

## Governance

**Report on Directors' remuneration**

for the 52 week period ended 26 December 2014



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**Alan McWalter**  
Chairman of the Remuneration Committee

**Dear Shareholder,**

On behalf of the Board, I am pleased to present the Remuneration Committee's report on Directors' remuneration for 2014.

Last year shareholders were given the opportunity to vote on our first binding remuneration policy and I was delighted that we received a 98.2 per cent vote in favour.

This year our remuneration policy remains unchanged and remuneration in 2015 will be in accordance with the approved policy. For ease of reference the substantive provisions of the remuneration policy that was endorsed by shareholders last year are repeated in this report.

The second part of this report, the Annual Report on Remuneration, sets out the pay outcomes for 2014 and how we intend to apply our policy for 2015. This section (and my Annual Statement) will be subject to an advisory vote at the forthcoming AGM.

**Performance outcome for 2014**

As highlighted in the Financial review, for the year ended 26 December 2014, the business continued to perform strongly. Underlying profit before taxation was £58.5 million, an increase of 11 per cent on the previous period. Underlying earnings per share was 85.8 pence, an increase of 19 per cent.

Accordingly, the strong performance in EPS growth has generated maximum annual bonus payments for Executive Directors, being 100 per cent of individuals' base salaries. Long-term incentive awards made in March 2012 under the shareholder approved Long-Term Incentive Plan ('LTIP') are subject to a relative total shareholder return ('TSR') measure. These awards will vest on 29 March 2015 and based on performance to 26 December 2014, Dignity returned 126.1 per cent compared to the median of the TSR peer group of 45 per cent. If this relative performance is maintained, the anticipated level of vesting is 100 per cent of the award.

The Committee believes that this represents a fair link between reward and performance for the year under review.

**Business context and application of policy for 2015**

Dignity plc has been a very strong and consistent performer since coming to market in 2004. Shareholders have seen the benefits of a stable and talented management team that came together at the end of 2008. Since then, the Company has significantly outperformed the FTSE 100 and 250 indices over one, three and five year periods.

With a clear and simple strategy (as set out on pages 10 and 11) and a motivated executive team, we are well placed to strengthen in each of the markets in which we operate and continue to keep on delivering shareholder value. As we seek to deliver our ambitious growth plans, it is important that our executive remuneration strategy is fit for purpose. In this regard, we are committed to ensuring that rewards for Executives are closely aligned to the interests of shareholders by having all our incentive arrangements linked to challenging performance targets, focused on growing earnings and generating market beating levels of shareholder return.

Annual bonus and long-term incentive plan opportunities remain unchanged from the year under review. The Committee continues to believe that the current arrangements do not inadvertently encourage undue risk taking given the clear long-term focus in our policy. The operation of the LTIP, in addition to operating clawback provisions in the short and long-term plans and share ownership guidelines, ensure that executive rewards are clearly aligned with the long-term objectives of the Company and its shareholders.

A two per cent increase has been applied to the Chief Executive's and Corporate Services Director's salary which is in line with the general employee increase. However, following consultation with our leading shareholders, more significant rises have been awarded to the Finance Director and the Operations Director.

Steve Whittern was promoted to Finance Director in 2009 on a below market salary and in recent years we have taken steps to move him gradually towards an appropriate rate. Reflecting his continued strong performance in the role which this year was in part demonstrated by the complex debt refinancing he led, the Committee has decided to increase his salary by 13 per cent to £300,000 per annum.

The Operations Director, Andrew Davies, has been instrumental in delivering the Group's strategy, particularly in overseeing our acquisition strategy. He has been responsible for delivering a 30 per cent increase in the number of funeral locations and the above plan performance of our largest ever acquisition, Yew Holdings Limited. The Committee has decided to award a 15 per cent increase in his salary to £310,000 per annum. His previous increases have been a modest two per cent or lower in each of the last five years.

The Committee considered the above salary increases carefully and whilst the Committee is very conscious of the relationship to workforce pay we are satisfied that the revised salaries reflect the size, breadth and sophistication of the Group and the roles and will assist in providing market competitive levels of pay which better reflect the individuals' respective increased experience and responsibilities. Further details are provided in the Annual Report on Remuneration.

**Shareholder feedback**

The Remuneration Committee encourages dialogue with the Company's shareholders. We consulted major shareholders on the salary increases proposed for 2015 and will continue to consult with major shareholders ahead of any significant future changes to the remuneration policy.

We look forward to your continued support of our remuneration policy at the 2015 Annual General Meeting.

**Alan McWalter**

Chairman of the Remuneration Committee

4 March 2015

### Introduction

At the AGM held on 5 June 2014, shareholders overwhelmingly approved a new Directors' Remuneration Policy for the Company. This policy, which specifies the pay elements operated by the Company and summarises the approach that the Committee will adopt in certain circumstances such as the recruitment of new directors and/or the making of any payments for loss of office, became effective on approval of the Policy and was applied by the Committee during 2014. It will continue to be operated in 2015.

Although not required by The Large and Medium-sized Companies and Groups Regulations 2008 as amended in 2013, the substantive terms of the above Directors' Remuneration Policy are repeated for ease of reference. However, any details that were specific to 2014 or earlier years (including, for example, any disclosures relating to named directors and the illustrative remuneration scenarios set out on page 50 have been updated to reflect the current position. The policy as originally approved by shareholders can be found on pages 54 to 67 of the Annual Report & Accounts 2013, a copy of which is available on the Company's website [www.dignityfunerals.co.uk/corporate](http://www.dignityfunerals.co.uk/corporate).

### REMUNERATION POLICY REPORT

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

- Align rewards with the interests of shareholders;
- 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
- Ensure that the overall package for each Director is linked to strategic objectives of the Group.

The Remuneration Committee is confident that this 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 measured against robust financial performance and returns to shareholders. This is achieved by heavily weighting the overall remuneration package towards variable pay.