

# Annual Report

Dignity plc Annual Report & Accounts 2018

**Serving**  
a changing  
marketplace

**Building**  
stronger national  
brands

**Enhancing**  
our digital  
services

**Leading**  
on quality and  
standards



**We are** committed to serving  
**changing** customer needs

# Our purpose and vision

## Our purpose

**Our customers are at the heart of what we do. We are here to help them at one of the most difficult times in their lives and we are honoured to serve the communities we are part of.**

Listening to our customers and understanding their changing attitudes and lifestyles must drive what we do as a business.

Our brands, products, services and technology must reflect those changes and are the reason why we now offer enhanced choice and value-for-money. The high-quality of our offering, competitively priced, is how we will differentiate ourselves from the competition, both nationally and locally.

Every day we want to meet and exceed our customers' expectations. We aim to do this by delivering excellent client service through the continued dedication of our people and by serving our customers with expertise, compassion and commitment.

## Our vision

**Our vision is to lead the funeral sector in terms of quality, standards and value-for-money. To achieve this we are building a more coherent, cohesive and technology-enabled business, one geared to meet the changing needs of our customers.**

In addition, we have always taken our role as a responsible corporate citizen extremely seriously and recognised that our broader role in society goes beyond just creating value for our shareholders. We will therefore continue to be a responsible and sustainable business, determined to meet both our social responsibilities and the expectations of all our stakeholders.

## Contents

### Strategic Report

|    |  |
|----|--|
| 01 | A long-term commitment and sustainable focus |
| 10 | Summary performance in 2018                  |
| 12 | About Dignity                                |
| 14 | Chairman's statement                         |
| 16 | Chief Executive's review                     |
| 32 | Strategy and business model                  |
| 34 | Key performance indicators                   |
| 38 | Operating review                             |
| 45 | Financial review                             |
| 50 | Principal risks and uncertainties            |
| 54 | Non-financial information statement          |
| 55 | Corporate and social responsibility          |

### Governance

|    |  |
|----|--|
| 60 | Chairman's introduction to governance        |
| 61 | Governance structure                         |
| 62 | Board of Directors                           |
| 64 | Executive Management Team                    |
| 65 | Directors' statement on corporate governance |
| 70 | Audit Committee report                       |
| 73 | Nomination Committee report                  |
| 74 | Report on Directors' remuneration            |
| 90 | Directors' report                            |

### Financial Statements

#### Group Accounts

|     |  |
|-----|--|
| 93  | Independent auditors' report to the members of Dignity plc |
| 100 | Consolidated income statement                              |
| 100 | Consolidated statement of comprehensive income             |
| 101 | Consolidated balance sheet                                 |
| 102 | Consolidated statement of changes in equity                |
| 103 | Consolidated statement of cash flows                       |
| 104 | Notes to the financial statements                          |

#### Company Accounts

|     |  |
|-----|--|
| 141 | Dignity plc Company balance sheet                  |
| 142 | Dignity plc Company statement of changes in equity |
| 143 | Notes to the Dignity plc financial statements      |
| 149 | Financial record                                   |

### Other Information

|     |                                  |
|-----|----------------------------------|
| 151 | Alternative performance measures |
| 154 | Shareholder information          |
| 155 | Contact details and advisers     |
| 156 | Financial calendar               |



# A long-term commitment and sustainable focus



Forward momentum against a backdrop of change

## Serving a changing marketplace

Meeting evolving customer needs with a new service and price model p.2 and p.3



## Building stronger national brands

Promoting greater choice and flexibility p.6 and p.7



## Enhancing our digital services

Increasing online support and digital services p.4 and p.5



## Leading on quality and standards

Improving the customer experience and leading standards of best practice p.8 and p.9





## Customer focus/

Providing customers with services they need and value

### Serving a changing marketplace

**In a time of increasing competition and ongoing change in the funeral sector, with heightened focus on price competition masking differentiation based on quality, we must ensure that the service we offer customers is compelling and competitive and keeps pace with their changing needs and expectations. We have already made significant changes to our pricing and extended our range of Simplicity services, but this is only the beginning and there is more to be done.**

**We will achieve this by continuing to listen to our customers and by our clear determination to continue to provide unrivalled levels of quality and service.**





"When choosing a funeral director the care of my loved one matters to me most."

### Market and consumer insights

Our customers are at the heart of what we do. Understanding them is essential which is why we invest heavily in our own research to gain the crucial insights which mean we can develop the services they want and need.

# 73%

73 per cent of people said care of the deceased was very important.

Source: Time to Talk About Quality and Standards report

### A more client-centric service model adapted to better suit evolving client needs

In 2018 we began to test a variety of different services and prices, recognising that consumer choice is increasingly essential and not an option for the funeral industry. That process will continue through 2019.

### Launched new product and pricing structure

We have adopted a new tiered proposition, specifically targeting different parts of the market and types of consumer, designed to meet a range of needs.

We are unbundling our prices and services to introduce greater flexibility so that customers can create the right funeral for their loved one. We will be competitive on price, while maintaining Dignity's exceptional levels of service.



## Customer focus/

Creating a compelling multi-channel service offering

"I am looking for advice, support and information on pricing that is clear and easy to find."

## Enhancing our digital services

**We are at the forefront of digital development in our sector with the potential to transform the services we deliver and the experience customers receive.**

**The way that we connect with our customers is changing. Going online is now increasingly the norm for people looking for information and this is now impacting our industry. 38 per cent of our clients now find us online and over 60 per cent of our website traffic comes from mobile devices. We are developing our online support services and promotional initiatives to meet customer expectations. In short, we are building a leading digital presence.**



### National TV Campaigns

- In 2018 our first ever television advertisement for our funeral plans was broadcast on daytime television.
- We also launched our Simplicity Cremations television advertising campaign.



### Technology is changing expectations and increasing opportunities

# +76%

Further developments on mobile friendly architecture and website optimisation have seen us retain our position as the funeral website with the highest domain authority in the UK.

The Group's websites are performing well, with over 1.8 million visits in 2018 on a year-to-date basis, up 76 per cent on the prior period.

Our Funeral Notices digital service has been successfully trialled and will be available in all of our locations by the end of March 2019. This service is already attracting more than 100,000 views per month.



### The internet is changing the nature of competition

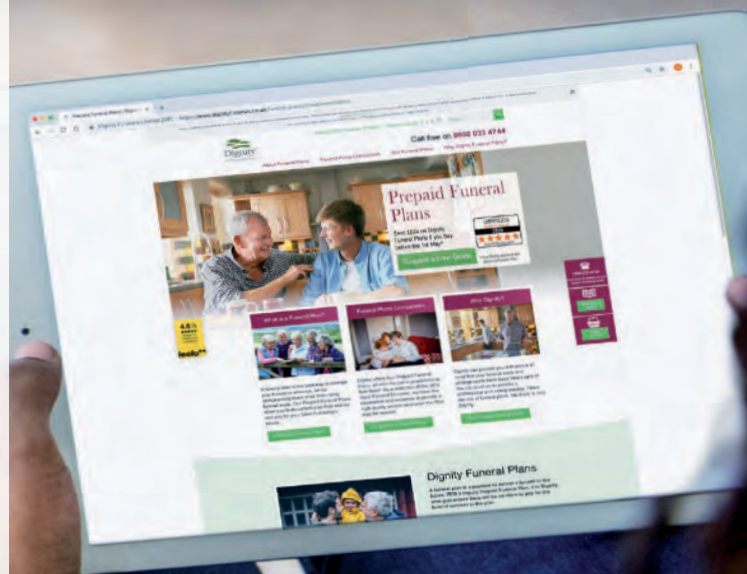
Building a well known digital offer that allows us to leverage our national scale is an important part of our strategy to modernise our business and give us a commercial advantage in the digital age.

The vast majority of our branches are now trained to offer our Funeral Notices digital service which is proving popular with clients. This provides customers with a convenient way to share details of funeral arrangements through social media and the internet. It also allows friends and family to arrange flowers and make donations.

# £6m

annual marketing investment

The Group anticipates annual marketing investment of £6 million. A significant proportion of this will be allocated to Pay Per Click promotional activities. Investment is also being directed at building a powerful internal digital marketing unit supported by leading external experts.





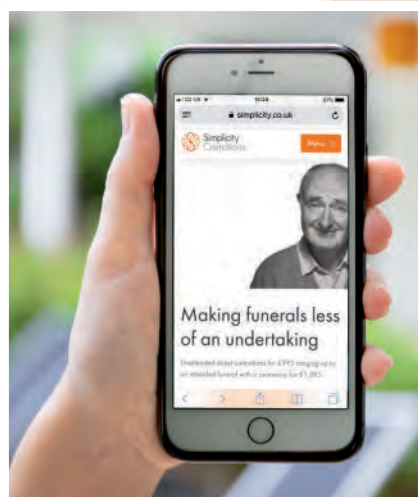
## Customer focus/

Providing families with greater choice and flexibility

### Building stronger national brands

**We have a long history of providing high standards of care, quality and service. These attributes underpin our brands which are also competitively priced and supported by our national network of funeral locations and crematoria.**

**As lifestyles change, along with attitudes to arranging funerals, we will build on these core brand strengths. We will ensure that our distinctive Dignity and Simplicity brands provide families with greater choice and flexibility, whether they are looking for a traditional value-for-money service or a simple affordable alternative. In 2018, we gave Simplicity a new brand identity and have branded our Crematoria division 'The Crematorium and Memorial Group'. In 2019, we will relaunch our Dignity brand.**





“I’m looking for a simple, less traditional and affordable alternative funeral service.”

### Building brand awareness, supporting and enhancing our strong local positions

#### Dignity With Distinction

Dignity will remain our core funeral brand and will grow in clients’ awareness in the coming years.

#### Simplicity Cremations

We are developing the Simplicity brand and widening our range of low-cost services with the aim of building the leading low-cost funeral business in the UK.

#### The Crematorium and Memorial Group

Our crematoria business supports funeral directors and clients across the country. The Dignity brand in the future will only be identified with our funeral business and so our crematoria business has been given its own distinct brand.

## +535% rise in Simplicity site visits

Simplicity Cremations continues to grow online with visits in 2018 to its website up 535 per cent compared to 2017. We have also seen more than twice the number of people choose to buy our direct cremation service than the year before.

The Group has expanded its range of Simplicity Cremations services, providing customers with greater choice in this expanding segment of the market.

The new attended service will provide customers with all the practical and essential elements of a cremation without the obligation to pay for traditional elements they do not want. The service is available online only and is the first of its type nationally available in the UK.





## Customer focus/

Ensuring customers receive the highest standards in facilities, service and care

Leading on quality and standards

**We are committed to improving our customers' experience and to leading the way in setting standards of best practice. We continue to call for a regulated market that will be good for clients and society. It is a thread which has run through our business from the beginning and we are determined to maintain this focus.**

**By improving standards, bringing greater transparency and building trust, we have the opportunity to ensure our approach to upholding quality continues to meet the needs and expectations of our customers.**



## Major research on funerals and crematoria

In 2018, Dignity commissioned research into the funeral sector. The report is the most comprehensive study of funeral directors ever published in the UK, exploring how families perceive the funeral sector and expect funeral directors to operate.

As one of the leading funeral providers in the UK, we believe it is important for people to have a better understanding of what good looks like so that they can make informed choices. The report forms the basis of discussions and debate that the Group wants to stimulate on the best way to protect consumers and achieve appropriate quality standards.

The Group also published the results of a report on UK crematoria entitled: 'Cost, Quality, Seclusion and Time'. Our research shows that while price is important, customers consider time or the length of a service as often more valuable.

"99% of respondents said that Dignity met or exceeded their expectations."

Source: Dignity Client Survey 2018

"72% of Dignity's own crematoria offer 60 minutes for a standard cremation. The remainder have a minimum of 45 minutes."

**92%**  
of people did not know that funeral directors were not regulated.

- 80% supported regulation to ensure minimum standards.

Source: Time to Talk About Quality and Standards report

## Summary performance in 2018

Our performance in 2018 was ahead of market expectations and following the significant decline in funeral market share witnessed in 2016 and 2017, our comparable funeral market share increased slightly in 2018. However, underlying operating profit decreased by 23 per cent to £80.2 million and average income per funeral reduced from £3,222 to £2,973 reflecting the radical change we have embarked on. The funeral mix continues to evolve in the light of new service offers and ongoing pricing trials and we have made good progress in identifying the best balance between price and service offer.

We have embarked on a wide-ranging Transformation Plan, backed by a major investment programme which is making good progress. This three year plan will create a funeral business that remains focused on quality, while being able to adapt to, and lead, a changing marketplace.

### Our strategic objectives

Our strategic objectives and overall strategic approach were updated last year and remain as follows (more information is available on page 32):

- **Protect market share and reposition the Group for growth.**

Strategic highlight: In 2018 we grew our comparable market share slightly. This was a good start, but further work needs to be done to consolidate this position.

- **Establish new market positioning.** We establish ourselves as the best value service provider in the market.

Strategic highlight: We have piloted a number of price and service offerings and will continue to do so into 2019 and also affirmed Simplicity's position as the lowest priced nationally available service of its kind.

- **Re-base the business model and market expectations.** Find the optimum relationship between price, service and demand for our funeral businesses.

Strategic highlight: We have made good progress towards re-basing the business model and have worked diligently to keep the market informed of our progress. Having tested a number of pricing and product alternatives we are moving towards an unbundled approach to our full service offering.

### Our overall strategic approach

Our strategic objectives and the means of delivering them are based on the following four key elements:

- 1 **Continue to build on the strong fundamentals of the business and use these as a platform for change.**
- 2 **Be more distinctive in the marketplace.**
- 3 **Embrace technology in developing and delivering our services for customers.**
- 4 **Continue to be a good corporate citizen.**

 See Chief Executive's review on pages 16 to 31

 See Strategy and business model on pages 32 and 33

### Our three year Transformation Plan is underway



#### Forward-looking statements

This Annual Report and the Dignity plc investor website may contain certain 'forward-looking statements' with respect to Dignity plc ("Company") and the Group's financial condition, results of its operations and business, and certain plans, strategy, objectives, goals and expectations with respect to these items and the economies and markets in which the Group operates.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'will', 'would', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal' or 'estimates' or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Many of these assumptions, risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely. There are a number of such factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the economies and markets in which the Group operates; changes in the legal, regulatory and competition frameworks in which the Group operates; changes in the markets from which the Group raises finance; the impact of legal or other proceedings against or which affect the Group; changes in accounting practices and interpretation of accounting standards under IFRS, and changes in interest and exchange rates.



## Financial highlights

Revenue

**£315.6m**

(2017: £324.0m)

Operating profit

**£66.3m**

(2017: £98.0m)

Underlying operating profit

**£80.2m**

(2017: £104.6m)

Dividends paid in the period

**24.38p**

(2017: 24.38p)

Basic earnings per share

**63.0p**

(2017: 115.8p)

Underlying earnings per share

**85.8p**

(2017: 128.3p)

Number of deaths

**599,000**

(2017: 590,000)

Cash generated from operations

**£94.9m**

(2017: £112.5m)

Underlying cash generated from operations

**£101.9m**

(2017: £115.4m)

## By division

### Funeral services

Group operating profit share  
(before central overheads) (%)
**56%**
Group underlying operating profit  
share (before central overheads) (%)
**59%**

Revenue

**£214.9m**

(2017: £221.8m)

Operating profit

**£54.8m**

(2017: £77.0m)

Underlying operating profit

**£62.2m**

(2017: £79.5m)

### Crematoria

Group operating profit share  
(before central overheads) (%)
**41%**
Group underlying operating profit  
share (before central overheads) (%)
**38%**

Revenue

**£78.0m**

(2017: £74.0m)

Operating profit

**£39.6m**

(2017: £38.2m)

Underlying operating profit

**£40.3m**

(2017: £40.0m)

### Pre-arranged funeral plans

Group operating profit share  
(before central overheads) (%)
**3%**
Group underlying operating profit  
share (before central overheads) (%)
**3%**

Revenue

**£22.7m**

(2017: £28.2m)

Operating profit

**£2.6m**

(2017: £7.8m)

Underlying operating profit

**£2.8m**

(2017: £8.0m)

### Central overheads

Costs

**£30.7m**

(2017: £25.0m)

Underlying costs

**£25.1m**

(2017: £22.9m)

See Financial review on  
pages 45 to 49

Any forward-looking statements made in this Annual Report or the Dignity plc investor website, or made subsequently, which are attributable to the Company or any other member of the Group, or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to in this statement. Each forward-looking statement speaks only as of the date it is made. Except as required by its legal or statutory obligations, the Company does not intend to update any forward-looking statements. Nothing in this Annual Report or on the Dignity plc investor website should be construed as a profit forecast or an invitation to deal in the securities of the Company.

#### Alternative performance measures

The Board believes that whilst statutory reporting measures provide a useful indication of the financial performance of the Group, additional insight is gained by excluding certain non-recurring, non-trading and exceptional transactions. All measures marked as underlying above and throughout this Annual Report are alternative performance measures. Further detail may be found on pages 151 to 153.



## About Dignity

Our services are focused on the evolving needs of our clients



72,300 (2017: 68,800)

Number of funerals conducted during 2018.



831 (2017: 826)

Number of funeral locations we operate in the UK.

### Funeral services

**We are a major provider of funeral services in the UK and we strive to set the highest standards of service and care.**

#### Services we provide

**Dignity With Distinction** provides clients with access to our national network of funeral locations where they can arrange a funeral personal to their needs.

**Simplicity Cremations** allows clients to organise a less traditional funeral, taking advantage of Dignity's national network of crematoria.



Read more about our performance in the Operating review: p.38 and p.39

### Crematoria

**We are the largest single operator of crematoria in Britain with a growing portfolio of well-established and state-of-the-art crematoria that meet the needs of the local communities we serve.**

#### Services we provide

Our crematoria provide a range of cremation services, from basic unattended cremations to traditional full services.

Our extensive, peaceful grounds allow clients to remember their loved ones in a very personal way.



65,200 (2017: 63,400)

Number of cremations conducted during 2018.

46 (2017: 45)

Number of crematoria we operate in England and Scotland.



Read more about our performance in the Operating review: p.40 and p.41



486,000 (2017: 450,000)

Number of active funeral plans as at 28 December 2018.

### Pre-arranged funeral plans

**We are one of the UK's largest providers of pre-arranged funeral plans and we continue to strengthen our business in this growing market.**

#### Services we provide

Our pre-need business allows clients to pre-arrange their funeral through our national network of funeral locations and established relationships with many affinity partners.



Read more about our performance in the Operating review: p.42 and p.43



**38%**

38 per cent of our customers now find us online, with over 60 per cent of our website traffic coming from mobile devices.

**60 minutes**

72 per cent of Dignity's own crematoria offer 60 minutes for a standard cremation. The remainder have a minimum of 45 minutes.

**1.8 million**  
visits to our websites

Dignity receives more than 1.8 million visits to our websites annually.

**Low-cost**  
cremation service

In 2018 Simplicity Cremations launched a national low-cost attended cremation service. This is the first such nationally available service.

**National**  
network

We are the only operator with a national network of funeral locations and crematoria.

**99%**  
reputation &  
recommendation

99 per cent of respondents said that we met or exceeded their expectations.

Source: Dignity Client Survey 2018

**910,000**  
pre-paid plans

We have already helped more than 910,000 people plan for their funerals in advance of which 486,000 remain outstanding.

## Dignity Today

Dignity is the only publicly listed company operating in the funeral sector. The high-quality of our offering, competitively priced, is how we will differentiate ourselves both nationally and locally.

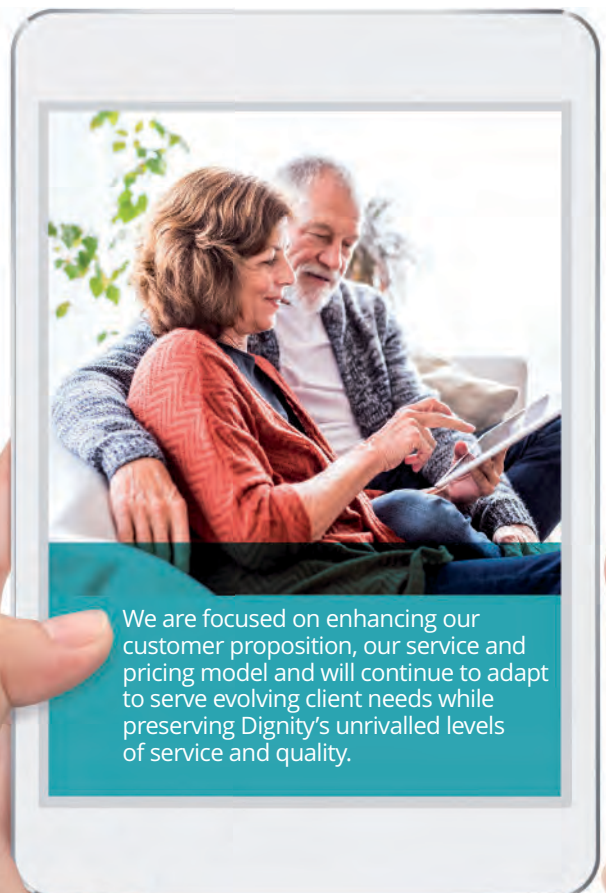
Alongside the expansion of our digital offerings we continue to offer a greater choice for consumers and our focus on high standards and excellent client service remains central to our plans for the future.

## We are a leader in the provision of quality funerals and after-life care:

- **Standards:** Industry leading standards and facilities for care of the deceased.
- **Service:** We offer customers a caring personal service; 98 per cent would recommend us.
- **People:** Experienced professional employees with a commitment to delivering quality funerals.
- **Innovation:** Expanded Simplicity Cremations service options, the only truly nationally available low-cost cremation service.
- **Coverage:** Able to serve 90 per cent of the UK population and still growing.

## Our role in society

We are here to help people at one of the most difficult times in their lives and we are honoured to serve the communities we are part of. We take this role extremely seriously and understand that integrity and high standards are vital if we are to play our role discreetly and well in society.



We are focused on enhancing our customer proposition, our service and pricing model and will continue to adapt to serve evolving client needs while preserving Dignity's unrivalled levels of service and quality.



## Chairman's statement

# A resilient performance in a challenging and transitional year



**Peter Hindley**, Chairman

The Group is undergoing radical change, we have built momentum and our plan is on track. The Board is confident that we will achieve our goal of transforming the Group over the next three years while remaining committed to our customers, shareholders and wider stakeholders.

### Overview

In 2018 we delivered a resilient performance, ahead of market expectations in what was a challenging and transitional year. Against a backdrop of continued change in the funeral market we began the transformation of our business while remaining focused and committed to our customers, shareholders and wider stakeholders.

The Group is undergoing radical change. We have built momentum and our plan is on track. The Board is confident that we will achieve our goal of transforming the Group as planned over the next three years.

Along with change has come opportunity and a renewed vision and ambition for the Group. Quite simply, the Board's vision is to lead the funeral sector in terms of quality, standards and value-for-money. To achieve this we are building a more coherent, cohesive and technology-enabled business, one geared to meet the changing needs of our customers.

Our ambition is to fully reposition Dignity in the funeral market and ensure a sustainable and successful long-term future. Offering customers an enhanced and very competitive range of services and price options is at the core of this change.

### Industry regulation

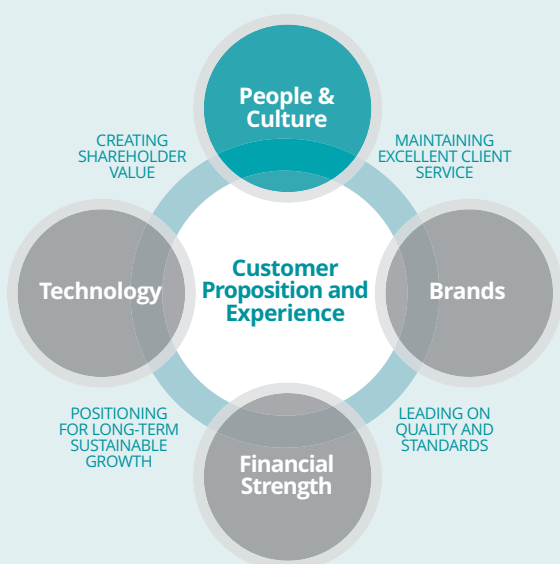
More broadly, we have continued to advocate that the funeral industry must also change. Regulation is needed and we support moves to bring this about. Customers must be treated fairly and be assured of minimum acceptable standards whichever funeral director they choose.

We therefore noted with great interest the Competition and Markets Authority's ('CMA') proposal in November 2018 to launch a full investigation into the funeral market as part of its interim report into the industry. At the time of writing, that full investigation has not yet been confirmed. We have made public our support for such an investigation if it happens and believe it could help improve standards across the sector and deliver better outcomes for customers. We are also keen to work closely with the CMA and help them understand the challenges of providing a quality funeral service.

In addition, we have made the following points to the CMA:

**On competition:** the funerals market is already competitive, however, more can be done to improve the ability of customers to exercise the choice that exists, especially through greater pricing transparency.

**On improvements in the sector:** we hope that the CMA will take more account of the lower prices and greater transparency that already exists in the sector, including Dignity's own pricing structure which has already changed significantly over the past year. We believe it is essential that the CMA clearly acknowledges the variation in quality among different funeral providers.





## Underlying earnings per share

**85.8p**

(2017: 128.3p)

## Interim dividend

**8.64p**

(2017: 8.64p)

## Final dividend

**15.74p**

(2017: 15.74p)

**On vulnerable consumers:** we are especially keen to work with the CMA to improve the experience of all customers organising a funeral, and ensure they are given the appropriate support to take informed decisions.

**On regulation:** research indicates that 92 per cent of consumers believe the industry is already regulated, and many are surprised that it is not. We hope that the CMA investigation will examine how regulation can improve standards and transparency in the sector.

In short, we want to continue to play a leading role as a responsible and progressive corporate citizen in the funeral industry as it undergoes long overdue change.

### Dividends

The Board is proposing a final dividend of 15.74 pence (2017: 15.74 pence) per share, which, subject to approval at the AGM, will be paid on 28 June 2019 to shareholders on the register at close of business on 17 May 2019. This will bring the total dividend for the year to 24.38 pence (2017: 24.38 pence) per share.

### Company Secretary change

During the period, Richard Portman relinquished his role as Company Secretary while continuing as Corporate Services Director. He was replaced as Company Secretary by Tim George, who joined the Group in 2018.

### My role as Chairman

The Board has been seeking my successor following the announcement of my intention to retire in 2019. The Board is in the process of conducting an extensive search and will announce my successor in due course.

### Our people and resources

I want to thank our people for continuing to deliver outstanding customer service in what has been an uncertain and challenging year. This speaks volumes for their professionalism and commitment to our customers. Their continued loyalty and commitment will be essential if we are to deliver our Transformation Plan.

### Executive performance and remuneration

A new Remuneration Policy will be presented to the annual general meeting for approval. This follows a period of consultation with our significant shareholders and institutional voting services.

### Planned change of name

Given the increasing focus on our brands across our entire business, the Company will, as permitted by its Articles of Association, change its name. The Company will confirm its new name later in the year.

This change will help to remove confusion between our trading brands and our corporate profile.

### Outlook for 2019 and beyond

The Board's expectations for the year ahead are unchanged from the most recent guidance. 2019 is likely to see underlying profitability lower than 2018 but in line with market expectations. In the medium-term the Board believes that targeting solid single digit increases in underlying EPS is appropriate and achievable.

### Governance during a time of change

The Company continues to pride itself on the strength and effectiveness of its governance. It is of particular importance during a time of change within the Company and when there is increasing scrutiny of the industry as a whole.

Good governance is the basis on which we as a business build an environment of trust, transparency and accountability. As such it provides assurance and confidence to our customers and fosters long-term investment, financial stability and business integrity. As a Board we are therefore committed to maintaining our high standards of corporate governance and ensuring there is a high level of cultural integrity embedded within the way we operate.

### Board priorities

The Board provides strategic leadership to the Group within a framework of robust corporate governance and internal control, setting values and standards that are embedded throughout the business to deliver long-term sustainable growth for the benefit of our shareholders and other stakeholders.

### Compliance

Our governance framework, which is shaped by the UK Corporate Governance Code, the Companies Act 2006 and secondary legislation and Financial Conduct Authority rules and guidance, sets out standards of good practice in relation to Board leadership and effectiveness, remuneration, accountability and relations with shareholders.



## Chief Executive's review

# Delivering excellent client service during a time of change



**Mike McCollum**, Chief Executive

The fundamentals of our business remain compelling and strong. We are confident we have the platform, focus and ambition to get ahead of the competitive curve and to continue to provide sustainable growth while maintaining the highest possible standards of client service.

### A strong platform

- Core strengths in quality and excellent standards of service delivery.
- Developing client-centric brands and price competitiveness.
- Building a leading digital presence.
- Strong cash generation funding transformational investment.
- A determined Board and strong senior management team.

### Overview

In 2018 we exceeded market expectations and following the significant decline in funeral market share seen in the previous two years, our comparable funeral market share increased slightly in 2018. This was a key objective of the year and I am delighted with the progression we made in 2018. Encouragingly, comparable market share increased to 11.2 per cent from 11.1 per cent in the previous year. However, as anticipated, underlying operating profit decreased by 23 per cent (to £80.2 million) and average income per funeral reduced to £2,973 from £3,222 in the previous year, reflecting the 25 per cent reduction in our simple funeral price and the full service price reductions we have made so far. The funeral mix continues to evolve in the light of new service offers and ongoing pricing trials and we have made good progress in identifying the best balance between price and service offer.

As the Chairman has said in his statement we are on track with our Transformation Plan; we have built good momentum and the Board is confident of achieving its goals. The fundamentals of our business remain compelling and strong. We are confident we have the platform, focus and ambition to get ahead of the competitive curve and to continue to provide sustainable growth while maintaining the highest possible standards of client service. However, we recognise that we are still in the early stages of a three year journey and the Board does not underestimate the scale of the challenge the Group faces.

In his statement the Chairman also discussed the CMA's consultation on a full investigation into the funeral market, following its market study. On pages 19 and 20 we publish extracts from our responses to the CMA over the past few months. In them we have made clear our support for such an investigation in the interest of helping to create a properly regulated industry while highlighting a number of important issues.

What is also clear is that such an investigation (if it takes place) will most likely last 18 months to two years and, if other market investigations are a guide, will generate much interest and comment, some of it hostile towards major industry players like ourselves. We will remain focussed on the final outcome and findings of the investigation, not the inevitable twists, turns and comments that such a process will trigger. We will remain calm and helpful throughout what could be a high profile and testing period, ensuring that the CMA sees all sides of any issues.



## Where we are now

### Radical transformation

In 2018 we began a period of radical transformation for the Group. During and after this change we will remain a caring business with core values built around quality and providing excellent customer service. We have a long-term commitment to the customer and we are shaping our services around their evolving needs; we are committed to change and are responding to change.

### A major opportunity

This change presents a major opportunity for the Group to become the pre-eminent modern funeral services business in the UK once the Transformation Plan is complete. We will build on our existing strong market positions, quality, and scale and the Board is determined to seize this opportunity.

How people remember their loved ones is changing which means funerals are changing. Dignity is responding by offering greater flexibility and choice and taking alternative types of funerals into the mainstream. For example, in 2018 the Group launched a TV campaign for its low-cost cremation service Simplicity.

### Updates

We have made good progress in 2018 and built the momentum necessary to begin executing our Transformation Plan:

- Our market share stabilised following our price changes;
- Our websites continue to improve, with increasing numbers of people selecting our websites from searches they make;
- We have updated our Simplicity brand, relaunching it with modern marketing, including a TV campaign;
- We have made great progress on our Dignity brand and expect to report significant developments on this during 2019; and
- Our Transformation Plan has an excellent base. As of the end of 2018, there was a team of 17 experienced individuals in the business to support our ambitious plans and this number is expected to grow.

## Our Transformation Plan

The core components of our Transformation Plan are:

- Modernise the client proposition;
- Invest in and simplify the operating model; and
- Streamline central support and invest in technology to centralise and automate administrative processes.

## Transformation Plan summary update

So far our focus has been in the following areas:

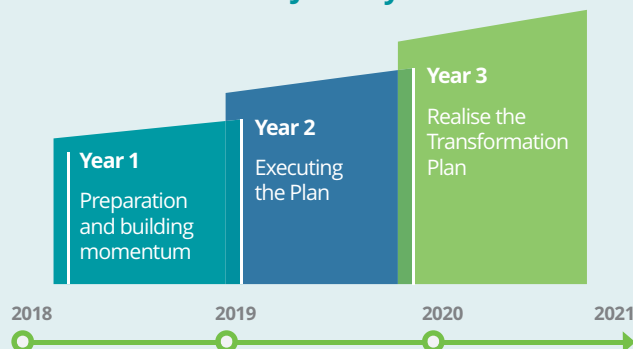
- Engaging the senior leadership team within Funeral Operations including creating a new national role to focus on service delivery;
- Completing a thorough review of the current IT applications and support model for the funeral business against the requirements of the Transformation Plan and agreeing the IT architecture for the future;
- Monitoring and developing trials of the Group's funeral services leading to the unbundling of services offered within bespoke funeral arrangements;
- Managing the ongoing development of the brand identity for the Group's Simplicity offering; and
- Finalising the number and structure of efficient branch networks in advance of the testing of our new operating model.

In 2019, we began to execute the broader plan following this detailed work.

## Financial objectives

As we set out in August 2018, we expect to invest £50 million (partly funded by £17 million of surplus property disposals) in our business and achieve annualised net cost savings of £8 million per year by the end of 2021, increasing to £13 million per year by the end of 2028.

## Our Transformation Journey



Read more about our Transformation Plan, progress and developments against it on: p.22 to p.27



## Chief Executive's review continued

### Our purpose – to serve our customers

Our customers are at the heart of what we do. We are here to help them at one of the most difficult times in their lives and we are honoured to serve the communities we are part of.

Listening to our customers and understanding their changing attitudes and lifestyles must drive what we do as a business.

Our brands, products, services and technology must reflect those changes and are the reason why we now offer enhanced choice and value-for-money. The high-quality of our offering, competitively priced, is how we will differentiate ourselves from the competition, both nationally and locally.

Every day we want to meet and exceed our customers' expectations. We aim to do this by delivering excellent client service through the continued dedication of our people and by serving our customers with expertise, compassion and commitment.

Our customer insights and research mean we are in a strong position to develop the services they want and become an informed and valuable commentator on emerging societal trends with regard to death and funerals.

This year we have introduced the following services and price points:

- Simplicity extended its offering beyond unattended direct cremation to allow options for a small gathering at the point of cremation and for a full cremation service. With all Simplicity offerings, traditional elements, such as the use of a hearse or procession into the crematorium, are not provided. Simplicity is available from £995 and is also available as a pre-arranged funeral plan.
- Dignity has been trialling a tailored funeral, where clients can choose to pay for additional services to personalise their requirements, rather than paying a single package price.
- In January 2018, our Simple funeral was reduced to £1,995 (plus disbursements) in England and Wales and to £1,695 (plus disbursements) in Scotland.
- With effect from January 2019, all of our locations offer a full service funeral for no more than £3,545 plus disbursements.

### Our vision

Our vision is to lead the funeral sector in terms of quality, standards and value-for-money. As the Chairman said in his statement, to achieve this we are building a more coherent, cohesive and technology-enabled business, one geared to meet the changing needs of our customers.

In addition, we have always taken our role as a responsible corporate citizen extremely seriously and recognised that our broader role in society goes beyond just creating value for our shareholders. We will therefore continue to be a responsible and sustainable business, determined to meet both our social responsibilities and the expectations of all our stakeholders.

Quality of care for the deceased is a critical aspect of funeral provision. The need for proper facilities is more important today than ever. The biggest factor missing from conversations around the funeral sector is quality when it comes to caring for the deceased.

Our vision for the funeral industry is for it to be properly regulated. There is a misconception that the funeral sector is already regulated or operates to a minimum standard. It does not. We therefore continue to lead the call for change as we seek a regulated market that will be good for clients and society.

Dignity is working collaboratively with industry partners and other stakeholders to improve standards across the sector. At the end of 2018 we initiated a round table discussion and invited the CMA and other representatives from the funeral sector, co-operating together to try and find a solution. The Chairman has commented on the CMA and its proposed full market investigation into the funeral industry and there is more background on page 14 of this review.

### Major research on funerals and crematoria

In 2018 we commissioned and published two pieces of research, one on funerals and the other on crematoria. The first, 'Time to talk about quality and standards', is the most comprehensive study of funeral directors ever in the UK, exploring how families perceive the funeral sector and expect funeral directors to operate. The report forms the basis of discussions and debate that the Group wants to stimulate on the best way to protect consumers and achieve appropriate quality standards.

We also published the results of a report on UK crematoria entitled, 'Cost, Quality, Seclusion and Time.' Our research shows that while price is important, customers consider time or the length of a service as often more valuable.

As one of the leading funeral providers in the UK, we believe it is important to understand what consumers think and to raise issues that are of concern to them and need addressing by policy makers and politicians beyond the funeral industry.

### People and culture

We have always been a people business, helping families at an extremely difficult time in their lives. Our plans to transform the business mean that we are setting the bar even higher and asking more of our staff. I am pleased with how positively employees have responded so far and thank them for their support during this time of change.

# The CMA report into the funeral market

*The Competition and Markets Authority is the UK's primary competition authority. It is an independent, non-ministerial government department with responsibility for carrying out investigations into mergers, markets and the regulated industries and enforcing competition and consumer law. In June 2018 the CMA announced a market study into the funeral industry "to review how well the market works and whether consumers are getting a good deal." In November 2018 it published its interim report and consultation, part of which proposed that the funerals market should be referred to a CMA Group for a full market investigation. Such an investigation has not yet been confirmed but a decision must be reached by the end of May 2019.*

*As a leading player in the funeral industry and a long-standing campaigner for its regulation, Dignity welcomed the CMA's interest in the funeral sector and has made two public statements in response. The first, in November 2018 was an immediate response on the day of the release of the CMA's interim report. The second, in January 2019, was in response to an invitation by the CMA for views from interested parties on the issues raised in its report.*

## CMA funeral market study interim report: Dignity's response

### November 2018 statement

These are some of the key points from Dignity's November 2018 CMA statement:

Dignity plc, the UK's only listed provider of funeral-related services, acknowledges today's announcement from the Competition and Markets Authority regarding the provisional findings of its study into the funerals market and notes its proposal to carry out a full market investigation. Dignity is considering the recommendations in detail and notes the key findings. Dignity has engaged constructively with the CMA since the market study was announced in June 2018 and strongly supports the opportunity to improve standards within the sector and meet the expectations of consumers.

### Greater choice for consumers

Dignity welcomes the focus in the report on transparency and competition.

Dignity believes there is a need for greater transparency on pricing, more consumer choice and high levels of quality across the sector. The Group has acknowledged that there is rising consumer demand for lower-cost funeral options and has already been making considerable steps to provide a wider range of choice for its customers.

In January 2018, in advance of the CMA market study being announced, the Group implemented a new pricing policy and continues to test and consider a range of new price points and services for its customers, while preserving Dignity's unrivalled levels of service and quality. Delivering excellent client service remains a key strategic priority and means that the Group can offer the best-quality service at each price point and market segment in which it chooses to operate.

## Leading the call for regulation and higher standards

Dignity has led calls for greater regulation of both at need and pre-paid funeral sectors for some time, while continuing to set the standard for what constitutes best practice in the industry.

The CMA's work in the sector provides a significant opportunity to improve standards and protect consumers. The Group welcomes the CMA's initial focus on this area, and would encourage them to explore this further.

UK consumers assume all funeral directors are the same, that their market is already regulated and each of them is operating to a consistent set of professional standards, when in fact none of these statements are true. Dignity's research showed that 92 per cent of consumers did not know that funeral directors were not regulated in the UK, but once aware 80 per cent supported regulation to ensure minimum standards.

Dignity believes the funeral industry will benefit significantly from proper regulation to ensure that clients can assume minimum standards, and effectively assess and compare what a funeral service includes. The Group would welcome regulation which sets out minimum standards for core activities such as the care of the deceased, minimum standards of facilities and also operating procedures in crematoria.

The Group has shared its research and supporting information with the CMA and will continue to make the case for agreed minimum higher standards. As part of this the Group is leading a cross-industry initiative, bringing together industry, consumer bodies and policymakers, to develop collaborative long-term solutions to improve standards and transparency across the sector.





## Chief Executive's review continued

### The CMA report into the funeral market continued

#### These are some of the key points from Dignity's letter in January 2019 to the CMA:

Given the concerns that the CMA has identified, Dignity supports a market investigation which will enable the CMA to undertake a thorough analysis of the market. We recognise that there are specific challenges relating to vulnerable customers, particularly those who are financially vulnerable and would welcome thoughts about how to ensure the market works better for them.

#### A competitive market that works for customers

In many respects the funeral market is highly competitive: there are many competitors; no single provider has a market share greater than approximately 16 per cent; and the number of funeral directors has increased significantly in recent years. There is also growing evidence that customers have started to more actively 'shop around', driven in part by an increase in online searches for funeral directors.

In our view, a key issue the CMA should address is how best to improve the ability of customers to exercise the choice that already exists, providing them with clear and relevant information on prices, the range of different products available, and quality, in a way that will make comparisons easy for customers, allowing them to make informed choices.

Price lists are available in our locations and over the phone. We have already posted our crematoria prices online and have basic pricing available online for all funeral services.

Central to transparency and greater information for customers must be a recognition that there is significant variation in the quality of funeral services, and quality differentials are not always visible to customers. Funeral services are not a homogenous commodity. We would encourage the CMA to explore ways to allow customers to compare the different service providers and their respective facilities and services.

#### Resulting in better outcomes for customers for the long-term

We note that there is a significant focus on historic pricing in their interim report. Price is hugely important for our customers, and we are committed to offering fairness and transparency in our pricing structure. While we understand the CMA has some concerns in this area, we believe there are some key points that warrant further consideration and clarification in a market investigation.

First, we have taken steps to reduce prices and change our pricing structure both on simple and full funeral services. Structural factors that contributed to historic price rises in the sector are now changing. We therefore envisage a sustained, long-term change of approach to pricing and have communicated this to our investors.

Second, we believe that many of our customers are price aware and actively exercise informed choice. In many cases where death is anticipated, the decision process can begin earlier.

Third, we believe it is important to take into account quality in any analysis of how competition works in this market. Many aspects of quality are not observable to the customer in advance, and it may be the case that customers use pricing as a guide to quality in addition to recommendations from others. We would encourage the CMA to think about how best to measure customers' preferences for quality and to understand the costs of quality in terms of operating costs, capital expenditure on maintenance and investment in both front of house and back of house facilities.

We consider that their interim report does not sufficiently consider these issues and see the full investigation as an opportunity to undertake a more thorough analysis.

#### Supporting financially vulnerable customers

We recognise that some customers face particular challenges in relation to funeral affordability.

We already have processes in place to support these customers, including affordability checks and signposting to more affordable options where appropriate. We have a longstanding policy of providing child funerals for free across both our funeral and crematoria businesses, with around 1,000 child funerals performed at no cost each year. We have introduced a number of new low-cost, affordable options which increase choice for customers and in October 2018 introduced the lowest price, nationally available, attended cremation service through our Simplicity proposition.

#### HM Treasury's consultation on the funeral plan sector

HM Treasury is continuing its consultation into the pre-paid funeral plan market, which it announced in June 2018. Dignity has led calls in recent years for regulation and its research, published together with Fairer Finance, has highlighted the poor sales practices and financial management risks that certain providers engage in. An update from HM Treasury is expected in the first half of 2019 and Dignity hopes HM Treasury acts swiftly to regulate the market and minimise further consumer detriment.

# Serving an evolving market

## The UK funeral market

The UK funeral market is getting more complex. The internet continues to change everything, and consumer behaviour is evolving rapidly. Until 2015, the death rate slowly decreased while the number of funeral directors has increased rapidly.

## Scale and structure of the market

The funeral director market remains very fragmented, with approximately two thirds of funeral directors being small owner-manager businesses. There are approximately 290 crematoria in the UK, with around 66 per cent owned by local authorities. It is estimated that three quarters of all funerals result in a cremation with the remainder being burials.

In 2018 the initial publication of recorded total estimated deaths in Britain for 52 weeks was 599,000, a small increase on 2017. Some of the Group's key performance indicators rely on the total number of estimated deaths for each period and this information is obtained from the Office for National Statistics (ONS). The ONS expects long-term increases in the number of deaths, reaching approximately 700,000 per year by 2040.

## Increasing competition

The funeral market is already extremely competitive, however, more can be done to improve the ability of customers to exercise the choice that exists, especially through greater pricing transparency.

## The pre-paid funeral plan market environment

The UK pre-paid funeral plan market declined in 2018. New plan sale volumes for providers registered with the Funeral Planning Authority, which represents more than 90 per cent of the market, were 177,000 in 2018, a reduction of 15 per cent against the 207,700 plans sold in 2017.

Consumers have become wary of the market following heightened negative press surrounding poor industry practices and HM Treasury announcing a consultation considering formal FCA regulation of the market.

Price competition intensified in 2018, with many of the leading providers cutting their prices. The majority of plans continue to be sold directly through funeral directors, but significant plan volumes are still being written by online lead generators and outbound call centre operations.

The evolving trends and dynamics shaping the funeral sector, how we operate and serve our customers.

Increasing competition

Connecting digitally

Changing attitudes and behaviours

Price and affordability

Flexibility and choice

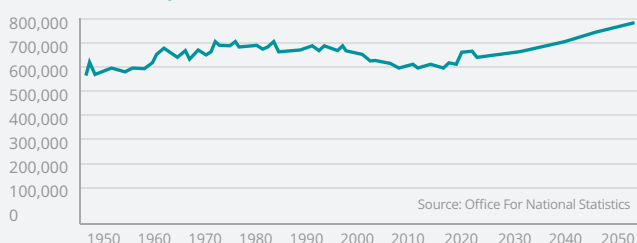
77%

The proportion of funerals involving a cremation has grown in the past 60 years, from 35 per cent in 1960 to 77 per cent in 2018.

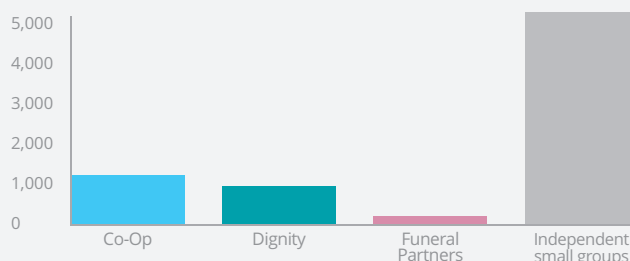
Source: Cremation Society Statistics

## Deaths in Great Britain

Long-term expectations are for the number of deaths to reach 700,000 by 2040.



## Number of locations





## Chief Executive's review continued

# The Transformation Plan

## Funeral services

### Our Transformation Plan

Our Transformation Plan has been developed following a major strategic review in 2018. The Board has appointed a Transformation Director who is driving change with full project management support. Execution of the Transformation Plan is scheduled to be complete by the end of 2021.

### The need for change

The combination of increased price competition and more demanding consumers requires a new approach, namely, a radical transformation of our business and business model.

The landscape in our industry has changed, with a growth in lower-quality providers, lower-cost funeral alternatives and with online channels driving increased price transparency.

Consumers are becoming more demanding and sophisticated. Values are changing, there is increased secularism and a growing demand for personalised, lower-cost services, supported with online resources. There are fewer visits to the High Street and more online research and shopping around.

### Market opportunity

While this degree of change could be seen as unnerving, we chose to see it as an opportunity. Our response will be to build a lower-cost model and build recognisable national brands associated with quality in support of competitive prices. Specifically, we will grow our presence in the low-cost cremation market.

We will embrace online and build a leading digital presence; unbundling our full service funeral pricing to create a more compelling proposition and greater flexibility for clients; and further develop our low-cost Simplicity Cremations service.

### Strategic review

The strategic review took place over the first half of 2018. It involved focus groups and quantitative surveys with clients, consumers and other stakeholders from across the market. The company analysed data spanning the last 10 years on clients, transactions, fleet, property and people. It involved a review of our branch network footprint and service delivery model. And we engaged, naturally, with staff to gather their insights and perspectives.



#### Increasing price competition

#### Changes in landscape

- Growth in lower-quality providers.
- Growth in lower-cost funeral alternatives.
- Online channels driving increased price transparency.

#### Our strategic response

- Build a lower-cost model.
- Build recognisable national brands associated with quality to support the pricing proposition.
- Promote adoption of enhanced professional standards across the industry.
- Grow presence in low-cost cremation market.

#### More demanding, sophisticated consumers

- Changing values e.g. increased secularism.
- Growing demand for personalised, lower-cost services, supported with online resources.
- Fewer visits to the High Street with more online research and shopping around.

- Embrace online and build leading digital presence.
- Unbundle full service funeral pricing to create a more compelling proposition and greater flexibility for clients.
- Align arrangement process to evolving client requirements (with increasing mobility for client-facing roles).
- Further develop the low-cost Simplicity proposition.

## Components of the Transformation Plan

### 1 Modernise the client proposition



- Implement more client-centric service model



- Launch new product and pricing structure



- Build national brands (Dignity and Simplicity)

### 2 Invest in and simplify the operating model



- Separate front and back of house



- Right-sized branch network



- Scale operating networks

### 3 Streamline central support and invest in technology to centralise and automate administrative processes



- Simplified, focused management structure



- Invest in support capabilities and IT systems

## Our Transformation Journey

In 2018 we embarked on a wide-ranging Transformation Plan backed by a major investment programme. This three year plan will create a funeral business that remains focused on quality, while being able to adapt to, and lead, a changing marketplace.

Continuing to provide a consistently high level of service to our clients is vital during and after this time of change along with building the infrastructure to deliver a future-ready proposition.

We are making good progress in planning and preparation and have built the strong momentum necessary to deliver our plan.

### Financial implications

Strong cash generation will support planned investments and costs which form part of the Plan. Overall expected cost remains at £50 million.

## A three year transformation timeframe

|   | Activity  | 2018 | 2019 | 2020 | 2021 |
|---|---|------|------|------|------|
| Modernise the client proposition  | • Roll out proposition nationally in 2019   |      |      |      |      |
|   | • National brand building alongside existing trade names to take to end of 2021                                     |      |      |      |      |
| Invest in and simplify the operating model  | • Detailed planning and solution testing complete   |      |      |      |      |
|   | • Reconfigure operating networks and roll out new operating model   |      |      |      |      |
| Streamline central support and invest in technology to centralise and automate administrative processes | • Invest in capability gaps for transition and support functions. This has started and will be complete by mid 2020 |      |      |      |      |
|   | • Develop IT strategy and specify solutions   |      |      |      |      |



## Chief Executive's review continued

### The Transformation Plan continued

# 1. Modernise the client proposition



#### Simplicity

- Affordable and dignified low-cost cremation.
- Range of services expanding.
- Address growing demand for value-only services.
- Currently online only.

#### Simple

- Simple funeral in line with market standards.
- Some, but few, options to tailor service.
- Competitive entry price point for full funeral.

#### Tailored service

- Flexible offer allowing client to fully customise a funeral to their needs.
- Lower entry price but still commensurate with high levels of service to the client.
- Provides fully unbundled pricing for online research and shopping around.



#### What our customers are telling us

- They want choice, flexibility and high levels of service.
- Willing to use technology to arrange or modify funerals.



### **Adapting our service model to better suit evolving client needs and to improve efficiency**

We will provide client-facing staff with better tools to improve service levels and efficiency. This will include having vehicles and mobile devices to support arrangements at a location of the client's choice.

We will reward the delivery of key objectives such as exceptional client service and will drive increased front line productivity through more flexible ways of working.

### **A new tiered proposition providing greater flexibility to meet individual client needs**

We will implement across our business a structure of services that gives clients the most appropriate range of choices. This will be achieved through ongoing testing of different propositions to ensure their appropriateness.

### **Building our national brands leverages our scale and addresses the needs of increasingly digital clients**

We will build known, national brands to leverage our scale advantage in the digital age. We will market our commitment to high standards of care, quality of service delivery and competitive entry prices.

In our full service offer we will increase the prominence of the national brand over local brands while retaining strong local names. In the low-cost market we will grow Simplicity into the leading national provider of low-cost cremations.

### **Areas of focus in 2019**

Building on the successes of 2018, the focus will be on:

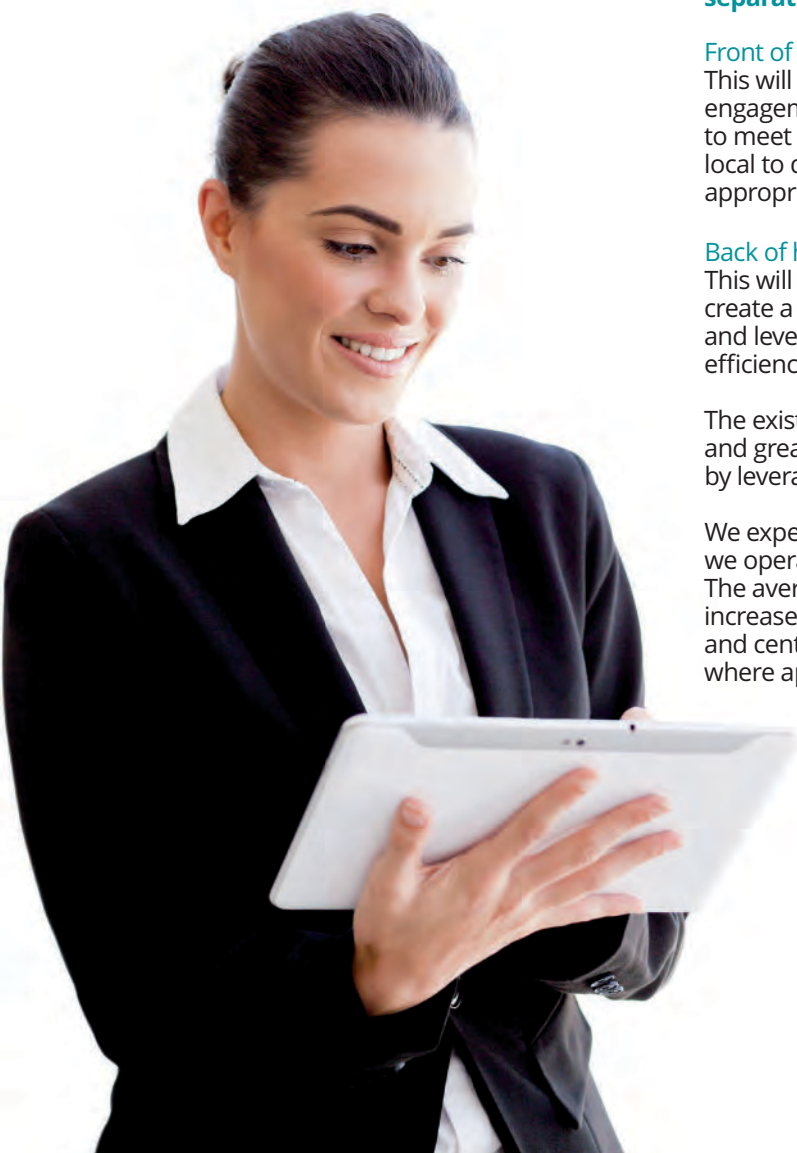
- Implementing trials of new technologies in simplified forms to test client responses;
- Further trials of different service propositions;
- Relaunch the Dignity brand; and
- Further support and marketing of the Simplicity brand.



## Chief Executive's review continued

### The Transformation Plan continued

## 2. Invest in and simplify the operating model



### Enabling specialisation and efficiency gains by separating front and back of house activities

#### Front of house

This will increase the focus on client service and community engagement, will establish a flexible arrangement model to meet changing consumer needs as these migrate from local to digital, and will enable us to move to more appropriately-sized locations.

#### Back of house

This will increase the focus on operational efficiency, create a superior operational platform for future growth and leverage organisational scale to realise operational efficiency benefits.

The existing network will be right-sized and enhanced and greater efficiency in funeral delivery will be achieved by leveraging scale and better allocating resources.

We expect to reduce the number of branch networks we operate from more than 120 to approximately 75. The average number of funeral locations per network will increase and we plan to move from a mix of distributed and centralised operations to centralised operations where appropriate.

#### Optimise network footprint

- We will rationalise locations with low performance or highly overlapping catchments.
- There will also be targeted satellite expansions to extend geographic coverage.

#### Mobile client-facing staff

- We will introduce mobile staff to extend coverage to areas where traditional branches are not economic.

#### Branch formats

- The Group will operate different formats to suit the focus of particular locations.

#### Maintain facility quality

- We will ensure all facilities continue to set the industry standard for the quality of care provided for the deceased.

### 3. Streamline central support and invest in technology to centralise and automate administrative processes

#### Consistency and focus in management roles

We will introduce consistent management roles nationwide in support of the strategy. There will be operational focus with managers unencumbered by non-management tasks. We will create specialised front and back of house roles to support process excellence and introduce clearly defined KPIs to assist management. We will also provide greater recognition of strong performance and reduce overall costs.

#### Central investment will enable improved support function effectiveness

Finance will automate and centralise supplier/client payments and produce standardised reporting. The marketing function will produce centrally created marketing materials and improve the targeting of digital spend. There will be centralised HR capabilities to reduce management time spent on non-core activities. We will also realise savings in key procurement activities such as mortuary equipment and stationery.

#### New IT capabilities to improve operational efficiency and enable delivery of plan

Our CRM System will enable consistent and informed communication and support for clients along the full journey from initial contact to final follow up, potential referrals or returning clients.

Our tablet based arrangement software will capture funeral arrangement data digitally to maximise accuracy and efficiency (versus the existing paper based process) and provide rich, relevant visual content e.g. choice of flowers. A workflow management tool will implement a new end-to-end workflow system to optimise funeral arrangements and the delivery process. Resource management will optimise the scheduling of limousines and hearses to maximise usage and also optimise the rostering of funeral director and support staff.



#### Areas of focus in 2019

In order to support efficient operational activity, it is essential that central processes are streamlined. Focus will therefore be on:

- Introduction of consistent management roles nationwide;
- Finalisation of the overall IT strategy and selection of relevant IT partners to support change;
- Modernisation of business intelligence reporting to support operational activities; and
- Implementation of a modern purchase-to-pay solution for all procurement activities.

#### IT roadmap established

As so much of our Transformation Journey will rely on having the right IT solutions we have laid out a clear IT roadmap.

This addresses:

- A full maturity assessment of our IT systems and services today;
- The plan of where we will invest in our IT capabilities to support the delivery of our strategy;
- Review of alternative overarching architecture options;
- Prioritisation and selection of individual applications to enable the strategy; and
- Selection of partners to work with on our implementation plans.



## Chief Executive's review continued

# People are central to realising our Transformation

### Our people

Our people will be central to the success of our Transformation. Perhaps the most crucial group will be those who have direct contact with our customers. It is essential that our service levels, of which we are justly proud, do not falter.

Managers across the business also have a major responsibility during this time of change to keep close to their teams. To encourage and to lead by example. The same is true of the Board. We have a duty to make the best decisions we can but also to make sure that we communicate well and lead by example. This may well be the biggest test that we have faced in the last 20 years.

### A strong management team

The Board acted decisively at the beginning of 2018, recognising that the business had to change radically. Since that decision was taken the senior management team across the Group has responded swiftly and well in supporting this decision. I am confident that we are on the front foot as we face what will be a challenging and testing time.

### An enhanced communications strategy

One of the consequences of the decisions taken last year has been to review the way we communicate and explain ourselves. While we have always done this with investors, we are now increasingly reaching out to other groups; policy makers, regulators and the general public, to cite just three. Above all, we are looking to improve the quality of our dialogue internally.

### Why culture matters

The culture of a company matters, no more so than in one which is in contact with people at one of the most difficult times of their lives. We already have a strong and caring culture. It is essential that this culture remains rooted and strong as the Group transforms. The transformation is about the type of service and value-for-money that we offer customers. We have demonstrated significant flexibility with our prices over the past year and this will continue. What is not negotiable is the care and attention we give our customers. That compassionate culture has grown and strengthened over many years and is the cornerstone of who we are.

### Engaging with and managing the expectations of wider stakeholders

While our employees are crucial to the success of our plan we are also mindful of our wider stakeholders. These include shareholders, customers, industry bodies and politicians and as industry scrutiny grows, this last group will become increasingly important. Explaining ourselves and the industry, while also continuing to call for regulation, will remain an important strand to our communications.

## Engage

We need to do more than communicate. We need to engage fully with our staff. This is an essential element in the work of the Transformation Team and good progress is being made.

## Empower

Having engaged, we will work to ensure that they are empowered, able to take responsibility and action.

## Enable

Having empowered our employees, the final piece of the jigsaw for our managers and the Group is to make sure they have the tools to do the job.

We are truly a people business focused on delivering excellent client service. This is in our DNA and shapes interactions with all our stakeholders.



### Engaging with our employees

The Board and senior management team knows that it needs to improve the quality of its communication and engagement with employees. We know that this has to be a two-way process: megaphone communications will not and cannot work in the modern age.

A FEW MONTHS AGO WE ASKED YOU TO TELL US WHAT YOU THOUGHT OF OUR ORGANISATION...

You told us there were things that worked well, but we needed to improve too.

You want to know how you're doing and have better training...

...especially around computers and IT

...and better, more relevant communication from our leaders.

You want to see better use of our resources to improve customer service...

We hear you. We're making plans to change and grow over the next three years.

And with your help, we will make Dignity go from Good to Great.



ENGAGING  
RESPONDING  
CHANGING  
EVOLVING  
ADJUSTING  
TRANSFORMING  
IMPROVING  
PROGRESSING  
ADVANCING



## Chief Executive's review continued

## Shaping the future

## Leadership

**Our focus at present is on transforming the Group and securing a sustainable and successful future. But we also want to help shape the future beyond the four walls of our Group. We see the bigger picture of a changing industry, one in need of minimum standards and regulation.**

### Standards, quality and regulation

We are proud of the stand we have taken with regard to campaigning and arguing for minimum standards, quality and regulation in our industry. But we will not be content until this becomes a reality.

### As an industry leader

We are one of the largest companies in the funeral sector and as such have a responsibility as a good corporate citizen to lead. This means listening to customers and finding out what they want, along with making their and our case to the powers that be.

### Our broader societal purpose

As a leader we have to take account of broader issues than just our own performance as a business. Of course it is essential that we deliver value to our shareholders. But it is also important that we provide value to our customers and make a positive contribution to society at large. As a funeral company, we are involved in a fundamental and timeless human ritual and we are mindful of the responsibility this places on us.



## Research and insight

### Societal trends over the next ten years

Our recent research projects mean that we have a good understanding of trends in society with regard to funerals. One might assume that in the next ten years almost universal digitisation and individualisation of funerals is inevitable and becomes the norm. One might predict a rapid increase in "green" funerals. But we might be wrong on at least one of those counts, which means we will continue to research and test our assumptions and remain alert to the unexpected.

In 2018 we published two significant research projects which helped us understand the big picture as well as crucial smaller details. For example, our major research project into funerals revealed that 92 per cent of people were unaware that funeral directors are not already regulated and 80 per cent of participants supported regulation of minimum professional standards. At a more granular level, our crematoria research revealed that 59 per cent of people felt that 30 minutes for a service was not long enough. 13 per cent of all crematoria have times of 30 minutes or less and 30 per cent have times of less than 45 minutes. Approximately 72 per cent of Dignity's own crematoria allocate 60 minutes, with the remainder of locations offering 45 minutes for a standard service.

# Our future, our vision



## Beyond Transformation

Our focus is rightly on the transformational challenge we face and achieving our goals will be tough. However, sizing up this challenge has re-energised the Group because we recognise that with change comes opportunity.

We are excited about the future. Excited about the possibilities that will open up for the business and excited about the role we can play in helping to raise standards in the industry. We have a renewed vision and a clear purpose.

We therefore look to the future with confidence and anticipation.

# Q&A

## Outlook Q&A

with Mike McCollum, Chief Executive

### Q. Do you fear a full market investigation by the CMA?

**A.** No. We know that these types of investigation, while they are running their course, can create a bumpy ride for major players like ourselves. However, what matters is the outcome and the final report and what we want the outcome to be is for customers to make more informed choices and an industry which is on the road to being properly regulated. It goes without saying, of course, that we will defend ourselves robustly from unfair and malicious criticism from those who may seek commercial or other advantages from the heightened profile that such an investigation creates.

### Q. Are you part of the industry's problem or the solution given some of the negative comments made by the CMA in their interim report?

**A.** We have taken issue with a number of points made in the CMA's interim report and published our response on pages 19 and 20 of this Report and Accounts. More generally, we think we are an important part of the solution because as a Group we know what "good" looks like in terms of quality and standards. For many years we have operated and behaved in a way that is consistent with what we believe would be expected if the industry were regulated. We would welcome clear communications of standards and an industry where the consumer could be confident that minimum standards are being universally met.

### Q. How likely is the Transformation Plan to go as expected?

**A.** We are confident in achieving the desired outcome, namely, a stronger business, fit to face the future with confidence. Having said that, over the next three years there will almost inevitably be the challenge of the unexpected, often events and circumstances largely beyond our control. This is where managers and Directors prove their worth and we as a Board fully expect to have to prove ours in that time. The task we face is not easy, we are under no illusions about that but we are confident we will deliver.

### Q. Do you regret the prices you were charging as recently as 2017?

**A.** No. We delivered high-quality at a fair price and with 99 per cent of clients saying we met or exceeded their expectations and 85 per cent saying the price they paid was what they expected. Since then the market has changed, price competition has intensified and consumers have become more price-conscious (but not less quality-conscious).

### Q. How many jobs will be lost in delivering the Transformation Plan?

**A.** Whilst regrettable, we anticipate about 300 over the three years of the Transformation Plan, but further careful consideration will be necessary before we conclude. We hope the vast majority of any such changes will come from natural staff turnover.



## Strategy and business model

# A strategy and business model built on long-term relationships

**In last year's Annual Report, the Board took decisive action and announced a change in strategy in the light of increasing competition and market share erosion.**

### Our strategic objectives

#### Protect market share and reposition the Group for growth

Our key strategic objective and priority continues to be to protect market share and reposition the Group for growth.

##### How:

- By offering a wide choice of new price points and services to our clients while preserving our unrivalled levels of service.
- By continuing to prioritise excellent client service regardless of market segment which we believe will lead to organic growth.
- Through the launch of our Transformation Plan, following a rigorous review of our funeral operations, they will be organised to run more efficiently and effectively.

#### Establish new market positioning

We establish ourselves as the best value service provider in the market.

##### How:

- By combining our unrivalled service levels based on historic, long-term investment, with a new, competitively priced range of service and product options for clients.
- Through our comprehensive digital strategy be the leading online presence in the funeral sector.
- Build our brands to stand out in an increasingly commoditised and competitive market.

#### Re-base the business model and market expectations

Find the optimum relationship between price, service and demand for our funeral business going forward.

##### How:

- By building on the trials started in 2018 to gauge the market response to various pricing scenarios while maintaining our high levels of professional service and care.
- Segmented approach to the market, borne out by the developments of the Simplicity business.

### Our overall strategic approach

Our strategic objectives and the means of delivering them are based on the following four key elements:

#### 1 Continue to build on the strong fundamentals of the business and use these as a platform for change

These strengths, which derive from our well-established and highly regarded local businesses, our proven ability to deliver exceptional service and strong corporate governance, allows us to remain robust and flexible in the face of change.

#### 2 Be more distinctive in the marketplace

Define clear market positions and build on our positive reputation, and business, by delivering a high-quality and value-for-money service.

#### 3 Embrace technology in developing and delivering our services for customers

Efficient use of appropriate technology will help to create significant improvements in how the Group operates, understands its business and delivers outstanding service to its clients.

#### 4 Continue to be a good corporate citizen

Corporate responsibility is integral to our business as it supports the delivery of our strategy and aligns with our values.

## How we operate

### Operating profitably and efficiently:

- Our consistent track record in strong cash generation and financial discipline enables us to reinvest and grow the business. We generate revenues from new and returning clients. This discipline means that we expect to fund the Transformation Plan from existing resources.

### Controlling and measuring performance:

- We do this by making well informed decisions, supported by careful risk management and good governance.

### Operating responsibly:

- We do this through embedded policies and robust initiatives, appropriate to the distinct needs of our stakeholders, alongside reducing our impact on the environment and making a positive social impact.

### Maintaining performance across our operations:

- We strive to provide our clients with the highest standards of facilities, service and care. We achieve this by our commitment to continuous improvement and investment in our portfolio and consistently delivering excellent client service.

### Building strong relationships:

- Our clients are the foundation of our business and their trust is earned through our actions both individually and as a Group.
- Our people are our most important asset and we value and invest in them as they are integral to the delivery of our strategic objectives.
- For shareholders, our priority is to reposition the Group for long-term success.
- We play an important part in, and are valued by, the local communities we serve and we are committed to making a difference.

## Creating and delivering value



### Our clients

- Our objective is to be the company that everyone knows they can trust in their time of need. We achieve this through continuous improvement and delivering products and services to our clients.



### Our people

- We believe that the quality of our people is a strong enabler of business growth. We value our people and they are a great asset. We support them by recognising and rewarding performance and long service plays a key part in this.



### Our shareholders

- We aim to deliver the best possible operational performance from the business to deliver maximum returns to our shareholders over the long-term.



### Communities

- Contributing to the communities in which we operate benefits both local people and our business. It enhances our profile and reputation and promotes employee engagement.

## Governance

Our approach to good governance continues to be robust and effective. Clear Board roles and governance processes offer balance and experience to our strong executive team, helping drive strategic and performance progress.

## Risk

Dignity has a well-established risk management process which is embedded within its business to support the identification and effective management of risks across the business.

## KPIs

The Group uses both non-financial and financial KPIs to manage the business and ensure the Group's strategy and objectives are being delivered.

## Remuneration

Our strategy is focused on delivering short and long-term financial performance. Earnings targets, share price return and the achievement of strategic objectives are measures of performance used to incentivise Executive Directors to deliver the Group's strategy.



## Key performance indicators

## Measuring performance



## The link between our strategy and our KPIs

## Historical KPIs remain relevant

The Group has had a consistent set of KPIs used to monitor the performance of the business against its strategy for many years. These KPIs have continued to remain relevant during the changes in the last year.

## New KPIs for 2018

The average income per funeral will be a key driver of operating performance and will therefore be formally reported as a KPI with effect from this Annual Report.

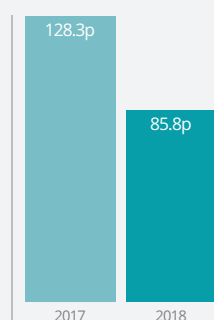
## Transformation Plan KPIs

As each element of the Transformation Plan is executed, measures of success will be defined. Where relevant and not commercially sensitive, these will be viewed as Group KPIs and reported accordingly in future trading announcements.

Alongside this, further detail, such as summaries of investments made, and average income by funeral type, will be provided.

## Financial KPIs

Underlying earnings per share (pence) **85.8p**



## Definition

This is underlying profit after tax divided by the weighted average number of Ordinary Shares in issue in the period.

## Developments in 2018

The reduction follows the decrease in underlying operating profit.

Underlying cash generated from operations (£m) **£101.9m**



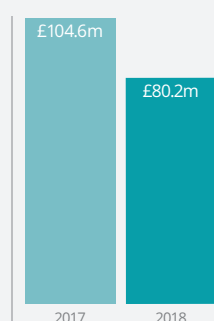
## Definition

This is the statutory cash generated from operations excluding non-underlying items.

## Developments in 2018

The Group continues to convert operating profit into cash efficiently.

Underlying operating profit (£m) **£80.2m**



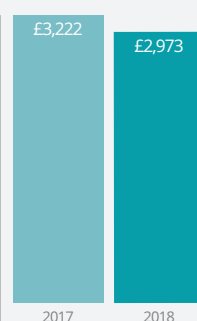
## Definition

This is the statutory operating profit of the Group excluding non-underlying items.

## Developments in 2018

Underlying operating profit declined year-on-year, but was ahead of market expectations.

Average income per funeral (£) **£2,973**



## Definition

Net funeral revenue divided by the number of funerals performed in the relevant period.

## Developments in 2018

This reduced year-on-year in line with the Group's strategic price changes.

## Non-financial KPIs

## How we measure performance

Total estimated number of deaths in Britain (number) **599,000**

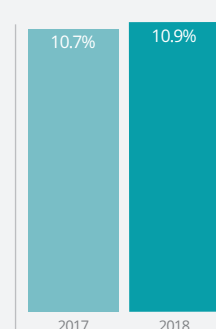
**Definition**

This is as reported by the Office for National Statistics.

**Developments in 2018**

Deaths were higher than originally anticipated in the period.

Crematoria market share (per cent) **10.9%**

**Definition**

This is the number of cremations performed by the Group divided by the total estimated number of deaths in Britain.

**Developments in 2018**

Market share has increased, reflecting the effect of increases in the number of locations combined with an increase in the number of Simplicity and other direct cremations being performed.

- We monitor our performance by measuring and tracking KPIs that we believe are important to our longer-term success.

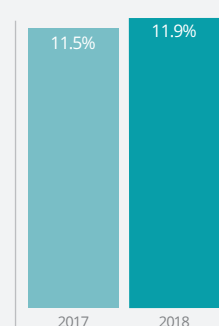
- Each KPI reflects a quantifiable measure of different aspects of the Group's strategy. They act as headlines for the Board, allowing them to use more detailed management information to consider the Group's strategy and financial performance in greater depth where appropriate.

- Our KPIs and goals are set to measure our progress in improving our financial performance and in embedding sustainable long-term growth.

**Our KPIs are aligned with our strategic objectives**

All KPIs are focused on ensuring that the Group delivers the strategy set at the beginning of 2018. No particular KPI is solely relevant to one aspect of the Group's strategy.

Funeral market share excluding Northern Ireland (per cent) **11.9%**

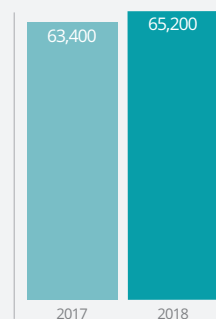
**Definition**

This is the number of funerals performed by the Group in Britain divided by the total estimated number of deaths in Britain.

**Developments in 2018**

Growth in market share reflects acquisition activity and the stabilisation of comparable funeral market share driven by price and service changes.

Number of cremations performed (number) **65,200**

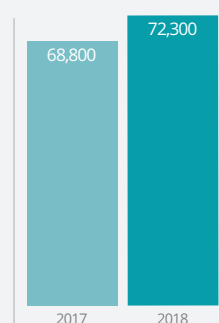
**Definition**

This is the number of cremations performed according to our operational data.

**Developments in 2018**

Changes are a consequence of the total number of deaths and the Group's market share.

Number of funerals performed (number) **72,300**

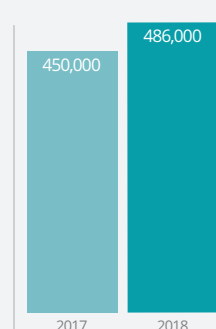
**Definition**

This is the number of funerals performed according to our operational data.

**Developments in 2018**

Changes are a consequence of the total number of deaths and the Group's market share.

Active pre-arranged funeral plans (number) **486,000**

**Definition**

This is the number of pre-arranged funeral plans where the Group has an obligation to provide a funeral in the future.

**Developments in 2018**

This increase reflects continued sales activity offset by the crystallisation of plans sold in previous periods.



## Key performance indicators continued

Our objective is to lead the funeral sector in professional standards and services. Our priorities and our success are determined by our impact on our clients.



### Delivering excellent client service

Our business has been built with a focus on high-quality service delivery and we closely monitor the results of our client surveys to ensure we continue to maintain the highest levels of excellent client service and standards of care.

#### Customer perception on quality and value-for-money

Although many things are changing within the industry, it is still the case that reputation, recommendation and previous experience are key to protecting our market share. To achieve this, we need to ensure our clients perceive us positively and consider us to provide value-for-money, irrespective of the type of service we have performed for them. Our survey data helps us understand this.

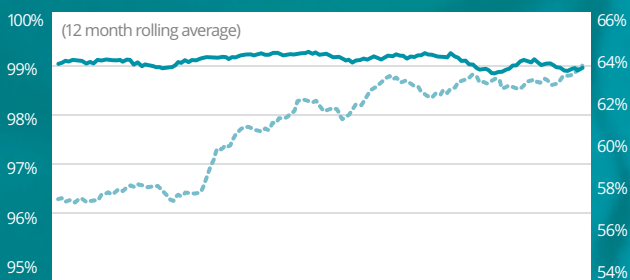
#### Broader client choice

Clients' needs are changing: not everyone wants a traditional funeral; some may want more personalised choices as part of a traditional funeral service. Dignity already provides these choices and uses the survey data to understand how clients have responded to that choice. Alongside this information, meaningful information on website and telephone activity is analysed to refine the choices we provide.

#### Brands and customer experience

Awareness of our brands and a positive customer experience will help protect and ultimately grow market share. Our surveys provide some information and we support this through broader activities to understand how aware people are of our brands.

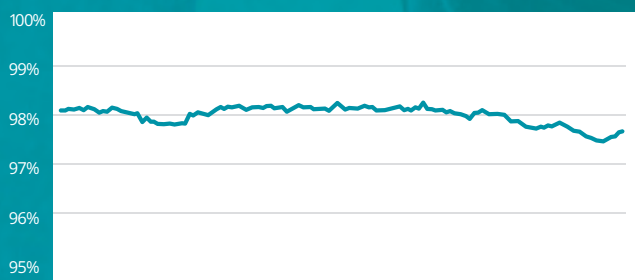
#### Meeting and exceeding expectations (% of clients)



Met and exceeded expectations (left hand axis)

Exceeded expectations (right hand axis)

#### Recommending our services (% of clients)



Percentage of clients willing to recommend Dignity's services



Alongside the expansion of our digital offerings, we continue to provide a greater choice for consumers and our focus on high standards and excellent client service remains central to our plans for the future.

## Maintaining consistently high-quality and standards

We closely monitor the results of our client surveys which are conducted by our Funeral services division. In the last five years, we have received approximately 160,000 responses. This is our measure of how these services meet or exceed client expectations.

Our consistently high satisfaction scores reflect the strength of our relationships with our clients. We listen to our clients and use our survey responses to focus on areas in which we can improve and add value.

### The Dignity Client Survey 2018

#### Reputation and recommendation

**98.9%** (2017: 99.0%)

98.9 per cent of respondents said that we met or exceeded their expectations.

#### High standards of facilities and fleet

**99.8%** (2017: 99.8%)

99.8 per cent thought our premises were clean and tidy.

**97.7%** (2017: 97.7%)

97.7 per cent of respondents would recommend us.

**99.7%** (2017: 99.8%)

99.7 per cent thought our vehicles were clean and comfortable.

#### Quality of service and care

**99.9%** (2017: 99.9%)

99.9 per cent thought our staff were respectful.

#### In the detail

**99.2%** (2017: 99.3%)

99.2 per cent of clients agreed that our staff had fully explained what would happen before and during the funeral.

**99.6%** (2017: 99.7%)

99.6 per cent thought our staff listened to their needs and wishes.

**99.1%** (2017: 99.0%)

99.1 per cent said that the funeral service took place on time.

**99.1%** (2017: 99.1%)

99.1 per cent agreed that our staff were compassionate and caring.

**98.4%** (2017: 98.0%)

98.4 per cent said that the final invoice matched the estimate provided.



## Operating review

# Funeral services

Funeral services relate to the provision of funerals and ancillary items, such as memorials and floral tributes.

### Performance

As at 28 December 2018, the Group operated a network of 831 (2017: 826) funeral locations throughout the United Kingdom, generally trading under local established names.

During the period, the Group conducted 72,300 funerals compared to 68,800 in 2017.

Underlying operating profit was £62.2 million (2017: £79.5 million), reflecting lower average incomes from the Group's strategic changes in January 2018.

Non-underlying items of £7.4 million (2017: £2.5 million) excluded from underlying operating profit resulted in statutory operating profit of £54.8 million (2017: £77.0 million).

### Progress and Developments

#### Market share

Approximately one per cent of all funerals were conducted in Northern Ireland. Excluding Northern Ireland, these funerals represented approximately 11.9 per cent (2017: 11.5 per cent) of total estimated deaths in Britain. Whilst funerals divided by estimated deaths is a reasonable measure of our market share, the Group does not have a complete national presence and consequently, this calculation can only ever be an estimate.

### Funeral mix and average income

|                            | Funeral type                 | FY 2017 Actual | FY 2018 Board's original expectation | H1 2018 Actual | Q4 2018 Actual | FY 2018 Actual |
|----------------------------|------------------------------|----------------|--------------------------------------|----------------|----------------|----------------|
| <b>Average revenue (£)</b> | Full service                 | 3,800          | 3,800                                | 3,800          | 3,590          | 3,735          |
|                            | Simple and limited service   | 2,700          | 1,965                                | 2,240          | 2,435          | 2,350          |
|                            | Pre-need                     | 1,650          | 1,650                                | 1,680          | 1,750          | 1,705          |
|                            | Other (including Simplicity) | 500            | 500                                  | 560            | 610            | 570            |
| <b>Volume mix (%)</b>      | Full service                 | 60             | 44                                   | 52             | 43             | 48             |
|                            | Simple and limited service   | 7              | 20                                   | 15             | 24             | 19             |
|                            | Pre-need                     | 27             | 30                                   | 27             | 27             | 27             |
|                            | Other (including Simplicity) | 6              | 6                                    | 6              | 6              | 6              |
| Weighted average (£)       |                              | 2,945          | 2,590                                | 2,799          | 2,637          | 2,734          |
| Ancillary revenue (£)      |                              | 277            | 280                                  | 224            | 260            | 239            |
| <b>Average revenue (£)</b> |                              | 3,222          | 2,870                                | 3,023          | 2,897          | 2,973          |

On a comparable basis, excluding any funerals from locations not contributing to the whole of 2017 and 2018, market share was 11.2 per cent, compared to 11.1 per cent in 2017. Given market share has reduced in previous periods, this shows a very positive response to the Group's introduction of a broader range of funeral choices, combined with lower prices. It demonstrates significant progress in a key objective of the year: to understand the changing relationship between price, choice and consumer demand.

#### Funeral mix

The trial in part of the country of a limited funeral in 2018 resulted in a smaller proportion of full service funerals than expected. Given the introduction of the Group's Tailored funeral, which provides even greater choice to customers and which will be introduced to all locations during 2019, the limited service funeral is no longer necessary and trials of this type of service have ceased.

#### Average income

In the final quarter of 2018, average income per funeral reduced to £2,897, slightly ahead of the Board's expectations at the start of the year. Higher than anticipated average incomes throughout the year resulted in a full year performance approximately £100 per funeral higher than originally anticipated.

#### Investment

Significant cash resources continue to be used to maintain the Group's locations and fleet. In 2018, £10.4 million was invested in maintenance capital expenditure.

The Group also acquired four funeral locations for consideration of £5.4 million. There were a total of nine other openings and eight closures in the year.

In November 2018, the Group announced that acquisitions of small funeral businesses were inconsistent with the Group's strategy and current plans for the future. Should opportunities of larger, more established businesses become available, the Group will consider these on a case by case basis.

#### Transparency

The Group is very supportive of improving transparency across the industry to ensure consumers can properly understand differences in facilities, standards of care, service and price. Since the year end, the Group's website publishes prices for the various types of services offered.

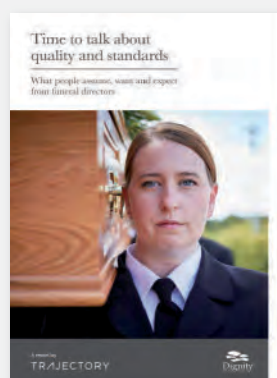
#### Outlook

The Group plans to continue trialling various changes to its service offerings during 2019. As part of this, it anticipates continuing to roll out its Tailored funeral offering, where customers can select relevant services for their needs with support from the Group's outstanding funeral arranging staff. The Group anticipates overall average income per funeral to be approximately £2,940.

*"We have made significant progress in understanding the changing relationship between price, choice and consumer demand."*

### Consumer research and insight

Dignity commissioned research to gain insight into how grieving families perceive the funeral sector and to understand their views on quality and standards.





### Flexible arranging

A key part of the Transformation Plan is to use technology to give clients a greater choice and flexibility about when and where they arrange the funeral.

## Transforming & improving

### Technology and training

A range of digital learning modules has been developed so that our people can learn via their PC at a time convenient to them. All modules were created so that they can learn at their own pace or refresh their learning without asking for help.

### Improving standards and facilities

Client-facing and back of house activities are to be separated. This will enable specialisation and an increased focus on client service and community engagement while leveraging organisational scale to realise efficiency gains.



## Expanding

### Nationwide low-cost cremation service

Under the Simplicity Cremations brand, families have access to affordable direct cremation options. These services provide all the practical and essential elements of a funeral without the obligation to pay for a ceremony or other features of a traditional service they may not want.

### Launch of new TV campaign

In December, Simplicity Cremations launched a TV advertising campaign to raise awareness of how we are 'Making funerals less of an undertaking'.



## Launching





## Operating review continued

## Crematoria

Crematoria services relate to cremation services and the sale of memorials and burial plots at the Group's crematoria and cemeteries.

**Performance**

The Group remains the largest single operator of crematoria in Britain, operating 46 (2017: 45) crematoria as at 28 December 2018. The Group performed 65,200 cremations (2017: 63,400) in the period, representing 10.9 per cent (2017: 10.7 per cent) of total estimated deaths in Britain.

The Group did not increase its cremation fees during the year.

Sales of memorials and other items have been robust, equating to approximately £276 per cremation compared to £270 in the previous period.

These factors, combined with costs increasing in line with the Group's expectations resulted in underlying operating profit of £40.3 million (2017: £40.0 million), broadly flat year-on-year.

Non-underlying items of £0.7 million (2017: £1.8 million) excluded from underlying operating profit resulted in statutory operating profit of £39.6 million (2017: £38.2 million).

**Progress and Developments**

The Group has invested £4.5 million maintaining its locations in the period.

The Group's 46th crematorium opened in July 2018, representing a total investment of £5.2 million.

The Group now has planning permission for three new crematoria, following the acquisition of a third location in 2018. Two of these locations are due to open

in late 2019 and the third is expected to be operational in 2020. The total capital commitment for these three projects is expected to be approximately £20 million to £21 million, with £4.3 million of this amount having already been invested. Each of the locations with planning permission will take five to seven years to reach maturity, performing 800 to 1,000 cremations per year.

The Group has two locations where it is appealing the planning decisions and another two that are currently in the planning process.

During the period, the Group re-branded its crematoria business as 'The Crematorium and Memorial Group'.

**Outlook**

We remain confident about the future of our crematoria business. The continued growth of the Group's Simplicity Cremations business should generate further opportunity to help more families in a way that suits them.

The capital invested in new crematoria developments is expected to generate an after tax return of approximately 13 per cent. Developments will take five to seven years to reach maturity.

*"The Group did not increase its cremation fees during the year."*

**Consumer research and insight**

Dignity published the UK's most authoritative study ever into people's views on crematoria revealing that they value quality, time and seclusion over cost.

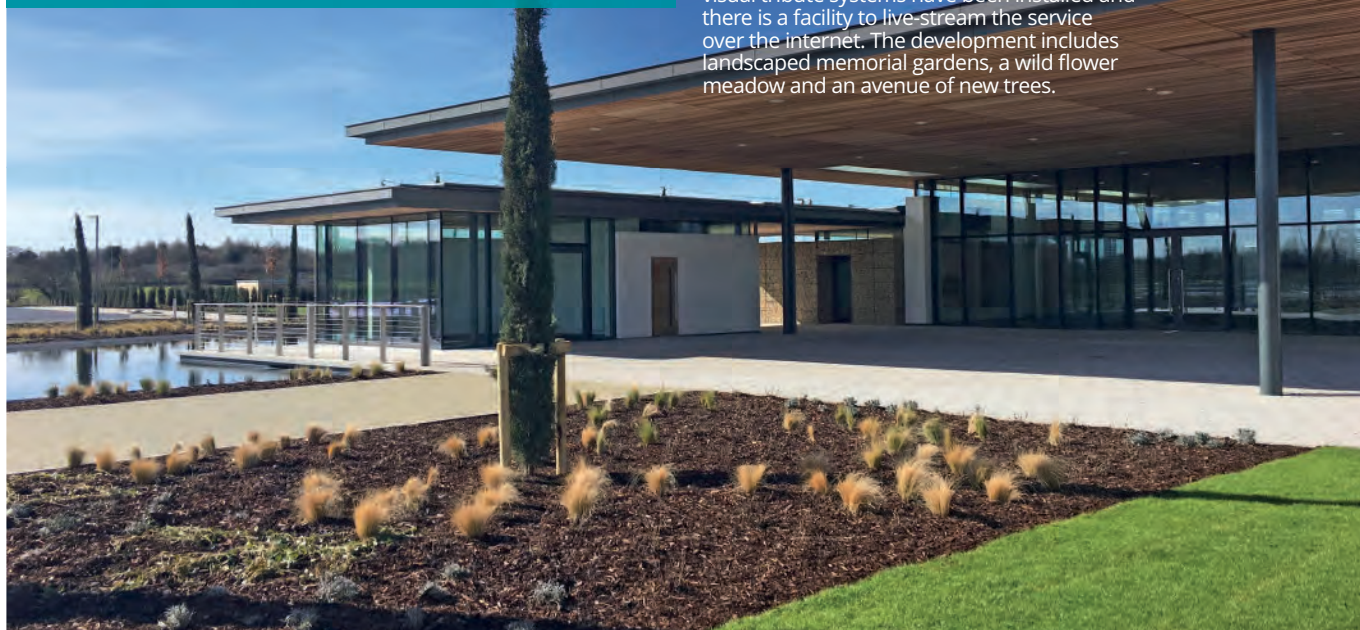
**Enfield Crematorium and Cemetery visitor experience**

A large area of the grounds at Enfield Crematorium has now been developed to include a lake, fountain, viewing point and four seasonal gardens to provide a place of beauty and quiet reflection for visitors.

## Completed & opened

### Trent Valley Crematorium

Trent Valley Crematorium opened in July 2018. The latest cremator technology and audio-visual tribute systems have been installed and there is a facility to live-stream the service over the internet. The development includes landscaped memorial gardens, a wild flower meadow and an avenue of new trees.



### Rotherham Crematorium improvements

An investment of £250,000 at Rotherham Crematorium has doubled the capacity of the Chapel and modernised facilities for mourners. As the building could not be extended, this complex project included the removal of the existing organ loft replacing it with a mezzanine structure for additional seating.



## Planning & developing



### Weston-super-Mare Cemetery extension

£2.5 million is being invested to extend the existing cemetery at Weston-super-Mare Crematorium to provide burial space for the next 50 years.

### Castle Eden Crematorium

Development work has begun on a new crematorium near Castle Eden in County Durham. Plans include a low level, grass-roofed sandstone building so that the crematorium blends into the local environment.

## Investing & enhancing



## Operating review continued

## Pre-arranged funeral plans

## Pre-arranged funeral plans represent the sale of funerals to customers wishing to make their own funeral arrangements in advance.

### Performance

The Group continues to have a strong market presence in pre-arranged funeral plans. These plans represent potential future incremental business for the funeral division, as the Group expects to perform the majority of these funerals.

Underlying operating profit was £2.8 million compared to £8.0 million in the previous year. As previously announced, this reflects the Group's conclusion that it should reduce the level of marketing allowance it seeks to claim from the trusts when it makes a plan sale, thereby leaving a greater proportion of the plan's sales value in the trust available for when the plan holder dies and the plan is used. The Group believes that it has long led the industry in best practice and given its calls for higher levels of capital solvency to protect consumers, feels this is the appropriate course of action.

Non-underlying items of £0.2 million (2017: £0.2 million) excluded from underlying operating profit resulted in statutory operating profit of £2.6 million (2017: £7.8 million).

In overall terms, approximately 58,000 (2017: 69,000) new plan sales were made and the number of active pre-arranged funeral plans increased to 486,000

(2017: 450,000) as at 28 December 2018. Trust based sales in the year were 24,000 (2017: 34,000).

Of the sales in the period 34,000 (2017: 35,000) represent plans linked to life assurance plans with third parties rather than trust based plan sales and 134,000 (2017: 102,000) active insurance plans are in place at 28 December 2018. Not all of these insurance backed plans include an obligation to provide a guaranteed funeral and we anticipate the cancellation experience to be significantly higher than is witnessed on trust based sales.

Whilst the contribution to this year's operating profit from the marketing activity is reported at the time of sale, it is important to recognise that the sales made represent significant potential future revenues for the funeral division.

These amounts will be recognised as and when the funerals are performed. As with all the Group's divisions, pre-arranged funeral plan profits broadly reflect the cash generated by that activity. This will change in 2019 when the Group adopts IFRS 15.

The adoption of IFRS 15 will change the Group's accounting policy for the pre-need business, impacting statutory and non-statutory measures of financial performance and is discussed elsewhere in the Annual Report.

### Progress and Developments

The increase in the number of active plans follows plans sold in the year. The market has been particularly competitive, with the internet and 'cold calling' featuring extensively in activity by competitors. Dignity has remained focused on selling high-quality business, in ways that support the strong reputation of the Group.

The Group has continued to work hard at developing its portfolio of affinity partners and has formed a number of new partnerships in the period with organisations in the retail and financial services arena with further trials expected in 2019.

The financial position of the independent trusts holding members' monies is crucial, given the Group ultimately guarantees the promises made to members. At the end of 2018, the Trusts held approximately £928 million of assets in respect of 308,000 trust based funeral plans. Average assets per plan are greater than the amount currently received for performing a funeral.

The latest actuarial valuations of the pre-arranged funeral plan trusts (at 28 September 2018) showed them to have a surplus of £33.0 million, based on prudent assumptions. If the discount rate used had equalled the long-term investment target of the trust funds, then the trusts would have reported aggregate surpluses of approximately £160 million.

Crucially, each plan sold creates additional headroom, since the funds paid in are more at the point of sale than those received by the Group if the member died immediately.

### Outlook

The Group's approach to lower marketing allowances will continue for the foreseeable future, meaning the Group's trust based pre-need marketing activity is expected to be cash flow neutral in 2019 and beyond.

As detailed elsewhere, the consultation and likely regulation of the pre-need division is likely to develop in 2019 and the Group will actively participate in that process.

The Trusts' investment strategies are expected to provide returns in excess of inflation in the longer-term but will, however, potentially result in greater volatility year-on-year in the reported value of the Trusts' assets. The current allocation that is subject to annual review by the independent Trustees with support from their investment advisers, is summarised below.

|   | Example investment types                | Target (%) |
|---|---|------------|
| Defensive investments                           | Index linked gilts and corporate bonds  | 18         |
| Illiquid investments                            | Private investments                     | 16         |
| Core growth investments                         | Equities                                | 23         |
| Growth fixed income and alternative investments | Property funds and emerging market debt | 43         |

Pre-arranged funerals represent a stable source of incremental funerals for the Group, providing high-levels of certainty of cash flows as existing plans mature.

The Group intends to continue to sell as many plans as is commercially possible and economically sensible.

### Consumer research and insight

Research commissioned by Dignity showed that whilst improvements have been made, there remains significant high-pressure and misleading sales practices in the Funeral Plan market.



"Dignity has remained focused on selling high-quality business, with low cancellation rates, selling in ways that support the strong reputation of the Group."

## Trusted



### Feefo – a Gold Trusted Service

The Feefo Gold Service Award is an independent seal of excellence that recognises businesses for delivering exceptional experiences as rated by real customers. Feefo has allowed Dignity to engage with customers and gain true insight into their experience so we can continue to enhance it further.

### Simplicity Cremations pre-paid funeral plans

During the year we refined our Simplicity pre-paid offer and now offer three leading low-cost options, with plan prices starting at £1,495.

Online is our key route to market and sales grew strongly during the fourth quarter as consumers responded well to our innovative Simplicity advertising campaign.

## Developing

### National TV campaign

In 2018 our first ever television advertisement for our funeral plans was broadcast on daytime television.

## Engaging





## Operating review continued

Central overheads relate to central services that are not specifically attributed to a particular operating division. These include the provision of IT, finance, personnel and Directors' emoluments.

### Central overheads

#### Overview

Central overheads relate to central services that are not specifically attributed to a particular operating division. These include the provision of IT, finance, personnel and Directors' emoluments. In addition and consistent with previous periods, the Group records centrally the costs of incentive bonus arrangements, such as Long-Term Incentive Plans ('LTIPs') and annual performance bonuses, which are provided to over 100 managers working across the business.

#### Developments

Underlying costs in the period were £25.1 million (2017: £22.9 million).

Non-underlying items of £5.6 million (2017: £2.1 million) excluded from underlying costs resulted in costs of £30.7 million (2017: £25.0 million).

On-going marketing activity represented an increased cost of approximately £3 million year-on-year. This investment will continue to increase.

Investment in central overheads continues in order to respond to the activities of the Group. Additional staff costs of approximately £1.5 million were incurred to support ongoing activities. Other costs, including depreciation and general administrative costs were approximately £1 million higher year-on-year. Offsetting this, incentive costs, including LTIP costs and cash bonuses, were £1.7 million (2017: £5.2 million). The current period includes a release of £1.7 million in respect of Executive Directors' bonuses earned in 2017 but waived in 2018.

Maintenance capital expenditure of £1.2 million has been incurred on central projects predominantly relating to IT that will help the business as a whole operate more efficiently.

#### Outlook

The Group will continue to invest in central functions and marketing activity to support the Group's plans, through the recruitment of more employees and increased marketing online and in other media. Underlying central overheads are therefore anticipated to increase by 25 to 30 per cent in 2019.



## Financial review

## A resilient financial performance ahead of market expectations



Steve Whittern, Finance Director

The financial performance reflects a challenging year as we prepared for a targeted investment funded by our strong capital base.

## Introduction

These results have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted in the EU.

## Financial highlights

The Group's financial performance is summarised below:

|   | 52 week period ended 28 Dec 2018 | 52 week period ended 29 Dec 2017 | Decrease % |
|---|----------------------------------|----------------------------------|------------|
| Revenue (£million)  | 315.6                            | 324.0                            | 3          |
| Underlying operating profit <sup>(a)</sup> (£million)               | 80.2                             | 104.6                            | 23         |
| Underlying profit before tax <sup>(a)</sup> (£million)              | 54.4                             | 77.8                             | 30         |
| Underlying earnings per share <sup>(a)</sup> (pence)                | 85.8                             | 128.3                            | 33         |
| Underlying cash generated from operations <sup>(a)</sup> (£million) | 101.9                            | 115.4                            | 12         |
| Operating profit (£million)   | 66.3                             | 98.0                             | 32         |
| Profit before tax (£million)  | 40.5                             | 71.2                             | 43         |
| Basic earnings per share (pence)                                    | 63.0                             | 115.8                            | 46         |
| Cash generated from operations (£million)                           | 94.9                             | 112.5                            | 16         |
| Dividends paid in the period:                                       |                                  |                                  |            |
| Interim dividend (pence)  | 8.64                             | 8.64                             | -          |
| Final dividend (pence)  | 15.74                            | 15.74                            | -          |

<sup>(a)</sup> Further details of alternative performance measures can be found on pages 151 to 153.

The Board has proposed a dividend of 15.74 pence per Ordinary Share as a final distribution of profits relating to 2018 to be paid on 28 June 2019, subject to shareholder approval.

## Alternative performance measures

The Group's alternative performance measures exclude non-underlying items. These items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day-to-day management of the business and allow for greater comparability across periods. Detailed information on non-underlying items is set out on pages 151 to 153.

## Performance in 2018

## Revenue

**£315.6m**

Revenue was £315.6 million (2017: £324.0 million).

## Underlying operating profit

**£80.2m**

Underlying operating profit was £80.2 million (2017: £104.6 million).

## Underlying earnings per share

**85.8p**

Underlying earnings per share were 85.8 pence (2017: 128.3 pence).

## Transformation investment

**£2.7m**

We invested £2.7 million in the Group's Transformation in the period.



## Financial review continued

Accordingly, the following information is presented to aid understanding of the performance of the Group:

|   | 52 week period ended 28 Dec 2018<br>£m | 52 week period ended 29 Dec 2017<br>£m |
|---|--|--|
| <b>Operating profit for the period as reported</b>                              | <b>66.3</b>                            | 98.0                                   |
| Add the effects of:   |  |  |
| Loss on sale of fixed assets  | 0.3                                    | 0.1                                    |
| External transaction costs in respect of completed and aborted transactions     | 0.8                                    | 4.7                                    |
| Acquisition related amortisation  | 4.9                                    | 1.8                                    |
| Transformation Plan costs   | 2.7                                    | -                                      |
| Operating and competition review costs  | 2.7                                    | -                                      |
| GMP past service cost   | 1.4                                    | -                                      |
| Trade name write-off  | 1.1                                    | -                                      |
| <b>Underlying operating profit<sup>(a)</sup></b>                                | <b>80.2</b>                            | 104.6                                  |
| Net finance costs   | (25.8)                                 | (26.8)                                 |
| <b>Underlying profit before tax<sup>(a)</sup></b>                               | <b>54.4</b>                            | 77.8                                   |
| Tax charge on underlying profit before tax <sup>(a)</sup>                       | (11.5)                                 | (13.8)                                 |
| <b>Underlying profit after tax<sup>(a)</sup></b>                                | <b>42.9</b>                            | 64.0                                   |
| Weighted average number of Ordinary Shares in issue during the period (million) | 50.0                                   | 49.9                                   |
| Underlying EPS (pence) <sup>(a)</sup>   | 85.8                                   | 128.3                                  |
| (Decrease)/increase in underlying EPS (per cent)                                | (33)                                   | 7                                      |

<sup>(a)</sup> Further details of alternative performance measures can be found on pages 151 to 153.

### Earnings per share

The Group's statutory profit after tax was £31.5 million (2017: £57.8 million). Basic earnings per share were 63.0 pence per share (2017: 115.8 pence per share). Underlying profit after tax was £42.9 million (2017: £64.0 million), giving underlying earnings per share of 85.8 pence per share (2017: 128.3 pence per share), a reduction of 33 per cent.

### Key changes in the profitability of the Group's funeral business

Underlying operating profit was £62.2 million (2017: £79.5 million), a reduction of 22 per cent. In broad terms, this can be explained by the following factors:

| This is analysed as:                      | H1<br>£m    | H2<br>£m    | Full year<br>£m |
|---|-------------|-------------|-----------------|
| Underlying operating profit – 2017        | 45.1        | 34.4        | 79.5            |
| Impact of:                                |             |             |                 |
| Number of deaths                          | 5.5         | (3.0)       | 2.5             |
| Market share                              | (1.5)       | 3.0         | 1.5             |
| Lower average incomes                     | (5.5)       | (11.5)      | (17.0)          |
| Cost base increases                       | (3.5)       | (3.8)       | (7.3)           |
| Acquisition activity                      | 2.0         | 1.0         | 3.0             |
| <b>Underlying operating profit – 2018</b> | <b>42.1</b> | <b>20.1</b> | <b>62.2</b>     |

### Transformation Plan

#### Costs incurred in 2018

The Group incurred significant costs in 2018 to support the revisions to its strategy and to start the Transformation Plan. They can be summarised as follows:

|   | 28 Dec 2018<br>£m |
|---|-------------------|
| External advisers' fees                                 | 1.1               |
| Brand development and marketing costs                   | 1.1               |
| Costs of additional staff to support the Transformation | 0.5               |
| <b>Total costs incurred</b>                             | <b>2.7</b>        |

#### The overall cost and benefit of the Transformation Plan

The Group's view of the overall cost of the Plan remain unchanged from that detailed in its 2018 interim results:

#### Costs

The Group anticipates a total investment of £50 million by the end of 2021 to deliver the Transformation Plan:

|                               | Total<br>£m |
|-------------------------------|-------------|
| IT systems                    | 6           |
| Property and equipment        | 35          |
| Other costs to implement plan | 9           |
|                               | 50          |

£35 million of this investment is expected to be capital in nature. Approximately £17 million of this investment will be funded from surplus property disposals.

In addition to these non-recurring amounts, the Group anticipates £7 million per year of incremental costs:

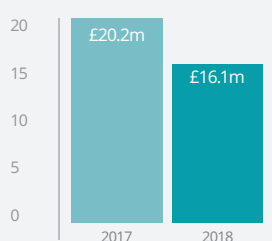
|   | Short-term (2021)<br>£m | Long-term (2028)<br>£m |
|---|-------------------------|------------------------|
| Extending coverage (branch and service delivery network)        | 2                       | 1                      |
| Investment in marketing and demand generation (central support) | 5                       | 6                      |
|   | 7                       | 7                      |

#### Benefits

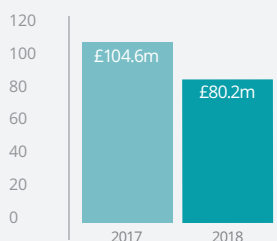
The Transformation Plan is expected to realise the following net operating profit benefits:

|   | Short-term (2021)<br>£m | Long-term (2028)<br>£m |
|---|-------------------------|------------------------|
| Branch and service delivery network       | 7                       | 12                     |
| Streamlined management and administration | 5                       | 5                      |
| Investments in central support and IT     | (4)                     | (4)                    |
|   | 8                       | 13                     |

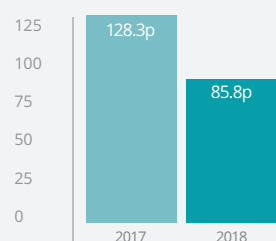
#### Maintenance capital expenditure (£m)



#### Underlying operating profit (£m)



#### Underlying earnings per share (pence)



Maintaining highest standards of client service

New low-cost model and competitive pricing associated with quality

Strong cash generation supporting investment

A future-ready proposition

Positioning Dignity for long-term sustainable growth

## Other items excluded from underlying operating profit

### Amortisation of acquisition related intangibles

Amortisation of acquisition related intangibles reflects the write-off of acquired intangibles over the term of its useful life.

### External transaction costs

External transaction costs reflects amounts paid to external parties for legal, tax and other advice in respect of the Group's acquisitions.

### Operating and competition review costs

In the first half of 2018 the Group incurred costs with external advisors to aid its operational review. Costs were also incurred with external advisors to support the Group's response to the CMA's funeral market study and HM Treasury's consultation on the funeral plan sector.

### GMP past service cost

This represents the estimate for the impact of the implementation of Guaranteed Minimum Pension ('GMP') equalisation.

### Trade name write-off

During the period, the Group closed the last location trading under a particular trading name. As this trading name had specific intangible assets related to it, they were required to be written-off.

### Loss on sale of fixed assets

Losses from the sale of fixed assets are excluded as they are unconnected with the trading performance in the period.

## Capital expenditure

Capital expenditure on property, plant and equipment and intangible assets was £25.0 million (2017: £27.0 million).

| This is analysed as:                                 | 28 Dec 2018<br>£m | 29 Dec 2017<br>£m |
|--|-------------------|-------------------|
| Maintenance capital expenditure:                     |                   |                   |
| Funeral services                                     | 10.4              | 12.7              |
| Crematoria   | 4.5               | 4.6               |
| Other  | 1.2               | 2.9               |
| Total maintenance capital expenditure <sup>(a)</sup> | 16.1              | 20.2              |
| Branch relocations                                   | 0.8               | 2.2               |
| Satellite locations                                  | 1.4               | 1.1               |
| Development of new crematoria and cemeteries         | 6.7               | 3.5               |
| Total property, plant and equipment                  | 25.0              | 27.0              |
| Partly funded by:                                    |                   |                   |
| Disposal proceeds                                    | (0.4)             | (0.6)             |
| Net capital expenditure                              | 24.6              | 26.4              |

<sup>(a)</sup> Maintenance capital expenditure includes vehicle replacement programme, improvements to locations and purchases of other tangible and intangible assets.

The Group will continue to invest in the maintenance of its existing portfolio of vehicles and funeral and crematoria locations. The Group's Transformation Plan will capture the majority of planned capital expenditure on its funeral business. Consequently capital maintenance expenditure in 2019 is expected to be lower than 2018.

## Cash flow and cash balances

Underlying cash generated from operations was £101.9 million (2017: £115.4 million).

During the period, the Group invested £6.5 million in the acquisition of established funeral businesses. £5 million was invested in acquiring a further equity stake in Funeral Zone Limited which is a UK online funeral resource for funeral directors and clients. This brought the Group's total equity interest in Funeral Zone Limited to 23.8 per cent. Consequently, this investment is accounted for as an associate.

Other working capital changes were consistent with the Group's experience of converting profits into cash. These changes fluctuate year-on-year as a result of timings of the Group's year end and the level of bonuses paid.

Cash balances at the end of the period were £66.9 million (2017: £49.3 million). In its planning, the Group sets aside approximately £22.2 million for future corporation tax and dividend payments expected to be spent in 2019.

Further details and analysis of the Group's cash balances are included in note 15 to the consolidated financial statements.

## Pensions

The balance sheet shows a deficit of £25.2 million before deferred tax (2017: deficit of £24.0 million). As previously announced, during the period, the Group agreed a schedule of contributions with the pension scheme trustees following completion of the triennial valuation to April 2017. This has resulted in an annual cash obligation of £2.2 million with effect from 2018.

Following the Lloyds GMP equalisation case in October 2018, which ruled that treatment of men and women be brought in line for schemes with a guaranteed minimum pension, the Group has been required to recalculate member benefits. This has resulted in the Group recognising a past service cost of £1.4 million in the current year income statement, representing approximately 1.1 per cent of the Group's defined benefit pension liability.

## Taxation

The Group's effective tax rate on underlying profits in the period was 21.2 per cent (2017: 17.7 per cent).

The current period underlying effective tax rate is higher due to the effects of prior year items, option schemes and permanent disallowables, with a tax impact totalling £1.4 million.

In 2019, the Group expects its underlying effective tax rate to be approximately one and a half to two per cent above the headline rate of corporation tax. This translates to an underlying effective rate of between 20.5 per cent and 21.0 per cent.



## Financial review continued

### Capital structure and financing

#### Secured Notes

The Group's principal source of long-term debt financing is the Secured A Notes and the Secured B Notes. The principal is repaid completely over the life of the Secured Notes and is therefore scheduled to be repaid by 2049. The interest rate is fixed for the life of the Secured Notes and interest is calculated on the principal.

The key terms of the Secured Notes are summarised in the table below:

|                             | Secured A Notes  | Secured B Notes  |
|-----------------------------|------------------|------------------|
| Total new issuance at par   | £238.9 million   | £356.4 million   |
| Legal maturity              | 31 December 2034 | 31 December 2049 |
| Coupon                      | 3.5456%          | 4.6956%          |
| Rating by Fitch             | A                | BBB-             |
| Rating by Standard & Poor's | A                | BB               |

The Secured Notes have an annual debt service obligation (principal and interest) of circa £33.2 million.

It is not currently possible to issue further Secured Notes, as such an issue would require the rating of the Secured B Notes to raise to BBB by both rating agencies. In any event, the Group does not have any requirement to issue any further Secured Notes for the foreseeable future. This position will be reassessed following the completion of the Group's Transformation Plan.

#### Financial Covenant

The Group's primary financial covenant under the Secured Notes requires EBITDA to total debt service to be above 1.5 times. The ratio at 28 December 2018 was 2.55 times (2017: 3.24 times). This covenant calculation uses a prescribed definition of EBITDA detailed in the loan documentation and only represents the profit of a sub group of the Group which is party to the loans (the 'securitisation group'). EBITDA for this calculation can be reconciled to the Group's statutory operating profit as follows:

|  | 28 Dec 2018<br>£m |
|--|-------------------|
| EBITDA per covenant calculation – Securitisation Group                   | 86.8              |
| Add: EBITDA of entities outside Securitisation Group                     | 13.9              |
| Add: Non cash items <sup>(a)</sup>                                       | (1.5)             |
| Underlying operating profit before depreciation and amortisation – Group | 99.2              |
| Underlying depreciation and amortisation                                 | (19.0)            |
| Non-underlying items   | (13.9)            |
| Operating profit   | 66.3              |

<sup>(a)</sup> The terms of the securitisation require certain items (such as pensions) to be adjusted from an accounting basis to a cash basis.

### Revolving Credit Facility

The Group has the benefit of a £50 million Revolving Credit Facility ('RCF'), provided by the Royal Bank of Scotland, which is secured against certain trade and assets held by legal entities outside of the Group's securitisation structure. The RCF can be drawn down subject to a set of financial tests applied to these legal entities.

The facility is available until July 2021, with the option to renew, subject to the bank's consent at the time, by a further year. The margin on the facility ranges from 150 to 225 basis points depending on the resulting gross leverage.

This provides the Group ongoing flexibility in a cost effective manner, as if undrawn, the facility represents an annual cost of approximately £0.3 million. Given the Group's healthy cash balances, the RCF is undrawn at the time of the release of this announcement and as at the year end.

#### Net debt

The Group's net debt is analysed as:

|   | 28 Dec 2018<br>£m | 29 Dec 2017<br>£m |
|---|-------------------|-------------------|
| Net amounts owing on Secured Notes  | (560.6)           | (565.1)           |
| Add: unamortised issue costs  | (0.6)             | (0.6)             |
| Gross amounts owing   | (561.2)           | (565.7)           |
| Accrued interest on Secured Notes   | (12.3)            | (0.3)             |
| Accrued interest on Crematoria Acquisition Facility and Revolving Credit Facility | (0.2)             | (0.2)             |
| Cash and cash equivalents   | 66.9              | 49.3              |
| Net debt  | (506.8)           | (516.9)           |

The Group's gross debt outstanding was £561.2 million (2017: £565.7 million). Net debt was £506.8 million (2017: £516.9 million).

The market value of the Secured Notes at the balance sheet date was £531.6 million (2017: £686.5 million).

Whilst the Group has no plans to do so, should it wish to repay all amounts due under the Secured Notes, the cost to do so at the year end would have been approximately £751.6 million.

#### Net finance costs

The Group's underlying finance costs substantially consist of the interest on the Secured Notes and ancillary instruments. The net finance cost in the period relating to these instruments was £24.8 million (2017: £25.1 million).

Finance costs of £nil million (2017: £0.4 million) were incurred in respect of the Crematoria Acquisition Facility.

Other ongoing finance costs incurred in the period amounted to £1.2 million (2017: £1.4 million), including the unwinding of discounts on the Group's provisions and other financial liabilities.

Interest receivable on bank deposits was £0.2 million (2017: £0.1 million).

# Financial outlook

## IFRS 15, Revenue from contracts with customers

The Group has completed its assessment of this accounting standard, which is effective for its 2019 accounting period. The standard will result in a change to the Group's accounting policies for the sale of trust based pre-arranged funeral plans.

The Group plans to apply the modified retrospective application approach, meaning that comparative periods will not be restated according to IFRS 15. Instead, the cumulative effect of the application of the standard will be recognised in the opening balance sheet reserves for 2019.

Further details are included in the Group's accounting policies on pages 110 and 111.

The Group intends as a consequence of these changes to update its definition of underlying operating profit. This is set out in the section on alternative performance measures on page 152 and details the revised underlying operating profit that will be used by the Group for comparative purposes when it announces its 2019 results, beginning with the first quarter trading update in May 2019.

## Q&A

**Q&A with Steve Whittern, Finance Director**

### We are committed to delivering our Transformation Plan and to creating and sustaining long-term value

In 2018, we delivered a resilient financial performance ahead of market expectations. The fundamentals of our business remain compelling and strong and we have continued our relentless commitment to quality, value-for-money and service levels.

### Outlook

Through the delivery of our Transformation Plan we have a major opportunity to provide sustainable long-term value and lead the industry in terms of standards and value-for-money. Strong cash generation will enable us to continue to invest in our business in line with our strategic objectives.

### Q. When will you have a proper understanding of the options that different funeral price/service configurations will give you with regard to average funeral prices?

**A.** Our understanding will evolve during 2019 as we continue our trials.

### Q. Do you have an achievable average funeral price in mind at present?

**A.** We anticipate average income per funeral in 2019 to be approximately £2,940.

### Q. Will you put your prices up the moment that attention from the likes of the CMA investigation goes away?

**A.** Our pricing strategy is driven by changing market conditions and a need to meet customer needs for quality at a lower price. It was introduced well before the CMA announced a possible full investigation into the funeral industry.

### Q. How much investment do you plan to make in support of the Transformation Plan in total?

**A.** The Group anticipates a total investment required of £50 million, of which £35 million will be capital in nature. This is anticipated to be partly funded by £17 million of property disposals, being properties no longer required for the future efficient operation of the business.

### Q. When do you think you will return to making acquisitions?

**A.** When it makes sense for us as a business to do so. For the foreseeable future, while we are implementing our Transformation Plan, it would make no sense and would be operationally extremely difficult to buy and integrate a business into what is a changing operational landscape within the Group.



## Principal risks and uncertainties

Risk management is embedded throughout the business with all employees aware of the role they play.

### Risk appetite

Risk appetite is the level of risk the Group is willing to take to achieve its strategic objectives and is set by the Board. The Board looks at the Group's appetite to risk across a number of areas including market, financing, operations, strategy and execution, developments, cybersecurity and technology and brand.

There has been no change to the Group's risk appetite in the period.

### Our approach to risk management

The Group has a well-established governance structure with internal control and risk management systems. The risk management process:

- Provides a framework to identify, assess and manage risks, both positive and negative, to the Group's overall strategy and the contribution of its individual operations.
- Allows the Board to fulfil its governance responsibilities by making a balanced and understandable assessment of the operation of the risk management process and inputs.

### Responsibilities and actions

#### The Board

The Board is responsible for monitoring the Group's risk and their mitigants.

#### Risk process

Every six months the Audit Committee formally considers the risk register and approves it for adoption by the Board.

#### Risk assessment

Executive Directors and senior management are responsible for identifying and assessing business risks.

#### Identify

Risks are identified through discussion with senior management and incorporated in the risk register as appropriate.

#### Assess

The potential impact and likelihood of occurrence of each risk is considered.

#### Mitigating activities

Mitigants are identified against each risk where possible.

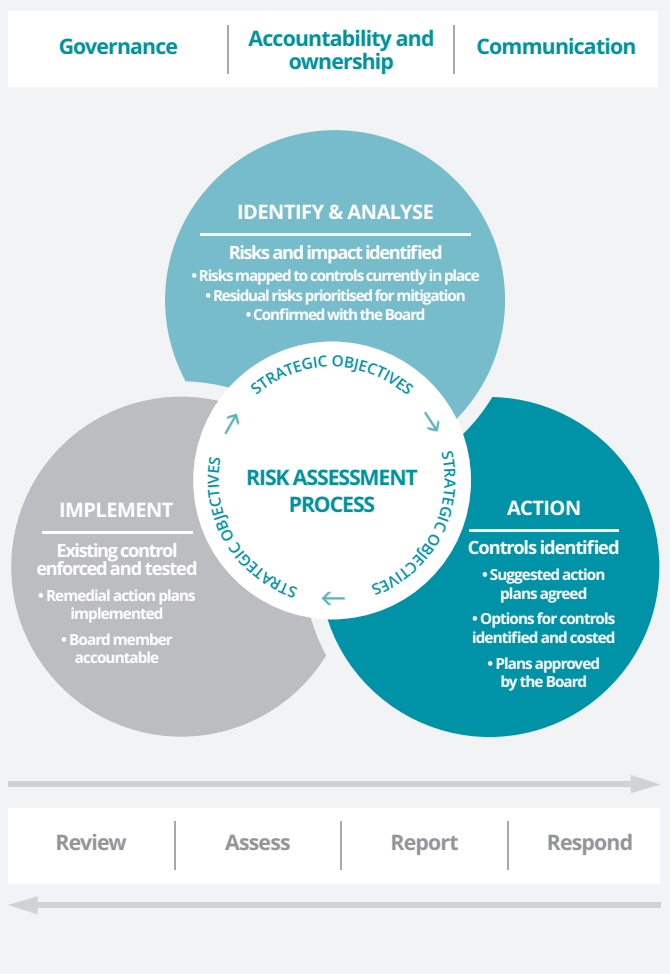
#### Review and internal audit

The link between each risk and the Group's policies and procedures is identified. Where relevant, appropriate work is performed by the Group's internal audit function to assist in ensuring the related procedures and policies are appropriately understood and operated where they serve to mitigate risks.

### Risk governance

The Board has overall responsibility for the Group's internal control systems and for reviewing their effectiveness. This has been designed to assist the Board in making more risk-informed, strategic decisions with a view to creating and protecting shareholder value.

### The risk management framework



## Links

- See Strategy and business model: p.32 and p.33
- See KPIs: p.34 to p.37
- See Governance: p.60 to p.92

## Risk status summary and new risks

The ongoing review of the Group's principal risks focuses on how these risks may evolve.

### Increasing risk trends

The impact of the Group's decisive response in January 2018 to changes in the competitive landscape highlight increased risk from its ability to maintain average incomes.

Regulation could also result from both the CMA investigation and HM Treasury's review of pre-arranged funeral plans. Whilst the Group believes that regulation would be beneficial, there remains a risk that regulation could be imposed that may result in a significant cost burden to the Group.

### New risks

2018 marked the start of a period of change for the Group following changes in the markets in which it operates. This has therefore resulted in the following new risks being identified:

- The implementation of the Transformation Plan;
- Direct cremations; and
- The CMA investigation into the funeral market.

### Cyber risk

The increasing prevalence of cyber attacks across the world, means that along with all large corporates, our business systems are under increasing level of attack. Over the last few years we have invested significantly in this area both in upgrading all aspects of our systems and our internal resources and also using external consultants to perform regular external and internal penetration tests and using the results to drive a continuous improvement programme.

## Our principal risks and uncertainties

Outlined here are the principal risks facing the Group. In assessing which risks should be classified as principal, we assess the probability of the risk materialising and the financial or strategic impact of the risk.

### Operational risk management

- Significant reduction in the death rate
- Nationwide adverse publicity
- Fall in average revenues per funeral or cremation
- Disruptive new business models leading to a significant reduction in market share
- Demographic shifts in population
- Competition
- Regulation of pre-arranged funeral plans
- Regulation of the funeral industry
- Changes in the funding of the pre-arranged funeral plan business
- Implementation of the Transformation Plan
- Direct cremations
- CMA investigation into the funerals market

### Financial risk management

- Financial Covenant under the Secured Notes

### The principal risks we have identified

We maintain a detailed register of principal risks and uncertainties covering strategic, operational, financial and compliance risks. We rate them according to likelihood of occurrence and their potential impact.

In the tables on pages 52 and 53 we provide a summary of each risk, a description of the potential impact and a summary of mitigating actions.

#### Key: Risk trend measures

- ↗ Risk exposure increased
- ↘ Risk exposure decreased
- ↔ No significant change



## Principal risks and uncertainties continued

### Operational risk management

| Risk description and impact   | Mitigating activities and commentary   | Change  |
|---|--|---|
| <b>Significant reduction in the death rate</b><br>There is a risk that the number of deaths in any year significantly reduces. This would have a direct result on the financial performance of both the funeral and crematoria divisions.   | The profile of deaths has historically seen intra year changes of +/- 1 per cent giving the Group the ability to plan its business accordingly. The ONS long term projection is for deaths to increase.<br><br>The risk is mitigated by the ability to control costs and the price structure and the ability to acquire funerals and crematoria, although this would not mitigate a short term significant reduction in the number of deaths.<br><br>The number of deaths in 2018 was higher than originally anticipated.<br><br> See Chief Executive's review: <b>p.16 to p.31</b>   |    |
| <b>Nationwide adverse publicity</b><br>Nationwide adverse publicity for Dignity could result in a significant reduction in the number of funerals or cremations performed in any financial period. For pre-arranged funeral plans, adverse publicity for the Group or one of its partners could result in a reduction in the number of plans sold or an increase in the number of plans cancelled. This would have a direct and significant impact on the financial performance of that division and the Group as a whole.  | This risk is addressed by the strategic decision made as part of the Transformation Plan to support development of strong national brands via the Group's websites, TV and radio advertising and prominent signage at our funeral locations leading to increased awareness of the Group and its services.<br><br>With significant investment committed already and planned for subsequent years, we are building and positioning a strong brand that will be more resilient to adverse publicity should that arise.<br><br> See The Client Survey performance: <b>p.37</b>  |    |
| <b>Fall in average revenues per funeral or cremation</b><br>Operating profit growth has in part historically been attributable to increases in the average revenue per funeral or cremation. There has been increasing price competition in the funeral market, resulting in material price reductions by the Group in 2018. It is highly likely that pricing pressure will remain for the foreseeable future and it may not therefore be possible to maintain average incomes per funeral or cremations at the current level.  | The Group's Transformation Plan will result in a more efficient business that can accommodate more competitive pricing, but which continues to provide clients with a greater range of choice, underpinned by excellent client service. This will be supported by strong reputational management together with significant investment in both marketing and the Group's online profile and presence.<br><br>The Group will continue to adapt to serve evolving client needs.<br><br> See Operating review: <b>p.38 to p.44</b>  |    |
| <b>Disruptive new business models leading to a significant reduction in market share</b><br>It is possible that external factors such as new competitors and the increased impact of the internet on the sector, could result in a significant reduction in market share within funeral and crematoria operations. This would have a direct result on the financial performance of those divisions.   | The Group believes that this risk is mitigated by its reputation as a high quality provider and with recommendation being a key driver to the choice of funeral director being used. In addition, the Group's actions in January 2018 on pricing and promotion sought to protect the Group's funeral market share by offering more affordable options. This focus on affordability has allowed our market share to start to recover.<br><br>For crematoria operations this is mitigated by the Group's experience and ability in managing the development of new crematoria.<br><br>Additionally, the combination of the development of strong national brands and significant investment in digital capability together with a range of product and price offerings to clients will strengthen the Group's competitiveness.<br><br> See Operating review: <b>p.38 to p.44</b>  |   |
| <b>Demographic shifts in population</b><br>There can be no assurance that demographic shifts in population will not lead to a reduced demand for funeral services in areas where Dignity operates.  | In such situations, Dignity would seek to follow the population shift by rebalancing the funeral location network together with meeting the developing cultural requirements.<br><br> See Operating review: <b>p.38 to p.44</b>   |  |
| <b>Competition</b><br>The UK funeral services, crematoria and pre-need markets are currently fragmented.<br><br>There could be further consolidation or increased competition in the industry, whether in the form of intensified price competition, service competition, over capacity facilitated by the internet or otherwise, which could lead to an erosion of the Group's market share, average revenues or costs and consequently a reduction in its profitability.<br><br>Failure to replenish or increase the bank of pre-arranged funeral plans could affect market share of the funeral division in the longer term. | Under the Transformation Plan, the funeral service model will be adapted to better suit evolving client needs and to improve efficiency. We will provide customers with a more tailored service, allowing them to choose how they wish to interact with Dignity in arranging a funeral through more mobile staff and improved digital capabilities.<br><br>We have developed a new tiered funeral pricing proposition, specifically targeting different market segments that will provide greater flexibility to meet individual client needs.<br><br>By unbundling our prices and services to provide our customers with greater flexibility to create the right funeral, we will be able to provide greater consistency and competitiveness on price, while reflecting Dignity's premium service levels.<br><br>Building national brands with a significant online presence and visibility leverages our scale and addresses the needs of increasingly digitally focused clients. Through the Dignity and Simplicity names, we plan to build known, national brands to leverage scale advantages in the digital age. We will develop our marketing proposition to promote the Group's commitment to high standards of care, quality of service delivery and competitive entry prices. We also recognise that our established local funeral trading names continue to have significant value in the communities they serve.<br><br>Through better allocation of our resources, the resultant efficiencies will allow us to reduce the number of funeral operating networks and their associated cost. Support functions are being centralised where appropriate to ensure a cost effective and consistent high standard of service.<br><br>There are challenges to opening new crematoria due to the need to obtain planning approval and the costs of development. Dignity has extensive experience in managing the development of new crematoria and continues to be very active in that market.<br><br>The Group offers a market leading pre-need product, the marketing of which will benefit from the current and future significant investment in marketing and enhanced digital presence.<br><br> See Chief Executive's review: <b>p.16 to p.31</b> |  |
| <b>Regulation of pre-arranged funeral plans</b><br>Pre-arranged funeral plans are not currently a regulated product although this is being reviewed by HM Treasury.<br><br>Regulation could affect the Group's opportunity to sell pre-arranged funeral plans in the future or could result in the Group not being able to draw down the current level of marketing allowances.   | Any changes would apply to the industry as a whole and not just the Group. Regulation could materially change the business model and would likely increase costs.<br><br>The risk is mitigated through the high standards of selling and administration of market leading pre-arranged funeral plans operated by the Group which will benefit from the significant investment in marketing and an enhanced digital presence.<br><br>We continue to seek appropriate regulation of our markets and welcome the consultation by HM Treasury, in which we are actively engaged.<br><br> See Chief Executive's review: <b>p.16 to p.31</b>  |  |
| <b>Regulation of the funeral industry</b><br>Regulation could result in increased compliance costs for the industry as a whole or other unforeseen consequences.  | The Group already operates at a very high standard, using facilities appropriate for the dignified care of the deceased.   |  |

## Operational risk management (continued)

| Risk description and impact   | Mitigating activities and commentary  | Change   |
|---|---|----------|
| <b>Changes in the funding of the pre-arranged funeral plan business</b><br>In the current regulatory environment, the Group has given commitments to pre-arranged funeral plan members to provide certain funeral services in the future.<br>Funding for these plans is reliant on either insurance companies paying the amounts owed or the pre-arranged funeral plan Trusts having sufficient assets.<br>If this is not the case then the Group may receive a lower amount per funeral than expected and thus generate lower profits.   | There is considerable regulation around insurance companies which is designed, amongst other things, to ensure that the insurance companies meet their obligations.<br>The Trusts hold assets with the objective of achieving returns slightly in excess of inflation.<br>The latest actuarial valuation of the pre-arranged funeral plan Trusts demonstrates an actuarial surplus. This is supported by robust average assets per plan.<br>→ See Note 29.  | ↔        |
| <b>Implementation of the Transformation Plan</b><br>In 2018, Dignity conducted an operational review which resulted in the development of a Transformation Plan.<br>The core components of the Transformation Plan are: <ul style="list-style-type: none"> <li>• Modernise the client proposition;</li> <li>• Invest in and simplify the operating model; and</li> <li>• Streamline central support and invest in technology to centralise and automate administrative processes.</li> </ul> A risk exists that the Plan is either not implemented correctly or proves to be materially disruptive to the funeral business.             | This risk has been and will be mitigated by executive leadership in the business supported by the Transformation Director who was appointed in August 2018 and who reports to the Chief Executive.<br>The Transformation Team has made substantial progress within a clearly defined and accountable project framework.<br>→ See Chief Executive's review: p.16 to p.31   | New risk |
| <b>Direct cremations</b><br>Growth in the direct cremation market could reduce average income in the funeral business and adversely affect the business mix in the crematoria business.   | The Group has addressed this with Simplicity Cremations which offers low cost direct cremations without any initial funeral service that are both respectful and dignified. They are an affordable alternative to a full funeral or for those who wish to have a simple cremation. The Group also now offers a Simplicity pre-arranged funeral plan option.<br>Simplicity Cremations is being promoted via a strong online presence together with television advertising. Other media advertising is also planned.<br>→ See Chief Executive's review: p.16 to p.31  | New risk |
| <b>Competition and Markets Authority (CMA) investigation into the Funerals Market</b><br>The CMA investigation into the funeral market will examine whether the information provided by funeral directors on prices and services is clear enough for people to be able to choose the best option for them.<br>It will also look at how prices have changed over time and the factors that affect them.<br>Cremation fees will be considered as part of the review.<br>The initial CMA report indicates possible remedies including pricing controls, which, if implemented, could have a significantly detrimental impact on the Group. | Dignity has pro-actively been making changes to its business for some time in response to changing customer demand and will continue to review its operations to ensure that the CMA's concerns are addressed.<br>The Group is focused on enhancing the customer proposition, its service and pricing model and will continue to adapt to serve evolving client needs.<br>Price is a factor when making a decision, but quality is also a vital component and ultimately ensures that consumers are happy with services provided. Whilst Dignity's Simplicity service is the lowest price, nationally available, attended funeral service, our research demonstrates that consumers consider the smooth running of the funeral and proper care of the deceased more than cost. Our business has been built with a focus on high quality service delivery and we closely monitor the results of our client surveys to ensure we continue to maintain the highest levels of excellent client service and standards of care.<br>→ See Chief Executive's review: p.16 to p.31 | New risk |

## Financial risk management

| Risk description and impact  | Mitigating activities and commentary   | Change |
|--|--|--------|
| <b>Financial Covenant under the Secured Notes</b><br>The Group's Secured Notes requires EBITDA to total debt service to be above 1.5 times. If this financial covenant (which is applicable to the securitised subgroup of Dignity) is not achieved, then this may lead to an Event of Default under the terms of the Secured Notes, which could result in the Security Trustee taking control of the Securitisation Group on behalf of the Secured Note holders.<br>In addition, the Group is required to achieve a more stringent ratio of 1.85 times for the same test in order to be permitted to transfer excess cash from the Securitisation Group to Dignity plc. If this stricter test is not achieved, then the Group's ability to pay dividends would be impacted. | The nature of the Group's debt means that the denominator is now fixed unless further Secured Notes are issued in the future. This means that the covenant headroom will change proportionately with changes in EBITDA generated by the securitised subgroup.<br>Current trading continues to support the Group's financial obligations, however lower reported profitability increases the risk of breaching covenants.<br>→ See Financial review: p.45 to p.49 | ↗      |

## Viability statement

The Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the subsequent three years to December 2021.

The key consideration of viability is the Group's ability to service its Secured Notes as and when those obligations fall due, twice a year. The Directors have fully considered severe but reasonable scenarios, and the effectiveness of any mitigating actions, on the Group's ability to generate funds to meet those obligations. Consistent with the prior period, three years has been selected as the appropriate period of review.

In making this statement the Directors have reviewed the overall resilience of the Group and have specifically considered:

- the Group's current position and trading prospects;
- the current and ongoing strategy;
- the Board's appetite for risk; and
- a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and how they are managed, as explained in this Strategic Report (pages 50 to 53).



## Non-financial information statement

We believe that operating sustainably and responsibly is fundamental to creating long-term value. At the heart of our business is a commitment to doing the right thing: behaving ethically, working safely, reducing our environmental impact, attracting and developing our people and having a positive social impact in our communities.

Our objective is not only to provide and enhance the reputation of our Group but also to promote and embed a culture of responsibility and performance that adds value to our clients, our people, our shareholders and the local communities we serve.

Our corporate responsibility activities are an important way for us to deliver upon our strategic objectives. We believe that the best way to support a sustainable business is to act in the long-term interests of all our stakeholders, in addition to making a positive contribution to the communities in which we operate.

The following table summarises the non-financial information provided in the Annual Report and demonstrates how it is linked to the new reporting requirements of sections 414CA and 414CB of the Companies Act 2006.

| Reporting requirement   | Impacts  | Relevant sections of Annual Report and related policies  |
|---|--|--|
| <b>Employees</b>  | <p>We are truly a people business because we help people at an extremely difficult time in their lives. Meeting their needs means that our employees must be caring, thoughtful and truly engaged with those they serve. Dignity staff show clients care and commitment demonstrating what we call 'The Dignity Way'. This describes a special culture and way of working that means delivering the highest standards of service and going the extra mile.</p> <p>We believe that the quality of our people is a strong enabler of business growth. We value our people as they are a great asset. We support them by recognising and rewarding performance and long service plays a key part in this.</p> <p>We aim to provide a safe working environment, encourage personal development, responsibility and respect, and attract a diverse and inclusive workforce.</p> | <ul style="list-style-type: none"> <li>• Strategy and business model – page 32</li> <li>• Corporate and Social Responsibility – page 55</li> <li>• Directors' Report – page 90</li> <li>• Code of Conduct<sup>(1)</sup></li> <li>• Equality and Diversity Policy<sup>(1)</sup></li> <li>• Health and Safety Policy</li> <li>• Our CSR commitments<sup>(1)</sup></li> </ul> |
| <b>Environment</b>  | We are committed to maintaining the quality of the environment in which we all live and we aim to reduce the impact of our operations so that we act in an environmentally friendly manner.  | <ul style="list-style-type: none"> <li>• Corporate and Social Responsibility – page 55</li> <li>• Our CSR commitments<sup>(1)</sup></li> </ul>   |
| <b>Social</b>   | Contributing to the communities in which we operate benefits both local people and our business. It enhances our profile and reputation, promotes employee engagement and helps to attract new employees.  | <ul style="list-style-type: none"> <li>• Corporate and Social Responsibility – page 55</li> <li>• Our CSR commitments<sup>(1)</sup> and Our Corporate Charity<sup>(1)</sup></li> </ul>   |
| <b>Human Rights</b>   | We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. Our stated commitment is to act ethically and with integrity in all our business relationships and to implement and enforce effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains or in any part of the business.  | <ul style="list-style-type: none"> <li>• Modern Slavery Act Statement<sup>(1)</sup></li> <li>• Our CSR commitments<sup>(1)</sup></li> </ul>  |
| <b>Anti-corruption and anti-bribery</b>                               | We are committed to conducting our operations in a fair and ethical manner and will not tolerate any form of bribery or corruption from employees, suppliers or other parties.   | <ul style="list-style-type: none"> <li>• Anti-bribery and Corruption Policy<sup>(1)</sup></li> <li>• Money Laundering Policy</li> <li>• Code of Conduct<sup>(1)</sup></li> <li>• Ethics and Conflicts of Interest Policy</li> </ul>  |
| <b>Due diligence processes implemented in the pursuit of policies</b> | We have induction, training and e-learning programmes to ensure that our policies and processes are understood and implemented by our employees. Our policies and processes promote and embed a culture of responsibility and performance that adds value to all of our stakeholders. In 2018, an Annual Compliance Declaration was completed by each member of the Executive and Senior Management Teams for the individual to confirm compliance with all applicable rules, regulations and policies.  | <ul style="list-style-type: none"> <li>• For our strategy and business model, relationships and services, see page 32</li> <li>• Our non-financial key performance indicators are shown on page 35</li> <li>• For our principal risks and uncertainties and how they are mitigated, see page 50</li> </ul>   |

<sup>(1)</sup> These can be found on the Group's website [www.dignityfunerals.co.uk/corporate](http://www.dignityfunerals.co.uk/corporate).

## Corporate and social responsibility



**Richard Portman**, Corporate Services Director

### A review of our CSR strategy

The Group is embarking on an unprecedented period of change, one that will fully test our people and culture. Employee engagement and support are essential if we are to be successful. Reviewing and developing our approach to Corporate Social Responsibility (CSR), which naturally contains a strong employee engagement component, is therefore relevant and opportune. The review started in early 2019 and its recommendations will be published in next year's Annual Report.

### A long-standing commitment

We are proud of our long-standing and demonstrable commitment to CSR and good corporate citizenship. It matters particularly to us because, more than many businesses, we are truly a people business. As we have often said, we touch people on an extremely personal and often vulnerable level, usually at a time of great and painful loss. To meet their needs means that our employees have to be of the highest calibre. They must be caring, thoughtful and truly engaged with the people they serve.

From our core values of decency, integrity and trust we have developed a special culture and way of working that we call 'The Dignity Way'. In last year's Annual Report, the Chairman described it as, "a way of working that means delivering the highest standards of service and going the extra mile." It encourages responsibility and stimulates high performance, adding value to our customers, communities and all our stakeholders.

This culture is the means by which we have succeeded as a business over the years and continue to be a good corporate citizen. We are committed to doing the right thing by everyone we work with, respecting each other in the workplace, working safely, behaving ethically and being a positive force in the communities we serve. We also work hard to minimise our environmental impact.

Underpinned by this culture we have developed three areas of focus: Our People (Expertise and culture); Relationships (Building strong relationships and community impact); and Resources (Health, Safety and Environmental Performance). Further detail on these three areas is provided later in this report. All are now being reviewed, along with our culture and policies, in the light of the changes about to take place in the business and our stated ambition to become the pre-eminent modern funeral services business in the UK.

### Some of the areas we are considering

As the review unfolds, we are extremely mindful of our Transformation Plan and its requirement for effective two-way employee engagement at this time of major change.

We are thinking carefully about the general public and are drawing on the insights we continue to gain from our ongoing programme of research. For example, we are thinking across the generations and reflecting that attitudes in the 40+ generation are different from the older generations. We are considering the types of services we offer and, most importantly, the broader context within which our approach to CSR needs to sit.

This is a time of change for the industry and not just Dignity, and one which the review is taking full account of.

### Our CSR Policies

Our CSR Policies are the means by which we make tangible our desire to be a good corporate citizen. We have three areas of focus:

| Our People              | Resources                                      | Relationships  |
|-------------------------|--|--|
| • Expertise and culture | • Health, Safety and Environmental performance | • Building strong relationships and community impact |



## Corporate and social responsibility continued

## Our people and culture

## Engaging, supporting and developing our people.

## Key facts

## Diversity at Dignity



## Long service

30%

30 per cent of Dignity staff have over 10 years service.

## Employee diversity

## Senior managers (% &amp; number)



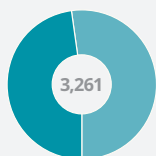
Male: 84% (31 employees)  
Female: 16% (6 employees)

## Senior and middle managers (% &amp; number)



Male: 66% (120 employees)  
Female: 34% (62 employees)

## Total employees/ratio (% &amp; number)



Male: 48% (1,564 employees)  
Female: 52% (1,697 employees)

## Employee service (% &amp; number)



Less than 1 year: 14% (439 employees)  
1-4 years: 36% (1,183 employees)  
5-9 years: 20% (648 employees)  
10-19 years: 19% (622 employees)  
Over 20 years: 11% (369 employees)



## Case study

## Engagement and communication

With funeral premises and crematoria across the UK, we have a diverse and engaged workforce that reflects our geographic footprint and their local knowledge. At this time of change for our business we are committed to keeping operational staff as fully informed about the Transformation Plan, how it may impact them or their role and what opportunities it will bring.

On 1 August, Chief Executive, Mike McCollum met with all senior and middle managers to present our new business strategy and explain the need for change. An electronic bulletin communicated this announcement to operational colleagues and was supported by line manager briefings.

Monthly 'Town Hall' events and regular newsletters are being delivered to keep staff updated and to answer any questions they may have. Operational managers will also be checking with staff regularly to assess how they feel. Digital communications such as micro-websites, intranet, mobile phone apps, TV-in-a-card are all being considered as alternative methods for reaching our internal audience in the right way for them.

The Executive team has identified a need for an effective communication process between colleagues and the Board, including the right to comment

on Directors' remuneration as part of the Corporate Governance Code, which becomes effective in January 2019. As the Transformation gains momentum and colleagues see the pace of change pick up, we need to formally ensure there is dialogue between employees in the form of professional business meetings that helps achieve business objectives. An Employee Forum has been launched to encourage dialogue, to create a culture where everyone believes they can speak up and be heard and to provide a communication format to consult with employees on matters that impact on their working lives.

## Case study

## Employee wellbeing

Information, guidance and support continue to be available to all Dignity people from a free and confidential Employee Assistance Programme. This provides easy access to help with financial matters, health or consumer advice and help to tackle family issues such as gambling, alcohol or drugs.

During 2018, Dignity has worked with Neyber Financial Wellbeing to provide a new benefit to employees. This includes expert advice on how individuals can better manage their finances, reduce their money worries and maximise their savings. It also provides access to services such as debt-consolidation with repayments direct from salary.

# Charity activity and community initiatives



Helping people at one of the most difficult times in their lives is our core social purpose and contributing to the communities in which we operate benefits both local people and our business. It helps to promote awareness of our brand and values, enhances our reputation, promotes employee engagement and attracts new clients to our business. Making a meaningful difference to the local communities we serve remains a key quality of our business.

Our people continue to build strong links through engagement with local initiatives and fundraising for charities and support many events every year.



## Case study

### Gender Pay Gap

In April 2018, Dignity published information in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. Gender Pay Gap is a measure of the difference in the average pay of men and women – regardless of the role they perform or their responsibilities – across an entire organisation, business sector, industry or the economy as a whole.

Dignity is committed to the principle of equal opportunities and equal treatment for all employees regardless of any protected characteristics including sex. Although gender pay gaps have been identified within the organisation, these are driven by having a higher proportion of men than women in senior high paid roles, rather than men and women being paid differently for the same or equivalent work. Our industry is historically male dominated and this is reflected by the figures in our 2018 report which can be found on our corporate website [www.dignityfunerals.co.uk/corporate](http://www.dignityfunerals.co.uk/corporate). However, we are committed to reducing these gaps by building a more diverse and inclusive workforce.

## Case study

### British Heart Foundation

In 2018, Dignity raised £218,000 for its corporate charity, the British Heart Foundation, and has raised £448,000 since January 2017. Fundraising initiatives include sponsored walks, marathons and skydives; selling lapel badges; football events, raffles, carol services and numerous cake sales and coffee mornings. Dignity also gave clients the option to make a charitable donation when adding a message of remembrance to our Memorial Christmas Trees.

## Case study

### Remembering a local war hero

Staff at Sankey & Monks in Leigh, Greater Manchester, restored the grave of local war hero, Alfred Wilkinson on the 100th anniversary of him receiving the Victoria Cross. During World War 1, Alfred Wilkinson, volunteered to deliver a message from his battalion to allies in another trench 600 yards away despite having previously witnessed four soldiers killed by heavy machine gun fire attempting this mission. Our funeral director also gave a series of presentations to school children to raise awareness of his bravery and explain why we should remember him and others that gave their lives serving our country.

## Case study

### Scottish War Poets Memorial

In November, Dignity donated a memorial dedicated to Scottish War Poets that is now located outside the Writers Museum in Edinburgh. It is the first free standing dedication that honours those Scots that served in World War 1 and were driven to put into words their thoughts and feelings about the horrors they experienced. The memorial design is based on an original idea by Dignity and developed with staff from Edinburgh and Aberdeen Universities and the Scottish Poets Library. It takes its theme from the well-known phrase 'the pen is mightier than the sword' and carries the inscription: 'Their words touched us more than conflict could hurt us'.





## Corporate and social responsibility continued

# Health, Safety and Environmental performance

Working safely and reducing our environmental impact.

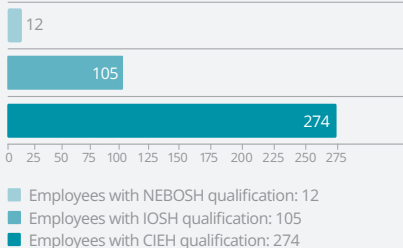
## Health and safety performance

Reduction in reportable accidents

**34%**

In the last 10 years the number of accidents has reduced by 34 per cent.

## Health & safety training (number)



## Working safely in the workplace

Dignity is committed to protecting, as far as reasonably practicable, the health and safety of those who work at and visit its premises. Our employees recognise this commitment and safety in the workplace remains a key priority. Working in a safe environment allows our employees to focus delivering excellent service to our clients. Protecting our people also supports employee engagement and retention.

## Governance and management

Dignity has a full-time Head of Health and Safety who is supported by nine Health and Safety Officers with a broad collective experience from differing organisational backgrounds. Dignity's head office, crematoria and coffin manufacturing factory also have their own managers with responsibility for health and safety. In the last 10 years the number of accidents has reduced by 34 per cent. Dignity continues to proactively monitor health and safety through quarterly analysis, inspection of premises, surveillance and regular reports to the Board and monitors reactively by investigating accidents and analysing statistics.

## Health and safety performance

Our Health and Safety team has worked diligently to reduce incidents and have focused on improving our safety culture, behaviours and risk reduction. We continue to implement and build on these activities, monitor compliance and proactively identify areas requiring action with the intention of further risk reduction across the business.

## Driving continuous improvement

We have a strong culture of safety and operational excellence and through continuous improvement we focus on delivering excellent client service. Our aim is to continue providing excellent leadership in the pursuit of safe and environmentally responsible workplaces.

## Managing our environmental impact

Our business continues to have a low environmental impact and its activities are not expected to give rise to any significant environmental risk over the next twelve months. All waste generated is properly disposed of in accordance with current legislation and steps are taken to recycle waste wherever this is practical.

Approximately 34,000 cremations at Dignity crematoria were mercury abated during 2018, representing 52 per cent of the total number of cremations.

Dignity's coffin manufacturing facility has ISO14001 accreditation, an internationally accepted standard for an effective environmental management system that is designed to address the balance between maintaining profitability and reducing environmental impact. Our coffins are manufactured using raw materials that are sourced from well-managed and sustainable sources. 96 per cent of the coffins manufactured by Dignity are from Forest Stewardship Council (FSC) accredited timber.



### CDP

As part of Dignity's ongoing commitment to reducing its carbon footprint and environmental impacts, Dignity has been reporting to the CDP (formerly Carbon Disclosure Project) since 2008. The CDP is a not-for-profit organisation that aims to reduce impacts on the environment by measuring disclosures from thousands of organisations across the world's major economies. CDP encourages best practice in reporting and reducing environmental impact through a scoring process. Scoring is based on a number of criteria designed to assess our Energy Management practices and Environmental Strategy, specifically around Performance and Reporting, Risk Management, and Business Strategy in relation to Climate Change.

Dignity's 2018 submission achieved a 'B' rating, with 'A' being the highest rating and 'E' being the lowest rating. Dignity also reported on water and waste management for the third year under the Scope 3 requirements.

### ESOS compliance

Dignity qualifies for the Energy Savings Opportunity Scheme ('ESOS'). Having completed an ESOS assessment during 2015 we are not required to submit another report until 2019.

## Environmental performance

### Greenhouse gas emissions reporting for 2018

The Group reports its greenhouse gas to CDP on an annual basis in tonnes of carbon dioxide equivalent resulting from the combustion of fuel (direct Scope 1 emissions) and that resulting from the purchase of electricity (indirect Scope 2 emissions).

The emissions for the last five years are as follows:

|                  | 2018          | 2017   | 2016   | 2015   | 2014   |
|------------------|---------------|--------|--------|--------|--------|
| Scope 1          | <b>16,028</b> | 15,535 | 15,616 | 14,988 | 14,437 |
| Scope 2          | <b>174</b>    | 423    | 7,106  | 7,455  | 7,389  |
| Total            | <b>16,202</b> | 15,958 | 22,722 | 22,443 | 21,826 |
| Per FTE Employee | <b>5.3</b>    | 4.8    | 8.0    | 8.2    | 8.5    |

Our energy consumption figures over the same periods are:

|     | 2018          | 2017   | 2016   | 2015   | 2014   |
|-----|---------------|--------|--------|--------|--------|
| MWh | <b>95,147</b> | 92,121 | 91,413 | 87,730 | 86,738 |

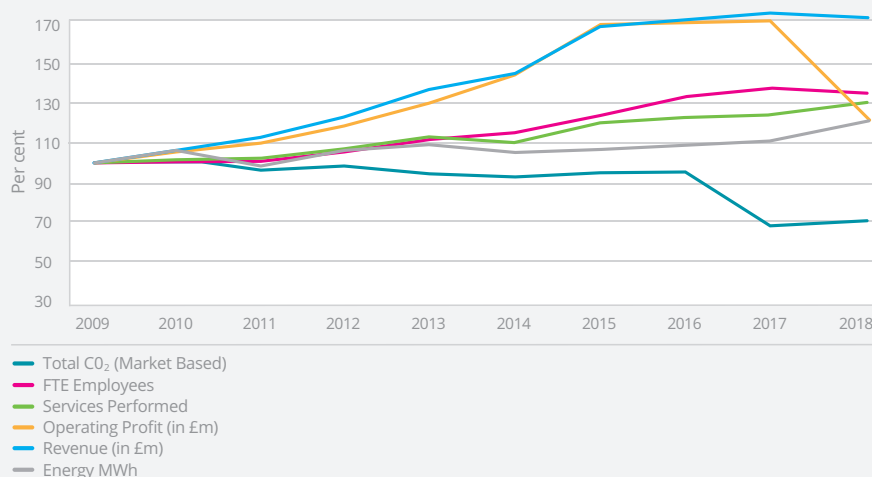
### Methodology

Our greenhouse gas emissions have been calculated on a per full time equivalent employee ratio. This intensity metric is the best measure available to the Group given the diversity of the property portfolio, the three separate divisions of the business, and the absence of a similar business to benchmark against.

We have calculated our Scope 1 and Scope 2 GHG emissions since 2010 and have recently engaged with Ecometrica Ltd to assist with the carbon emissions reporting, which supports greater transparency and accuracy of data. Emissions have derived from accurate consumption information on utility bills, smart meter readings and fuel card data.

GHG emissions have been calculated in accordance with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using the location based on Scope 2 calculation method together with the latest emission factors from recognised public sources, principally Defra/DECC. Dignity's carbon emissions disclosure has been undertaken in accordance with the Companies Act 2006.

### Percentage Index Graph Scope 1 & 2 Only (Base Year 2009)





## Chairman's introduction to governance

The Board is committed to best in class governance as it is an essential constituent of the way we do business based on trust, transparency and accountability.



Peter Hindley, Chairman

### Dear Shareholder,

On behalf of the Board I am pleased to present the Group's Corporate Governance Report for 2018. Our report is intended to provide shareholders with a clear and comprehensive explanation of what good governance means within Dignity, what it means to us as the Board of Directors, how it is applied and how it guides our decision making.

We are reporting in line with the UK Corporate Governance Code (April 2016) (the 'Code') and I am pleased to advise that Dignity has complied with all relevant provisions throughout the period ending 28 December 2018, save for the exception noted later. How we have achieved this is covered in this section of our Annual Report and comprehensively explains our approach to and the application of good corporate governance.

The Company is addressing the requirements of the UK Corporate Governance Code issued in July 2018 which applies to accounting periods on or after the 1 January 2019.

Good governance is crucial at all levels within the Group and it is the responsibility of the Board both to lead by example and to set the tone from the top. It means ensuring that an effective internal framework of systems and controls exists which includes clearly defined authorities and accountability which promote success, whilst allowing risks to be managed to appropriate levels. To do this the Board must make sound judgements whilst giving consideration to the views of our shareholders and other stakeholders.

I would encourage you to attend our Annual General Meeting on 13 June 2019 and take the opportunity to meet the Board. We will take both formal questions at that meeting and be available for more informal conversation afterwards.

**Peter Hindley**  
Chairman

13 March 2019

### Compliance with the UK Corporate Governance Code

Dignity plc is subject to the UK Corporate Governance Code (the 'Code') issued by the Financial Reporting Council (available at [frc.org.uk](http://frc.org.uk)). As a listed company, Dignity is required to report on how it has applied the principles of the Code and this is set out in the following pages. The Board is pleased to report that, other than as detailed in the paragraph below, Dignity has complied with all of the provisions of the Code throughout the period ended 28 December 2018 and remained compliant at the date this 2018 Annual Report was published.

In 2008, Peter Hindley relinquished the role of Chief Executive and became Chairman of the Board. This was contrary to the Code as he was not independent on appointment as Chairman. However, in accordance with the Code, that appointment was only made after consultation with the major shareholders of the Group at that time acknowledging the importance of retaining Mr Hindley's skills and knowledge of the funeral sector.

In May 2018, the Board announced that Mr Hindley, in accordance with his wishes, would retire from the Board in 2019. The Board is in the process of conducting an extensive search and will announce his successor in due course.

### Directors' Report

The Directors present their report for Dignity plc for the period ending 28 December 2018.

### Corporate Governance

The Group is committed to high standards of corporate governance, details of which are given in this report and the separate reports from the Chairman of:

- The Audit Committee;
- The Nomination Committee; and
- The Remuneration Committee.

The various sections of this report contain summarised information from Dignity plc's Articles of Association (the 'Articles') and the Companies Act 2006 which is the applicable English law concerning companies. The relevant provisions of the Articles or the Companies Act should be consulted if more detailed information is needed.

## Our governance principles

### Leadership

Continued focus on delivering our strategy.

### Effectiveness

A strong, open and effective Board with the challenge of our Non-Executive Directors.

### Accountability

Continued close scrutiny and management of risk coupled with the implementation and monitoring of effective controls.

### Remuneration

Prudent oversight of Executive remuneration.

### Engagement

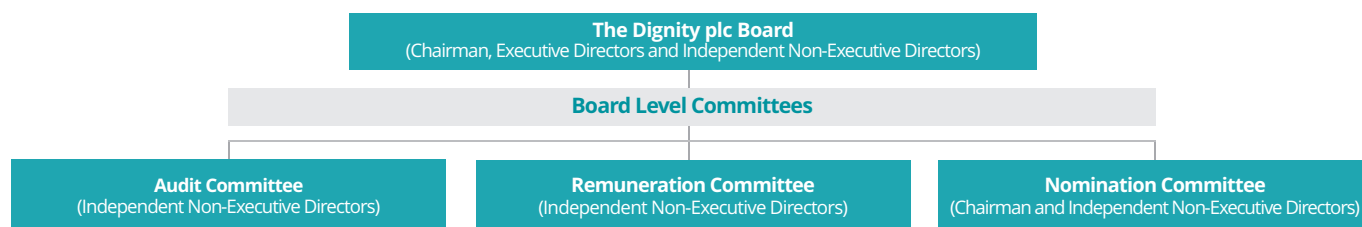
Maintaining a strong, open and two way relationship with shareholders.

## Governance structure

The Board provides strategic leadership to the Group within a framework of sound corporate governance and internal control.

### Links

- See Board of Directors: **p.62 and p.63**
- See Directors' statement on corporate governance: **p.65 to p.69**
- See Audit Committee report: **p.70 to p.72**
- See Nomination Committee report: **p.73**
- See Report on Directors' remuneration: **p.74 to p.89**
- See Directors' report: **p.90 to p.92**



### The Board

The Board is responsible for the long-term success of the Group which includes:

- Overall management of the Group;
- Setting and reviewing the strategy of the Group;
- Approval of major capital expenditure and acquisition projects, and consideration of significant financial matters;
- Monitoring the exposure to key business risks;
- Approval of major financing and capital structure changes to the Group;
- Setting annual budgets and reviewing progress towards achievement of these budgets; and
- Proposing and making dividend payments to shareholders.

### The Chairman

The Chairman is responsible for:

- The leadership of the Board;
- Ensuring the Board functions effectively in all aspects of its role;
- Facilitating the effective contribution of the Non-Executive Directors and ensuring a constructive working relationship between Executive and Non-Executive Directors;
- Making sure all Directors receive accurate, timely and clear information;
- Setting the agenda so all important issues are discussed, ensuring sufficient time is devoted to discussing such issues particularly strategic ones;
- Making sure there is effective communication with stakeholders and acting as the public face of the Group; and
- The Chairman also acts as the Chairman of the Group's defined benefit pension scheme and also as Chairman of the various pre-arranged funeral plan trusts.

### Non-Executive Directors

The Non-Executive Directors scrutinise, measure and review the performance of management; constructively challenge and assist in the development of strategy; review the Group's financial information and monitor the effectiveness of internal risk management systems. There are three independent Non-Executive Directors.

### Senior Independent Director

The Senior Independent Director provides a sounding board for the Chairman and acts as an intermediary for other Directors if needed and is available to meet and liaise with shareholders as required.

### The Chief Executive and Executive Directors

The Chief Executive and Executive Directors are responsible for:

- Operational management and control of the Group on a day-to-day basis. Local operational decisions are the responsibility of the local managers, who are accountable to the Chief Executive and the Executive Directors;
- Formulating and proposing strategy to the Board; and
- Implementing the strategy and policies adopted by the Board.

### Committees of the Board

There are three standing committees of the Board: the Audit Committee; the Remuneration Committee and the Nomination Committee. The Terms of Reference of these Committees are set by the Board and are available on the Dignity plc corporate website. Membership is reserved for the Independent Non-Executive Directors save for the Nomination Committee which is chaired by the Non-Executive Chairman. The Board Committee Reports are on pages 70 to 89.

### Executive Management Team

The Executive Management Team consist of the following Executive Directors and Senior Managers:

- Chief Executive: Mike McCollum;
- Finance Director: Steve Whittern;
- Corporate Services Director: Richard Portman;
- Crematoria Director: Steve Gant;
- Director of Funeral Operations: Andrew Judd;
- Business Development Director: Alan Lathbury;
- Transformation Director: Paul Turner; and
- Commercial Director: Steve Wallis.



## Board of Directors

A strong, balanced and experienced Board.

Our Board members provide a strong and complementary mix of skills and experience and together are committed to building the long-term success of the Group.

**Peter Hindley**  
Non-Executive Chairman



**Peter Hindley**  
Non-Executive Chairman



Appointed to the Board: 2004

### Background and experience:

Peter has extensive experience of the industry having been appointed Chief Executive of Plantsbrook Group plc in 1991. He subsequently led a leveraged buy out of Dignity in 2002. The Company was then floated on the Stock Exchange in 2004. Peter became Non-Executive Chairman in January 2009. Before entering the funeral service industry, Peter held a number of senior positions in retailing. Peter was appointed Chairman of the Steering Committee of the French funerals group OGF, SA in January 2014.



**Mike McCollum**  
Chief Executive

Appointed to the Board: 2004

### Background and experience:

Mike joined Dignity's former parent, SCI, in 1995 from KPMG Corporate Finance in London. As Finance Director he was part of the management team that guided the Group through the leveraged buy out in 2002 and IPO in 2004. He was appointed Chief Executive in 2009. He is a solicitor and also holds an MBA from Warwick University.

### External appointments:

Non-Executive Director of CVS Group plc.



**Steve Whittern**  
Finance Director

Appointed to the Board: 2009

### Background and experience:

Steve joined the Group in 1999 from KPMG. He was appointed Finance Director at the beginning of 2009, having spent the previous two years as Financial Controller, being responsible for the Group's finance function. Steve has led the three refinancings and Returns of Cash since 2010, and the debt and equity funding for the Yew Acquisition in 2013. Steve is a Fellow of the Institute of Chartered Accountants in England and Wales and holds a mathematics degree from Warwick University.

### External appointments:

Senior Non-Executive Director of Medica Group PLC.



**Richard Portman**  
Corporate Services Director

Appointed to the Board: 2006

### Background and experience:

Richard joined SCI from HSBC to be Chief Accountant in 1999. Following the IPO, Richard was appointed as Company Secretary and became Corporate Services Director in 2006. Richard is a Fellow of the Institute of Chartered Accountants in England and Wales, holds a geography degree from the University of Birmingham, is a Companion of the Chartered Management Institute and is a Member of the Investor Relations Society. He is also one of the Trustees of the Dignity Welfare Trust.

### External appointments:

None.



### Jane Ashcroft CBE

Non-Executive Director

Appointed to the Board: 2012

A N R

#### Background and experience:

Jane is Chief Executive of Anchor Hanover, England's largest provider of housing and care for older people and held a number of senior positions since joining them in 1999 before appointment to her current role in 2010. She is a Board member and Vice-Chair of the National Housing Federation, and a founding member and Vice-Chair of the Associated Retirement Community Operators. A graduate of Stirling University, she is a Fellow of the Institute of Chartered Secretaries & Administrators, a Member of the Chartered Institute of Personnel and Development, a Trustee of The Silver Line charity and was awarded a CBE in the 2014 New Year's honours list.



### David Blackwood

Senior Independent Non-Executive Director

Appointed to the Board: 2015

A N R

#### Background and experience:

David is a Non-Executive Director and Audit Chair of Scapa Group plc and a Non-Executive Director of Stobart Group Limited and has previously served as a member of the Cabinet Office Audit and Risk Committee and the Board for Actuarial Standards. He was Chief Financial Officer of Synthomer plc for seven years, stepping down in 2015, prior to which he held a number of senior roles with ICI plc. He is a member of the Institute of Chartered Accountants in England and Wales and a Fellow of the Association of Corporate Treasurers. David became Senior Independent Non-Executive Director of Dignity on 31 January 2018.



### Tim George

Company Secretary

Tim was appointed Company Secretary in December 2018 and is a Fellow of the Institute of Chartered Secretaries & Administrators.



### Mary McNamara

Non-Executive Director

Appointed to the Board: 2017

A N R

#### Background and experience:

Mary McNamara is a Non-Executive Director and Chairman of the Remuneration Committee of One Savings Bank plc. She is also Senior Independent Director and Chairman of the Remuneration Committee of Motorpoint Group plc. Previously she was the Chief Executive of the Commercial Division for Close Brothers Bank. Prior to this Mary worked for GE for 17 years with leadership roles across the Consumer and Commercial Finance business.

### Board composition, balance and tenure

The Board now comprises six Directors and the Non-Executive Chairman. There are the same number of independent Non-Executive Directors and Executive Directors which the Board considers to be an appropriate and effective combination.

#### Executive and Non-Executive Directors



■ Executive Directors  
■ Non-Executive Directors  
■ Non-Executive Chairman

#### Non-Executive Tenure



■ 0 - 3 years  
■ 3+ years

### Key to Committee membership

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Green background denotes Committee Chairman.

#### Links

- ➔ See Audit Committee report: **p.70 to p.72**
- ➔ See Nomination Committee report: **p.73**
- ➔ See Report on Directors' remuneration: **p.74 to p.89**



## Executive Management Team

The Executive Management Team consists of the Executive Directors and Senior Managers.

### The role of the Executive Management Team

The Executive Management Team is responsible for managing the detailed day-to-day tasks required to implement the strategy set by the Board.



**Mike McCollum**  
Chief Executive

Full biography on page 62



**Steve Whittern**  
Finance Director

Full biography on page 62



**Richard Portman**  
Corporate Services Director

Full biography on page 62



**Steve Gant**  
Crematoria Director

Steve joined what is now Dignity in 1988. His key area of responsibility is The Crematorium and Memorial Group. He began his career in the crematoria industry in 1983 and assumed management of the Crematoria division in 2003. Steve currently sits on the Executive for the Federation of Burial and Cremation Authorities and is part of the National Cremation Working Group for the Ministry of Justice, consulting on the revision and update of the Cremation Acts.



**Andrew Judd**  
Director of Funeral Operations

Andrew joined what is now Dignity in 1996. He is responsible for all aspects of the Group's day-to-day provision of funeral services through a nationwide network of employees, funeral locations and associated facilities.

Andrew has progressed through a variety of roles within both the Co-operative Group and independent sectors. He holds a degree from Wolverhampton University in Economics and Business and holds additional professional qualifications in both Funeral Service Management and Funeral Directing. He has held office in both the British Institute of Funeral Directors and National Association of Funeral Directors. He is President of the National Association of Funeral Directors, Western Counties Area Federation.



**Alan Lathbury**  
Business Development Director

Alan joined what is now Dignity in 1999. He is a Fellow of the Chartered Institute of Management Accountants and holds an MBA in Business and Finance. His principle areas of responsibility are Business Development of Crematoria, through acquisition of existing crematoria, building of new greenfield location crematoria and through partnerships with local authorities to manage existing bereavement services.



**Paul Turner**  
Transformation Director

Paul joined Dignity in 2018. He is responsible for delivering the Transformation Plan which involves understanding the relationship between price, service and volume to develop a broader proposition for customers across a number of market segments, developing a streamlined network and central operating model that can consistently deliver efficiently at lower-cost.

Paul has led major change projects in a number of branch-based service industries including pubs, restaurants and builders merchants, and is also responsible for IT within Dignity. Paul graduated from the University of Stirling in Accounting and French Language, and is a Chartered Management Accountant.



**Steve Wallis**  
Commercial Director

Steve joined what is now Dignity in 1996. His key areas of responsibility include Group digital, pricing and proposition, marketing and external affairs. Steve is also responsible for the Group's pre-need business and contact centre operations. Steve is a Fellow of the Institute of Direct and Digital Marketing.

## Directors' statement on corporate governance

### How the Board Functions

The Group is controlled through the Board of Directors that meets regularly throughout the year. The structure of the Board, together with explanations of responsibilities, is shown on page 61. Informal meetings are held between individual Directors as required.

The day-to-day management of the Group is delegated to the Executive Directors and the wider Executive Management Team (see page 64) supported by an experienced and generally long serving senior and middle management team, the size and structure of which is commensurate with the complexity of the Group's activities. Managers have the necessary skills and knowledge relevant to their areas of responsibility. The remainder of the responsibilities rest with the Board however, certain capital expenditures and acquisition projects are delegated under a formally adopted Schedule of Matters Reserved for the Board and Expenditure Authorisation Policy.

All Directors are provided with the 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 management appointments, including the role of Company Secretary.

The Board now comprises six Directors and the Non-Executive Chairman. During the period the total number of directors who served was nine plus the Non-Executive Chairman however, Andrew Davies, the former Operations Director, retired from the Board on 5 January 2018 and Alan McWalter retired from the Board on 31 January 2018. There are the same number of independent Non-Executive Directors and Executive Directors which the Board consider to be an appropriate and effective combination. The Board also considers that three Executive Directors, supported by the wider Executive Management Team, details of which are on page 64, are sufficient to manage a Group of this size, complexity and organisational structure.

There were four independent Non-Executive Directors who served for the period or part of it: Jane Ashcroft, Alan McWalter, David Blackwood and Mary McNamara. Alan McWalter retired from the Board on 31 January 2018 after completing the maximum nine years service as an Independent Non-Executive Director. Alan McWalter continued to support the Board as a consultant until 31 July 2018.

Biographical details for the serving Non-Executive Directors appear on page 63. Their role is to challenge constructively the management of the Group and to assist in the development of strategy. The Non-Executive Directors are chosen for their diversity of skills and experience. Each Non-Executive Director is appointed for a fixed term of two years, subject to annual re-election by shareholders. This term may then be renewed by mutual consent up to a maximum of nine years in accordance with the Code. Appointments beyond six years are also subject to rigorous review prior to approval. The Non-Executive letters of appointment are available, upon request, from the Company Secretary.

David Blackwood is the Senior Independent Non-Executive Director of the Group. His role is to provide a sounding board for the Chairman and act as an intermediary for other Directors if needed and to be available to shareholders if so required.

The Chairman and the Non-Executive Directors are required to, and have, confirmed formally to the Board that, mindful of their other commitments they have, and will have, sufficient time to devote to their responsibilities as Directors of the Company.

Jane Ashcroft, David Blackwood and Mary McNamara are independent of management as defined by the Code.

All Directors are able to take independent professional advice on the furtherance of their duties as necessary at the Group's expense. They also have access to the advice and services of the Company Secretary and, where it is considered appropriate and necessary, training is made available to Directors. All Directors receive annual training and updates on the duties and responsibilities of being a Director of a listed company. This covers legal, accounting, security and tax matters as required or as requested by any Director. In addition, any newly appointed Director receives appropriate induction training.

The Company maintains appropriate insurance cover in respect of any legal action against its Directors. The level of cover is currently £100 million.

The Directors have, during the period, formally reminded themselves of their duties as Directors under the Companies Act 2006 (Section 171-177). These duties include the need to avoid conflicts of interest (Section 175). No such conflicts of interest exist.

In accordance with the Code, all Directors will submit themselves for re-election as appropriate at the forthcoming Annual General Meeting.



## Directors' statement on corporate governance continued

### Board Appraisal

In accordance with the requirements of the Code, an external evaluation of the Board and its Committees was completed in 2016. The evaluation was conducted by Independent Audit Ltd, a specialist company, entirely independent of the Group. This meets the requirements of the Code that an external evaluation takes place on at least a three yearly basis and a further external evaluation will be undertaken in 2019.

During the period, the Board undertook a formal and rigorous evaluation of its own performance and that of its Committees and Directors by way of the issue of a detailed questionnaire to all Directors. This was followed by a detailed review by the Board of the responses and identification of any actions arising. The Non-Executive Directors, led by the Senior Independent Director, are responsible for the performance evaluation of the Chairman taking in to account the views of the other Executive Directors. The Board was satisfied that its performance and that of its Chairman, individual Directors and Committees was of the appropriate standard.

### Board and Board Committee Attendance

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

|                           | Main Board <sup>(i)</sup> | Audit Committee    | Remuneration Committee <sup>(ii)</sup> | Nomination Committee |
|---------------------------|---------------------------|--------------------|--|----------------------|
| <b>Number of meetings</b> | <b>8</b>                  | <b>3</b>           | <b>3</b>                               | <b>2</b>             |
| Jane Ashcroft             | 8                         | 3                  | 3                                      | 2                    |
| David Blackwood           | 8                         | 3                  | 3                                      | 2                    |
| Peter Hindley             | 8                         | 3 <sup>(iii)</sup> | 3 <sup>(iii)</sup>                     | 2                    |
| Mike McCollum             | 8                         | 3 <sup>(iii)</sup> | 3 <sup>(iii)</sup>                     | 2 <sup>(iii)</sup>   |
| Alan McWalter             | 5 <sup>(iv)</sup>         | 2 <sup>(iii)</sup> | 1 <sup>(iii)</sup>                     | 1 <sup>(iii)</sup>   |
| Mary McNamara             | 8                         | 3                  | 3                                      | 2                    |
| Richard Portman           | 8                         | 3 <sup>(iii)</sup> | –                                      | –                    |
| Steve Whittern            | 8                         | 3 <sup>(iii)</sup> | –                                      | –                    |

(i) Only scheduled Board meetings, of which there were eight in the period, have been included in the attendance analysis. A further 12 meetings were held to consider announcements, documents or the issue of shares under the LTIP.

(ii) The scheduled meetings of the remuneration committee of which there were three in the period, have been included in the attendance analysis. A further three meetings were held in the period to discuss, amongst other matters, LTIP vesting and awards and 2019 remuneration policy.

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

(iv) Mr McWalter retired from the Board on 31 January 2018. Four of the Board meetings he attended were as a consultant.

The Board had eight full Board meetings spread broadly equally across the year. The Board considers that eight is the appropriate number required to exercise effective governance and control although this is kept under review. Further meetings are arranged as required.

If Directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Such views will be included in the minutes of the meeting if necessary.

The Chairman and the Non-Executive Directors met during 2018 without the Executive Directors present. These are usually scheduled to occur before full Board meetings. The Non-Executive Directors also met during 2018 without the Chairman present.

### The Company Secretary

The Company Secretary, Tim George, is responsible for overseeing the preparation and distribution of all agendas, minutes and related Board and Committee papers. He attends the Board meetings in his capacity as Company Secretary and provides corporate governance advice if required.

The appointment and removal of the Company Secretary is a matter for the Board as a whole.

### Internal Control and Risk Management

The Board has responsibility for the Group's system of internal control and risk management, 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 formal and ongoing process of identifying, evaluating and managing the significant risks faced by the Group was in place throughout the period and in place up to the date the Governance Report was signed and approved for the Annual Report and Accounts 2018.

The Executive Directors and the wider executive management group are responsible for designing, implementing, maintaining and evaluating the necessary systems of internal controls. Such controls are reviewed on an ongoing basis and formally reviewed on an annual basis in accordance with the requirements of the Code. This annual review confirmed that the Group's risk management and internal control systems were appropriate and suitable for a Group of this size and complexity.

Internal Audit completes a programme of work each year that provides assurance that the internal controls have been operated as designed and also proposes improvements where appropriate and necessary. Coupled with this, the formal six monthly review of the Risk Register provides a further mechanism for considering and reviewing internal controls. All such work is reported to and monitored by the Audit Committee which recommends approval to the full Board and is discussed in the Audit Committee Report on pages 70 to 72.

The Audit Committee on behalf of the Board, as part of an ongoing process, formally reviews and continues to keep under review the effectiveness of the Group's systems of internal control, including financial, operational and compliance controls and risk management systems. The Audit Committee also formally reviews risk management annually and receives reports from Executive Management and Internal Audit 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. It also identifies the significant controls upon which reliance will be placed. Any significant control weaknesses would be reported to the full Board at their next meeting. There have been no reports of weaknesses that have resulted or would have resulted in a material misstatement or loss in the period, nor in the period up to the date this Annual Report was published.

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

- **Financial Reporting** – The Group has a comprehensive system of internal budgeting and forecasting. The Group's 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;
- **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 and appropriate. There is also a Code of Conduct applicable to all employees of the Group as well as specific policies such as Anti Bribery and Corruption, Slavery and Human Trafficking and Money Laundering;
- **Internal Audit** – The Group has a dedicated Internal Audit team, which reports to the Corporate Services Director and the Audit Committee. The latter reviews and approves the annual work plan of the Internal Audit function which tests the effectiveness of many controls. Any significant weaknesses are reported to management and the Audit Committee on a timely basis. It coordinates the completion of self-assessment reports by operational management that assists in highlighting areas of control weakness or exposure. Internal audit reviews are completed on such areas together with selected areas of the head office function and any area where an Executive Director requests a review.

During 2018 (as in previous years), there were quarterly meetings between the Head of Internal Audit and the Executive Directors to formally review and discuss Internal Audit's work programme and findings. In addition, regular meetings between the Head of Internal Audit and the external auditors, Ernst & Young LLP ("EY"), were held during the year to discuss and plan audit work and to ensure a complementary approach. The Head of Internal Audit formally reports to the Audit Committee at every meeting and also held private meetings with the Chairman of the Audit Committee during 2018;

- **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. Procedures are supplemented by training where needs have been identified. Both Internal Audit and the comprehensive management structure monitor the adherence to such processes and procedures; and
- **Risk assessment** – The Executive Directors and the wider executive management group have responsibility for the identification and evaluation of significant risks that might arise in their areas of responsibility, together with the design of suitable internal controls. This was in place throughout the accounting period and at the date of approval of the Annual Report. They also regularly assess the risks facing the Group. A Risk Register is maintained which is presented to and reviewed by the Audit Committee twice a year and then formally adopted by the Board of Dignity plc. Risks and any changes to those risks are discussed at every Board meeting. The principal risks and uncertainties facing the Group, which are documented in the Risk Register, are discussed on pages 50 to 53 of the Annual Report. These risks have also been formally considered when the Directors prepared their Viability Statement on page 53 of this Annual Report in accordance with provision C2.2 of the Code.

These procedures are designed to, amongst other things, help to provide assurance regarding the process of preparing consolidated financial statements and the financial reporting system.

An explanation of how the Group aims to create and preserve value and the strategy for delivering its objectives is included in the Operating Review on pages 38 to 44.



## Directors' statement on corporate governance continued

### Relationship with Shareholders

The Group recognises the importance of clear communication with shareholders.

Regular contact with institutional investors, fund managers and analysts is undertaken by the Chief Executive and the Finance Director to discuss information made public by the Group. The Board receives reports of these meetings and any significant issues raised are discussed by the Board. Where appropriate or if requested, such meetings could include either or both the Chairman and the Senior Independent Director. The Chairman, Senior Independent Director and the Non-Executive Directors are also available to meet separately with shareholders if necessary to discuss any issues that they may have. The Chairman is also available to discuss governance and strategy matters with the major shareholders. The Company Secretary deals with queries or enquiries from private shareholders. The Board is interested in the views and concerns of all shareholders whether private, institutional or corporate.

The AGM provides an opportunity to meet the Board and the Executive Management Team. All shareholders are free to attend and put questions to any Director and the Chairman of each of the Board Committees at the AGM on 13 June 2019. At least 20 days' notice will be given ahead of that meeting. Questions asked in person at the AGM will receive a verbal response whenever possible, otherwise a written response will be provided as soon as practicable after the AGM. Questions raised at any other time will normally receive a written response. Shareholders attending the AGM will also have the opportunity to meet informally with all the Directors and the Executive Management Team after the meeting has concluded.

The Directors consider that this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model, risks and strategy. In order to assess whether the Annual Report and Accounts were fair, balanced and understandable, the Board received an early draft to enable time for review and comment. The Audit Committee then met to consider the criteria for a fair, balanced and understandable Annual Report and to review the process underpinning the compilation and assurance of the report, in relation to financial and non-financial management information. At that meeting they considered the Annual Report and Accounts as a whole and discussed the tone, balance and language of the document, being mindful of the UK reporting requirements and consistency between narrative sections and the financial statements. As part of this process the Board considered the Group's reporting governance framework and the views of the external auditor as reported to the Audit Committee. Pages 1 to 53 provide an assessment of the Group's affairs.

The Annual Report and Accounts is made available to all shareholders at least 20 working days before the AGM. Registered shareholders receive a Notice of Meeting and Form of Proxy, the latter document allowing a shareholder to vote in favour, or against or indicate an abstention on each separate resolution tabled at the AGM. Particulars of aggregate proxies lodged are also announced to the London Stock Exchange ('LSE') and placed on the Group's investor website, [www.dignityfunerals.co.uk/corporate](http://www.dignityfunerals.co.uk/corporate), as soon as practicable after the conclusion of the AGM.

The Interim Report is no longer published as a paper document but is available on the Group's investor website upon which users can also access the latest financial and corporate news. All information reported to the market via regulatory information services also appears as soon as practicable on that website.

The Group is happy to arrange visits to its funeral locations and crematoria, if requested by a shareholder, at a time suitable to all parties.

### Our approach to diversity

The Board is committed to and takes responsibility for equality and diversity throughout the Dignity Group.

It is the policy of the Company that there shall be no discrimination or less favourable treatment of employees or job applicants in respect of age, race, religion or belief, gender, sex, sexual orientation, pregnancy, disability or marital status. The Company is fully committed to ensuring there is no unfair and unlawful discrimination in relation to employees, job applicants, clients, suppliers and members of the public. It is Company policy to engage, promote and train employees on the basis of their capabilities, qualifications and experience, without discrimination, and all employees will receive equal opportunity to progress within the Company.

In order to put this policy into practice in the day-to-day management and operations of the Company, we:

- Monitor decisions on recruitment, selection, training and promotion to ensure they are based solely on objective and job related criteria;
- Provide training for Managers to ensure that they understand the nature of discrimination and are fully aware of their responsibilities in implementing our Equality and Diversity policy;
- Provide awareness for employees to ensure that they have a greater understanding of equality and diversity in the workplace;
- Provide information and advice on the implications of the relevant legislation and on assistance available to help in the employment of people with disabilities;

- Ensure that all policies are applied thoroughly and fairly particularly those relating to any complaint involving discrimination or harassment;
- Communicate this policy to employees, suppliers and third parties, where applicable, through induction, training and communications; and
- Encourage our suppliers and third parties to adopt policies and working practices, which reflect our own views and values on equality and diversity and that of our clients.

All employees are also responsible for the promotion and advancement of this policy and the Group supports its implementation and communication through its Equality and Diversity Programme of Action which covers a number of matters including induction, learning and development.

For further details on Employee diversity, see page 56 of the Corporate and Social Responsibility report.

### Substantial shareholdings

The Group has been formally notified (In accordance with Chapter 5 of the Disclosure and Transparency Rules) of the following interests of three per cent or more in the issued share capital of the Company:

| Holder                             | As at 8 March 2019        |                                    | As at 28 December 2018    |                                    |
|------------------------------------|---------------------------|------------------------------------|---------------------------|------------------------------------|
|                                    | Number of Ordinary Shares | Percentage of issued share capital | Number of Ordinary Shares | Percentage of issued share capital |
| Phoenix Asset Management Limited   | 9,542,824                 | 19.08                              | 8,038,962                 | 16.08                              |
| John Stewart Jakes                 | 3,669,612                 | 7.34                               | 3,669,612                 | 7.34                               |
| Prudential plc group of companies  | 2,634,650                 | 5.26                               | 2,632,308                 | 5.25                               |
| Klarus Capital Limited             | 2,606,669                 | 5.22                               | 2,606,669                 | 5.22                               |
| Standard Life Aberdeen plc         | 2,335,990                 | 4.67                               | 2,335,990                 | 4.67                               |
| Montanaro Asset Management Limited | 1,615,000                 | 3.23                               | 2,483,950                 | 4.97                               |
| Harris Associates L.P.             | 2,483,419                 | 4.97                               | 2,483,419                 | 4.97                               |
| Pictet Asset Management Limited    | 2,394,069                 | 4.78                               | –                         | –                                  |

It should be noted that these holdings may have changed since the Company was notified.

By order of the Board

**Tim George**  
Company Secretary

13 March 2019



## Audit Committee report

The Audit Committee continues to address its key responsibilities and to effectively respond to changes in the Group's business environment.



David Blackwood, Chairman of the Audit Committee

### Dear Shareholder,

On behalf of the Board, I am pleased to present my fourth report as the Chairman of the Audit Committee.

### Membership and Process

The following Directors served on the Audit Committee (the 'Committee') during 2018: myself as Chairman, Jane Ashcroft and Mary McNamara. All of us are independent Non-Executive Directors and served through to the date of this report.

The Board is satisfied that, as Chairman of the Committee, I have recent and relevant financial experience together with competence in accounting and auditing that can be appropriately and successfully applied at Dignity. In addition, the Committee is satisfied that it has a broad range of experience across a number of sectors that are relevant to Dignity. The Company Secretary acts as Secretary to the Committee. I report the Committee's deliberations at the next Board meeting and the minutes of each meeting are made available to all members of the Board.

The Committee met three times during 2018; in March prior to the release of the Preliminary Announcement for 2017; prior to the release of the Interim Announcement for 2018 in August; and again in December 2018 immediately prior to the end of the financial period. The Committee also met in March 2019 prior to the release of the Preliminary Announcement for 2018. The attendance records of the members are shown on page 66. The external auditors, EY, the Chairman, the Chief Executive, the Finance Director, the Operations Director, the Corporate Services Director, the Head of Internal Audit and the Financial Controller have all attended meetings by invitation.

The Committee holds a private session with the Lead Partner from our external auditors, EY, without management present at least once a year. In addition, as Chairman of the Audit Committee, I met with the Lead Partner three times in the year to provide the opportunity for open communication and the free flow of any concerns relating both to the openness, transparency and general engagement of management with the audit process as well as to understand EY's assessment of key judgements as they arise.

| Member          | Since | Experience   |
|-----------------|-------|--|
| David Blackwood | 2015  | Previously CFO of Synthomer plc, Chartered Accountant and Fellow of the Association of Corporate Treasurers.   |
| Jane Ashcroft   | 2012  | Currently CEO of Anchor Hanover, Fellow of the Institute of Chartered Secretaries and Administrators and Member of the Chartered Institute of Personnel and Development. |
| Mary McNamara   | 2017  | Previously CEO of the Commercial Division of Close Brothers Bank, and held a number of leadership roles within GE.   |

### Key Responsibilities

The Committee works with the Board to fulfil its oversight responsibilities. Its primary functions are to:

- Monitor the integrity of the financial statements and other information provided to shareholders to ensure they represent a clear and accurate assessment of the Group's position, performance, strategy and prospects;
- Consider the financial statements and recommend to the Board as to whether the Annual Report and Accounts, taken as a whole, are fair, balanced, understandable and provide information necessary for shareholders to assess the performance, business model and strategy of the Group, recognising the changes to the strategy of the business;
- Review significant financial reporting issues and judgements contained in the financial statements;
- Review the systems of accounting, internal control and risk management;
- Monitor and review the significant risks identified by the Group as well as the management and mitigation of those risks;
- Oversee and maintain an appropriate relationship with the Group's external auditors and review the effectiveness, independence and objectivity of the external audit process;
- Monitor and review the effectiveness of the Internal Audit function; review the internal audit plan and all internal audit reports; review and monitor management's responses to the findings and recommendations of the Internal Audit function; maintain an effective relationship with the Head of Internal Audit; and
- Monitor and review the arrangements by which employees can, in confidence, raise concerns about any possible improprieties in financial and other matters (such as compliance with the Bribery Act).

The terms of reference of the Committee are available on the Group's corporate website at [www.dignityfunerals.co.uk/corporate](http://www.dignityfunerals.co.uk/corporate).

### Activities in the period

The key activities of the Committee during the period were:

- A comprehensive review of the 2017 and 2018 Annual Report and Accounts and the 2018 Interim Report. This review was to ensure that the Committee were completely satisfied that the information was fair, balanced and understandable. As part of this review the Committee received reports from the external auditors on their audit of that Annual Report and Accounts and their review of the interim results. The Committee also reviewed the Preliminary and Interim Announcements to be made to the London Stock Exchange;
- At all meetings, the review of reports including the review of Internal Audit progress against the Internal Audit plan for the period, the results of principal audits and other significant findings, adequacy of management's responses and the timeliness of the resolution of actions arising;
- Review and agreement of the three year rolling plan for Internal Audit;

- A six monthly review of the Group's Risk Register and recommendation of formal adoption by the Board. This is part of a formal ongoing process of identifying, evaluating and managing the significant risks faced by the Group. An additional review of the Risk Register was also completed in March 2019. The principal risks facing the Group are considered on pages 50 to 53 of this Annual Report;
- Completion of a comprehensive review of Dignity's risk control framework and its linkage to the Risk Register and Viability Statement included in the Strategic Report on page 53;
- The formal review of the going concern assumptions adopted in the preparation of the 2017 and 2018 financial statements;
- In advance of the financial period end, the review with the external auditors, EY, of the annual external audit plan, which addressed the planned audit approach to key audit matters;
- Consideration of the external auditor's views on key judgement areas and audit findings relating to key accounting matters at the conclusion of the audit;
- A review of the Committee's terms of reference to ensure best practice; and
- We have reviewed the Financial and Reporting Council letter for Audit Committee Chairs and Finance Directors to consider the applicability of the matters raised for the Group's financial statements.

Areas that have been discussed and considered by the Committee in relation to the 2018 Annual Report and Accounts are:

- Impairment – we considered the results of the impairment test performed, ensuring that the assessment made and conclusions reached were consistent with the analysis and reflected the changes in the funeral business;
- Pensions – we examined the assumptions used in the actuarial valuation for the defined benefit pension scheme considering the consistency of approach with the prior year and compliance with the requirements of IAS 19;
- Risk – a comprehensive review of the principal risks and uncertainties disclosed in the 2018 Annual Report based on the changing competitive environment in which the Group operates;
- Pre-arranged funeral plans trusts – the Committee considered the on-going treatment of the Trusts under IFRS 10 along with the additional disclosure requirements of IFRS 12;
- A comprehensive review and ratification of the Viability Statement; and
- IFRS 15 is not applicable for the Group until next year end. The Audit Committee considered the impact of adopting the standard, particularly on pre-need revenue, to satisfy itself that appropriate disclosure of the impact of adopting the standard has been given in the 2018 Annual Report.

### External audit

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. This policy assigns responsibility for monitoring objectivity, independence and compliance with ethical and regulatory requirements to the Audit Committee with day-to-day responsibility assigned to the Finance Director, Steve Whittern. The Committee also retains responsibility for the appointment and removal of the current external auditors, who are currently EY.

The Audit Committee, on an annual basis, formally considers the performance and independence of the external auditors. The formal annual review was completed in the first quarter of 2019. This review took the form of a detailed questionnaire that was sent to all Committee members and attendees at the Committee meetings. The respondents were asked to grade all aspects of the service provided. The Committee was, based on that review which indicated a strong level of confidence in the external auditors, fully satisfied with EY's performance in 2018 and a resolution to re-appoint them as external auditors will be tabled at the AGM on 13 June 2019.

The Committee confirms that during the year the Group has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, as published by the UK Competition and Markets Authority.

### Policy on non-audit fees

The Group has a rigorous and comprehensive policy on the use of the external auditors for non-audit work. The policy states that non-audit fees are limited to no more than 50 per cent of the annual audit fee unless there are exceptional circumstances, which are defined as:

- The work necessitates the use of the auditor for regulatory reasons; and
- Their use represents a material time/cost benefit to the Group in conducting a transaction.

The policy also precludes the use of the external auditors for certain types of work. All such work is fully analysed in the Annual Report between tax compliance and advisory, non statutory acquisition related services and statutory services. Audit Committee approval is required prior to the work being commenced and further disclosure of the works and the reasons for it being performed by the external auditors will be disclosed in the following Annual Report. The Audit Committee does not envisage that non-audit fees payable to the external auditors will exceed 50 per cent other than in exceptional circumstances.

In the period, EY undertook no non-audit work on behalf of the Group except for their review of the Interim Report for 2018, completion of turnover certificates, a financial covenants compliance certificate and certifications required as part of the Group's membership renewal of the Funeral Planning Authority. Total fees of £45,000 were charged for the non-audit services compared to £342,000 for audit services.

## Audit Committee report continued

The Committee is confident that the objectivity and independence of the external auditors is not compromised by reason of non-audit work, not least because such work will generally be undertaken by other professional firms. A formal statement of independence from EY has been received in respect of 2018.

### Audit partner rotation

Consistent with the requirements of the Financial Reporting Council's Ethical Standard, EY audit partners serve for a maximum of five years on listed clients. This will therefore be the last year that Simon O'Neill will act as Dignity's audit partner, as he led the tender that resulted in EY's appointment five years ago. As successor, Adrian Roberts, has been identified as the person who will lead the 2019 audit. The Committee extends its thanks to Mr O'Neill for the support and challenge he has provided during his tenure.

The Audit Committee considers that the relationship with the auditors is working well and is satisfied with their effectiveness and there are no current plans to put the external audit out to tender although the Committee remains mindful of the UK Competition and Markets Authority's requirement regarding tendering.

The Audit Committee has also kept under review the independence of EY and has been satisfied at all times that any threats arising to their independence have been subject to appropriate safeguards.

### Internal Audit

The Group has a dedicated Internal Audit team, which reports to the Corporate Services Director and the Audit Committee. It coordinates the completion of self-assessment reports by operational management that assists in highlighting areas of control weakness or exposure. Internal audit reviews are completed on such areas together with selected areas of the head office function and any area where a Director or the Audit Committee requests a review.

During 2018 (as in previous years), there were quarterly meetings between the Head of Internal Audit and the Executive Directors formally to review and discuss Internal Audit's work programme and findings. In addition, regular meetings between Internal Audit and the external auditors, EY, were held during the year to discuss and plan audit work and to ensure a complementary approach. The Head of Internal Audit provides reports to the Audit Committee at every full meeting and met on a one to one basis with me, as the Chairman of the Audit Committee on three occasions in the period. This process allows the Committee to monitor the effectiveness of the Internal Audit function as the Head of Internal Audit is available at all Committee meetings and all reports and their conclusions are comprehensively reviewed.

### Whistleblowing

A formal policy and procedure, established via the Committee, exists by which employees of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. This ensures arrangements are in place for the proportionate and independent investigation of such matters and appropriate follow-up action. Whistleblowing reports are formally reviewed on an annual basis by the Committee or more frequently should the need arise.

This Audit Committee report was reviewed and approved by the Board on 13 March 2019.

I will be available to answer any questions about the work of the Committee at the AGM on 13 June 2019.

### David Blackwood

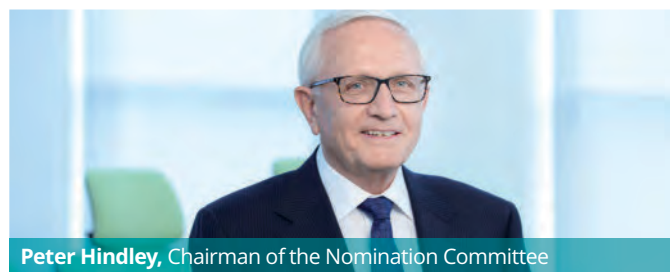
Chairman of the Audit Committee

13 March 2019



## Nomination Committee report

The Nomination Committee has the key role of ensuring we have the right blend of skills on the Board to deliver our strategy and successfully manage our business.



Peter Hindley, Chairman of the Nomination Committee

### Dear Shareholder,

On behalf of the Board, I am pleased to present the 2018 Nomination Committee report.

During 2018, the membership of the Nomination Committee (the 'Committee') comprised Jane Ashcroft, David Blackwood, Mary McNamara and myself as Chairman. All members, apart from myself, are independent Non-Executive Directors. The Chief Executive attends Committee meetings by invitation.

The Company Secretary is Secretary to the Committee.

During the year the Committee undertook the following:

- The review of the structure, size, composition, balance of skills, knowledge, independence, diversity and experience of the Board in order to recommend to the Board any changes deemed desirable. The Committee considered that current composition of the Board was appropriate for the Group's size and complexity;
- Succession planning to ensure processes and plans are in place with regard to both Board and senior appointments;
- Review of the leadership needs of the Group, both executive and non-executive;
- Reviewed the time commitment required from the Non-Executive Directors; and
- Reviewed its terms of reference to ensure they continue to reflect best practice.

The Board has been seeking my successor following the announcement of my intention to retire in 2019. The Board is in the process of conducting an extensive search and will announce my successor in due course.

The Committee met twice in 2018. At these meetings the principal duties of the Committee were formally considered and no issues or concerns were identified. The members of the Committee's attendance record is set out on page 66. I report the Committee's proceedings at the next Board meeting and the Committee's minutes are made available to all members of the Board.

All the Non-Executive Directors are appointed for two year terms which may then be renewed up to maximum of nine years service in accordance with the independence guidelines in the UK Corporate Governance Code.

| Tenure          | Length of tenure at 28 December 2018 (years) |   |   |   |   |   |   |   |
|-----------------|--|---|---|---|---|---|---|---|
|                 | 1  | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| David Blackwood |  |   |   |   |   |   |   |   |
| Jane Ashcroft   |  |   |   |   |   |   |   |   |
| Mary McNamara   |  |   |   |   |   |   |   |   |

The terms of reference of the Committee are available on the Group's corporate website at [www.dignityfunerals.co.uk/corporate](http://www.dignityfunerals.co.uk/corporate).

The Committee and the Board continue to support the spirit of Lord Davies' Report "Women on Boards". Currently two of the seven Board members are women (29 per cent). While the Committee will continue to pursue a policy of ensuring that the best people are appointed for the relevant roles, the benefits of greater diversity are recognised and will continue to be taken into account when considering a particular appointment.

Similarly, we will continue to encourage diversity in our senior management positions throughout the workforce.

I am also pleased to confirm that the Group will continue to publish the details on corporate diversity suggested in Recommendation 2 of Lord Davies' Report and report on our compliance and appointment process in this Annual Report.

During the period, the Board completed performance evaluation of itself and its Committees. The results of this are discussed on page 66.

Finally, all Directors offer themselves for re-election at the AGM on 13 June 2019. I will not seek re-election if my successor is appointed before the AGM.

I will be available at the AGM to answer questions on the work of the Committee.

This Nomination Committee report was reviewed and approved by the Board on 13 March 2019.

**Peter Hindley**  
Chairman of the Nomination Committee

13 March 2019

## Report on Directors' remuneration

for the 52 week period ended 28 December 2018

The Remuneration Committee has reviewed the remuneration policy to ensure that it remains aligned to the business strategy and that management is incentivised to deliver significant shareholder returns.



Mary McNamara, Chairman of the Remuneration Committee

### Dear Shareholder,

On behalf of the Board, I am pleased to present this Directors' Remuneration Report for the period ended 28 December 2018.

As the 2019 AGM will be the third anniversary of shareholders approving our remuneration policy, we are required to seek shareholder approval by a binding vote for a new policy for the next three year period. The new Directors' Remuneration Policy is set out on pages 76 to 81, together with a summary of the changes, compared to our existing policy, we propose to make. The Annual Report on Remuneration (set out on pages 81 to 89) describes how the current policy was implemented in 2018 and how the new policy will be implemented in 2019. The Annual Report on Remuneration, together with this Statement, will be subject to a separate, advisory vote. Finally, our Long-Term Incentive Plan (LTIP) has reached the end of its life and we are required to seek shareholder approval for a new plan at our AGM. The terms of the new LTIP are summarised in the separate Notice of AGM.

### Changes to our remuneration policy and new Long-Term Incentive Plan

The Committee has reviewed the market levels of the current remuneration arrangements and considered alternative incentive models and has concluded that the remuneration levels and the structure of the current remuneration policy should be unchanged, subject to careful consideration of the latest (July 2018) UK Corporate Governance Code requirements and investor guidance. Accordingly there are some modest changes to the structure of the annual bonus and shareholding requirements in particular. Full details of the changes are given in the Policy section.

Our new Long-Term Incentive Plan provides for share awards to be granted, subject to achieving long-term performance targets based on improvements in financial performance and shareholder value. This is an important element of our remuneration policy, as it provides a strong alignment of interest between executives and shareholders. The new LTIP is similar to the current LTIP, but has been modernised in line with latest UK Corporate Governance Code and investor guideline requirements.

### Performance in 2018 and annual bonus and 2016-18 LTIP outcome

The 2018 annual bonus was measured 70 per cent against stretching underlying operating profit targets, our key short-term financial performance indicator. Underlying operating profit in 2018 of £80.2 million was significantly ahead of our 2018 business plan and market consensus at the start of the year and while it was significantly below the prior year underlying operating profit, the Board was pleased with this very robust financial performance in the circumstances. A very stretching sliding scale of performance was set at the start of the year and the bonus pay out against this element was 28 per cent of the overall maximum. The remaining 30 per cent of the bonus was based on the achievement of three key strategic initiatives, being the establishment of the Transformation Plan, optimising the future acquisition strategy and developing pricing and marketing plans for identified customer segments, particularly at the lower pricing point of our offering. All three of the goals were achieved and exceeded as Management has begun to implement the new strategic initiatives early.

On this basis the Committee determined that the full 30 per cent available for this part of the bonus should be payable. The total bonus payable therefore was 58 per cent of maximum.

The LTIP award granted in 2016 was subject to performance against two equally weighted measures, relative total shareholder return (TSR) and earnings per share growth (EPS). Following the three year performance period ending 28 December 2018 Dignity's TSR performance and our EPS of 85.8 pence were both below the minimum performance threshold. As a result, the LTIP award lapsed with no shares vesting.

The Committee considers that there has been an appropriate link between reward and performance and that there has been no need to use discretion to change the formula driven outcome from the 2018 incentive plans.

### How we will apply the new policy in 2019

- No base salary increases have been awarded to the Executive Directors for the second year running. The average increase to the wider workforce was broadly two per cent.
- The maximum annual bonus will remain at 135 per cent of base salary for the Chief Executive and 125 per cent for the other Executive Directors. 70 per cent of the bonus will be based on stretching underlying operating profit targets and 30 per cent on three well-defined strategic objectives which underpin our strategy as set out on page 32.

Taking into account the further recent short-term weakness in our share price after the publication of the CMA report findings, the Committee has again used discretion to determine that LTIP grant levels should be scaled back from the usual level under the remuneration policy. On this basis the grant level will be reduced from 150 per cent of salary to 100 per cent of salary. The Committee has considered carefully the performance metrics that should apply and recognises that it remains very difficult to set accurate long-term financial performance conditions until the relationship between volume and margin becomes clearer following the decision to change our pricing strategy. Therefore, for this year's awards, vesting will be subject to a relative total shareholder return performance condition against the companies comprising the FTSE Small Cap Index. The base for calculating TSR for all companies will be the average share price over the 30 days prior to 8 March 2019 (being the date the Committee finalised the policy). We believe that a focus on improving our stock market performance at the current time will provide a strong alignment of interest between executives and shareholders. As a second performance condition, the Committee will review the underlying financial performance of the Company over the performance period and the progress in implementing our strategic priorities, including growth in market share, to determine whether the level of vesting indicated by the relative TSR performance is appropriate and the Committee will scale back the level of vesting if it considers that this is not the case. Any award that vests will be subject to a two-year holding period. Clawback and malus provisions, enhanced in line with the new policy, will apply.

### New UK Corporate Governance Code and shareholder engagement

The Committee has considered the recommendations in the recently updated UK Corporate Governance Code insofar as they relate to remuneration. In most respects the new remuneration policy and its application complies with the new Code. Currently the only exception is in relation to pension provision, where the Code states that the Executive Directors' pension contribution should be aligned to that of the workforce. Our pension contribution of 15 per cent of salary is broadly in line with the market rate for an Executive Director, but it is higher than the general workforce pension provision. Under the new policy, pension contribution for future recruits will be aligned to that of the workforce and on this basis, over time the pension contribution rate will be aligned across the workforce.

Last year, at the 2018 AGM, we were pleased to receive 90.5 per cent of votes in favour of the advisory Remuneration Report vote. On behalf of the Remuneration Committee, I would like to thank shareholders for their ongoing support.

The Remuneration Committee has engaged shareholders as part of the process to review our remuneration policy and how this should be applied in 2019. We thank shareholders for their time on this exercise and welcome their feedback. On behalf of the Committee, I look forward to shareholders' support at the forthcoming Annual General Meeting.

#### Mary McNamara

Chairman of the Remuneration Committee

13 March 2019



## Report on Directors' remuneration continued

for the 52 week period ended 28 December 2018

### REMUNERATION POLICY REPORT

This section of the Directors' Remuneration Report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and sets out the remuneration policy which shareholders will be asked to approve at the AGM on 13 June 2019. The policy will take formal effect from the date of approval and is intended to apply until the 2021 AGM.

#### Overview of Remuneration Policy

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.

Following a detailed review of the existing policy we propose to make the following changes, which are reflected in the new policy set out below:

- Currently for the annual bonus there is payment of an amount equivalent to 70 per cent of salary for achieving the business plan number, with nothing payable below this. Such a "cliff edge" could lead to a high difference in bonus level for a small difference in performance. Therefore, in line with the market norm we are introducing a threshold payment level of 20 per cent of maximum. We are also amending the target level of vesting from 70 per cent of salary to an amount up to 60 per cent of maximum. This approach provides all of the Executive Directors (who currently have different maximum bonus opportunities) with the same threshold and target opportunity as a percentage of maximum, thus making the bonus simpler.
- The annual bonus deferral mechanism is being made tougher to ensure there is always an element of bonus deferral. Currently, only bonus earned in excess of 100 per cent of salary is deferred in shares. Under our new policy 20 per cent of any annual bonus earned will be deferred in shares for two years.
- Pension is currently capped at 15 per cent of salary. This level will continue in the new policy and our Executive Directors' contributions are at this level. However, for new appointments, the Committee will provide a pension contribution in line with that applying to the majority of the workforce.
- We will change how we calculate achievement of our executive share ownership requirements. We will value shareholdings using the value of beneficially owned shares plus the net of tax value of deferred bonus shares and vested unexercised LTIP awards. The calculation of the shareholding level will be based on the average price for the last month of the financial year and the salary at the end of the financial year. The current policy uses the share price and salary at the time the requirements were introduced in 2016, which the Committee considers is now historic and not in line with market practice.
- A post cessation of employment shareholding requirement will be introduced. This will require a shareholding to be retained worth 50 per cent of the in-service requirement, for one year applicable for share awards granted from 2019. Annual bonus deferral and LTIP post vesting holding periods continue post cessation.
- The current discretion for the Committee to adjust variable pay and vesting levels will be broadened, so that it is in line with the revised Corporate Governance Code and enables adjustment where the formulaic outcome does not reflect underlying corporate performance, the investor experience or employee reward outcome.
- The clawback and malus trigger events have been broadened to include corporate failure and serious reputational damage.
- As part of the Company's policy on cessation of employment we are including the ability to pay outplacement, legal and other reasonable relevant costs associated with termination and to settle any claim or potential claim relating to the termination.

The table on pages 77 and 78 summarises the main components of Dignity's remuneration policy that will be brought to shareholders for approval at the AGM on 13 June 2019. Details of how the Committee will implement the policy are provided in the Annual Report on Remuneration on page 81.

| Element             | Purpose and link to strategy  | Operation  | Maximum opportunity  | Framework used to assess performance  |
|---------------------|---|--|--|---|
| <b>Base salary</b>  | Essential to recruit and retain executives of a high calibre.<br><br>Reflects an individual's experience, role and performance.<br><br>To provide a fair fixed level of pay commensurate for the role, ensuring no over reliance on variable pay. | Salaries are paid monthly. They are normally reviewed annually and fixed for 12 months commencing 1 January.<br><br>In deciding appropriate levels, the Committee takes into account:<br><ul style="list-style-type: none"> <li>the role, experience, responsibility and performance (individual and Group);</li> <li>increases applied to the broader workforce; and</li> <li>relevant market information for similar roles in broadly similar companies of a similar size.</li> </ul>  | There is no prescribed maximum.<br><br>Generally, the Committee is guided by average increases across the workforce. However, higher increases may be awarded on occasion, for example, where an individual is promoted or has been recruited on a below market rate, where there have been changes to individual responsibilities or in the size or complexity of the business or where salaries have fallen significantly below mid-market levels. | The Committee reviews the salaries of Executive Directors each year taking due account of all the factors described in how the salary policy operates.  |
| <b>Benefits</b>     | To provide competitive benefits to help recruit and retain executives and to ensure the well-being of the executives.   | Benefits include but are not limited to provision of a company car (or cash allowance in lieu), fuel, landline telephone and broadband at each Executive Director's home residence, mobile phone, family private medical cover and a pre-arranged funeral plan for the individual or spouse.<br><br>Relocation or other related expenses may be offered, as required.<br><br>Executive Directors are also eligible to participate in the all-employee HMRC approved share schemes on the same basis as other employees.<br><br>Any business expenses incurred in carrying out an executive's duties which are deemed to be taxable will be reimbursed by the Company together with any personal tax due.   | There is no prescribed maximum as costs may vary in accordance with market conditions.<br><br>Relocation expenses must be reasonable and necessary.<br><br>HMRC tax-approved limits will apply to all employee share schemes.  | Not applicable.   |
| <b>Pension</b>      | To provide retirement benefits in line with the overall Company policy.   | The Company operates a defined benefit plan, the Dignity Pension and Assurance Scheme, under which selected executives may accrue benefit. The defined benefit plan is closed to new members.<br><br>The Company may contribute to selected individuals' personal pension schemes or is able to make salary supplements in lieu of pension contributions.  | The accrual rate under the defined benefit scheme was one eightieth of final salary for every completed year of service.<br><br>The Company contribution to defined contribution plans or salary supplement in lieu of pension may be made up to the value of 15 per cent of salary.<br><br>The Committee will provide a pension provision for new Executive Directors' in line with that of the workforce.  | Not applicable.   |
| <b>Annual bonus</b> | To motivate executives and incentivise the achievement of annual financial and/or strategic business targets. To ensure further alignment with shareholders through the retention of deferred equity.   | 20 per cent of any annual bonus earned will be deferred in shares, with the remainder being payable in cash.<br><br>Deferred shares vest after two years subject to continued employment but no further performance targets. The vesting period continues post cessation of employment.<br><br>A dividend equivalent provision allows the Committee to pay an additional amount equal to the value of the dividends that would have been payable on the vested deferred shares over the vesting period (normally in shares but may be in cash in exceptional circumstances). This may assume the reinvestment of dividends on a cumulative basis.<br><br>Bonus payments, including deferred bonus awards, are subject to recovery and withholding provisions as set out in Note 1. | 135 per cent of salary for the Chief Executive and 125 per cent of salary for the other Directors.   | Performance metrics are selected annually based on the Group's strategic objectives. The bonus may be based on the achievement of an appropriate mix of challenging financial, strategic or personal targets with financial measures accounting for the majority of the bonus. Measures and weightings may change each year to reflect any year-on-year changes to business priorities.<br><ul style="list-style-type: none"> <li>For financial metrics, a range of targets may be set by the Committee, taking into account the business outlook for the year. For financial metrics up to 20 per cent of the maximum potential bonus is payable for threshold performance and up to 60 per cent of maximum potential bonus is payable for target performance.</li> <li>In relation to strategic targets the structure of the target will vary based on the nature of the target set and it will not always be practicable to set targets using a graduated scale. Vesting may therefore take place in full if specific criteria are met in full.</li> </ul> <p>The Committee may adjust the bonus that is payable if it considers the formulaic outcome is not representative of the underlying performance of the Company, investor experience or employee reward outcome.<br/>See Note 2.</p> |

## Report on Directors' remuneration continued

for the 52 week period ended 28 December 2018

| Element   | Purpose and link to strategy  | Operation   | Maximum opportunity  | Framework used to assess performance   |
|---|---|---|--|--|
| <b>Long-Term Incentive Plan</b>                   | <p>Incentivises selected employees and Executive Directors to achieve successful execution of business strategy over the longer-term.</p> <p>Provides long-term retention.</p> <p>Aligns the interests of the Executives and shareholders through the requirement to build up a substantial shareholding.</p> | <p>Awards are normally granted annually in the form of nil cost options or conditional share awards.</p> <p>Participation and individual award levels will be reviewed annually (subject to the individual limit) taking into account matters such as market practice, overall remuneration, the performance of the Group and the Executive being granted the award.</p> <p>Awards normally vest after three years subject to the achievement of stretching performance conditions and continued employment.</p> <p>Following vesting, the net of tax vested shares must be retained for two years. The post vesting holding period continues post cessation of employment.</p> <p>Awards are subject to recovery and withholding provisions as set out in Note 1.</p> <p>A dividend equivalent provision allows the Committee to pay an additional amount equal to the value of the dividends that would have been payable on the vested shares over the vesting period (normally in shares but may be in cash in exceptional circumstances) and may assume the reinvestment of dividends on a cumulative basis.</p>   | <p>150 per cent of salary.</p>   | <p>Awards under the LTIP vest subject to the satisfaction of challenging performance targets set at the time of award.</p> <p>25 per cent of the award vests for threshold performance.</p> <p>Performance periods will normally start from the beginning of the financial year in which the award is made.</p> <p>The Committee may scale back the LTIP vesting amount if it considers the formulaic outcome is not representative of the underlying performance of the Company, investor experience or employee reward outcome.</p> <p>See Note 2 for additional detail.</p> |
| <b>Non-Executive Chairman and Directors' fees</b> | <p>To attract and retain a high-quality Chairman and experienced Non-Executive Directors.</p>   | <p>The Board determines the fees of the Non-Executive Directors. They are 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).</p> <p>Both the Chairman and the Non-Executive Directors are paid annual fees and do not participate in any incentive plans or receive pension or other benefits.</p> <p>The Chairman receives a single fee covering all his duties. The Non-Executive Directors receive a basic fee and additional fees payable for chairing the Audit and Remuneration Committees and for performing the Senior Independent Director role. Supplemental fees may be paid for additional responsibilities and activities and additional fees for chairing new board committees or for other additional roles requiring additional time commitment.</p> <p>The Chairman and Non-Executive Directors shall be entitled to have reimbursed all expenses that they reasonably incur in the performance of their duties, including those expenses that have been deemed to be taxable benefits by HMRC. This includes any personal tax that may become due.</p> <p>The level of fees of the Non-Executive Directors reflects the time commitment and responsibility of their respective roles. Their fees are reviewed from time to time against broadly similar UK listed companies and companies of a similar size.</p> <p>In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment of the Non-Executive Chairman and Directors.</p> | <p>There is no prescribed maximum, however, any increase to fees will be considered in light of the expected time commitment in performing the role, scope and responsibility, increases received by the wider workforce and market rates in comparable companies.</p> | <p>Neither the Non-Executive Chairman nor the Non-Executive Directors are eligible for any performance related remuneration.</p>   |
| <b>Share ownership requirement</b>                | <p>To align the interests of management and shareholders and promote a long-term approach to performance.</p>   | <p>Executive Directors are required to build and maintain a holding of shares to the value of at least 200 per cent of base salary. We will value shareholdings using the value of beneficially owned shares plus the net of tax value of deferred bonus shares and vested but unexercised LTIP awards. The calculation of the shareholding level will be based on the average price for the last month of the financial year and the salary at the end of the financial year.</p> <p>Until the guideline is met, the executive is required to retain 50 per cent of shares acquired under the Company's share plans (after allowing for tax and national insurance liabilities).</p> <p>In addition, a shareholding requirement of 50 per cent of the 200 per cent of salary in-service requirement (i.e. 100 per cent of salary) is required to be held for one year post cessation of employment applying to share awards granted from 2019.</p>   | <p>Not applicable.</p>   | <p>Not applicable.</p>   |

### Notes

- Recovery and withholding provisions apply to variable pay, to enable the Company to recover amounts paid under the annual bonus, deferred annual bonus share plan and LTIP in the event of a restatement of the accounts, an error in calculation leading to an over-payment, corporate failure or failure in risk management or if the participant has been guilty of gross misconduct or has brought the Company or any member of the Group into disrepute. Payments may be recovered for up to two years after payment/vesting or two external audit cycles. The amount to be recovered would generally be the excess payment over the amount which would otherwise be paid, and recovery may be satisfied in a variety of ways, including through the reduction of outstanding deferred annual bonus awards, reduction of the next bonus or LTIP vesting and seeking a cash repayment.
- The Committee assesses annually at the beginning of the relevant performance period which performance measures, or combination and weighting of performance measures, are most appropriate for both annual bonus and any LTIP awarded to reflect the Company's strategic initiatives for the performance period. The Committee has the discretion to change the performance measures for awards granted in future years based upon the strategic plans of the Company. In determining the target range for any financial measures that may apply, the Committee ensures they are challenging by taking into account current and anticipated trading conditions, budget, the long-term business plan and external expectations.
- As part of the Directors' Remuneration Policy review process the Committee has reviewed with management the pay structures across the wider Group and certain changes have been made to the wider Group policy as a result of the review to ensure an appropriate and clear cascade of the Executive Directors' policy to the wider group. The Committee considers the general basic salary increase for the broader employee population when determining the annual salary review for the Executive Directors. The performance measures and targets for annual bonus and LTIP awards for Executive and Senior Managers are aligned to those of the Executive Directors to ensure that everyone is focusing and working together on the same critical measures of performance. All permanent employees are invited to participate in the SAYE scheme which provides a mechanism for everyone to share in the overall success of the Group through sustained longer-term share price growth. Overall, the remuneration policy for the Executive Directors and more senior management is more heavily weighted towards variable pay than for other employees. This ensures that there is a clear link between the performance and value created for shareholders and the remuneration received by those individuals who are considered to have the greatest potential to influence Group performance and value creation.



### Bonus Plan and LTIP discretions

The Committee will operate the annual bonus plan and LTIP according to their respective rules and in accordance with the Listing Rules and HMRC rules where relevant. A copy of the LTIP rules is available on request from the Company Secretary. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following (albeit with the level of award restricted as set out in the policy table on page 78):

- Who participates in the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or a payment;
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, on a change of control and special dividends); and
- The ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose whilst being no less stretching.

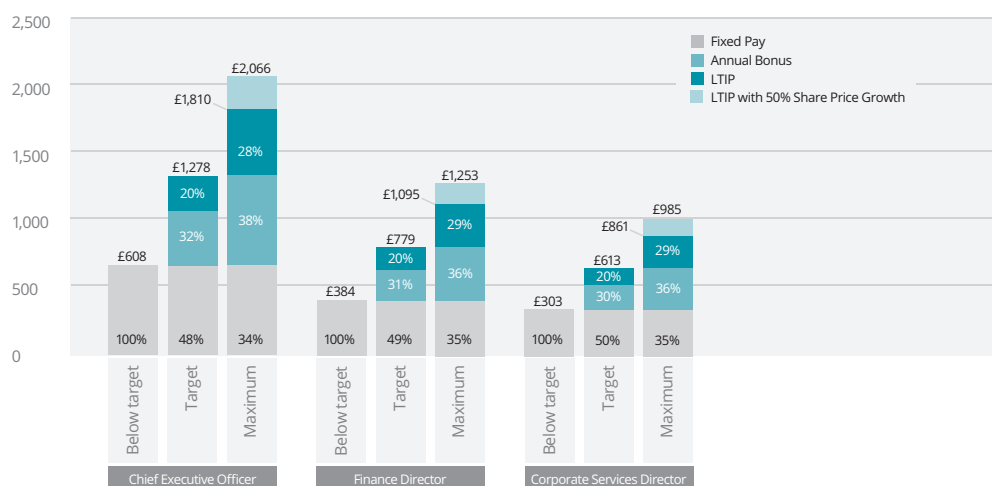
### Legacy arrangements

Any commitments entered into with current or former Directors that have been disclosed previously to shareholders will be honoured.

### Remuneration scenarios for Executive Directors

The Company's policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The graph below illustrates how the total pay opportunities for the Executive Directors for 2019 vary under three performance scenarios: minimum, target and maximum.

#### Remuneration (£000s)



#### Notes

- Below target comprises fixed pay, which comprises 2019 basic salary, the value of benefits in 2018 and a 15 per cent company pension contribution.
- Target comprises fixed pay and assumes a bonus of 60 per cent of maximum is paid and 50 per cent of the LTIP award vests.
- Maximum comprises fixed pay and assumes full bonus payment of 135 per cent of salary for the Chief Executive and 125 per cent for other Executive Directors and full LTIP vesting of 100 per cent of salary for all Executive Directors. A 50 per cent increase in the value of the LTIP is also to show the impact of the share price growth. The 50 per cent increase is calculated using the maximum LTIP value.

### Recruitment and Promotion policy

The remuneration package for a new Director will be established in accordance with the Company's approved policy subject to such modifications as are set out below.

Salary levels for Executive Directors will be set in accordance with the Company's remuneration policy, taking into account the experience and calibre of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be made over subsequent years subject to individual performance and development in the role. Benefits will generally be provided in line with the approved policy, with relocation or other expenses provided for if necessary. For any new appointments, the pension contribution will be in line with that applying to the majority of the workforce.

## Report on Directors' remuneration continued

for the 52 week period ended 28 December 2018

The structure of variable pay elements will be in accordance with the Company's approved policy detailed above. The maximum variable pay opportunity will be as set out in the remuneration policy table. Different performance measures may be set initially for the annual bonus in the year of joining, taking into account the responsibilities of the individual, and the point in the financial year that he or she joined the Board.

In the case of external recruitment, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer), this may be provided, with the new awards taking into account the form (cash or shares), timing left to vesting, the extent to which performance conditions apply and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Replacement share awards, if used, may be granted using the Company's existing share plans to the extent possible, although awards may also be granted outside of these schemes. The aim of any such award would be to ensure that as far as possible, the expected value and structure of the award will be no more generous than the amount forfeited.

In the case of an internal recruitment, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant or adjusted as considered desirable to reflect the new role.

Fees for a new Chairman or Non-Executive Director will be set in line with the approved policy.

### Service contracts and payments for loss of office

The Service contracts for Executive Directors will continue indefinitely unless determined by their notice period. Under the Executive Directors' service contracts and in line with the policy for new appointments, 12 months' notice of termination of employment is required by either party.

All Non-Executive Directors have letters of appointment with the Company for an initial period of two years, subject to annual re-appointment at the AGM. Appointments may be terminated with three months' notice. The appointment letters for the Chairman and Non-Executive Directors provide that no compensation is payable on termination, other than accrued fees and expenses.

All Directors submit themselves for re-election at the Annual General Meeting each year. Service contracts and letters of appointment are available for inspection at the Company's registered office.

For Executive Directors, the Company may in its absolute discretion at any time after notice is served by either party, terminate a Director's contract with immediate effect by paying an amount equal to base salary for the then unexpired period of notice plus the fair value of contractual benefits subject to the deduction of tax. All payments would discontinue or reduce to the extent that alternative employment is obtained.

An Executive Director's service contract may be terminated without notice for certain events such as gross misconduct or a serious breach of contract. No payment or compensation beyond salary (and the value of holiday entitlement) accrued up to the date of termination will be made if such an event occurs.

There are no special provisions relating to change of control. The policy on termination is that the Group does not make payments beyond its contractual obligations and the Committee ensures that there are no unjustified payments for failure.

Any statutory payments required by law may be made. The Company may also pay outplacement, legal and other reasonable relevant costs associated with termination and may settle any claim or potential claim relating to the termination.

### Treatment of outstanding incentive awards

At the discretion of the Committee, for certain good leaver circumstances (such as death, illness, injury, disability, redundancy, retirement, their employing company ceasing to be a Group company or the undertaking business or division for which he or she works being sold out of the Company's group, or any other circumstances at the discretion of the Committee), a pro-rata bonus may become payable at the normal payment date for the period of employment and based on full year performance.

The treatment of share-based incentives previously granted to an Executive Director will be determined based on the plan rules. The default treatment will be for outstanding awards to lapse on cessation of employment. However, an executive will be treated as a 'good leaver' under certain circumstances such as death, illness, injury, disability, redundancy, retirement, their employing company ceasing to be a Group company or the undertaking business or division for which he or she works being sold out of the Company's group, or any other circumstances at the discretion of the Committee. Under the Deferred Share Bonus Plan, if treated as a good leaver, awards will normally vest on the original vesting date. Under the LTIP, if treated as a good leaver, awards will vest at the normal vesting date subject to the extent to which performance targets have been achieved. The number of LTIP awards that would vest will normally be reduced pro-rata to reflect the proportion of the three year period actually served. A post vest holding period would continue to apply.

### External directorships

The Group allows Executive Directors to hold a Non-Executive position with one other company or organisation, for which they can retain the fees earned.

### How shareholder views are taken into account

The Remuneration Committee is committed to ensuring an open dialogue with our shareholders and therefore, where changes are being made to the remuneration policy or where there is a material change in which we operate our policy, we will consult with major shareholders in advance. The Remuneration Committee adopted such an approach in putting together this policy by consulting the Company's largest shareholders and shareholder advisory bodies beforehand.

In addition, the Committee considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally.

### Consideration of employment conditions elsewhere in the Group

As part of the Committee's wider remit under the new Code and as part of the Directors' Remuneration Policy review process the Committee reviewed with management the pay structures across the wider Group and certain changes were made to the wider Group policy as a result of the review to ensure an appropriate and clear cascade of the Executive Directors' policy to the wider Group. The Committee will continue within its updated Terms of Reference to monitor pay policies and practices within the wider group and to provide input and challenge in respect of current policies and practices as well as any proposed future review and changes to ensure that they are appropriate, fair, aligned to the Executive Directors' Remuneration Policy and support the culture and growth of the business.

As set out in the Corporate Governance Report work is being undertaken to establish an Employee Forum and as part of this the Committee will consider the most appropriate way to engage with the wider workforce to explain the alignment of the Directors' Remuneration Policy to the wider Group and in respect of which we will report more fully in next year's Annual Report on Remuneration.

## ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration set out below (together with the Remuneration Committee Chairman's Annual Statement) will be put to an advisory shareholder vote at the 2019 AGM. The information below includes how we intend to operate our policy in 2019 (in accordance with the new policy, being separately approved by shareholders) and the pay outcomes in respect of the 2018 financial year. The information from the single total remuneration figures for Directors on page 83 to the end of the section on loss of office payments on page 87 has been audited. The remainder is unaudited.

### Implementation of Remuneration Policy in 2019

#### Salaries

The Committee has determined that the Executive Directors will not receive a base salary increase for 2019. Therefore, the salaries as at 1 January 2019 are:

|                 | 2019<br>£ | 2018<br>£ | Increase<br>% |
|-----------------|-----------|-----------|---------------|
| Mike McCollum   | 511,500   | 511,500   | —             |
| Richard Portman | 247,950   | 247,950   | —             |
| Steve Whittern  | 316,200   | 316,200   | —             |

#### Chairman and Non-Executive Directors' fees

The fees for other Non-Executive Directors, are as detailed below. There is no increase in fee levels for 2019:

|   | 2019<br>£ | 2018<br>£ | Increase<br>% |
|---|-----------|-----------|---------------|
| Chairman  | 173,350   | 173,350   | —             |
| Basic fee for Non-Executive Directors             | 46,850    | 46,850    | —             |
| Supplementary Senior Independent Director fee     | 9,700     | 9,700     | —             |
| Supplementary Audit Committee Chairman fee        | 9,350     | 9,350     | —             |
| Supplementary Remuneration Committee Chairman fee | 6,300     | 6,300     | —             |



## Report on Directors' remuneration continued

for the 52 week period ended 28 December 2018

### Pension and Benefits

All Executive Directors will receive a salary supplement in lieu of pension of 15 per cent of their basic salary. Benefits will be provided in line with the approved remuneration policy.

Pension contribution for new Executive Directors will be in line with the pension plan for the majority of the workforce, which is currently four per cent of base salary.

### Annual bonus

The maximum bonus potential will be unchanged, at 135 per cent of salary for the Chief Executive and 125 per cent of salary for the other Executive Directors.

70 per cent of the bonus will continue to be based on underlying operating profit targets and 30 per cent on strategic objectives, which are common to all Directors.

For the underlying operating profit element 20 per cent of the maximum will become payable for achieving a threshold level of performance, rising incrementally so that 60 per cent of the maximum will be payable for achieving a target level of performance, with full pay out for significant over-achievement of target. The target level of performance has been determined at 60 per cent, recognising the high level of stretch in the budget number and the range generally. The strategic objectives support the Group's strategy and business model as set out on page 32 of the Annual Report. The achievement of the strategic objectives will be determined on a similar basis, using numeric ranges where possible and are set out below.

- Increasing funeral market share, with a sliding scale of performance;
- Customer satisfaction based on a "definitely recommend" result, with a sliding scale of performance; and
- Achieving key objectives from our Transformation Plan. This will be assessed by the Committee at the year end and differentiating between delivery of most aspects of the Plan, delivery of all aspects of the Plan and over-delivery of the Plan, for differing levels of bonus to be payable.

There will be Committee discretion to adjust the formula driven outturn to ensure that the bonus payments also reflect performance more broadly and the experience of other stakeholders in the business.

The underlying profit element target range and the strategic objective targets are deemed to be commercially sensitive and have not been disclosed prospectively. However, full retrospective disclosure of the targets and performance against them will be provided in next year's Remuneration Report.

20 per cent of any annual bonus earned will be deferred in shares. The deferred shares will vest after two years subject to continued employment.

### Long-Term Incentive Plan

Taking into account the further recent short-term weakness in our share price after the publication of the CMA report findings, the Committee has again determined that award levels should be scaled back from the usual policy level under our Long-Term Incentive Plan. On this basis the grant level will be reduced from 150 per cent of salary to 100 per cent of salary. The Committee has considered carefully the most appropriate measure of performance for the 2019 LTIP award and has decided to reintroduce a more conventional relative TSR performance condition (comparing Dignity's TSR to that of the constituents of the FTSE Small Cap Index) for 100 per cent of the award. The start point for the TSR performance condition will be based on the average share price of Dignity over the 30 days prior to 8 March. We believe that a focus on improving our stock market performance at the current time will provide a strong alignment of interest between executives and shareholders. In light of continued market and regulatory uncertainty, the Committee has concluded that it is not possible to base part of the award on specified earnings per share growth targets, given the difficulty of setting EPS targets against a very uncertain and volatile three-year outlook. As a second performance condition, to underpin the TSR condition, the Committee will review the underlying financial performance of the Company over the performance period and the progress in implementing our strategic priorities, including growth in market share, to determine whether the level of vesting indicated by the relative TSR performance is appropriate and the Committee will scale back the level of vesting if it considers that this is not the case.

The target range will be as follows:

| TSR condition    | TSR relative to FTSE SmallCap companies |           |
|------------------|---|-----------|
|                  | Performance required                    | % vesting |
| Below threshold  | Below median                            | –         |
| Threshold        | Median                                  | 25        |
| Stretch or above | Upper quartile or above                 | 100       |

Vesting between threshold and maximum is determined on a straight line basis.

Executive Directors will be required to hold the net of tax vested shares for two years following vesting.

## Total remuneration payable to Directors in 2018

|                                |      | Fixed Pay      |                                 |                                | Pay for Performance                    |                             |               | Total<br>Remuneration<br>£000 |
|--------------------------------|------|----------------|---------------------------------|--------------------------------|--|-----------------------------|---------------|-------------------------------|
|                                |      | Salary<br>£000 | Benefits <sup>(a)</sup><br>£000 | Pension <sup>(b)</sup><br>£000 | Annual<br>Bonus <sup>(c)</sup><br>£000 | LTIP <sup>(d)</sup><br>£000 | Other<br>£000 |                               |
| <b>Executive Directors</b>     |      |                |                                 |                                |  |                             |               |                               |
| Mike McCollum                  | 2018 | 512            | 20                              | 77                             | 401                                    | –                           | –             | 1,010                         |
|                                | 2017 | 512            | 20                              | 77                             | –                                      | 150                         | –             | 759                           |
| Andrew Davies <sup>(e)</sup>   | 2018 | 4              | 2                               | 1                              | –                                      | –                           | –             | 7                             |
|                                | 2017 | 327            | 25                              | 49                             | –                                      | 96                          | –             | 497                           |
| Richard Portman                | 2018 | 248            | 18                              | 37                             | 180                                    | –                           | –             | 483                           |
|                                | 2017 | 248            | 18                              | 37                             | –                                      | 73                          | –             | 376                           |
| Steve Whittern                 | 2018 | 316            | 21                              | 47                             | 229                                    | –                           | –             | 613                           |
|                                | 2017 | 316            | 20                              | 47                             | –                                      | 93                          | –             | 476                           |
| <b>Non-Executive Directors</b> |      |                |                                 |                                |  |                             |               |                               |
| Peter Hindley                  | 2018 | 173            | 1                               | –                              | –                                      | –                           | –             | 174                           |
|                                | 2017 | 173            | 1                               | –                              | –                                      | –                           | –             | 174                           |
| Jane Ashcroft                  | 2018 | 47             | –                               | –                              | –                                      | –                           | –             | 47                            |
|                                | 2017 | 47             | –                               | –                              | –                                      | –                           | –             | 47                            |
| David Blackwood                | 2018 | 67             | –                               | –                              | –                                      | –                           | –             | 67                            |
|                                | 2017 | 56             | –                               | –                              | –                                      | –                           | –             | 56                            |
| Alan McWalter <sup>(e)</sup>   | 2018 | 5              | –                               | –                              | –                                      | –                           | –             | 5                             |
|                                | 2017 | 63             | –                               | –                              | –                                      | –                           | –             | 63                            |
| Mary McNamara                  | 2018 | 54             | –                               | –                              | –                                      | –                           | –             | 54                            |
|                                | 2017 | 39             | –                               | –                              | –                                      | –                           | –             | 39                            |

<sup>(a)</sup> Taxable benefits for the year included: provision of a company car or allowance, fuel, family private medical cover, landline telephone and broadband 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 spouse.

<sup>(b)</sup> The pension benefit is set at 15 per cent of basic salary.

<sup>(c)</sup> The bonus relates to performance in the 2018 financial year. Whilst the performance criteria for the 2017 bonus were fully achieved, the current Executive Directors decided to voluntarily waive their entitlement, in full, in light of the significant reduction in funeral expectations for 2018 following the trading update in January 2018.

<sup>(d)</sup> The LTIP award granted on 15 June 2016 has lapsed as the performance targets were not met. The comparative number is the value of the 2015 LTIP that vested in 2017 restated to reflect the share price on the date of vesting which is now known.

<sup>(e)</sup> Andrew Davies retired from the Board on 5 January 2018 and ceased to be an employee on 27 April 2018. Alan McWalter retired from the Board on 31 January 2018.

## Determination of 2018 annual bonus

The 2018 annual bonus was based on the achievement of underlying operating profit targets (70 per cent) and strategic targets (30 per cent).

For the underlying operating profit element, a target range was set, which was ahead of the market outlook, as at the start of the year, in its entirety. The target range was made more challenging than usual so that 20 per cent of the maximum was payable at target, rather than applying the usual policy of 70 per cent of salary being payable at target performance and the top end of the range represented a significantly higher stretch than usual, being 45 per cent higher than target. Bonus payment against the underlying operating profit range is set out below:

|                             | Weighting<br>% | Target<br>(for which 20% of<br>maximum payable)<br>£m | Stretch<br>(for which 100% of<br>maximum payable)<br>£m | 2018 actual<br>£m      | Bonus payable<br>(out of maximum)<br>% |
|-----------------------------|----------------|---|---|------------------------|--|
| Underlying operating profit | 70             | 72  | 104.7   | 80.2                   | 40.1                                   |
| Strategic measures          | 30             |   |   | Maximum<br>performance | 100                                    |

## Report on Directors' remuneration continued

for the 52 week period ended 28 December 2018

Strategic objectives were set based on the three most critical business priorities for the year.

The strategic objectives and the Committee's assessment of their achievement is summarised below:

### 1. Establish the Transformation Plan

#### Detail of objective

- Visible and clearly articulated plan to be created to deliver the Transformation Plan, containing clear budgets, measurable deliverables and timelines over short and longer-term, to be approved by the Board.

#### Committee assessment

- The Committee recognised the extremely timely delivery of the Plan and the fact that the implementation of plan had commenced ahead of schedule.

#### Outcome

- 10 per cent (out of 10 per cent).

### 2. Provide a basis for optimisation of future acquisitions

#### Detail of objective

- Review and update acquisition evaluation model.

#### Committee assessment

- Detailed plan presented for Board consideration of current market dynamics, historic and prospective performance of recent acquisitions, review of characteristics of high and low performing locations.
- Comparison of old and new evaluation model.
- Clearly articulated plan for assessing future acquisitions.
- Timely delivery.
- Assessment of acquisitions on new basis embedded and actively used to develop strategy going forward.

#### Outcome

- 10 per cent (out of 10 per cent).

### 3. Planning growth of specific customer segments

#### Detail of objective

- Identify customer segments for focus and growth.

#### Committee assessment

- Developed pricing and marketing plans for identified customer segments.
- Provided clear profitability targets.
- Plans brought into early operation and developed as critical part of ongoing strategy.

#### Outcome

- 10 per cent (out of 10 per cent).

The Committee reviewed the exceptional performance and focus of the Executive Directors in not only preparing the strategic plans required but commencing execution within a critical timeframe and agreed that the over delivery on each measure warranted full payment of this element of the bonus.

Therefore, overall for 2018, payment of 40.1 per cent of the underlying operating profit element (accounting for 70 per cent of the bonus) and 100 per cent of the strategic objectives (accounting for the remaining 30 per cent) resulted in an overall bonus of 58 per cent of maximum being payable.

| Director        | Bonus maximum<br>(% of base salary) | Pay-out<br>(% of maximum) | Bonus outcome<br>(£) |
|-----------------|-------------------------------------|---------------------------|----------------------|
| Mike McCollum   | 135                                 | 58                        | 400,800              |
| Richard Portman | 125                                 | 58                        | 179,896              |
| Steve Whittern  | 125                                 | 58                        | 229,414              |

Bonuses in excess of 100 per cent of salary are deferred in shares. Accordingly, as bonus is below 100 per cent of salary there is no deferral of bonuses based on 2018 performance.



### Determination of LTIP awards with performance periods ending in the year

Half of the LTIP awards made in 2016 were subject to a relative TSR condition and half subject to EPS growth targets, both measured over the three year period which ended on 28 December 2018. These awards lapsed in full, as shown below.

| TSR condition          | TSR relative to FTSE 350 companies |                  |
|------------------------|------------------------------------|------------------|
|                        | <i>Performance required</i>        | <i>% vesting</i> |
| Below threshold        | Below median                       | –                |
| Threshold              | Median                             | 25               |
| Stretch or above       | Upper quartile or above            | 100              |
| <b>Actual achieved</b> | <b>305 out of 313 companies</b>    | <b>–</b>         |

| EPS condition          |                             |                  |
|------------------------|-----------------------------|------------------|
|                        | <i>Performance required</i> | <i>% vesting</i> |
| Below threshold        | Less than 128.1p            | –                |
| Threshold              | 128.1p                      | 15               |
| Stretch                | 134.8p                      | 50               |
| Maximum or above       | 144.9p                      | 100              |
| <b>Actual achieved</b> | <b>85.8p</b>                | <b>–</b>         |

| Director        | 2016 LTIP award number of shares | EPS vesting % of target | TSR vesting % of target | Estimated award value £000 |
|-----------------|----------------------------------|-------------------------|-------------------------|----------------------------|
| Mike McCollum   | 31,435                           | –                       | –                       | –                          |
| Andrew Davies   | 15,583 <sup>(1)</sup>            | –                       | –                       | –                          |
| Richard Portman | 15,200                           | –                       | –                       | –                          |
| Steve Whittern  | 19,405                           | –                       | –                       | –                          |

(1) Number of shares have been pro-rated to the date Andrew Davies ceased employment with Dignity plc.

### LTIP awards granted in the year

LTIP awards granted in the form of nil cost options to Executive Directors on 23 March 2018 were as follows. The grants were made over the same number of shares as the prior year's award:

| Executive       | Number of LTIP awards | Face/maximum value of awards at grant date*£ | % of award vesting at threshold | Performance period  |
|-----------------|-----------------------|--|---------------------------------|---------------------|
| Mike McCollum   | 31,253                | 278,152                                      | 25                              | 30.12.17 – 25.12.20 |
| Richard Portman | 15,150                | 134,835                                      | 25                              | 30.12.17 – 25.12.20 |
| Steve Whittern  | 19,320                | 171,948                                      | 25                              | 30.12.17 – 25.12.20 |

\* Based on a share price on the date of grant on 23 March 2018 of 890 pence.

The 2018 award will vest subject to a range of absolute share price performance. The vesting of this award is dependent on the following:

|                 | Share price target <sup>(1)</sup> | Vesting |
|-----------------|-----------------------------------|---------|
| Below threshold | Less than 1,500p                  | –       |
| Threshold       | 1,500p                            | 25%     |
| Maximum         | 1,950p or higher                  | 100%    |

(1) The assessment of the share price targets will be based on an averaging period over the last three months of the 2020 financial year. The share prices that must be attained in the table above will be reduced by an amount equal to the value of dividends that are paid over the three years from grant.

In addition to the share price targets above, the Remuneration Committee must be satisfied that the underlying financial performance of the Company over the three financial years commencing with the year of grant has been satisfactory.

Clawback and malus provisions apply and there is a holding period requiring the net of tax value of shares to be held for two years after the awards vest.

## Report on Directors' remuneration continued

for the 52 week period ended 28 December 2018

### Outstanding Long-Term Incentive Plan awards

Details of the nil cost option awards, not yet vested and exercised, made under the LTIP are disclosed in the table below:

| Director                      | Award grant date          | Share price (pence) | As at 29.12.17 | Granted during year | Lapsed during year | Vested and exercised during year | As at 28.12.18 | Earliest date shares can be acquired | Latest date shares can be acquired |
|-------------------------------|---------------------------|---------------------|----------------|---------------------|--------------------|----------------------------------|----------------|--------------------------------------|------------------------------------|
| Mike McCollum                 | 05.03.15 <sup>(iii)</sup> | 1,742               | 34,874         | –                   | 17,437             | –                                | 17,437         | 06.03.18                             | 05.03.25                           |
|                               | 15.06.16 <sup>(iv)</sup>  | 2,435               | 31,435         | –                   | –                  | –                                | 31,435         | 15.06.19                             | 15.06.26                           |
|                               | 16.03.17 <sup>(v)</sup>   | 2,455               | 31,253         | –                   | –                  | –                                | 31,253         | 16.03.20                             | 16.03.27                           |
|                               | 23.03.18 <sup>(vi)</sup>  | 890                 | –              | 31,253              | –                  | –                                | 31,253         | 23.03.21                             | 23.03.28                           |
| Andrew Davies <sup>(ii)</sup> | 05.03.15 <sup>(iii)</sup> | 1,742               | 22,245         | –                   | 11,123             | 11,122                           | –              | 06.03.18                             | 05.03.25                           |
|                               | 15.06.16 <sup>(iv)</sup>  | 2,435               | 20,051         | –                   | 4,468              | –                                | 15,583         | 15.06.19                             | 15.06.26                           |
|                               | 16.03.17 <sup>(v)</sup>   | 2,455               | 19,961         | –                   | 11,175             | –                                | 8,786          | 16.03.20                             | 16.03.27                           |
| Richard Portman               | 05.03.15 <sup>(iii)</sup> | 1,742               | 16,863         | –                   | 8,432              | –                                | 8,431          | 06.03.18                             | 05.03.25                           |
|                               | 15.06.16 <sup>(iv)</sup>  | 2,435               | 15,200         | –                   | –                  | –                                | 15,200         | 15.06.19                             | 15.06.26                           |
|                               | 16.03.17 <sup>(v)</sup>   | 2,455               | 15,150         | –                   | –                  | –                                | 15,150         | 16.03.20                             | 16.03.27                           |
|                               | 23.03.18 <sup>(vi)</sup>  | 890                 | –              | 15,150              | –                  | –                                | 15,150         | 23.03.21                             | 23.03.28                           |
| Steve Whittern                | 05.03.15 <sup>(iii)</sup> | 1,742               | 21,527         | –                   | 10,764             | –                                | 10,763         | 06.03.18                             | 05.03.25                           |
|                               | 15.06.16 <sup>(iv)</sup>  | 2,435               | 19,405         | –                   | –                  | –                                | 19,405         | 15.06.19                             | 15.06.26                           |
|                               | 16.03.17 <sup>(v)</sup>   | 2,455               | 19,320         | –                   | –                  | –                                | 19,320         | 16.03.20                             | 16.03.27                           |
|                               | 23.03.18 <sup>(vi)</sup>  | 890                 | –              | 19,320              | –                  | –                                | 19,320         | 23.03.21                             | 23.03.28                           |

(i) With regard to the LTIP awards in 2015, 2016 and 2017, half of the share awards under the LTIP are subject to a comparative TSR performance condition against the constituents of the FTSE 350. Awards will only be released if the Group's comparative TSR performance is equal or greater than the median level of performance over the performance period at which point 25 per cent of the award will be released with full vesting occurring for an upper quartile performance. Vesting occurs on a straight line basis between these points. The other half of the awards are based on EPS growth targets. The 2018 awards will vest based on absolute TSR. Full vesting will require performance broadly equivalent to returning the share price to the level it was prior to the 19 January 2018 pricing announcement.

(ii) Andrew Davies retired from the Board on 5 January 2018. His 2015 LTIP award was exercised post retirement. His LTIP options outstanding are prorated from the commencement of the relevant performance period to the date he ceased to be a qualifying employee.

(iii) Number of options derived based on the average mid-market share price for the previous 28 days to 26 December 2014. The performance condition for the 2015 LTIP award was met to the extent that 50 per cent of the award vested with the balancing lapsing.

(iv) Number of options derived based on the average mid-market share price for the previous 28 working days to 25 December 2015.

(v) Number of options derived based on the average mid-market share price for the previous 28 working days to 30 December 2016.

(vi) Number of options derived based on the same number of shares as the prior year's awards. The share price of 890 pence in the table above is at the grant date.

The aggregate gain on the exercise of Long-Term Incentive Plan options by the continuing Directors in the period was £nil (2017: £2.8 million).

### Directors' interest in shares

The interests of the Directors in the share capital of Dignity plc at 28 December 2018 are set out below:

|                              | Number of Ordinary Shares            |               |                 |                               |  |                                       |          | Value of shares counting towards proposed shareholding guideline <sup>(3)</sup> | Percentage of salary held as shares <sup>(3)</sup> |
|------------------------------|--------------------------------------|---------------|-----------------|-------------------------------|--|---------------------------------------|----------|---|--|
|                              | At 29 December 2017<br>Legally owned | Legally owned | Subject to SAYE | Deferred Annual Bonus Options | Subject to performance conditions under the LTIP | Vested but unexercised under the LTIP |          |   |  |
| Mike McCollum                | 91,667                               | 126,845       | –               | 7,092                         | 93,941   | 17,437                                | £974,303 | 190   |  |
| Andrew Davies <sup>(1)</sup> | 41,754                               | 41,754        | –               | 3,231                         | 24,369   | –                                     | –        | –   |  |
| Richard Portman              | 50,000                               | 50,000        | 332             | 2,449                         | 45,500   | 8,431                                 | £388,525 | 157   |  |
| Steve Whittern               | 27,000                               | 38,076        | –               | 3,127                         | 58,045   | 10,763                                | £316,564 | 100   |  |
| Peter Hindley                | 80,696                               | 106,873       | –               | –                             | –  | –                                     | –        | –   |  |
| David Blackwood              | 2,189                                | 7,154         | –               | –                             | –  | –                                     | –        | –   |  |
| Alan McWalter <sup>(2)</sup> | 2,552                                | 2,552         | –               | –                             | –  | –                                     | –        | –   |  |
| Jane Ashcroft                | 917                                  | 1,917         | –               | –                             | –  | –                                     | –        | –   |  |
| Mary McNamara                | 1,000                                | 5,500         | –               | –                             | –  | –                                     | –        | –   |  |

(1) Andrew Davies retired from the Board on 5 January 2018.

(2) As at date of retirement of 31 January 2018.

(3) Based on the average share price of the last financial month of the year of 696.7 pence and includes legally owned shares plus the net of tax value (i.e. tax and national insurance at 47 per cent) of deferred bonus options and vested but unexercised LTIP awards.

There has been no change in the interests set out above between 28 December 2018 and 13 March 2019.

### Current shareholding guideline

The current shareholding guideline for the Executive Directors was met.

### Proposed shareholding guideline

Under the proposed remuneration policy changes, the new shareholding guideline proposed for the Executive Directors is that they hold 200 per cent of their basic salary valued using the average share price for the last month of the financial year, (December 2018) and using the salary at the end of the financial year. On this basis, the Executive Directors are below the required shareholding level and so would be required to retain at least 50 per cent of the net of tax value of shares at such time as future awards vest.

### Loss of office payments and payments to past Directors

Except as disclosed below in respect of Andrew Davies, no Executive Director left in the year and no compensation for loss of office was paid and no payments were made to any past Directors.

Last year's report contains details of the retirement arrangements for Andrew Davies who retired from the Board on 5 January 2018 and who ceased to be an employee on 27 April 2018. No compensation or termination payment was made or will be made to Andrew Davies. As advised in the Group's Stock Exchange announcement, released on 13 December 2017, Andrew Davies is now a consultant to the Group assisting with the funeral business development and is paid a fixed fee for this work of £100,000 per annum.

Alan McWalter retired from the Board as a Non-Executive Director on 31 January 2018 and was paid Non-Executive Director fees to the date of retirement. Alan McWalter was retained as a consultant to the Board for the six months from 1<sup>st</sup> February to 31<sup>st</sup> July 2018 during which period he was paid fees of £31,500.

### Relative importance of spend on pay between employee pay and distributions to shareholders

The following table sets out the percentage change in dividends and overall spend on employee pay in the 2018 financial year compared with the prior year.

|                             | 2018<br>£m | 2017<br>£m | Change<br>% |
|-----------------------------|------------|------------|-------------|
| Dividends                   | 12.2       | 12.2       | –           |
| Employee remuneration costs | 107.2      | 102.7      | 4.4         |

### Legacy pension arrangements

Mike McCollum and Richard Portman were deferred members of the Dignity Pension & Assurance Scheme, which is a defined benefit and tax approved scheme. Mike McCollum ceased to be an active member of the Scheme on 31 March 2012 and Richard Portman ceased to be an active member on 31 March 2014. Instead they receive a pension supplement of 15 per cent of base salary. The Group has also arranged permanent life cover equal to the benefit they would have received had they remained in the Scheme. Mike McCollum transferred his benefits out of the Scheme in January 2016 and Richard Portman transferred his benefits out of the Scheme in January 2018.

### Percentage change in CEO pay

The table below shows the percentage year-on-year change in the value of salary, benefits and annual bonus for the Chief Executive between the current and previous year compared to that of the average employee on a full time equivalent basis.

|  | 2018<br>£000 | 2017<br>£000 | Change<br>% |
|--|--------------|--------------|-------------|
| Chief Executive                                      |              |              |             |
| – Salary   | 512          | 512          | –           |
| – Benefits   | 97           | 97           | –           |
| – Annual bonus                                       | 401          | –            | 100         |
|  | £            | £            | Change<br>% |
| Full time equivalent average employee <sup>(1)</sup> |              |              |             |
| – Salary   | 26,777       | 25,685       | 4.3         |
| – Benefits   | 1,791        | 1,714        | 4.5         |
| – Performance related pay                            | 1,083        | 1,728        | (37.3)      |

(1) There are 3,261 employees at 28 December 2018 (29 December 2017: 3,331), of which 752 (2017: 841) were part time.



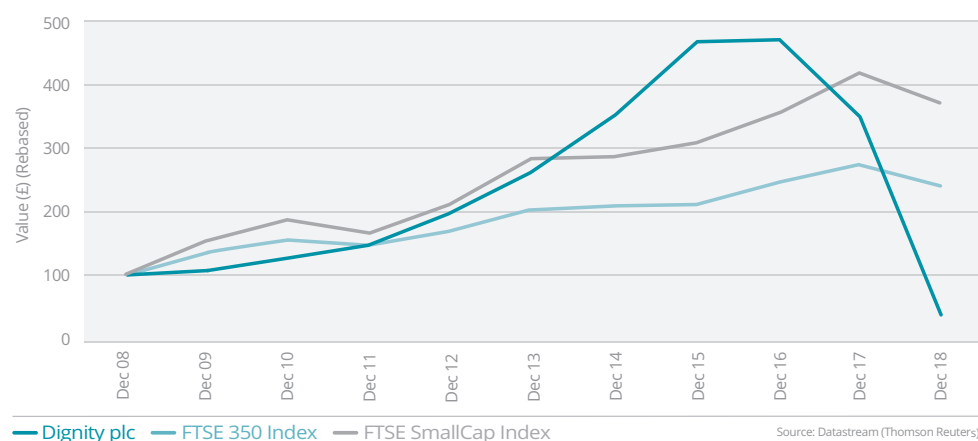
## Report on Directors' remuneration continued

for the 52 week period ended 28 December 2018

### Long-Term Total Shareholder Return Performance and CEO pay over this period

The following graph shows the Company's TSR performance over the last ten financial years against the FTSE 350 index and the FTSE SmallCap. The FTSE 350 has been chosen as the Company has been a member of that index until recently and the FTSE SmallCap has been chosen as it is now a member of that index.

#### Ten Year Total Shareholder Return



This graph shows the value, by 28 December 2018, of £100 invested in Dignity plc on 26 December 2008, compared with the value of £100 invested in the FTSE 350 Index and FTSE SmallCap Index on the same date.

The table below shows the total remuneration figure for the CEO over the same ten year period.

|  | 2009  | 2010 | 2011 | 2012  | 2013  | 2014  | 2015  | 2016  | 2017 | 2018  |
|--|-------|------|------|-------|-------|-------|-------|-------|------|-------|
| CEO single total figure of remuneration (£000) | 1,018 | 899  | 917  | 2,081 | 2,217 | 2,426 | 2,440 | 2,372 | 966  | 1,010 |
| Annual bonus pay-out relative to maximum (%)   | 85    | 100  | 100  | 100   | 100   | 100   | 100   | 100   | –    | 58    |
| LTIP vesting (%)                               | 63    | –    | –    | 100   | 100   | 100   | 100   | 100   | 50   | –     |

### Details of Directors' service contracts and letters of appointment

Details of the service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors are as follows:

| Name            | Contract date   | Notice period |
|-----------------|-----------------|---------------|
| Mike McCollum   | 1 April 2004    | 12 months     |
| Richard Portman | 1 November 2006 | 12 months     |
| Steve Whittern  | 1 January 2009  | 12 months     |
| Peter Hindley   | 7 December 2016 | 3 months      |
| David Blackwood | 1 October 2017  | 3 months      |
| Jane Ashcroft   | 1 April 2016    | 3 months      |
| Mary McNamara   | 1 March 2017    | 3 months      |

### External directorships

Mike McCollum was appointed a Non-Executive Director of CVS Group plc in April 2013 and received fees of £46,000 in the year to 31 December 2018. Steve Whittern was appointed a Non-Executive Director of Medica Group plc in March 2017 and received fees of £60,000 in the year to 31 December 2018. The Committee and the Board have considered these appointments and have concluded that for both Directors that they have sufficient time to be able to commit to their Dignity roles and that these directorships do not impede their ability to fully discharge their responsibilities. In both cases fees earned are retained by the Directors.

### Membership of the Remuneration Committee

The Remuneration Committee comprises three independent Non-Executive Directors. During 2018, the Committee was chaired by Mary McNamara and the Committee members in 2018 comprised Mary together with Jane Ashcroft and David Blackwood.

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.

The Remuneration Committee determines and agrees with the Board, within formal terms of reference, the framework and policy of Directors' and senior management's remuneration. The Committee met six times (three scheduled) during the year. At the start of the year the Committee determined the incentive payments for 2017 and the application of the policy for 2018, making a number of changes recognising the significant deterioration to the performance outlook for 2018. From the middle of the year the Committee conducted a tender process for its independent adviser, reviewed the remuneration policy and its application for 2019, including a consultation with major shareholders and consideration of the new UK Corporate Governance Code.

The Committee receives advice from several sources, namely:

- The Chairman and the Chief Executive, Finance Director and Corporate Services Director, who attend the Remuneration Committee by invitation, and the Company Secretary, who attends meetings as Secretary to the Committee. No individual takes part in discussions relating to their own remuneration and benefits.
- Korn Ferry, who were appointed by the Committee as its independent advisors on 3 August 2018 following a tendering process. Until Korn Ferry's appointment the Committee received advice from its previous advisers, New Bridge Street (NBS) (a trading name of Aon plc). Both Korn Ferry and NBS reported directly to the Committee Chairman and are signatories of the Code of Conduct for Remuneration Consultants (which can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com)). Korn Ferry provides other consulting services on leadership development, but this is an entirely separate team independent from the team advising the Committee and the advice to the Committee is therefore considered independent. During 2018, total fees charged in the period by NBS were £23,460 + VAT (2017: £18,133+VAT) and were charged on a time spent basis. Korn Ferry's fees were based on time and materials and (excluding VAT and expenses) totalled £55,796.

### Statement of shareholder voting at the AGM (Unaudited)

Votes cast by proxy at the Annual General Meeting held on 7 June 2018 in respect of the Remuneration Report and at Annual General Meeting held on 9 June 2016, in respect of the binding three year policy vote, are as shown below:

| 2018 AGM                | Remuneration Report   |                          |
|-------------------------|-----------------------|--------------------------|
|                         | Total number of votes | Percentage of votes cast |
| For                     | 29,170,599            | 90.53                    |
| Against                 | 3,051,429             | 9.47                     |
| <b>Total votes cast</b> | <b>32,222,028</b>     | <b>100</b>               |
| Abstentions             | 2,034                 | n/a                      |
|                         |                       |                          |
| 2016 AGM                | Remuneration Policy   |                          |
|                         | Total number of votes | Percentage of votes cast |
| For                     | 38,061,712            | 97.97                    |
| Against                 | 790,561               | 2.03                     |
| <b>Total votes cast</b> | <b>38,852,273</b>     | <b>100</b>               |
| Abstentions             | 664,132               | n/a                      |

On behalf of the Board

**Mary McNamara**

Chairman of the Remuneration Committee

13 March 2019

## Directors' report

for the 52 week period ended 28 December 2018

The Directors present their report and the audited consolidated financial statements for Dignity plc and its subsidiaries for the 52 week period ended 28 December 2018.

The company registration number of Dignity plc is 4569346.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Report on Directors' Remuneration and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101, Reduced Disclosure Framework ('FRS 101') (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent; and
- State whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent company financial statements respectively.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Report on Directors' Remuneration comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's websites. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 62 and 63 of this Annual Report, confirm that, to the best of their knowledge and belief:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Strategic Report on pages 1 to 59 of the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

### Responsibility statement of the Directors in respect of the Annual Report

The Directors confirm that to the best of their knowledge:

- The consolidated financial statements prepared in accordance with IFRSs as adopted by the European Union give a true and fair view of the assets, liabilities, financial position and profit of the Company and undertakings included in the consolidation as a whole;
- This Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that they face; and
- Having taken into account all matters considered by the Board and brought to the attention of the Board during the year, the Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable. The Directors believe that the disclosures set out in this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.



## Principal risks and uncertainties

Operational risks are considered on pages 52 and 53.

An assessment of the Group's exposure to financial risks and a description of how these risks are managed are included in note 2 to the consolidated financial statements.

## Share capital

During the period, 77,038 Ordinary Shares of 12 48/143 pence each were issued to satisfy Long-Term Incentive Plan share awards vesting in the period.

The issued share capital of Dignity plc at 28 December 2018 consisted of 50,008,939 Ordinary Shares of 12 48/143 pence each. All the Ordinary Shares carry the same rights and obligations. There are no other class or type of share in issue.

A special resolution passed at the last AGM on 7 June 2018 gives Dignity plc the authority to purchase up to 5,000,894 Ordinary Shares of 12 48/143 pence each at not less than nominal value and not more than five per cent above the average middle market quotation for the preceding five business days. At the same meeting the Company was also given authority to allot Ordinary Shares up to an aggregate nominal value of £4,112,623 of which up to £308,447 may be for cash. These authorities will expire at the conclusion of the next AGM on 13 June 2019. It is the intention of the Directors to seek renewal of these authorities at that AGM. There are no restrictions at the period end on the transfer of securities.

## Results

The results for the period are set out in the Consolidated Income Statement on page 100. The Group's profit before tax amounted to £40.5 million (2017: £71.2 million).

## Dividends

An interim dividend of 8.64 pence per Ordinary Share was paid to shareholders on 26 October 2018. The Board has proposed a final dividend of 15.74 pence (2017: 15.74 pence) per share, which, subject to approval at the AGM, will be paid on 28 June 2019 to shareholders on the register at close of business on 17 May 2019.

## Employment policies

During the period, the Group has maintained its obligations to effectively communicate and involve employees in its affairs. Methods of communication used include an in-house magazine, team talks, regular bulletins both national and regional and management briefings. This is discussed in more detail in the Corporate and Social Responsibility Report on pages 55 to 59.

Employment policies are designed to provide equal opportunities irrespective of age, sexuality, 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 endeavours, as far as is practicable, to treat disabled persons equally with others and will also endeavour to help and accommodate persons who become disabled whilst working for Dignity.

The Directors will publish gender pay data on the corporate website [www.dignityfunerals.co.uk/corporate](http://www.dignityfunerals.co.uk/corporate) during 2019 in accordance with the Equality Act 2010 (Gender Pay Gap) Regulations 2017.

## Directors and their interests

Details of the Directors of the Company who were in office during the period and up to the date of signing the financial statements are shown in the Report on Directors' Remuneration on pages 86 to 88.

In accordance with the UK Corporate Governance Code, at the AGM, all Directors will retire as Directors of the Company and, being eligible, offer themselves for re-election at the AGM on 13 June 2019.

During the period, the Company maintained liability insurance for its Directors and Officers to a value of £100 million. The Directors of each of the Company's subsidiaries have the benefit of an indemnity provision in the Company's Articles of Association. The indemnity provision, which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006, was in force throughout the period and is currently in force.

## Health and safety policy

The Group's operations are designed at all times in such a way as to ensure, so far as reasonably practicable, the health, safety and welfare of all of our employees and all other persons who may attend our premises. This is discussed in the Corporate and Social Responsibility Report on page 58.

## Corporate Social Responsibility

Maintaining the quality of the environment in which we all live is an important concern for the Group. This is discussed in the Corporate and Social Responsibility Report on pages 58 and 59 alongside other social and ethical considerations.

## Directors' report continued

for the 52 week period ended 28 December 2018

### Going concern

The Directors have conducted a rigorous and proportionate assessment of the Group's ability to continue in existence for the foreseeable future. They receive and review regularly management accounts, cash balances, forecasts and the annual budget together with covenant reporting. After careful consideration, and mindful of the current market conditions, the Directors confirm they are satisfied that the Group has adequate resources to continue operating for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing the financial statements. The Directors formally considered this matter at the Board meeting held on 8 March 2019.

### Post balance sheet events

There were no post balance sheet events.

### Independent Auditors and disclosure of information to Auditors

A resolution for the re-appointment of Ernst & Young LLP as auditors will be proposed at the forthcoming AGM.

In the case of each of the persons who are Directors at the time when the report is approved, the following applies:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Directors have taken appropriate steps to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### The Takeover Directive

The Group has one class of voting share capital, Ordinary Shares. All of the shares rank *pari passu*. There are no special control rights in relation to the Group's shares. The rules governing the appointment and replacement of Board members and changes to the Articles of Association accord with usual English company law provisions. The Board has authority to purchase its own shares and is seeking renewal of that power at the forthcoming AGM within the limits set out in the notice of that meeting. There are no significant agreements to which the Group is party which take effect, alter or terminate in the event of change of control of the Group.

### Corporate Governance Statement

The information that fulfils the requirements of a corporate governance statement in accordance with rule 7.2 of the Disclosure and Transparency Rules can be found in this Directors' Report and in the Directors' Statement on Corporate Governance on pages 65 to 69, which is incorporated by reference.

### Strategic Report

The Strategic Report on pages 1 to 59 has been approved by the Board.

By order of the Board

### Tim George

Company Secretary

13 March 2019

# Independent auditors' report to the members of Dignity plc

for the 52 week period ended 28 December 2018

## Opinion

In our opinion:

- Dignity plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 28 December 2018 and of the group's profit for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Dignity plc which comprise:

| Group  | Parent company  |
|--|---|
| <ul style="list-style-type: none"> <li>• Consolidated income statement for the 52 week period ended 28 December 2018</li> <li>• Consolidated statement of comprehensive income for the 52 week period ended 28 December 2018</li> <li>• Consolidated balance sheet as at 28 December 2018</li> <li>• Consolidated statement of changes in equity for the 52 week period ended 28 December 2018</li> <li>• Consolidated statement of cash flows for the 52 week period ended 28 December 2018</li> <li>• Related notes 1 to 33 to the financial statements, including a summary of significant accounting policies</li> </ul> | <ul style="list-style-type: none"> <li>• Balance sheet as at 28 December 2018</li> <li>• Statement of changes in equity for the 52 week period ended 28 December 2018</li> <li>• Related notes C1 to C9 to the financial statements including a summary of significant accounting policies</li> </ul> |

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 50 to 53 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 53 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 92 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;



## Independent auditors' report to the members of Dignity plc continued

for the 52 week period ended 28 December 2018

- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 53 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

### Overview of our audit approach

|                          |  |
|--------------------------|--|
| <b>Key audit matters</b> | <ul style="list-style-type: none"> <li>• The risk of inappropriate revenue recognition, specifically the risk of inappropriate management override of the amount of revenue recorded.</li> <li>• Management Override of Internal Controls inherent in those areas where manual journals are posted at head office as part of the financial statement close process.</li> <li>• Assessment of the carrying value of goodwill, other intangible assets and property, plant and equipment.</li> </ul> |
| <b>Audit scope</b>       | <ul style="list-style-type: none"> <li>• We performed an audit on the consolidated financial records of the group to the materiality and performance materiality described below.</li> </ul>   |
| <b>Materiality</b>       | <ul style="list-style-type: none"> <li>• Overall group materiality of £2.0 million which represents 5% of profit before tax.</li> </ul>  |

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Risk  | Our response to the risk   | Key observations communicated to the Audit Committee  |
|---|--|---|
| <p><b>The risk of inappropriate revenue recognition (Revenue 2018: £315.6 million, 2017: £324.0 million)</b></p> <p>Given investor focus on the group's revenue performance we consider there to be a risk in relation to the manipulation by central management of the amount of revenue recorded. Management reward and incentive schemes based on achieving profit targets may also place pressure on management to manipulate revenue recognition.</p> <p>Therefore, there is a risk that central management may override controls to intentionally misstate revenue transactions through inappropriate manual journal entries.</p> <p><i>Refer to the Accounting policies (pages 104 and 105); and Note 3 of the Consolidated Financial Statements (pages 112 and 113).</i></p>  | <ul style="list-style-type: none"> <li>• We understood the group's revenue recognition policies and how they are applied, including the relevant controls;</li> <li>• We evaluated the controls in the IT systems that support the recording of revenue;</li> <li>• We reconciled the aggregate revenue amounts extracted from the sales invoicing systems to revenue recorded in the general ledger and have traced material reconciling items that arose therefrom to supporting documentation;</li> <li>• In respect of the funerals and crematoria segments, which together form 93% of the group's revenue, we performed data analysis over the entire revenue process from revenue recognition through to invoice settlement. Where the postings did not follow our expectation, we investigated outliers and tested these entries to assess their validity by agreeing the transactions back to source documentation;</li> <li>• We tested journal entries posted to revenue accounts, applying parameters designed to identify entries that were not in accordance with our expectations. This included analysing and selecting journals for testing which appeared unusual in nature either due to size, preparer or being manually posted. We verified the journals to originating documentation to confirm that the entries were valid; and</li> <li>• We performed analytical procedures to compare revenue recognised with expectations based on past experience, management's forecasts and, where possible, external market data in respect of the numbers of deaths in the period and obtained corroborative evidence to support divergences from our expectations.</li> </ul> | <p>Based on our procedures we have not identified any evidence of management override through inappropriate journal entries in respect of the amount of revenue recorded in the period.</p> |
| <p><b>The risk of fraud and management override</b></p> <p>We considered the risks inherent in those areas where manual journals are posted at head office as part of the financial statement close process and in particular in respect of subjective areas which we considered to be most susceptible to management override due to the degree of estimation involved.</p> <p>These areas were considered to be the bad debt provision, dilapidations provision and uninvoiced cost accruals.</p>   | <ul style="list-style-type: none"> <li>• We performed data analytics to identify journal entries that we believed to be potentially unusual. We obtained supporting evidence for each of those journals identified and verified the journals to originating documentation to confirm that the entries were valid; and</li> <li>• We have performed audit procedures in respect of each of the estimates listed to identify evidence of management bias.</li> </ul>   | <p>Based on the results of the procedures performed, including journal entry testing, we have not identified any evidence of management override through inappropriate journal entries.</p> |
| <p><b>Assessment of the carrying value of goodwill, other intangible assets and property, plant and equipment (2018: £639.0 million, 2017: £633.5 million)</b></p> <p>The group has a significant value of goodwill, other intangible assets, including Trade Names, and property plant and equipment recognised on the balance sheet.</p> <p>As outlined in the group's strategic report the group has faced a challenging and transitional year arising from continued changes in the funeral market, the Competition and Markets Authority funeral market review announcement and having begun the transformation of the business.</p> <p>The group has experienced an overall decline in underlying profit before tax from £77.8 million in 2017 to £54.4 million.</p> <p>There is therefore a risk that the Group's cash generating units ('CGUs'), and in particular the funeral segment and the Trade Name CGUs within the funeral segment, may not achieve the anticipated business performance to support their respective carrying value.</p> <p>Judgement is required in forecasting the future cash flows of each CGU, determination of the long-term growth rates applied to these cash flows, together with the rate at which they are discounted.</p> <p><i>Refer to the Accounting policies (pages 106 and 107); and Note 9 of the Consolidated Financial Statements (pages 117 and 118).</i></p> | <ul style="list-style-type: none"> <li>• We understood the methodology applied by management in performing its impairment tests for the funeral segment goodwill CGU and the Trade Name CGUs within the funeral segment;</li> <li>• We have calculated the degree to which the key inputs and assumptions would need to fluctuate before an impairment was triggered and considered the likelihood of this occurring. We performed our own sensitivities on the group's forecasts and determined whether adequate headroom remained;</li> <li>• We performed detailed testing to critically assess and corroborate the key inputs to the valuations, including: <ul style="list-style-type: none"> <li>– analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience;</li> <li>– corroborating the discount rate used by benchmarking it against market data and comparable organisations, involving EY internal specialists to assist us with this assessment; and</li> <li>– validating the growth rates have been appropriately adjusted to reflect the changes in the group's strategy and the changes experienced in the funeral market.</li> </ul> </li> <li>• We assessed the disclosures in note 9 against the requirements of IAS 36 Impairment of Assets.</li> </ul>   | <p>We concluded that no impairments are required at the period end based on the results of our work.</p>  |

## Independent auditors' report to the members of Dignity plc continued

for the 52 week period ended 28 December 2018

### An overview of the scope of our audit

#### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and performance materiality determine our audit scope. Taken together, this enables us to form an opinion on the consolidated financial statements. The group finance function operates from head office and there are common financial systems, processes and centralised controls covering all of its operations and individual operating locations. The audit of the group is undertaken by one audit team and the group audit has been performed on the consolidated financial records to the materiality and performance materiality described below.

#### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

##### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be £2.0 million (2017: £3.6 million), which is 5% (2017: 5%) of profit before tax. We believe that profit before tax is the most appropriate measure of the financial performance of the group on which to base audit materiality.

We determined materiality for our audit of the standalone parent company financial statements to be £4.8 million (2017: £4.6 million), which is 1% (2017: 1%) of equity. The materiality determined for the standalone parent company financial statements exceeds the group materiality as it is determined on a different basis given the nature of the operations. For the purposes of the audit of the group financial statements, our procedures, including those on balances in the parent company, are undertaken with reference to the group materiality and performance materiality set out in this report.

##### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the group and parent company's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £1.5 million (2017: £2.7 million) for the group and £3.6 million (2017: £3.5 million) for the parent company.

##### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1 million (2017: £0.2 million) for both the group and the parent company, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

#### Other information

The other information comprises the information included in the annual report set out on pages 1 to 92 and 151 to 156, including the Strategic Report set out on pages 1 to 59, Governance set out pages 60 to 92 and Other Information set out on pages 151 to 156, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 90** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 70 to 72** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 60** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 90, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Independent auditors' report to the members of Dignity plc continued

for the 52 week period ended 28 December 2018

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the UK. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to occupational health and safety and data protection.
- We understood how the group is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and any correspondence received from regulatory bodies.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programs and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of group management, internal audit; and focused testing, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Other matters we are required to address

- We were appointed by the company on 7 June 2018 to audit the financial statements for the 52 week period ending 28 December 2018 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is five years, covering the periods ending 26 December 2014 to 28 December 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Simon O'Neill (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Birmingham

13 March 2019

### Notes

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



## Consolidated income statement

for the 52 week period ended 28 December 2018

|  | Note | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|--|------|--|--|
| <b>Revenue</b>   | 3    | <b>315.6</b>   | 324.0  |
| Cost of sales  |      | <b>(135.0)</b>                                       | (130.6)  |
| <b>Gross profit</b>  |      | <b>180.6</b>   | 193.4  |
| Administrative expenses  |      | <b>(114.3)</b>                                       | (95.4)   |
| <b>Operating profit</b>  | 3    | <b>66.3</b>  | 98.0   |
| Finance costs  | 4    | <b>(26.0)</b>  | (26.9)   |
| Finance income   | 4    | <b>0.2</b>   | 0.1  |
| <b>Profit before tax</b>   | 5    | <b>40.5</b>  | 71.2   |
| Taxation   | 6    | <b>(9.0)</b>   | (13.4)   |
| <b>Profit for the period attributable to equity shareholders</b>         | 3    | <b>31.5</b>  | 57.8   |
| <b>Earnings per share for profit attributable to equity shareholders</b> |      |  |  |
| – Basic (pence)  | 8    | <b>63.0p</b>   | 115.8p   |
| – Diluted (pence)  | 8    | <b>63.0p</b>   | 115.6p   |

## Consolidated statement of comprehensive income

for the 52 week period ended 28 December 2018

|  | Note | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|--|------|--|--|
| <b>Profit for the period</b>   |      | <b>31.5</b>  | 57.8   |
| <b>Items that will not be reclassified to profit or loss</b>           |      |  |  |
| Remeasurement (loss)/gain on retirement benefit obligations            | 28   | <b>(0.6)</b>   | 3.2  |
| Tax credit/(charge) on remeasurement on retirement benefit obligations |      | <b>0.1</b>   | (0.5)  |
| <b>Other comprehensive (loss)/income</b>                               |      | <b>(0.5)</b>   | 2.7  |
| <b>Comprehensive income for the period</b>                             |      | <b>31.0</b>  | 60.5   |
| <b>Attributable to:</b>  |      |  |  |
| Equity shareholders of the parent                                      |      | <b>31.0</b>  | 60.5   |

## Consolidated balance sheet

as at 28 December 2018

|  | Note | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|--|------|---------------------------|---------------------------|
| <b>Assets</b>                          |      |                           |                           |
| <b>Non-current assets</b>              |      |                           |                           |
| Goodwill                               | 9    | 232.6                     | 226.1                     |
| Intangible assets                      | 9    | 152.3                     | 159.4                     |
| Property, plant and equipment          | 10   | 254.1                     | 248.0                     |
| Investments in associated undertakings | 11   | 6.0                       | –                         |
| Financial and other assets             | 12   | 15.7                      | 14.3                      |
|  |      | <b>660.7</b>              | <b>647.8</b>              |
| <b>Current assets</b>                  |      |                           |                           |
| Inventories                            | 13   | 8.5                       | 7.3                       |
| Trade and other receivables            | 14   | 32.9                      | 38.3                      |
| Cash and cash equivalents              | 15   | 66.9                      | 49.3                      |
|  |      | <b>108.3</b>              | <b>94.9</b>               |
| <b>Total assets</b>                    |      | <b>769.0</b>              | <b>742.7</b>              |
| <b>Liabilities</b>                     |      |                           |                           |
| <b>Current liabilities</b>             |      |                           |                           |
| Financial liabilities                  | 16   | 9.3                       | 4.5                       |
| Trade and other payables               | 17   | 68.9                      | 57.8                      |
| Current tax liabilities                |      | 4.8                       | 6.2                       |
| Provisions for liabilities             | 19   | 1.7                       | 1.5                       |
|  |      | <b>84.7</b>               | <b>70.0</b>               |
| <b>Non-current liabilities</b>         |      |                           |                           |
| Financial liabilities                  | 16   | 551.9                     | 561.2                     |
| Deferred tax liabilities               | 20   | 29.2                      | 30.3                      |
| Other non-current liabilities          | 17   | 2.1                       | 2.3                       |
| Provisions for liabilities             | 19   | 9.9                       | 8.5                       |
| Retirement benefit obligation          | 28   | 25.2                      | 24.0                      |
|  |      | <b>618.3</b>              | <b>626.3</b>              |
| <b>Total liabilities</b>               |      | <b>703.0</b>              | <b>696.3</b>              |
| <b>Shareholders' equity</b>            |      |                           |                           |
| Ordinary share capital                 | 22   | 6.2                       | 6.2                       |
| Share premium account                  |      | 12.4                      | 11.1                      |
| Capital redemption reserve             |      | 141.7                     | 141.7                     |
| Other reserves                         |      | (5.1)                     | (4.6)                     |
| Retained earnings                      |      | (89.2)                    | (108.0)                   |
| <b>Total equity</b>                    |      | <b>66.0</b>               | <b>46.4</b>               |
| <b>Total equity and liabilities</b>    |      | <b>769.0</b>              | <b>742.7</b>              |

The financial statements on pages 100 to 140 were approved by the Board of Directors on 13 March 2019 and were signed on its behalf by:

**M K McCollum**  
Chief Executive

**S L Whittern**  
Finance Director

## Consolidated statement of changes in equity

for the 52 week period ended 28 December 2018

|  | Ordinary<br>share<br>capital<br>£m | Share<br>premium<br>account<br>£m | Capital<br>redemption<br>reserve<br>£m | Other<br>reserves<br>£m | Retained<br>earnings<br>£m | Total<br>equity<br>£m |
|--|------------------------------------|-----------------------------------|--|-------------------------|----------------------------|-----------------------|
| Shareholders' equity as at<br>30 December 2016       | 6.1                                | 8.5                               | 141.7                                  | (3.5)                   | (156.3)                    | (3.5)                 |
| Profit for the 52 weeks ended<br>29 December 2017    | -                                  | -                                 | -                                      | -                       | 57.8                       | 57.8                  |
| Remeasurement gain on defined<br>benefit obligations | -                                  | -                                 | -                                      | -                       | 3.2                        | 3.2                   |
| Tax on pensions                                      | -                                  | -                                 | -                                      | -                       | (0.5)                      | (0.5)                 |
| Total comprehensive income                           | -                                  | -                                 | -                                      | -                       | 60.5                       | 60.5                  |
| Effects of employee share options                    | -                                  | -                                 | -                                      | 1.3                     | -                          | 1.3                   |
| Tax on employee share options                        | -                                  | -                                 | -                                      | 0.1                     | -                          | 0.1                   |
| Proceeds from share issue <sup>(1)</sup>             | 0.1                                | 2.6                               | -                                      | -                       | -                          | 2.7                   |
| Gift to Employee Benefit Trust                       | -                                  | -                                 | -                                      | (2.5)                   | -                          | (2.5)                 |
| Dividends (note 7)                                   | -                                  | -                                 | -                                      | -                       | (12.2)                     | (12.2)                |
| Shareholders' equity as at<br>29 December 2017       | 6.2                                | 11.1                              | 141.7                                  | (4.6)                   | (108.0)                    | 46.4                  |
| Profit for the 52 weeks ended<br>28 December 2018    | -                                  | -                                 | -                                      | -                       | 31.5                       | <b>31.5</b>           |
| Remeasurement loss on<br>retirement benefit options  | -                                  | -                                 | -                                      | -                       | (0.6)                      | <b>(0.6)</b>          |
| Tax on pensions                                      | -                                  | -                                 | -                                      | -                       | 0.1                        | <b>0.1</b>            |
| Total comprehensive income                           | -                                  | -                                 | -                                      | -                       | 31.0                       | <b>31.0</b>           |
| Effects of employee share options                    | -                                  | -                                 | -                                      | 0.8                     | -                          | <b>0.8</b>            |
| Proceeds from share issue <sup>(2)</sup>             | -                                  | 1.3                               | -                                      | -                       | -                          | <b>1.3</b>            |
| Gift to Employee Benefit Trust                       | -                                  | -                                 | -                                      | (1.3)                   | -                          | <b>(1.3)</b>          |
| Dividends (note 7)                                   | -                                  | -                                 | -                                      | -                       | (12.2)                     | <b>(12.2)</b>         |
| <b>Shareholders' equity as at 28 December 2018</b>   | <b>6.2</b>                         | <b>12.4</b>                       | <b>141.7</b>                           | <b>(5.1)</b>            | <b>(89.2)</b>              | <b>66.0</b>           |

(1) Relating to issue of 184,672 shares under 2014 LTIP scheme and 9,079 shares under 2013 SAYE scheme.

(2) Relating to issue of 77,038 shares under 2015 LTIP scheme.

The above amounts relate to transactions with owners of the Company except for the items reported within total comprehensive income.

### Capital redemption reserve

The capital redemption reserve represents £80,002,465 B Shares that were issued on 2 August 2006 and redeemed for cash on the same day, £19,274,610 B Shares that were issued on 10 October 2010 and redeemed for cash on 11 October 2010, and £22,263,112 B Shares that were issued on 12 August 2013 and redeemed for cash on 20 August 2013 and £20,154,070 B Shares that were issued and redeemed for cash in November 2014.

### Other reserves

Other reserves includes movements relating to the Group's SAYE and LTIP schemes and associated tax, together with a £12.3 million merger reserve.



## Consolidated statement of cash flows

for the 52 week period ended 28 December 2018

|   | Note | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|---|------|--|--|
| <b>Cash flows from operating activities</b>   |      |  |  |
| Cash generated from operations  | 25   | 94.9   | 112.5  |
| Finance income received   |      | 0.2  | 0.1  |
| Finance costs paid  |      | (13.1)   | (25.7)   |
| Transfer from restricted bank accounts for finance costs  |      | 0.3  | 0.3  |
| Payments to restricted bank accounts for finance costs  | 15   | (12.3)   | (0.3)  |
| Total payments in respect of finance costs  |      | (25.1)   | (25.7)   |
| Tax paid  |      | (11.6)   | (11.9)   |
| <b>Net cash generated from operating activities</b>   |      | <b>58.4</b>  | <b>75.0</b>  |
| <b>Cash flows from investing activities</b>   |      |  |  |
| Investment in financial asset and associated undertakings   |      | (5.0)  | (1.0)  |
| Acquisition of subsidiaries and businesses (net of cash acquired)                                       | 26   | (6.5)  | (28.3)   |
| Proceeds from sale of property, plant and equipment   |      | 0.4  | 0.6  |
| Maintenance capital expenditure <sup>(1)</sup>  |      | (16.1)   | (20.2)   |
| Branch relocations  |      | (0.8)  | (2.2)  |
| Satellite locations   |      | (1.4)  | (1.1)  |
| Development of new crematoria and cemeteries  |      | (6.7)  | (3.5)  |
| Purchase of property, plant and equipment and intangible assets   |      | (25.0)   | (27.0)   |
| <b>Net cash used in investing activities</b>  |      | <b>(36.1)</b>  | <b>(55.7)</b>  |
| <b>Cash flows from financing activities</b>   |      |  |  |
| Issue costs in respect of debt facility   |      | -  | (0.4)  |
| Proceeds from share issue   |      | -  | 0.1  |
| Repayment of Crematoria Acquisition Facility  |      | -  | (15.8)   |
| Payments due under Secured Notes  |      | (4.5)  | (8.8)  |
| Payments to restricted bank accounts for repayment of borrowings  | 15   | (4.6)  | -  |
| Total payments in respect of borrowings   |      | (9.1)  | (24.6)   |
| Dividends paid to shareholders on Ordinary Shares   | 7    | (12.2)   | (12.2)   |
| <b>Net cash used in financing activities</b>  |      | <b>(21.3)</b>  | <b>(37.1)</b>  |
| <b>Net increase/(decrease) in cash and cash equivalents</b>   |      | <b>1.0</b>   | <b>(17.8)</b>  |
| Cash and cash equivalents at the beginning of the period  |      | 49.0   | 66.8   |
| <b>Cash and cash equivalents at the end of the period</b>   |      | <b>50.0</b>  | <b>49.0</b>  |
| Restricted cash   | 15   | 16.9   | 0.3  |
| <b>Cash and cash equivalents at the end of the period as reported in the consolidated balance sheet</b> | 15   | <b>66.9</b>  | <b>49.3</b>  |

(1) Maintenance capital expenditure includes vehicle replacement programme, improvements to locations and purchases of other tangible and intangible assets.

## Notes to the financial statements

for the 52 week period ended 28 December 2018

### 1 Accounting policies

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

#### Basis of preparation

European law requires that the Group's consolidated financial statements for the 52 week period ended 28 December 2018 are prepared in accordance with all applicable International Financial Reporting Standards ('IFRSs'), as adopted by the European Union. These financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee ('IFRIC') interpretations (as issued by the International Accounting Standards Board) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In the current period, the Group's consolidated financial statements have been prepared for the 52 week period ended 28 December 2018. For the comparative period, the Group's consolidated financial statements have been prepared for the 52 week period ended 29 December 2017.

The Group's consolidated financial statements are prepared on a going concern basis and have been prepared under the historical cost convention.

#### Preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. This will also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from those estimates.

#### Basis of consolidation

The financial statements are presented in the form of Group financial statements. The Group financial statements consolidate the accounts of the Company and the entities controlled by the Company (including all of its subsidiary entities) after eliminating internal transactions. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Results of subsidiary undertakings acquired during the period are included from the effective date of control using the acquisition method of accounting. The separable net assets, both tangible and intangible, of newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value to the Group as at the effective date of control.

#### Investment in associated undertakings

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not control or joint control over those policies.

The Group's investment in an associate is accounted for using the equity method. The investment is initially recorded at cost and the carrying amount is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment. The consolidated income statement reflects the Group's share of the results of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. The Group aligns accounting policies and makes adjustments where necessary prior to recognising their share in the financial statements.

At each reporting date the Group reviews whether there is any evidence that the investments in associated undertakings is impaired. Any impairment is recognised within "Share of profit of an associate" in the consolidated income statement.

#### Alternative performance measures

The Board believes that whilst statutory reporting measures provide a useful indication of the financial performance of the Group, additional insight is gained by excluding non-underlying items which comprise certain non-recurring or non-trading transactions. See financial review on page 45 and alternative performance measures on pages 151 to 153 for further information.

#### Pre-arranged funeral plan trusts

The pre-arranged funeral plan trusts are not consolidated during the period as they are not controlled by the Group. Specifically, Article 60 of the Financial Services and Markets Act 2000 ('Regulated Activities') Order 2001 ('RAO') requires a majority of the managing trustees to be independent of the Group. Further information can be found in the non consolidation of pre-need trusts note within critical accounting estimates and judgements below.

#### Revenue

Revenue 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.

Revenues include amounts receivable from the pre-arranged funeral plan trusts for funerals performed by the Group for pre-arranged funeral plan members.

## 1 Accounting policies (continued)

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 Group pays certain disbursements (such as crematoria fees, burial plots, ministers' fees and doctors' fees) on behalf of its clients. These amounts are recovered as part of the invoicing process. However, these amounts are not included within net revenues as they are simply passed on to the customer at cost.

The accounting policies for recognising turnover for pre-arranged funeral plans are stated below.

The Group views the UK and Channel Islands as one geographical segment, given each local business exhibits similar long-term characteristics.

All amounts are exclusive of VAT.

### Pre-arranged funeral plans

#### Trust plans

The Group markets and sells pre-arranged funeral plans, with 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, some of whom are not owned by the Group.

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

- A marketing and administration allowance in respect of each plan sold. The marketing element is only refundable in the event that the plan is subsequently cancelled. A provision is made for cancellations based on historical experiences, where material, to cover the estimated marketing element refundable to the Trusts. Marketing and administration allowances are included in Group revenue when the related plan is sold less the provision for refunds arising on cancellations; and
- 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 Group revenue 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 income statement 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 income in the period in which the Trustees approve their payment. The Group has not sought any Recoveries from the Trusts since 2012.

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 third party 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.

Each Dignity marketing company contractually guarantees with the customer of a pre-arranged funeral plan that (i) if the customer chooses to cancel their selected funeral plan, a full refund will be made to the customer of all monies paid in respect thereof (less in certain cases an administration fee payable to the relevant Dignity marketing company); (ii) the funeral director's services (as selected by the customer) will be provided regardless of price rises in the future; and (iii) for the majority of plans sold, specific disbursements (such as crematoria fees, ministers' fees and doctors' fees) will be provided regardless of price rises in the future.

#### Insurance plans

The Group is the named beneficiary on a number of life assurance products sold by third party insurance companies, in consideration for which the Group has committed to performing the funeral (including some disbursements) of the plan holder at a discount to its rates prevailing at the time of death.

A commission is paid to the insurers when the policy is initially charged to the Group. These costs are carried as a prepayment and charged to the income statement as a funeral is performed, with the cost per funeral estimated based on the total costs incurred and the expected level of policies, allowing for cancellations, where the Group will be involved in the fulfilment of the funeral. This expectation is reviewed annually.



## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 1 Accounting policies (continued)

In the event of the death of the policyholder, if the Group performs the funeral, it receives an agreed amount from the insurers which is recognised as revenue within the funeral services division. On occasions a third party will perform the funeral and the Group will pass on all monies received to that party.

#### Share-based payments

The Group issues equity settled share-based payments to certain employees. A fair value for the equity settled share awards is measured at the date of grant. Management measures the fair value using the valuation technique that they consider to be the most appropriate to value each class of award, which include Black-Scholes calculations and Monte Carlo simulations. The valuations take into account factors such as non-transferability, exercise restrictions and behavioural considerations.

An expense is recognised to spread the fair value of each award over the vesting period on a straight line basis, after allowing for an estimate of the share awards that will eventually not vest. The estimate of the level of vesting is reviewed at least annually, with any impact on the cumulative charge being recognised immediately. When the options are exercised the Company issues new shares.

#### Earnings per Ordinary Share

Basic Earnings per Ordinary Share ('EPS') is calculated by dividing the profit after taxation by the weighted average number of shares in issue during the period. Diluted EPS is calculated by dividing profit after taxation by the weighted average number of shares in issue during the period increased by the effects of all dilutive potential Ordinary Shares (primarily share options). Underlying Earnings per Ordinary Share is calculated by dividing the underlying profit after tax by the weighted average number of shares in issue during the period.

#### Fair value measurement

The Group discloses fair values for financial assets and liabilities at each balance sheet date.

Fair value related disclosures are set out in note 26 in respect of fair values on acquisition of businesses and in note 21 in respect of financial instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability measured using the assumptions that market participants would use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

#### Intangible assets – goodwill

Goodwill, which represents the excess of the fair value of the consideration paid 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 impairment.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The businesses and subsidiaries acquired are generally combined with existing operations in the year of acquisition, or the year thereafter and are therefore only considered to be separate cash-generating units during this time.

#### Intangible assets – trade names

Intangible trade names are recognised as assets at the estimated fair value of the consideration paid to acquire them and are carried at historical cost less amortisation and provisions for impairment. When acquired as part of a business combination the fair value is calculated by reference to the estimated incremental cash flows expected to arise by virtue of the trade name being well-established.

Amortisation is provided from the date of acquisition so as to write-off the asset on a straight line basis over the term of its useful life.

#### Intangible assets – non-compete contracts

Non-compete contracts arising from business combinations are capitalised at their fair value, which is calculated as the present value of any consideration paid discounted at the Group's cost of capital.

All costs are amortised over the term of the relevant agreement on a straight line basis.

#### Intangible assets – software

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring into use the specific software.

## 1 Accounting policies (continued)

An internally generated intangible asset arising from the Group's development of computer systems (including websites) is recognised if, and only if, the costs are directly associated with the production of identifiable and unique software products, controlled by the Group and it is probable that future economic benefits will flow to the Group.

Costs recognised as assets are amortised over their estimated useful lives (three to eight years) using the straight line method.

### Intangible assets – use of third party brand name

The Group has a marketing agreement with Age UK Enterprises Limited, giving rights to market pre-arranged funeral plans under the Age UK brand. The value of this right has been recognised as a separate intangible asset.

This asset is being amortised over 20 years on a straight line basis, recognising that each year's additional marketing activity generates incremental revenues and profits to the Group for at least the following 20 years.

### Intangible assets – other

As part of the Crematoria Acquisition in 2016, the Group acquired interests in two crematoria subject to finite periods of operation (by way of lease and/or service concession). The fair value of these interests has been identified and recognised as a separate intangible asset. The value of each interest is being amortised over the remaining period of operation.

### Investment in financial assets

Investments in financial assets are initially recognised at fair value and subsequently measured at fair value with movements recognised through other comprehensive income unless there is objective evidence of impairment in which case the movement will be recognised through the income statement.

On derecognition of an investment in financial asset any changes in fair value previously recognised are reversed through equity reserves to bring the asset back to its original cost.

### Property, plant and equipment

Assets are recorded in the balance sheet at cost less accumulated depreciation and any recognised impairment loss. Cost includes, where appropriate, directly attributable costs incurred in bringing each asset to its present location and condition.

Depreciation is charged so as to write-off the cost of assets to their residual value (excluding freehold land and assets in the course of construction), over their expected useful lives using the straight line method. The bases and annual depreciation rates in use for the various classes of assets are as follows:

|                                       |                    |
|---------------------------------------|--------------------|
| Freehold and long leasehold buildings | 2% – 10%           |
| Short leasehold buildings             | Over term of lease |
| Motor vehicles                        | 11% – 20%          |
| Computers                             | 20%                |
| Other plant and equipment             | 5% – 33%           |
| Fixtures and fittings                 | 15%                |

Freehold land is not depreciated on the basis that land has an indefinite life. Where the historical cost of land and buildings cannot be split, the Directors have estimated that the historical cost attributable to land is one third (based on historical data) of the original cost of acquiring the land and buildings. This estimate is regularly reviewed.

Major renovations of the Group's trading premises and cremator re-linings are depreciated over the remaining life of the related asset or to the estimated date of the next major renovation or cremator re-lining, whichever is sooner. Asset lives and residual values for each class of asset are reviewed annually and adjusted if appropriate at each balance sheet date.

Assets in the course of construction are shown as work in progress at a value equal to costs incurred to date. Once completed, they are reclassified and depreciated using the Group's depreciation policy above.

### Borrowing costs

If the construction phase of property, plant or equipment extends over a long period, the interest incurred on borrowed capital up to the date of completion is capitalised as part of cost of construction as permitted by IAS 23 (Borrowing Costs).

### Repairs and renewals

All repairs and renewals are charged to the income statement unless they represent an enhancement to the original asset.

### Property, plant and equipment held under leases

When assets are financed by leasing agreements, where the risks and rewards are substantially transferred to the Group, the assets are treated as if they had been purchased outright and the corresponding liability to the lessor is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements such that the interest element is charged to the income statement so as to achieve a constant rate on the outstanding lease obligation.

## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 1 Accounting policies (continued)

All other leases are 'operating leases' and the relevant annual rentals, net of any incentives received from the lessor, are charged to the income statement on a straight line basis over the period of the lease.

#### Profit (or loss) on sale of fixed assets

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within profit (or loss) on sale of fixed assets in the income statement.

#### Impairment of assets

The carrying values of intangible assets and property, plant and equipment are reviewed for impairment in periods where events or changes in circumstances indicate that the carrying value may not be recoverable. Assets that have an indefinite useful life (e.g. goodwill) which are not subject to amortisation are tested annually for impairment.

Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. For goodwill this is considered at a business segment level as that is the level at which the return on assets acquired is monitored. Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future discounted cash flows of the cash-generating unit are estimated, based on latest management expectations for the following year and an annual growth rate in subsequent years. These cash flows are discounted at rates that management estimate to be the risk affected average cost of capital for the particular segment and compared to the carrying value of the relevant asset. Any impairment in the value of an asset below its carrying value is charged to the income statement within operating profit. A reversal of an impairment loss is recognised in the income statement to the extent that the original loss was recognised, net of the amortisation or depreciation that would have been charged. Any impairment loss recognised for goodwill will not be reversed.

#### Inventories

Inventories, which comprise funeral supplies and monumental masonry, are 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.

#### Taxation

The tax charge for the period includes the charge for tax currently payable and deferred tax. The current tax charge represents the estimated amount due that arises from the operations of the Group in the period and after making adjustments to estimates in respect of prior years.

Deferred tax is recognised in respect of all differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, except where the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax assets and liabilities are offset to generate a net asset or liability if the conditions of IAS 12 are met.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the deductible temporary difference can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted, by the balance sheet date.

#### Pensions

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to retained earnings in other comprehensive income in the period in which they arise.

Changes in the present value of the defined benefit obligation resulting from plan amendments, curtailments or one off adjustments such as GMP equalisation are recognised immediately in the consolidated income statement as a past service cost.

#### Provisions

Provisions are recognised when 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.



## 1 Accounting policies (continued)

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 finance costs.

### Employee share trust

The assets of the employee share trust are held by a separate limited company, of which the Directors consider that Dignity plc has de facto control. At the balance sheet date, the trust's assets and liabilities recognised in the Group's balance sheet within share capital and reserves were nil (2017: nil).

### Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the financial statements when paid.

### Financial instruments

#### Borrowings

All borrowings are stated at the fair value of consideration received after deduction of transaction costs and subsequently at amortised cost. The transaction costs, interest payable and premium on debt finance are charged/credited to the income statement, as finance costs/income, 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, using the effective interest method.

#### Trade receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost. A provision for impairment is established based on historical experience. When a trade receivable is not collectable it is written-off against the allowance account. Subsequent recovery of amounts previously written-off are credited against administrative expenses in the income statement.

#### Trade payables

Trade payables are not interest bearing and are initially recognised at fair value and subsequently measured at amortised cost.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct transaction costs.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on demand deposits and amounts included in accounts restricted for specific uses.

### Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements in certain circumstances that affect reported amounts. The most sensitive estimates affecting the financial statements are detailed below:

#### Provision for doubtful trade receivables

Provision is made against accounts that in the estimation of management may be impaired. Within each division, assessment is made of the recoverability of trade receivables based on a range of factors including the age of the receivable and the type of services provided. The provision is assessed monthly against actual experience of irrecoverable accounts and adjusted if appropriate. See note 21(c) for further details.

#### Pensions

The Group operates a defined benefit pension scheme that is accounted for using methods that rely on actuarial assumptions to estimate costs and liabilities for inclusion in the financial statements. These actuarial assumptions include discount rates, assumed rates of return, salary increases and mortality rates.

While management believes that the actuarial assumptions are appropriate, any significant changes to those used would affect the consolidated balance sheet and consolidated statement of comprehensive income. The Group considers that the most significant assumptions are the discount rate and the inflation rate. See note 28 for further details.

#### Funeral services goodwill impairment assessment

Performing the annual impairment assessment for goodwill requires an estimation of the value-in-use of the cash generating units to which the goodwill has been allocated. The value-in-use calculation requires the use of estimates including those in respect of future cash flows, growth rates and an appropriate discount rate. See note 9 for further details.

#### Recoverable value of investments in associated undertakings

The ability to recover the carrying value of the investment in associated undertakings is subject to uncertainty due to the investment being in its formative stages. Whilst the Group considers the potential value of the investment exceeds the carrying value, there a number of potential outcomes over the next 12 months which the Group can influence but not control, which could result in partial or full provision being required against the investment.

## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 1 Accounting policies (continued)

#### Critical accounting judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements in certain circumstances that affect reported amounts. The key judgements affecting the financial statements are detailed below:

#### Non consolidation of pre-need trusts

The Group markets and sells pre-arranged funeral plans, with monies received from selling funeral plans being held by independent pre-arranged funeral plan trusts. These Trusts are not consolidated by the Group, on the basis they do not control them. The principle of non-consolidation was established many years ago, and therefore the Directors consider annually whether there have been any changes to terms and conditions, or accounting standards that would change this determination. IFRS 10, consolidated financial statements, was considered by the Group in 2015 with specific reference to the non-consolidation of the pre-need trust.

IFRS 10 built on existing principles by identifying the concept of control as the determining factor on whether an entity should be included within the consolidated financial statements of the parent company. In order to have control, IFRS 10 requires a parent company to have power over the investee, an exposure to variable returns because of its involvement in the investee and the ability to use its power over the investee to affect the amount of the variable returns.

#### IFRS 10 consideration

Power over the investee. Power arises when the investor has existing rights that gives them the ability to direct the relevant activities of the investee, being those activities which influence the returns achieved by the investee.

The investor is exposed, or has rights, to variable returns from its involvement with the investee.

The investor has the ability to use its power over the investee to affect the amount of the investor's returns.

#### Analysis

Dignity has no voting rights over the Trusts or any rights to direct the activities of the Trusts. Whilst Dignity has the power to appoint or remove trustees, legislation requires the majority of trustees to be independent of Dignity.

Whilst Dignity controls the charge levied to the Trusts for the provision of funeral services, it does not have the power to direct the investment decisions of the Trusts.

Dignity receives an allowance for the marketing of the plans and for the performance of a funeral. From time to time Dignity may receive a surplus from the Trusts.

Ultimately Dignity's return is wholly dependent on the investment performance of the Trusts.

A majority of the Trustees are required, by legislation, to be independent of Dignity and therefore Dignity does not, and cannot, control the actions of the Trustees.

The investment strategy is set, implemented and monitored by the Trustees. Consequently, Dignity does not have the power to affect the amount of its returns.

In the event that new trusts are acquired as part of business combinations in the period, the Directors consider the terms and conditions to determine whether non-consolidation is appropriate.

#### Standards, amendments and interpretations effective in 2018

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year that have a material impact on the Group.

#### Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted

The following standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2018 or later periods but which the Group has not early adopted:

#### IFRS 15, Revenue from Contracts with Customers

In its 2019 financial statements, the Group will adopt IFRS 15, issued by the International Accounting Standards Board. IFRS 15 establishes principles for reporting the nature, amount and timing of revenue arising from contracts with customers and replaces IAS 18, Revenue Recognition. The Group's intention is to apply the modified retrospective approach upon adoption of the standard. This approach will mean that the Group will not restate comparative periods but will record a cumulative transition adjustment to equity within opening reserves on 29 December 2018. The Group has performed a detailed analysis in order to establish the impact of IFRS 15 on the Group's accounting policy for revenue recognition and to quantify this impact.

## 1 Accounting policies (continued)

Adoption of IFRS 15 will result in a change in accounting policy in respect of income received related to pre-arranged funeral plans ("pre-need"). The Group will no longer separately recognise revenue for pre-need marketing activities at the inception of a pre-need plan and for the performance of the funeral on the utilisation of the plan. Under IFRS 15 all pre-need activities are deemed to relate to a single performance obligation, being the delivery of a funeral, with all revenue associated with the plan being recognised on the performance of the funeral.

As a result, marketing allowances received at the inception of a pre-need plan will be held as deferred income in the consolidated balance sheet up to the time the funeral is performed. Having deferred all the marketing allowances received, it is no longer necessary to maintain a separate cancellation provision in this respect. This represents a change from the current approach applied under IAS 18, where marketing allowances are recognised as revenue at the inception of a pre-need plan. IFRS 15 also requires that the directly attributable costs associated with the inception of a pre-need plan, in the form of commissions payable either to employees or third parties, are also held as deferred costs in the consolidated balance sheet up to the time the associated funeral is performed. Once the funeral is performed both deferred marketing allowance revenues and deferred commission costs will be released and recognised in the income statement.

The timing of revenue recognised by the Group from the Trusts for the ongoing administration services performed on behalf of the Trusts is unaffected by IFRS 15, with revenue continuing to be recognised in the period to which it relates.

The Group's initial assessment of the expected impact of IFRS 15 to be recorded as a cumulative transition adjustment to equity on 29 December 2018 will be a net reduction of £81.8 million to retained earnings, which reflects the recognition of £201.2 million of deferred revenue in respect of marketing allowances, the derecognition of the £0.8 million cancellation provision and £101.8 million of deferred costs in respect of commissions paid and a deferred tax adjustment of £16.8 million.

There are no further adjustments required on the adoption of IFRS 15.

The Group will present its revised accounting policy, updated for the application of IFRS 15, in its interim results report for the 26 week period ended 28 June 2019.

### IFRS 9, Financial Instruments

This standard is effective for accounting periods beginning on or after 1 January 2018 and will therefore impact the Group's 2019 financial results. The impact of this standard is currently being assessed however, it will not have a material impact on the Group due to the nature of the Group's financial instruments.

### IFRS 16, Leases

This standard is effective for accounting periods beginning on or after 1 January 2019 and will therefore impact the Group's 2020 financial results. Under the standard a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Approximately 50 per cent of the Group's properties are on lease terms that are currently accounted for as an operating lease but which will result in the recognition of both an asset and a liability under the new standard. As the notes to the consolidated accounts demonstrate, the Group has total minimum future lease payments under non-cancellable operating leases of approximately £220 million at the end of 2018. Whilst the net present value of this commitment will be less than this amount, the grossing up of the Group's balance sheet that will be required to reflect this new standard will be material and will also impact on the Group's reported profit after tax. Guidance on the corporation tax legislation was enacted on 12 February 2019 and therefore the tax impact of IFRS 16 on the financial statements is currently being considered. The Group is also collating all the necessary historical data for each lease to complete its analysis. The Group has also identified appropriate software to support its implementation of IFRS 16.

### Other

IAS 12, Income taxes. Amendments to IAS 12, effective 1 January 2019 and will therefore impact on the Group's 2020 Annual Report. The amendment clarifies that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. This is not expected to have a material impact on the Group.

IAS 19, Employee benefits. Amendments to IAS 19, effective 1 January 2019 and will therefore impact on the Group's 2020 Annual Report. The amendment addresses the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. This amendment is not expected to have a material impact on the Group.

IAS 23, Borrowing costs. Amendments to IAS 23, effective 1 January 2019 and will therefore impact on the Group's 2020 Annual Report. The amendment clarifies that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. This is not expected to have a material impact on the Group.

The Group's securitisation documents contemplate accounting policy changes and provide a mechanism that ensure covenant calculations are not materially impacted to the detriment of either the Group or Noteholders.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.



## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 2 Financial risk management

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

It is not the Group's policy to actively trade in derivatives.

#### Market risk

##### Interest rate risk and other price risk

The Group's main borrowings consist of Secured Notes, which are at fixed interest rates, resulting in a predetermined repayment profile. The fair value of these financial instruments is based on underlying gilt prices and yield spreads based on the market's current view of the risk profile of the Secured Notes. Consequently, the fair value of these instruments will fluctuate. Fair values are not relevant to the Group unless it was to change its funding strategy and repay the Secured Notes early.

The Group has significant cash balances that are held by institutions with a long-term rating of at least BBB by Standard & Poor's and BBB- by Fitch. These balances earn interest by reference to the Bank of England base rate. If interest rates reduced by one per cent at the beginning of 2019 then the Group would receive £0.1 million less interest income on an annualised basis for each £10.0 million held.

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

#### Credit risk

Trade receivables are the main source of credit risk to the Group. However, this risk is minimised as much as possible through well-established credit control procedures. Quantitative disclosures regarding the ageing of these receivables are included in note 21(c).

#### Liquidity risk

The Group manages its liquidity risk by maintaining sufficient cash reserves, committed undrawn borrowing facilities and regular monitoring and forecasting of cash balances. In addition, the Group is required under the terms of its secured borrowings to maintain a precisely defined EBITDA to total debt service ratio of at least 1.5 times in respect of the securitisation group. This ratio was determined when raising the debt as being sufficient to ensure all borrowings could be repaid. This covenant test has been satisfied on each quarterly testing date in the period. At 28 December 2018 the actual ratio was 2.55 times (2017: 3.24 times).

#### Capital risk management

The Group's objective under managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and repay holders of Secured Notes. It also aims to reduce its cost of capital by maintaining an optimal capital structure. The Group's capital comprises equity and net debt as set out in note 24. The Group's principal source of long-term debt financing are the Secured A Notes, rated A by both Fitch and Standard & Poor's and the Secured B Notes rated BBB- and BB respectively by Fitch and Standard & Poor's.

The Group monitors its capital structure based on the ratio of gross debt, as summarised in note 24, to underlying earnings before interest, taxation, depreciation and amortisation.

In order to achieve these objectives, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or issue further Class A and B Secured Notes.

During the period, the Group achieved its covenants for the Secured Notes under the terms of the Group's secured borrowings (see 'Liquidity risk' above).

### 3 Revenue and segmental analysis

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker of the Group has been identified as the three Executive Directors. The Group has three reporting segments, funeral services, crematoria and pre-arranged funeral plans. The Group also reports central overheads, which comprise unallocated central expenses.

Funeral services relate to the provision of funerals and ancillary items, such as memorials and floral tributes.

Crematoria services relate to cremation services and the sale of memorials and burial plots at the Dignity operated crematoria and cemeteries.

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.

### 3 Revenue and segmental analysis (continued)

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

Underlying operating profit is stated before non-underlying items as defined on page 151.

The revenue and operating profit/(loss), by segment, was as follows:

| 52 week period ended 28 December 2018 | Revenue<br>£m | Underlying<br>operating profit/<br>(loss) before<br>depreciation and<br>amortisation<br>£m | Underlying<br>depreciation<br>and<br>amortisation<br>£m | Underlying<br>operating profit/<br>(loss)<br>£m | Non-underlying<br>items<br>£m | Operating<br>profit/(loss)<br>£m |
|---------------------------------------|---------------|--|---|---|-------------------------------|----------------------------------|
| Funeral services                      | 214.9         | 75.0   | (12.8)  | 62.2  | (7.4)                         | 54.8                             |
| Crematoria                            | 78.0          | 44.9   | (4.6)   | 40.3  | (0.7)                         | 39.6                             |
| Pre-arranged funeral plans            | 22.7          | 2.8  | -   | 2.8   | (0.2)                         | 2.6                              |
| Central overheads                     | -             | (23.5)   | (1.6)   | (25.1)  | (5.6)                         | (30.7)                           |
| Group                                 | 315.6         | 99.2   | (19.0)  | 80.2  | (13.9)                        | 66.3                             |
| Finance costs                         |               |  |   | (26.0)  | -                             | (26.0)                           |
| Finance income                        |               |  |   | 0.2   | -                             | 0.2                              |
| Profit before tax                     |               |  |   | 54.4  | (13.9)                        | 40.5                             |
| Taxation                              |               |  |   | (11.5)  | 2.5                           | (9.0)                            |
| Underlying earnings for the period    |               |  |   | 42.9  |                               |                                  |
| Non-underlying items                  |               |  |   |   | (11.4)                        |                                  |
| Profit after taxation                 |               |  |   |   |                               | 31.5                             |

#### Earnings per share for profit attributable to equity shareholders

|                   |       |       |
|-------------------|-------|-------|
| - Basic (pence)   | 85.8p | 63.0p |
| - Diluted (pence) |       | 63.0p |

| 52 week period ended 29 December 2017 | Revenue<br>£m | Underlying<br>operating profit/<br>(loss) before<br>depreciation and<br>amortisation<br>£m | Underlying<br>depreciation<br>and<br>amortisation<br>£m | Underlying<br>operating profit/<br>(loss)<br>£m | Non-underlying<br>items<br>£m | Operating<br>profit/(loss)<br>£m |
|---------------------------------------|---------------|--|---|---|-------------------------------|----------------------------------|
| Funeral services                      | 221.8         | 91.7   | (12.2)  | 79.5  | (2.5)                         | 77.0                             |
| Crematoria                            | 74.0          | 43.9   | (3.9)   | 40.0  | (1.8)                         | 38.2                             |
| Pre-arranged funeral plans            | 28.2          | 8.0  | -   | 8.0   | (0.2)                         | 7.8                              |
| Central overheads                     | -             | (21.9)   | (1.0)   | (22.9)  | (2.1)                         | (25.0)                           |
| Group                                 | 324.0         | 121.7  | (17.1)  | 104.6   | (6.6)                         | 98.0                             |
| Finance costs                         |               |  |   | (26.9)  | -                             | (26.9)                           |
| Finance income                        |               |  |   | 0.1   | -                             | 0.1                              |
| Profit before tax                     |               |  |   | 77.8  | (6.6)                         | 71.2                             |
| Taxation                              |               |  |   | (13.8)  | 0.4                           | (13.4)                           |
| Underlying earnings for the period    |               |  |   | 64.0  |                               |                                  |
| Non-underlying items                  |               |  |   |   | (6.2)                         |                                  |
| Profit after taxation                 |               |  |   |   |                               | 57.8                             |

#### Earnings per share for profit attributable to equity shareholders

|                   |        |        |
|-------------------|--------|--------|
| - Basic (pence)   | 128.3p | 115.8p |
| - Diluted (pence) |        | 115.6p |

## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 4 Net finance costs

|  | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|--|--|--|
| <b>Finance costs</b>   |  |  |
| Secured Notes  | 24.1   | 24.4   |
| Amortisation of issue costs                                  | –  | 0.1  |
| Crematoria Acquisition Facility                              | –  | 0.4  |
| Other loans  | 1.2  | 1.3  |
| Net finance cost on retirement benefit obligations (note 28) | 0.6  | 0.6  |
| Unwinding of discounts                                       | 0.1  | 0.1  |
| <b>Finance costs</b>   | <b>26.0</b>  | <b>26.9</b>  |
| <b>Finance income</b>  |  |  |
| Bank deposits  | (0.2)  | (0.1)  |
| <b>Finance income</b>  | <b>(0.2)</b>   | <b>(0.1)</b>   |
| <b>Net finance costs</b>                                     | <b>25.8</b>  | <b>26.8</b>  |

### 5 Profit before tax

|  | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|--|--|--|
| <b>Analysis by nature</b>  |  |  |
| The following items have been included in arriving at profit before tax:                                     |  |  |
| Staff costs (note 27)  | 107.2  | 102.7  |
| Cost of inventories recognised as an expense (included in cost of sales)                                     | 17.5   | 16.7   |
| Depreciation of property, plant and equipment – owned assets (note 10)                                       | 18.7   | 17.0   |
| Amortisation of intangible assets (included in administrative expenses) (note 9)                             | 5.1  | 1.9  |
| Operating lease rentals – property   | 12.5   | 12.0   |
| Trade receivables impairment (included in administrative expenses) (note 21(c))                              | 2.7  | 1.4  |
| Transformation Plan costs <sup>(1)</sup>   | 2.7  | –  |
| External transaction costs (included in administrative expenses) <sup>(1)</sup>                              | 0.8  | 4.7  |
| Operational review and competition review costs <sup>(1)</sup>   | 2.7  | –  |
| GMP past service cost (note 28) <sup>(1)</sup>   | 1.4  | –  |
| Trade name write-off (note 9) <sup>(1)</sup>   | 1.1  | –  |
| Loss on sale of fixed assets <sup>(1)</sup>  | 0.3  | 0.1  |
| <b>Services provided by the Group's auditors and its associates:</b>   |  |  |
| Fees payable to the Company's auditors for the audit of parent company and consolidated financial statements | 0.1  | 0.1  |
| Fees payable to the Company's auditors and its associates for other services:                                |  |  |
| – The audit of Company's subsidiaries  | 0.2  | 0.2  |
| – Tax advisory services  | –  | –  |
| – Other advisory services  | –  | –  |
|  | <b>0.3</b>   | <b>0.3</b>   |

(1) Please see the Alternative performance measures on pages 151 to 153 for further details.

During 2018, the Group paid £45,000 of fees to the Group's auditor, in addition to the amounts given above, in connection with non-audit services, which are specifically audit related assurance services. See the Audit Committee Report for further details.



## 6 Taxation

|   | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|---|--|--|
| <b>Analysis of charge in the period</b> |  |  |
| Current tax – current period            | 9.6  | 13.3   |
| Adjustments for prior period            | 0.3  | (0.7)  |
| Total corporation tax                   | 9.9  | 12.6   |
| Deferred tax – current period           | (0.8)  | 2.1  |
| Adjustments for prior period            | (0.1)  | (1.3)  |
| Total deferred tax                      | (0.9)  | 0.8  |
| Taxation                                | 9.0  | 13.4   |

|  | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|--|--|--|
| <b>Tax on items (credited)/charged to other comprehensive income or equity</b>         |  |  |
| Deferred tax (credit)/charge on remeasurement losses on retirement benefit obligations | (0.1)  | 0.3  |
| Deferred tax charge relating to maturity of option schemes                             | –  | 0.4  |
| Total deferred tax (credited)/charged to other comprehensive income or equity          | (0.1)  | 0.7  |
| Corporation tax charge relating to retirement benefit obligations                      | –  | 0.2  |
| Corporation tax credit relating to maturity of option schemes                          | –  | (0.5)  |
| Total corporation tax credited to other comprehensive income or equity                 | –  | (0.3)  |

The taxation charge in the period is higher (2017: lower) than the standard rate of corporation tax in the UK of 19.00 per cent (2017: 19.25 per cent). The differences are explained below:

|  | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|--|--|--|
| Profit before taxation   | 40.5   | 71.2   |
| Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%) | 7.7  | 13.7   |
| Effects of:  |  |  |
| Adjustments in respect of prior period   | 0.2  | (2.0)  |
| Expenses not deductible for tax purposes   | 1.1  | 1.7  |
| Total taxation   | 9.0  | 13.4   |

Under IFRS the tax rate is higher (2017: lower) than the standard UK tax rate of 19.0 per cent (2017: 19.25 per cent) principally due to the non-deductible expenses and prior period adjustments (2017: adjustments in respect of the prior period offset by non-deductible expenses). See Financial Review for further details. The Group's effective tax rate on underlying profits in the period was 21.2 per cent (2017: 17.7 per cent). The current period underlying effective tax rate is higher due to the effects of prior year items, option schemes and permanent disallowables, with a tax impact totalling £1.4 million. The Group expects its future effective tax rate to be approximately one and a half to two per cent above the headline rate of corporation tax. This translates to an underlying effective rate for 2019 of between 20.5 per cent and 21.0 per cent, between 19.0 per cent and 19.5 per cent in 2020 and between 18.5 per cent and 19.0 per cent in 2021. The Group does not have any provisions for uncertain tax positions.

## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 7 Dividends

|   | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|---|--|--|
| Final dividend paid: 15.74p per Ordinary Share (2017: 15.74p) | 7.9  | 7.9  |
| Interim dividend paid: 8.64p per Ordinary Share (2017: 8.64p) | 4.3  | 4.3  |
| <b>Dividend on Ordinary Shares</b>                            | <b>12.2</b>  | <b>12.2</b>  |

The interim dividend represents the interim dividend that was approved and paid in the period out of earnings generated in the same period.

The final dividend represents the final dividend that was approved and paid in the period relating to the earnings generated in the previous period.

Consequently, total dividends recognised in the period were £12.2 million, 24.38 pence per share (2017: £12.2 million, 24.38 pence per share).

A final dividend of 15.74 pence per share, in respect of 2018, has been proposed by the Board. Based on the number of shares in issue at the date of signing this report the total final dividend payment is approximately £7.9 million. This will be paid on 28 June 2019 provided that approval is gained from shareholders at the Annual General Meeting on 13 June 2019 and will be paid to shareholders on the register at close of business on 17 May 2019.

### 8 Earnings per share

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

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

The Group has two classes of potentially dilutive Ordinary Shares being those share options granted to employees under the Group's SAYE Scheme and the contingently issuable shares under the Group's LTIP Schemes. At the balance sheet date, the performance criteria for the vesting of the awards under the LTIP Schemes, including any deferred annual bonus, are assessed, as required by IAS 33, and to the extent that the performance criteria have been met those contingently issuable shares are included within the diluted EPS calculations.

The Group's underlying measures of profitability exclude non-underlying items as set out on page 151. These items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day-to-day management of the business and allow for greater comparability across periods.

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

## 8 Earnings per share (continued)

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

|   | Earnings<br>£m | Weighted<br>average<br>number of<br>shares<br>millions | Per share<br>amount<br>pence |
|---|----------------|--|------------------------------|
| <b>52 week period ended 28 December 2018</b>                |                |  |                              |
| <b>Underlying profit after taxation and EPS</b>             | <b>42.9</b>    | <b>50.0</b>  | <b>85.8</b>                  |
| Add: Non-underlying items (net of taxation of £2.5 million) | (11.4)         |  |                              |
| <b>Profit attributable to shareholders – Basic EPS</b>      | <b>31.5</b>    | <b>50.0</b>  | <b>63.0</b>                  |
| <b>Profit attributable to shareholders – Diluted EPS</b>    | <b>31.5</b>    | <b>50.0</b>  | <b>63.0</b>                  |
| <b>52 week period ended 29 December 2017</b>                |                |  |                              |
| Underlying profit after taxation and EPS                    | 64.0           | 49.9   | 128.3                        |
| Add: Non-underlying items (net of taxation of £0.4 million) | (6.2)          |  |                              |
| Profit attributable to shareholders – Basic EPS             | 57.8           | 49.9   | 115.8                        |
| Profit attributable to shareholders – Diluted EPS           | 57.8           | 50.0   | 115.6                        |

## 9 Goodwill and other intangible assets

|   | Trade<br>names <sup>(1)</sup><br>£m | Use of third<br>party brand<br>name<br>£m | Other <sup>(2)</sup><br>£m | Software<br>£m | Non-<br>complete<br>agreements<br>£m | Sub-total<br>£m | Goodwill<br>£m | Total<br>£m  |
|---|-------------------------------------|---|----------------------------|----------------|--------------------------------------|-----------------|----------------|--------------|
| <b>Cost</b>   |                                     |   |                            |                |                                      |                 |                |              |
| At 30 December 2016   | 134.5                               | 3.2                                       | 4.7                        | 4.6            | 0.2                                  | 147.2           | 215.9          | 363.1        |
| Acquisition of subsidiaries and other businesses              | 17.9                                | –   | –                          | –              | –                                    | 17.9            | 10.2           | 28.1         |
| Additions   | –                                   | –   | –                          | 1.2            | –                                    | 1.2             | –              | 1.2          |
| Disposal  | –                                   | –   | –                          | (3.3)          | –                                    | (3.3)           | –              | (3.3)        |
| At 29 December 2017   | 152.4                               | 3.2                                       | 4.7                        | 2.5            | 0.2                                  | 163.0           | 226.1          | 389.1        |
| Acquisition of subsidiaries and other businesses (note 26(a)) | 2.8                                 | –   | –                          | –              | –                                    | 2.8             | 3.4            | 6.2          |
| Adjustment to 2017 acquisitions (note 26(a))                  | (3.7)                               | –   | –                          | –              | –                                    | (3.7)           | 3.1            | (0.6)        |
| Additions   | –                                   | –   | –                          | –              | –                                    | –               | –              | –            |
| Trade name write-off <sup>(3)</sup>                           | (1.1)                               | –   | –                          | –              | –                                    | (1.1)           | –              | (1.1)        |
| <b>At 28 December 2018</b>                                    | <b>150.4</b>                        | <b>3.2</b>                                | <b>4.7</b>                 | <b>2.5</b>     | <b>0.2</b>                           | <b>161.0</b>    | <b>232.6</b>   | <b>393.6</b> |
| <b>Accumulated amortisation</b>                               |                                     |   |                            |                |                                      |                 |                |              |
| At 30 December 2016   | –                                   | (1.4)                                     | –                          | (3.4)          | (0.2)                                | (5.0)           | –              | (5.0)        |
| Amortisation charge   | (1.1)                               | (0.2)                                     | (0.5)                      | (0.1)          | –                                    | (1.9)           | –              | (1.9)        |
| Disposal  | –                                   | –   | –                          | 3.3            | –                                    | 3.3             | –              | 3.3          |
| At 29 December 2017   | (1.1)                               | (1.6)                                     | (0.5)                      | (0.2)          | (0.2)                                | (3.6)           | –              | (3.6)        |
| Amortisation charge   | (4.3)                               | (0.1)                                     | (0.4)                      | (0.3)          | –                                    | (5.1)           | –              | (5.1)        |
| <b>At 28 December 2018</b>                                    | <b>(5.4)</b>                        | <b>(1.7)</b>                              | <b>(0.9)</b>               | <b>(0.5)</b>   | <b>(0.2)</b>                         | <b>(8.7)</b>    | <b>–</b>       | <b>(8.7)</b> |
| <b>Net book amount at 28 December 2018</b>                    | <b>145.0</b>                        | <b>1.5</b>                                | <b>3.8</b>                 | <b>2.0</b>     | <b>–</b>                             | <b>152.3</b>    | <b>232.6</b>   | <b>384.9</b> |
| Net book amount at 29 December 2017                           | 151.3                               | 1.6                                       | 4.2                        | 2.3            | –                                    | 159.4           | 226.1          | 385.5        |
| Net book amount at 30 December 2016                           | 134.5                               | 1.8                                       | 4.7                        | 1.2            | –                                    | 142.2           | 215.9          | 358.1        |

- (1) Trade names arise on the acquisitions of funeral businesses and their fair value is calculated by reference to the estimated incremental cash flows expected to arise by virtue of the trade name being well-established. There are no individually material trade names that amount to 5 per cent or more of the total net book value.
- (2) As part of the Crematoria Acquisition in 2016, the Group acquired interests in two crematoria subject to finite periods of operation (by way of lease and/ or service concession). The fair value of these interests has been identified and recognised as a separate intangible asset. The value of each interest will be amortised over the remaining period of operation.
- (3) During the period, the Group closed the last location trading under a particular trading name. As this trading name had specific intangible assets related to it, they were required to be written-off.



## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 9 Goodwill and other intangible assets (continued)

#### Impairment tests for goodwill and trade names

As described in note 1, goodwill is subject to an annual impairment test in accordance with IAS 36, Impairment of Assets. For the purpose of this impairment test goodwill is tested at a business segment level as this is the level at which the return on assets acquired, including goodwill, is monitored.

The segmental allocation of goodwill is shown below:

|                            | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|----------------------------|---------------------------|---------------------------|
| Funeral services           | 172.1                     | 165.6                     |
| Crematoria                 | 55.8                      | 55.8                      |
| Pre-arranged funeral plans | 4.7                       | 4.7                       |
|                            | <b>232.6</b>              | <b>226.1</b>              |

The recoverable amount of each segment is based on a value-in-use calculation.

The value-in-use calculations use cash flow projections based upon the latest annual budget approved by the Board. Key assumptions used to produce the annual budget are the estimated UK death rates (based on historical death rates supplied by ONS), anticipated market share, mix and pricing. Cash flows for all segments beyond the initial 12 month period are extrapolated using a growth rate of 2.25 per cent (2017: 2.25 per cent), being an estimate of long-term growth rates for impairment review purposes only, which reflects the expectations of long-term inflation and death rates. The cash flows for each segment are discounted at a pre-tax rate of 10.25 per cent (2017: 8.5 per cent).

In respect of goodwill other than in respect of the funeral services division the Directors do not consider that a reasonably possible change in the assumptions used to calculate the value-in-use of the segment would result in any impairment of goodwill. The headroom for the funeral services division impairment test under the current assumptions used is £136.5 million (2017: £123.0 million). The discount rate would need to rise to 12.8 per cent (2017: 10.3 per cent), or the long-term growth rate would need to fall to (0.3) per cent (2017: 0.4 per cent) for the impairment test to result in £nil headroom for this segment.

On the basis of the above, the review indicated that no impairment arose in any segment (2017: £nil).

In addition to the Group's annual goodwill impairment test, given the changes in the funeral market and an increase in the discount rate to be applied in determining value-in-use, an impairment test was performed in respect of the Group's trade name intangibles assets in accordance with the requirements of IAS 36. The performance of this impairment test, which was based on the same cash flow projections and key assumptions as the goodwill impairment test set out above, indicated that no impairment arose in respect of any of the Group's trade name intangible assets.

## 10 Property, plant and equipment

|   | Freehold<br>land and<br>buildings<br>£m | Leasehold<br>buildings<br>£m | Plant,<br>machinery,<br>fixtures and<br>fittings<br>£m | Motor<br>vehicles<br>£m | Work<br>in progress<br>£m | Total<br>£m    |
|---|---|------------------------------|--|-------------------------|---------------------------|----------------|
| <b>Cost</b>   |   |                              |  |                         |                           |                |
| At 30 December 2016   | 157.6                                   | 50.6                         | 44.1   | 74.6                    | 9.0                       | 335.9          |
| Additions   | 3.7                                     | 1.2                          | 3.4  | 7.0                     | 10.9                      | 26.2           |
| Acquisition of subsidiaries and other businesses              | 3.1                                     | –                            | 0.2  | 0.8                     | –                         | 4.1            |
| Disposals   | –                                       | –                            | (3.0)  | (3.4)                   | –                         | (6.4)          |
| Reclassification  | 4.0                                     | 4.0                          | 3.4  | 0.5                     | (11.9)                    | –              |
| At 29 December 2017   | 168.4                                   | 55.8                         | 48.1   | 79.5                    | 8.0                       | 359.8          |
| Additions   | 4.9                                     | 0.9                          | 2.1  | 6.1                     | 11.4                      | 25.4           |
| Acquisition of subsidiaries and other businesses (note 26(a)) | –                                       | –                            | –  | 0.2                     | –                         | 0.2            |
| Disposals   | (3.1)                                   | (3.1)                        | –  | (4.3)                   | –                         | (10.5)         |
| Reclassification  | 8.5                                     | 4.3                          | 3.6  | 0.1                     | (16.5)                    | –              |
| <b>At 28 December 2018</b>                                    | <b>178.7</b>                            | <b>57.9</b>                  | <b>53.8</b>  | <b>81.6</b>             | <b>2.9</b>                | <b>374.9</b>   |
| <b>Accumulated depreciation</b>                               |   |                              |  |                         |                           |                |
| At 30 December 2016   | (26.4)                                  | (16.8)                       | (23.9)   | (33.4)                  | –                         | (100.5)        |
| Depreciation charge   | (4.0)                                   | (2.4)                        | (4.2)  | (6.4)                   | –                         | (17.0)         |
| Disposals   | –                                       | –                            | 3.0  | 2.7                     | –                         | 5.7            |
| At 29 December 2017   | (30.4)                                  | (19.2)                       | (25.1)   | (37.1)                  | –                         | (111.8)        |
| Depreciation charge   | (4.9)                                   | (2.8)                        | (4.3)  | (6.7)                   | –                         | (18.7)         |
| Disposals   | 3.1                                     | 3.1                          | –  | 3.5                     | –                         | 9.7            |
| <b>At 28 December 2018</b>                                    | <b>(32.2)</b>                           | <b>(18.9)</b>                | <b>(29.4)</b>  | <b>(40.3)</b>           | <b>–</b>                  | <b>(120.8)</b> |
| <b>Net book amount at 28 December 2018</b>                    | <b>146.5</b>                            | <b>39.0</b>                  | <b>24.4</b>  | <b>41.3</b>             | <b>2.9</b>                | <b>254.1</b>   |
| Net book amount at 29 December 2017                           | 138.0                                   | 36.6                         | 23.0   | 42.4                    | 8.0                       | 248.0          |
| Net book amount at 30 December 2016                           | 131.2                                   | 33.8                         | 20.2   | 41.2                    | 9.0                       | 235.4          |

Depreciation expense of £7.8 million (2017: £6.4 million) is included within cost of sales and £10.9 million (2017: £10.6 million) is included within administrative expenses.

Details of any security over assets are disclosed in note 30.

Additional headings have been included in the consolidated statement of cash flows for property, plant and equipment in order to provide additional information on the different types of expenditure that the Group has incurred during the year.

Assets held under finance leases, which relate solely to leasehold land and buildings, have the following net book amount:

|                          | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|--------------------------|---------------------------|---------------------------|
| Cost                     | 1.0                       | 1.0                       |
| Accumulated depreciation | (0.3)                     | (0.3)                     |
| Net book amount          | 0.7                       | 0.7                       |

The Group had capital expenditure authorised by the Board and contracted for at the balance sheet date of £17.3 million (2017: £11.7 million) in respect of property, plant and equipment and intangible assets.

## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 11 Investments in associated undertakings

In August 2018 and December 2018, the Group increased its investment in Funeral Zone Limited. As a result of the last investment, the Group has a 23.8 per cent investment. Funeral Zone Limited is a UK online funeral resource for funeral directors and clients and has been invested in for its intellectual property opportunities. Funeral Zone Limited is a private entity that is not listed on any public exchange. The registered office of Funeral Zone Limited is 5 Providence Court, Pynes Hill, Exeter, Devon, EX2 5JL.

The Group holds less than 2 per cent of the voting rights of Funeral Zone Limited but is deemed to have significant influence principally due to holding a right to appoint a board member who would hold a 25 per cent representation on the Board of Directors and therefore has the power to participate in the financial and operating policy decisions. The Group also hold a call option over a further 44.4 per cent of shares. These potential voting rights are not currently taken into consideration when assessing control as the call option is not considered to be substantive in nature at this time, due to the exercise price of the option. The option is considered to have a £nil million fair value at 28 December 2018 for the same reason.

The following table illustrates the summarised financial information of the Group's investment in Funeral Zone Limited. No comparative information is provided as the investment was previously classified as an investment in financial asset. See note 12c.

|  | 28 December<br>2018<br>£m |
|--|---------------------------|
| Current assets                               | 4.9                       |
| Non-current assets                           | 0.1                       |
| Current liabilities                          | (0.2)                     |
| <b>Equity</b>                                | <b>4.8</b>                |
| Group's share in equity – 23.8%              | 1.1                       |
| Goodwill                                     | 4.9                       |
| <b>Group's carrying amount of investment</b> | <b>6.0</b>                |

An adjustment of £0.1 million has been included in the above reconciliation reflecting differences in accounting policies.

Funeral Zone Limited had revenue of £3,000 and a total loss for the period since acquisition of £177,000. The Group's share of loss for the period therefore amounted to £42,000 which has not been shown on the face of the Group's consolidated income statement.

The Group has considered whether there are any triggers for impairment on the carrying value of the investment as at 28 December 2018 and none have been noted. See note 1 on critical accounting estimates for more information.

The associate had no contingent liabilities or capital commitments as at 28 December 2018.

### 12 Non-current financial and other assets

|                               | Note | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|-------------------------------|------|---------------------------|---------------------------|
| Prepayments                   | (a)  | 7.3                       | 7.3                       |
| Deferred commissions          | (b)  | 8.4                       | 6.0                       |
| Investment in financial asset | (c)  | –                         | 1.0                       |
|                               |      | <b>15.7</b>               | <b>14.3</b>               |

#### (a) Prepayments

This balance represents the amounts paid to acquire the long leasehold interest in land at certain of the Group's properties. Management consider that leases greater than 50 years at inception are long leases. The balance is expensed on a straight line basis over the term of the relevant lease. The leases expire at various times over the next 30 to 125 years.

#### (b) Deferred commissions

The Group is the named beneficiary on a number of life assurance products sold by third party insurance companies, in consideration for which the Group has committed to performing the funeral (including some disbursements) of the plan holder at a discount to its rates prevailing at the time of death.

#### (c) Investment in financial asset

At the end of the period, the Group held an investment of £nil million (2017: £1.0 million) in a non-controlling interest in a business. An additional investment of £0.5 million was made in August 2018 and the fair value was deemed to be cost. Following a further investment of £4.5 million in December 2018 it was concluded that the Group had significant influence over the investment and this has now been accounted for and reclassified as investments in associated undertakings. See note 11.



### 13 Inventories

|                | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|----------------|---------------------------|---------------------------|
| Materials      | 0.5                       | 0.3                       |
| Finished goods | 8.0                       | 7.0                       |
|                | 8.5                       | 7.3                       |

There were no inventory write-downs in either period.

### 14 Trade and other receivables

|  | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|--|---------------------------|---------------------------|
| Trade receivables  | 21.6                      | 26.1                      |
| Less: provision for impairment (note 21(c))                                    | (6.9)                     | (6.2)                     |
| Net trade receivables  | 14.7                      | 19.9                      |
| Receivables due from pre-arranged funeral plan trusts (note 29) <sup>(1)</sup> | 11.9                      | 12.1                      |
| Prepayments and accrued income   | 5.0                       | 4.5                       |
| Other receivables  | 1.3                       | 1.8                       |
|  | 32.9                      | 38.3                      |

(1) Included in this amount is approximately £3.4 million (2017: £2.8 million) falling due after more than one year.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Due to this, management believes there is no further credit risk provision required in excess of normal provision for doubtful recoverables. For further details of the trade receivables past due and impaired refer to note 21(c).

Due to the short-term nature of these balances, the carrying value is considered to be their fair value.

### 15 Cash and cash equivalents

|  | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|--|---------------------------|---------------------------|
| <b>Operating cash as reported in the consolidated statement of cash flows as cash and cash equivalents</b> | <b>50.0</b>               | 49.0                      |
| Amounts set aside for debt service payments  | 16.9                      | 0.3                       |
| <b>Cash and cash equivalents as reported in the balance sheet</b>  | <b>66.9</b>               | 49.3                      |

#### Amounts set aside for debt service payments

This amount was transferred to restricted bank accounts which could only be used for the payment of the interest and principal on the Secured Notes, the repayment of liabilities due on the Group's commitment fees due on its undrawn borrowing facilities (see note 21(d)) and for no other purpose. Consequently, this amount did not meet the definition of cash and cash equivalents in IAS 7, Statement of Cash Flows. This amount was used to pay these respective parties on 31 December 2018. Of this amount, £12.3 million (2017: £0.3 million) is shown within the Statement of Cash Flows as 'Payments to restricted bank accounts for finance costs' and £4.6 million (2017: £nil million) is shown within 'Financing activities' as 'Payments to restricted bank accounts for repayment of borrowings'.

## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 16 Financial liabilities

|                           | Note | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|---------------------------|------|---------------------------|---------------------------|
| <b>Current</b>            |      |                           |                           |
| Secured A Notes           | (a)  | 9.3                       | 4.5                       |
|                           | (c)  | 9.3                       | 4.5                       |
| <b>Non-current</b>        |      |                           |                           |
| Secured Notes             | (a)  | 551.3                     | 560.6                     |
| Finance lease obligations | (b)  | 0.6                       | 0.6                       |
|                           |      | <b>551.9</b>              | <b>561.2</b>              |

#### (a) Secured Notes

On 17 October 2014, Dignity Finance PLC issued the Secured Notes. Interest is payable on the Secured Notes on 30 June and 31 December of each year.

Transaction costs of £0.3 million and £0.4 million were incurred directly relating to the issue of the Secured A Notes and the Secured B Notes respectively. At 28 December 2018, £0.2 million (2017: £0.2 million) and £0.4 million (2017: £0.4 million) of the transaction costs in respect of the Secured A Notes and the Secured B Notes respectively remain unamortised.

For further details of security over the Secured Notes see note 30(a).

The amortisation profile of the Secured Notes is as follows:

#### Secured A Notes

|          | 2019<br>£m | 2020<br>£m | 2021<br>£m | 2022<br>£m | 2023<br>£m | 2024<br>£m | 2025<br>£m | 2026<br>£m | 2027<br>£m | 2028<br>£m | 2029<br>£m  |
|----------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| June     | 4.7        | 4.9        | 5.1        | 5.2        | 5.4        | 5.6        | 5.8        | 6.0        | 6.2        | 6.4        | 6.7         |
| December | 4.8        | 4.9        | 5.1        | 5.3        | 5.5        | 5.7        | 5.9        | 6.1        | 6.4        | 6.6        | 6.8         |
| Total    | 9.5        | 9.8        | 10.2       | 10.5       | 10.9       | 11.3       | 11.7       | 12.1       | 12.6       | 13.0       | 13.5        |
|          |            |            |            |            |            | 2030<br>£m | 2031<br>£m | 2032<br>£m | 2033<br>£m | 2034<br>£m | Total<br>£m |
| June     |            |            |            |            |            | 6.9        | 7.2        | 7.4        | 7.7        | 7.9        | 99.1        |
| December |            |            |            |            |            | 7.1        | 7.3        | 7.6        | 7.8        | 8.1        | 101.0       |
| Total    |            |            |            |            |            | 14.0       | 14.5       | 15.0       | 15.5       | 16.0       | 200.1       |

#### Secured B Notes

|          | 2035<br>£m | 2036<br>£m | 2037<br>£m | 2038<br>£m | 2039<br>£m | 2040<br>£m | 2041<br>£m | 2042<br>£m | 2043<br>£m | 2044<br>£m | 2045<br>£m  |
|----------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| June     | 8.4        | 8.7        | 9.1        | 9.6        | 10.0       | 10.5       | 11.0       | 11.5       | 12.1       | 12.6       | 13.2        |
| December | 8.5        | 9.0        | 9.4        | 9.8        | 10.3       | 10.8       | 11.3       | 11.8       | 12.3       | 12.9       | 13.5        |
| Total    | 16.9       | 17.7       | 18.5       | 19.4       | 20.3       | 21.3       | 22.3       | 23.3       | 24.4       | 25.5       | 26.7        |
|          |            |            |            |            |            |            | 2046<br>£m | 2047<br>£m | 2048<br>£m | 2049<br>£m | Total<br>£m |
| June     |            |            |            |            |            |            | 13.8       | 14.5       | 15.2       | 15.9       | 176.1       |
| December |            |            |            |            |            |            | 14.2       | 14.8       | 15.5       | 16.2       | 180.3       |
| Total    |            |            |            |            |            |            | 28.0       | 29.3       | 30.7       | 32.1       | 356.4       |

**16 Financial liabilities (continued)****(b) Obligations under finance leases**

|   | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|---|---------------------------|---------------------------|
| Obligations under finance leases and hire purchase payable: |                           |                           |
| Within one year   | -                         | -                         |
| Between one and two years                                   | -                         | -                         |
| Between two and five years                                  | 0.2                       | 0.2                       |
| After five years  | 0.4                       | 0.4                       |
|   | <b>0.6</b>                | <b>0.6</b>                |

The finance leases and hire purchase liabilities are secured on the related assets.

**(c) Current financial liabilities**

The current financial liabilities represent the amounts falling due within one year of the Group's balance sheet date.

**(d) Changes in liabilities arising from financing activities**

|  | 29 December<br>2017<br>£m | Cash flow<br>£m | Other<br>£m | 28 December<br>2018<br>£m |
|--|---------------------------|-----------------|-------------|---------------------------|
| <b>Current</b>                                     |                           |                 |             |                           |
| Secured Notes                                      | 4.5                       | -               | 4.8         | 9.3                       |
| <b>Non-current</b>                                 |                           |                 |             |                           |
| Secured Notes                                      | 560.6                     | (4.5)           | (4.8)       | 551.3                     |
| Finance lease obligations                          | 0.6                       | -               | -           | 0.6                       |
| <b>Total liabilities from financing activities</b> | <b>565.7</b>              | <b>(4.5)</b>    | <b>-</b>    | <b>561.2</b>              |

|  | 30 December<br>2016<br>£m | Cash flow<br>£m | Other<br>£m | 29 December<br>2017<br>£m |
|--|---------------------------|-----------------|-------------|---------------------------|
| <b>Current</b>                                     |                           |                 |             |                           |
| Secured Notes                                      | 8.8                       | -               | (4.3)       | 4.5                       |
| <b>Non-current</b>                                 |                           |                 |             |                           |
| Secured Notes                                      | 565.1                     | (8.8)           | 4.3         | 560.6                     |
| Finance lease obligations                          | 0.6                       | -               | -           | 0.6                       |
| Crematoria Acquisition Facility                    | 15.8                      | (15.8)          | -           | -                         |
| <b>Total liabilities from financing activities</b> | <b>590.3</b>              | <b>(24.6)</b>   | <b>-</b>    | <b>565.7</b>              |

The 'other' column includes the effect of reclassification of the non-current portion of Secured Notes and finance lease obligations to current due to the passage of time and the effect of not yet paid interest on the secured notes. The Group classifies interest paid as cash flows from operating activities.



## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 17 Trade and other payables

|   | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|---|---------------------------|---------------------------|
| <b>Current</b>                          |                           |                           |
| Trade payables                          | 8.3                       | 7.6                       |
| Tax and social security                 | 3.1                       | 2.7                       |
| Other current liabilities               | 2.1                       | 1.9                       |
| Accruals                                | 48.9                      | 37.5                      |
| Deferred income                         | 6.5                       | 8.1                       |
|   | <b>68.9</b>               | <b>57.8</b>               |
| <b>Non-current</b>                      |                           |                           |
| Deferred income                         | 0.7                       | 0.8                       |
| Deferred consideration for acquisitions | 0.1                       | 0.1                       |
| Other non-current liabilities           | 1.3                       | 1.4                       |
|   | <b>2.1</b>                | <b>2.3</b>                |

Accruals includes interest, payroll and trade accruals.

### 18 Obligations under finance leases and operating leases

For minimum lease payments obligations under finance leases refer to note 21(d)(ii).

The minimum lease payments under non-cancellable operating leases fall due as follows:

|  | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|--|---------------------------|---------------------------|
| Not later than one year                          | 13.6                      | 12.7                      |
| Later than one year but not more than five years | 41.8                      | 38.5                      |
| More than five years                             | 164.0                     | 161.8                     |
|  | <b>219.4</b>              | <b>213.0</b>              |

The non-cancellable operating leases principally relate to leasehold land and buildings.

Sublease payments received in the period amount to £0.4 million (2017: £0.5 million). Total future sublease payments receivable relating to operating leases amount to £0.5 million (2017: £0.5 million).

In addition, the Group has operating lease commitments with rentals determined in relation to revenues. No operating lease commitment disclosures are required for these arrangements, as future lease payments represent contingent rental payments. The rental expense in respect of contingent rentals was £1.3 million (2017: £1.3 million).

## 19 Provisions for liabilities

|                                      | Dilapidations<br>£m<br>(a) | Onerous<br>contracts<br>£m<br>(b) | Cancellation<br>provision<br>£m<br>(c) | Total<br>£m |
|--------------------------------------|----------------------------|-----------------------------------|--|-------------|
| At beginning of period               | 8.9                        | 0.1                               | 1.0                                    | 10.0        |
| Charged to income statement          | 2.0                        | –                                 | 0.2                                    | 2.2         |
| Arising on acquisitions (note 26(a)) | 0.1                        | –                                 | –                                      | 0.1         |
| Released to income statement         | (0.1)                      | –                                 | –                                      | (0.1)       |
| Utilised in period                   | (0.3)                      | –                                 | (0.4)                                  | (0.7)       |
| Amortisation of discount             | 0.1                        | –                                 | –                                      | 0.1         |
| <b>At end of period</b>              | <b>10.7</b>                | <b>0.1</b>                        | <b>0.8</b>                             | <b>11.6</b> |

Provisions have been analysed between current and non-current as follows:

|             | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|-------------|---------------------------|---------------------------|
| Current     | 1.7                       | 1.5                       |
| Non-current | 9.9                       | 8.5                       |
|             | <b>11.6</b>               | <b>10.0</b>               |

### (a) Dilapidations

The provision for dilapidations covers the costs of repair to leased premises occupied by the Group in respect of 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, £1.4 million (2017: £1.2 million), will be utilised 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 property leases, the majority of which is expected to be by 31 December 2028.

### (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 by 2034.

### (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.

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 over the next five years.

## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 20 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17 per cent (2017: 17 per cent).

The movement on the deferred tax account is as shown below:

|   | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|---|---------------------------|---------------------------|
| At beginning of period                          | 30.3                      | 25.7                      |
| (Credited)/charged to income statement (note 6) | (0.9)                     | 0.8                       |
| Taken to other comprehensive income (note 6)    | (0.1)                     | 0.3                       |
| Taken to equity (note 6)                        | –                         | 0.4                       |
| Arising on acquisitions                         | (0.1)                     | 3.1                       |
| <b>At end of period</b>                         | <b>29.2</b>               | <b>30.3</b>               |

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below:

#### Deferred tax liabilities

|                                       | Accelerated tax<br>depreciation<br>£m | Trade names<br>£m | Other<br>£m | Total<br>£m |
|---------------------------------------|---------------------------------------|-------------------|-------------|-------------|
| At beginning of period                | 13.0                                  | 19.3              | 2.8         | 35.1        |
| Credited to income statement (note 6) | (0.3)                                 | (0.5)             | (0.1)       | (0.9)       |
| Arising on acquisitions               | –                                     | (0.1)             | –           | (0.1)       |
| <b>At end of period</b>               | <b>12.7</b>                           | <b>18.7</b>       | <b>2.7</b>  | <b>34.1</b> |

#### Deferred tax assets

|   | Pensions<br>£m | Other<br>£m  | Total<br>£m  |
|---|----------------|--------------|--------------|
| At beginning of period                          | (4.1)          | (0.7)        | (4.8)        |
| Charged/(credited) to income statement (note 6) | (0.3)          | 0.3          | –            |
| Taken to other comprehensive income             | (0.1)          | –            | (0.1)        |
| Taken to equity                                 | –              | –            | –            |
| <b>At end of period</b>                         | <b>(4.5)</b>   | <b>(0.4)</b> | <b>(4.9)</b> |

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision at 28 December 2018 was £29.2 million (2017: £30.3 million).

Other deferred tax liabilities includes capital gains rolled forward and deferred tax on software and leasehold land. Other deferred tax assets includes option schemes, long service awards and finance leases.

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

## 20 Deferred tax (continued)

The deferred income tax (credited)/charged to other comprehensive income or charged to equity during the period was as follows:

|  | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|--|--|--|
| Deferred tax (credit)/charge on remeasurement losses on retirement benefit obligations | (0.1)  | 0.3  |
| Total (credited)/charged to other comprehensive income                                 | (0.1)  | 0.3  |
| Deferred tax charge relating to maturity of option schemes                             | -  | 0.4  |
| Total charged to equity  | -  | 0.4  |

## 21 Financial instruments

### Fair values of non-derivative financial assets and financial liabilities

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at relevant interest rates.

Trade receivables are held net of provision for impairment.

#### Fair value estimation

IFRS 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

All assets and liabilities are held at amortised cost.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### (a) Fair value of current and non-current financial assets and liabilities

|  | 28 December 2018    |                  |                  | 29 December 2017    |                  |                  |
|--|---------------------|------------------|------------------|---------------------|------------------|------------------|
|  | Nominal value<br>£m | Book value<br>£m | Fair value<br>£m | Nominal value<br>£m | Book value<br>£m | Fair value<br>£m |
| Secured A Notes – 3.5456%<br>maturing 31 December 2034 | 204.8               | 204.6            | 214.8            | 209.3               | 209.1            | 234.9            |
| Secured B Notes – 4.6956%<br>maturing 31 December 2049 | 356.4               | 356.0            | 316.8            | 356.4               | 356.0            | 451.6            |
| Total  | 561.2               | 560.6            | 531.6            | 565.7               | 565.1            | 686.5            |

The Secured Notes are held at amortised cost. Other categories of financial instruments include trade receivables and trade payables, however there is no difference between the book value and fair value of these items.

The fair values of the Secured Notes are their market value at the balance sheet date and are considered to be level 1.

In addition to the above:

- Financial liabilities include finance lease payables of £0.6 million (2017: £0.6 million), which represent the present value of future minimum lease payments. At 28 December 2018 there is no difference between the nominal value, book value and fair value of this liability; and
- Financial assets include £nil (2017: £1.0 million) in respect of assets held at fair value. The underlying investment was accounted for as an asset available for sale in accordance with IAS 39 and was initially measured at the fair value of consideration paid with subsequent measurement based upon a level 3 fair value estimate. At 29 December 2017 there was no difference between the nominal value, book value and fair value of this asset.



## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 21 Financial instruments (continued)

#### (b) Maturity of financial liabilities

The tables below analyse the Group's financial liabilities, which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows, including interest costs yet to be incurred.

|                                   | 28 December 2018               |  |   |  |                                  |             |
|-----------------------------------|--------------------------------|--|---|--|----------------------------------|-------------|
|                                   | In less than<br>one year<br>£m | In more than<br>one year but<br>not more than<br>two years<br>£m | In more than<br>two years but<br>not more than<br>three years<br>£m | In more than<br>three years but<br>not more than<br>five years<br>£m | In more than<br>five years<br>£m | Total<br>£m |
| <b>Cash liabilities</b>           |                                |  |   |  |                                  |             |
| Secured Notes (gross)             | 9.3                            | 9.6  | 15.1  | 21.5   | 505.7                            | 561.2       |
| Interest payable on Secured Notes | 23.9                           | 23.5   | 34.7  | 45.0   | 360.4                            | 487.5       |
| Finance leases                    | 0.1                            | –  | –   | 0.1  | 2.4                              | 2.6         |
| <b>Debt repayments</b>            | 33.3                           | 33.1   | 49.8  | 66.6   | 868.5                            | 1,051.3     |
| Other financial liabilities       | 68.8                           | 0.4  | 0.4   | 0.7  | 0.4                              | 70.7        |
|                                   | 102.1                          | 33.5   | 50.2  | 67.3   | 868.9                            | 1,122.0     |

|                                   | 29 December 2017               |  |   |  |                                  |             |
|-----------------------------------|--------------------------------|--|---|--|----------------------------------|-------------|
|                                   | In less than<br>one year<br>£m | In more than<br>one year but<br>not more than<br>two years<br>£m | In more than<br>two years but<br>not more than<br>three years<br>£m | In more than<br>three years but<br>not more than<br>five years<br>£m | In more than<br>five years<br>£m | Total<br>£m |
| <b>Cash liabilities</b>           |                                |  |   |  |                                  |             |
| Secured Notes (gross)             | 4.5                            | 9.3  | 9.6   | 25.7   | 516.6                            | 565.7       |
| Interest payable on Secured Notes | 12.1                           | 23.9   | 23.5  | 57.4   | 382.7                            | 499.6       |
| Finance leases                    | –                              | 0.1  | –   | 0.1  | 2.5                              | 2.7         |
| <b>Debt repayments</b>            | 16.6                           | 33.3   | 33.1  | 83.2   | 901.8                            | 1,068.0     |
| Other financial liabilities       | 57.7                           | 0.4  | 0.4   | 0.8  | 0.4                              | 59.7        |
|                                   | 74.3                           | 33.7   | 33.5  | 84.0   | 902.2                            | 1,127.7     |

The amounts disclosed in the following tables represent the anticipated amortisation profile for the issue costs relating to the Group's financial liabilities.

**21 Financial instruments (continued)**

|                              | 28 December 2018               |  |   |  |                                  | Total<br>£m |
|------------------------------|--------------------------------|--|---|--|----------------------------------|-------------|
|                              | In less than<br>one year<br>£m | In more than<br>one year but<br>not more than<br>two years<br>£m | In more than<br>two years but<br>not more than<br>three years<br>£m | In more than<br>three years but<br>not more than<br>five years<br>£m | In more than<br>five years<br>£m |             |
| <b>Non-cash liabilities</b>  |                                |  |   |  |                                  |             |
| Issue costs on Secured Notes | -                              | -  | -   | -  | 0.6                              | 0.6         |
|                              | -                              | -  | -   | -  | 0.6                              | 0.6         |
|                              | 29 December 2017               |  |   |  |                                  | Total<br>£m |
|                              | In less than<br>one year<br>£m | In more than<br>one year but<br>not more than<br>two years<br>£m | In more than<br>two years but<br>not more than<br>three years<br>£m | In more than<br>three years but<br>not more than<br>five years<br>£m | In more than<br>five years<br>£m |             |
| <b>Non-cash liabilities</b>  |                                |  |   |  |                                  |             |
| Issue costs on Secured Notes | -                              | -  | -   | -  | 0.6                              | 0.6         |
|                              | -                              | -  | -   | -  | 0.6                              | 0.6         |

**(c) Trade receivables**

As at 28 December 2018, £11.2 million of the individual gross trade receivables (2017: £13.0 million) were past due and partially impaired. A provision for impairment is established based on historical experience. The amount of the provision, as at 28 December 2018, was £6.9 million (2017: £6.2 million). The individually impaired receivables principally relate to monies owing for funerals performed by the funeral services division. The ageing of these receivables is as follows:

|                   | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|-------------------|---------------------------|---------------------------|
| One to six months | 5.0                       | 6.3                       |
| Over six months   | 6.2                       | 6.7                       |
|                   | <b>11.2</b>               | <b>13.0</b>               |

The amount of gross trade receivables past due that were not impaired was not significant.

Movements on the Group's provision for impairment of trade receivables are as follows:

|                             | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|-----------------------------|---------------------------|---------------------------|
| At beginning of period      | (6.2)                     | (6.2)                     |
| Charged to income statement | (2.7)                     | (1.4)                     |
| Utilised in period          | 2.0                       | 1.4                       |
| At end of period            | <b>(6.9)</b>              | <b>(6.2)</b>              |

## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 21 Financial instruments (continued)

#### (d) Borrowing facilities

- (i) The Group has the following undrawn committed borrowing facilities available at 28 December 2018, all of which were at floating interest rates, in respect of which all conditions precedent had been met at that date:

|                                    | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|------------------------------------|---------------------------|---------------------------|
| Expiring within one year           | 5.0                       | –                         |
| Expiring between one and two years | –                         | 5.0                       |
| Expiring in more than two years    | 105.0                     | 105.0                     |
|                                    | <b>110.0</b>              | <b>110.0</b>              |

£55.0 million (2017: £55.0 million) of the undrawn facilities available to the Group is a liquidity facility relating to the Class A and B Secured Notes. This facility may only be used to repay interest and principal on the Secured Notes in the event of insufficient cash to service these instruments. The facility is subject to annual renewal. However, if the bank providing the facility does not renew it, then the provider is required to place £55.0 million (2017: £55.0 million) in a bank account, which the Group may access as if it represented a borrowing facility on the same terms. The facility is available on these terms until the Secured Notes have been repaid in full.

The Group has a £50 million Revolving Credit Facility ('RCF'), provided by the Royal Bank of Scotland, which is secured against certain trade and assets held by legal entities outside of the Group's securitisation structure.

The facility is available until July 2021, with the option to renew, subject to the bank's consent at the time, by a further year. The margin on the facility ranges from 150 to 225 basis points over LIBOR depending on the resulting gross leverage. This facility remains undrawn at the balance sheet date. Further details may be found in the Financial Review.

The remaining £5.0 million facility expires in October 2019. These facilities incur commitment fees at market rates.

- (ii) The minimum lease payments under finance leases fall due as follows:

|  | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|--|---------------------------|---------------------------|
| Not later than one year                          | 0.1                       | –                         |
| Later than one year but not more than five years | 0.1                       | 0.2                       |
| More than five years                             | 2.4                       | 2.5                       |
|  | <b>2.6</b>                | <b>2.7</b>                |
| Future finance costs on finance leases           | (2.0)                     | (2.1)                     |
| Present value of finance lease liabilities       | <b>0.6</b>                | <b>0.6</b>                |

### 22 Ordinary share capital

|   | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|---|---------------------------|---------------------------|
| <b>Allotted and fully paid Equity shares</b>  |                           |                           |
| 50,008,939 (2017: 49,931,901) Ordinary Shares of 12 48/143 pence (2017: 12 48/143 pence) each | <b>6.2</b>                | <b>6.2</b>                |

Each Ordinary Share carries equal voting rights and there are no restrictions on any share.

During the period, the Group received £nil consideration in relation to the 77,038 shares issued under the 2015 LTIP scheme and £nil million (2017: £0.1 million) consideration in relation to the nil (2017: 9,079) shares issued under the 2013 SAYE scheme.

#### Potential issues of Ordinary Shares

Certain employees hold options to subscribe for shares in the Company under an approved Save As You Earn ('SAYE') Scheme started in 2016. In addition, Executive Directors and senior management hold options to subscribe for shares in the Company under Long-Term Incentive Plans ('LTIPs'), including deferred annual bonus, awarded in 2016, 2017 and 2018.

## 22 Ordinary share capital (continued)

The total number of outstanding 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                | 2018 Number | 2017 Number | 2016 Number |
|---------------|------------------------|--------------------------------|-------------|-------------|-------------|
| 2016 – SAYE   | 2,706.00               | 1 December 2019 to 31 May 2020 | 79,708      | 113,221     | 137,563     |
| 2016 – LTIP   | –                      | 15 June 2019 to 15 June 2026   | 123,614     | 128,082     | 131,082     |
| 2017 – LTIP   | –                      | 16 March 2020 to 16 March 2027 | 122,767     | 133,942     | n/a         |
| 2018 – LTIP   | –                      | 23 March 2021 to 23 March 2028 | 146,157     | n/a         | n/a         |

## 23 Share-based payments

In respect of share-based payment arrangements, total charges to the income statement were £0.9 million (2017: £1.2 million). The Directors consider that these amounts are not material and hence further detailed disclosures have been omitted.

## 24 Net debt

|   | 28 December 2018<br>£m | 29 December 2017<br>£m |
|---|------------------------|------------------------|
| Net amounts owing on Secured Notes per financial statements                       | (560.6)                | (565.1)                |
| Add: unamortised issue costs (note 16(a))   | (0.6)                  | (0.6)                  |
| Gross amounts owing   | (561.2)                | (565.7)                |
| Accrued interest on Secured Notes   | (12.3)                 | (0.3)                  |
| Accrued interest on Crematoria Acquisition Facility and Revolving Credit Facility | (0.2)                  | (0.2)                  |
| Cash and cash equivalents (note 15)   | 66.9                   | 49.3                   |
| Net debt  | (506.8)                | (516.9)                |

In addition to the above, the consolidated balance sheet also includes finance lease obligations which totalled £0.6 million (2017: £0.6 million). These amounts do not represent sources of funding for the Group and are therefore excluded from the calculation of net debt.

The Group's primary financial covenant in respect of the Secured Notes requires EBITDA to total debt service ('EBITDA DSCR'), in the securitisation group, to be at least 1.5 times. At 28 December 2018, the actual ratio was 2.55 times (2017: 3.24 times).

These ratios are calculated for EBITDA and total debt service on a 12 month rolling basis and reported quarterly. In addition, both terms are specifically defined in the legal agreement relating to the Secured Notes. As such, they cannot be accurately calculated from the contents of this report.



## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 25 Reconciliation of cash generated from operations

|   | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|---|--|--|
| Net profit for the period                                 | 31.5   | 57.8   |
| Adjustments for:  |  |  |
| Taxation  | 9.0  | 13.4   |
| Net finance costs   | 25.8   | 26.8   |
| Loss on sale of fixed assets                              | 0.3  | 0.1  |
| Depreciation charges                                      | 18.7   | 17.0   |
| Amortisation of intangibles                               | 5.1  | 1.9  |
| Movement in inventories                                   | (1.2)  | (1.2)  |
| Movement in trade receivables                             | 5.5  | (0.1)  |
| Movement in trade payables                                | (1.0)  | 0.9  |
| Net pension charges less contribution                     | 0.6  | 1.2  |
| Trade name write-off                                      | 1.1  | –  |
| Changes in other working capital (excluding acquisitions) | (1.4)  | (6.5)  |
| Employee share option charges (note 23)                   | 0.9  | 1.2  |
| <b>Cash flows from operating activities</b>               | <b>94.9</b>  | <b>112.5</b>   |

#### Other non-cash transactions

Non-cash charges comprise of amortisation of deferred debt issue costs, as discussed in note 16(a).

### 26 Acquisitions

#### (a) Acquisition of subsidiary and other businesses

|   | Total<br>provisional<br>fair value<br>£m |
|---|--|
| Property, plant and equipment   | 0.2                                      |
| Intangible assets: trade names  | 2.8                                      |
| Cash acquired   | 0.1                                      |
| Receivables   | 0.4                                      |
| Provisions (note 19)  | (0.1)                                    |
| Other working capital   | (0.4)                                    |
| Deferred taxation   | (0.5)                                    |
| <b>Net assets acquired</b>  | <b>2.5</b>                               |
| Goodwill arising  | 3.4                                      |
|   | <b>5.9</b>                               |
| <b>Satisfied by:</b>  |  |
| Cash paid on completion (funded from internally generated cash flows) | 5.3                                      |
| Accrued consideration   | 0.1                                      |
| Adjustment to prior year consideration                                | 0.5                                      |
| <b>Total consideration</b>  | <b>5.9</b>                               |

The Group acquired four funeral locations, all of which occurred in the first half of 2018.

The residual excess of the consideration paid over the net assets acquired is recognised as goodwill, none of which is tax deductible. This goodwill represents future benefits to the Group in terms of revenue, market share and delivering the Group's strategy.

The fair values ascribed reflect provisional amounts, which will be finalised in 2019. These fair values reflect the recognition of trade names and associated deferred taxation, and adjustments to reflect the fair value of other working capital items such as receivables, inventories and accruals which are immaterial.

During 2018, the fair values ascribed to trade names that were acquired as part of 2017 acquisitions were revisited as permitted under IFRS 3. This has resulted in a reduction in the fair value ascribed to 2017 acquired trade names of £3.7 million, with a corresponding reduction in related deferred tax liabilities of £0.6 million and an increase in goodwill of £3.1 million.

Each acquisition made followed the Group's strategy in place at the time of acquisition to acquire such locations that will help the Group grow and create value for shareholders. Any share transaction acquires 100 per cent of the equity of the entities acquired.

All acquisitions have been accounted for under the acquisition method. None were individually material and consequently have been aggregated. The aggregated impact of the acquisitions on the Income Statement for the period is not material.

## 26 Acquisitions (continued)

### (b) Reconciliation to cash flow statement

|   | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|---|--|--|
| Cash paid on completion   | 5.3  | 31.0   |
| Cash paid in respect of prior year acquisitions                                   | 1.2  | 0.4  |
| Cash acquired on acquisition  | (0.1)  | (3.2)  |
| Cash paid in respect of deferred consideration                                    | 0.1  | 0.1  |
| Acquisition of subsidiaries and businesses as reported in the cash flow statement | 6.5  | 28.3   |

## 27 Employees and Directors

|                                | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|--------------------------------|--|--|
| Wages and salaries             | 92.5   | 90.0   |
| Social security costs          | 8.2  | 7.6  |
| Other pension costs (note 28)  | 5.5  | 3.9  |
| Share option charges (note 23) | 1.0  | 1.2  |
|                                | 107.2  | 102.7  |

Key management are considered to be the Board of Directors only. Total key management remuneration in the period was £3.0 million (2017: £4.2 million), including £0.5 million (2017: £0.5 million) of share option charges. The monthly average number of people, including Directors, employed by the Group during the period was as follows:

|                                 | 2018<br>Number | 2017<br>Number |
|---------------------------------|----------------|----------------|
| Management and administration   | 221            | 200            |
| Funeral services staff          | 2,542          | 2,574          |
| Crematoria staff                | 380            | 378            |
| Pre-arranged funeral plan staff | 163            | 147            |
|                                 | 3,306          | 3,299          |

### Directors' emoluments

Details of Directors' emoluments are disclosed in the Report on Directors' Remuneration on pages 81 to 89 which form part of these consolidated financial statements.

## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 28 Pension commitments

#### Defined contribution plans

The Group contributes to certain individuals' personal pension schemes. These contributions are accounted for as defined contribution schemes.

#### Auto enrolment

A defined contribution scheme is used to address the Group's obligations for auto enrolment. Both the employee and the Group contribute four per cent of pensionable pay.

The pension costs for defined contribution schemes are as follows:

|                              | 2018<br>£m | 2017<br>£m |
|------------------------------|------------|------------|
| Defined contribution schemes | 3.4        | 3.0        |

#### Defined benefit plan

The Group operates a defined benefit scheme the Dignity Pension and Assurance Scheme. A full actuarial valuation was carried out as at 6 April 2017 and has been updated to 28 December 2018 by a qualified independent Actuary.

After consultation with members of the defined benefit plan, the Group closed the scheme to new entrants on 1 October 2013 and employee contributions were increased to 10 per cent (from 7 per cent) of pensionable salaries, with the Group contributing the same amount (an increase from 9.2 per cent). The plan closed to future accrual on 28 February 2017, except for members of the LGPS sections who continue to accrue benefits. No curtailment charge arose on the scheme closure. Contributions for ongoing service paid by the employer for 2018 were £0.1 million (2017: £0.3 million of contributions). In addition special contributions of £2.0 million (2017: £nil million) have been paid to make total contributions for the year £2.1 million (2017: £0.3 million).

Following the Lloyds GMP equalisation case in October 2018, which ruled that treatment of men and women be brought in line for schemes with a guaranteed minimum pension, the Group has been required to recalculate member benefits. This has resulted in the Group recognising a past service cost of £1.4 million in the current year income statement, representing approximately 1.1 per cent of the Group's defined benefit pension liability.

The principal actuarial assumptions at the balance sheet date were:

| Assumptions  | 2018<br>% | 2017<br>% |
|--|-----------|-----------|
| Discount rate  | 2.80      | 2.50      |
| Rate of increase in salaries                                       | 2.45      | 2.35      |
| Rate of increase in payment of post April 1997 pensionable service | 3.30      | 3.25      |
| Rate of increase in payment of post April 2005 pensionable service | 2.25      | 2.25      |
| RPI price inflation assumption                                     | 3.45      | 3.35      |
| CPI price inflation assumption                                     | 2.45      | 2.35      |

The demographic assumptions used include rates for mortality which, for example, lead to an average projected life expectancy of 20.3 (2017: 20.4) years for male members and 25.6 (2017: 25.6) years for female members currently aged 65 and of 21.2 (2017: 21.4) years from age 65 for male members and 26.8 (2017: 26.8) years from age 65 for female members currently aged 50.

#### Pensions and other post-retirement obligations

The amounts recognised in the balance sheet are determined as follows:

|   | 2018<br>£m    | 2017<br>£m    |
|---|---------------|---------------|
| Fair value of plan assets                             | 103.5         | 111.9         |
| Present value of funded obligations                   | (128.7)       | (135.9)       |
| <b>Net obligation recognised in the balance sheet</b> | <b>(25.2)</b> | <b>(24.0)</b> |

**28 Pension commitments (continued)****Analysis of amount charged to income statement in respect of defined benefit schemes**

|  | 2018<br>£m | 2017<br>£m |
|--|------------|------------|
| Current service cost included within cost of sales (staff costs)     | 0.2        | 0.4        |
| Administration expenses paid by the scheme                           | 0.5        | 0.5        |
| Interest costs less interest income included within net finance cost | 0.6        | 0.6        |
| Past service costs   | 1.4        | –          |

**Analysis of fair value of plan assets**

|                                     | 2018         |              | 2017         |              |
|-------------------------------------|--------------|--------------|--------------|--------------|
|                                     | £m           | %            | £m           | %            |
| Equity and diversified growth funds | 56.2         | 54.3         | 61.5         | 55.0         |
| Debt                                | 46.5         | 44.9         | 48.5         | 43.3         |
| Cash                                | 0.8          | 0.8          | 1.9          | 1.7          |
| <b>Fair value of plan assets</b>    | <b>103.5</b> | <b>100.0</b> | <b>111.9</b> | <b>100.0</b> |

At 28 December 2018 and 29 December 2017 the Pension Trustees did not hold, on behalf of the scheme, any direct investments in the Group, nor did the Group occupy any property or other assets included with the fair value of plan assets.

**Changes in the present value of the defined benefit obligation are as follows:**

|   | 2018<br>£m     | 2017<br>£m     |
|---|----------------|----------------|
| Present value of obligation at beginning of period  | (135.9)        | (133.8)        |
| Current service cost                                | (0.2)          | (0.4)          |
| Past service cost – GMP equalisation                | (1.4)          | –              |
| Interest cost                                       | (3.3)          | (3.5)          |
| Benefits paid                                       | 6.7            | 4.5            |
| Contributions by participants                       | –              | (0.2)          |
| Remeasurement gains/(losses) – financial            | 6.1            | (4.5)          |
| Remeasurement gains – demographics                  | 0.8            | 3.2            |
| Remeasurement losses – experience                   | (1.5)          | (1.2)          |
| <b>Present value of obligation at end of period</b> | <b>(128.7)</b> | <b>(135.9)</b> |

**Changes in the fair value of plan assets are as follows:**

|   | 2018<br>£m   | 2017<br>£m   |
|---|--------------|--------------|
| Fair value of plan assets at beginning of period          | 111.9        | 107.9        |
| Interest income on plan assets                            | 2.7          | 2.9          |
| Contributions by Group                                    | 2.1          | 0.3          |
| Contributions by participants                             | –            | 0.2          |
| Benefits paid   | (6.7)        | (4.5)        |
| Administration expenses paid by the scheme <sup>(a)</sup> | (0.3)        | (0.6)        |
| Remeasurement (losses)/gains                              | (6.2)        | 5.7          |
| <b>Fair value of plan assets at end of period</b>         | <b>103.5</b> | <b>111.9</b> |

(a) Administration expenses paid by the scheme includes £0.2 million credited (2017: £0.1 million charged) to other comprehensive income.



## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 28 Pension commitments (continued)

#### Analysis of the movement in the balance sheet obligation

|  | 2018<br>£m    | 2017<br>£m    |
|--|---------------|---------------|
| At beginning of period   | (24.0)        | (25.9)        |
| Total expense as above charged to the income statement   | (2.7)         | (1.6)         |
| Remeasurement (losses)/ gains and administration expenses (charged)/credited to other comprehensive income | (0.6)         | 3.2           |
| Contributions by Group   | 2.1           | 0.3           |
| <b>At end of period</b>  | <b>(25.2)</b> | <b>(24.0)</b> |

The actual return on plan assets was £(3.5) million (2017: £8.6 million).

|                              | Liabilities<br>£m | Assets<br>£m | Deficit<br>£m | (Increase)/<br>decrease in<br>deficit<br>£m |
|------------------------------|-------------------|--------------|---------------|---|
| <b>Change in assumptions</b> |                   |              |               |   |
| No change                    | (128.7)           | 103.5        | (25.2)        | –   |
| 0.25% rise in discount rate  | (122.7)           | 103.5        | (19.2)        | 6.0   |
| 0.25% fall in discount rate  | (135.3)           | 103.5        | (31.8)        | (6.6)                                       |
| 0.25% rise in inflation      | (132.5)           | 103.5        | (29.0)        | (3.8)                                       |
| 0.25% fall in inflation      | (124.8)           | 103.5        | (21.3)        | 3.9   |

The above sensitivity analysis has been determined by applying the results of a fully accurate sensitivity analysis as at 6 April 2017 to the value placed on the Scheme liabilities as at 28 December 2018, assuming that the proportionate impact of the change in assumptions would be the same. It is therefore approximate as it does not allow for the impact of plan experience since 6 April 2017. The same approach was used for the sensitivity analysis undertaken for the period ending 29 December 2017.

#### Analysis of present value of scheme liabilities

|                                 | 2018       | 2017       |
|---------------------------------|------------|------------|
| Active members <sup>(a)</sup>   | 36%        | 37%        |
| Deferred pensioners             | 24%        | 25%        |
| Current pensioners              | 40%        | 38%        |
| Average duration of liabilities | 18.5 years | 18.5 years |

(a) Active members are members of the Scheme who are still employed by the Group.

#### Scheme characteristic

The scheme is a final salary defined benefit scheme which was closed to new entrants on 1 October 2013 and ceased future accrual to all members except those in the LGPS sections on 28 February 2017. It is administered by Trustees in accordance with its Trust Deed & Rules and relevant legislation. Member contributions are fixed with the employer meeting the balance of the costs of providing scheme benefits. The contributions payable by the employer are set by the Trustees after consulting the employer and in accordance with the funding requirements of the Pensions Act 2004.

#### Funding arrangements

The Trustees use the Projected Unit funding method. The last full triennial actuarial valuation was undertaken as at 6 April 2017.

The annual commitment for deficit contributions is £1,700,000 per annum. These annual contributions are expected to meet the deficit on the funding basis by 31 March 2024 based on an assumption of investment returns of 4.5 per cent per annum.

In addition, the employees of the LGPS Section currently contribute to the plan in line with the rates set out in the Plan Rules and the expected employer contributions for the 52 week period ended 27 December 2019 are £45,720 in order to fund future service accrual.

The expenses of administering the plan and levies required by the Pensions Protection Fund and the Pensions Regulator are currently met by the Scheme. The Group contributes an additional £450,000 per annum in order to fund these expenses.

## 28 Pension commitments (continued)

### Funding Risks

The assets quoted are comprised as follows:

|                                       | 2018<br>£m   | 2017<br>£m   |
|---------------------------------------|--------------|--------------|
| Assets held by investment managers    | 102.7        | 110.7        |
| Balance of the Trustees' bank account | 0.8          | 1.2          |
| <b>Total</b>                          | <b>103.5</b> | <b>111.9</b> |

The scheme's investment strategy is to de-risk the assets relative to the liabilities over time using a dynamic trigger based de-risking framework. The approach taken relates the asset allocation to the Scheme's funding position on a low-risk "self-sufficiency" basis. The principles are to target to achieve full funding on the self-sufficiency basis by 2036; to reduce funding level volatility by reducing un-hedged exposures (including the use of liability driven investments); and to monitor the progress in the funding level and to capture improvements by opportunistically de-risking when circumstances permit. The latter is achieved by switching investments from growth assets to matching assets as the funding level improves. It is recognised that although investing partly in growth assets is necessary to meet the return expectations in pursuit of funding level improvements, this increases the risk of a shortfall in returns relative to that required to cover the scheme's liabilities.

#### Investment return risk

If the assets underperform the returns assumed in setting the funding targets then additional contributions may be required at subsequent valuations.

#### Investment match risk

The scheme invests significantly in equities, whereas the funding targets are closely related to the returns on bonds. If equities fall in value relative to the matching asset of bonds, additional contributions may be required.

#### Longevity risk

If future improvements in longevity exceed the assumptions made for scheme funding then additional contributions may be required.

## 29 Pre-arranged funeral plans

### (a) Contingent liabilities and 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 UK Funeral Plans respectively (the 'Principal Trusts'). Further details of the transactions can be found in the financial statements of these companies, which are available from 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

The Group has given commitments to these clients to perform their funeral. The agreed amounts payable to either the Group or to third party funeral directors will be paid out of the funds held in the Trusts. The majority of the Trustees of each of the pre-arranged funeral plan trusts are unconnected to the Group, as required by current UK legislation. The investment strategy is set, implemented and monitored by the Trustees.

It is the view of the Directors that none of the commitments given to these clients, which are explained further below, are onerous to the Group. However ultimately, the Group is obligated to perform these funerals in exchange for the assets of the Trust, whatever they may be.

Similar commitments have arisen following acquisitions of businesses, since 2013, which have sold pre-arranged funeral plans through similar trust based structures (the 'Recent Trusts'). Only the National Funeral Trust and the Trust for Age UK Funeral Plans receive funds relating to the sale of new plans (the 'Active Trusts').

### (b) Pre-arranged funeral plan trust assets

As noted above, the Group has given commitments to perform the funerals covered by the pre-arranged plans, regardless of whether or not the Trusts have available assets to fund the funeral. The Group, therefore, has a potential exposure in the form of a reduced fee should the Trusts investment strategy, over which it has no control, fail to deliver an appropriate return or result in a fall in underlying asset values, or if the cost of delivery for a funeral increases at rates in excess of investment returns.

## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 29 Pre-arranged funeral plans (continued)

The Trustees have informed the Group that they continue to take independent advice regarding the Trust's investment strategy. As a result, it is anticipated that the investment allocation by class will develop further during 2019 and beyond, gradually resulting in a portfolio in the following profile:

|   | Example investment types                | Target (%) |
|---|---|------------|
| Defensive investments                           | Index linked gilts and corporate bonds  | 18         |
| Illiquid investments                            | Private investments                     | 16         |
| Core growth investments                         | Equities                                | 23         |
| Growth fixed income and alternative investments | Property funds and emerging market debt | 43         |

The Trusts' investment strategies are expected to provide returns in excess of inflation in the longer-term but will, however, potentially result in greater volatility year-on-year in the reported value of the Trusts' assets.

The Trustees have advised that the market value of the assets of the pre-arranged funeral plan trusts were approximately £928 million at 28 December 2018 (2017: approximately £940 million) in respect of 308,000 (2017: 306,000) active pre-arranged funeral plans. 134,000 (2017: 102,000) of the remaining active pre-arranged funeral plans related to those backed by Insurance Plans, as described in note 1 to the consolidated financial statements, with the balance of 44,000 (2017: 42,000) being plans arising from acquisitions.

The Trustees of the Principal Trusts are required to have the Trusts' liabilities actuarially valued once a year (once every three years in the case of the Recent Trusts). This actuarial valuation is of liabilities of the Trusts to secure funerals through Dignity and other third party funeral directors and does not, in respect of those funerals delivered by the Group represent the cost of delivery of the funeral. It is only in the event that there are insufficient funds within the Trusts to cover the cost of delivery to Dignity that the commitment would become onerous to Dignity as described in (a) above.

The Trustees have advised that the latest actuarial valuations of the Principal Trusts were performed as at 28 September 2018 (2017: 29 September) using assumptions determined by the Trustees. Actuarial liabilities in respect of the pre-arranged funeral plan trusts have increased to £899.9 million as at 28 September 2018 (2017: £877.2 million). The corresponding market value of the assets of the pre-arranged funeral plan trusts was £932.9 million (2017: £904.5 million) as at the same date. Consequently the actuarial valuations recorded a total surplus of £33.0 million at 28 September 2018 (2017: surplus of £27.3 million). The Group considers these to be prudent assumptions. If the valuation had been performed using a discount rate equal to the long-term investment strategy target of the Trustees, then the valuations would have reported an aggregate surplus of approximately £160 million (2017: £160 million).

Nonetheless, the Trustees have advised that the Trusts hold assets of approximately £3,000 (2017: £3,100) per active plan at the balance sheet date. On average the Group received approximately £2,700 (2017: £2,600) in the period for the performance of each funeral (including amounts to cover disbursements such as crematoria fees, ministers' fees and doctors' fees).

The Trustees have advised that the Recent Trusts have approximately £15 million (2017: £17 million) of net assets as at the balance sheet date and no material actuarial surplus or deficit.

#### Transactions with the Group

During the period, the Group entered into transactions with the National Funeral Trust, the Trust for Age UK Funeral Plans and the Dignity Limited Trust Fund (the 'Principal Trusts') and the Trusts related to businesses acquired since 2013 ('Recent Trusts') (and collectively, the 'Trusts') associated with the pre-arranged funeral plan businesses. The nature of the relationship with the Trusts is set out above and in the accounting policies. Amounts may only be paid out of the Trusts in accordance with the relevant Trust Deeds.

#### Transactions principally comprise:

- The recovery of marketing and administration allowances in relation to plans sold net of cancellations (which are recognised by the Group as revenue within the pre-arranged funeral plan division at the time of the sale); and
- Receipts from the Trusts in respect of funerals provided (which are recognised by the Group as revenue within the funeral division when the funeral is performed).

#### Transactions also include:

- Receipts from the Trusts in respect of cancellations by existing members; and
- Reimbursement by the Trusts of expenses paid by the Group on behalf of the respective Trusts.

## 29 Pre-arranged funeral plans (continued)

Transactions are summarised below:

|                                | Transactions during the period |             | Amounts due to the Group at the period end |             |
|--------------------------------|--------------------------------|-------------|--|-------------|
|                                | 2018<br>£m                     | 2017<br>£m  | 2018<br>£m                                 | 2017<br>£m  |
| Dignity Limited Trust Fund     | 0.2                            | 0.3         | –  | –           |
| National Funeral Trust         | 49.3                           | 49.0        | 8.5  | 8.2         |
| Trust for Age UK Funeral Plans | 33.7                           | 35.0        | 3.4  | 3.9         |
| Recent Trusts                  | 1.3                            | 3.7         | –  | –           |
| <b>Total</b>                   | <b>84.5</b>                    | <b>88.0</b> | <b>11.9</b>                                | <b>12.1</b> |

Amounts due to the Group from the Trusts are included in Trade and other receivables.

The above transactions were included within revenue under the following captions:

|                                    | Transactions during the period |            |
|------------------------------------|--------------------------------|------------|
|                                    | 2018<br>£m                     | 2017<br>£m |
| Funeral services revenue           | 48.4                           | 45.6       |
| Pre-arranged funeral plans revenue | 21.7                           | 26.7       |

In addition to the transactions recognised within revenue in the table above, there were £14.4 million (2017: £15.7 million) of transactions between the Group and the Trusts which represented amounts paid to the Group to reimburse them for trust expenses, monies repaid to members on cancellation and monies paid to third parties for the performance of some funeral services; all of which have no impact on the income statement.

## 30 Contingent liabilities

### (a) Securitisation

BNY Mellon Corporate Trustee Services Limited in its capacity as Security Trustee of the Secured Notes has the following guarantees and charges:

- The Dignity (2002) Group have granted the Security Trustee fixed and floating charges over all assets and undertakings of the Dignity (2002) Group;<sup>(i)</sup>
- Dignity plc 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 (2004) Limited, Dignity (2008) Limited, Dignity (2011) Limited and Dignity Holdings No.3 Limited;
- Dignity (2004) 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 No. 2 Limited and Dignity (2002) Limited;
- 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 it holds in Dignity Mezzco Limited;
- Dignity Holdings Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loans (both interest and non interest bearing) to Dignity (2002) Limited;
- Dignity Mezzco Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loan to Dignity (2002) Limited;
- Dignity (2004) Limited has granted the Security Trustee, with full title guarantee a floating charge over the assets now or in the future owned by Dignity (2004) Limited (other than those assets validly and effectively charged by way of fixed security);
- Dignity plc, Dignity Holdings No.2 Limited, Dignity Holdings Limited and Dignity Mezzco Limited has granted the Security Trustee, with full title guarantee a floating charge over the assets now or in the future owned by each of Dignity plc, Dignity Holdings No.2 Limited, Dignity Holdings Limited and Dignity Mezzco Limited (other than those assets validly and effectively charged by way of fixed security);



## Notes to the financial statements continued

for the 52 week period ended 28 December 2018

### 30 Contingent liabilities (continued)

- The Guarantors<sup>(i)</sup> each irrevocably and unconditionally jointly and severally guarantees to the Security Trustee punctual performance by each other Obligor of that Obligor's obligations and agrees as a primary obligation to indemnify the Security Trustee immediately on demand against any cost, loss or liability suffered by it if any obligation guaranteed by the Guarantors is or becomes unenforceable, invalid or illegal;
- Dignity Funerals Limited and Derriman & Haynes Funeral Services Limited has granted the Security Trustee with full title guarantee, a first legal mortgage over each of its rights, title and interest from time to time in properties situated in England and Wales;
- Dignity Funerals Limited has granted the Security Trustee with full title guarantee<sup>(iii)</sup>, a first legal mortgage over its rights, title and interest from time to time in properties situated in Northern Ireland;
- Dignity Finance PLC has granted BNY Mellon Corporate Trustee Services Limited (in its capacity as Note Trustee) with full title guarantee, an assignment by way of security of its benefit in each Issuer Transaction Document (other than the Trust Documents), the Security Trust Deed and each Obligor Security Document and charges by way of first fixed charge the benefit of its accounts; and
- Dignity Funerals Limited has, in respect of any Scottish property which is capable of being so charged, granted 'standard securities' in favour of the Security Trustee<sup>(iv)</sup>.

(i) Means Dignity (2002) Limited and its subsidiaries.

(ii) Means the Obligors (other than Dignity (2002) Limited (as Borrower)), Dignity (2004) Limited, Dignity plc, Dignity Holdings No.2 Limited, Dignity Holdings Limited and Dignity Mezzco Limited.

(iii) This mortgage is governed by the laws of Northern Ireland.

(iv) The standard securities are governed by Scots Law.

At 28 December 2018, the amount outstanding in relation to these borrowings was £561.2 million (2017: £565.7 million).

### (b) £50,000,000 Revolving Credit Facility

As a consequence of the legal structure of the £50 million Revolving Credit Facility:

- Dignity Funerals No. 3 Limited, Dignity Holdings No. 3 Limited, Dignity (2008) Limited, Dignity Crematoria Limited and Dignity Crematoria No.2 Limited have each granted NatWest (acting through its agent, the Royal Bank of Scotland plc ('NatWest')) fixed and floating charges over its assets and undertakings;
- Dignity Funerals No. 3 Limited has granted NatWest, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Arthur J Nash Limited, T J Brown & Sons Limited and Aberdeen Funeral Directors Limited;
- Dignity (2008) Limited has granted NatWest, 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 Crematoria Limited;
- Dignity Holdings No. 3 Limited has granted NatWest, 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 Funerals No. 3 Limited; and
- Dignity Crematoria Limited has granted NatWest, 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 Crematoria No.2 Limited.

### 31 Related party transactions

There are no related party transactions for either period.

### 32 Investments

A list of all entities included within the financial information are included in note C9 to the Company's financial statements.

### 33 Post balance sheet events

There were no post balance sheet events.

## Dignity plc Company balance sheet

as at 28 December 2018

|   | Note | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|---|------|---------------------------|---------------------------|
| <b>Fixed assets</b>                                   |      |                           |                           |
| Investments   | C2   | 149.1                     | 148.2                     |
| <b>Current assets</b>                                 |      |                           |                           |
| Trade and other receivables                           | C3   | 304.7                     | 301.4                     |
| Cash  |      | 40.6                      | 26.9                      |
| <b>Total current assets</b>                           |      | 345.3                     | 328.3                     |
| <b>Creditors: amounts falling due within one year</b> | C4   | (14.7)                    | (17.5)                    |
| <b>Net current assets</b>                             |      | 330.6                     | 310.8                     |
| <b>Total assets less current liabilities</b>          |      | 479.7                     | 459.0                     |
| <b>Net assets</b>                                     |      | 479.7                     | 459.0                     |
| <b>Capital and reserves</b>                           |      |                           |                           |
| Called up share capital                               | C5   | 6.2                       | 6.2                       |
| Share premium account                                 |      | 12.4                      | 11.1                      |
| Capital redemption reserve                            |      | 141.7                     | 141.7                     |
| Other reserves  |      | 2.7                       | 3.2                       |
| Retained earnings                                     |      | 316.7                     | 296.8                     |
| <b>Total equity</b>                                   |      | 479.7                     | 459.0                     |

The Company has taken advantage of the exemption permitted by section 408 of the Companies Act 2006 not to publish its individual profit and loss account and related notes. The Company made a profit attributable to the equity shareholders of £32.1 million in the period (2017: £27.5 million).

The financial statements on pages 141 to 148 were approved by the Board of Directors on 13 March 2019 and were signed on its behalf by:

**M K McCollum**  
Chief Executive

**S L Whittern**  
Finance Director

## Dignity plc Company statement of changes in equity

for the 52 week period ended 28 December 2018

|   | Ordinary<br>share<br>capital<br>£m | Share<br>premium<br>account<br>£m | Capital<br>redemption<br>reserve<br>£m | Other<br>reserves<br>£m | Retained<br>earnings<br>£m | Total<br>£m   |
|---|------------------------------------|-----------------------------------|--|-------------------------|----------------------------|---------------|
| Shareholders' equity as at 30 December 2016                   | 6.1                                | 8.5                               | 141.7                                  | 4.4                     | 281.5                      | 442.2         |
| Profit for the period   | –                                  | –                                 | –                                      | –                       | 27.5                       | 27.5          |
| Effects of employee share options                             | –                                  | –                                 | –                                      | 1.3                     | –                          | 1.3           |
| Proceeds from share issue                                     | 0.1                                | 2.6                               | –                                      | –                       | –                          | 2.7           |
| Gift to Employee Benefit Trust                                | –                                  | –                                 | –                                      | (2.5)                   | –                          | (2.5)         |
| Dividends paid on Ordinary Shares                             | –                                  | –                                 | –                                      | –                       | (12.2)                     | (12.2)        |
| Total transactions with owners, recognised directly in equity | 0.1                                | 2.6                               | –                                      | (1.2)                   | (12.2)                     | (10.7)        |
| Shareholders' equity as at 29 December 2017                   | 6.2                                | 11.1                              | 141.7                                  | 3.2                     | 296.8                      | 459.0         |
| Profit for the period   | –                                  | –                                 | –                                      | –                       | 32.1                       | <b>32.1</b>   |
| Effects of employee share options                             | –                                  | –                                 | –                                      | 0.8                     | –                          | <b>0.8</b>    |
| Proceeds from share issue                                     | –                                  | 1.3                               | –                                      | –                       | –                          | <b>1.3</b>    |
| Gift to Employee Benefit Trust                                | –                                  | –                                 | –                                      | (1.3)                   | –                          | <b>(1.3)</b>  |
| Dividends paid on Ordinary Shares                             | –                                  | –                                 | –                                      | –                       | (12.2)                     | <b>(12.2)</b> |
| Total transactions with owners, recognised directly in equity | –                                  | 1.3                               | –                                      | (0.5)                   | (12.2)                     | <b>(11.4)</b> |
| <b>Shareholders' equity as at 28 December 2018</b>            | <b>6.2</b>                         | <b>12.4</b>                       | <b>141.7</b>                           | <b>2.7</b>              | <b>316.7</b>               | <b>479.7</b>  |

### Capital redemption reserve

The capital redemption reserve represents £80,002,465 B Shares that were issued on 2 August 2006 and redeemed for cash on the same day, £19,274,610 B Shares that were issued on 10 October 2010 and redeemed for cash on 11 October 2010, £22,263,112 B Shares that were issued on 12 August 2013 and redeemed for cash on 20 August 2013 and £20,154,070 B Shares that were issued and redeemed for cash in November 2014.

### Other reserves

Other reserves includes movements relating to the Group's SAYE and LTIP schemes.

## Notes to the Dignity plc financial statements

for the 52 week period ended 28 December 2018

### C1 Principal accounting policies

#### Basis of preparation

The financial statements of the Company for the period ended 28 December 2018 were authorised for issue by the Board of Directors and the balance sheet was signed on the Board's behalf by Mr M K McCollum and Mr S L Whittern. The Company is incorporated and domiciled in England and Wales. The Company's registered address is 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

The financial statements of the Company have been prepared in accordance with the Companies Act 2006, as applicable to companies using Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). The financial statements have been prepared on a going concern basis under the historical cost convention. The principal accounting policies are set out below and have been applied consistently throughout the year.

The Company's financial statements are presented in Sterling and all values are stated in pound million rounded to one decimal place (£m) except where otherwise indicated.

In accordance with the concession granted under Section 408 of the Companies Act 2006, the income statement of the Company has not been separately presented in the financial statements.

In the current period, the Company's financial statements have been prepared for the 52 week period ended 28 December 2018. For the comparative period, the Company's financial statements have been prepared for the 52 week period ended 29 December 2017.

#### Exemptions:

As permitted by FRS 101 the following exemptions from the requirements of International Financial Reporting Standards ('IFRS') have been applied in the preparation of these financial statements:

- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information);
  - 111 (cash flow statement information); and
  - 134-136 (capital management disclosures).
- Paragraph 38 of IAS 1 'Presentation of financial statements' comparative information requirements in respect of: Paragraph 79 (a) (iv) of IAS 1 'Presentation of financial statements'.
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

The Company is eligible to apply the above exemptions as it is included in the consolidated financial statements of Dignity plc who prepare financial statements under IFRS and include the above disclosures.

#### New standards, amendments and IFRIC interpretations

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 28 December 2018, have had a material impact on the Company.

#### Critical accounting estimates and assumptions

The preparation of the financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Management has not made any judgements, estimates or assumptions in preparing these financial statements that materially affects the application of policies or the reported amounts of assets, liabilities, income or expenses of the Company.



## Notes to the Dignity plc financial statements continued

for the 52 week period ended 28 December 2018

### C1 Principal accounting policies (continued)

#### 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. Any impairment in the value of fixed assets below depreciated historical cost is charged to the income statement within operating profit. A reversal of an impairment loss is recognised in the income statement to the extent that the original loss was recognised.

#### Employee share schemes

The Company operates two employee share schemes: The Save As You Earn Scheme ('SAYE') and Long-Term Incentive Plan Scheme ('LTIP').

The Company applies IFRS 2 in respect of share option schemes resulting in the charge for such schemes being recognised in a subsidiary of the Company. The Company's financial statements reflect the cost of the scheme as an increase in the cost of investment in the subsidiary with the corresponding credit included within other reserves.

#### Employee share trust

The assets of the employee share trust are held by a separate limited company, of which the Directors consider that Dignity plc has de facto control. In accordance with IFRS, Accounting for ESOP Trusts and the substance of the transaction, the trust's assets and liabilities are recognised in the Company's balance sheet.

#### Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the financial statements when paid.

#### Financial instruments

##### Borrowings

All borrowings are initially recognised at fair value and subsequently measured at amortised cost in relation to amounts owed to group undertakings.

##### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct transaction costs.

##### Cash at bank and in hand

Cash at bank and in hand includes demand deposits and amounts included in accounts restricted for specific uses.

### C2 Investments in subsidiary undertakings

#### Cost and net book amount

|  | £m           |
|--|--------------|
| At beginning of period                       | 148.2        |
| Additions in respect of share-based payments | 0.9          |
| <b>At end of period</b>                      | <b>149.1</b> |

Additions in the period reflect the effect of capital contributions to subsidiaries as a result of share-based payment schemes operated in those company's over the shares of Dignity plc.

A detailed listing of all subsidiary undertakings is included in note C9 below.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

### C3 Trade and other receivables: amounts falling due within one year

|                                    | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|------------------------------------|---------------------------|---------------------------|
| Amounts owed by group undertakings | <b>304.7</b>              | 301.4                     |

**C4 Creditors: amounts falling due within one year**

|   | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|---|---------------------------|---------------------------|
| Amounts owed to subsidiary undertakings | 12.4                      | 14.8                      |
| Accruals                                | 1.1                       | 2.2                       |
| Corporation tax                         | 1.2                       | 0.5                       |
|   | 14.7                      | 17.5                      |

**C5 Called up share capital and reserves**

|   | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|---|---------------------------|---------------------------|
| <b>Allotted and fully paid Equity shares</b>  |                           |                           |
| 50,008,939 (2017: 49,931,901) Ordinary Shares of 12 48/143p (2017: 12 48/143p) each | 6.2                       | 6.2                       |

Each Ordinary Share carries equal voting rights and there are no restrictions on any share.

See note 22 of the Group's consolidated accounts for further details.

**C6 Dividends**

|   | 52 week period<br>ended<br>28 December<br>2018<br>£m | 52 week period<br>ended<br>29 December<br>2017<br>£m |
|---|--|--|
| Final dividend paid: 15.74p per Ordinary Share (2017: 15.74p) | 7.9  | 7.9  |
| Interim dividend paid: 8.64p per Ordinary Share (2017: 8.64p) | 4.3  | 4.3  |
| <b>Dividend on Ordinary Shares</b>                            | 12.2   | 12.2   |

The interim dividend represents the interim dividend that was approved and paid in the period out of earnings generated in the same period.

The final dividend represents the final dividend that was approved and paid in the period relating to the earnings generated in the previous period.

Consequently, total dividends recognised in the period were £12.2 million, 24.38 pence per share (2017: £12.2 million, 24.38 pence per share).

A final dividend of 15.74 pence per share, in respect of 2018, has been proposed by the Board. Based on the number of shares in issue at the date of signing this report the total final dividend payment is approximately £7.9 million. This will be paid on 28 June 2019 provided that approval is gained from shareholders at the Annual General Meeting on 13 June 2019 and will be paid to shareholders on the register at close of business on 17 May 2019.

**C7 Staff costs****Directors' remuneration**

Details of the Directors' emoluments are included in pages 81 to 89. They received no emoluments in respect of their services to the Company (2017: nil).

**C8 Related party transactions**

There are no related party transactions for either period requiring disclosure.

## Notes to the Dignity plc financial statements continued

for the 52 week period ended 28 December 2018

### C9 Subsidiary undertakings

#### Principal subsidiaries

| Company name                    | Principal activity                     |
|---------------------------------|--|
| Advance Planning Limited        | Pre-arranged funeral plans             |
| Dignity (2002) Limited          | Intermediate holding company           |
| Dignity Crematoria Limited      | Construction and leasing of crematoria |
| Dignity Crematoria No.2 Limited | Construction and leasing of crematoria |
| Dignity Finance PLC             | Finance company                        |
| Dignity Funerals Limited        | Funeral services                       |
| Dignity Funerals No.3 Limited   | Funeral services                       |
| Dignity Pre Arrangement Limited | Pre-arranged funeral plans             |
| Dignity Securities Limited      | Pre-arranged funeral plans             |
| Pitcher & Le Quesne Limited***  | Funeral services                       |

#### Other subsidiaries

| Company name                     | Principal activity           |
|----------------------------------|------------------------------|
| Birkbeck Securities Limited      | Intermediate holding company |
| Dignity (2004) Limited           | Intermediate holding company |
| Dignity (2008) Limited           | Intermediate holding company |
| Dignity (2011) Limited           | Intermediate holding company |
| Dignity (2014) Limited           | Intermediate holding company |
| Dignity Finance Holdings Limited | Intermediate holding company |
| Dignity Holdings Limited         | Intermediate holding company |
| Dignity Holdings No.2 Limited    | Intermediate holding company |
| Dignity Holdings No.3 Limited    | Intermediate holding company |
| Dignity Mezzco Limited           | Finance company              |
| Dignity Services                 | Intermediate holding company |

#### Recent acquisition companies – dormant from 2019

| Company name                              | Principal activity |
|---|--------------------|
| Bayley Brothers Hereford Limited          | Funeral services   |
| G & L Evans Ltd                           | Funeral services   |
| Graeme Buckle Funeral Services Limited    | Funeral services   |
| Newport & Telford Funeral Service Ltd     | Funeral services   |
| Nicholls Memorials Limited                | Funeral services   |
| Robert Nicholls Funeral Directors Limited | Funeral services   |
| Wrekin Funeral Service Limited            | Funeral services   |

## C9 Subsidiary undertakings (continued)

### Dormant companies

|   |  |  |
|---|--|--|
| A & N Duckworth Limited                           | Dignity Funerals No.4 Limited                      | Graham Sullivan Funeral Directors Limited      |
| A. & G. Huteson Ltd                               | Dignity In Destiny Limited                         | Grave Design Limited                           |
| A Ashton & Sons Limited                           | Dignity Legal Services Limited                     | Great Southern Group Limited                   |
| A Bennett & Sons Limited                          | Dignity Manufacturing Limited                      | Grimmett & Timms Limited                       |
| A F Townsend (Funeral Directors) Limited          | Dillistone Funeral Service Limited                 |  |
| A Hazel & Sons Limited                            | Docklands Funeral Services Limited                 | H & G Wilde Funeral Directors Limited          |
| A Shepherd & Sons Limited                         | Dottridge Brothers Limited                         | H A Harrold & Son Limited                      |
| A T Genders Limited                               | Downer & White Limited                             | H Eaton & Sons Holdings Limited                |
| A V Band Limited                                  | Downs Crematorium Limited                          | H.Eaton & Sons Limited                         |
| A. Haxby & Sons (Filey) Limited                   | Dowsett & Jenkins Limited                          | H J Dawson Limited                             |
| Abbey Funeral Service Limited                     | Dundee Crematorium Limited*                        | H J Phillips & Son (Funeral Directors) Limited |
| Adela Funeral Homes Limited                       | Dunning (Undertaking) Limited                      | H Johnson & Sons Limited                       |
| Aberdeen Funeral Directors Limited*               | Dyson Richards Limited                             | H Leslie Humphreys Limited                     |
| Anglian Funeral Service Limited                   |  | H Tonkin Limited                               |
| Armitage (Funeral Directors) Limited              | E Hurton & Son Limited                             | H. J. Whalley & Sons Limited                   |
| Arthur Denyer Limited                             | E M Lander Limited                                 | H. Towell Ltd                                  |
| Arthur G Whitehead (Westminster) Limited          | E Seymour & Son Limited                            | H.Copeland & Son Limited                       |
| Ashton & Ebbutt Limited                           | E. Brigham Funeral Directors Limited               | H.Dorricott & J.Bent Limited*                  |
| Ashton Ebbutt Holdings Limited                    | E.F.Edwards Limited                                | H.G.Brown & Sanders Limited                    |
| Ashton Memorials Limited                          | E.Finch & Sons Limited                             | H.Hill Funeral Service Limited                 |
| Ashtons (Brighton) Limited                        | Earl Of Plymouth Limited                           | H.R.H. Holdings Limited                        |
| Associated Funeral Services Limited               | Eden Park Estate Limited                           | Hambrook & Johns Limited                       |
| Astley Funerals Limited                           | Edmund & Lewis Limited                             | Hanningtons (Funeral Directors) Limited        |
| Arthur J. Nash Limited                            | Edward Lewis Wicks & Sons Limited                  | Hardacres Funeral Directors Limited            |
|   | Ely Funeral Service Limited                        | Harry Williams & Sons (Cambridge) Limited      |
| B & B Funeral Directors Limited                   | Ever 1324 Limited**                                | Heighton & Son Limited                         |
| B. Bernard & Sons Limited                         | Ever 1326 Limited**                                | Hemley Funeral Service Limited                 |
| Baguley Bros. Limited                             | Ever 1327 Limited**                                | Henry Naylor (Funeral Directors) Limited       |
| Banks Funeral Service Limited                     | Exeter & Devon Crematorium Limited                 | Henry Paul Limited                             |
| Birmingham Crematorium (1973) Limited             |  | Henry Smith (Wandsworth) Limited               |
| Boyce Anderson Motors Limited**                   | F L Mildred & Sons (Funeral Directors) Limited     | Highfield Funeral Service Limited              |
| Bracher Brothers Limited                          | F. Kneeshaw & Sons (Funeral Directors) Limited     | Hindu Funeral Service Limited                  |
| Brighton Stonemasons Limited                      |  | Hodgson Holdings (Scotland) Limited            |
| Broadwater Limousines Limited                     | F.E.J. Green & Sons Limited                        | Hodgson Holdings Limited                       |
|   | F.G.Pymm (Funeral Directors) Limited               | Holdfast (Funerals) Limited**                  |
| C Powell Funeral Service Limited                  | F.Harrison & Son (Funeral Directors) Limited       | Howard Jenkins (Edge Hill) Limited             |
| Caledonian Funeral Services Limited*              | F. J. Gibb Limited                                 | Hunters Funeral Directors Limited              |
| Carrwood Funeral Supplies Limited                 | F.M. & J. Wait & Co Limited                        |  |
| Castle Court Funeral & Limousine Services Limited | F.Jennings & Sons Limited                          | Ian Clarke Funeral Service Limited             |
| Chichester Crematorium Limited                    | F.Smith & Son (Staines) Limited                    | Inggall Services Limited                       |
| Chosen Heritage (Scotland) Limited*               | Family Funeral Services Limited                    | Inverclyde Funeral Directors Limited*          |
| Chosen Heritage Limited                           | Farebrother Funeral Services Limited               | Invicta Memorials Limited                      |
| Chosen Heritage Services Limited                  | Fisher & Townsend (Funeral Directors) Limited      |  |
| Clegg Humphreys Limited                           | Flowers By Design Limited                          | J H Kenyon Limited                             |
| Cooksey & Son Limited                             | Ford Ennals Funeral Services Limited               | J H Raven Limited                              |
| Cooksley & Son Limited                            | Forethought Limited                                | J Hylton & Sons Limited                        |
| Coombes & Sons (Bovey Tracey) Limited             | Francis Chappel & Sons Limited                     | J Kynaston Limited                             |
| Counties Crematorium Limited                      | Frank Stephenson & Son (Funeral Directors) Limited | J Steadman & Sons Limited                      |
| Coyne Brothers Limited                            | Frederick W Chitty & Co Limited                    | J.W.Tate & Son (Holdings) Limited              |
| Cumbernauld Funeral Services Ltd*                 | Fredk. W.Paine Limited                             | J.W.Tate & Son Limited                         |
| Cyril H. Lovegrove Limited                        | Funeral Arrangements Online Limited                | Jack Lee & Sons Limited                        |
|   | Funeral Debt Collection Limited                    | James Allen & Son (Disley) Limited             |
| D J Thomas (Funeral Directors) Limited            | Funeral Services London Limited                    | James Crook Limited                            |
| D. J. Evans Forse & Co Limited                    |  | John & William Shering Limited                 |
| D.Walsh & Son Limited                             | G. M. Charlesworth & Son Limited                   | John Bardgett & Sons Limited                   |
| Daly & Company Limited                            | G.F. Cook (Funerals) Limited                       | John G Ashton & Co (Funeral Directors) Limited |
| David B Hendry Limited                            | G.F.Hunt (Bath) Limited                            |  |
| David Silvey & Son Limited                        | G.Gamble & Son Limited                             | Johnson Funeral Supplies Limited               |
| Davis McMullan Funeral Directors Limited          | G.Smith (Wooburn) Limited                          | Johnson-Sears Limited                          |
| Derriman & Haynes Funeral Services Limited        | George Hall & Son Funeral Directors Limited        | Jonathan Harvey Limited*                       |
| Dewi Reynolds & Sons Limited                      | George S. Munn & Company, Limited*                 | Jonathan Walker Funeral Directors Limited      |
| Dignity (2009) Limited                            | George Stanton (1935) Limited                      | Joseph Swift (Funeral Director) Limited        |
| Dignity Caring Funeral Services Limited           | Ginns & Gutteridge Limited                         | Joseph Tomlinson & Sons Limited                |
| Dignity Funerals No.2 Limited                     | Gornalls Funeral Services Limited                  | Joslin Memorials (1974) Limited                |



## Notes to the Dignity plc financial statements continued

for the 52 week period ended 28 December 2018

### C9 Subsidiary undertakings (continued)

#### Dormant companies (continued)

|  |   |  |
|--|---|--|
| K.Y. Green Limited                                   | Oxford Crematorium Limited                    | T. S. Horlock & Son Limited                                    |
| Kellaways (Funeral Service) Limited                  | Patrick Stonemasons Limited                   | T.H.Sanders & Higgs Limited                                    |
| Ken Gregory & Sons Limited                           | Personal Choice Funeral Plan Limited          | T.H.Sanders & Sons Limited                                     |
| Kent Funeral Supplies Limited                        | Peter Johnson Funerals Ltd.                   | T J Brown & Sons Limited                                       |
| Kenyon Air Transportation Limited                    | PFG Hodgson Kenyon (Services) Limited         | T.J.Davies & Sons (Funeral Directors) Limited                  |
| Kenyon Emergency Services Limited                    | PFG Hodgson Kenyon (UK) Limited               | Taylor's Funerals (Wirral) Limited                             |
| Kenyon Repatriation Limited                          | PFG Hodgson Kenyon Limited                    | The Crematorium Company Limited                                |
| Kenyon Securities Limited                            | Philip Ford & Son (Funeral Directors) Limited | The Dignity Plan Limited                                       |
| Kenyons Funeral Directors Limited                    | Phillips Funeral Plans Limited                | The East Riding Crematorium Company Limited                    |
| Kirkwoods (Funeral Directors) Limited**              | Phillips Funeral Services Limited             | The Haltemprice Crematorium Limited                            |
| L Fulcher Limited                                    | Phillips Holdings (Hertfordshire) Limited     | The Lawrence Funeral Service Limited                           |
| L J Clegg Limited                                    | Phillips Supplies Limited                     | The Leverton Funeral Service (Dartford) Limited                |
| Lambeth & Brixton Community Funeral Services Limited | Piccioni (Masonry) Limited                    | The South London & Southern Counties Cremation Society Limited |
| Lambeth Funeral Services Limited                     | Plantsbrook Group Limited                     | The South London Crematorium Co Limited                        |
| Lea Valley Funeral Services Limited                  | Plantsbrook Limited                           | The Titford Funeral Service Limited                            |
| Leeds Limousines Limited                             | Preston Ireland Bowker Limited                | Thomas Brothers (Wellington and Taunton) Limited               |
| Leehope Services Limited                             | Priestley & Cockett Limited                   | Thompsons (Busbys) Limited                                     |
| London Necropolis Company Limited                    | R Butler & Sons Limited                       | Thompsons (Funeral Furnishers) Limited                         |
| Longhurst (Undertakers) Limited                      | R C Holden & Son Limited                      | Thompsons (Maguires) Limited                                   |
| Lowden Wells Limited                                 | R Garner Son & Wood Limited                   | Thompsons (Rimmers) Limited                                    |
| MacIntosh & Steven Limited*                          | R.Davies & Son Limited                        | Tovey & Morris Limited   |
| Mahony & Ward Limited                                | R.S. Johnson & Sons Limited                   | U.F.D. Limited   |
| Malcolm J Presland Limited                           | R.S.Scott (Funerals) Limited                  | UK Funerals Limited  |
| Mannerings Limited                                   | Ravenhill Funeral Services Limited**          | UKF Limited  |
| Mason Funeral Service Limited                        | Remembrance Limited                           | W G Dixon Limited  |
| Mathias's of Putney Limited                          | Robemanor Limited                             | W G Rathbone Funeral Directors Limited                         |
| Maxwell Bros. Limited                                | Roberts & Brain Limited                       | W H Scott & Son Limited  |
| Meadow Pool Limited                                  | Romney Marsh Funeral Services Limited         | W S Bond Limited   |
| Mews & Yeatmans Limited                              | Rosspark Limited                              | W S Harrison & Son Limited                                     |
| Mid Sussex Funeral Services Limited                  | S A Bates & Sons Limited                      | W Thorp & Sons (Leigh-on-Sea) Limited                          |
| Middleton & Wood (1919) Limited                      | S Wellens & Sons Limited                      | W.E.Turner (Funeral Furnishers) Limited                        |
| Monumental Masons Limited                            | Saftway Limited                               | W.Garstin & Sons Limited                                       |
| Moodys Funeral Directors Limited                     | Salenew Limited                               | Walkers Funeral Directors Limited                              |
| Moray Crematorium Holdings Limited*                  | Sanders Goodale & Co.Limited                  | Walmsley Hammond (Rayleigh) Limited                            |
| Moray Crematorium Limited*                           | SCI Pre Arrangement Limited                   | Warburton Funerals Limited                                     |
| Morecambe & Heysham Funeral Service Limited          | Seaford Funeral Service Limited               | Wetton Funeral Services Limited                                |
| N A Medd Limited                                     | Seddons of Southport Limited                  | White Lady Funerals Limited                                    |
| National Funeral Trust Limited                       | Selim Smith & Co. Limited                     | Whyte Funeral Services Limited*                                |
| Newco (Crematoria) Limited                           | Serenity Limited                              | William Pearce & Son Limited                                   |
| Newco (Crematoria) 2 Limited                         | Shankill Funeral Services Limited**           | Wilmshurst & Dickson Limited                                   |
| Newco (Crematoria) 3 Limited                         | Silver Lady Funeral Service Limited           | WM. Jordan & Son (Funeral Directors) Limited*                  |
| Newport Hire (I.W.) Limited                          | Simplicity Funerals Limited                   | Woodfield Park Funeral Home Limited                            |
| Newsome's Funeral Service (Royston) Limited          | Simpsons (Undertakers Requisites) Limited     | Yew Holdings Limited   |
| Norfolk Crematorium Limited                          | Spotland Bridge Funeral Services Limited      |  |
| Northampton Crematorium Limited                      | Stanway & Garnett Funeral Service Limited     |  |
| Norwich Crematorium Holdings Limited                 | Swift & Mildred Limited                       |  |
| Norwich Crematorium Limited                          | T & R O'Brien Limited*                        |  |
| Nubian Funeral Directors Limited                     | T H Fenton Limited                            |  |
|  | T S Annison & Sons Limited                    |  |

#### Registered office

\* The registered office for these subsidiaries is 280 Kinfauns Drive, Glasgow, G15 7AR

\*\* The registered office for these subsidiaries is 14 Scotch Quarter, Carrickfergus, County Antrim, BT38 7DP

\*\*\* The registered office for this subsidiary is 59 Kensington Place, St Heller, JE2 3PA, Jersey

All other subsidiary undertakings are registered at 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

#### Other information

All of the subsidiaries are incorporated in the United Kingdom except for Pitcher & Le Quesne Limited which is incorporated in Jersey. All subsidiaries are controlled by the Group.

All of the above shareholdings are held indirectly, with the exception of Dignity (2004) Limited, Dignity (2008) Limited, Dignity (2011) Limited and Dignity Holdings No.3 Limited.

Dignity plc owns, either directly or indirectly, 100 per cent of the equity interest of all the subsidiaries.

## Financial record\*

### Summarised consolidated income statement

|   | 2018<br>£m | 2017<br>£m | 2016<br>£m | 2015<br>£m | 2014<br>£m |
|---|------------|------------|------------|------------|------------|
| Revenue                                 |            |            |            |            |            |
| Funeral services                        | 214.9      | 221.8      | 217.8      | 212.6      | 184.4      |
| Crematoria                              | 78.0       | 74.0       | 67.5       | 63.1       | 55.2       |
| Pre-arranged funeral plans              | 22.7       | 28.2       | 28.3       | 29.6       | 29.3       |
|   | 315.6      | 324.0      | 313.6      | 305.3      | 268.9      |
| Underlying operating profit             |            |            |            |            |            |
| Funeral services                        | 62.2       | 79.5       | 79.0       | 76.8       | 66.3       |
| Crematoria                              | 40.3       | 40.0       | 37.6       | 34.6       | 29.1       |
| Pre-arranged funeral plans              | 2.8        | 8.0        | 8.5        | 7.8        | 7.4        |
| Central overheads                       | (25.1)     | (22.9)     | (23.4)     | (20.5)     | (17.9)     |
|   | 80.2       | 104.6      | 101.7      | 98.7       | 84.9       |
| Underlying finance costs                | (26.0)     | (26.9)     | (26.9)     | (27.0)     | (30.6)     |
| Finance income                          | 0.2        | 0.1        | 0.4        | 0.5        | 4.2        |
| Underlying profit before tax            | 54.4       | 77.8       | 75.2       | 72.2       | 58.5       |
| Taxation                                | (11.5)     | (13.8)     | (15.8)     | (15.5)     | (13.1)     |
| Underlying profit after tax             | 42.9       | 64.0       | 59.4       | 56.7       | 45.4       |
| Underlying earnings per share (pence)   | 85.8p      | 128.3p     | 119.8p     | 114.8p     | 85.8p      |
| Operating profit                        | 66.3       | 98.0       | 97.7       | 95.5       | 82.9       |
| Profit/(loss) after tax                 | 31.5       | 57.8       | 57.2       | 56.9       | (55.0)     |
| Basic earnings/(loss) per share (pence) | 63.0p      | 115.8p     | 115.3p     | 115.2p     | (104.0p)   |

### Key performance indicators

|  | 2018    | 2017    | 2016    | 2015    | 2014    |
|--|---------|---------|---------|---------|---------|
| Total estimated number of deaths in Britain (number) | 599,000 | 590,000 | 590,000 | 588,000 | 550,000 |
| Number of funerals performed (number)                | 72,300  | 68,800  | 70,700  | 73,500  | 65,600  |
| Funeral market share** (per cent)                    | 11.9%   | 11.5%   | 11.8%   | 12.3%   | 11.7%   |
| Number of cremations performed (number)              | 65,200  | 63,400  | 59,500  | 57,700  | 53,400  |
| Crematoria market share (per cent)                   | 10.9%   | 10.7%   | 10.1%   | 9.8%    | 9.7%    |
| Active pre-arranged funeral plans (number)           | 486,000 | 450,000 | 404,000 | 374,000 | 348,000 |
| Underlying cash generated from operations (£million) | 101.9   | 115.4   | 121.1   | 125.2   | 104.4   |

### Net debt

|   | 2018<br>£m | 2017<br>£m | 2016<br>£m | 2015<br>£m | 2014<br>£m |
|---|------------|------------|------------|------------|------------|
| Net amounts owing on Secured Notes per financial statements                       | (560.6)    | (565.1)    | (573.9)    | (586.5)    | (594.6)    |
| Add: unamortised issue costs on Secured Notes                                     | (0.6)      | (0.6)      | (0.7)      | (0.7)      | (0.7)      |
| Gross amounts owing on Secured Notes per financial statements                     | (561.2)    | (565.7)    | (574.6)    | (587.2)    | (595.3)    |
| Net amounts owing on Crematoria Acquisition Facility per financial statements     | -          | -          | (15.7)     | (15.7)     | (15.6)     |
| Add: unamortised issue costs on Crematoria Acquisition Facility                   | -          | -          | (0.1)      | (0.1)      | (0.2)      |
| Gross amounts owing   | (561.2)    | (565.7)    | (590.4)    | (603.0)    | (611.1)    |
| Accrued interest on Secured Notes   | (12.3)     | (0.3)      | (0.3)      | (12.8)     | (5.7)      |
| Accrued interest on Crematoria Acquisition Facility and Revolving Credit Facility | (0.2)      | (0.2)      | (0.1)      | (0.1)      | -          |
| Cash and cash equivalents   | 66.9       | 49.3       | 67.1       | 98.8       | 86.5       |
| Net debt  | (506.8)    | (516.9)    | (523.7)    | (517.1)    | (530.3)    |

## Financial record\* continued

## Summarised consolidated balance sheet

|                                       | 2018<br>£m   | 2017<br>£m   | 2016<br>£m   | 2015<br>£m   | 2014<br>£m   |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Non-current assets</b>             |              |              |              |              |              |
| Goodwill and intangible assets        | 384.9        | 385.5        | 358.1        | 328.2        | 276.5        |
| Property, plant and equipment         | 254.1        | 248.0        | 235.4        | 200.6        | 192.3        |
| Investment in associated undertakings | 6.0          | –            | –            | –            | –            |
| Financial and other assets            | 15.7         | 14.3         | 11.3         | 10.3         | 10.4         |
|                                       | 660.7        | 647.8        | 604.8        | 539.1        | 479.2        |
| <b>Current assets</b>                 |              |              |              |              |              |
| Cash and cash equivalents             | 66.9         | 49.3         | 67.1         | 98.8         | 86.5         |
| Other current assets                  | 41.4         | 45.6         | 43.1         | 38.3         | 36.5         |
|                                       | 108.3        | 94.9         | 110.2        | 137.1        | 123.0        |
| <b>Total assets</b>                   | <b>769.0</b> | <b>742.7</b> | <b>715.0</b> | <b>676.2</b> | <b>602.2</b> |
|                                       |              |              |              |              |              |
| Current liabilities                   | 84.7         | 70.0         | 75.1         | 82.7         | 60.6         |
| Non-current liabilities               | 618.3        | 626.3        | 643.4        | 637.4        | 634.1        |
| <b>Total liabilities</b>              | <b>703.0</b> | <b>696.3</b> | <b>718.5</b> | <b>720.1</b> | <b>694.7</b> |
|                                       |              |              |              |              |              |
| Equity attributable to shareholders   | 66.0         | 46.4         | (3.5)        | (43.9)       | (92.5)       |
| <b>Total equity and liabilities</b>   | <b>769.0</b> | <b>742.7</b> | <b>715.0</b> | <b>676.2</b> | <b>602.2</b> |

## NOTES

\* This information has been extracted from the current and previous Annual Reports and accordingly does not constitute audited information.

\*\* Market share excluding funerals performed in Northern Ireland.

\*\*\* In 2014, the Group refinanced its capital structure. Prior to 17 October 2014, the Group had on various occasions issued Class A Secured Notes due for final repayment in 2023 ('Old Class A Notes') and Class B Secured Notes due for final repayment in 2031 ('Old Class B Notes' and together with the Old Class A Notes, the 'Old Notes'). On 17 October 2014, the Group issued £238,904,000 Class A Secured 3.5456% Notes due 2034 ('New Class A Notes') and £356,402,000 Class B Secured 4.6956% Notes due 2049 ('New Class B Notes' and together with the New Class A Notes, the 'New Notes'). For the purpose of the financial record, the various classes of these notes are referred to as the Secured Notes. Elsewhere in this Annual Report, Secured Notes and associated references refers to the New Notes, as these were the only notes in issue in 2015, 2016, 2017 and 2018.

## Alternative performance measures

### Non-GAAP measures

#### (a) Alternative performance measures

The Board believes that whilst statutory reporting measures provide a useful indication of the financial performance of the Group, additional insight is gained by excluding non-underlying items which comprise certain non-recurring or non-trading transactions.

#### *Non-underlying items*

The Group's underlying measures of profitability exclude:

- amortisation of acquisition related intangibles;
- external transaction costs;
- profit or loss on sale of fixed assets;
- Transformation Plan costs (see below);
- operating and competition review costs;
- one-off costs in respect of the defined benefit pension obligations;
- trade name write-off and impairments; and
- the taxation impact of the above items together with the impact of taxation rate changes.

Non-underlying items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day-to-day management of the business and allow for greater comparability across periods.

#### *Transformation Plan costs*

Given the on-going transformation of the Group's business will result in significant, directly attributable non-recurring costs over the period of the Transformation Plan, these amounts are excluded from the Group's underlying profit measures and treated as a non-underlying item.

These costs will include, but are not limited to:

- external advisers' fees;
- directly attributable internal costs, including staff costs wholly related to the Transformation (such as the Transformation Director and project management office);
- costs relating to any property openings, closures or relocations;
- rebranding costs;
- speculative marketing costs; and
- redundancy costs.

#### *Calculation of underlying reporting measures*

Underlying profit measures (including divisional measures) are calculated as profit before non-underlying items.

Underlying earnings per share is calculated as profit after taxation, before non-underlying items (net of tax), divided by the weighted average number of Ordinary Shares in issue in the period.

Underlying cash generated from operations excludes non-underlying items on a cash paid basis.



## Alternative performance measures continued

### Non-GAAP measures (continued)

#### (b) Non-underlying items

| 52 week period ended 28 December 2018           | Funeral services<br>£m | Crematoria<br>£m | Pre-arranged funeral plans<br>£m | Central overheads<br>£m | Group<br>£m |
|---|------------------------|------------------|----------------------------------|-------------------------|-------------|
| <b>Non-trading</b>                              |                        |                  |                                  |                         |             |
| Amortisation of acquisition related intangibles | 4.4                    | 0.4              | 0.1                              | –                       | 4.9         |
| External transaction costs                      | 0.6                    | –                | –                                | 0.2                     | 0.8         |
| Loss on sale of fixed assets                    | 0.3                    | –                | –                                | –                       | 0.3         |
| <b>Non-recurring</b>                            |                        |                  |                                  |                         |             |
| Transformation Plan costs                       | –                      | –                | –                                | 2.7                     | 2.7         |
| Operating and competition review costs          | –                      | –                | –                                | 2.7                     | 2.7         |
| GMP past service cost                           | 1.0                    | 0.3              | 0.1                              | –                       | 1.4         |
| Trade name write-off                            | 1.1                    | –                | –                                | –                       | 1.1         |
|   | 7.4                    | 0.7              | 0.2                              | 5.6                     | 13.9        |
| Taxation  |                        |                  |                                  |                         | (2.5)       |
|   |                        |                  |                                  |                         | 11.4        |

#### 52 week period ended 29 December 2017

|   |     |     |     |     |       |
|---|-----|-----|-----|-----|-------|
| Amortisation of acquisition related intangibles | 1.1 | 0.5 | 0.2 | –   | 1.8   |
| External transaction costs                      | 1.3 | 1.3 | –   | 2.1 | 4.7   |
| Loss on sale of fixed assets                    | 0.1 | –   | –   | –   | 0.1   |
|   | 2.5 | 1.8 | 0.2 | 2.1 | 6.6   |
| Taxation  |     |     |     |     | (0.4) |
|   |     |     |     |     | 6.2   |

#### (c) Non-underlying cash flow items

|  | 28 December<br>2018<br>£m | 29 December<br>2017<br>£m |
|--|---------------------------|---------------------------|
| External transaction costs             | 1.7                       | 2.9                       |
| Transformation Plan costs              | 2.6                       | –                         |
| Operating and competition review costs | 2.7                       | –                         |
|  | 7.0                       | 2.9                       |

#### (d) 2019 alternative performance measures

In 2019, the Group will change its alternative performance measures in two ways:

##### *Adjustment to the definition of underlying operating profit*

Non-underlying items in 2019 will also include the Group's share of profit or loss of associates following the first such investment by the Group in Funeral Zone Limited in 2018. Given the nature of the investment, as described in note 11, the results of the investment are not considered by the Directors to be part of their day-to-day management of the business.

##### *The impact of adopting IFRS 15*

On adoption of IFRS 15 the Group will no longer separately recognise revenue for pre-need marketing activities, as for revenue recognition purposes, all pre-need activities are deemed to relate to a single performance obligation, being the performance of a funeral. All revenues will therefore be recorded within the funeral segment.

To aid a user of the financial statements, for the foreseeable future, the Group will amend its definition of underlying operating profit so that the effects of adopting IFRS 15 are removed.

## Non-GAAP measures (continued)

### *Like-for-like annualised operating profit ('LFL annualised operating profit')*

The Group recognises that its current measure of underlying operating profit and statutory measures of financial performance will not provide a transparent view of financial performance whilst the Group's Transformation Plan is being implemented. This is because such existing measures will not give clarity of the economic impact of changes made part way through the period (e.g. new investments, location closures and staff changes). The Group therefore plans to introduce an additional alternative performance measure for the period of the Transformation Plan.

LFL annualised operating profit will adjust underlying operating profit in such a way as to reflect a best estimate of the Group's sustainable profitability into the following year. An explanation of the changes to underlying operating profit in arriving at LFL annualised operating profit will be provided in each reporting period.

As there have not been any changes in locations or staffing in 2018, LFL annualised operating profit is considered to be the same as underlying operating profit for 2018.

## Shareholder information

General enquiries may be addressed to the Company Secretary, Tim George, at the Company's registered office.

### General information

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the United Kingdom.

### Company Registrars

Enquiries concerning shareholdings, change of address or other particulars, should be directed in the first instance to the Company's Registrars, Equiniti. They also provide a range of online shareholder information services at [www.shareview.co.uk](http://www.shareview.co.uk) where shareholders can check their holdings and find practical help on transferring shares and updating personal details. Alternatively they can be contacted by telephone on 0371 384 2674 (textphone for shareholders with hearing difficulties 0371 384 2255) if calling from within the UK, or +44 (0) 121 415 7047 if calling from outside the UK.

### Shareholder communications

Shareholders who have not elected to receive paper copies are sent a notification whenever shareholder documents are published to advise them how to access the documents via the Group website at [www.dignityfunerals.co.uk/corporate](http://www.dignityfunerals.co.uk/corporate). Shareholders may also choose to receive this notification via e-mail with a link to the relevant page on the website. This approach enables the Company to reduce printing and distribution costs and its impact on the environment. Shareholder documents are only sent in paper format to shareholders who have elected to receive documents in this way.

Shareholders who wish to receive e-mail notification should register online at [www.shareview.co.uk](http://www.shareview.co.uk) click on 'Open a Portfolio Account' under the 'Portfolio' section. You will require your Shareholder Reference Number, which is given on your share certificate or dividend tax voucher. Choosing e-mail notification will result in you joining the Equiniti Shareview Service in accordance with its terms and conditions.

### Share price information

The latest Dignity plc share price can be obtained via the Company's investor website [www.dignityfunerals.co.uk/corporate](http://www.dignityfunerals.co.uk/corporate).

### 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 register to do so with the Mailing Preference Service at [www.mpsonline.org.uk](http://www.mpsonline.org.uk).

### Annual General Meeting

The Company's Annual General Meeting will be held on 13 June 2019, at 11:00am at DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham, West Midlands, B2 4DL.

### Dividends

Dividends are normally paid twice a year. The proposed final dividend in respect of the period to 28 December 2018 will be payable on 28 June 2019 to those shareholders on the register on 17 May 2019.

A dividend reinvestment plan (DRIP) will also be offered.

For those shareholders who prefer not to participate in the DRIP, arrangements can be made to pay your dividends automatically into your bank or building society. This service has a number of benefits:

- It eliminates chances of your dividend cheque being lost in the post;
- The dividend payment is paid directly into your account on the payment date without the need to wait for a cheque to clear; and
- You will help Dignity in reducing its environmental footprint and improve its efficiency by reducing printing costs.

If you wish to register for this service, please call Equiniti on 0371 384 2674 to request a dividend mandate form.

## Contact details and advisers

### Registered Office:

Dignity plc  
4 King Edwards Court  
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Sutton Coldfield  
West Midlands B73 6AP

Tel: +44 (0) 121 354 1557  
Fax: +44 (0) 121 321 5644  
E-mail: [enquiries@dignityuk.co.uk](mailto:enquiries@dignityuk.co.uk)

 [www.dignityfunerals.co.uk/corporate](http://www.dignityfunerals.co.uk/corporate)

### Company Secretary:

Tim George FCIS

### Registered Number:

4569346

### Registrars:

Equiniti  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA

Tel: +44 (0) 371 384 2674

 [www.shareview.co.uk](http://www.shareview.co.uk)

### Auditors:

Ernst & Young LLP  
No.1 Colmore Square  
Birmingham B4 6HQ

### Joint Brokers:

Panmure Gordon & Co  
One New Change  
London EC4M 9AF

Investec  
A division of Investec Bank plc  
2 Gresham Street  
London EC2V 7QP

### Principal Bankers:

Royal Bank of Scotland plc  
West Midlands Corporate Office  
2 St Philips Place  
Birmingham B3 2RB

### Legal Advisers:

DLA Piper UK LLP  
Victoria Square House  
Victoria Square  
Birmingham B2 4DL



## Financial calendar

|   |  |
|---|--|
| <b>13 March 2019</b>                                  | Preliminary announcement of 2018 results |
| <b>13 June 2019</b>                                   | Annual General Meeting                   |
| <b>28 June 2019</b>                                   | 2019 financial half year end             |
| <b>28 June 2019 (subject to shareholder approval)</b> | Payment of 2018 final dividend           |
| <b>31 July 2019</b>                                   | Announcement of 2019 interim results     |
| <b>25 October 2019</b>                                | Payment of 2019 interim dividend         |
| <b>27 December 2019</b>                               | Financial period end                     |

## Forward-looking statements

This Annual Report and the Dignity plc investor website may contain certain 'forward-looking statements' with respect to Dignity plc (the "Company") and the Group's financial condition, results of its operations and business, and certain plans, strategy, objectives, goals and expectations with respect to these items and the economies and markets in which the Group operates.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'will', 'would', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal' or 'estimates' or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Many of these assumptions, risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely. There are a number of such factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the economies and markets in which the Group operates; changes in the legal, regulatory and competition frameworks in which the Group operates; changes in the markets from which the Group raises finance; the impact of legal or other proceedings against or which affect the Group; changes in accounting practices and interpretation of accounting standards under IFRS, and changes in interest and exchange rates.

Any forward-looking statements made in this Annual Report or the Dignity plc investor website, or made subsequently, which are attributable to the Company or any other member of the Group, or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to in this statement. Each forward-looking statement speaks only as of the date it is made. Except as required by its legal or statutory obligations, the Company does not intend to update any forward-looking statements.

Nothing in this Annual Report or on the Dignity plc investor website should be construed as a profit forecast or an invitation to deal in the securities of the Company.



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