

## For immediate release

11 March 2010

# Dignity plc

# Preliminary results for the 52 week period ended 25 December 2009

Dignity plc, announces its preliminary results for the 52 week period ended 25 December 2009.

# Financial highlights

Revenue Up 5% to £184.7 million (2008: £175.8 million)

Underlying operating profit<sup>(a)</sup> Up 8% to £56.4 million (2008: £52.1 million)

Underlying profit before tax<sup>(a)</sup> Up 6% to £36.4 million (2008: £34.3 million)

Underlying earnings per share<sup>(b)</sup> Up 6% to 40.5p (2008: 38.2p)

Cash generated from operations Up 5% to £65.3 million (2008: £62.3 million)

Operating profit Up 8% to £57.5 million (2008: £53.2 million)

Profit before tax Up 6% to £37.5 million (2008: £35.4 million)

Basic earnings per share Up 8% to 41.8p (2008: 38.8p)

Dividends per share Interim dividend of 4.03p paid with a further

8.07p final dividend proposed (2008: interim

dividend 3.66p, final dividend 7.34p)

- (a) Underlying profit is calculated as profit excluding profit on sale of fixed assets.
- (b) Underlying earnings per share is calculated as profit on ordinary activities after taxation, before profit on sale of fixed assets (net of tax) and before exceptional tax items

# **Highlights**

- Strong trading performance;
- Positive outlook;
- Continued excellent customer satisfaction results;
- 7 funeral locations acquired in the period and a further 2 since the period end;
- Crematoria division has seen significant growth year on year;
- 5 crematoria acquired and 2 new crematoria under construction;
- Operating margins have increased in both funerals and crematoria because of good cost control; and
- Pre-arranged funeral plans performed very well, with unfulfilled pre-arranged funeral plans increasing to 216,000.

# Mike McCollum, Chief Executive of Dignity plc commented:

"This is another strong set of results with operating profits increasing 8 per cent.

The current year has started well and the Group's performance is in line with the Board's expectations. Our outlook for the full year remains positive."

## For more information

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#### Chairman's Statement

#### Results

Despite the difficult times experienced by the UK economy in 2009, Dignity has delivered its fifth consecutive period of growth as a public company.

Underlying operating profits have increased 8 per cent to £56.4 million (2008: £52.1 million). Underlying earnings per share have increased 6 per cent to 40.5 pence per share (2008: 38.2 pence per share). The rate of earnings per share growth is lower than operating profit growth because of the dilutive effect of the reduced bank interest receivable in 2009.

This performance is attributable to progress in each aspect of the Group's strategy, which is explained further throughout this report.

#### **Dividends**

The Board has proposed that a final dividend of 8.07 pence per Ordinary Share should be paid from profits generated in 2009. This will be paid on 25 June 2010 to members on the register at close of business on 28 May 2010 provided shareholder consent is obtained at the Annual General Meeting on 4 June 2010.

This will result in a total dividend of 12.1 pence per Ordinary Share (2008: 11.0 pence per Ordinary Share) in respect of profits generated in 2009. This represents an increase of 10 per cent and is consistent with the rate of increase made in each year since flotation.

#### The Board

I am delighted that James Newman and Bill Forrester have agreed to remain as non-executive directors for a further two years following the expiration of their contracts on 31 March 2010. Consequently, there are no changes to the Board and I thank each of my fellow directors for their commitment and support during the year.

## Our people

This is a business dedicated to providing each family we serve with excellent client service. Whilst this requires continued investment in our properties and our fleet, at its core is our staff.

I would like to thank all members of staff for their individual contributions during the year which help to make Dignity such a successful group.

## Outlook for 2010

The current year has started well and the Group's performance is in line with the Board's expectations.

The first quarter of 2010 is expected to be more consistent with the average of the last five years than was the case last year when there was an unusually high number of deaths in the first quarter.

The outlook for the full year remains positive.

Peter Hindley Chairman 11 March 2010

#### Chief Executive's Overview

## Delivering profitable growth and building value for shareholders

Our performance in 2009 has been strong with underlying operating profits increasing 8 per cent. This reflects steady growth in funeral operations and strong growth in crematoria and pre-arranged funeral plans.

This growth can be directly linked to the continued success of our long-standing strategy.

#### Continued commitment to client service excellence

Once again, our survey results indicate that 98 per cent of families we serve would either definitely or probably recommend our services. This continues to be an excellent result and is a clear indication of our commitment to client service excellence.

## Continuing to control our operating costs

As a Group, whilst revenues have increased 5 per cent, cost of sales and administrative expenses have increased by less than 4 per cent.

The Group's continued focus on cost control is no better demonstrated than in funeral operations this year. Whilst revenues have only grown 1 per cent, operating expenses have essentially remained flat year on year. This is an excellent performance given the business has relatively high operational leverage.

### Selective acquisitions of additional funeral locations

Seven funeral locations have been acquired during the period. Whilst this is fewer than recent years, the locations continue to add shareholder value from the time of acquisition.

National marketing, principally through affinity partners, of pre-arranged funeral plans I am pleased that our focus on cost efficient marketing has delivered such strong results, with the division adding a net 12,000 plans to the backlog of unfulfilled plans, which now stands at 216,000. The majority of these plans continue to represent incremental business to the Group.

# Developing, managing or acquiring additional crematoria where possible

2009 has seen a number of developments in this area. At the beginning of the year, we acquired five new crematoria. In addition, we have completed the refurbishment works at Rotherham where we have taken over the operation of the location from the council. We have also started building a new crematorium in Cambridgeshire and since the end of the year, started to build a new crematorium in Somerset.

## Valuing our people

I am very appreciative of the staff that work at Dignity. Each of them is involved in a different way, in serving families at a time of great need with the utmost care, dedication and professionalism.

I am delighted that as a result of our operating performance, we have been able to recognise their personal contributions again this year with discretionary payments totalling £1.5 million, an increase of 15 per cent over last year.

### At the heart of our local communities

Each of our 546 funeral locations and 30 crematoria provide a service that places them at the heart of their local community. Our staff and our infrastructure allow each business to help people through one of the most difficult times in their lives, with compassion, respect, openness and care.

I am proud that Dignity is the company that so many families know that they can trust at their time of need.

#### **Business Review**

#### Introduction

The Group's operations are managed across three main areas; funeral services, crematoria and prearranged funeral plans, which respectively represent 75 per cent, 19 per cent and 6 per cent of the Group's revenues. Funeral services revenues relate to the provision of funerals and ancillary items, such as memorials and floral tributes. Crematoria revenues arise from cremation services and the sale of memorials and burial plots at the Group's crematoria and cemeteries. Pre-arranged funeral plan income represents amounts to cover the costs of marketing and administering the sale of plans.

#### Office for National Statistics data

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

The initial publication of recorded total estimated deaths in Britain for 2009 was 545,000 (2008: 553,000). Historically, the ONS has updated these estimates from time to time. As in previous years, the Group does not restate any of its key performance indicators when these figures are restated in the following year.

#### **Funeral services**

### Overview

The Group operates a network of 546 (2008: 544) funeral locations throughout the United Kingdom, trading under local established names. During the period, the Group conducted 65,000 funerals (2008: 68,700). Approximately 1 per cent of these funerals were conducted in Northern Ireland. Excluding Northern Ireland, these funerals represent approximately 11.8 per cent (2008: 12.3 per cent) of total estimated deaths in Britain.

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. However, the decline year on year is not outside the range of historic variations.

#### **Developments**

2009 has been a steady year for funeral operations. Underlying operating profits were £47.3 million (2008: £46.3 million), an increase of 2 per cent. This increase is smaller than that seen historically and reflects the combination of the reduced number of funerals performed, which has been offset by good cost control. The contribution from locations acquired in the period was not significant. Discretionary spend on funerals has been very robust.

Reported operating profits were £48.4 million (2008: £47.4 million), an increase of 2 per cent. The difference between statutory amounts and underlying amounts is represented by profit on sale of fixed assets of £1.1 million (2008: £1.1 million).

This performance emphasises the importance of our core portfolio, which has driven the majority of operating growth in recent years. These locations have benefited from continued investment, with a total of approximately £6.3 million being invested in the period on the refurbishment of our properties and the ongoing renewal of 94 of our fleet of hearses, limousines and other vehicles.

The operating results reflect the high level of client service we try to provide to each family we serve. This service level continues to be high according to our customer survey results and is a credit to the staff within the business. Approximately 89 per cent of responding families would definitely recommend our services and a further 9 per cent would probably do so.

Six locations (2008: five locations) were closed in the period. This reflects the disposal of some valuable freehold locations for cash that can be reinvested in the business and also some smaller locations at the end of their leases where it was not profitable to continue operation because of the low volumes being performed.

During the period, one location (2008: nil) was opened in Norfolk, which trades using a highly regarded local name.

Acquisition spend has been lower than usual, with £4.5 million invested in acquiring seven funeral locations in the United Kingdom. This follows two years of significantly higher spend than average. The Board believes this to be a reflection of a lower number of businesses being available for acquisition.

Each of these acquisitions met the Group's criteria of being larger than average, long-established businesses that fit well within the Group's existing network.

The Group continues to seek businesses that meet the Group's stringent acquisition criteria and has acquired two funeral locations since the end of 2009.

#### Crematoria

#### Overview

The Group is the largest single operator of crematoria in Britain, operating 30 (2008: 25) crematoria. The Group performed 42,700 cremations (2008: 39,600) in the period, representing 7.8 per cent (2008: 7.2 per cent) of deaths in Britain.

#### **Developments**

Operating profits were £17.6 million (2008: £14.6 million), an increase of 21 per cent. This reflects a strong performance from the 22 crematoria owned by the Group for many years, together with the full year effect of the recent acquisitions.

Work has started at four locations to install new mercury abatement equipment required under new legislation. The Group has also taken the opportunity in these cases to replace the existing cremators at the same time. Planning was focused on minimising any inconvenience for the families using our facilities. The first location is expected to have completed works in the first quarter of 2010 and the Group expects to be fully compliant by the end of 2012 as required by legislation. The Group continues to improve the facilities at all of its locations and including new cremators, has spent £1.7 million (2008: £0.8 million) in the period.

During the period, the Group has started to build a new crematorium in Cambridgeshire and since the period end, has started to build a crematorium in Somerset. These sites will reach maturity in approximately three to five years.

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 216,000 (2008: 204,000) with profits in the division increasing to £2.0 million excluding Recoveries (2008: £1.0 million excluding 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 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 each period.

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.

During the period, one of the Group's partners, Age Concern England, merged with Help the Aged to form a new charity, Age UK. Prior to the merger, the Group did not have an operational relationship with Help the Aged. However, following the merger, the Group has extended the marketing arrangements in place prior to the merger to cover Age UK as a whole until 2019. The Group is also in discussion with a number of new potential partners with marketing tests planned for 2010.

## Central overheads

#### Overview

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

## **Developments**

Costs in the period were £12.0 million (2008: £11.3 million), an increase of 6 per cent. This year on year increase principally reflects the additional cost of bonuses paid to the operational managers of the business and certain one off legal fees following the new Companies Act and also the resetting of the Group's LTIP scheme.

Mike McCollum Chief Executive 11 March 2010

## **Financial Review**

## Financial highlights

The Group's financial performance is summarised below:

	2009	2008	% increase
Revenue (£ million)	184.7	175.8	5%
Underlying operating profit* (£ million) Underlying profit before tax* (£ million) Underlying earnings per share* (pence)	56.4 36.4 40.5	52.1 34.3 38.2	8% 6% 6%
Cash generated from operations (£ million)	65.3	62.3	5%
Operating profit (£ million) Profit before tax (£ million) Basic earnings per share (pence)	57.5 37.5 41.8	53.2 35.4 38.8	8% 6% 8%
Dividends paid in the period: Interim dividend (pence) Final dividend (pence)	4.03 7.34	3.66 6.67	10% 10%

<sup>\*</sup> Underlying amounts exclude profit on sale of fixed assets and exceptional tax items.

The Board has proposed a dividend of 8.07 pence per Ordinary Share as a final distribution of profits relating to 2009 to be paid in 2010. This brings the total dividend in respect of the profits generated in 2009 to 12.1 pence per share, an increase of 10 per cent.

## Capital structure and financing

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

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

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

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 guarter 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.

As set out in note 7, the Group's gross debt outstanding was £283.2 million (2008: £286.3 million). Net debt was £247.1 million (2008: £249.3 million). The reduction in net debt reflects the repayment of principal on the Secured Notes, the drawing down of the remaining £2.6 million under the crematoria acquisition facility and the Group's continued strong cash generation.

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 £19.6 million (2008: £19.9 million).

Interest costs of £0.4 million (2008: £nil million) were incurred in respect of the crematoria acquisition facility.

Other ongoing finance costs incurred in the period amounted to £0.8 million (2008: £0.9 million), including the unwinding of discounts on the Group's provisions and other financial liabilities.

Interest receivable on bank deposits was £0.5 million (2008: £2.3 million). These receipts are a direct reflection of the Bank of England Base Rate, which was 0.5 per cent for the majority of 2009 following the sharp reductions in Base Rate at the end of 2008.

Net finance income of £0.3 million (2008: £0.7 million) was recognised in respect of the Group's pension scheme in accordance with IAS 19.

## Underlying profit after tax

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

	52 week period ended 25 December	52 week period ended 26 December
	2009 £m	2008 £m
Operating profit for the period as reported	57.5	53.2
Deduct the effects of:		
Profit on sale of fixed assets	(1.1)	(1.1)
Underlying operating profit	56.4	52.1
Net finance costs	(20.0)	(17.8)
Underlying profit before tax	36.4	34.3
Tax charge on underlying profit before tax	(10.6)	(10.1)
Underlying profit after tax	25.8	24.2
Weighted average number of Ordinary Shares in issue during the period (million)	63.7	63.4
Underlying EPS (pence)	40.5p	38.2p
Increase in underlying EPS (per cent)	6%	14%

## Earnings per share

The Group's earnings were £26.6 million (2008: £24.6 million). Basic earnings per share were 41.8 pence per share (2008: 38.8 pence per share).

The Group's measures of underlying performance exclude the effect (after tax) of the profit on disposal of fixed assets and exceptional items. Consequently, underlying profit after tax was £25.8 million (2008: £24.2 million), giving underlying earnings per share of 40.5 pence per share (2008: 38.2 pence per share), an increase of 6 per cent.

The rate of earnings per share growth is lower than operating profit growth because of the dilutive effect of the reduced bank interest receivable.

The average number of shares increased year on year as a result of the 2006 LTIP scheme maturing in the period.

## Cash flow and cash balances

Cash generated from operations was £65.3 million (2008: £62.3 million), demonstrating that the Group continues to convert its profits into cash.

Overall, acquisition activity in the period was higher than average, with £13.3 million (2008: £31.5 million) being spent on funeral and crematoria acquisitions.

Capital expenditure increased year on year, with £17.2 million (2008: £11.2 million) being spent on the purchase of property, plant and equipment.

This is analysed as:

	25 December 2009 £m	26 December 2008 £m
Vehicle replacements programme and improvements to locations	8.0	8.0
Branch relocations	1.3	1.1
Development of new crematoria	6.2	2.1
Mercury abatement project	1.7	-
Total property, plant and equipment	17.2	11.2
Partly funded by:		
Disposal proceeds	(2.1)	(2.5)
Crematoria acquisition facility	(2.6)	-
Net capital expenditure	12.5	8.7

The amounts described above on the mercury abatement project represent the initial capital expenditure incurred to comply with new legislation. The total anticipated capital expenditure is approximately £7 million. The project will be completed by the end of 2012.

The Group also paid dividends totalling £7.2 million (2008: £6.5 million) in the period.

Cash balances at the end of the period were £45.8 million (2008: £46.7 million). £12.5 million represents amounts legally set aside to fund the Group's liabilities to Class A and B Secured Noteholders. This payment was made on 31 December 2009, which falls in the Group's 2010 financial year as it reports on a 52 week basis rather than on a calendar year. These funds do not qualify as cash or cash equivalents for the purposes of IAS 7, Cash Flow Statements. Accordingly, £9.9 million has been reported within the cash flow statement as 'Payments to restricted bank accounts for finance costs' and £2.6 million has been reported as 'Payments to restricted bank accounts for repayment of borrowings'.

£1.5 million (2008: £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 £11 million of the remaining cash balance is immediately available for acquisitions and developments. Approximately £18 million has also been set aside for future corporation tax and dividend payments. However, these funds could be used for further acquisitions if suitable opportunities arose, with statutory payments being funded out of future operating cash flows.

Further details and analysis of the Group's cash balances are included in note 6.

#### **Pensions**

The balance sheet shows a surplus of £9.1 million before deferred tax (2008: £13.2 million). This decrease year on year is principally a result of the reduction in the discount rate, reflecting market conditions at the balance sheet date.

The scheme remains open to both new and existing members of staff.

#### **Taxation**

The Group's effective tax rate in the period was 29 per cent (2008: 29.5 per cent). This rate is expected to remain constant in the absence of any legislative changes.

## **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 25 December 2009	52 week period ended 26 December 2008
Total estimated number of deaths in Britain (number)	545,000	553,000
Number of funerals performed (number)	65,000	68,700
Funeral market share excluding Northern Ireland (per cent)	11.8	12.3
Number of cremations performed (number)	42,700	39,600
Crematoria market share (per cent)	7.8	7.2
Unfulfilled pre-arranged funeral plans (number)	216,000	204,000
Underlying earnings per share (pence)	40.5	38.2
Underlying operating profit (£ million)	56.4	52.1
Cash generated from operations (£ million)	65.3	62.3

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

A summary of the Group's financial record for the last five years can be found in the Annual Report.

# 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.

Steve Whittern Finance Director 11 March 2010

# **Consolidated income statement**

		52 week period ended 25 December 2009	52 week period ended 26 December 2008
	Note	£m	£m
Revenue	1	184.7	175.8
Cost of sales		(85.1)	(83.6)
Gross profit		99.6	92.2
Administrative expenses		(43.6)	(40.5)
Other income		` 1.Ś	` 1.Ś
Operating profit	1	57.5	53.2
Finance costs	2	(21.6)	(21.6)
Finance income	2	1.6	3.8
Profit before tax	1	37.5	35.4
Taxation – before exceptional items	3	(10.9)	(10.4)
Taxation – exceptional	3	-	(0.4)
Taxation	3	(10.9)	(10.8)
Profit for the period attributable to equity			
shareholders		26.6	24.6
Earnings per share for profit attributable to equity			
shareholders (pence)			
<ul> <li>Basic and diluted</li> </ul>	4	41.8p	38.8p

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

# Consolidated statement of comprehensive income

	Note	52 week period ended 25 December 2009 £m	52 week period ended 26 December 2008 £m
Profit for the period		26.6	24.6
Actuarial (loss) / gains on retirement benefit obligations	9	(4.8)	5.6
Tax on actuarial loss / (gains) on retirement benefit obligations		1.3	(1.6)
Other comprehensive (loss) / income		(3.5)	4.0
Comprehensive income for the period		23.1	28.6
Attributable to: Equity shareholders of the parent		23.1	28.6

## Consolidated balance sheet

	Note	25 December 2009 £m	26 December 2008 £m
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Assets			
Non-current assets Goodwill		139.4	129.8
Intangible assets		35.9	33.3
Property, plant and equipment		116.8	101.3
Investment properties		-	9.6
Financial and other assets		9.4	4.5
Retirement benefit asset	9	9.1	13.2
		310.6	291.7
Current assets			
Inventories		4.1	3.9
Trade and other receivables		21.5	22.4
Cash and cash equivalents	6	45.8	46.7
		71.4	73.0
Total assets		382.0	364.7
Liabilities			
Current liabilities			
Financial liabilities		8.5	8.0
Trade and other payables		34.2	34.4
Current tax liabilities		4.3	3.9
Provisions for liabilities and charges		1.3	1.3
		48.3	47.6
Non-current liabilities			
Financial liabilities		266.6	269.2
Deferred tax liabilities		26.0	24.4
Other non–current liabilities		3.1	2.8
Provisions for liabilities and charges		2.5	2.3
		298.2	298.7
Total liabilities		346.5	346.3
Shareholders' equity			
Ordinary share capital		5.7	5.7
Share premium account		35.8	34.6
Capital redemption reserve		80.0	80.0
Other reserves		(8.9)	(8.9)
Retained earnings		(77.1)	(93.0)
Equity attributable to shareholders		35.5	18.4
Total equity and liabilities		382.0	364.7

# Consolidated statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserve £m	Retained earnings £m	Total equity £m
Shareholders' equity as at 28 December 2007	5.7	33.8	80.0	(9.0)	(115.1)	(4.6)
Profit for the 52 weeks ended 26 December 2008	-	-	-	-	24.6	24.6
Actuarial gain on defined benefit plans	-	-	-	-	5.6	5.6
Deferred tax on pensions	-	-	-	-	(1.6)	(1.6)
Effects of employee share options	-	-	-	0.8	-	0.8
Tax on employee share options	-	-	-	0.1	-	0.1
Share issue under 2005 LTIP Scheme	-	8.0	-	-	-	0.8
Gift to Employee Benefit Trust (1)	-	-	-	(0.8)	-	(8.0)
Dividends	-	-	-	-	(6.5)	(6.5)
Shareholders' equity as at 26 December 2008	5.7	34.6	80.0	(8.9)	(93.0)	18.4
Profit for the 52 weeks ended 25 December 2009	-	-	-	-	26.6	26.6
Actuarial loss on defined benefit plans	-	-	-	-	(4.8)	(4.8)
Tax on pensions	-	-	-	-	1.3	1.3
Effects of employee share options	-	-	-	1.0	-	1.0
Tax on employee share options	-	-	-	0.2	-	0.2
Share issue under 2006 LTIP Scheme	-	1.2	-	- (4.2)	-	1.2
Gift to Employee Benefit Trust (2) Dividends	-	-	-	(1.2)	(7.2)	(1.2) (7.2)
Dividends					(1.2)	(1.2)
Shareholders' equity as at 25 December 2009	5.7	35.8	80.0	(8.9)	(77.1)	35.5

<sup>(1)</sup> Relating to issue of shares under 2005 LTIP scheme. (2) Relating to issue of shares under 2006 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 £5.5 million loss (June 2008: £nil million; December 2008: £4.0 million gain).

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.

## Consolidated statement of cash flows

	ended 25 December 2009	ended 26 December 2008
Note	£m	£m
8	65.3	62.3
	<b></b>	2.7
	\ · · · /	(20.5) 10.2
0		(10.0)
6	\ /	(20.3)
		(6.4)
	(6.5)	(6.4)
	37.1	38.3
	(13.3)	(31.5)
	2.1	2.5
	(17.2)	(11.2)
	(28.4)	(40.2)
	2.6	7.4
	-	(0.2)
	(4.9)	(4.5)
	2.4	`2.2
6	(2.6)	(2.4)
	(5.1)	(4.7)
5	(7.2)	(6.5)
	(9.7)	(4.0)
	(1.0)	(5.9)
	32.8	38.7
	31.8	32.8
	14.0	13.9
		46.7
	6	8 65.3 0.7 (20.5) 10.0 (9.9) (20.4) (8.5) 37.1 (13.3) 2.1 (17.2) (28.4) 2.4 (2.6) (5.1) 5 (7.2) (9.7) (1.0) 32.8 31.8

## Revenue and segmental analysis

The Group has adopted IFRS 8, Operating segments from 1 January 2009. The chief operating decision maker has been identified as the four Executive Directors. These Directors review the Group's internal reporting in order to assess performance and allocate resources. No changes to the reporting segments previously disclosed have been implemented as the Group previously reported based on how it manages the business. 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 at the time of need and in advance.

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

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

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

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

# 52 week period ended 25 December 2009

		Underlying				
		operating profit			Profit on	
		before	Depreciation	Underlying	sale of	
		depreciation and	and	operating profit/	fixed	Operating
	Revenue	amortisation	amortisation	(loss)	assets	profit /(loss)
	£m	£m	£m	£m	£m	£m
Funeral services	138.5	53.4	(6.1)	47.3	1.1	48.4
Crematoria	34.4	19.4	(1.8)	17.6	-	17.6
Pre-arranged funeral plans	11.8	3.5	-	3.5	-	3.5
Central overheads	-	(11.4)	(0.6)	(12.0)	-	(12.0)
Group	184.7	64.9	(8.5)	56.4	1.1	57.5
Finance costs				(21.6)	-	(21.6)
Finance income				1.6	-	1.6
Profit before tax				36.4	1.1	37.5
Taxation				(10.6)	(0.3)	(10.9)
Underlying earnings for the period				25.8		
Total other items					0.8	
						26.6

The segment assets and liabilities were as follows:

As at 25 December 2009	Funeral Services £m	Crematoria £m	Pre- arranged funeral plans £m	Head office £m	Group £m
Segment assets Unallocated assets:	236.1	84.1	13.7	2.2	336.1
Financial assets – loans and receivables Cash and cash equivalents					0.1 45.8
Total assets					382.0
Segment liabilities Unallocated liabilities:	(21.5)	(3.4)	(2.8)	(4.5)	(32.2)
Borrowings – excluding finance leases Accrued interest					(274.3) (9.7)
Corporation tax					(4.3)
Deferred tax					(26.0)
Total liabilities					(346.5)
Other segment items:					
Additions to non-current assets (other than financial instruments	12.7	18.0		0.5	24.0
and deferred tax) Depreciation	6.1	1.8	-	0.5 0.4	31.2 8.3
Amortisation	-	-	_	0.4	0.3
Impairment of trade receivables	1.1	-	-	-	1.1
Other non cash expenses	-	-	-	1.0	1.0
Profit on sale of fixed assets	1.1	-	-	-	1.1

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

52 week period ended 26 December 2008

32 week penod ended 20 becember 200	Revenue £m	Underlying operating profit before depreciation and amortisation	Depreciation and amortisation £m	operating	of erlying	Profit on sale fixed assets and ceptional tax credit £m	Operating profit /(loss)
Funeral services	137.2	52.4	(6.1)	-	46.3	1.1	47.4
Crematoria	29.2	16.2	(1.6)		14.6	-	14.6
Pre-arranged funeral plans	9.4	2.5	-		2.5	-	2.5
Central overheads	-	(10.9)	(0.4)	(1	1.3)	-	(11.3)
Group	175.8	60.2	(8.1)		52.1	1.1	53.2
Finance costs				(2	1.6)	-	(21.6)
Finance income					3.8	-	3.8
Profit before tax					34.3	1.1	35.4
Taxation – continuing activities				(1	0.1)	(0.3)	(10.4)
Taxation – exceptional Taxation				(1	0.1)	(0.4) (0.7)	(0.4)
Underlying earnings for the period Total other items				:	24.2	0.4	
Profit after taxation							24.6
The segment assets and liabilities were a  As at 26 December 2008	as follows:		Funeral services £m	Crematoria £m	Pre- arranged funeral plans £m	l Head office	Group £m
Segment assets			226.9	74.9	13.4	2.7	317.9
Unallocated assets: Financial assets – loans and receivables Cash and cash equivalents							0.1 46.7
Total assets							364.7
Segment liabilities Unallocated liabilities:			(21.7)	(2.8)	(2.3)	(5.0)	(31.8)
i inaliocated liabilities.							(31.0)
Borrowings – excluding finance leases Accrued interest Corporation tax Deferred tax							(276.4) (9.8) (3.9) (24.4)
Borrowings – excluding finance leases Accrued interest Corporation tax							(276.4) (9.8) (3.9)
Borrowings – excluding finance leases Accrued interest Corporation tax Deferred tax	an financia	I instruments	27.6 6.1 - 1.4	14.6 1.6 - 0.6	0.1	0.6 0.2 0.2	(276.4) (9.8) (3.9) (24.4) (346.3) 42.9 7.9
Borrowings – excluding finance leases Accrued interest Corporation tax Deferred tax  Total liabilities  Other segment items: Additions to non-current assets (other the and deferred tax) Depreciation Amortisation	an financia	I instruments	6.1 -	1.6	0.1 - - -	0.2	(276.4) (9.8) (3.9) (24.4) (346.3) 42.9 7.9 0.2 2.0

## 2 Net finance costs

	52 week period ended 25 December 2009 £m	52 week period ended 26 December 2008 £m
Finance costs		
Class A and B Secured Notes – issued April 2003	14.0	14.2
Class A and B Secured Notes – issued February 2006	5.1	5.2
Amortisation of issue costs – issued April 2003	1.0	1.1
Amortisation of issue costs – issued February 2006	0.3	0.2
Crematoria acquisition facility	0.4	-
Other loans	0.1	0.2
Interest payable on finance leases	0.1	0.1
Unwinding of discounts	0.6	0.6
Finance costs	21.6	21.6
Finance income		
Bank deposits	(0.5)	(2.3)
Release of premium on Secured Notes – issued February 2006	(0.8)	(0.8)
Net finance income on retirement benefit obligations	(0.3)	(0.7)
Finance income	(1.6)	(3.8)
Net finance costs	20.0	17.8

# 3 Taxation

# Analysis of charge in the period

, J p	52 week period ended 25 December 2009 £m	52 week period ended 26 December 2008 £m
Current tax – current period Adjustments for prior period	10.3 (0.3)	8.7 (0.3)
	10.0	8.4
Deferred tax – current period Adjustments for prior period Exceptional adjustment for change in industrial building allowances	0.7 0.2 -	1.8 0.2 0.4
	0.9	2.4
Taxation	10.9	10.8

All tax relates to continuing operations.

## 4 Earnings per share

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

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

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

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

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

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

	Earnings £m	Weighted average number of shares millions	Per share amount pence
52 week period ended 25 December 2009			
Profit attributable to shareholders – Basic and diluted EPS	26.6	63.7	41.8
Deduct: Profit on sale of fixed assets (net of taxation)	(0.8)		
Underlying profit after taxation – Basic EPS	25.8	63.7	40.5
52 week period ended 26 December 2008			
Profit attributable to shareholders – Basic and diluted EPS	24.6	63.4	38.8
Deduct: Exceptional items and profit on sale of fixed assets (net of taxation)	(0.4)		
Underlying profit after taxation – Basic EPS	24.2	63.4	38.2

In 2009 and 2008, the potential issue of new shares pursuant to the Group's share option plans would have no impact on the earnings per share.

## 5 Dividends

	52 week period ended 25 December 2009 £m	52 week period ended 26 December 2008 £m
Final dividend paid: 7.34p per Ordinary Share (2008: 6.67p) Interim dividend paid: 4.03p per Ordinary Share (2008: 3.66p)	4.7 2.5	4.2 2.3
Total dividends recognised in the period	7.2	6.5

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.

A final dividend of 8.07 pence per share, in respect of 2009, has been proposed by the Board. This will be paid on 25 June 2009 provided approval is gained from shareholders at the Annual General Meeting on 4 June 2010 and will be paid to shareholders on the register at close of business on 28 May 2010.

## 6 Cash and cash equivalents

	Note	25 December 2009 £m	26 December 2008 £m
Operating cash as reported in the consolidated statement of cash flows as cash and cash equivalents		31.8	32.8
Recoveries: pre-arranged funeral plans	(a)	1.5	1.5
Amounts set aside for debt service payments	(b)	12.5	12.4
Cash and cash equivalents as reported in the balance sheet		45.8	46.7

- (a) Recoveries may not be used for one year following receipt and therefore do not meet the definition of cash and cash equivalents in IAS 7, Cash Flow Statements. Movements in these amounts are shown as 'Transfers to restricted bank accounts' in 'Investing activities'.
- (b) This amount was transferred to restricted bank accounts which could only be used for the payment of the interest and principal on the Secured Notes, the repayment of liabilities due on the Group's interest rate swaps 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. This amount was used to pay these respective parties on 31 December 2009. £9.9 million (2008: £10.0 million) is shown within the cash flow statement as 'Payments to restricted bank accounts for finance costs'. £2.6 million (2008: £2.4 million) is shown within 'Financing activities' as 'Payments to restricted bank accounts for repayment of borrowings'.

## 7 Net Debt

	25 December 2009 £m	26 December 2008 £m
Net amounts owing on Class A and B Secured Notes per financial statements Add: unamortised issue costs Net amounts owing on crematoria acquisition facility per financial statements Add: unamortised issue costs on crematoria acquisition facility	(258.6) (14.6) (9.8) (0.2)	(263.0) (15.9) (7.2) (0.2)
Gross amounts owing	(283.2)	(286.3)
Accrued interest on Class A and B Secured Notes (paid 31 December) Accrued interest on crematoria acquisition facility	(9.6) (0.1)	(9.7)
Cash and cash equivalents	45.8	46.7
Net debt	(247.1)	(249.3)

In addition to the above, the consolidated balance sheet also includes finance lease obligations and other financial liabilities which totalled £6.7 million (2008: £7.0 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 25 December 2009, the actual ratio was 2.60 times (2008: 2.55 times).

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 can not be accurately calculated from the contents of this report.

## 8 Reconciliation of cash generated from operations

	2009 £m	2008 £m
Net profit for the period Adjustments for:	26.6	24.6
Taxation	10.9	10.8
Net finance costs	20.0	17.8
Profit on disposal of fixed assets	(1.1)	(1.1)
Depreciation charges	8.3	7.9
Amortisation of intangibles	0.2	0.2
Changes in working capital (excluding acquisitions)	(0.6)	1.3
Employee share option charges	1.0	0.8
Cash generated from operations	65.3	62.3
9 Analysis of movement in retirement benefit asset		
	2009 £m	2008 £m
At beginning of period	13.2	6.8
Total expense	(0.6)	(0.4)
Actuarial (losses)/gains	(4.8)	`5.6
Contributions by Group	`1.3	1.2
At end of period	9.1	13.2

## 10 Basis of preparation

European law requires that the Group's consolidated financial statements for the 52 week period ended 25 December 2009 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 financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2009 or 2008 but is derived from those accounts. Statutory accounts for 2008 have been delivered to the registrar of companies, and those for 2009 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237 (2) or (3) of the Companies Act 1985 in respect of the accounts for 2008 nor a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2009.

The Group has adopted the following new and amended accounting standards as of 1 January 2009:

IFRS 2 (amendment), Share-based payment;

IFRS 7 (amendment), Financial instruments;

IFRS 8. Operating segments:

IAS 1 (revised), Presentation of financial statements;

IAS 23 (amendment), Borrowing costs; and

IAS 39 (amendment), Financial instruments: recognition and measurement and IFRS 7, Financial instruments: disclosures on the reclassification of financial assets.

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

The principal accounting policies adopted in the preparation of these financial statements have been consistently applied to all periods presented, unless otherwise stated.

# 11 Securitisation

In accordance with the terms of the securitisation carried out in April 2003 and the subsequent further Secured Notes issue in February 2006, 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 & Poors), the Security Trustee and the holders of the Secured Notes issued in connection with the securitisation, confirming compliance with the covenants established under the securitisation.

Copies of these reports are available at www.dignityfuneralsplc.co.uk

# 12 Principal risks and uncertainties

#### 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.

#### Financial risk management

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

It is not the Group'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 2009 then the Group would receive £0.1 million less interest income on an annualised basis for each £10 million held.

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

#### Credit risk

Trade receivables are the main source of credit risk to the Group. However, this risk is minimised as much as possible through well-established credit control procedures.

#### 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 25 December 2009 the actual ratio was 2.60 times (2008: 2.55 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.

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).

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.