construction of qualifying assets, applying an annualised average capitalisation rate of 6.8 per cent (2010: 7.3 per cent).

Notes to the interim financial information 2011 (unaudited) continued

for the 26 week period ended 1 July 2011

4 Taxation

The taxation charge on continuing operations in the period is based on a full year estimated effective tax rate, before exceptional items, of 27.5 per cent (2010: 29.0 per cent) on profit before tax for the 26 week period ended 1 July 2011.

| | 26 week period ended | | 53 week period ended |
|----------|----------------------|-------------------|----------------------|
| | 1 Jul 2011 £m | 25 Jun 2010 £m | 31 Dec 2010 £m |
| Taxation | 6.0 | 7.1 | 10.8 |

The Finance Act (No.3) 2011, which was substantially enacted on 29 March 2011, includes legislation reducing the rate of corporation tax from 28 per cent to 26 per cent from 1 April 2011. As a result of this reduction, the Group recognised exceptional tax income of £0.8 million through its income statement to reflect the one off reduction in the period of the Group's deferred tax position.

Further rate changes have been announced where the corporation tax rate will reduce by a further one per cent per annum until 1 April 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 £1.0 million. These impacts will be recognised in the period in which substantive enactment occurs.

5 Earnings per share (EPS)

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

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

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

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

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

On 8 October 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 no. of shares m | Per share amount pence |
|---|----------------|---|------------------------------|
| 26 week period ended 1 July 2011 | | | |
| Profit attributable to shareholders – Basic and diluted EPS | 18.5 | 54.8 | 33.8 |
| Deduct: Exceptional items, profit on sale of fixed assets and transaction costs (net of taxation) | (0.6) | | |
| Underlying profit after taxation – Basic EPS | 17.9 | 54.8 | 32.7 |
| 26 week period ended 25 June 2010 | | | |
| Profit attributable to shareholders – Basic and diluted EPS | 17.2 | 63.8 | 27.0 |
| Deduct: Profit on sale of fixed assets and transaction costs (net of taxation) | (0.2) | | |
| Underlying profit after taxation – Basic EPS | 17.0 | 63.8 | 26.6 |
| 53 week period ended 31 December 2010 | | | |
| Profit attributable to shareholders – Basic and diluted EPS | 29.0 | 61.8 | 46.9 |
| Deduct: Exceptional items, profit on sale of fixed assets and transaction costs (net of taxation) | (0.3) | | |
| Underlying profit after taxation – Basic EPS | 28.7 | 61.8 | 46.4 |

In all periods, the potential issue of new shares pursuant to the Group's share option plans would not materially affect the earnings per share if exercised.

6 Dividends

On 24 June 2011, the Group paid a final dividend, in respect of 2010, of 8.88 pence per share (2010: 8.07 pence per share) totalling £4.9 million (2010: £5.1 million).

On 27 July 2011, the Directors approved an interim dividend, in respect of 2011, of 4.87 pence per share (2010: nil pence per share) totalling £2.7 million (2010: £nil million), which will be paid on 24 October 2011 to those shareholders on the register at the close of business on 30 September 2011.

As a result of the return of value undertaken in 2010, the Group had 106,302 (2009: nil) C Shares in issue at 31 December 2010. These C Shares had no voting rights and in accordance with the rights attached to the C Shares, during the period, the Company purchased the C Shares in issue for £1 per C Share on 4 May 2011.

7 Cash and cash equivalents

| | Note | 1 Jul 2011 £m | 25 Jun 2010 £m | 31 Dec 2010 £m |
|--|------|---------------------|----------------------|----------------------|
| Cash as reported in the consolidated statement of cash flows as cash and cash equivalents | | | | |
| Recoveries: pre-arranged funeral plans | (a) | 1.5 | 37.3 | 46.6 |
| Amounts set aside for debt service payments | (b) | – | 1.5 | 1.5 |
| | | | 12.5 | – |
| Cash and cash equivalents as reported in the balance sheet | | | | |
| | | 35.4 | 51.3 | 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.

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

This amount does not meet the definition of cash and cash equivalents in IAS 7, Cash Flow Statements. Whilst not applicable in December 2010 or in June 2011, in June 2010, this amount was used to pay these respective parties on 30 June 2010. Of this amount £9.8 million is shown within the cash flow statement as 'Payments to restricted bank accounts for finance charges'. £2.7 million is shown within 'Financing activities' as 'Payments to restricted bank accounts for repayment of borrowings'.

8 Reconciliation of cash generated from operations

| | 26 week period ended | | 53 week period ended |
|--|----------------------|-------------------|-------------------------|
| | 1 Jul 2011 £m | 25 Jun 2010 £m | 31 Dec 2010 £m |
| Net profit for the period | 18.5 | 17.2 | 29.0 |
| Adjustments for: | | | |
| Taxation | 6.0 | 7.1 | 10.8 |
| Net finance costs | 11.6 | 9.8 | 20.6 |
| Profit on disposal of fixed assets | (0.3) | (0.5) | (0.5) |
| Depreciation charges | 4.7 | 4.3 | 9.0 |
| Amortisation of intangibles | 0.1 | 0.1 | 0.2 |
| Inventories | (0.1) | (0.5) | (1.0) |
| Trade receivables | 1.7 | 0.9 | (2.4) |
| Trade payables | (2.1) | 1.5 | 5.0 |
| Transaction costs | 0.5 | 0.2 | 1.1 |
| Changes in other working capital (excluding acquisitions) | (4.2) | 1.2 | 1.7 |
| Employee share option charges | 0.5 | 0.5 | 1.0 |
| Cash generated from operations before transaction costs and exceptional pension contributions | 36.9 | 41.8 | 74.5 |

Notes to the interim financial information 2011 (unaudited) continued

for the 26 week period ended 1 July 2011

9 Net debt

| | 1 Jul 2011 £m | 25 Jun 2010 £m | 31 Dec 2010 £m |
|--|---------------------|----------------------|----------------------|
| Net amounts owing on 2003 and 2006 Class A and B Secured Notes per financial statements | (248.5) | (256.3) | (251.0) |
| Add: unamortised issue costs | (12.7) | (13.9) | (13.4) |
| Gross amounts owing on 2003 and 2006 Class A and B Secured Notes per financial statements | (261.2) | (270.2) | (264.4) |
| Net amounts owing on 2010 Class A and B Secured Notes per financial statements | (79.0) | – | (80.3) |
| Add: unamortised issue costs | (4.2) | – | (4.4) |
| Gross amounts owing on all Class A and B Secured Notes per financial statements | (344.4) | (270.2) | (349.1) |
| Net amounts owing on Crematoria Acquisition Facility per financial statements | (9.9) | (9.9) | (9.9) |
| Add: unamortised issue costs on Crematoria Acquisition Facility | (0.1) | (0.1) | (0.1) |
| Gross amounts owing | (354.4) | (280.2) | (359.1) |
| Accrued interest on Class A and B Secured Notes (paid 30 June 2011/30 June 2010/31 December 2010) | – | (9.5) | – |
| Accrued interest on Crematoria Acquisition Facility | (0.1) | (0.1) | (0.1) |
| Cash and cash equivalents | 35.4 | 51.3 | 48.1 |
| Net debt | (319.1) | (238.5) | (311.1) |

In addition to the above, the consolidated balance sheet also includes finance lease obligations and other financial liabilities which totalled £5.8 million (June 2010: £6.5 million; December 2010: £5.9 million). These amounts are not considered to 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 above 1.5 times. At 1 July 2011, the actual ratio was 2.35 (June 2010: 2.63; December 2010: 2.56).

These ratios are calculated for EBITDA and total debt service on a 12 month rolling basis. 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 the Interim Report.

10 Acquisitions and disposals

(a) Acquisition of subsidiary and other businesses

| | Provisional fair value £m |
|---|---------------------------------|
| Tangible fixed assets | 1.4 |
| Intangible assets: | |
| Trade names | 6.3 |
| Other working capital | 5.4 |
| Deferred taxation | (2.0) |
| Net assets acquired | 11.1 |
| Goodwill arising | 5.5 |
| | 16.6 |
| Satisfied by: | |
| Cash paid on completion funded from internally generated cash flows | 16.6 |
| Total consideration | 16.6 |

During the period, the Group acquired the operational interest of seven funeral locations. These transactions were either acquisitions of trade and assets or acquisitions of the entire issued share capital of a limited company. Transaction costs of £0.5 million (2010: £0.2 million) have been charged to the income statement.

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 provisional fair values. The residual excess over the net assets acquired is recognised as goodwill. This principally represents the value to the Group of the funeral locations.

The fair values contain some provisional amounts, which will be finalised within 12 months from the acquisition date. Certain adjustments have been made to reflect the recognition of trade names and associated deferred taxation and certain immaterial adjustments to the fair value of other working capital movements such as debtors, inventories and accruals.

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

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

(b) Reconciliation to cash flow statement

| | £m |
|--|-------|
| Cash paid on completion | 16.6 |
| Cash paid in respect of deferred consideration obligations | 0.1 |
| Cash acquired on acquisition | (5.7) |
| Acquisition of subsidiaries and businesses as reported in the consolidated statement of cash flows | 11.0 |

(c) Acquisition and disposals of property, plant and equipment

In addition to the above, there were additions in relation to crematoria developments totalling £7.8 million and £4.8 million of other additions to property, plant and equipment in the period. The Group also received proceeds of £0.6 million from disposals of property, plant and equipment, which had a net book value of £0.3 million.

Notes to the interim financial information 2011 (unaudited) continued

for the 26 week period ended 1 July 2011

11 Related party transactions

The ultimate controlling party of the Group is Dignity plc.

On 19 May 2010, the Group entered into a contract with Bglobal to have smart meters fitted at some of its locations. £15,000 has been charged for the period. James Newman is a Non-Executive Director of Bglobal and the transaction has been formally approved by the Board and is at arm's length.

Pre-arranged funeral plan 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, which can be found in the Group's 2010 Annual Report. 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 | | |
|--------------------------------|--------------------------------|-------------------|----------------------|--|-------------------|-------------------|
| | 26 week period ended | | 53 week period ended | 1 Jul 2011 £m | 25 Jun 2010 £m | 31 Dec 2010 £m |
| | 1 Jul 2011 £m | 25 Jun 2010 £m | 31 Dec 2010 £m | | | |
| Dignity Limited Trust Fund | 0.2 | 0.2 | 0.3 | - | - | - |
| National Funeral Trust | 12.1 | 11.6 | 21.2 | 1.1 | 0.9 | 1.1 |
| Trust for Age UK Funeral Plans | 12.5 | 12.9 | 25.0 | 1.1 | 1.1 | 1.3 |

12 Post balance sheet events

There have been no post balance sheet events.

13 Interim report

Copies of the Interim Report are available at the Group's website www.dignityfuneralsplc.co.uk.

14 Securitisation

In accordance with the terms of the securitisation carried out in April 2003, Dignity (2002) Limited (the holding company of those companies subject to the securitisation) has today issued reports to the Rating Agencies (Fitch Ratings and Standard & Poor's), the Security Trustee and the holders of the notes issued in connection with the securitisation confirming compliance with the covenants established under the securitisation.

15 Seasonality

The Group's financial results and cash flows have historically been subject to seasonal trends between the first half and second half of the financial year. Traditionally, the first half of the financial year sees slightly higher revenue and profitability. There is no assurance that this trend will continue in the future.

Statement of Directors' responsibilities

The Directors confirm to the best of their knowledge that:

- (a) The interim condensed consolidated financial information has been prepared in accordance with IAS 34 as adopted by the European Union; and
- (b) The Interim Report includes a fair review of the information as required by:
 - DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first half of 2011 and their impact on the interim condensed consolidated financial information; and a description of the principal risks and uncertainties for the remaining second half of the year; and
 - DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first half of 2011 and any material changes in the related party transactions described in the last annual report.

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

Peter Hindley – Non-Executive Chairman
Mike McCollum – Chief Executive
Steve Whittern – Finance Director
Andrew Davies – Operations Director
Richard Portman – Corporate Services Director
James Newman – Senior Independent Director
Bill Forrester – Non-Executive Director
Ishbel Macpherson – Non-Executive Director
Alan McWalter – Non-Executive Director

By order of the Board

Steve Whittern
Finance Director
27 July 2011

Independent review report to Dignity plc

Introduction

We have been engaged by the company to review the interim condensed consolidated financial information in the Interim Report for the 26 week period ended 1 July 2011, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and related notes. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim condensed consolidated financial information.

Directors' responsibilities

The Interim Report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The interim condensed consolidated financial information included in this Interim Report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the interim condensed consolidated financial information in the Interim Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, 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 review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of the interim condensed consolidated financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial information in the Interim Report for the 26 week period ended 1 July 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP

Chartered Accountants, Birmingham
27 July 2011

Notes:

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

Shareholder information and financial calendar

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

Following a change to company law, and subsequent shareholder approval at the 2007 Annual General Meeting, shareholder documents are only sent in paper format to shareholders who have elected to receive documents in this way. This approach enables the Company to reduce printing and distribution costs and its impact on the environment. Shareholders who have not elected to receive paper copies are sent a notification whenever shareholder documents are published to advise them how to access the documents via the Group website at www.dignityfuneralsplc.co.uk. Shareholders may also choose to receive this notification via email with a link to the relevant page on the website.

Shareholders who wish to receive email notification should register online at www.shareview.co.uk click on 'Register' under the 'Portfolio' section. You will require your Shareholder Reference Number, which is given on your share certificate or tax dividend voucher. Choosing 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 22, London W1E 7EZ or telephone +44 (0) 845 703 4599 for an application form. Calls to this number are charged at local rate.

Financial calendar

27 July 2011

Announcement of interim results

30 September 2011

Record date for interim dividend

24 October 2011

Payment of 2011 interim dividend

30 December 2011

Financial period end

Contact details and advisers

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Email: enquiries@dignityuk.co.uk
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Company Secretary:

Richard Portman FCA

Registered Number:

4569346

Registrars:

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Joint Brokers:

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Moorgate Hall
155 Moorgate
London EC2M 6XB

Investec

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London EC2V 7EE

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Birmingham B3 2RB

Legal Adviser:

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For more information on
investor relations please visit:

www.dignityfuneralsplc.co.uk