Dignity (2002) Limited

Unaudited Investor Report

for the 52 week period ended 30 December 2011

To:	BNY Corporate Trustee Services Limited
	Fitch Ratings Limited
	Standard & Poor's
From:	Dignity (2002) Limited (as Borrower)

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

NOTICE TO THE READER

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

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

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

Dignity (2002) Limited

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for the 52 week period ended 30 December 2011

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Financial Overview

Review of operations

- Unaudited EBITDA for the 52 week period ended 30 December 2011 was £72.6m compared to £69.2m for the audited 53 week period ended 31 December 2010.

- This performance is due to increased contributions from all operating divisions.

- On 19 January 2011, the trustees approved the payment of actuarial surpluses of £1.5m from the pre-arranged funeral plan trust. This is not included within EBITDA as presented in this report, but has been paid into the Elective Capex Account in accordance with the IBLA.

Trading locations

- The number of funeral locations within the Securitisation Group at the period end was 591, which compares to 567 at 31 December 2010. The movement in the portfolio is shown below:

Number of locations at 31 December 2010[§1]	567
Acquisitions – freehold	1
Satellite locations – short leasehold	25
Branch closure – freehold	(2)
Number of locations at 30 December 2011[§2]	**591**

- Non-Obligors also acquired nine funeral locations in the year and as a result, the entire Dignity Group operated 600 funeral locations as at 30 December 2011.

- The Dignity (2002) Group operates from 35 crematoria (Dec 2010: 33). The two additional locations are operated by the Securitisation Group, following their construction by a Non-Obligor.

- 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 30 December 2011 and 53 week period ending 31 December 2010.

[§1] Excludes 7 telephone branches.

[§2] Excludes 8 telephone branches.

Dignity (2002) Limited

Consolidated EBITDA and capital expenditure

for the 52 week period ended 30 December 2011

	Note	*Funeral services*	*Crematoria*	*Pre-arranged funeral plans*	*Portfolio*	*Central overheads*	***52 week period ending 30 Dec 2011***	*53 week period ending 31 Dec 2010*
	Note	*£m*	*£m*	*£m*	*£m*	*£m*	***£m***	*£m*
Net revenue		144.9	41.6	22.0	208.5	-	**208.5**	199.1
Operating expenses	1	(88.0)	(18.9)	(17.9)	(124.8)	(11.1)	**(135.9)**	(129.9)
EBITDA	1	**56.9**	**22.7**	**4.1**	**83.7**	**(11.1)**	**72.6**	69.2
Movement in provisions		n/a	n/a	n/a	n/a	n/a	**-**	-
Taxation	2	n/a	n/a	n/a	n/a	n/a	**(6.2)**	(7.6)
Minimum Capex Maintenance Amount	3	n/a	n/a	n/a	n/a	n/a	**(9.0)**	(8.6)
Free Cashflow		**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**57.4**	53.0
Actual Capital Maintenance Expenditure – ***calendar YTD***		8.1	1.7	-	9.8	0.4	**10.2**	9.9
Expenditure on Permitted Crematorium Developments by Obligors – ***52 week period***		-	-	-	-	-	**-**	3.3

Dignity (2002) Limited

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

as at 30 December 2011

	Note	*30 Dec 2011 £m*	*31 Dec 2010 £m*
Consolidated Net Assets:	4		
Fixed assets		**241.9**	240.9
Total current assets	5	**38.7**	45.3
Creditors: amounts falling due within one year		**(165.0)**	(185.6)
Net current liabilities		**(126.3)**	(140.3)
Total assets less current liabilities		**115.6**	100.6
Creditors: amounts falling due after more than one year		**(316.0)**	(324.8)
Provisions for liabilities and charges		**(9.3)**	(9.5)
Pension asset (net of deferred tax)		**1.0**	6.2
Net liabilities		**(208.7)**	(227.5)
Cash balances – amounts standing to the credit of:			
Capex Reserve Account		**-**	-
Funeral Home Reserve Account		**-**	-
Loan Payments Account	6	**0.4**	8.5
Issuer Transaction Account	6	**-**	-
Crematorium Reserve Account		**-**	-
Principal Reserve Account		**-**	-
Elective Capex Account	6	**3.2**	2.5
Special Capex Account		**-**	-
Restricted Payments Account		**-**	-
Upgrade Reserve Account	6	**1.4**	0.9
Permitted Obligor Acquisitions and Permitted Obligor Disposals:			
Permitted Obligor Acquisitions (gross) in the Relevant Period	7	**4.3**	6.7
Permitted Obligor Disposals (gross) in the Relevant Period (where Net Sale Proceeds exceeds £50,000 x RPI)	8	**0.6**	0.7
Financial Indebtedness:	10	**467.8**	498.7

Dignity (2002) Limited

Coverages and covenants

for the 52 week period ended 30 December 2011

	Note	***52 week period ending 30 Dec 2011 £m***	*53 week period ending 31 Dec 2010 £m*
EBITDA for the Relevant Period		**72.6**	69.2
Free Cashflow for the Relevant Period		**57.4**	53.0
Debt Service for the Relevant Period	9	**32.0**	27.0
Financial Covenant			
EBITDA DSCR ('Debt Service cover ratio') :			
Target		**>= 1.5 : 1**	>= 1.5 : 1
Actual		**2.27:1**	2.56:1
Restricted Payment Condition			
Free Cashflow DSCR :			
Target		**>= 1.4 : 1**	>= 1.4 : 1
Actual		**1.79:1**	1.96:1
EBITDA DSCR :			
Target		**>=1.85 : 1**	>=1.85 : 1
Actual		**2.27:1**	2.56:1

Confirmations

The Dignity (2002) Group confirms that the Financial Covenant has been observed for the Relevant Period ending 30 December 2011.

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

On 30 June 2011, a Restricted Payment totalling £11.7m 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 dividend.

On 30 December 2011, a Restricted Payment totalling £16.5m 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 dividend.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 30 December 2011

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 30 Dec 2011	***Funeral services £m***	***Crematoria £m***	***Pre-arranged funeral plans £m***	***Central overheads £m***	***Group £m***
Net revenue	144.9	41.6	22.0	-	**208.5**
Operating expenses	(88.0)	(18.9)	(17.9)	(11.1)	**(135.9)**
EBITDA	**56.9**	**22.7**	**4.1**	**(11.1)**	**72.6**
53 week period ended 31 Dec 2010					
Net revenue	143.3	37.5	18.3	-	199.1
Operating expenses	(87.9)	(16.4)	(15.4)	(10.2)	(129.9)
EBITDA	55.4	21.1	2.9	(10.2)	69.2

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.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 30 December 2011

4 Consolidated net assets

The consolidated net assets as at 31 December 2010 as disclosed in this Investor Report represents the final audited figures as per the 2010 statutory accounts.

Following the issuance of the Investor Report at 31 December 2010, a number of adjustments have been made to the balance sheet of the Dignity (2002) Group to reflect reclassification of intercompany balances 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 31 December 2010 have been adjusted to the following:

• Fixed assets	£240.9m
• Total current assets	£45.3m
• Creditors: amounts falling due within one year	(£185.6m)
• Net current liabilities	(£140.3m)
• Total assets less current liabilities	£100.6m
• Creditors: amounts falling due after more than one year	(£324.8m)
• Net liabilities	(£227.5m)

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

5 Total current assets

Total current assets include cash at bank and in hand of £7.3m (Dec 2010: £14.3m) of which £1.8m (Dec 2010: £1.9m) is cash held for operations.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 30 December 2011

6 Reserve account balances

Loan Payments Account

The balance in this account represents cash set aside to pay the future tax payments of the Dignity (2002) Group.

Issuer Transaction Account

During the year the Issuer paid a dividend of £35k to Dignity Finance Holdings Limited. These funds were subsequently paid as a dividend to Borrower.

Elective Capex Account

The balance in this account represents the receipt of the actuarial surplus from the pre-arranged funeral plan trust and proceeds from the sale of freehold properties. £1.5m of this balance is restricted until February 2012.

Upgrade Reserve Account

The balance on the Upgrade Reserve Account is £1.4m. The movement in the balance during the Relevant Period is net of contributions and withdrawals.

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

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

Six locations now have the required equipment installed and operational and have been funded by the levy. Legislation requires any crematorium constructed after October 2006 to have mercury abatement equipment. Consequently, 13 locations within the Group's portfolio already comply with the legislation. We expect to be fully compliant by the end of 2012 by installing equipment at six other locations.

An Annual Upgrade Update was provided to the Note Trustee and the Rating Agencies on 26 May 2011.

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.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 30 December 2011

8 Permitted Obligor Disposals

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

9 Debt Service and Financial Covenant

The Dignity (2002) Group confirms that none of the following occurred in the Relevant Period ending 30 December 2011:

- 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 30 June 2011 and 30 December 2011):

	Interest	*Principal*
	£'000	***£'000***
Class A Secured 6.310% Notes due 2023	9,969	7,700
Class B Secured 8.151% Notes due 2030	13,515	-

The interest payments above include the 1bp margin payable under the IBLA. The actual payments to bondholders were £9,953,000 and £13,498,000 under the Class A and Class B Notes respectively.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 30 December 2011

9 Debt Service and Financial Covenant (continued)

Debt Service for the Relevant Period ending 30 December 2011 has been calculated as follows:

	Principal	*Annual rate*	*Interest*
Senior Interest accruing in the period	*£'000*	*%*	*£'000*
£110m Class A Notes	83,995	6.32%	5,370
£100m Class B Notes	100,000	8.161%	8,161
£45.5m Class A Notes – issued February 2006	34,765	6.32%	2,224
£32.5m Class B Notes – issued February 2006	32,500	8.161%	2,653
£38.9m Class A Notes – issued September 2010	37,131	6.32%	2,375
£33.1m Class B Notes – issued September 2010	33,100	8.161%	2,701
Working capital facility	5,000	0.45%	22
Liquidity facility	50,000	0.50%	250
Hedging documents	202,500	0.3404%[§1]	689
Senior Interest accrued in the period			**24,445**
Interest received in the period	Variable	Variable	(146)
Scheduled repayments of principal in the period		n/a	7,700
Debt Service for the Relevant Period			**31,999**

[§1] Net rate payable on notional principal.

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10 Financial Indebtedness

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

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

(a) moneys borrowed;

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

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

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Notes to the Investor Report

for the 52 week period ended 30 December 2011

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.

Dignity (2002) Limited

Notes to the Investor Report

for the 52 week period ended 30 December 2011

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	Security Trustee	Tax	Tax Deed of Covenant	Transaction Documents	

13 Amendment to the IBLA

On 4 October 2011, the parties to the Issuer/Borrower Loan Agreement agreed to certain amendments to the Issuer/Borrower Loan Agreement.

The amendments clarify the definition of Adjusted Asset EBITDA (as defined in the Issuer/Borrower Loan Agreement), which is required to be positive for certain acquisitions to be made. The amendments ensure that Adjusted Asset EBITDA is calculated by reference to the most recent financial information available based on sources relevant to the business or assets being acquired. It remains a requirement for Adjusted Asset EBITDA to be positive.

In accordance with clause 12.1(a) of the Security Trust Deed, the Security Trustee (acting on the instructions of the Note Trustee (as the Instructing Creditor) but otherwise without reference to the Finance Parties) agreed to the modifications to the Issuer/Borrower Loan Agreement on the basis that in its opinion the interests of the Instructing Creditor would not be materially prejudiced thereby.

In accordance with clause 17.1.1 of the Trust Deed, the Note Trustee agreed (without any consent or sanction of the other Issuer Secured Creditors) to the modifications to the Issuer/Borrower Loan Agreement on the basis that in its opinion the interests of the holders of the Most Senior Class of Notes would not be materially prejudiced thereby.

Notice of these amendments was given on 14 October 2011.