Dignity (2002) Limited

Unaudited Investor Report

for the 52 week period ended 27 December 2013

To: BNY Corporate Trustee Services Limited

Fitch Ratings Limited

Standard & Poor's

From: Dignity (2002) Limited (as Borrower)

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

NOTICE TO THE READER

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

The information set out herein is not necessarily representative of the performance of the Group as a whole and should not be relied upon in this respect. For example it does not include profits and losses generated by certain companies held outside the Dignity (2002) Group or any dividends declared to shareholders of Dignity plc.

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

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Financial Overview

Review of operations

- Unaudited EBITDA for the 52 week period ended 27 December 2013 was £88.0m compared to £78.1m for the audited 52 week period ended 28 December 2012.
- This performance is due to increased contributions from all operating divisions together with the incremental benefit of the Dignity Funerals No.2 Limited acquisition.
- On 30 July 2013, Dignity Funerals Limited acquired Dignity Funerals No.2 Limited, previously a Non-Obligor. This added 61 funeral locations and two crematoria to the Securitisation Group.

Trading locations

- The number of funeral locations within the Securitisation Group at the period end was 690, which compares to 615 at 28 December 2012. The movement in the portfolio is shown below:

Number of Obligor locations at 28 December 2012[§1]	615
Acquisition of Dignity Funerals No.2 Limited – freehold	38
Acquisition of Dignity Funerals No.2 Limited – leasehold	23
Acquisition – freehold	2
Acquisition – leasehold	3
Satellite locations - short leasehold	12
Branch closure – freehold	(1)
Branch closure – leasehold	(2)
Number of locations at 27 December 2013[§1]	**690**

- The Dignity (2002) Group operates from 39 crematoria (Dec 2012: 37). The movement in the year represents the addition of two crematoria from the acquisition of Dignity Funerals No.2 Limited.
- The Dignity (2002) Group continues to pursue other opportunities to acquire small, 'bolt-on' funeral locations and additional crematoria as part of its stated strategy of developing its portfolio of funeral locations and crematoria.

Quarterly reference dates

The Dignity (2002) Group prepares accounts drawn up to the nearest Friday before the Quarter End Date each quarter. As a result the combined and consolidated information reflects the 52 week period ending 27 December 2013 and 52 week period ending 28 December 2012.

[§1] Excludes 9 telephone branches.

Dignity (2002) Limited

Consolidated EBITDA and capital expenditure

for the 52 week period ended 27 December 2013

	Note	*Funeral services* £m	*Crematoria* £m	*Pre-arranged funeral plans* £m	*Portfolio* £m	*Central overheads* £m	***52 week period ending 27 Dec 2013*** **£m**	*52 week period ending 28 Dec 2012* £m
Net revenue		167.6	52.8	26.7	247.1	-	**247.1**	225.2
Operating expenses	1	(101.3)	(24.3)	(19.9)	(145.5)	(13.6)	**(159.1)**	(147.1)
EBITDA	1	**66.3**	**28.5**	**6.8**	**101.6**	**(13.6)**	**88.0**	78.1
Movement in provisions		n/a	n/a	n/a	n/a	n/a	**-**	-
Taxation	2	n/a	n/a	n/a	n/a	n/a	**(9.3)**	(8.4)
Minimum Capex Maintenance Amount	3	n/a	n/a	n/a	n/a	n/a	**(9.6)**	(9.3)
Free Cashflow		**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**69.1**	60.4
Actual Capital Maintenance Expenditure – ***calendar YTD***		9.8	1.7	-	11.5	0.9	**12.4**	11.6
Expenditure on Permitted Crematorium Developments by Obligors – ***52 week period***		-	-	-	-	-	**-**	-

Dignity (2002) Limited

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

as at 27 December 2013

	Note	***27 Dec 2013***	*28 Dec 2012*
Consolidated Net Assets:	4	***£m***	*£m*
Fixed assets		**317.4**	246.1
Collateralised Liquidity facility	15	**63.0**	-
Other current assets		**98.5**	68.5
Total current assets	5	**161.5**	68.5
Collateralised Liquidity facility	15	**(63.0)**	-
Other creditors: amounts falling due within one year		**(235.4)**	(180.0)
Creditors: amounts falling due within one year		**(298.4)**	(180.0)
Net current liabilities		**(136.9)**	(111.5)
Total assets less current liabilities		**180.5**	134.6
Creditors: amounts falling due after more than one year		**(384.5)**	(306.8)
Provisions for liabilities		**(10.1)**	(9.4)
Pension (liability)/asset (net of deferred tax)		**(0.8)**	0.1
Net liabilities		**(214.9)**	(181.5)
Cash balances – amounts standing to the credit of:			
Capex Reserve Account		**-**	-
Funeral Home Reserve Account		**-**	-
Loan Payments Account	6	**17.0**	14.3
Issuer Transaction Account	6	**20.0**	15.8
Liquidity Reserve Drawing	15	**63.0**	-
Crematorium Reserve Account		**-**	-
Principal Reserve Account		**-**	-
Elective Capex Account	6	**17.3**	1.9
Special Capex Account		**-**	-
Restricted Payments Account		**-**	-
Upgrade Reserve Account	6	**2.7**	1.9
Permitted Obligor Acquisitions and Permitted Obligor Disposals:			
Permitted Obligor Acquisitions (gross) in the Relevant Period	7	**4.3**	6.4
Permitted Obligor Disposals (gross) in the Relevant Period (where Net Sale Proceeds exceeds £50,000 x RPI)	8	**0.3**	0.6

Financial Indebtedness:	10	**576.2**	452.8

Dignity (2002) Limited

Coverages and covenants

for the 52 week period ended 27 December 2013

	Note	***52 week period ending*** ***27 Dec 2013*** ***£m***	*52 week period ending* *28 Dec 2012* *£m*
EBITDA for the Relevant Period		**88.0**	78.1
Free Cashflow for the Relevant Period		**69.1**	60.4
Debt Service for the Relevant Period	9	**35.8**	32.1
Financial Covenant			
EBITDA DSCR ('Debt Service cover ratio') :			
Target		**>= 1.5 : 1**	>= 1.5 : 1
Actual		**2.46:1**	2.43:1
Restricted Payment Condition			
Free Cashflow DSCR :			
Target		**>= 1.4 : 1**	>= 1.4 : 1
Actual		**1.93:1**	1.88:1
EBITDA DSCR :			
Target		**>=1.85 : 1**	>=1.85 : 1
Actual		**2.46:1**	2.43:1

Confirmations

The Dignity (2002) Group confirms that the Financial Covenant has been observed for the Relevant Period ending 31 December 2013.

The Restricted Payment Condition in relation to each Restricted Payment below has been satisfied.

On 28 June 2013, a Restricted Payment totalling £16.7m was paid to Dignity (2004) Limited as a dividend. These funds were subsequently paid to Dignity plc by way of a dividend.

On 30 July 2013, a Restricted Payment totalling £43.4m was paid to Dignity (2004) Limited as a dividend. These funds were subsequently paid to Dignity plc by way of a dividend.

On 30 July 2013, a Restricted Payment totalling £33.1m was paid to Dignity Funerals No.2 Limited as a loan. This loan was then subsequently used to repay the term facility to National Westminster Bank PLC.

The two Restricted Payments on 30 July 2013 were made as a result of the issue of further Secured Notes as detailed in note 14.

On 31 December 2013, a Restricted Payment totalling £9.2m was paid to Dignity Holdings Limited as a loan. This loan was offset against the existing loan from Dignity Holdings Limited to Borrower in accordance with clause 19.16.1 (b) of the IBLA. These funds were subsequently paid to Dignity plc by way of a loan.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 27 December 2013

1 EBITDA

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

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

52 week period ended 27 Dec 2013	*Funeral services £m*	*Crematoria £m*	*Pre-arranged funeral plans £m*	*Central overheads £m*	*Group £m*
Net revenue	167.6	52.8	26.7	-	**247.1**
Operating expenses	(101.3)	(24.3)	(19.9)	(13.6)	**(159.1)**
EBITDA	**66.3**	**28.5**	**6.8**	**(13.6)**	**88.0**
52 week period ended 28 Dec 2012					
Net revenue	153.5	46.6	25.1	-	225.2
Operating expenses	(93.2)	(21.9)	(19.9)	(12.1)	(147.1)
EBITDA	60.3	24.7	5.2	(12.1)	78.1

2 Taxation

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

3 Capex Maintenance Amount

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

4 Consolidated net assets

The consolidated net assets as at 28 December 2012 as disclosed in this Investor Report represent the final audited figures as per the 2012 statutory accounts.

Following the issuance of the Investor Report as at 28 December 2012, an adjustment has been made to the balance sheet of the Dignity (2002) Group to reflect a reclassification of £0.1m between Creditors: amounts falling due within one year, and Creditors: amounts falling due after more than one year. Accordingly, the consolidated net assets as at 28 December 2012 have been adjusted to the following:

- Creditors: amounts falling due within one year (£180.0m)
- Net current liabilities (£111.5m)
- Total assets less current liabilities £134.6m
- Creditors: amounts falling due after more than one year (£306.8m)

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

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for the 52 week period ended 27 December 2013

5 Total current assets

Total current assets include cash at bank and in hand of £123.8m (Dec 2012: £35.3m) of which £3.2m (Dec 2012: £0.9m) is cash held for operations.

6 Reserve account balances

Loan Payments Account

Of the £17.0m held at 27 December 2013, a Restricted Payment totalling £9.2m was paid to Dignity Holdings Limited as a loan on 31 December 2013.

Issuer Transaction Account

The £20.0m held at 27 December 2013 was used to make the debt interest and principal repayments that became due on 31 December 2013.

Elective Capex Account

The balance in this account represents proceeds from the sale of freehold properties, less acquisition costs, and a deposit of £18.0m as discussed in note 14.

Upgrade Reserve Account

The balance on the Upgrade Reserve Account is £2.7m. The movement in the balance during the Relevant Period is net of contributions and withdrawals.

As the Dignity (2002) Group is now compliant with the mercury abatement legislation, it expects to cease funding of the Upgrade Reserve Account before the end of June 2014 and transfer any remaining balance in accordance with the IBLA.

7 Permitted Obligor Acquisitions

The expenditure in the Relevant Period relates to the acquisition of businesses and properties other than crematoria properties and Funeral Home Start-Ups.

8 Permitted Obligor Disposals

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

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 27 December 2013

9 Debt Service and Financial Covenant

The Dignity (2002) Group confirms that none of the following occurred in the Relevant Period ending 31 December 2013:

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

The Company made the following debt repayments during the Relevant Period (paid on 31 December 2013 and 28 June 2013):

	Interest	***Principal***
	£'000	***£'000***
Class A Secured 6.310% Notes due 2023	10,021	10,076
Class B Secured 8.151% Notes due 2030	15,177	-

The interest payments above include the 1bp margin payable under the IBLA. The actual payments to bondholders were £10,005,000 and £15,159,000 under the Class A and Class B Notes respectively.

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for the 52 week period ended 27 December 2013

9 Debt Service and Financial Covenant (continued)

Debt Service for the Relevant Period ending 31 December 2013 has been calculated as follows:

	Principal	***Annual rate***	***Interest***
Senior Interest accruing in the period	***£'000***	**%**	***£'000***
Class A Notes – existing	139,234	6.32%	8,938
Class B Notes – existing	165,600	8.161%	13,515
Class A Notes – issued July 2013	34,263	6.32%	1,083
Class B Notes – issued July 2013	40,750	8.161%	1,662
Accrued interest received on issue of 2013 Class A&B Notes	-	-	(451)
Working capital facility	5,000	0.45%	22
Liquidity facility	63,000	1.20%[§1]	536[§2]
Hedging documents	202,500	0.3404%[§3]	689
Senior Interest accrued in the period			**25,994**
Interest received in the period	Variable	Variable	(227)
Scheduled repayments of principal in the period		n/a	10,076
Debt Service for the Relevant Period			**35,843**

[§1] This represents the ongoing annual rate since the further issue of Secured Notes on 30 July 2013.

[§2] This represents the actual commitment fees payable in the Relevant Period ending 31 December 2013.

[§3] Net rate payable on notional principal.

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10 Financial Indebtedness

"Financial Indebtedness" means any indebtedness for or in respect of:

(a) moneys borrowed;

(b) any amount raised by acceptance under any acceptance credit facility;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) the amount of any liability in respect of any lease, credit sale, conditional sale agreement or hire purchase contract which would, in accordance with UK GAAP, be treated as a finance or capital lease;

(e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

(f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;

(g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);

(h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and

(i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

Amendment to September 2013 Financial Indebtedness

Financial Indebtedness at the end of September 2013 was reported as £547.9m. Following final review of the detailed steps (and associated legal documentation relating to the issue of Further Secured Notes and return of value) effected at the time, this amount has been restated to £591.2m. The change relates to inter company borrowings, all of which are subordinate to the Secured Notes.

In a similar way, the balance sheet reported at September 2013 understated financial liabilities by the same amount.

The reported financial covenants are unaffected.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 27 December 2013

11 Dignity plc

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

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

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

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

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

Notes to the Investor Report

for the 52 week period ended 27 December 2013

12 Terminology

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

Additional Obligors	Annual Upgrade Update	Borrower	Debt Service	EBITDA	Financial Adviser Appointment
Financial Covenant	Financial Indebtedness	Free Cashflow	Funeral Home Start-Ups	Issuer	Loan Event of Default
Maintenance Capex	Non-Obligor	Note Trustee	Permitted Obligor Acquisition	Permitted Crematorium Development	Permitted Obligor Disposal
Portfolio	Potential Loan Event of Default	Relevant Period	Restricted Payment	Restricted Payment Condition	Senior interest
Secured Notes	Securitisation Group	Security Trustee	Tax	Tax Deed of Covenant	Transaction Documents

13 Working capital facility

The Securitisation Group's working capital facility is available until 11 April 2018.

14 Issue of further Secured Notes

On 22 July 2013, Dignity Finance PLC issued a prospectus in respect of a further issue of Class A and Class B Secured Notes.

On 30 July 2013, completion occurred and gross proceeds of £97.7 million were raised.

As described in the Prospectus, the proceeds have been used by the Securitisation Group to:

(i) Allow Dignity Funerals No. 2 Limited to repay existing third party indebtedness of c£33 million. Dignity Funerals No.2 Limited is now part of the Securitisation Group as a result of the transaction and its trading history is described in the Prospectus;

(ii) Remit funds to Dignity plc together with the cash it already holds, to be used to help provide shareholders with a £61.9 million Return of Cash equating to £1.08 per Ordinary Share;

(iii) Deposit £18 million into the Elective Capex Account;

(iv) Make a payment of £1 million to the Dignity Pension and Assurance Scheme; and

(v) Pay fees relating to the transaction.

Dignity (2002) Limited

Notes to the Investor Report

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15 Collateralisation of Liquidity Facility

The Dignity (2002) Group's Secured Notes are supported by a Liquidity Facility provided by the Royal Bank of Scotland. This facility is designed to support the first 18 months of debt service due in the event of a default. Following the issue of Secured Notes in 2013, the facility was increased to £63 million. This is a committed facility for the life of the Notes and serves to support the rating ascribed by S&P and Fitch.

In late 2013, S&P downgraded certain RBS entities. As a result, this downgrade triggered a clause in the facility that gave the Dignity (2002) Group a 30 day period in which to force RBS to cash collateralise the facility by placing funds with the Bank of New York Mellon. If the Dignity (2002) Group did not force this action within this period, then no cash collateralisation could be forced on RBS in the future, even if they were downgraded further. The Dignity (2002) Group therefore enforced this right.

This does not have a material impact of the Dignity (2002) Group's net finance cost in 2014 and whilst the cost of the facility in this cash collateralised state will increase over time, the Dignity (2002) Group is exploring ways to amend its terms within the next twelve months so that cash collateralisation is no longer necessary.