Dignity plc Annual Report & Accounts 2004

Contents

About Dignity

Dignity is Britain's largest single provider of funeral-related services. The Group owns 512 funeral homes and operates 22 crematoria in Britain. The Group is also the market leader in pre-arranged funeral plans, where people plan and pay for their funeral in advance.

What We Believe In

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

Key Financial Highlights

Current period financial highlights

	2004	2003
Underlying profit before tax[a] (£million)	**22.0**	16.8
Operating profit[b] (£million)	**37.4**	32.0
Turnover (£million)	**135.7**	129.0
Operating cash flow (£million)	**44.1**	41.9
Interim dividend paid per share (pence)	**1.875**	Nil
Final dividend proposed per share (pence)	**3.75**	Nil
Earnings/(loss) per share (pence)	**0.6**	(13.2)

[a]Before goodwill amortisation, exceptional items and non-recurring finance charges.
[b]Before goodwill amortisation and exceptional items.

Five year summary

	2000 £m	2001 £m	2002 £m	2003 £m	**2004 £m**
Turnover	118.3	117.3	121.0	129.0	**135.7**
Operating profit before goodwill amortisation and exceptional items	17.7	20.0	27.3	32.0	**37.4**

Dignity's business is in three main areas:

Funeral Services
We operate a network of 512 funeral homes throughout Britain, trading under established local trading names. In 2004, the Group conducted 67,600 funerals.

Crematoria
We operate 22 crematoria in England and Scotland and carried out 38,400 cremations in 2004.

Pre-arranged Funeral Plans
We are the market leader in pre-arranged funeral plans, with 170,200 unfulfilled funeral plans as at 31 December 2004. Dignity works with affinity partners such as Age Concern, AXA and Royal London to market funeral plans.

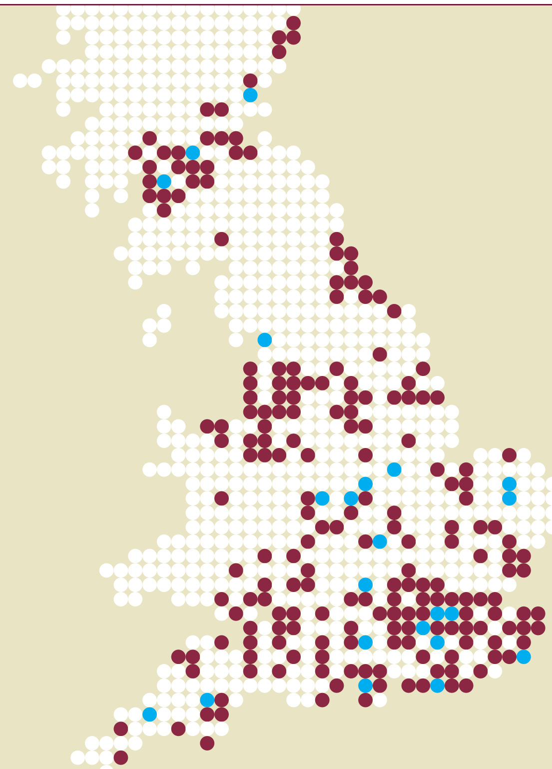
At every step of the way we:

- are compassionate and caring.
- pay attention to detail.
- spend as much time as a client needs.
- are open and straightforward.
- keep in contact.

Our Locations Around The UK

Dignity has 512 funeral homes and 22 crematoria locations around the UK.

- Dignity Funeral Home Locations
- Dignity Crematoria Locations



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 homes, funded by internally generated cash flows;
- the national marketing, principally through affinity partners, of pre-arranged funeral plans;
- developing new funeral home locations under local established trading names using the existing resources of nearby Dignity funeral homes; and
- developing or acquiring additional crematoria where possible.

Chairman's Statement

"I am pleased to report a strong performance in our first period of trading as a public company."

R.A. Connell

Richard Connell, Chairman

Introduction

This is Dignity's first Annual Report following its admission to the Official List of the London Stock Exchange in April 2004. Dignity is the largest provider of funeral-related services, namely funeral services, crematoria and pre-arranged funeral plans in Britain, and is the only UK listed company in this area.

As reported in our interim results last August, the listing in April 2004 raised £123.0 million before expenses, which was used by the Group to repay expensive debt, secure a more diversified ownership and create a platform for sustained growth.

Results

I am pleased to report a strong trading performance in our first period end results as a listed company. Operating profit before goodwill amortisation and exceptional items has increased by 16.9 per cent to £37.4 million (2003: £32.0 million). Operating profit has increased by 24.6 per cent to £33.9 million (2003: £27.2 million).

The Group performed 67,600 funerals from our network of 512 funeral homes around the country and 38,400 cremations from our 22 crematoria. This was achieved against a background of lower recorded deaths in the period. Total recorded deaths for the 53 week period to 31 December 2004 in Great Britain were 574,500 compared to 592,200 in the comparative 52 week period in 2003. This was 3.5 per cent below our expectations for the period. Historically, fluctuations in recorded deaths have tended to be self-correcting and the Board's view on death rates continues to rely on government forecasts. Based on these forecasts, we expect 579,700 deaths in 2005.

The lower than expected revenues in the period, arising from a fall in the number of deaths, was more than offset by continued strong cost control in all areas of the business.

The details of the trading results are included in the Operating and Financial Reviews. The number of unfulfilled pre-arranged funeral plans at the end of the period was 170,200 (2003: 164,300). The Group expects to perform the majority of these funerals.

Underlying profit before tax and dividend

Underlying profit before tax in the financial period was £22.0 million compared to £16.8 million in the previous period, an increase of 31.0 per cent. This is stated before exceptional items, amortisation of goodwill and non-recurring finance charges and was ahead of our expectations. After taking account of these items, the reported profit before taxation was £3.1 million (2003: loss £3.5 million).

The Board has declared a final dividend of 3.75 pence per share, which subject to approval at the Annual General Meeting, will be paid on 31 May 2005 to shareholders on the register at 6 May 2005. This makes a total dividend for the period of 5.625 pence per share and is consistent with the Group's dividend policy as set out at the time of flotation.

Developments

As part of its stated strategy, in 2004 the Group acquired six funeral home locations, funded from existing cash reserves and internally generated cash flows. In addition, since the period end, the Group has acquired a further three funeral home locations. Since flotation, this brings the total investment in acquisitions to £8.8 million. The quantum of investment and the prices paid were in line with our previously stated expectations. The Group continues to seek further acquisitions to develop and enhance the network of Dignity branches.

In addition, the Group opened four new funeral home locations under local established trading names, sharing the resources of nearby existing Dignity funeral homes. We also closed five funeral home locations where low volumes made them uneconomic.

In August, the Group opened a new crematorium at Holytown in North Lanarkshire, built in partnership with North Lanarkshire Council. Planning permission has been granted to the Group for a new crematorium at Sydes Brae in South Lanarkshire. This will also be built and operated in partnership with the local Council.

Our staff

Our business requires a personal and sensitive service to clients. The Group's commitment to the highest standards of service is central to our strategy. In 2004, customer satisfaction levels, monitored by our continuing client surveys, exceeded last year's record high. We are fortunate to employ experienced and caring staff, a large number of whom have devoted their working lives to the profession. I would like to thank all our staff for their hard work and dedication to client service.

Outlook for 2005

The successful flotation of the Company has created a strong base for the future development of the business. We expect to achieve this by a combination of further acquisitions, opening new locations and seeking further partners for our pre-arranged funeral plan business. The Group continues to trade well and the Board expects the Group to make further progress in 2005.

Operating Review

"The strong performance of the Group is a reflection of both the diligence and outstanding service ethic of our staff in all areas of the business."

Peter Hindley, Chief Executive

Introduction

The Group's operations are managed across three main areas, namely funeral services, crematoria and pre-arranged funeral plans, which respectively represent 80 per cent, 16 per cent and 4 per cent of the Group's revenues. Funeral services 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 administering the sale of plans.

Performance in the period

Funeral services

The Group operates a network of 512 funeral homes throughout Britain, trading under local established names. In 2004, the Group conducted 67,600 funerals, representing 11.8 per cent (2003: 11.7 per cent) of total deaths in Britain.

Turnover within funeral services was £108.8 million (2003: £103.1 million) and increased in all geographical areas of the division. Operating profits before exceptional items and goodwill amortisation were £33.7 million (2003: £30.0 million), an increase of 12.3 per cent.

Although funeral volumes were lower as a result of the decline in the number of deaths in the period, we are pleased that this was more than offset by strong cost control.

We believe it is important to actively manage the Group's portfolio of funeral homes. In 2004, we closed five funeral homes whose very low number of funerals meant they were no longer profitable. We have opened four new funeral homes in Edinburgh, Gateshead, Stoke-on-Trent and Southborough. These new locations share the resources of nearby existing Dignity funeral homes.

As part of our stated strategy since listing, we have acquired nine new funeral home locations, three of which were acquired in 2005. These new businesses are located in Basingstoke, Broadstairs, Burnley, Chippenham, St. Albans and Falkirk. They are all long established, highly reputable businesses.

Crematoria

The Group operates 22 crematoria and carried out 38,400 cremations in 2004 representing 6.7 per cent (2003: 6.7 per cent) of total deaths in Britain. The Group is the largest single operator of crematoria in Britain.

Turnover within crematoria was £21.6 million (2003: £20.1 million). Operating profits before exceptional items and goodwill amortisation were £11.5 million (2003: £9.1 million), an increase of 26.4 per cent. The performance was achieved through a combination of strong memorial sales that increased by 12.9 per cent and were significantly helped by initial sales of crypts at the new mausoleum at Loughborough (approximately £0.4 million) and reduced costs following a reorganisation of the business in 2003.

In August 2004, we opened a third crematorium in Scotland. The new facility at Holytown in North Lanarkshire

Caring People There For You

Helping people through one of the most difficult times in their life

We know that every client is different. Listening carefully to what a family wants, and making sure we understand their needs is very important whether they are arranging a funeral, choosing a memorial or buying a pre-arranged funeral plan.

Our trained, professional staff are there to help our clients every step of the way, with care and compassion. We arrange funerals for families from all different cultures and religions and have three specialist Asian funeral directors to meet the needs of their communities. Many of our staff have dedicated their working lives to funeral service, with a wealth of experience and understanding in helping families.

was built in partnership with the local Council and represents a £2.0 million investment in our crematoria business. We are also working with South Lanarkshire Council to provide a similar facility. Planning permission has been granted at Sydes Brae and building is scheduled to start in 2005.

The Group opened a new community mausoleum in July 2004 at our crematorium in Loughborough. This was developed in conjunction with the local Council, Charnwood Borough Council. It has been built to serve the needs of the Italian community in the East Midlands, whose leaders were closely involved in its design and construction. Further mausoleums were also constructed at our cemetery at Streatham in London. There have been no changes to the regulatory environment during 2004. However, in January 2005 the Department of Environment Food and Rural Affairs announced that crematoria operators should install equipment to cut mercury emissions by 50 per cent by 2012 under new statutory guidance. The Group is confident that it can meet all the new emissions legislation in the required timescales. We expect funding for these changes to be via an industry wide environmental levy.

Pre-arranged funeral plans

Pre-arranged funeral plans allow people to plan and pay for their funeral in advance. The Group is the market leader in the provision of pre-arranged funeral plans. Unfulfilled pre-arranged funeral plans increased to 170,200 from 164,300 during the period. The Group expects to perform the majority of these funerals.

The Group sells pre-arranged funeral plans through its network of funeral homes and primarily through affinity partners, notably Age Concern, AXA and Royal London. Although the level of unfulfilled pre-arranged funeral plans plans grew during the period, this increase was lower than expected because of reduced activity. In particular, AXA's planned activity in 2004 was postponed. We are hopeful that activity will recommence in 2005.

Client service

We believe that excellent client service is fundamental to the Group's success. Personal experience, recommendation and location are the client's key criteria for the selection of a funeral director. We continually strive to maintain our high client satisfaction levels and improve client service.

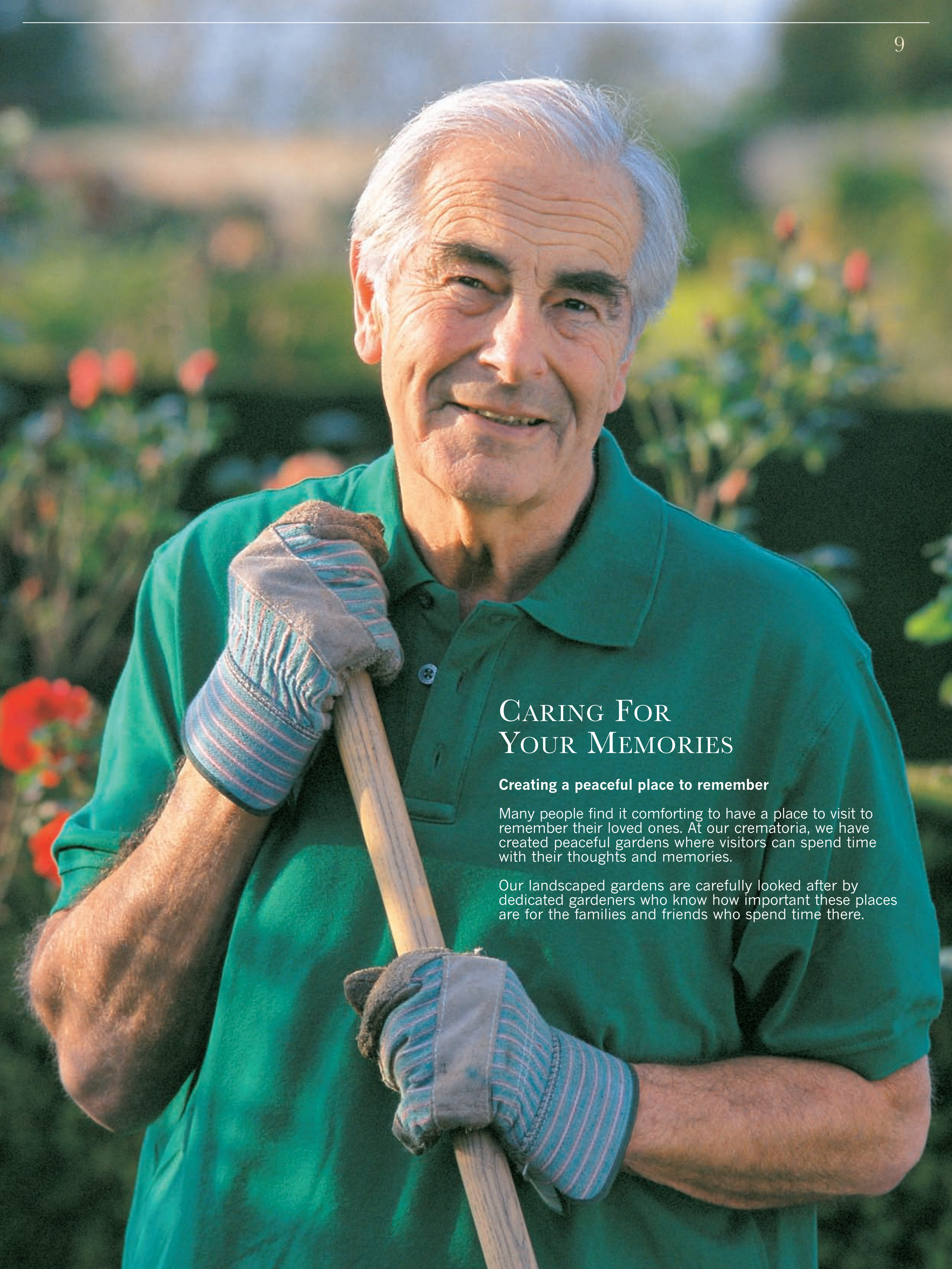
During the period, we held 90 focus group meetings with staff to ask their views on the service we provide families, and to ensure best practice is shared uniformly throughout the Group. We send our clients a survey after every funeral to monitor client satisfaction. We have an approximate 50 per cent response rate. This survey monitors all aspects of client service, which continues to be at very high levels.

Our employees

In 2004, the Group supported staff development and welfare through its Welfare Trust. The Welfare Trust provides funds for staff for professional training, hardship grants, and financial support for employees' children studying in further education.

The Group also provides direct support to employees through both in-house training and external training courses. Such external training includes both relevant job training and tutoring for professional qualifications.

The Group publishes an in-house magazine each quarter supplemented by monthly bulletins to keep all employees informed of what is happening in the Group. These are also provided to employees who have



Caring For Your Memories

Creating a peaceful place to remember

Many people find it comforting to have a place to visit to remember their loved ones. At our crematoria, we have created peaceful gardens where visitors can spend time with their thoughts and memories.

Our landscaped gardens are carefully looked after by dedicated gardeners who know how important these places are for the families and friends who spend time there.

retired from the Group. In addition, the Group has developed a dedicated employee website which can be accessed by all employees and contains news, useful information and background on the Group. This is in addition to both our main website and the investor website.

After the Company was listed on the London Stock Exchange the Group set up a 'Save As You Earn' share scheme for all staff. I am pleased to advise the scheme has in excess of 750 members all saving monthly to acquire Ordinary Shares in the Group.

At the end of 2004, we announced a bonus totalling £0.6 million, in which every member of staff not covered by existing schemes was awarded a payment. This was in recognition of the hard work and commitment shown by our staff in all areas of the business and allowed them to share in a successful 2004. We hope that strong performances in 2005 and beyond will allow the Group to pay such bonuses in the future.

Pensions

The Group operates two principal defined benefit pension schemes. Under FRS 17 the pension deficit would have increased by £0.8 million (after tax) with a period end deficit of £9.7 million. See note 23 for additional information.

Actuarial valuations will be completed on both schemes in 2005. However ahead of the valuations the Board have implemented the following changes to the schemes with effect from 6 April 2005:

- The pension accrual rate for future service will be 1/80 of final salary for each year worked rather that 1/60.
- Members' contributions will increase from 6 per cent to 7 per cent of pensionable salary.
- The part of the member's pension that relates to service after 6 April 2005 will increase during retirement in line with the Retail Price Index up to a ceiling of 2.5 per cent per annum.

The Board considers these changes to be appropriate and necessary and provide a balance between maintaining a final salary pension scheme for staff and limiting and controlling the Group's obligations under the schemes.

Investment for the future

The Chairman has referred to the future development of the business in his statement. Within the funeral services division the Group is committed to the proactive development of its national network of branches within local communities. This will be achieved by further acquisitions but only where suitable businesses can be identified and acquired at a price that should deliver returns in excess of our cost of capital. In addition to acquisitions, new funeral homes will be opened where suitable locations and local brand names can be identified. These initiatives will be progressed in conjunction with reviewing existing locations for suitability and viability. Within the crematoria division the Group remains committed to exploring partnership arrangements with Local Councils, who own and operate the vast majority of crematoria in Great Britain. The Group also remains committed to the development of its range of memorial and interment options within the memorial gardens at its crematoria and cemeteries. Within the pre-arranged funeral plan division we are continuing to develop further affinity partners.

The strong performance of the Group is a reflection of both the diligence and outstanding service ethic of our staff in all areas of the business. I would like to thank all staff for their contributions for both 2004 and looking ahead into 2005.

Caring For Your Future

Offering peace of mind for families

Making choices about funeral arrangements can be very hard for families, especially if they didn't know their loved one's wishes. Through our pre-arranged funeral plans, more people are choosing to make the arrangements for their funeral in advance, saving their family not only the cost of the funeral but the worry of making decisions at a very difficult time.

With flexible choices and guaranteed prices, our pre-arranged funeral plans offer families peace of mind, so that they know that when the time comes, their wishes will be carried out as they wanted.

An Active Role in the Community

"…Many of our staff make a real difference to the communities they serve."

Working for our local communities

We recognise the unique role played by the staff at our funeral homes and crematoria in the local community. Our staff hold a privileged position where families entrust their loved ones into our care and look to us for advice, support and practical arrangements. Whether our funeral home is in a small village, town or big city we expect our staff to take a proactive role in the community and Dignity provides the time and financial resources for them to do this effectively.

Dignity has a clear strategy for community involvement. At a national level we have three full time staff who, as part of broader roles, provide advice and practical help to staff involved in, or who would like to get involved in, charitable events. We also provide staff with ideas on how to engage in national charities fundraising initiatives such as the Macmillan Coffee Mornings, Cancer Research's All Day Breakfast, Macmillan Miles Challenge and Help the Hospices' Tea at Three. We have also introduced our own national campaigns such as 'Plant A Poppy' to support the Royal British Legion's Poppy Appeal and our Easter Egg Challenge to collect Easter eggs to give to children away from home at Easter.

We provide hundreds of man-hours for staff to raise funds and engage in charitable activities. We also make available Group resources such as vehicles, including several minibuses purchased specifically for community support, and premises where groups such as CRUSE Bereavement Care can meet at no charge. The Group also has four mechanical fairground organs that support local events.

The majority of the charities we work with are chosen at a local level by staff, ensuring their local knowledge is used effectively to provide help where help is needed. As well as larger charities such as the RNIB, RNLI, Cancer Research UK, Macmillan and the Stroke Association, staff provide support for local organisations including hospices, drop in centres, night shelters, women's refuges, schools, churches, community groups, hospitals and animal sanctuaries. In 2004, we recorded over 300 fundraising activities in which staff took part, and where the Group provided resources.

We provide ongoing support to the bereaved, with a number of branches running groups for people to come together and develop friendships after bereavement. We also hold memorial services across the country, to remember loved ones who have died, which are well attended and appreciated by families.

Whether it is a larger campaign, like a branch in Guildford that raised over £6,500 for Woking Hospice, or a smaller initiative like our funeral home in West London that collected plastic bottle tops to raise money to buy a wheelchair for a local child, many of our staff make a real difference to the communities they serve.

Caring For Our Communities

Supporting our local communities

We believe it is a privilege to provide funeral services and work hard to put something back in to the communities we serve. Every year our staff raise thousands of pounds for local charities and good causes through fundraising events, support for local and national initiatives and donations of both money and much needed equipment.

Whether it's taking part in national fundraising initiatives, helping a local community group or running our own events, our staff are at the heart of the communities they serve.

"Underlying profit before tax for the period was £22.0 million, an increase of 31.0 per cent."

Mike McCollum, Finance Director

The market conditions in which the Group operates and its trading performance during the 53 week period ended 31 December 2004 are described in the Chairman's Statement and the Operating Review.

Financial highlights

- Underlying profit before tax of £22.0 million (2003: £16.8 million), an increase of 31.0 per cent. In addition, recoveries from the pre-arranged funeral plan trusts were £1.2 million (2003: £1.0 million).
- Operating profit before goodwill amortisation and exceptional items has risen 16.9 per cent to £37.4 million (2003: £32.0 million).
- Turnover has increased 5.2 per cent to £135.7 million (2003: £129.0 million).
- Operating cash flow increased 5.3 per cent to £44.1 million (2003: £41.9 million).
- A final dividend of 3.75 pence per share, making a total of 5.625 pence per share for the Group's first period as a listed company.

Further statutory disclosures

- Operating profit has increased by 24.6 per cent to £33.9 million (2003: £27.2 million).
- Profit before tax was £3.1 million (2003: loss of £3.5 million).

Underlying profit before tax and goodwill amortisation

The past two years have witnessed significant reorganisations of the Group's capital structure, including the venture capital backed management buyout in 2002, the whole business securitisation in 2003 followed by listing and redemption of expensive debt in 2004. Therefore comparison with prior periods or assessment of underlying earnings is not straightforward. The Directors are of the opinion that the following provides additional indicative information regarding the underlying profits of the Group:

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Profit/(loss) before taxation for the period as reported	**3.1**	(3.5)
Add/(deduct) the effects of:		
Goodwill amortisation	**5.9**	5.6
Exceptional items (credited)/charged to administrative expenses	**(1.2)**	0.2
Exceptional items credited to other operating income (recoveries from pre-arranged funeral plan trusts)	**(1.2)**	(1.0)
Exceptional interest expense	**10.1**	–
Interest expense of Mezzanine Loan and Loan Notes 2013	**4.7**	14.9
Amortisation of debt issue costs of Mezzanine Loan and Loan Notes 2013	**0.6**	0.6
Underlying profit before tax and goodwill amortisation*	**22.0**	16.8

*In addition, recoveries from the pre-arranged funeral plan trusts were £1.2 million (2003: £1.0 million).

Cash flow and cash balances

Operating cash flow was £44.1 million in the period (2003: £41.9 million). Expenditure on funeral home acquisitions amounted to £5.3 million (2003: £7.7 million), with expenditure on new openings and relocations amounting to £0.8 million (2003: £0.2 million). A further £7.7 million was spent on capital expenditure, the majority of which was spent on replacing or enhancing existing assets, principally the Group's vehicle fleet. The construction bond of £2.0 million in respect of the new crematorium in North Lanarkshire was released in the period, following the payment of a lease premium of the same amount.

Cash balances at the end of the financial period amounted to £24.9 million although under the terms of the Group's secured borrowing, there were certain restrictions on elements of this balance as described further in note 14 to the accounts. The Group's operations continue to be significantly cash generative.

Capital structure and financing

The Group was listed on the London Stock Exchange in April 2004. Funds raised from the issue of shares allowed the redemption of the £40.0 million Mezzanine Loan and £57.0 million of the £63.0 million principal of the Loan Notes 2013, incurring an early redemption penalty of £4.0 million and the write-off of £6.1 million of deferred issue costs. The remaining £6.0 million principal of the Loan Notes 2013 were redeemed on 30 July 2004 from operational cash flows.

Following these redemptions, the Group's only material external debt financing is the Class A and B secured notes, rated A and BBB respectively, of which £205.3 million (2003: £208.9 million) was outstanding as at 31 December 2004. Both tranches of debt were issued at fixed rates of interest and will be progressively repaid over the next 26 years.

The Directors are of the opinion that the following provides additional indicative information regarding the net debt position of the Group:

	31 December 2004 £m	26 December 2003 £m
Class A and B secured notes	**(205.3)**	(208.9)
Mezzanine Loan	**–**	(42.1)
Loan Notes 2013	**–**	(67.0)
Loan Notes 2012	**–**	(12.7)
Deferred issue costs	**17.1**	24.0
Cash	**24.9**	41.9
Restricted cash balances	**(1.2)**	(19.5)
Loan Notes 2006	**(0.1)**	(0.1)
Net Debt per FRS 1 Statement	**(164.6)**	(284.4)
Restricted cash balances	**1.2**	19.5
Deferred issue costs	**(17.1)**	(24.0)
Accrued interest on Class A and B secured notes	**–**	(7.4)
Accrued interest on Mezzanine Loan and Loan Notes	**–**	(6.9)
Economic Net Debt	**(180.5)**	(303.2)

Going forward, the Group's financial expense will substantially consist of the interest on the Class A and B secured notes and the related ancillary instruments that were issued in April 2003. The finance charge in the period relating to these instruments was £16.7 million including the amortisation of debt issue costs of £1.0 million. Other ongoing interest costs incurred in the period amounted to £0.2 million, representing the unwinding of discounts on the Group's provisions and other loans.

Taxation

The overall effective tax rate on earnings before goodwill amortisation and exceptional items was approximately 32 per cent and is not expected to vary significantly in the short-term. Significant changes to the capital structure have rendered comparison of the tax charge to previous periods difficult. This tax rate is higher than the standard UK tax rate of 30 per cent due to the impact of disallowable trading expenses and expenditure on the Group's premises that does not attract any deductions for corporation tax purposes.

Earnings per share

The basic earnings per share were 0.6 pence per share for the period (2003: loss of 13.2 pence per share). The potential issue of new shares pursuant to the Group's share option plans in the period would affect the earnings per share by less than 0.1 pence per share if exercised.

The Board considers the information on underlying profit before tax to be a more useful indication of comparative performance given the changes in the Group's capital structure in the period.

International financial reporting standards

Work is continuing to ensure that the Group is in a position to make the transition to International Financial Reporting Standards with effect from 1 January 2005. An initial assessment has been completed of the likely effects. An action plan and programme of work has been developed and will be completed ahead of announcing our 2005 interim results. Based on initial assessments, the greatest impact is expected to be in the accounting for intangible assets, goodwill, pensions, deferred tax, property leases, share based payments and dividends.

The sub-group headed by Dignity (2002) Limited, which raised the Class A and B secured notes, will continue to report under UK GAAP. The usual quarterly report to Noteholders on the Dignity (2002) Limited sub-group will be issued in respect of the first quarter of 2005 in May 2005.

Board of Directors

3. Mike McCollum (37)
(Finance Director)
Mike joined Dignity's former parent, SCI, in 1995 from KPMG Corporate Finance in London to manage acquisition activity in the UK and later in Europe, completing more than 25 acquisitions between 1996 and 1999. In 1999, he became responsible for the pre-arranged funeral plan division, restoring its profitability principally through the implementation of the affinity based model. As Finance Director, he has overseen the management buyout and bank refinancing, both in 2002, the whole business securitisation in 2003 and most recently the IPO in 2004. He has a law degree from Birmingham University (LL.B), is a qualified solicitor and also holds an MBA from Warwick University.

6. James Newman (55) [a][n][r]
(Non-Executive Director)
James was Chairman of Waste Recycling Group plc until its takeover in July 2003. He was previously Deputy Chief Executive and Group Finance Director of Kelda Group plc, and before that Group Finance Director of BRIDON plc, Watmoughs (Holdings) plc and a number of other public and private companies. He is currently Chairman of Straight plc, a Non-Executive Director of Richmond Foods plc and Partnership Investment Fund Limited and is a Governor of Sheffield Hallam University. He is an FCA and a member of the Association of Corporate Treasurers.

1. Richard Connell (50) [a][n][r]
(Non-Executive Chairman)
Richard has worked in the City for more than 20 years, principally within private equity, and acts as Chairman of a number of companies. He is a Chartered Accountant and has held executive positions in marketing and management. In addition to working with the Company, he is Chairman of Caradon Group and Chairman of 2e2 Group. Richard has a degree from Oxford University and is an FCA.

4. Andrew Davies (43)
(Operations Director)
Andrew joined his family owned business in 1979 and worked as a funeral director and embalmer until the business was sold to Great Southern Group in 1993. He then held various management positions within Great Southern Group, and following the acquisition by SCI in 1994, held senior operational positions within SCI(UK). He became Operations Director in 2001, and was a member of the management buyout team in 2002.

7. William Forrester (64) [a][n][r]
(Non-Executive Director)
Bill is the Chairman of John Laing plc, the infrastructure investment group, Chairman of Linpac Group, and a Director of The Waterproofing Group. Prior to this he was Group Chief Executive of SIG plc, Europe's largest distributor of insulation, ceiling, partitioning and roofing products. He was also the Managing Director at Kuwait Insulation Manufacturing Company and the Sales and Marketing Director at BP Rockwool Limited.

2. Peter Hindley (61)
(Chief Executive)
Peter has extensive experience of the industry, and led the management buyout of the Group from SCI in 2002. In 1991, he was appointed Chief Executive of Plantsbrook Group plc. Following the acquisition of both Plantsbrook Group plc and Great Southern Group plc by SCI in 1994, he was appointed CEO of SCI(UK). Before entering the funeral services industry, Peter spent 25 years in retailing, holding senior positions in Debenhams, Burtons and Harris Queensway.

5. Jim Wilkinson (52)
(Human Resources and Quality Director)
Jim held various management positions with TI Group and Kalamazoo plc prior to joining PA Consulting Group in 1989, where he specialised in Quality and Performance improvement assignments with plc clients. He assisted SCI(UK) in developing and implementing the ‘Right Choice’ programme, before joining the Company as Quality and Compliance Manager in 1999.
In 2001, he was appointed Human Resources and Quality Director, and was a member of the management buyout team in 2002. Jim holds a BSc(Hons) Mech Eng from Birmingham University; and an MBA from Aston University.

[a] Member of the Audit Committee
[n] Member of the Nomination Committee
[r] Member of the Remuneration Committee

Directors' Report

The Directors present their report and the audited consolidated financial statements for Dignity plc and its subsidiaries for the 53 week period ending 31 December 2004.

Statement of Directors' responsibilities
United Kingdom company law requires the Directors to prepare financial statements that give a true and fair view of the state of affairs of the Company and Group for the financial period and of the profit or loss of the Group for that period. The Directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors confirm that suitable accounting policies have been applied consistently, as explained in note 1 to the financial statements. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the 53 week period ended 31 December 2004 and that applicable accounting standards have been followed.

The Directors are also responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Dignity plc websites are 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 Dignity plc investor website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Change of name and capital reorganisation
On 26 March 2004 the Company reregistered as a public company and changed its name to Dignity plc. On 31 March 2004 each of the issued and unissued A, B and C Ordinary Shares of £1 each were converted into and redesignated as Ordinary Shares of £1 each.

Following the redesignation the existing 2,000,000 issued Ordinary Shares of £1 each were sub-divided and reclassified into 26,521,740 Ordinary Shares of 7 pence each and 26,521,740 Deferred Shares of 33/61 pence each. The Deferred Shares were immediately repurchased by the Company for £2.

Following the repurchase the Deferred Shares in the authorised but unissued share capital of the Company were consolidated and redesignated into one Ordinary Share of £143,478.20 which was then sub-divided into (i) 2,049,688 Ordinary Shares of 7 pence each, and (ii) one Ordinary Share of 4 pence.

Immediately thereafter, the authorised share capital of the Company was increased from £2,000,000 to £2,000,000.03 by the creation of one Ordinary Share of 3 pence, which was then consolidated with the Ordinary Share of 4 pence referred to above into one Ordinary Share of 7 pence.

The authorised share capital of the Company was then increased from £2,000,000.03 to £7,000,000 by the creation of 71,428,571 Ordinary Shares of 7 pence each. On 8 April 2004 the Company issued 53,478,260 Ordinary Shares of 7 pence each at a premium of £2.23 per share.

Principal activities and business review
The principal activity of the Group is the provision of funeral services including funeral directing, crematoria operation and the marketing and administration of pre-arranged funeral plans. The principal activity of the Company is that of a holding company.

A review of the Group's business and the financial performance during the period together with an assessment of likely future developments are presented in the Chairman's Statement, Operating Review and Financial Review.

Results
The results for the period are set out in the Consolidated Profit and Loss Account on page 30. Group profit before tax amounted to £3.1 million (2003: loss £3.5 million).

Dividends
The Directors recommend a final dividend of 3.75 pence per share, payable on 31 May 2005 to shareholders on the register at 6 May 2005. This together with the interim dividend of 1.875 pence paid on 29 October 2004 would make a total of 5.625 pence for the period (2003: nil pence).

Fixed assets
Details of the changes in fixed assets are set out in notes 9, 10 and 11 to the financial statements.

Directors' Report
Continued

Payments policy
The Group has no formal code or standard that deals specifically with the payment of suppliers. However the Group's policy on the payment of all creditors is to ensure that the terms of payment as specified by, and agreed with, the supplier are not exceeded, provided all trading terms and conditions have been complied with. The average creditor payment period for the Group was 33 days (2003: 30 days). The Company has no trade creditors.

Employment policies
During the period the Group has maintained its obligations to develop and improve arrangements aimed at involving employees in its affairs. Methods of communication used include an in-house newsletter, bulletins and management briefings. Employment policies are designed to provide equal opportunities irrespective of colour, ethnic or national origin, religion, nationality, sex or marital status. Full consideration is given to the employment, training and career development of disabled persons subject only to their aptitudes and abilities. The Group makes every effort to treat disabled persons equally with others.

Directors and their interests
Details of the Directors of the Company who served during the period are shown in the Report on Directors' Remuneration on page 19. In accordance with the Articles of Association, at the Annual General Meeting Mike McCollum retires as a Director of the Company and, being eligible, offers himself for re-election. Bill Forrester and James Newman were appointed to the Board on 31 March 2004 as Non-Executive Directors for a fixed term and will seek re-election at the Annual General Meeting on 20 May 2005.

Substantial shareholdings
As at 24 March 2005 the Company had been notified of the following interests of 3 per cent or more of the issued share capital:

Holder	Number of Ordinary Shares	Percentage of issued share capital
The Goldman Sachs Group	10,646,630	13.31%
Scottish Widows Investment Partnership Ltd	4,110,642	5.14%
Universities Superannuation Scheme	3,124,816	3.91%
UBS Global Asset Management Ltd	2,796,800	3.50%
Legal and General Investment Management Ltd	2,429,363	3.04%

Health and safety
The Group's operations are executed at all times in such a way as to ensure, so far as reasonably practical, the health, safety and welfare of all of our employees and all other persons who may be attending our premises. The Group is committed to the prevention of accidents and regularly review and update procedures and training to ensure that, as far as possible, staff minimise any risks associated with their tasks.

The environment
All areas of the Group operate in accordance with the Group's Environmental Policy. The Group recognises the impact of our operations on the environment and our aim is to reduce this impact and to operate in an environmentally responsible manner. The Group and its employees undertake to act whenever necessary to meet the standards of current environmental legislation and continue to review the policies, systems and services to this end. All waste generated is properly disposed of in accordance with current legislation and steps are taken to recycle waste wherever practical.

Donations
The Group made charitable donations amounting to £0.1 million (2003: £0.1 million) during the period. There were no political donations. Further information can be found on page 12.

Going concern
The Directors have formed a judgement at the time of approving the financial statements that both the Company and the Group have adequate resources available to continue operating in the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

Post balance sheet events
See note 31 for further information.

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

By order of the Board

Richard Portman
Company Secretary
4 April 2005

Report on Directors' Remuneration

This Report sets out the remuneration policy operated by the Group in respect of the Executive Directors, together with disclosures on all Directors' remuneration. The auditors are required to report on the 'auditable' part of this Report and to state whether, in their opinion, that part of the Report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations).

The Board have reviewed the Group's compliance with the Combined Code ('the Code') on remuneration related matters. It is the opinion of the Board that the Group complied with all remuneration related aspects of the Code during the period except that any annual bonus payments to the Chief Executive are pensionable under the terms of his contract of employment although, as he has a personal pension plan, any pension contributions paid do not affect the Group's pension schemes. In addition, the Remuneration Committee has not considered the remuneration of Senior Management, immediately below Board level, during the nine months since Listing. This will be considered during 2005.

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

Bill Forrester chairs the Remuneration Committee and its other members are James Newman and the Non-Executive Chairman, Richard Connell. The Code requires that a Group of this size has a Remuneration Committee with a minimum of two members. The Chairman is specifically excluded from discussions regarding his remuneration. The Remuneration Committee members have no personal financial interest other than as shareholders in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business.

Executive Directors have attended Remuneration Committee meetings when required. No Executive Director takes part in discussions relating to their own remuneration and benefits.

The Remuneration Committee was created immediately prior to listing on the London Stock Exchange in April 2004 and is formally constituted with written terms of reference. A copy of the terms of reference is available to members by writing to the Company Secretary at the Registered Office and is also available for inspection on the Group's investor website www.dignityfuneralsplc.co.uk. The Committee met once during 2004 and has met again in January and February of 2005.

Remuneration policy

The Remuneration Committee's policy is to progressively set the main elements of the Executive Directors' remuneration package at the following quartiles in comparison to a comparable group of companies ('the Comparator Group'). The Comparator Group is 20 companies from the FTSE All Share Support Services Index with similar corporate attributes measured in terms of market capitalisation, turnover and number of employees.

- Basic salary – median.
- Annual bonus potential – median to upper quartile.
- Share incentives – median to upper quartile.
- Total compensation – median to upper quartile.

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

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

The Remuneration Committee believes that the policy will retain and develop further the Group's entrepreneurial culture whilst also focusing executive remuneration on performance, which the Committee believes will best serve shareholders' interests. It is therefore the aim of the Remuneration Committee to encourage and reward superior performance by Executive Directors with that performance being based on the measurable delivery of strong financial performance and the delivery of strong returns to shareholders.

The Remuneration Committee will continue to review the policy on an annual basis to ensure that it is in line with the Group's objectives and shareholders' interests.

Remuneration policy (continued)

Basic salary

Base salaries of Executive Directors are currently below the median of the Comparator Group. In the medium term, it is the Remuneration Committee's intention to review Executive Directors' base salaries with the aim of aligning these closer to the comparator median. The total remuneration package for Executive Directors will remain linked to performance.

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

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

Annual performance related bonus

The Committee's policy is to set the maximum annual bonus potential for Executive Directors between the median and the upper quartile in relation to the Comparator Group. The targets for the year are reviewed and set annually by the Committee to ensure that they are appropriate to the current market conditions and remain challenging. They are ratified by the full Board. They are entirely linked to the annual financial objectives of the Group.

The maximum bonus attainable by Peter Hindley is 70 per cent of his basic salary and 67 per cent in respect of the other three Executive Directors. The Group performed strongly in 2004 with each Executive Director earning their maximum bonus. Bonuses earned by the Executive Directors are paid as soon as the preliminary results for the period have been announced.

Share incentives

Shareholders approved the current discretionary share incentive plan, the Long Term Incentive Plan (LTIP) on 31 March 2004 prior to admission to the London Stock Exchange on 8 April 2004.

The Remuneration Committee aims to provide annual awards to Executive Directors at the median to upper quartile level compared to the Comparator Group. All Executive Directors and other employees are entitled to be considered for the grant of conditional share awards under the LTIP. Under the rules, the maximum annual award that can be made to an individual is 125 per cent of salary. All four Executive Directors were granted conditional share awards during 2004 equivalent to the maximum award.

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

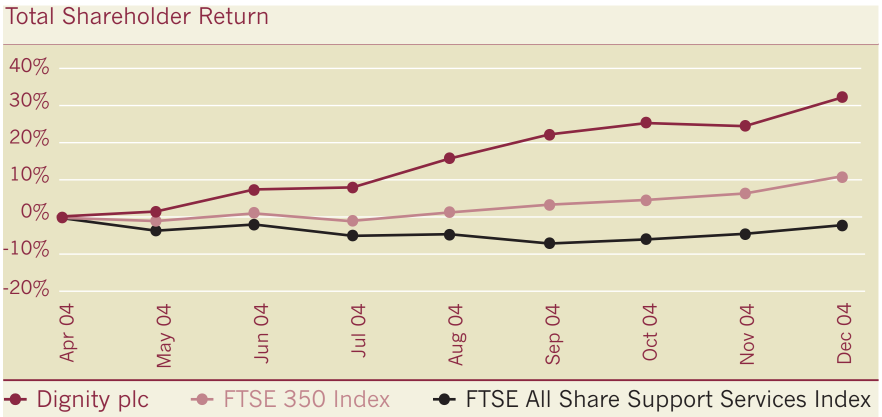
The Remuneration Committee selected comparative Total Shareholder Return (TSR) as the performance condition for LTIP awards as it ensures that the Executive Directors outperform the FTSE 350 Index over the measurement period in delivering shareholder value, before being entitled to receive any of their awards irrespective of general market conditions. The FTSE 350 Index was selected as a benchmark as there are no directly comparable quoted companies in the UK and the 'enterprise value' of the Group (debt plus equity) gives it a comparative value to FTSE 350 companies. The Remuneration Committee will calculate the TSR in accordance with the rules of the scheme and ratify the calculation prior to the release of any award. Performance conditions under the LTIP are not subject to re-testing.

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

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

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

The graph shows the Group's TSR compared to the constituents of the FTSE All Share Support Services Index and the FTSE 350.



The total options held by each Director are shown on page 23 in the section of the Remuneration Committee's report that is subject to audit.

In accordance with the ABI guidelines the Company can issue a maximum of 10 per cent of its issued share capital in a rolling ten year period to employees under all share plans. In addition, of this 10 per cent the Company can only issue 5 per cent to satisfy awards under discretionary or executive plans.

Pensions

The Group provides Peter Hindley with a contribution to his personal pension plan of 10 per cent of his salary and any bonus payable. As this is a personal pension plan any pension contributions paid on a bonus do not affect the Group's pension schemes. Mike McCollum and Jim Wilkinson are members of a Group pension scheme into which the Group contributes 10.5 per cent of salary (details are set out within the audited section of this report on page 22). The Group makes no pension contributions for Andrew Davies.

Benefits in kind

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

Service contracts

Details of the service contracts with all Directors (both Executive and Non-Executive) are as follows:

Name	Contract Date	Notice Period	Unexpired Term of Contract
Peter Hindley	1 April 2004	12 months	Rolling Contract
Mike McCollum	1 April 2004	12 months	Rolling Contract
Andrew Davies	1 April 2004	12 months	Rolling Contract
Jim Wilkinson	1 April 2004	12 months	Rolling Contract
Richard Connell	1 May 2002	3 months	14 months
James Newman	31 March 2004	3 months	15 months
Bill Forrester	31 March 2004	3 months	15 months

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

Report on Directors' Remuneration

Continued

Remuneration policy (continued)

Service contracts (continued)

Under the Company's Articles of Association one third of the Directors are required to submit themselves for re-election every year. The Board may agree additional terms on a case-by-case basis.

The Board determines the remuneration of the Non-Executive Directors. It is based upon recommendations from the Chairman and Chief Executive (or, in the case of the Chairman, based on recommendations from the Remuneration Committee and the Chief Executive).

Directors' interest in shares and loan notes

The interests of the Directors and their families in the Ordinary Shares and Loan Notes of the Company at 26 December 2003 (or their date of appointment if later) and 31 December 2004 were as follows:

	Loan Notes 2012		Ordinary Shares		
Name	31 December 2004 £'000	26 December 2003 £'000	31 December 2004 Number	26 December 2003 (Or date of appointment) Number* (Post Capital Restructuring)	26 December 2003 (Or date of appointment) Number** (Pre Capital Restructuring)
Peter Hindley	–	3,562	926,044	1,388,373	104,697
Mike McCollum	–	1,781	463,018	694,180	52,348
Andrew Davies	–	1,781	463,018	694,180	52,348
Jim Wilkinson	–	1,781	463,018	694,180	52,348
Richard Connell	–	343	89,042	133,497	10,067
James Newman	–	–	10,000	Nil	Nil
Bill Forrester	–	–	10,000	Nil	Nil

* The number has been restated following the capital restructuring on 31 March 2004 immediately prior to listing as explained in the Directors' Report on pages 17 to 18.

** C shares of £1 each of a total share capital (all classes) of £2,000,000.

Mike McCollum also holds (as nominee for Dignity Finance Holdings Limited) one (2003: one) Ordinary £1 Share in Dignity Finance PLC, a fellow Group company at 31 December 2004.

The following information on pages 22 to 23 has been audited.

Directors' remuneration

The total of Directors' remuneration for the period was £1,414,000 (2003: £1,046,000), including pension contributions of £58,000 (2003: £53,000). The remuneration of individual Directors for the year or from their date of appointment was as follows:

	Salary and Fees £'000	Benefits* £'000	Annual Performance Related Bonus £'000	Total 2004 £'000	Total 2003 £'000
Executive Directors					
Peter Hindley	250	29	175	454	383
Mike McCollum	180	11	121	312	205
Andrew Davies	130	11	87	228	175
Jim Wilkinson	130	11	87	228	175
Non-Executive Directors					
Richard Connell	68	–	–	68	55
James Newman**	39	–	–	39	Nil
Bill Forrester	27	–	–	27	Nil
Total	824	62	470	1,356	993

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

**James Newman's expenses are invoiced to the Company by West Wood Associates.

DA Farley, CJ Gatenby, PW Goodwin and T Ryan also served as Directors in the period prior to flotation, resigning on 11 March 2004. Montagu Private Equity Limited received £58,000 per annum for fee services of DA Farley, CJ Gatenby and PW Goodwin. Service Corporate International received £16,500 per annum for the services of T Ryan.

DA Farley, CJ Gatenby, PW Goodwin and T Ryan held no Loan Notes 2012 at 31 December 2004 (2003: £104,000, £62,000, £218,000 and nil respectively).

Directors' pension entitlements
Defined benefit salary scheme

	Change in accrued benefit over the period (1) £	Transfer value at 31 December 2004 (2) £	Transfer value at 26 December 2003 (2) £	Change in transfer value less Directors' contributions £	Change in accrued benefit in excess of inflation £	Transfer value of change in accrued benefit net of Directors' contributions £	Accumulated total accrued pension at 31 December 2004 £
Mike McCollum	1,915	62,095	49,735	1,450	1,560	6,560	13,361
Jim Wilkinson	2,089	77,388	55,934	9,895	1,868	15,677	9,224

(1) Throughout 2004 the above Directors were members of the Dignity Pension and Assurance Scheme, which is a defined benefit and tax approved scheme to which both the Director and the Company contribute.

(2) Pension accruals shown are the amounts that would be paid annually on retirement based on service at the end of the current year.

(3) Transfer values have been calculated in accordance with Guidance Note GN11 issued by the Faculty and Institute of Actuaries. The transfers represent the actuarial liability of the pension plan and not the sum paid or due to an individual.

Pension contribution

	Contribution 2004 £'000	Contribution 2003 £'000
Peter Hindley	36	33

Long Term Incentive Plan
The Long Term Incentive Plan was approved by members on 31 March 2004.

	2004			
	Value of shares conditionally awarded during the period (2)	Value of shares conditionally awarded during the year as a percentage of salary (3)	Number of shares conditionally awarded during the period	Date of the end of the holding period when shares may be exercised
Peter Hindley	312,501	125%	135,870	After 8 April 2007
Mike McCollum	225,000	125%	97,826	After 8 April 2007
Andrew Davies	162,500	125%	70,652	After 8 April 2007
Jim Wilkinson	162,500	125%	70,652	After 8 April 2007

(1) Awards under the LTIP will only be released if the Group's comparative TSR performance is equal to or greater than the median level of performance over the holding period at which point 40 per cent of the award will be released, with full vesting occurring for upper quintile performance. Vesting occurs on a straight-line basis between those points.

(2) Value based on the price of the Group's Ordinary Shares on 8 April 2004.

(3) Value as a percentage of salary as at 8 April 2004.

Inland Revenue Approved SAYE Share Option Scheme

	Date of grant	Number held at 26 December 2003	Granted	Exercised	Gain on exercise	Exercise date	Number held at 31 December 2004
Mike McCollum	6 May 2004	Nil	3,163	Nil	Nil	31 May 2007	3,163

Save As You Earn options have an exercise price of £2.30 per share and must be exercised within six months of the exercise date shown above. The Group is taking advantage of the exemption allowed under UITF 17 (Revised) for accounting for approved SAYE share option schemes.

The market price of the Group's shares on 31 December 2004 was £3.235 per share. The high and low share prices in the period were £3.235 and £2.30 respectively.

On behalf of the Board

Bill Forrester
Chairman of the Remuneration Committee

Directors' Statement on Corporate Governance

Introduction

The Board is committed to high standards of corporate governance in order to achieve its objectives and meet the necessary standards of accountability and integrity.

The Combined Code sets out the Principles of Good Corporate Governance and various code provisions. The Combined Code (the 'Hampel Code') was revised in 2003 following the publication of the Higgs and Smith Reports (covering non-executive directors and audit committees respectively) and takes effect for financial years commencing on or after 1 November 2003. The Board is therefore reporting against the revised Combined Code (the Code) as annexed to the Listing Rules issued by the Financial Services Authority.

The Group has complied since listing on 8 April 2004 with all provisions of the Code except in the following matters:

- The annual bonus awarded to the Chief Executive is pensionable. He is however not a member of a Group pension scheme and maintains his own personal pension scheme. As a consequence there is no impact on the Group pension scheme.
- As it is only nine months since the Group was listed no formal performance evaluation of the Board or individual Directors has been completed. This will be considered during 2005.
- The Remuneration Committee has not considered the remuneration of Senior Management immediately below Board level, during the nine months since listing. This will be considered during 2005.

The Board is accountable to the Group's shareholders for good governance and a narrative statement on how the Company has applied the principles of the Code and a statement explaining how the provisions of the Code have been applied and complied with are described below.

Narrative statement

The Code establishes 14 principles of good governance, which are split into four areas as outlined below:

1. The Board

The Group is controlled through the Board of Directors that meets at least bi-monthly. Informal meetings are held between individual Directors as required. The Board has adopted a formal schedule of matters reserved to it. The Board is responsible for:

- Overall management of the Group.
- Strategy.
- Approval of major capital expenditure projects and consideration of significant financial matters.
- Monitoring the exposure to key business risks.
- Reviewing the strategic direction of the Group.
- Setting annual budgets and reviewing progress towards achievement of these budgets.
- Acquisitions and disposals of limited companies.

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

The Board comprises four Executive Directors and three Non-Executive Directors including the Chairman Richard Connell. The Chief Executive is Peter Hindley and the Finance Director is Mike McCollum. There is a clear division of responsibility between the Non-Executive Chairman and the Chief Executive so as to give no individual unfettered powers of decision. The Chairman is responsible for:

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

The Chief Executive is responsible for:

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

There are two further Non-Executive Directors, Bill Forrester and James Newman. James Newman is the appointed Senior Independent Director of the Group. Biographical details, including committee memberships, appear on page 16.

The Board considers that four Executive Directors, supported by an experienced Senior Management team, are sufficient to manage a Group of this size. As the Group was below the FTSE 350 at listing and has been throughout 2004, the Board considers that two independent Non-Executive Directors is sufficient and appropriate for the Group and is specifically permitted under the Code.

All Directors are able to take independent professional advice on the furtherance of their duties if necessary. They also have access to the advice and services of the Company Secretary and, where it is considered appropriate, training is made available to Directors. All Directors received training on the duties and responsibilities of being a Director of a listed company prior to listing in April 2004. The Company maintains appropriate insurance cover in respect of any legal action against its Directors.

All Directors, in accordance with the Code, submit themselves for re-election at least once every three years.

All Directors appointed by the Board are required to stand for election at the next Annual General Meeting.

The current structure of the Board was established immediately prior to listing when James Newman and Bill Forrester were appointed as Non-Executive Directors on 31 March 2004 to meet the requirements of the Code. At the same time the Board has established a Remuneration Committee, an Audit Committee and a Nomination Committee all of which operate within defined terms of reference. The specific terms of reference for all the Committees may be obtained from the Company Secretary at the Registered Office and are also available for inspection on the Group's investor website www.dignityfuneralsplc.co.uk. All Committees are provided with sufficient resources to undertake their duties.

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

	Main Board pre Listing	Main Board post Listing	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings	5	5	2	1	2
Richard Connell	4	5	2	1	2
Andrew Davies	4	5	0	0	0
Bill Forrester(ii)	0	5	2	1	2
Peter Hindley	5	5	2 (iii)	1 (iii)	1 (iii)
Mike McCollum	5	5	2 (iii)	1 (iii)	0
James Newman(ii)	0	4	2	1	2
Jim Wilkinson	4	4	0	0	0

(i) Only full Board meetings have been included in the attendance analysis. Five further meetings were held with a quorum of Directors to approve announcements or documents in respect of the listing.

(ii) Bill Forrester and James Newman were not appointed until 31 March 2004 immediately prior to listing.

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

(iv) Four other Directors served during the year. Jason Gatenby, Phil Goodwin and David Farley, all representatives of Montagu Private Equity Ltd., resigned on 11 March 2004. Tom Ryan, a representative of Service Corporation International, also resigned on 11 March 2004. They have been excluded from the table above as they were appointed by significant shareholders prior to listing.

A process exists whereby the Non-Executive Directors can meet without the Executive Directors being present. No performance evaluation of the Board has been completed during the period since listing in April 2004. However, during 2005 the Board will undertake a formal and rigorous evaluation of its own performance and that of its Committees and individual Directors. The Non-Executive Directors led by the Senior Independent Director will be responsible for the performance evaluation of the Chairman.

Richard Connell, Bill Forrester and James Newman are independent of management.

The Company Secretary, Richard Portman, attends all the above meetings and is responsible for the preparation and distribution of all agendas, minutes and related Board and Committee papers. He is also responsible for ensuring all Board procedures are followed and for advising the Board on corporate governance matters.

Directors' Statement on Corporate Governance
Continued

Narrative statement (continued)

2. Directors' remuneration

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

The Committee members are the independent Non-Executive Directors and the Chairman. This reflects the requirements of the Code to have a committee of at least two members. The Chief Executive, Peter Hindley, also attends the meetings by invitation of the Committee. No Director or Senior Manager is involved in any decisions with regard to their own remuneration.

The Executive Directors recommend the remuneration of Non-Executive Directors and recommendations take into account time commitment and role responsibilities in the fulfilment of those duties. The Non-Executive Directors are not eligible for pensions and do not participate in the Group's bonus or share schemes.

The Committee has not considered the remuneration of Senior Management immediately below Board level, during the nine months since listing. This will be considered during 2005.

The Committee has taken professional advice from external remuneration consultants as required and has considered remuneration in accordance with the advice received and information from comparable companies. The full Directors' Remuneration Report is set out on pages 19 to 23.

3. Accountability and audit

Reporting responsibilities

The Board is required to present a balanced and understandable assessment of the Group's position and prospects, not only in the Directors' Report and Accounts but also in the Chairman's Statement (page 4) and the Operating and Financial Reviews (pages 6 and 14 respectively), in interim reports and in price sensitive announcements. The Board is satisfied that it has met this obligation. A summary of the Directors' responsibilities for the financial statements is set out on page 17.

Going concern

The Directors regularly receive and review management accounts, cash balances, forecasts and the annual budget. After careful consideration the Directors confirm they are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing the accounts.

Internal control

The Board recognises it is responsible for the Group's system of internal control, which is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. A process of identifying, evaluating and managing the significant risks faced by the Group has been formalised since listing and has replaced the more informal process that previously existed. This process was in place at the date of approval of the Annual Report and is in accordance with Turnbull guidance within the Code.

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

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

- Financial reporting – The Group has a comprehensive system of internal budgeting and forecasting. Monthly actual results analysed by operating division are reported to the Board and significant variances to budget are investigated with revised forecasts prepared as necessary. Operational management receive comprehensive management accounts covering their areas of responsibility.

- Financial controls – The Executive Directors have defined appropriate and necessary financial controls and procedures to be employed by operational management. Key controls over major business risks include reviews against budgets and forecasts, review against key performance indicators and exception reporting.

- Quality and integrity of personnel – One of the Group's core values is integrity; this is regarded as vital to the maintenance of the Group's system of internal financial control. The Directors have put in place an organisation structure appropriate to the size and complexity of the Group with defined lines of responsibility and delegation of authority where the Board considers it necessary.

- Internal audit – The Group has a dedicated Internal Audit team, which reports to the Chief Executive. It coordinates the completion of self-assessment reports by operational management that assist in highlighting areas of control weakness or exposure. Internal audit reviews will be completed on such areas together with selected areas of the head office function and any area where an Executive Director has requested a review. The Head of Internal Audit reports to the Audit Committee on a regular basis.

- Procedures – The Group has established and documented processes and procedures covering most parts of its operations both client facing and in support departments. These provide clear guidance on the correct or most appropriate course of action in various circumstances. Both Internal Audit and a comprehensive management structure monitor the adherence to such processes and procedures.

- Risk assessment – Management has responsibility for the identification and evaluation of significant risks that might arise in their area of responsibility together with the design of suitable internal controls. Management on a continual basis assesses the risks. A Risk Register is maintained which is formerly presented to and reviewed by the Audit Committee twice a year.

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

Audit Committee
The Audit Committee comprises the two Non-Executive Directors and the Chairman. It is chaired by James Newman who is a Fellow of the Institute of Chartered Accountants in England and Wales. He is considered to have the relevant financial experience to chair this Committee. Its membership is restricted to Non-Executive Directors. The Committee has specific written terms of reference that explain its authority and duties. The Committee has met twice during 2004 and again in February 2005 since the Company's listing on the London Stock Exchange in April 2004. The external auditors, the Chief Executive and the Finance Director have attended all meetings by invitation. The external auditors also have the right to discrete private audiences with the Audit Committee if either party requires or requests them.

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

The Committee is also monitoring management actions and progress on such actions taken by the Group to address the introduction of International Financial Reporting Standards.

A process exists by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. However given the more rigorous requirements of the Code, the Group, through the Audit Committee, will establish a more formal process during 2005. This will ensure arrangements are in place for the proportionate and independent investigation of such matters and appropriate follow-up action.

The Committee also keeps under review the relationship with the external auditors, including their terms of engagement, independence, objectivity and effectiveness. The Committee reviews the remuneration received by the external auditors for non-audit work, which principally relates to taxation advice. Where considered necessary the Committee approves such work. The external auditors have confirmed their audit independence in writing to the Committee. The Committee also retains responsibility for the appointment and removal of the external auditors.

Narrative statement (continued)

Nomination Committee

Richard Connell chairs the Nomination Committee, which has met twice this year. The other members of the Committee are James Newman and Bill Forrester, the Non-Executive Directors.

The Committee makes recommendations to the Board on the structure, size and composition of the Board and the Senior Management team. It is also responsible for identifying and nominating for the approval of the Board, replacement or additional Directors and members of the Senior Management team. Succession planning will be considered more formally in 2005.

4. Relations with members

The Group encourages two-way communication with both its institutional and private members and responds promptly to any queries received either verbally or in writing.

The Chief Executive and Finance Director have regular meetings with institutional investors, fund managers and analysts to discuss information made public by the Group. Where appropriate or if requested, such meetings could include either or both of the Chairman and the Senior Independent Director without any Executive Directors present. Further the Group has and will arrange visits to their facilities, if requested by a member, where it will not disrupt normal operational activity.

Each year every member will receive a full Annual Report and Accounts and an Interim Report at the half year. The Group has a separate investor relations website www.dignityfuneralsplc.co.uk upon which users can access the latest financial and corporate news and information.

The Board regards the Annual General Meeting as an opportunity to communicate directly with all members. At least 20 working days notice has been given of the Annual General Meeting at which all Directors and Committee Chairmen will be present and available to answer questions.

Independent Auditors' Report to the Members of Dignity plc

We have audited the Financial Statements, which comprise the Profit and Loss Account, the Balance Sheets, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ('the auditable part').

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the auditable part of the Directors' Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements and the auditable part of the Directors' Remuneration Report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

In our opinion:

- The Financial Statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2004 and of the Profit and Cash Flows of the Group for the period then ended;
- The Financial Statements have been properly prepared in accordance with the Companies Act 1985; and
- Those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
4 April 2005

Consolidated Profit & Loss Account

for the 53 week period ended 31 December 2004

	Note	**53 week period ended 31 December 2004 £m**	52 week period ended 26 December 2003 £m
Turnover	2	**135.7**	129.0
Cost of sales		**(67.3)**	(66.1)
Gross profit		**68.4**	62.9
Distribution and selling costs		**(4.0)**	(4.6)
Administrative expenses		**(31.7)**	(32.1)
Other operating income	6	**1.2**	1.0
Operating profit before goodwill amortisation and exceptional items		**37.4**	32.0
Goodwill amortisation	6	**(5.9)**	(5.6)
Exceptional items	6	**2.4**	0.8
Operating profit	2	**33.9**	27.2
Interest payable and similar charges before exceptional charges	7	**(22.2)**	(31.7)
Interest receivable and similar income	7	**1.5**	1.0
Exceptional interest payable and similar charges on redemption of debt	7	**(10.1)**	–
Net interest payable and similar charges		**(30.8)**	(30.7)
Profit/(loss) on ordinary activities before tax	2, 6	**3.1**	(3.5)
Tax on profit/(loss) on ordinary activities	8	**(2.7)**	0.3
Profit/(loss) on ordinary activities after tax		**0.4**	(3.2)
Equity minority interest		**–**	(0.3)
Profit/(loss) for the financial period		**0.4**	(3.5)
Dividends	3	**(4.5)**	–
Loss transferred from reserves	21	**(4.1)**	(3.5)
Earnings/(loss) per 7p share	4		
– Basic and diluted		**0.6p**	(13.2)p

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

Statement of Total Recognised Gains & Losses

There were no other gains or losses other than those included within the results for the period, as shown above.

Note of Historical Cost Profit & Loss

There is no difference between the result disclosed in the profit and loss account and the result on an unmodified historical cost basis.

Consolidated Balance Sheet
as at 31 December 2004

	Note	31 December 2004 £m	26 December 2003 £m
Fixed assets			
Intangible assets	9	**105.4**	106.5
Tangible assets	10	**89.3**	86.2
Investments	11	**1.0**	1.0
		195.7	193.7
Current assets			
Stocks	12	**3.4**	3.1
Debtors – amounts falling due within one year	13	**19.7**	20.8
– amounts falling after more than one year	13	**8.8**	11.1
Cash at bank and in hand	see (a) below	**24.9**	41.9
Total current assets		**56.8**	76.9
Creditors: amounts falling due within one year	15	**(22.5)**	(47.1)
Net current assets		**34.3**	29.8
Total assets less current liabilities		**230.0**	223.5
Creditors: amounts falling due after more than one year	16	**(188.3)**	(293.1)
Provisions for liabilities and charges	18	**(10.0)**	(10.0)
Net assets/(liabilities)	2	**31.7**	(79.6)
Capital and reserves			
Called up share capital	20	**5.6**	2.0
Share premium account	21	**111.6**	–
Other reserves	21	**(12.1)**	(12.3)
Profit and loss account	21	**(72.2)**	(68.1)
Equity shareholders' funds	21	**32.9**	(78.4)
Equity minority interest		**(1.2)**	(1.2)
Capital employed		**31.7**	(79.6)

(a) Certain cash balances are subject to restrictions. See note 14.

The financial statements on pages 30 to 63 were approved by the Board of Directors on 4 April 2005 and were signed on its behalf by:

Peter Hindley

P T Hindley
Chief Executive

M K McCollum
Finance Director

Company Balance Sheet
as at 31 December 2004

	Note	31 December 2004 £m	26 December 2003 £m
Fixed assets			
Investments	11	**130.3**	14.3
Current assets			
Debtors – amounts falling due within one year	13	**5.3**	–
– amounts falling after more than one year	13	**0.1**	–
Cash at bank and in hand	See (a) below	**4.1**	12.7
Total current assets		**9.5**	12.7
Creditors: amounts falling due within one year	15	**(16.7)**	(25.4)
Net current liabilities		**(7.2)**	(12.7)
Net assets		**123.1**	1.6
Capital and reserves			
Called up share capital	20	**5.6**	2.0
Share premium account	21	**111.6**	–
Other reserves	21	**0.2**	–
Profit and loss account	21	**5.7**	(0.4)
Equity shareholders' funds	22	**123.1**	1.6

(a) Certain cash balances were subject to restrictions. See note 14.

The financial statements on pages 30 to 63 were approved by the Board of Directors on 4 April 2005 and were signed on its behalf by:

Peter Hindley.

P T Hindley
Chief Executive

M K McCollum
Finance Director

Consolidated Cash Flow Statement

for the 53 week period ended 31 December 2004

	Note	53 week period ended 31 December 2004 £m	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m	52 week period ended 26 December 2003 £m
Net cash inflow from operating activities	25		**44.1**		41.9
Returns on investments and servicing of finance	26		**(37.8)**		(16.3)
Taxation			**(0.1)**		–
Purchase of tangible fixed assets		**(10.5)**		(7.3)	
Sale of fixed assets		**2.3**		1.5	
Transfers from/(to) restricted bank accounts	14	**18.3**		(7.3)	
Construction bond	26	**2.0**		(2.0)	
Capital expenditure and financial investments			**12.1**		(15.1)
Acquisitions and disposals	26		**(5.3)**		(7.7)
Equity dividends paid			**(1.5)**		–
Cash inflow before use of liquid resources and financing			**11.5**		2.8
Management of liquid resources	14, 26		**(5.3)**		–
Financing – issue of shares	26	**115.2**		–	
– decrease in debt	26	**(125.4)**		(0.9)	
			(10.2)		(0.9)
(Decrease)/increase in cash in the period	27		**(4.0)**		1.9

Reconciliation of Cash Flow Statement to Movement in Net Debt

	Note	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
(Decrease)/increase in cash in the period	27	**(4.0)**	1.9
Cash outflow from increase in liquid resources	27	**5.3**	–
Cash outflows from decrease in debt	27	**125.5**	7.2
Change in net debt resulting from cash flows		**126.8**	9.1
Other non-cash changes	27	**(7.0)**	(5.8)
Movement in net debt in the period		**119.8**	3.3
Net debt at beginning of period		**(284.4)**	(287.7)
Net debt at end of period		**(164.6)**	(284.4)

Notes to the Financial Statements

for the 53 week period ended 31 December 2004

1 Principal accounting policies

Basis of preparation and consolidation

These financial statements are prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards. A summary of the principal accounting policies, which have been consistently applied, is set out below.

The consolidated financial statements include the financial statements of the Company and all its subsidiaries ('the Group'). In accordance with the concession granted under section 230 of the Companies Act 1985, the profit and loss account of the Company has not been separately presented in the financial statements.

In the current period, both the Group's and the Company's financial statements have been prepared for the 53 week period ended 31 December 2004. For the comparative period, the Company's financial statements have been prepared for the period 20 October 2002 to 26 December 2003 (the 'period'), whilst the Group's financial statements have been prepared for the 52 week period 28 December 2002 to 26 December 2003.

Merger accounting

The Group undertook a reorganisation on 20 December 2002, during which the ownership remained effectively unchanged. For this reorganisation, merger accounting principles have been followed in the preparation of the consolidated financial statements.

Under FRS 6, 'Acquisitions and Mergers', merger accounting is permitted to be adopted in the case of a group reconstruction as long as certain conditions are met. These include the condition that merger accounting is not prohibited by the Companies Act 1985. One of the requirements for merger accounting under the Companies Act is that the fair value of any consideration other than the issue of equity shares given pursuant to the arrangement does not exceed 10 per cent of the nominal value of the equity shares issued.

In the reorganisation that occurred in December 2002, the consideration in the form of loan notes exceeded 10 per cent of the nominal amount of the equity share consideration issued. In all other respects, the reorganisation satisfied the requirements for merger accounting as a group reconstruction under FRS 6. The Directors have considered that to account for this Group reorganisation as an acquisition, attributing fair values to the assets and liabilities of the companies concerned, would fail to give a true and fair view of the Group's combined results and financial position.

Accordingly, having regard to the overriding requirement of FRS 18, 'Accounting Policies' for consolidated financial information to give a true and fair view of the Group's results and financial position, the Directors have adopted merger accounting principles in drawing up the consolidated financial statements.

If acquisition accounting had been used to reflect the Group reorganisation, the fair value of the assets acquired and liabilities assumed would have been reflected giving rise to additional goodwill within the Group's financial statements as at 31 December 2004 of £69.2 million (2003: £73.0 million) and additional goodwill amortisation in the period ended 31 December 2004 of £3.8 million (2003: £3.8 million).

Turnover

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

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

The accounting policies for recognising turnover for pre-arranged funeral plans, cremation certificates, and for commissions for insurance plans sold are stated below.

All amounts are exclusive of Value Added Tax.

Pre-arranged funeral plans

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

Turnover (continued)

Pre-arranged funeral plans (continued)

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

- A marketing and administration fee in respect of each plan sold. The marketing element is refundable in the event that the plan is subsequently cancelled. A provision is made for cancellations, where material, to cover the estimated marketing element refundable to the Trusts. Marketing and administration fees are included in turnover when the related plan is sold.

- Further contributions are also received from the Trusts in return for the provision of general ongoing administrative services supplied to the Trusts. These contributions are included in turnover for the period to which they relate.

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

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

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

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

Cremation certificates

The Group allows clients to purchase their cremation at any crematorium owned by the Group in advance of the time of need. On receipt of funds from the client a liability is recognised on the balance sheet. All revenues are recognised as turnover upon performance.

Insurance plans

Sun Life

The Group is the named beneficiary on a number of life assurance products sold by Sun Life Assurance Society plc ('Sun Life'). Marketing of these policies has now ceased.

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

AXA Sun Life PLC

The Group is the named beneficiary on a number of life assurance products sold by AXA Sun Life PLC ('AXA').

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

Pre-arranged funeral plan trusts

The three pre-arranged funeral plan Trusts were not consolidated during the period ended 31 December 2004 as they were not controlled by the Group. Specifically, the Group did not direct their financial and operating policies, nor did it have substantially all of the risks and rewards of their ownership.

Repairs and renewals

All repairs and renewals are charged to the profit and loss account, unless they represent an enhancement to the original asset.

1 Principal accounting policies (continued)

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

Amortisation of goodwill is provided from the date of acquisition so as to write-off the asset, on a straight-line basis over the term of their useful life. The directors have assessed the useful economic life of the Group's goodwill as being 20 years.

Tangible fixed assets and depreciation
Tangible fixed assets are stated at historical cost less depreciation and any provisions for impairments.

Depreciation of tangible fixed assets is provided from the date of acquisition so as to write-off assets on a straight-line basis over the term of their useful lives. The bases and annual depreciation rates in use for the various classes of assets are as follows:

Freehold and long leasehold premises	2% on cost of buildings element
Short leasehold premises	Over term of lease
Motor vehicles	11% - 20% on cost
Computers	20% on cost
Other plant and equipment	5% - 33% on cost
Fixtures and fittings	15% on cost

Land is not depreciated on the basis that land has an unlimited life. Where the historical cost of land and buildings cannot be split, the directors have estimated the historical cost attributable to land.

The Group's cremators, which are included within 'other plant and equipment', are recognised as having two components, with different depreciation rates being used for each component, as permitted by FRS 15. This is because elements of this equipment require regular major capital maintenance expenditure in order to continue in use. This component is depreciated at 33 per cent per annum on a straight line basis compared to 5 per cent per annum for the other.

Assets in the course of construction are included within plant and equipment. When these assets are subsequently brought into use they are recognised as reclassifications within the relevant asset category. No depreciation is charged on these assets until they are brought into use.

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

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

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

Pension costs
For defined benefit schemes, contributions are charged to the profit and loss account so as to spread the expected cost of providing pensions over the average service lives of employees in accordance with the advice of independent qualified actuaries. Actuarial surpluses and deficits are spread forward over the average remaining service lives of employees.

For defined contribution schemes, the pension cost charge is the amount of contributions payable in the period.

The Group operates two principal schemes:

a) Dignity 1972 Pension Schemes, which includes a Retirement and Death Benefit Scheme and an Executive Pension Scheme. In each case, the scheme funds are administered by trustees and the assets of the pension schemes are separate from the Group's assets.

Pension costs (continued)
The Retirement and Death Benefit Scheme is a defined benefit pension scheme. The Group contributes to pension funds an amount equal to the regular cost of pensions as calculated by a qualified independent actuary based on a constant percentage of current and expected pensionable payroll. The regular pension costs so calculated are charged to the profit and loss account.

Triennial valuations of the Retirement and Death Benefit Scheme are performed by the independent actuary using the attained age method.

The Executive Pension Scheme is a defined contribution scheme.

b) Dignity Pension and Assurance Scheme

The Group operates a contributory defined benefit pension scheme covering the majority of its permanent employees. The scheme funds are administered by trustees and its assets are separate from the Group's assets.

The Group contributes to pension funds an amount equal to the regular cost of pensions as calculated by a qualified independent actuary based on a constant percentage of current and expected pensionable payroll. The regular pension costs so calculated are charged to the profit and loss account.

Triennial valuations of the Dignity Pension and Assurance Scheme are performed by the independent actuary using the projected unit credit method.

The Accounting Standards Board issued FRS 17, 'Retirement Benefits' in 2000. FRS 17 allows for a phased implementation period. The Group has implemented the requirements of the transitional rules of FRS 17, which are additional disclosures over and above those already required by SSAP 24, 'Accounting for Pension Costs'.

Employee share schemes
The Group operates two employee share schemes: The Sharesave Scheme and Long Term Incentive Plan ('LTIP').

The Sharesave Scheme is an Inland Revenue approved SAYE scheme and accordingly, the Group has taken advantage of the dispensation in the Urgent Issues Task Force's Abstract 17 'Employee Share Schemes' not to apply that Abstract to the Group's Inland Revenue approved SAYE schemes.

The expected fair value of the share options awarded under the LTIP scheme are charged to the profit and loss account over the period in which the right to options is earned. The fair value is calculated by reference to the market value of the shares at the date on which the options are awarded reduced by any consideration payable by the relevant employee.

Taxation including deferred taxation
Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, except that deferred tax assets are only recognised to the extent that they are regarded as more likely than not to be recoverable. Deferred tax balances are not discounted.

No deferred taxation is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

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

Provisions (other than deferred tax) are discounted where the present value of the provision is materially different to the undiscounted value. The unwinding of discounts is included within net interest payable and similar charges.

Hire purchase contracts, finance leases and operating leases
Assets acquired under hire purchase agreements and finance leases are capitalised at cost and depreciated over the shorter of the term of the lease and the useful life underlying the depreciation rates set out above. The capital element of future rentals is included under creditors. Interest is charged to the profit and loss account over the period of the lease.

Rental costs of operating leases are charged to the profit and loss account in the period to which they relate.

Foreign currency
Assets and liabilities denominated in foreign currencies are translated into Sterling at the closing rate and the exchange differences are included in the profit and loss account. Profit and loss account transactions in foreign currencies are translated into Sterling at the exchange rate on the date the transaction took place.

Notes to the Financial Statements
for the 53 week period ended 31 December 2004 continued

1 Principal accounting policies (continued)

Financial instruments

Debt finance

All borrowings are stated at the fair value of consideration received after deduction of issue costs. The issue costs and interest payable on debt finance are charged to the profit and loss account, as finance costs, on a constant-yield basis over the term of the borrowings, or over a shorter period where it is more likely than not that the lender will require earlier repayment.

Early termination costs

Premiums and discounts arising on the early repayment of borrowings are written-off to the profit and loss account as incurred.

Interest rate swaps

The Group currently uses several types of financial instruments as part of an overall interest rate risk management strategy. It does not enter into financial instruments for trading purposes. Interest rate risk associated with net debt is managed by using a combination of fixed and floating rate borrowings and financial derivatives such as interest rate swaps. Interest differentials under interest rate swaps are recognised by adjustments of the underlying interest payable over the term of the agreement and are charged to the profit and loss account over the term of the instrument. The cash flows from, and losses arising on terminations of, these contracts are recognised as returns on investments and servicing of finance.

2 Turnover, segmental and geographical information

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Turnover		
Funeral services	**108.8**	103.1
Crematoria	**21.6**	20.1
Pre-arranged funeral plans	**5.3**	5.8
	135.7	129.0

	As at 31 December 2004 £m	As at 26 December 2003 £m
Net assets		
Funeral services	**62.9**	60.1
Crematoria	**26.3**	26.8
Pre-arranged funeral plans	**1.3**	0.9
Head office	**1.7**	1.6
Net operating assets	**92.2**	89.4
Goodwill	**105.4**	106.5
Debt, tax and other non-operating assets/(liabilities)	**(165.9)**	(275.5)
	31.7	(79.6)

Other non-operating assets comprises investments and cash.

Profit/(loss) before taxation

	Before exceptional items & goodwill amortisation £m	Exceptional items: Administrative income (note 6) £m	Exceptional items: Other operating income (note 6) £m	Total £m
53 week period ended 31 December 2004				
Funeral services	**33.7**	**0.8**	**–**	**34.5**
Crematoria	**11.5**	**0.4**	**–**	**11.9**
Pre-arranged funeral plans	**1.3**	**–**	**1.2**	**2.5**
Head office	**(9.1)**	**–**	**–**	**(9.1)**
Operating profit before goodwill amortisation	**37.4**	**1.2**	**1.2**	**39.8**
Goodwill amortisation				**(5.9)**
Operating profit				**33.9**
Net interest payable and similar charges				**(30.8)**
Profit on ordinary activities before tax				**3.1**

2 Turnover, segmental and geographical information (continued)

Profit/(loss) before taxation (continued)

	Before exceptional items & goodwill amortisation £m	Exceptional items: Administrative income/ (expenses) (note 6) £m	Exceptional items: Other operating income (note 6) £m	Total £m
52 week period ended 26 December 2003				
Funeral services	30.0	0.5	–	30.5
Crematoria	9.1	(0.3)	–	8.8
Pre-arranged funeral plans	1.1	–	1.0	2.1
Head office	(8.2)	(0.4)	–	(8.6)
Operating profit/(loss) before goodwill amortisation	32.0	(0.2)	1.0	32.8
Goodwill amortisation				(5.6)
Operating profit				27.2
Net interest payable and similar charges				(30.7)
Loss on ordinary activities before tax				(3.5)

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 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 turnover 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.

Operating profit for the funeral services division was £30.4 million (2003: £26.7 million). Operating profit for the crematoria division was £10.4 million (2003: £7.2 million). Operating profit for the pre-arranged funeral plans division was £2.2 million (2003: £1.9 million). Operating loss for the head office division was £9.1 million (2003: £8.6 million).

3 Dividends

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Equity – Ordinary		
Interim paid: 1.875 pence (2003: nil) per 7 pence share	**1.5**	–
Final proposed: 3.75 pence (2003: nil) per 7 pence share	**3.0**	–
	4.5	–

4 Earnings/(loss) per share

The calculation of basic earnings/(loss) per Ordinary Share has been based on the profit/(loss) for the relevant period. The potential issue of new shares pursuant to the Group's share option plans in the period would affect the earnings per share by less than 0.1 pence per share if exercised.

On 31 March 2004, prior to admission to the Official List of the London Stock Exchange, the Company undertook a restructuring of its existing share capital, as described in note 20.

The weighted average number of shares used for the current period is based on 26,521,740 shares prior to admission and 80,000,000 shares in issue after admission. The weighted average number of shares used for the comparative period is 26,521,740.

4 Earnings/(loss) per share (continued)

	Earnings/(loss) £m	Weighted average number of shares millions	Per share amount pence
53 week period ended 31 December 2004	**0.4**	**65.0**	**0.6**
52 week period ended 26 December 2003	(3.5)	26.5	(13.2)

5 Staff costs

(a) Employees

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Wages and salaries	**43.0**	40.8
Social security costs	**3.7**	3.5
Other pension costs (note 23)	**1.0**	1.4
	47.7	45.7

The monthly average number of people (including Directors) employed by the Group during the period was as follows:

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Management and administration	**116**	116
Funeral services staff	**1,879**	1,866
Crematoria staff	**222**	220
Pre-arranged funeral plan staff	**27**	27
	2,244	2,229

(b) Directors' emoluments

Details of Directors' emoluments are disclosed in the Report of the Remuneration Committee on pages 19 to 23.

6 Profit/(loss) on ordinary activities before tax

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
The profit/(loss) on ordinary activities before tax is stated after charging/(crediting):		
Depreciation		
– Owned assets	**7.2**	7.8
Amortisation of goodwill	**5.9**	5.6
Exceptional items (credited)/charged to administrative expenses (see below)	**(1.2)**	0.2
Exceptional items credited to other operating income (see below)	**(1.2)**	(1.0)
Auditors' remuneration including expenses		
– Audit	**0.2**	0.2
– Other services to the Group	**0.1**	0.1
Operating lease rentals:		
– Other (property)	**4.2**	4.1

Auditors' remuneration including expenses

Included in the analysis above are audit fees and expenses of £25,000 (2003: £5,000) paid to the Group's auditor in respect of the Company.

During the period, the Group paid the auditor £1.2 million in connection with the issue of the Company's shares on the London Stock Exchange. In accordance with FRS 4, 'Capital instruments', these costs have been charged against the share premium account.

During 2003, the Group paid the auditor £0.7 million in respect of the refinancing on 20 December 2002 and subsequent whole business securitisation in April 2003. These costs were deferred and are being amortised over the period of the loans to which they relate.

Other services to the Group principally relate to tax compliance and consulting.

6 Profit/(loss) on ordinary activities before tax (continued)

Exceptional items

All exceptional items relate to continuing activities, details of which are set out below:

Charged/(credited) to administrative expenses	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Expenses relating to refinancing	–	0.5
Profit on sale of fixed assets	(1.2)	(0.3)
Net exceptional (credit)/charge	(1.2)	0.2
Credited to other operating income		
Recoveries (see note 1)	(1.2)	(1.0)

On 16 February 2004, the managing trustees of the National Funeral Trust approved the payment to the Group of £0.8 million in respect of Recoveries and on the same day, the managing trustees of the Dignity Limited Trust Fund approved the payment to the Group of £0.4 million in respect of Recoveries. In accordance with the Group's accounting polices, these Recoveries have been recognised as other operating income in 2004.

On 11 December 2003 the Trustees of the Trust for Age Concern Funeral Plans approved the payment of £1.0 million actuarial surplus to the Group.

The Group incurred exceptional costs of £0.5 million in 2003 following the refinancing of its debt during the period.

7 Net interest payable

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Interest payable and similar charges		
Bank loans settled 11 April 2003	–	4.2
Mezzanine Loan	2.1	7.2
Class A and B secured notes	15.1	10.6
Loan Notes	2.6	7.7
Other loans	0.1	0.1
Amortisation of issue costs	1.6	1.4
Unwinding of discount	0.7	0.5
Interest payable and similar charges before exceptional items	22.2	31.7
Exceptional interest payable and similar charges		
Premium on early redemption of Mezzanine Loan	4.0	–
Write-off deferred debt issue costs	6.1	–
Exceptional interest payable and similar charges	10.1	–
Total interest payable and similar charges	32.3	31.7
Interest receivable and similar income		
Bank deposits	(1.3)	(0.9)
Debenture loan (see note 11)	(0.2)	(0.1)
Interest receivable and similar income	(1.5)	(1.0)
Net interest payable and similar charges	30.8	30.7

Following flotation, the Group redeemed the £40.0 million Mezzanine Loan and £57.0 million of the £63.0 million principal of the Loan Notes 2013, incurring an early redemption penalty of £4.0 million and writing-off £6.1 million of deferred issue costs. The remaining £6.0 million principal of the Loan Notes 2013 were redeemed on 30 July 2004. Further details are set out in the Financial Review on page 14.

Notes to the Financial Statements
for the 53 week period ended 31 December 2004 continued

8 Tax on profit/(loss) on ordinary activities

(a) Analysis of tax charge/(credit) in the period

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
The taxation charge for the period comprises:		
Current tax: current year provision	**0.2**	–
Current tax: release of prior period provisions	**–**	(0.2)
	0.2	(0.2)
Deferred tax: origination and reversal of timing differences	**3.1**	1.1
Deferred tax: adjustment relating to prior periods	**(0.6)**	(1.2)
Tax charge/(credit) on profit/(loss) on ordinary activities	**2.7**	(0.3)

(b) Factors affecting tax charge for the period
The current tax charge/(credit) for the period is lower than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Profit/(loss) on ordinary activities before tax	**3.1**	(3.5)
Profit/(loss) on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 30%	**0.9**	(1.1)
Effects of:		
Adjustment in respect of prior periods	**–**	(0.2)
Timing differences	**(3.1)**	(1.1)
Expenses not deductible for tax purposes	**2.4**	2.2
Current tax charge/(credit) for the period (note 8(a))	**0.2**	(0.2)

The items not deductible for tax purposes relate primarily to goodwill amortisation of £5.9 million (2003: £5.6 million).

(c) Factors that may affect future tax charges
Based on current debt and prevailing interest rates, the Group expects to be able to utilise the excess capital allowances against taxable profits in future periods.

9 Intangible fixed assets

Group	**Goodwill £m**
Cost	
At beginning of period	117.0
Fair value adjustment (note 28(a))	0.2
Additions (note 28(b))	4.6
At end of period	**121.8**
Accumulated amortisation	
At beginning of period	10.5
Charge for the period	5.9
At end of period	**16.4**
Net book amount	
At end of period	**105.4**
At beginning of period	106.5

10 Tangible fixed assets

Group	Freehold land & buildings £m	Leasehold land & buildings £m	Plant, machinery, fixtures & fittings £m	Motor vehicles £m	Total £m
Cost					
At beginning of period	47.3	14.8	19.8	19.2	101.1
On acquisition of funeral businesses (see note 28(b))	0.5	–	–	0.4	0.9
Fair value adjustments (see note 28(a))	–	–	–	(0.1)	(0.1)
Additions	0.1	2.8	1.5	6.1	10.5
Disposals	(0.3)	(0.3)	(0.1)	(1.0)	(1.7)
Reclassification	2.0	0.4	(2.4)	–	–
At end of period	**49.6**	**17.7**	**18.8**	**24.6**	**110.7**
Accumulated depreciation					
At beginning of period	1.4	1.5	6.5	5.5	14.9
Charge for the period	1.1	0.5	2.4	3.2	7.2
Disposals	–	(0.1)	(0.1)	(0.5)	(0.7)
At end of period	**2.5**	**1.9**	**8.8**	**8.2**	**21.4**
Net book amount					
At end of period	**47.1**	**15.8**	**10.0**	**16.4**	**89.3**
At beginning of period	45.9	13.3	13.3	13.7	86.2

Leasehold property is further analysed as follows:

Group	Long leasehold property £m	Short leasehold property £m	Total £m
Cost			
At beginning of period	9.1	5.7	14.8
Additions	2.7	0.1	2.8
Disposals	(0.1)	(0.2)	(0.3)
Reclassification	0.1	0.3	0.4
At end of period	**11.8**	**5.9**	**17.7**
Accumulated depreciation			
At beginning of period	0.3	1.2	1.5
Charge for the period	0.1	0.4	0.5
Disposals	–	(0.1)	(0.1)
At end of period	**0.4**	**1.5**	**1.9**
Net book amount			
At end of period	**11.4**	**4.4**	**15.8**
At beginning of period	8.8	4.5	13.3

Capital commitments

	Group 2004 £m	Group 2003 £m
Capital expenditure authorised by the Board and contracted for	**3.9**	0.5

The Company has no capital commitments or tangible fixed assets.

11 Investments

(a) Group

	Equity £m	Debenture loans £m	Total £m
Cost and net book amount			
At beginning and end of period	**–**	**1.0**	**1.0**

The Group's investment represents its 33 per cent equity holding and a £1.0 million debenture loan in Kenyon Christopher Henley Limited ('KCH'), a company incorporated in the United Kingdom.

The Directors believe it is appropriate to account for this as a trade investment because the Group does not exercise significant influence over the operating and financial policies of KCH. All transactions with KCH are at market value on an arms length basis. The debenture loan to KCH is secured on the assets of that business, earns interest at 15 per cent per annum and is repayable in 2022.

The aggregate capital and reserves of KCH disclosed in its latest financial statements (which were made up to 31 March 2004) was £7,774 (2003: £808). The profit on ordinary activities after taxation disclosed in the same financial statements was £6,966 (2003: £708).

(b) Company

Investments in subsidiary undertakings

Cost and net book amount	Total £m
At beginning of period	14.3
Additions in period	116.0
At end of period	**130.3**

On 19 March 2004, the Company acquired the entire issued share capital of Dignity (2004) Limited (formerly known as Broomco (3369) Limited) for £1.

Following this transaction, the Company, Dignity (2004) Limited, and Dignity Mezzco Limited entered into a tri-partite agreement, such that Dignity (2004) Limited acquired the entire issued share capital of Dignity (2002) Limited for consideration of £116.0 million, being the market value of Dignity (2002) Limited and its subsidiaries at that time, and the Company assumed the debt due to Dignity Mezzco Limited in consideration for Dignity (2004) Limited issuing 998 Ordinary £1 Shares to the Company.

Following the above, the Company transferred its investment in Dignity Holdings No. 2 Limited of £14.3 million to Dignity (2004) Limited in exchange for one Ordinary £1 Share in Dignity (2004) Limited.

11 Investments (continued)

The trading entities included within the financial information are:

	Activity	Number of shares at 31 December 2004	Percentage held
Dignity Services	Intermediate holding company	203,746,505 Ordinary at £1 each	100
Dignity Funerals Limited	Funeral services	577,376,905 Ordinary at 10 pence each	100
Pitcher & Le Quesne Limited	Funeral directors	100 Ordinary at £1 each	99
Dignity Pre-Arrangement Limited	Pre-need funeral plans	5,001,001 Ordinary at £1 each	100
Dignity Securities Limited	Pre-need funeral plans	19,801 Ordinary at £1 each	100
		750,000 Redeemable Preference at £1 each	100
Advance Planning Limited	Pre-need funeral plans	7,500 'A' Ordinary at £1 each	100
		2,500 'B' Ordinary at £1 each	Nil
		6,946,291 0.0000001 pence Redeemable Preference at £1 each	100
Dignity Finance PLC	Finance company	50,000 Ordinary at £1 each	100 (see below)
Birkbeck Securities Limited	Intermediate holding company	1,102,271 Ordinary at £1 each	100
Dignity Finance Holdings Limited	Intermediate holding company	50,000 Ordinary at £1 each	100
Dignity Holdings No. 2 Limited	Intermediate holding company	2,000,000 Ordinary at £1 each	100
Dignity Mezzco Limited	Intermediate holding company	1,000 Ordinary at £1 each	100
Dignity Holdings Limited	Intermediate holding company	1,500,000 Ordinary at £1 each	100
Dignity (2002) Limited	Intermediate holding company	2 Ordinary at £1 each	100
Dignity (2004) Limited	Intermediate holding company	1,000 Ordinary at £1 each	100

All of the subsidiaries are incorporated in the United Kingdom except for Pitcher & Le Quesne Limited which is incorporated in Jersey and is effectively 100 per cent controlled.

All of the above shareholdings are held indirectly, with the exception of Dignity (2004) Limited.

M K McCollum, a Director of the Company holds (as nominee for Dignity Finance Holdings Limited) one Ordinary £1 Share in Dignity Finance PLC.

12 Stocks

	Group 2004 £m	Group 2003 £m
Funeral supplies	**2.1**	1.9
Monumental masonry	**1.3**	1.2
	3.4	3.1

13 Debtors

	Company		Group	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Amounts falling due within one year:				
Trade debtors	**–**	–	**13.9**	14.7
Trust expenses	**–**	–	**2.4**	2.2
Other debtors	**–**	–	**0.6**	2.2
Prepayments	**–**	–	**2.8**	1.7
Dividends due from subsidiary	**5.3**	–	**–**	–
	5.3	–	**19.7**	20.8
Amounts falling due after more than one year:				
Trust expenses	**–**	–	**0.1**	0.3
Other debtors	**–**	–	**0.4**	0.4
Net deferred tax asset (see note 13(a))	**0.1**	–	**7.1**	9.7
Pensions prepayment (see note 23)	**–**	–	**0.8**	0.2
Deferred expenses	**–**	–	**0.4**	0.5
	0.1	–	**8.8**	11.1

(a) Deferred taxation

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

	2004 £m	2003 £m
Asset at beginning of period	**9.7**	9.6
Arising on acquisition	**(0.1)**	–
(Charge)/credit to profit and loss account (note 8)	**(2.5)**	0.1
Asset at end of period	**7.1**	9.7

The major components of the deferred tax asset and the amounts not recognised are as follows:

	Asset not recognised		Asset/(liability) recognised	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Disclaimed capital allowances	**–**	–	**6.1**	9.5
Other timing differences	**–**	–	**(0.1)**	–
Taxation losses	**4.4**	4.4	**1.1**	0.2
	4.4	4.4	**7.1**	9.7

Based on the forecast trading performance of the Group, the debt structure and prevailing interest rates, the Directors expect to be able to utilise the disclaimed capital allowances against taxable profits in future years.

No deferred tax asset is recognised in respect of certain tax losses within the Group. Based on the current debt structure of the Group and the nature of these losses, the Directors do not consider that taxable profits will arise in the relevant company from which the future reversal of the underlying timing differences can be deducted.

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

The Company's deferred tax asset of £0.1 million (2003: £nil million) relates to charges in respect of the LTIP.

14 Cash at bank and in hand

	Note	Company 2004 £m	Company 2003 £m	Group 2004 £m	Group 2003 £m
Cash at bank and in hand		**4.1**	12.7	**24.9**	41.9
Represented by:					
Operating cash		**4.1**	–	**12.4**	4.3
Cash for acquisitions	(a)	**–**	–	**7.2**	10.4
Amounts set aside for Mezzanine Loan	(b)	**–**	–	**–**	5.8
Cash collateralised for Loan Notes 2012	(c)	**–**	12.7	**–**	12.7
Amounts set aside for intercompany loan	(d)	**–**	–	**5.3**	–
Amounts set aside for Class A and B secured notes	(e)	**–**	–	**–**	8.7
		4.1	12.7	**24.9**	41.9

(a) Under the terms of the Group's secured borrowings, this amount is required to be retained in a separate account. This account may, in normal circumstances, only be used for acquiring tangible fixed assets and businesses (either trade and assets or share purchases). Included in this amount is £1.2 million (2003: £1.0 million) relating to Recoveries, which may not be used for one year following receipt and hence does not meet the definition of cash in FRS 1, 'Cash Flow Statements'.
(b) This amount (save for circumstances where the Directors believed there may have been a risk of defaulting on the secured notes) could only be used in paying the interest and principal due on the Mezzanine Loan. This amount did not meet the definition of cash in FRS 1.
(c) This amount was subject to a charge in favour of the Loan Notes 2012. This amount did not meet the definition of cash in FRS 1.
(d) This amount (save for circumstances where the Directors believe there may be a risk of defaulting on the secured notes) may only be used in paying the interest and principal due on a loan between Dignity (2002) Limited and Dignity Mezzco Limited, both of whom are wholly owned subsidiaries of Dignity plc.
(e) This amount was required under the terms of the Group's secured borrowings to be used to pay interest and principal on 31 December 2004 and 31 December 2003 respectively.

Movements in the amounts described in note (a) as Recoveries, together with the amounts described in notes (b) and (c), have been treated as 'transfers from/(to) restricted bank accounts' in the cash flow statement and are reported within 'capital expenditure and financial investment' as they do not meet the definition of cash in FRS1.

Movements in the amounts described in note (d) have been treated as 'management of liquid resources' in the cash flow statement as they do meet the definition of cash in FRS1, but will become available for the Group's use once the intercompany payment has been made.

15 Creditors: amounts falling due within one year

	Note	Company 2004 £m	Company 2003 £m	Group 2004 £m	Group 2003 £m
Class A secured notes	16(a)	**–**	–	**1.7**	2.7
Floating Rate Unsecured Loan Notes 2006	15(a)	**–**	–	**0.1**	0.1
Loan Notes 2012	15(b)	**–**	12.7	**–**	12.7
Trade creditors		**–**	–	**6.2**	6.3
Amounts due to subsidiary undertakings		**13.5**	12.6	**–**	–
Current tax		**–**	–	**0.1**	–
Social security and other taxes		**–**	–	**1.4**	1.9
Accruals and deferred income		**0.2**	0.1	**10.0**	23.4
Dividends payable		**3.0**	–	**3.0**	–
		16.7	25.4	**22.5**	47.1

(a) Floating Rate Unsecured Loan Notes 2006

£1 par value loan notes to the value of £371,950 were issued on 30 August 1995 as part consideration for the purchase of a funeral business. The notes are unlisted and unsecured. Interest is payable in arrears on 31 January, 30 April, 31 July and 30 October each year. The rate payable is one per cent below the offered rate for six month Sterling deposits of £1.0 million with a minimum level of six per cent per annum. Repayment of the loan notes may be made on any date by the holder giving not less than thirty days notice in writing. Any notes not previously repaid or repurchased will be repayable in full at par on 31 October 2006, together with accrued interest. At 31 December 2004, £0.1 million (2003: £0.1 million) of the loan notes were in issue.

15 Creditors: amounts falling due within one year (continued)

(b) Loan Notes 2012

On 20 December 2002, the Company issued £12,274,001 of £1 par value loan notes as part of the consideration paid to C and D ordinary shareholders in Dignity Holdings No. 2 Limited.

These notes were cash collateralised with all interest accruing on the bank account being due to the note holders. The bank account earned interest at 0.25 per cent below the Bank of England base rate. Interest accruing from 20 December 2002 until 31 August 2003 was capitalised under the terms of the loan note instrument. Interest accruing thereafter was payable on 28 February and 31 August.

Although the notes had a maturity date of 2012, they were redeemable on seven days notice by the note holder at any date after 28 February 2004 and were therefore classified as due within one year.

There were no costs associated with the issue of these notes.

All of these notes were repaid during the period.

16 Creditors: amounts falling due after one year

		Group	
	Note	**2004 £m**	2003 £m
Class A and B secured notes	(a)	**186.5**	188.9
Mezzanine Loan	(b)	**–**	40.3
Loan Notes 2013	(c)	**–**	62.1
Taxation		**0.1**	–
Other creditors		**0.4**	0.5
Other deferred income		**1.3**	1.3
		188.3	293.1

(a) Class A and B secured notes

On 11 April 2003, Dignity Finance PLC issued £110.0 million Class A secured notes (the 'A notes') and £100.0 million Class B secured notes (the 'B notes').

The A notes carry interest at 6.31 per cent, payable half yearly in arrears. The A notes are repayable in instalments ending in December 2023. The issue costs of the A notes total £9.8 million (2003: £9.4 million). The B notes carry interest at 8.151 per cent, payable half yearly in arrears. The B notes are repayable in instalments ending in December 2030. The issue costs of the B notes total £8.9 million (2003: £8.5 million). The additional costs in the period primarily relate to the recalculation of the Swap provision as detailed in note 18(e).

In order to show the Group's net borrowing, the notes and the issue costs have been offset.

Both the A notes and the B notes are secured by first ranking security in respect of the undertakings and assets of Dignity (2002) Limited and its subsidiaries.

At 31 December 2004 £105.3 million (2003: £108.9 million) of the principal of the A notes and £100.0 million (2003: £100.0 million) of the principal of the B notes was outstanding.

At 31 December 2004, £8.9 million (2003: £9.0 million) and £8.2 million (2003: £8.3 million) of the issue costs in respect of the A notes and the B notes respectively remained unamortised.

(b) Mezzanine Loan

On 20 December 2002, Dignity Mezzco Limited borrowed £40.0 million from JP Morgan Chase Bank. Interest accrued at 14 per cent above LIBOR.

Issue costs of the loan totalled £1.9 million were amortised over the term of the loan. In order to show the Group's net borrowing the loan and the issue costs were offset. The loan matured in December 2007, with an option to extend the term for a further five years.

Immediately following flotation, the loan was repaid in full on 8 April 2004, incurring an early redemption penalty of £4.0 million. The remaining unamortised deferred issue costs £1.7 million were written-off and are reported as exceptional.

16 Creditors: amounts falling due after one year (continued)

(c) Loan Notes 2013
On 11 February 2002, Dignity Holdings Limited issued £63.0 million of £1 par value loan notes. Interest was payable at 12 per cent per annum on 30 June and 31 December of each year, although interest could have been added to the principal under certain conditions.

Issue costs of the loan notes totalled £5.9 million and were amortised over the term of the notes. In order to show the Group's net borrowings the loan notes and associated issue costs were offset.

Immediately following flotation, £57.0 million principal (plus capitalised interest) of the notes were repaid on 8 April 2004. In addition, £4.4 million of the remaining £4.8 million unamortised deferred issue costs were written-off and are reported as exceptional.

On 30 July 2004, the remaining £6.0 million principal (plus capitalised interest) of the notes were repaid in full.

17 Obligations under finance leases, hire purchase agreements and operating leases

Annual charges under non-cancellable operating leases to which the Group is committed at the period end:

	Land & buildings	
	2004 £m	2003 £m
On leases expiring:		
Within one year	**0.2**	0.3
Between one and two years	**0.5**	0.2
Between two and five years	**1.9**	1.9
After five years	**1.8**	1.7
	4.4	4.1

The Group had no other material obligations under operating leases.

The Group had no obligations under finance leases or hire purchase agreements at 31 December 2004 or 26 December 2003.

The Company has no commitments under any leases.

18 Provisions for liabilities and charges

	Group					
	Dilapidations (a) £m	Onerous contracts (b) £m	Cancellation provision (c) £m	Asbestos rectification (d) £m	Swaps (e) £m	Total £m
At beginning of period	1.1	1.8	0.6	–	6.5	10.0
Charged to profit and loss account	0.7	0.2	0.1	0.3	–	1.3
Capitalised as issue cost	–	–	–	–	0.8	0.8
Utilised in period	(0.6)	(0.4)	(0.2)	–	(1.0)	(2.2)
Unwinding of discount	0.1	0.1	–	–	0.5	0.7
Released to profit and loss account	(0.3)	(0.3)	–	–	–	(0.6)
At end of period	**1.0**	**1.4**	**0.5**	**0.3**	**6.8**	**10.0**

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

It is anticipated that the element of provision relating to dilapidation notices served (£0.4 million) (2003: £0.4 million) will be incurred in the following financial year, and the element relating to dilapidation obligations where no notice has been served will be utilised over the terms of the relevant properly leases, the majority of which is expected to be by 31 December 2014.

18 Provisions for liabilities and charges (continued)

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

Included within the provision is an amount of £0.1 million (2003: £0.1 million) relating to the expected costs of ongoing rent reviews, the outcomes of which have been based on recent experience of similar reviews on other properties.

(c) Cancellation provision
As described in note 1, the Group receives monies from certain pre-arranged funeral plan trusts in respect of the marketing of pre-arranged funeral plans, which are refundable to the trust in the event of cancellation. All amounts are charged or credited to turnover.

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

(d) Asbestos rectification
In May 2004, the Control of Asbestos at Work regulations came into effect. This introduces an explicit duty to manage asbestos in all non-domestic properties. Those who have responsibility for the maintenance and/or repair of the premises are similarly responsible for the control of asbestos. Therefore, where the Group has entered into leases with a 'tenant–repairing' clause it is also responsible for the control of asbestos.

The provision comprises the expected rectification costs of properties not yet surveyed for asbestos plus the anticipated costs of surveying the relevant properties. It is anticipated that the provision will be utilised over the next three years.

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

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

As a result of interest rate movements between these two dates, the combined effect of all the contracts was a net cost to the Group. Accordingly, as the overall transaction represents an onerous contract, the discounted value of the contracts has been fully provided for. Further, as these contracts related to the raising of the secured notes, the contract has been accounted for as an issue cost of the secured notes and is being amortised in accordance with FRS 4.

The discount rate applied to the payments due under the contracts was reassessed in the period due to the redemption of the Mezzanine Loan. As a result, a further £0.8 million has been provided for with a corresponding adjustment to deferred issue costs.

It is anticipated that the provision will be fully utilised by December 2028.

19 Financial instruments

Treasury policy
The Group finances its operations by a mixture of shareholders' funds, secured notes, bank borrowings, intercompany loans and loan notes as required. The Group manages its funding requirements by the careful selection of appropriate financing methods. This approach seeks to minimise financing costs.

The Group uses derivatives to generate the appropriate balance between fixed and floating interest rates. It is not the Group policy to actively trade in derivatives.

Interest rate risk
The Group's aim is to minimise the effects of interest rate fluctuations, however the Group does not have a definitive stance on the balance between fixed and floating rate debt. As set out below, 4 per cent (2003: 19 per cent) of the interest bearing financial instruments carried interest at a floating rate at the balance sheet date.

See note 18(e) for further details of the swap transactions entered into by the Group during the period.

19 Financial instruments (continued)

Liquidity risk
The Group's objective is to maintain a balance between certainty of funding and a flexible, cost-effective borrowings structure, and consequently seeks facilities that have, for the most part, a maturity of five years or longer.

Currency risk
All the Group's financial assets and liabilities are denominated in Sterling.

Credit risk
The Group uses well-established financial institutions with high credit ratings.

Short-term debtors and creditors
Short-term debtors and creditors have been excluded from the following disclosures.

Interest rate risk profile of financial liabilities
The interest rate risk profile of the Group's financial liabilities was as follows:

	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m
Financial liabilities at 31 December 2004	**197.7**	**8.5**	**188.3**	**0.9**
Financial liabilities at 26 December 2003	316.1	61.6	253.8	0.7

All of the Group's financial liabilities are denominated in Sterling.

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to the exclusion of short-term items or because they do not meet the definition of a financial liability, such as tax balances.

The Group considers the provision for onerous contracts (excluding rent reviews) to be a floating rate financial liability because, in calculating the provisions of £8.1 million (2003: £8.2 million), the cash flows have been discounted. The discount rate applied is regularly reassessed.

Interest rate composition of financial liabilities

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Sterling	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Financial liabilities at 31 December 2004	**7.2**	**22.4**	**3.1**
Financial liabilities at 26 December 2003	8.4	20.1	3.2

All of the Group's floating rate financial liabilities relate to amounts payable in the future that have been discounted at an appropriate rate.

The majority of the Group's floating rate financial liabilities relate to the provisions for onerous contracts. The discount rates applied to these provisions are based on rates that reflect the current market assessments adjusted for an appropriate risk premium.

19 Financial instruments (continued)

Interest rate risks of financial assets

	2004			2003		
	Cash at bank & in hand £m	Other £m	Total £m	Cash at bank & in hand £m	Other £m	Total £m
Floating rate	**24.9**	**0.2**	**25.1**	41.9	0.2	42.1
Fixed rate	**–**	**1.0**	**1.0**	–	1.0	1.0
No interest	**–**	**0.3**	**0.3**	–	0.3	0.3
At end of period	**24.9**	**1.5**	**26.4**	41.9	1.5	43.4

Floating rate financial assets earn interest at prevailing short-term market interest rates.

The fixed rate financial asset represents the debenture loan (see note 11).

Maturity of financial liabilities
The maturity profile of the carrying value of the Group's financial liabilities, other than short-term trade creditors and accruals at the period end was:

	2004			2003		
	Debt £m	Other financial liabilities £m	Total £m	Debt £m	Other financial liabilities £m	Total £m
Within one year	**1.8**	**0.8**	**2.6**	15.5	1.1	16.6
Between one and two years	**1.9**	**0.9**	**2.8**	2.5	0.7	3.2
Between two and five years	**7.2**	**1.7**	**8.9**	4.4	1.6	6.0
Over five years	**177.4**	**6.0**	**183.4**	284.4	5.9	290.3
Total	**188.3**	**9.4**	**197.7**	306.8	9.3	316.1

Borrowing facilities
The Group has the following undrawn committed borrowing facilities available at the period end in respect of which all conditions precedent had been met at that date:

	2004 £m	2003 £m
In one year or less, or on demand	**30.0**	30.0
In more than one year, but less that two years	**–**	–
In more than two years, but less than five years	**5.0**	5.0
In more than five years	**–**	–
	35.0	35.0

The facilities expiring within one year are annual facilities subject to review in 2005. All facilities, if utilised, would carry interest at a market rate. Unused facilities incur commitment fees at market rates.

19 Financial instruments (continued)

Fair values of financial assets and financial liabilities

	2004		2003	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Loan Notes	**(0.1)**	**(0.1)**	(0.1)	(0.1)
Other creditors	**(2.6)**	**(2.4)**	(2.8)	(2.7)
Class A secured notes	**(105.3)**	**(114.2)**	(108.9)	(114.9)
Deferred issue costs of Class A secured notes	**8.9**	**–**	9.0	–
Class B secured notes	**(100.0)**	**(130.0)**	(100.0)	(119.8)
Deferred issue costs of Class B secured notes	**8.2**	**–**	8.3	–
Mezzanine Loan	**–**	**–**	(42.1)	(42.1)
Deferred issue costs of Mezzanine Loan	**–**	**–**	1.8	–
Loan Notes 2013	**–**	**–**	(67.0)	(42.0)
Deferred issue costs of Loan Notes 2013	**–**	**–**	4.9	–
Loan Notes 2012	**–**	**–**	(12.7)	(12.7)
Cash deposits	**24.9**	**24.9**	41.9	41.9
Other financial assets	**1.5**	**1.7**	1.5	1.7
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swaps	**(6.8)**	**(7.9)**	(6.5)	(8.2)
	(171.3)	**(228.0)**	(272.7)	(298.9)

The fair value of the Class A and B secured notes are based on the closing price as quoted on the Irish Stock Exchange.

The onerous contract provision has been discounted at the Group's cost of capital.

The fair value of the interest rate swaps has been determined by reference to the market value quoted at the balance sheet date.

Hedges

The table below shows the extent to which the Group has off-balance sheet (unrecognised) and on balance sheet (deferred) gains and losses which have been included in the profit and loss account for the period and those gains and losses which are expected to be included in future profit and loss accounts. The only hedges the Group has are in respect of the interest rate swaps described in note 18(e).

As detailed in note 18(e), the Directors consider that the net effect of the various interest rate swaps to be that of an onerous contract and hence recognised within provisions. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. An analysis of these unrecognised losses is as follows:

	Unrecognised gains or losses £m	**Deferred gains or losses £m**
Losses on hedges at beginning of period	(1.7)	(6.5)
Arising in the period	0.6	(0.3)
Losses on hedges at end of period	**(1.1)**	**(6.8)**
Of which:		
Losses expected to be included in 2005 profit and loss account	**–**	**(0.5)**
Losses expected to be included in 2006 profit and loss account or later	**(1.1)**	**(6.3)**

Financial instruments held for trading purposes

The Group does not trade in financial instruments.

20 Called up share capital

	2004 £m	2003 £m
Authorised		
Equity shares		
100,000,000 Ordinary Shares of £0.07 each	**7.0**	–
1,300,000 Ordinary A Shares of £1 each	**–**	1.3
400,000 Ordinary B Shares of £1 each	**–**	0.4
300,000 Ordinary C Shares of £1 each	**–**	0.3
	7.0	2.0
Allotted, called up and fully paid		
Equity shares		
80,000,000 Ordinary Shares of £0.07 each	**5.6**	–
2,000,000 Ordinary Shares of £1 each	**–**	2.0
	5.6	2.0

As at 31 December 2004:

In order to effect the Initial Public Offering of the Company's shares, the following changes in the Company's share capital were made in the year:

On 31 March 2004, each of the issued and unissued A, B and C Ordinary Shares of £1 each were converted into and redesignated as, Ordinary Shares of £1 each.

Following the redesignation the existing 2,000,000 issued Ordinary Shares of £1 each were subdivided and reclassified as 26,521,740 Ordinary Shares of 7 pence each and 26,521,740 Deferred Shares of 33/61 pence each. The Deferred Shares were immediately repurchased by the Company for £2.

Following the repurchase the Deferred Shares in the authorised but unissued share capital of the Company were consolidated and redesignated into one share of £143,478.20 which was then subdivided into (i) 2,049,688 Ordinary Shares of 7 pence each and (ii) one Ordinary Share of 4 pence. Immediately thereafter the authorised share capital of the Company was increased from £2,000,000 to £2,000,000.03 by the creation of one Ordinary Share of 3 pence, which was consolidated with the Ordinary Share of 4 pence referred to above into one Ordinary Share of 7 pence.

The authorised share capital of the Company was then increased from £2,000,000.03 to £7,000,000 by the creation of 71,428,571 Ordinary Shares of 7 pence each. On 8 April 2004, the Company issued 53,478,260 Ordinary 7 pence Shares at a premium of £2.23 per share.

As at 26 December 2003:

Equal voting rights were attributable to the A, B and C shares. All of the issued shares ranked pari passu for the purposes of dividends save that a dividend may have been declared in respect of one particular class of shares, provided that no further dividend could be declared in respect of that particular class of shares until a dividend of an equal amount (calculated on a per share basis) had been declared in respect of each other class of shares.

The articles of association of the Company provided that on a return of capital of the Company on a liquidation or otherwise (other than a redemption of shares or the purchase by the Company of its own shares), the surplus assets and the retained profits of the Company available for distribution among the members would have been applied as follows:

(a) first in paying the A and B shareholders the amounts credited as paid up on the A and B shares respectively together with all accruals and arrears of dividends duly declared calculated up to and including the date on which the return of capital was made;

(b) secondly in paying to the C shareholders the amounts credited as paid up on the C shares together with all accruals and arrears of dividends duly declared calculated up to and including the date on which the return of capital was made; and

(c) thereafter in distributing the balance of such assets and retained profits amongst the equity shareholders (pari passu as if the same constituted one class of share) on proportion to the amounts credited as paid up on the equity shares held by them respectively.

20 Called up share capital (continued)

Potential issues of Ordinary Shares

Certain employees hold options to subscribe for shares in the Company at 230 pence under the share option scheme approved by shareholders in April 2004 prior to admission to the London Stock Exchange (the Sharesave scheme). The number of shares subject to options (excluding lapses), the periods in which they were granted and the periods in which they may be exercised are given below:

Year of grant	Exercise price (pence)	Exercise period	2004 Number	2003 Number
2004	230.00	31 May 2007 to 30 November 2007	**763,576**	–

Under the Group's long term incentive plan for Executive Directors, such individuals hold rights over Ordinary Shares which may result in the issue of up to 375,000 Ordinary 7 pence Shares during 2007. Further details are shown in the Remuneration Report on page 19.

21 Share capital and reserves

Group	Share capital £m	Share premium account £m	Other reserves £m	Profit & loss account £m	Total £m
Shareholders' funds as at 26 December 2003	2.0	–	(12.3)	(68.1)	(78.4)
Profit for the period	–	–	–	0.4	0.4
Dividends	–	–	–	(4.5)	(4.5)
Share issue	3.6	111.6	–	–	115.2
Effects of long term incentive plan	–	–	0.2	–	0.2
Shareholders' funds as at 31 December 2004	**5.6**	**111.6**	**(12.1)**	**(72.2)**	**32.9**

Included within other reserves is the merger accounting consolidation difference of £12.3 million, which arose on 20 December 2002 as part of the Group reconstruction effected at that time.

Company – Reserves	Other reserves £m	Profit & loss account £m	Total £m
At beginning of period	–	(0.4)	(0.4)
Effects of long term incentive plan	0.2	–	0.2
Profit for the period	–	6.1	6.1
At end of period	**0.2**	**5.7**	**5.9**

22 Reconciliation of movement in shareholders' funds

	Company 2004 £m	Company 2003 £m
Profit/(loss) for the period	**6.1**	(0.4)
Effects of long term incentive plan	**0.2**	–
Share issue	**115.2**	2.0
Net additions to shareholders' funds	**121.5**	1.6
Opening shareholders' funds	**1.6**	–
Closing shareholders' funds	**123.1**	1.6

The movement in Group shareholders' funds is set out in note 21.

23 Pension commitments

SSAP 24

The net pension charge to the profit and loss account for the period was:

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Defined benefit schemes	**0.9**	1.3
Defined contribution schemes	**0.1**	0.1
Net charge to profit and loss account	**1.0**	1.4

The Company operates two principal pension schemes, the Dignity Pension & Assurance Scheme (the 'Dignity scheme') and the Dignity 1972 Pension Schemes. These schemes are of a funded, defined benefit type with assets held in separate trust funds. Actuarial valuations are made triennially by independent external actuaries.

For accounting purposes, SSAP 24 requires the funds to be valued on an actuarial best estimate basis, and the schemes were valued for this purpose by consulting actuaries as at 6 April 2002.

The main actuarial assumptions used to value the schemes were a differential between investment returns and salary increases of 3.5 per cent, increases to pension in payment for service after 6 April 1997 of 2.25 per cent, increases to pension in payment for service prior to 6 April 1997 for the Dignity 1972 Pension Scheme of 2.25 per cent (Nil for the Dignity scheme), and an average remaining service life of 11 years for the Dignity 1972 Pension Scheme, and 14 years for the Dignity scheme.

The value of assets used was market value.

Given that the Dignity 1972 Pension Scheme is closed to new members, the attained age method was used to value liabilities for this scheme, and for the Dignity scheme, the projected unit credit method was used.

On this basis, the valuation of the schemes at 6 April 2002 was as shown below.

	Dignity 1972 Pension Scheme £m	Dignity scheme £m
Market value	15.3	16.8
Level of funding	100%	81%

The pension prepayment reported in the Consolidated Balance Sheet under debtors falling due after more than one year (see note 13) was £0.8 million (2003: £0.2 million).

FRS 17

In November 2000, the Accounting Standards Board issued FRS 17, 'Retirement Benefits'.

The Group has not yet adopted FRS 17 in the financial statements but, in accordance with the transitional arrangements contained in FRS 17, set out below are the effects on the Group's financial statements had the Group elected to adopt FRS 17.

The Group operates two defined benefit plans in the UK. A full actuarial valuation was carried out in respect of the Dignity Pension and Assurance Scheme and for the Dignity 1972 Pension Scheme at 6 April 2002. Both valuation results were updated to 31 December 2004 by a qualified independent actuary.

The employer contribution rate paid to the Dignity Pension & Assurance Scheme for the period was 10.5 per cent (2003: 10.5 per cent).

The employer contribution rate paid to the Dignity 1972 Pension Scheme for the period was 15.8 per cent (2003: 15.8 per cent).

For closed plans such as the Dignity 1972 Pension Scheme and those in which the age profile of the active membership is rising significantly, under the projected unit method, the current service cost will increase as a proportion of the payroll cost as the members of the plan approach retirement.

23 Pension commitments (continued)

FRS 17 (continued)
If FRS 17 had been adopted in the financial statements, the Group's net assets, profit and loss reserve and Statement of Total Recognised Gains & Losses at 31 December 2004 would have been as follows:

	2004 £m	2003 £m
Net assets/(liabilities) excluding pensions	**31.1**	(79.7)
Net pension liability	**(9.7)**	(8.9)
Net assets/(liabilities) including pension liability	**21.4**	(88.6)

	2004 £m	2003 £m
Profit and loss reserve excluding pensions	**(72.8)**	(68.2)
Net pension liability	**(9.7)**	(8.9)
Profit and loss reserve including pension liability	**(82.5)**	(77.1)

Assumptions
The principal assumptions used by the actuary were:

	31 December 2004	26 December 2003	27 December 2002
Discount rate	**5.3%**	5.4%	5.4%
Rate of increase in salaries	**3.25%**	3.25%	3.75%
Rate of increase in payment of pre April 1997 excess over GMP pensions – Dignity Pension & Assurance Scheme members	**0%**	0%	0%
Rate of increase in payment of pre April 1997 excess over GMP pensions – Dignity 1972 Pension Scheme members	**2.75%**	2.75%	2.5%
Rate of increase in payment of post April 1997 pensions	**2.75%**	2.75%	2.5%
Price inflation assumption	**2.75%**	2.75%	2.5%

The assets in the plans and the expected rates of return were:

	Long term rate of return expected at 31 December 2004 %	Value at 31 December 2004 £m	Long term rate of return expected at 26 December 2003 %	Value at 26 December 2003 £m	Long term rate of return expected at 27 December 2002 %	Value at 27 December 2002 £m
Bonds	**4.75**	**12.6**	5.00	8.5	4.75	6.8
Equities	**7.00**	**23.8**	7.30	22.7	7.00	19.0
Other	**4.75**	**2.7**	3.75	2.7	4.00	2.2
Total market value of assets		**39.1**		33.9		28.0
Present value of plan liability		**(52.9)**		(46.6)		(44.3)
Deficit in the plan		**(13.8)**		(12.7)		(16.3)
Related deferred tax asset		**4.1**		3.8		4.9
Net pension liability		**(9.7)**		(8.9)		(11.4)

Analysis of amount charged to operating profit in respect of defined benefit schemes

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Current service	**1.6**	1.7
Past service cost	**–**	–
Total operating charge	**1.6**	1.7

23 Pension commitments (continued)

FRS 17 (continued)

Analysis of the amount charged to other finance cost

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Expected return on pension scheme assets	**2.2**	1.8
Interest on pension scheme liabilities	**(2.5)**	(2.4)
Net finance cost	**(0.3)**	(0.6)

Analysis of amount recognised in statement of total recognised gains and losses

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Actual return less expected return on pension scheme assets	**2.1**	3.2
Experience gains and losses arising on the scheme liabilities	**(0.1)**	1.3
Changes in the assumptions underlying the present value of the scheme liabilities	**(2.7)**	(0.1)
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	**(0.7)**	4.4

Movement in deficit during the period

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Deficit in the plans at the beginning of the period	**(12.7)**	(16.3)
Current service cost	**(1.6)**	(1.7)
Contributions	**1.5**	1.5
Net finance cost	**(0.3)**	(0.6)
Actuarial (loss)/gain	**(0.7)**	4.4
Deficit in the scheme at the end of the period	**(13.8)**	(12.7)

History of experience gains and losses

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m	52 week period ended 27 December 2002 £m
Difference between the actual and expected return on scheme assets:			
Amount	**2.1**	3.2	(6.2)
Percentage of scheme assets	**5%**	9%	(22)%
Experience gains and losses on scheme liabilities:			
Amount	**(0.1)**	1.3	(2.2)
Percentage of the present value of the scheme liabilities	**0%**	(3)%	5%
Total amount recognised in statement of total recognised gains and losses:			
Amount	**(0.7)**	4.4	(13.9)
Percentage of the present value of the scheme liabilities	**1%**	(9)%	31%

24 Related party transactions

The Group has taken advantage of the exemption provided within FRS 8, not to disclose transactions with subsidiary undertakings, 90 per cent or more of whose voting rights are controlled within the Group.

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 polices. Transactions represent:

- Expenses paid by the Group on behalf of the respective Trusts;
- Transfers of funds in relation to payments in respect of deaths and cancellations of existing members;
- The recovery of marketing and administration expenses in relation to plans sold net of cancellations; and
- The payment of realised surpluses generated by the Trust funds as and when the trustees sanction such payments.

24 Related party transactions (continued)

Pre-arranged funeral plan trusts (continued)
Related party transactions are summarised below:

	Transactions during the period		Amounts due to the Group at the period end	
	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m	**2004 £m**	2003 £m
Dignity Limited Trust Fund	**0.8**	0.5	**–**	–
National Funeral Trust	**11.9**	10.7	**1.4**	1.7
Trust for Age Concern Funeral Plans	**9.3**	8.6	**1.1**	0.8

Age Concern
During the period, the Group paid commissions to Age Concern Enterprises Limited totalling £2.4 million (2003: £2.3 million). Age Concern Enterprises Limited owns 25 per cent of the issued share capital of Advance Planning Limited.

Service Corporation International
Service Corporation International ('SCI'), a company incorporated in the United States of America and the former ultimate parent undertaking of Dignity Services, previously held a 20 per cent shareholding in the Company and also had representation on the board (the 'SCI director'). On 11 March 2004, the SCI director resigned. The 20 per cent holding in the Company was sold following the flotation of Dignity plc on 8 April 2004.

The Group makes payments on behalf of SCI in the United Kingdom.

During the period to 8 April 2004, the payments made by the Group and refundable by SCI amounted to £0.2 million (52 week period to 26 December 2003: £0.8 million), and the amount due from SCI at 26 December 2003 was £nil million.

Montagu Private Equity Limited ('Montagu')
Montagu Private Equity Limited and funds managed by its subsidiary companies controlled 65 per cent of the share capital of Dignity plc until the Initial Public Offering detailed in note 20.

Furthermore, under the terms of the Investment Agreement dated 11 February 2002, Montagu received £58,000 per annum for the services of the Montagu representatives on the Board of Dignity plc (the 'Montagu directors'). On 11 March 2004, the Montagu directors resigned their positions and the shareholding in the Company was sold following flotation.

During the period to 8 April 2004 the Group paid £nil million (52 week period to 26 December 2003: £0.1 million) in respect of these services.

25 Reconciliation of operating profit to operating cash flows

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Operating profit	**33.9**	27.2
Depreciation and amortisation charges	**13.1**	13.4
Profit on disposal of fixed assets	**(1.2)**	(0.3)
Decrease in provisions	**(0.4)**	(0.2)
(Increase)/decrease in stocks	**(0.3)**	0.5
Increase in debtors	**(0.7)**	(0.9)
(Decrease)/increase in creditors	**(0.3)**	2.2
Net cash inflow from operating activities	**44.1**	41.9

All cash flows from operating activities are in respect of acquired continuing operations.

The impact of the amounts credited to profit on disposal of fixed assets £1.2 million (2003: £0.3 million) is shown in the table above. The proceeds from the sale of fixed assets are shown within 'capital expenditure and financial investment'.

25 Reconciliation of operating profit to operating cash flows (continued)

Included within the operating cash flows shown above are exceptional items (charged) and/or credited to operating profit. The impact on the reported cash flows of these items is shown below:

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Expenses relating to refinancing	–	(0.5)
Recoveries	1.2	1.0
Net cash inflow from exceptional items (see note 6)	**1.2**	0.5

26 Analysis of cash flows for headings netted in the cash flow statement

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Interest paid on Class A and B secured notes	(22.4)	(3.3)
Interest paid on other facilities	(0.2)	(0.1)
Payments in respect of swaps	(1.0)	(0.2)
Interest paid on bank loan repaid April 2003	–	(4.4)
Interest paid on Mezzanine Loan	(5.1)	(2.2)
Interest paid on Loan Notes 2013	(6.6)	–
Redemption penalty on Mezzanine Loan (note 7)	(4.0)	–
Total interest paid	(39.3)	(10.2)
Interest received	1.6	1.1
Tax payable on interest payments	–	(0.9)
Issue costs of debt finance	(0.1)	(6.3)
Returns on investments and servicing of finance	**(37.8)**	(16.3)

As a result of the prior period ending on 26 December 2003, the Group's cash flows in 2004 included expenditure such as interest and debt service repayments in respect of the Class A and B secured notes (£9.1 million) and quarterly operating cash flows that were paid in 2003 but are recognised as 2004 cash flows for statutory purposes.

On 16 June 2003, the Group deposited £2.0 million in escrow by way of a guarantee on the construction of a new crematorium. Following completion of the crematorium in August 2004, the monies were refunded to the Group. The interest earned has been shown within 'Returns on investments and servicing of finance' above.

Acquisitions and disposals (see note 28)		
Purchase of other funeral businesses	(5.1)	(7.8)
Deferred consideration paid in respect of acquisitions	(0.1)	–
Net (overdrafts)/cash acquired with other funeral businesses	(0.1)	0.1
Net cash outflow from acquisitions and disposals	**(5.3)**	(7.7)

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Management of liquid resources		
Funds on deposit	5.3	–
	5.3	–

26 Analysis of cash flows for headings netted in the cash flow statement (continued)

	53 week period ended 31 December 2004 £m	52 week period ended 26 December 2003 £m
Financing		
Class A and B secured notes issued	**–**	210.0
Repayment of Class A secured notes	**(3.6)**	(1.1)
Loan Note repayments	**–**	(0.2)
Bank loan repaid 11 April 2003	**–**	(210.0)
Mezzanine Loan repaid	**(42.1)**	–
Loan Notes 2012 repaid	**(12.7)**	–
Loan Notes 2013 repaid	**(67.0)**	–
Loan Notes issued	**–**	0.4
	(125.4)	(0.9)
Issue of shares	**123.0**	–
Costs of share issue	**(7.8)**	–
Net cash outflow from financing	**(10.2)**	(0.9)

27 Analysis of net debt

	At beginning of period £m	Cash flow £m	Other non-cash changes £m	At end of period £m
Cash at bank and in hand	41.9	(17.0)	–	**24.9**
Restricted cash reported within capital expenditure and financial investment (see note 14)	(19.5)	18.3	–	**(1.2)**
Restricted cash reported within liquid resources (see note 14)	–	(5.3)	–	**(5.3)**
Cash at bank and in hand as per FRS 1	22.4	(4.0)	–	**18.4**
Debt due after one year	(291.3)	109.2	(4.4)	**(186.5)**
Debt due within one year	(15.5)	16.3	(2.6)	**(1.8)**
Debt	(306.8)	125.5	(7.0)	**(188.3)**
Deposits (see note 14)	–	5.3	–	**5.3**
Net debt	(284.4)	126.8	(7.0)	**(164.6)**

Major non-cash transactions

Non-cash charges comprise amortisation of deferred debt issue costs, the capitalisation of interest on certain borrowings and transfers between categories.

28 Acquisition and disposals

(a) Acquisition of subsidiary and other businesses – 2003

	Book value £m	Revaluation £m	Provisional fair value £m	Completion & hindsight adjustments to fair value £m	Final fair value £m
Net assets acquired					
Tangible fixed assets	2.5	(0.5)	2.0	(0.1)	1.9
Cash acquired/(overdrafts assumed)	0.1	–	0.1	(0.1)	–
Deferred taxation	–	–	–	(0.1)	(0.1)
Other working capital	0.3	–	0.3	(0.1)	0.2
Net assets	2.9	(0.5)	2.4	(0.4)	2.0
Goodwill arising			5.7	0.2	5.9
			8.1	(0.2)	7.9
Satisfied by:					
Cash paid on completion			7.7	(0.2)	7.5
Deferred consideration			0.4	–	0.4
Total consideration			8.1	(0.2)	7.9

28 Acquisition and disposals (continued)

(a) Acquisition of subsidiary and other businesses – 2003 (continued)

During 2003, the Group acquired the business and assets of two businesses and the entire issued share capital of a company. These are accounted for under the acquisition method, details of which are set out above.

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

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

(b) Acquisition of subsidiary and other businesses – 2004

	Book value £m	Revaluation £m	Provisional fair value £m
Net assets acquired			
Tangible fixed assets	**1.1**	**(0.2)**	**0.9**
Other working capital	**(0.1)**	**–**	**(0.1)**
Net assets	**1.0**	**(0.2)**	**0.8**
Goodwill arising			**4.6**
			5.4
Satisfied by:			
Cash paid on completion			**5.3**
Deferred consideration			**0.1**
Total consideration			**5.4**

During 2004, the Group acquired the trade and assets of five funeral businesses. These have been accounted for under the acquisition method. Two of the businesses were acquired close to the balance sheet date. For this reason, the fair value of the assets acquired and liabilities assumed are provisional and will be finalised in 2005.

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

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

29 Contingent liabilities

On 11 April 2003, the Group refinanced its debt by way of a whole business securitisation. As a result, the following guarantees and charges were granted to JP Morgan Corporate Trustee Services Limited in its capacity as Security Trustee in the securitisation:

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

29 Contingent liabilities (continued)

At 31 December 2004, the amount outstanding in relation to these borrowings was £205.3 million (2003: £261.4 million).

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

30 Other commitments

Dignity Pre-Arrangement Limited, Dignity Securities Limited and Advance Planning Limited are fellow members of the Dignity Group in the United Kingdom. These companies have sold pre-arranged funeral plans to their clients in the past. All monies from these sales are held and controlled by three independent Trusts, being the National Funeral Trust, the Dignity Limited Trust Fund and the Trust for Age Concern Funeral Plans respectively. Full details of the transactions can be found in the annual reports of these companies, which are available from Plantsbrook House, 94 The Parade, Sutton Coldfield, West Midlands B72 1PH.

The Group has given commitments to certain of these clients to perform their funeral. The cost of the performance of these funerals will be paid out of the funds held in the Trusts.

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

31 Post balance sheet events

The Group acquired three funeral home locations subsequent to the period end.

Shareholder Information

General enquiries may be addressed to the Company Secretary, Richard Portman, at the Company's registered office. Other useful information is as follows:

Company registrars
Enquiries concerning shareholdings, change of address or other particulars, should be directed in the first instance to the Company's Registrars, Lloyds TSB Registrars. They also provide a range of online shareholder information services at www.shareview.com where shareholders can check their holdings and find practical help on transferring shares and updating personal details.

Share price information
The latest Dignity plc share price can be obtained via the Company's investor website at www.dignityfuneralsplc.co.uk. It can also be obtained in the UK on Ceefax and Teletext.

Unsolicited mail
The Company is obliged by law to make its share register available upon request to the public and to other organisations which may use it as a mailing list resulting in shareholders receiving unsolicited mail. Shareholders wishing to limit the receipt of such mail should write to the Mailing Preference Service, Freepost 22, London W1E 7EZ or telephone +44 (0)845 703 4599 for an application form.

Annual General Meeting
The Company's Annual General Meeting will be held on Friday 20 May 2005, at 11.00am at The Mayfair Suite, Ramada Hotel and Resort, Penns Lane, Walmley, Sutton Coldfield, West Midlands B76 1LH. A circular to shareholders, which includes the Notice convening the Meeting is included on page 64 of this document.

Financial calendar
Details of the Company's financial calendar may be found inside the back cover of this Annual Report.

Notice of Meeting

Notice is hereby given that the 2005 Annual General Meeting of Dignity plc ('the Company') will be held at The Mayfair Suite, Ramada Hotel and Resort, Penns Lane, Walmley, Sutton Coldfield, West Midlands B76 1LH on Friday 20 May 2005 at 11.00am for the following purposes:

Ordinary Business

1. To receive and consider the Company's accounts, and the reports of the Directors' and auditors thereon for the 53 weeks ended 31 December 2004.
2. To approve the Directors' Remuneration Report for the 53 weeks ended 31 December 2004 as set out on pages 19 to 23 of the Annual Report 2004.
3. To declare a final dividend for the 53 weeks ended 31 December 2004 of 3.75 pence per Ordinary Share in the capital of the Company, to be paid on 31 May 2005 to members whose names appear on the register at close of business on 6 May 2005.
4. To re-appoint Mike McCollum as a Director.
5. To re-appoint James Newman as a Director.
6. To re-appoint Bill Forrester as a Director.
7. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company to hold office from conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.

To propose the following as an ordinary resolution:

8. That, in substitution for all existing authorities to the extent unused, the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ('the Act') to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate nominal amount of £1,848,000 provided that authority shall expire at the conclusion of the next Annual General Meeting after passing this resolution or after 15 months (whichever is earlier), save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special Business

To propose the following as special resolutions:

9. That subject to the passing of the previous resolution the Directors be and are hereby empowered to pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) and Section 94(3A) of the Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that this power shall be limited:
   a) to the allotment of equity securities in connection with an issue in favour of members where the equity securities respectively attributable to the interests of all members are proportionate (as nearly as may be) to the respective number of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with fractional entitlements or legal problems which may arise in any overseas territory or under the requirements of any regulatory body or any stock exchange and;
   b) to the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal value of £280,000.

and shall expire at the conclusion of the next Annual General Meeting after passing this resolution or after 15 months (whichever is earlier), save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

This power applies in relation to the sale of shares, which is an allotment of equity securities by virtue of Section 94(3A) of the Act as if in the first paragraph of this resolution the words 'pursuant to the authority conferred by the previous resolution' were omitted.

10. That the Company be and is hereby generally and unconditionally authorised for the purposes of Section 166 of the Act to make market purchases (as defined in Section 163(3) of the Act) of Ordinary Shares of 7 pence each in its capital, subject as follows:
    a) the maximum number of Ordinary Shares which may be purchased is 4,000,000;
    b) the minimum price to be paid for each Ordinary Share shall not be less than the nominal value of the Ordinary Share and the maximum price shall not be more than 5 per cent above the average of the middle market quotation of the Company's Ordinary Shares for the five business days immediately prior to the day on which the purchase is made;
    c) the authority conferred by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or after 15 months (whichever is earlier), except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which may be executed wholly or partly after such expiry.

Registered office:
Plantsbrook House
94 The Parade
Sutton Coldfield
West Midlands B72 1PH

By order of the Board
Richard Portman
Company Secretary
4 April 2005

Notes

1. A member of the Company entitled to attend and to vote may appoint one or more proxies to attend and vote instead. A proxy need not be a member of the Company. A proxy form is enclosed. Completed proxy forms must be received by the Company's Registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZX, not later than 48 hours before the time of the Annual General Meeting or in the event the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting.
2. The appointment of a proxy will not preclude a member of the Company from attending and voting in person at the meeting if he or she so wishes.
3. In the case of shares held in uncertificated form, the Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only members registered on the register of members of the Company at 6:00pm on 18 May 2005 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 6:00pm on Wednesday 18 May 2005 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. The following are available for inspection at the Company's registered office during normal business hours on any weekday (excluding public holidays) and will be available for at least 15 minutes prior to, and during, the Annual General Meeting:
   • the register of Directors' interests and those of their immediate families in the share capital of the Company;
   • copies of the Directors' service contracts;
   • a copy of the Company's memorandum and articles of association.

Contact Details & Advisers

Registered Office:
Plantsbrook House
94 The Parade
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Tel: 0121 354 1557
Fax: 0121 321 5644
Email: enquiries@dignityuk.co.uk
www.dignityfuneralsplc.co.uk

Company Secretary:
Richard Portman FCA

Registered Number:
4569346

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Lloyds TSB Registrars
The Causeway
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West Sussex BN99 6DA

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Cornwall Court
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Joint Brokers:
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A division of Lazard & Co. Limited
50 Stratton Street
London W1J 8LL

Investec
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Gillingham Business Park ME8 0LS

Legal Advisor:
DLA Piper Rudnick Gray Cary UK LLP
Victoria Square House
Victoria Square
Birmingham B2 4DL

Financial Calendar

3 March 2005
Preliminary announcement
of 2004 results

4 May 2005
Ex-dividend date for final dividend
on Ordinary Shares

6 May 2005
Closure of share register for final dividend
on Ordinary Shares

20 May 2005
Annual General Meeting

31 May 2005
Payment of final dividend
on Ordinary Shares

1 July 2005
2005 financial half year end

29 September 2005
Announcement of interim results

28 October 2005
Payment of interim dividend
on Ordinary Shares

30 December 2005
Financial period end

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For more information on investor relations please visit:
www.dignityfuneralsplc.co.uk

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