# Dignity plc Annual Report & Accounts 2015

Delivering a strong and consistent performance

Dignity
CARING FUNERAL SERVICES

Overview

# About Dignity

**We are here to help people at one of the most difficult times in their lives. We do this with compassion, respect, openness and care. Our aim is to be the company everyone knows they can trust in their time of need.**

We are a FTSE 250 company listed on the London Stock Exchange, with over 3,000 employees serving families and local communities across the United Kingdom for generations.

At 25 December 2015 Dignity owned 767 funeral locations and operated 39 crematoria in the United Kingdom. We continue to have a strong market presence in pre-arranged funeral plans, where people plan and pay for their funeral in advance.

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### Guide to icons

We have used icons throughout this Annual Report to guide you to further reading, links to other relevant information or to find out more online.

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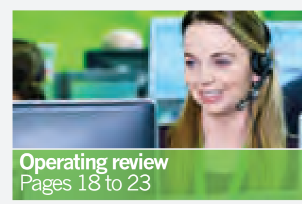
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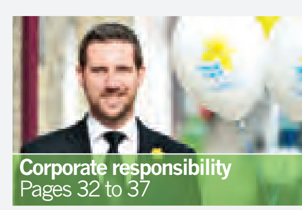
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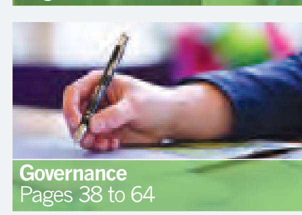
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**Stay informed**

**Dignity online:**
To find out more about Dignity and to view and download a pdf version of this Annual Report:
www.dignityfuneralsplc.co.uk

**Front cover:**
Jo Tolley, Funeral Manager at A V Band Funeral Directors in Worcester.

# Key financial highlights

## A strong and consistent financial performance.

**+14%**

**Revenue** up 14% to £305.3 million

**+16%**

**Underlying operating profit** up 16% to £98.7 million

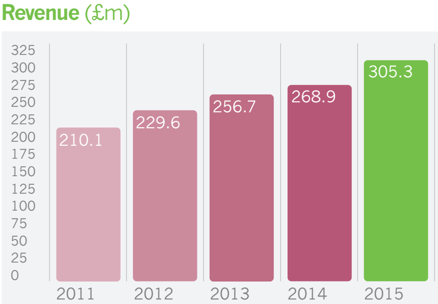
**+34%**

**Underlying earnings per share** up 34% to 114.8 pence per share

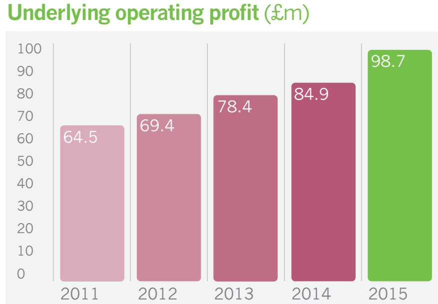
| Current period financial highlights | 2015 | 2014 | Increase per cent |
|---|---|---|---|
| Revenue (£million) | **305.3** | 268.9 | 14 |
| Underlying operating profit[a] (£million) | **98.7** | 84.9 | 16 |
| Underlying profit before tax[a] (£million) | **72.2** | 58.5 | 23 |
| Underlying earnings per share[b] (pence) | **114.8** | 85.8 | 34 |
| Cash generated from operations[c] (£million) | **125.2** | 104.4 | 20 |
| Operating profit (£million) | **95.5** | 82.9 | 15 |
| Profit/(loss) before tax[d] (£million) | **69.0** | (67.7) | n/a |
| Basic earnings per share[d] (pence) | **115.2** | (104.0) | n/a |
| Interim dividend paid in the period[e] (pence) | **7.14** | 6.49 | 10 |
| Final dividend paid in the period[f] (pence) | **13.01** | 11.83 | 10 |
| Return of Cash (£million) | **–** | 64.4 | n/a |
| Deaths | **588,000** | 550,000 | 7 |

[a] Underlying profit is calculated as profit (or loss) excluding profit (or loss) on sale of fixed assets, external transaction costs and exceptional items.
[b] Underlying earnings per share is calculated as profit (or loss) on ordinary activities after taxation, before profit (or loss) on sale of fixed assets and external transaction costs and exceptional items (all net of tax), divided by the weighted average number of Ordinary Shares in issue in the period.
[c] Cash generated from operations excludes external transaction costs and (in 2014) pension contributions made from the proceeds of debt issues.
[d] Non-cash charges resulting from the refinancing in 2014 led to a reported statutory loss in the comparative period.
[e] Interim dividend represents the interim dividend that was declared and paid in the period out of earnings generated in the same period.
[f] The final dividend represents the final dividend that was declared and paid in the period relating to the earnings generated in the previous period.

**Revenue** (£m)




**Underlying operating profit** (£m)




**Underlying earnings per share** (pence)


**Links**

Find out more about our strategy and business model: **p.12 and p.13**
Find out more about our business operations, actions and progress: **p.18 to p.23**
Find out more about our financial performance: **p.24 to p.27**

Overview

# A proud history

We have a rich and proud heritage and many of our businesses have been serving their local communities for generations. Our oldest funeral location was established in 1812 and our oldest crematorium in 1903.


## 1812

**George S Munn & Co, Glasgow**
George S Munn & Co is Dignity's oldest funeral directors and was established in 1812.

## 1840

**Francis Chappell & Sons, London**
Francis Chappell & Sons commemorated their 175th anniversary in 2015 having opened their first funeral location on Deptford High Street in 1840. The business now has branches across south east London and Kent.

## 1870

**Relph Funeral Service, Middlesbrough**
In 1870, Joseph Relph established Middlesbrough's oldest funeral business. It has been entrusted with the funeral arrangements of many prominent local figures and no less than four Roman Catholic Bishops.

## 1880

**J H Kenyon,® London**
Established by James H Kenyon the business has conducted funerals for the Royal Family, politicians and other prominent figures.

## 1884

**Frederick W Paine, London**
Charles Paine opened his first funeral location in New Malden in 1884 and ten years later the business passed to his son, Frederick W Paine.

## 1890

**A V Band, Worcester**
A V Band was established in 1890 but relocated to the first purpose-built funeral location in Worcestershire in 1938.

## 1903

**Birmingham Crematorium**
The oldest crematorium operated by Dignity and when it opened in 1903 was one of only nine such facilities in the UK.

## 1950

**T J Davies & Son, Newport**
Thomas Davies, grandfather of Operations Director, Andrew Davies, established his business in 1950.

**Seaford & Newhaven Funeral Service, East Sussex**
C Morling Ltd, a building company whose carpenters had made coffins for over 100 years, opened an office in Seaford as its funeral business. Seaford Funeral Service was developed by the Goacher family and Lee Goacher is Dignity's Regional Manager for the South East.

## 1994

**Dignity Caring Funeral Services**
Dignity was created in 1994 through the merger of Plantsbrook Group and Great Southern Group.

## 2008

**Northern Ireland**
Dignity acquired six funeral locations in Northern Ireland.

## 2013

**Yew Holdings Limited**
Dignity acquired 40 funeral locations and two crematoria from Yew Holdings Limited in 2013.

## 2015

**Laurel Funerals**
Dignity acquired 36 funeral locations from Laurel Funerals.

## Dignity today

**We maintain the heritage of each of these funeral businesses, employing local people who understand the traditions of their community and are committed to providing the highest standards of service.**

# A strong core business

Today, Dignity is one of the leading providers of funeral related services in the UK with strong business foundations. As an industry leader, we strive to set the highest standards of service, facilities and care, ensuring we are well positioned to meet the needs of our clients for generations to come.

**Dignity's operations are focused and managed across three main areas, namely Funeral services, Crematoria and Pre-arranged funeral plans.**

Links

Find out more about our strategy and business model: **p.12 and p.13**

Find out more about our business operations, actions and progress: **p.18 to p.23**

## 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.**

**Performance in 2015**
At 25 December 2015, we operated a network of 767 funeral locations throughout the UK generally trading under established local trading names.

Funeral services revenues relate to the provision of funerals and ancillary items such as memorials and floral tributes. In 2015, Dignity conducted 73,500 funerals which represented approximately 12.3 per cent of total estimated deaths in Britain.

Read more about our performance in the Operating review: **p.18 and p.19**

**£212.6m** Revenue

**£76.8m** Underlying operating profit*

**767** Number of funeral locations in the UK.

**73,500** Number of funerals conducted during 2015.

## 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.**

**Performance in 2015**
At 25 December 2015, we operated 39 crematoria in England and Scotland.

Crematoria revenues arise from cremation services and the sales of memorials and burial plots at Dignity operated crematoria and cemeteries. In 2015, we carried out 57,700 cremations representing 9.8 per cent of total estimated deaths in Britain.

Read more about our performance in the Operating review: **p.20 and p.21**

**£63.1m** Revenue

**£34.6m** Underlying operating profit*

**39** Number of crematoria Dignity operates in England and Scotland.

**57,700** Number of cremations conducted during 2015.

## Pre-arranged funeral plans

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

**Performance in 2015**
At 25 December 2015, the number of active funeral plans increased to 374,000.

Pre-arranged funeral plans income represents allowances received for the sale and administration of plans. Pre-arranged funeral plans allow people to plan and pay for their funeral in advance. Dignity works with a number of reputable affinity partners.

Read more about our performance in the Operating review: **p.20, p.22 and p.23**

**£29.6m** Revenue

**£7.8m** Underlying operating profit*

**684,000** We have already helped more than 684,000 people arrange their funeral in advance.

**374,000** Number of active funeral plans as at 25 December 2015.

* Excludes central overheads of £20.5 million.

Strategic Report

# From the Chairman

> **"The high number of deaths in 2015 to some extent masks the fact that it was another good and consistent performance by the Group.**

**Peter Hindley,** Chairman

## Summary

- Greatest change in the number of deaths for over 60 years.
- Underlying operating profit up 16 per cent.
- Dividend per share increased by 10 per cent again.

**34%**

**Underlying earnings per share up 34 per cent** to 114.8 pence (2014: 85.8 pence).

**14.31 pence**

**Final dividend** of 14.31 pence proposed, continuing the 10 per cent annual growth in the dividend per share.

### Our governance principles

**LEADERSHIP**
Continued close focus on delivering on our strategy.

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

**ACCOUNTABILITY**
Close scrutiny and management of risks and controls.

**REMUNERATION**
Prudent oversight of executive remuneration.

**ENGAGEMENT**
Maintaining a strong and open relationship with shareholders.

Links

See Governance and structure: **p.38 and p.39**
See Board of Directors: **p.40 and p.41**
See Report on Directors' remuneration: **p.50 to p.62**

### Overview

This has been an extraordinary year, with the number of deaths changing in percentage terms by a greater amount than any year since 1952. As a result, the Group's funeral and cremation volumes were much higher than originally expected. However, I am delighted that across the country our standards did not falter and that we continued to give families we had the privilege of helping, the excellent client service for which we are known.

In financial terms, this has resulted in underlying operating profit increasing 16 per cent to £98.7 million (2014: £84.9 million) and underlying earnings per share increasing 34 per cent to 114.8 pence (2014: 85.8 pence).

### Dividends

The Board is proposing a final dividend of 14.31 pence per Ordinary Share, bringing the total dividend for the year to 21.45 pence; another increase of 10 per cent on the previous year. If shareholders approve this payment at the Annual General Meeting ('AGM') on 9 June 2016, then it will be paid on 24 June 2016 to members on the register at close of business on 20 May 2016.

### Delivering a consistent performance

The high number of deaths in 2015 to some extent masks the fact that it was another good and consistent performance by the Group: client service remained high; costs continued to be controlled; cash continued to be invested in corporate activity, including the larger than normal acquisition of 36 locations from Laurel Funerals; crematoria opportunities have been developed; sales of pre-arranged funeral plans continued; and profits continued to be converted efficiently into cash to fund these activities.

As such, the investment case for shareholders of Dignity being a stable, predictable, cash generative business continues.

### Board priorities and changes

During the period, Ishbel Macpherson left the Board and was replaced by David Blackwood. Ishbel has supported the Group since 2009 when I became Chairman. I am grateful for her contribution over that time, both on the Board and as chair of the Group's Audit Committee since 2012.

David joined us following his retirement as Chief Financial Officer of Synthomer plc, a FTSE 250 group. Given his recent experience, David has been appointed Chair of the Audit Committee and will also sit on both the Remuneration and Nomination Committees. I am sure he will make a valuable contribution in the coming years.

My thanks extend to the entire Board for its support and assistance in keeping the Group focused on its strategic objectives.

### Our people

This year has been significantly busier for our staff than anyone could have imagined a year ago. Despite this, client service has remained very high. Each member of staff has ensured that, in their own way, nothing was too much trouble for each family we looked after at one of the most difficult times in their lives. Thank you to each and every member of staff for your hard work.

### Outlook for 2016

The Group stated several times during 2015 that, based on long-term historical data, there is a strong possibility the number of deaths in 2016 may be significantly lower than 2015. The first two months of the new financial year have not changed this view and therefore the Group's financial expectations for 2016 and beyond continue to remain unchanged. As a result, current market expectations are that profit before tax in 2016 will be slightly lower than that reported in 2015.

Nevertheless, the Group notes that achievement of current market expectations in 2016 would mean earnings per share would have increased by approximately 30 per cent over the period 2014 to 2016, well ahead of the Group's continuing medium-term target of increasing earnings per share by 10 per cent per year.

# Chief Executive's overview


**Mike McCollum,** Chief Executive

## Performance in 2015

- Strong revenue growth.
- Strong cost control.
- Core portfolio continues to deliver growth.
- 36 locations acquired from Laurel Funerals successfully integrated.
- Acquisitions add further value.

## 99.2%

**99.2 per cent** of families said that Dignity met or exceeded their expectations.

### A strong platform to drive growth and deliver long-term value


### Links

See Market overview: **p.06 and p.07**
See Strategy and business model: **p.12 and p.13**
See Operating review: **p.18 to p.23**

### Overview

It is impossible to talk about the Group's performance in 2015 without discussing the almost unprecedented percentage increase in the number of deaths compared to 2014. As the chart below shows, a change of more than five per cent has not been seen for over 40 years. Dignity's role is not to speculate on why this has happened, but rather to ensure our business can respond to the resulting increase in need for our services, without impacting the quality of service we provide. I am delighted to say that we achieved this. In 2015, 98.0 per cent of clients stated they would recommend our services, compared to 98.1 per cent in 2014. Similarly, 99.2 per cent of clients said that we met or exceeded their expectations which is unchanged from the previous year.

### Corporate activity

The business invested £50 million in acquisitions in the period, including £38.1 million to acquire 36 locations from Laurel Funerals ('Laurel') in July 2015. These acquisitions were all funded from the Group's cash reserves, as a result of the strong financial performance and cash generation in the year.

These acquisitions are performing in line with our expectations and contributed £2.3 million of operating profit in the period, with £1.4 million of this being generated by the Laurel acquisition. All these acquisitions represent excellent investments for the business and shareholders alike.

I am pleased that we also now have planning permission for two crematoria. Whilst these are both in the early stages of development and will not open until mid-2017 or early 2018, they represent a good long-term use of capital. As we have seen with the other crematoria opened in recent years, these locations will probably take at least five to seven years to fully develop their market share.

### Maintaining investment and development momentum in our core business

Whilst a lot of time has been invested in corporate activity in the year, we remain focused on the value generated by our core business. Investment in these locations has continued, with a total of £15.6 million invested in the period to ensure our properties and specialised fleet are able to support the excellent service we provide to the families we care for.

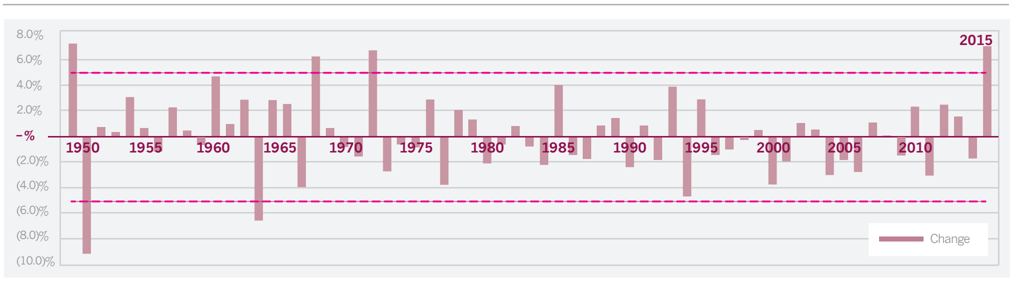
### People and values

Our staff have performed tremendously this year, responding positively to the sudden increase in demands required to care for so many families this year. We have chosen to share the resulting financial success of the Group by paying a bonus of £1,800 for each full time member of staff, a 64 per cent increase on the amount paid per full time employee last year. The total cost of the bonus is approximately £5 million (2014: £2.7 million).

### Quality and consistency of service delivery remains our long-term focus

The business has yet again demonstrated its robustness and is well placed for the future. We hope to achieve our medium-term target of 10 per cent per annum increases in earnings per share by staying focused on excellent service, operating efficiently, selling pre-arranged funeral plans, acquiring and developing quality businesses where possible and keeping our capital structure appropriately leveraged.

### Year on year change in the number of deaths



# Market overview

## The UK funeral market today.

> "Reputation and recommendation remain a key driver in someone's choice of funeral director.

### Industry at a glance

- The funeral director market is very fragmented.
- Approximately 70 per cent of crematoria are owned by local authorities.
- Annual variations in the number of deaths are normally relatively small.
- There is not currently any regulation pending that would materially affect the funeral industry.

### Industry trends

- Economic lifestyle and demographic influences.

### High barriers to entry

Funeral services
- 92 per cent of people approach just one funeral director.
- Over 72 per cent of people choose a funeral arranger based on personal experience or recommendation.

Crematoria
- Criteria for new crematoria are very demanding.

Pre-arranged funerals
- Nationwide presence is key.

### Overview

The funeral market as a whole does not normally change rapidly year on year but the effect over a number of years is noticeable, whether it is the number of deaths per year, or the number of funeral or crematoria locations within the industry. The Group monitors and responds to the environment it operates in, seeking to understand the implications for the short, medium and long-term.

### Scale and structure

The funeral director market is very fragmented, with approximately two thirds of funeral directors being small owner managed businesses.

There are approximately 280 crematoria in the UK, with approximately 70 per cent owned by local authorities. Approximately three quarters of all funerals result in a cremation with the remainder being burials.

### Regulation

The provision of funeral services is not regulated. Trade organisations such as the National Association of Funeral Directors ('NAFD') provide training and qualifications, although they are not mandatory.

The Coroners Reform Act became law in Scotland in the period. It has not materially changed the operation of the Group's funeral and crematoria businesses.

There is currently an ongoing Select Committee enquiry in Westminster into bereavement benefits and funeral poverty. The Scottish Government also commissioned a report on funeral poverty and the level of allowance paid to funeral directors, which has not changed since 2003.

In response to conclusions from the same group that made recommendations that resulted in the Coroners Reform Act, as well as recommendations from a commission appointed to review infant cremations, the Scottish Government is also seeking to enact new legislation. Amongst other things, this could lead to the licensing of funeral directors in Scotland and the appointment of a Scottish Inspector of funerals.

Crematoria are subject to environmental regulations in accordance with "The Secretary of States Guidance for Crematoria", with emission levels being monitored by Local Authority Environmental Health Officers. The abatement of mercury emissions has improved the environmental position.

Pre-arranged funeral plans are exempt from the provisions of the Finance Services and Markets Act, provided certain conditions prescribed in that Act are met.

Dignity would welcome further regulation of the funeral industry setting out minimum standards for core activities, such as the care of the deceased, minimum standards of facilities and also operating procedures in crematoria.

### Office for National Statistics data

Some of the Group's key performance indicators rely on the total number of estimated deaths for each period. This information is obtained from the Office for National Statistics ('ONS').

The initial publication of recorded total estimated deaths in Britain for the 52 weeks in 2015 was 588,000 compared to 550,000 for 2014. Historically, the ONS has updated these estimates from time to time. As in previous years, the Group does not restate any of its key performance indicators when these figures are restated in the following year.

Although annual deaths have declined significantly since the early 1990s from 640,000 to a recent low of 539,000 in 2011, the last four years have seen deaths above that level.

### Competition

Whilst a precise list of all funeral directors is not available, data from various sources suggest that the number of funeral directors in the UK has increased from approximately 4,300 in 1998 to around 5,500 today.

Although competition is increasing, the nature of a service business is that the quality of service being provided is not known in advance. Consequently, reputation and recommendation remain a key driver in someone's choice of funeral director. Over the last five years, approximately 70 per cent of our clients say they have chosen us for these reasons.

With crematoria, amongst other things, planning laws require there to be a need for a new crematorium in a particular area. This can be difficult to prove and can be an emotive subject for local residents. This, combined with availability of appropriate land and the high capital cost of construction, has limited the growth in the number of crematoria in the UK.

Pre-arranged funeral plans allow the Group the opportunity to gain incremental funerals. Our national network allows us to work with national partners offering a funeral plan anywhere in the UK.

### Outlook

The ONS expects the number of deaths per annum to start to increase at some point before 2020.

# Maintaining our strong market leading positions.

## Links

See Strategy and business model: **p.12 and p.13**
See Our KPIs: **p.14 and p.15**
See The Client Survey performance: **p.16**
See Operating review: **p.18 to p.23**

## A strong core business that is well placed for the future

### Dignity's funeral market share

**12.3%** (2014: 11.7%)

**Funeral services: Our strengths**
Dignity has approximately 12.3 per cent of the funeral market. This gives the Group sufficient size to operate its locations efficiently in a way that shares expensive resources, such as mortuaries and specialist vehicles, whilst providing very high levels of service to each family it looks after.

This size still gives the Group good scope to acquire owner managed businesses in areas where it is not well represented.

**Developments in the year**
2015 saw the Group expand its network of funeral locations through the acquisition of a number of established funeral businesses operating a total of 48 locations.

**Outlook and opportunities**
The Group remains focused on acquiring additional businesses and opening new satellite locations.

### Dignity's crematoria market share

**9.8%** (2014: 9.7%)

**Crematoria: Our strengths**
With 39 crematoria, Dignity is the largest single operator in the UK. The cremations performed represent approximately 9.8 per cent of deaths in Britain. There is still significant scope to expand through acquisition or new builds where possible.

**Developments in the year**
Planning permission has been obtained on two crematoria, which should open mid-2017 or early 2018.

**Outlook and opportunities**
The Group continues to seek ways to increase the number of crematoria it operates. However, acquisition targets are scarce and planning laws will continue to make it difficult to build new locations.

### Number of active pre-arranged funeral plans

**374,000** (2014: 348,000)

**Pre-arranged funeral plans: Our strengths**
Dignity's national network of funeral locations and strong relationships with many different affinity partners has allowed it to sell significant volumes of pre-arranged funerals that should represent incremental activity for the funeral division in the future.

**Developments in the year**
New affinity partners have helped the Group develop its offerings. A number of additional partners are currently being tested.

**Outlook and opportunities**
Further relationships with new affinity partners will be developed, with a focus on ensuring each plan makes economic sense for the customer and the Group.


> "Excellent client service is critical to the success of the Group.

**70%**

Recommendations and our reputation have generated approximately 70 per cent of our funeral business on average over the last five years.

### Committed to both quality of service and business success

The vast majority of our funeral business relies on reputation, recommendation and previous experience. This reliance will decline as the percentage of our business resulting from our pre-arranged funeral plan business increases.

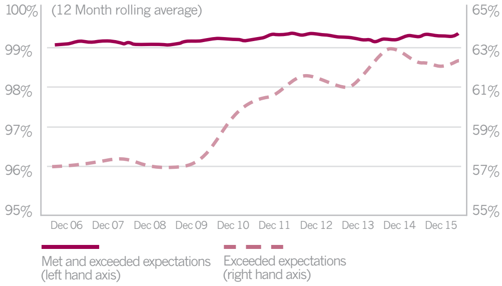
**Source of business**


### Quality and consistency of service

Our clients continue to return and recommend us because of the quality and consistency of service we deliver.

Ongoing training and development of our people and investments in our business help us to improve, meet and exceed expectations.

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



# A strong and sustainable business

The way that we operate and manage our business through our consistent strategy and business model continues to underpin our performance and supports our goal of growing and developing Dignity as a long-term, profitable and sustainable business. This enables us to deliver value to all our stakeholders – our clients, employees, shareholders and the local communities we serve.

This report demonstrates how our strategy, governance, people and consistent performance combine to create and sustain value.

## What we believe in

- **What we are here to do:**
  To help people at one of the most difficult times in their lives.
- **How we do this:**
  With compassion, respect, openness and care.
- **What we want to be:**
  The company that everyone knows they can trust in their time of need.

"Our vision and values continue to provide the foundation for our business.

Our clear and consistent strategy and business model provides a **robust platform for delivering long-term sustainable growth and value**.

Read more about our strategy and business model: **p.12 and p.13**

Our competitive advantage is sustained by **investing in the best people, our locations and services** to ensure we continue to meet our clients' needs and those of the local communities we serve.

Read more about our operational performance in the Operating review: **p.18 to p.23**

Strong management and development of our core portfolio enables us to **maintain our market-leading position** and capture future growth opportunities.

Read more about our industry and our strong position in Market overview: **p.06 and p.07**

We are committed to **building relationships** through the **consistent delivery of excellent client service**; informed investors; dedicated employees; and well supported communities.

Read more about commitment to building strong relationships in our strategy and business model: **p.12 and p.13**

# Focus
# Maintain
# Deliver

## Continuing focus on excellent client service

At Dignity, we focus on people – those that work for us, partner with us, invest in our strategy and the local communities we serve, but above all, those who depend on the services we provide everyday.

### High standards of service and care

Serving the people in our local communities at one of the most difficult times in their lives remains at the heart of everything we do and we are committed to providing the highest standards of service and care. Our clients continue to return and recommend us because of the quality and consistency of service we deliver.

### Our people

Our continued focus on outstanding service remains central to our business success and our dedicated employees are integral to the delivery of our strategic objectives. We value, support and engage with them to ensure that we continue to have the right people with the right skills and experience to deliver the best possible service for our clients.

Read more about Our people in CSR: **p.32 to p.37**

Read more about our consistent performance in The Client Survey: **p.16**

Focus
**Maintain**
Deliver

## Maintaining investment and development in our core business

### A strong core business

Our focus, scale and quality sets us apart and we continue to build on and reinforce the competitive strengths in our business. Each year we invest in the refurbishment of our funeral properties, the renewal of our fleet and staff training initiatives, enabling our people to provide a better service.

We continue to invest in our crematoria facilities to provide peaceful gardens of remembrance and facilities for our clients.

We continue to work closely with our affinity partners and funeral locations for the sale of pre-arranged funeral plans.

### Other growth opportunities

We also develop and grow our business through:

- the acquisition of well established and well respected funeral businesses;
- the opening of new satellite funeral locations;
- the construction or acquisition of new crematoria;
- management of local authority owned crematoria; and
- developing new affinity partner relationships for the sale of pre-arranged funeral plans.

Read more about our performance in the Operating review: **p.18 to p.23**

Focus
Maintain
**Deliver**

## Delivering long-term value and sustainable growth

**Our ongoing commitment**
We are committed to both quality of service and business success and how we do business is integral to what we deliver.

Our business is built upon trust, respect, reputation and relationships and we demonstrate our values and governing principals through our day-to-day behaviour and conduct ourselves in a responsible and ethical manner.

We remain committed to delivering excellent client service and to our clear and consistent strategy which continues to provide a robust platform for delivering long-term value and sustainable growth to all our stakeholders.

Read more about our consistent strategy and business model: **p.12 and p.13**

# A consistent strategy and business model

## We continue to implement a clear and consistent strategy.

### Our strategy

We plan to grow the profitability of our business by:

- Operating in a traditional market where people use our services based on our reputation and through recommendations, where we believe our continued commitment to excellent service for our clients will generate a high level of referral and organic growth;
- Continuing to control our operating costs;
- Developing or acquiring additional funeral locations;
- Developing, managing or acquiring additional crematoria;
- National marketing of pre-arranged funeral plans, principally through affinity partners; and
- Efficient use of our balance sheet to enhance shareholder returns.

| Our strategy in action | Key points |
|---|---|
| **Ensuring the highest levels of client service:**<br>• High levels of client service demonstrably affect clients' willingness to recommend our services. Recommendations and our reputation have generated approximately 70 per cent of our funeral business on average over the last five years. | **98.0%**<br>In the 2015 client survey 98.0 per cent of respondents said they would recommend us.<br>See The Client Survey performance: **p.16** |
| **Recruiting, developing and retaining the best people:**<br>• Our employees are central to the success of the business. We seek to recruit and retain the best people through appropriate remuneration and ongoing training. | **29%**<br>The percentage of Dignity employees who have over 10 years service.<br>See CSR: **p.32 to p.37** |
| **Continued investment:**<br>• We invest significantly in our existing business, striving to ensure it is of the highest standard, both in client facing areas and behind the scenes. We also seek to invest in new businesses that will help Dignity grow and create value for shareholders. | **£66.0m**<br>£15.6 million invested in capital expenditure on the core business and a net investment of £50.4 million in acquiring new locations and opening satellites.<br>See Operating review: **p.18 to p.23** |
| **Controlling our costs:**<br>• We seek to benefit from our size with national contracts for utilities and similar services where appropriate. | **£98.7m**<br>The Group's underlying operating profit increased 16 per cent to £98.7 million.<br>See Operating review: **p.18 to p.23** |
| **Growing our business responsibly:**<br>• As an industry leader, we aim to be both successful and good corporate citizens. | **FTSE4Good**<br>Dignity is identified as a company that meets globally recognised standards of corporate responsibility.<br>See CSR: **p.32 to p.37** |
| **Sale of pre-arranged funeral plans:**<br>• We remain a significant provider of plans and continue to work with our established partners and develop new partnerships to sell plans efficiently. | **374,000**<br>374,000 people have active pre-arranged funeral plans.<br>See Operating review: **p.18 to p.23** |
| **Delivering long-term shareholder returns:**<br>• Our business is driven by relatively predictable factors over long periods of time. This allows us to operate and fund our business in a way that generates value over the long-term. | **£345.2m**<br>Since flotation, £345.2 million in cash including dividends has been returned to shareholders.<br>See Financial review: **p.24 to p.27** |

# Our goal is simple: To continue developing Dignity as a long-term sustainable business that consistently performs and delivers value to all our stakeholders.

## Creating long-term and sustainable value

### Delivering excellent service lies at the heart of what we do. It shapes our strategy and is how we focus our efforts on creating value.

**Generating profitable growth:**
Our consistent track record in strong cash generation and financial discipline enables us to reinvest and grow the business both organically and through strategic acquisition. We generate revenues from new and returning clients and by carefully acquiring businesses that complement our network of locations, extend our geographic reach and represent a reasonable return on our capital.

**Controlling and measuring growth:**
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 company.
- 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 manage, maintain and deliver strong EPS growth and return on capital.
- We play an important part in and are valued by the local communities we serve and we are committed to making a difference.

### How we align remuneration to strategy

Our strategy is focused on delivering short and long-term financial performance. EPS and total shareholder return are quantifiable measures of performance and are used to incentivise Executive Directors to deliver the Group's strategy.

### Key to our ongoing strategic objectives

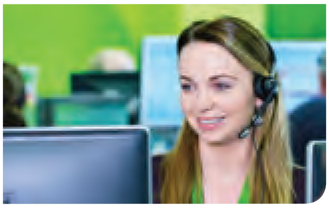
Our ongoing strategic objectives underpin and integrate our activities and you will see numerous references and examples of our strategy in action throughout this report. Where we discuss a part of our strategic objectives we have referenced this with the specific number as indicated below:

1. Continue to prioritise excellent client service which we believe will lead to organic growth.
2. Control our costs without compromising the quality of our service.
3. Expand our funeral and crematoria portfolios.
4. Gain new clients through the sale of pre-arranged funeral plans.
5. Increase our returns through efficient capital management.

### Links

Find out more about Our KPIs and how we measure performance: **p.14 and p.15**
Find out more about how we manage and mitigate risk: **p.28 to p.31**
Find out about our governance framework within which we conduct our business and deliver our strategic objectives: **p.38 and p.39**
Find out more about our CSR commitments: **p.32 to p.37**



# Our key performance indicators

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

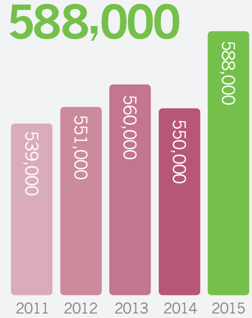
### Non-financial KPIs

| KPI | Link to strategic objective |
|---|---|

**Total estimated number of deaths in Britain**
(number)

1

**588,000**




**Definition**
This is as reported by the Office of National Statistics.

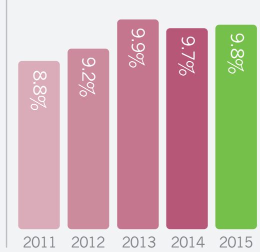
**Developments in 2015**
The number of deaths was significantly higher than the previous year. The Group expects this increase to reverse in 2016.

| KPI | Link to strategic objective |
|---|---|

**Crematoria market share**
(per cent)

1 3

**9.8%**



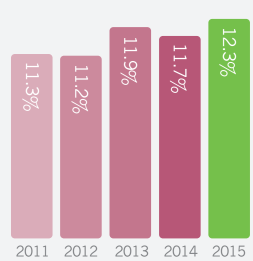

**Definition**
This is the number of cremations performed by the Group divided by the total estimated number of deaths in Britain.

**Developments in 2015**
Market share has remained broadly flat, reflecting the stable market position of the Group's locations.

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

1 3

**12.3%**



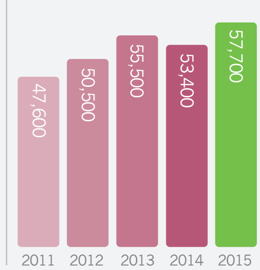

**Definition**
This is the number of funerals performed by the Group in Britain divided by the total estimated number of deaths in Britain.

**Developments in 2015**
Market share has increased, principally reflecting the effect of recent acquisitions.

**Number of cremations performed**
(number)

1 3

**57,700**



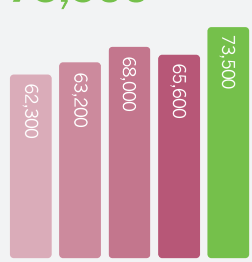

**Definition**
This is the number of cremations performed according to our operational data.

**Developments in 2015**
Changes are a consequence of the total number of deaths and the Group's market share.

**Number of funerals performed**
(number)

1 3

**73,500**



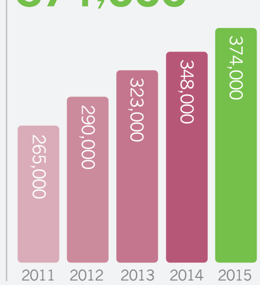

**Definition**
This is the number of funerals performed according to our operational data.

**Developments in 2015**
Changes are a consequence of the total number of deaths and the Group's market share.

**Active pre-arranged funeral plans**
(number)

4

**374,000**




**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 2015**
This increase reflects continued strong sales activity offset by the crystallisation of plans sold in previous years.

### Key and link to strategic objectives measured by KPIs

1. Continue to prioritise excellent client service which we believe will lead to organic growth.
2. Control our costs without compromising the quality of our service.
3. Expand our funeral and crematoria portfolios.
4. Gain new clients through the sale of pre-arranged funeral plans.
5. Increase our returns through efficient capital management.

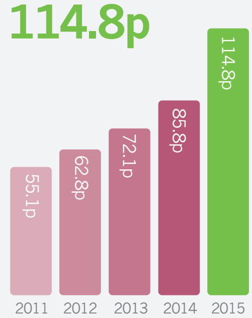
## Financial KPIs

| KPI | Link to strategic objective |
|---|---|

### Underlying earnings per share (pence)

Link to strategic objective: 1 2 3 4 5

**114.8p**



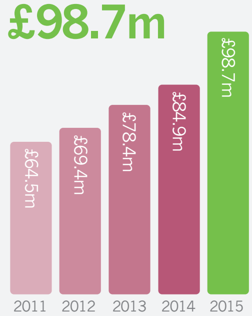

**Definition**
This is underlying profit after tax divided by the weighted average number of Ordinary Shares in issue in the period.

**Developments in 2015**
Strong growth following the increase in operating profit.

### Underlying operating profit (£m)

Link to strategic objective: 1 2 3 4

**£98.7m**



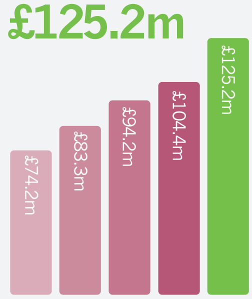

**Definition**
This is the statutory operating profit of the Group excluding profit (or loss) on sale of fixed assets and external transaction costs.

**Developments in 2015**
Strong growth driven by the core business as well as acquisition activity.

### Cash generated from operations (£m)

Link to strategic objective: 5

**£125.2m**




**Definition**
This is the statutory cash generated from operations excluding external transaction costs and exceptional pension contributions.

**Developments in 2015**
The Group continues to convert operating profit into cash efficiently.

### How we measure performance

The Group uses these non-financial and financial key performance indicators to both manage the business and ensure that the Group's strategy and objectives are being delivered. 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. They are consistent over the last five years enabling clarity and transparency in both reporting and management.

### Our five year performance

Each of the Group's KPIs over the five year period demonstrate the robustness of its operating and financial performance. They also highlight the Group's relatively stable and predictable nature compared to many businesses in other sectors.

### Links

See Strategy and business model: **p.12 and p.13**
See Principal risks and uncertainties: **p.28 to p.31**
See Report on Directors' remuneration: **p.50 to p.62**
A summary of the Group's financial record for the last five years can be found on: **p.116 and p.117**

# Our key performance indicators continued

In addition to these key performance indicators, we also closely monitor the results of our client surveys to ensure we maintain the highest levels of client service.

**Key and link to strategic objective**

1 Continue to prioritise excellent client service which we believe will lead to organic growth.

See Strategy and business model: **p.12 and p.13**

## KPI – Excellent client service

Link to strategic objective 1

### Why it is important

Ensuring the highest levels of client service is one of our key strategic objectives and is fundamental to our continued success.

We closely monitor the results of our client surveys to achieve this. In the last five years, we have received over 161,000 responses.

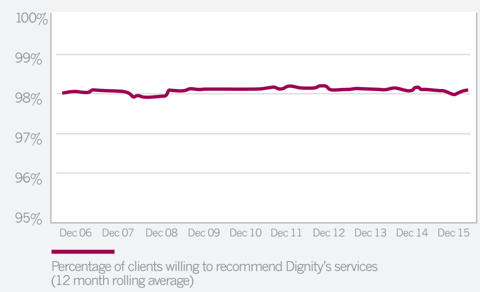
### How we performed in 2015

The results of the client survey clearly demonstrate client service is at the heart of everything we do and the quality of our service remains at consistently high levels.

### Maintaining client satisfaction

We have seen consistently high levels of satisfaction from our survey results. Our ongoing commitment to high levels of client satisfaction continues to generate high levels of referrals.

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




### The Dignity Client Survey 2015

#### Reputation and recommendation

**99.2%** (2014: 99.2%)

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

**98.0%** (2014: 98.1%)

98.0 per cent of respondents said they would recommend us.

#### Quality of service and care

**99.9%** (2014: 99.9%)

99.9 per cent thought our staff were respectful.

**99.7%** (2014: 99.7%)

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

**99.3%** (2014: 99.2%)

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

#### High standards of facilities and fleet

**99.8%** (2014: 99.8%)

99.8 per cent thought our premises were clean and tidy.

**99.8%** (2014: 99.8%)

99.8 per cent thought our vehicles were clean and comfortable.

#### In the detail

**99.3%** (2014: 99.4%)

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

**99.1%** (2014: 99.0%)

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

**98.6%** (2014: 98.7%)

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

# Our summary performance in 2015

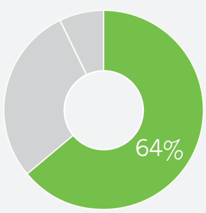
The Group has continued to perform strongly in 2015. Revenue has increased 14 per cent, underlying operating profit has increased 16 per cent and underlying earnings per share have increased 34 per cent. We continued to make good progress across all our operations, with each division performing in line with the Board's expectations.

## Operational and Financial Summary

### Funeral services

**Group underlying operating profit share** (%)

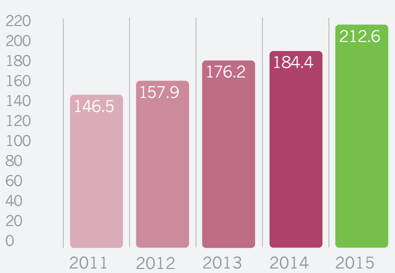
**64%**




**Revenue** (£m)

**+15%**

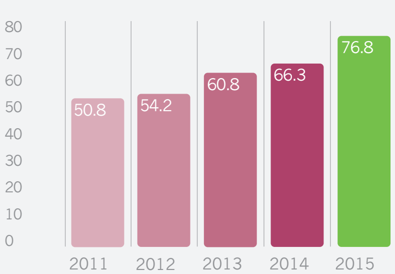
Revenue up 15% to £212.6 million




**Underlying operating profit** (£m)

**+16%**

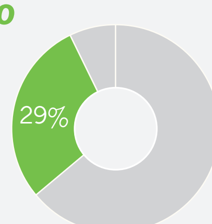
Underlying operating profit up 16% to £76.8 million




### Crematoria

**Group underlying operating profit share** (%)

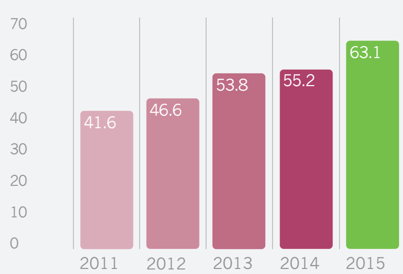
**29%**




**Revenue** (£m)

**+14%**

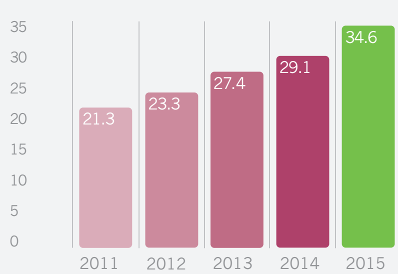
Revenue up 14% to £63.1 million




**Underlying operating profit** (£m)

**+19%**

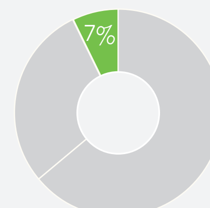
Underlying operating profit up 19% to £34.6 million




### Pre-arranged funeral plans

**Group underlying operating profit share** (%)

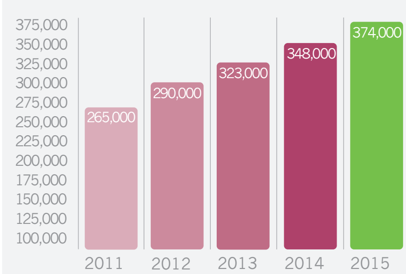
**7%**




**Total number of active plans**

**374,000**

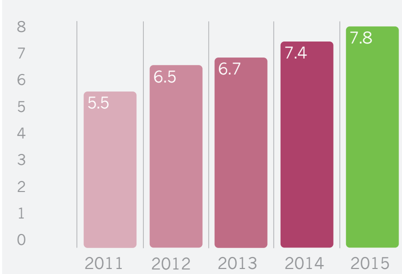
Total active pre-arranged funeral plans increased to 374,000




**Underlying operating profit** (£m)

**+5%**

Underlying operating profit up 5% to £7.8 million




**Links**

See Operating review: **p.18 to p.23**

Find out more about our Group financial performance: **p.24 to p.27**

# Operating review

## Our strong core business continues to perform well with a focus on quality and service.

### Acquisition of 36 locations from Laurel Funerals

The acquisition of these locations in the period has helped to increase the Group's presence across the Midlands and southern parts of England. With the help of the dedicated staff acquired as part of the acquisition, these locations have already integrated well into the business.

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

### Performance in 2015

- Strong operational efficiencies and performance.
- Substantial investment in core portfolio.
- Acquired locations integrated into the business.

### Strategic focus

- Prioritise client service.
- Continue to extend our national footprint.
- Continue to add value through new acquisitions.

"Our people are passionate about what they do and are proud of our reputation as a market leader of the funeral industry. Ongoing training and development and investments in our funeral business help us to improve, and exceed expectations.

**Andrew Davies**
Operations Director

### Overview

The Group's operations are managed across three distinct divisions: funerals, crematoria and pre-arranged funeral plans, which respectively represent 64 per cent, 29 per cent and seven per cent of the Group's underlying operating profit (before central overheads).

## Funeral services

### Performance

As at 25 December 2015, the Group operated a network of 767 (2014: 718) funeral locations throughout the United Kingdom, generally trading under local established names. During the period, the Group conducted 73,500 funerals.

Approximately two per cent of all funerals were conducted in Northern Ireland. Excluding Northern Ireland, these funerals represent approximately 12.3 per cent (2014: 11.7 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.

Underlying operating profit was £76.8 million (2014: £66.3 million), an increase of 16 per cent.

This strong performance has been achieved as a consequence of the higher number of funerals being performed at a higher average revenue per funeral. In addition, costs remained well controlled and acquisition activity in the period contributed £2.3 million of underlying operating profit.

The collection of 81 satellite locations opened in recent years contributed to the Group's profitability in the year in line with the Board's expectations. These locations are selected to be close enough to existing business centres to use their specialist vehicles and mortuary equipment. In this way, the locations will provide the same outstanding levels of client service without the need for significant capital investment.

### Progress and Developments

#### Investment in the core portfolio

Significant cash resources continue to be used to maintain the Group's locations and fleet. In 2015, £12.1 million was invested in maintenance capital expenditure.

#### Funeral location portfolio

The Group acquired nine funeral businesses representing 48 funeral locations during the period. In addition, three satellite locations were opened and two locations were closed, principally where it was considered commercially appropriate not to renew leases.

### Outlook

The funeral division has performed strongly in the year and is well placed for the future.

Approximately 24 per cent of the funerals performed in the year (2014: 23 per cent) had previously been pre-arranged. This proportion is anticipated to continue to increase over time. Whilst these funerals represent substantially lower average revenue per funeral, their incremental nature means they are a positive contributor to the Group's performance.

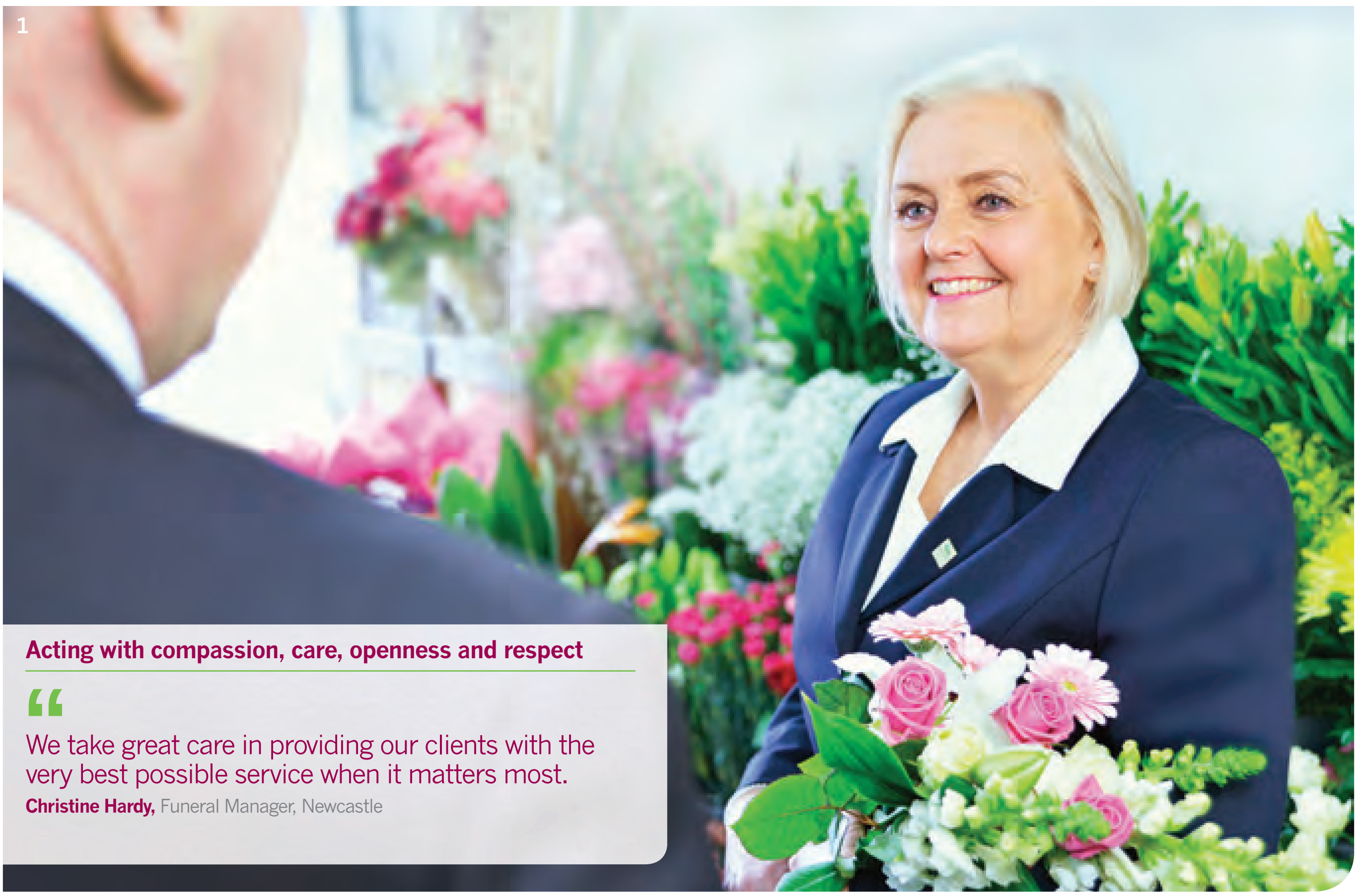
### Integrating acquisitions

The Group has an established, proven overall approach to integrating acquisitions that also gives local managers the flexibility to adapt to the unique circumstances of each transaction.

### Continued investment in our locations and services

Our established locations receive regular investment to try to ensure each location is a suitable location for helping our clients. Investment is made behind the scenes as well as on public facing areas.

1. In 2015, Christine Hardy, Funeral Manager in Newcastle, celebrated 40 years service with W S Harrison & Son.
2. Burton on Trent & District Funeral Directors, Staffordshire.
3. W S Trenhaile in Cheltenham, Gloucestershire.
4. Dignity has continued to invest in new fleet such as the Mercedes vehicles in Gloucestershire.




### Acting with compassion, care, openness and respect

> “We take great care in providing our clients with the very best possible service when it matters most.
>
> **Christine Hardy,** Funeral Manager, Newcastle




**Operating profit**
**£76.8m**
The funeral division contributed £76.8 million of underlying operating profit in the period.

**Locations**
**767**
The Group’s national coverage is achieved through 767 locations.

**Market share**
**12.3%**
The Group’s market share is 12.3 per cent following acquisitions in the period.

**Investment**
**£15.6m**
During the period Dignity invested £15.6 million to further improve the facilities and service we offer our clients.

# Operating review
continued

### Growth of our crematoria portfolio
## 39 crematoria

In 2015, the Group operated 39 crematoria compared to 22 at the beginning of 2008.

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

### Performance in 2015

- 19 per cent increase in underlying operating profit.
- Two planning applications now approved.
- Two further planning applications being progressed.

### Strategic focus

- Continue to identify further locations for new crematoria.
- Continued expansion and development of existing crematoria.

"Continued development and investment in our existing crematoria portfolio helps us to deliver service enhancements to the families we serve.

**Steve Gant**
General Manager – Crematoria

## Crematoria

### Performance

The Group remains the largest single operator of crematoria in Britain, operating 39 (2014: 39) crematoria as at 25 December 2015. The Group performed 57,700 cremations (2014: 53,400) in the period, representing 9.8 per cent (2014: 9.7 per cent) of total estimated deaths in Britain.

Underlying operating profit was £34.6 million (2014: £29.1 million), an increase of 19 per cent.

This operating performance is driven by increasing average revenues per cremation, which has been assisted by the increase in the number of cremations performed in the year.

Sales of memorials and other items have been strong, equating to approximately £276 per cremation compared to £262 in the previous period.

### Progress and Developments

Investment of £0.1 million has been made to develop a location that was acquired from a local authority in 2012. A further £0.8 million is expected to be incurred in 2016 to complete the local authority development. The Group has also invested £2.5 million maintaining its locations in the period.

The Group has been successful in two planning applications for new crematoria. Building work will commence later in 2016, with the locations due to open mid-2017 or early 2018. These locations will take at least five to seven years to reach maturity, performing 800 to 1,000 cremations per year. The total capital cost of these developments will be approximately £6.5 million.

A further two applications are in the process of appeal, with decisions expected later in 2016.

As highlighted in previous years, the Group does not expect to be successful in all applications but believes each location represents a potential opportunity to create new facilities in areas that will benefit the local community, whilst representing a potential opportunity to invest shareholder money profitably.

### Outlook

The Group continues to identify further locations suitable for new crematoria and is also continuing to seek partnerships with local authorities. Progress on this is expected to be slow, albeit this supports the relative robustness and value of the Group's existing locations.

## Pre-arranged funeral plans

### 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 performance in the period has been solid, with operating profit of £7.8 million (2014: £7.4 million), an increase of five per cent.

In overall terms, approximately 38,000 (2014: 40,000) new plan sales were made and the number of active pre-arranged funeral plans increased to 374,000 (2014: 348,000) as at 25 December 2015.

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.

### Progress and Developments

The increase in the number of active plans follows plans sold in the year.

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 2016.

### Delivering enhancements at our existing grounds and facilities

The Group continues to seek to develop new ways to help families remember their loved ones in our peaceful locations.

### New build crematoria developments

The Group has successfully obtained planning permission for two crematoria which should open mid-2017 or early 2018.

1. Ciaran Nolan, Commercial Development Manager (right) and Phil Howl of Howl Associates Ltd discussing plans for the new crematorium in Derbyshire. Howl Associates also designed Wyre Forest Crematorium.
2. The Chapel at Mendip Crematorium in Somerset.
3. Kate Davidson, Regional Manager, in the grounds of Wyre Forest Crematorium.
4. Nicola Arnold, Memorial Development Manager, trialling the technology that can help clients to choose a memorial.

1


### Meeting local community needs

> “New build crematoria represent an opportunity to develop and invest in new facilities in areas that will benefit the local community.
>
> **Alan Lathbury,** Head of Business Development – Crematoria

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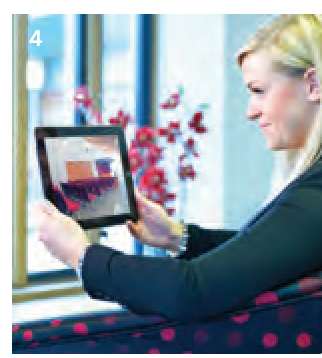


**Operating profit**

## £34.6m

The crematoria division generated £34.6 million of underlying operating profit from its 39 locations.

**Crematoria**

## 39

The Group is the largest operator of crematoria in the UK, operating 39 locations.

**Investment**

## £2.5m

£2.5 million of capital expenditure has been invested in the portfolio during the period.

### Enhancing client service through technology

The Group has been installing technology to allow a vast selection of music to be played on demand and for services to be broadcast via the internet.

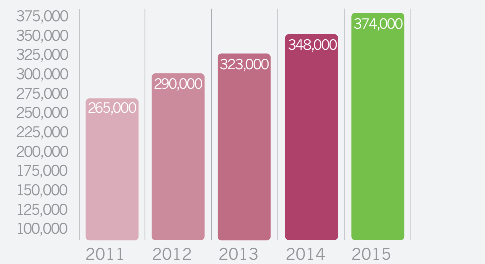
Strategic Report

# Operating review
continued

## Rise in number of active pre-arranged funeral plans over the past five years

Various partners, such as Age UK, trust us enough to associate their brands and introduce their customers to our services.

**Total number of active plans**




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

### Performance in 2015

- Strong operational performance.
- Age UK remains a key affinity partner.

### Strategic focus

- Continued growth in direct sales of plans across our branch network.
- Continued development of opportunities through existing and potential affinity partners.

"Opportunities for growth continue through our network of funeral locations and the development of affinity partnerships.

**Steve Wallis**
General Manager – Pre-arrangement

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 2015, the Trusts held over £736 million of assets. The latest actuarial valuations of the pre-arranged funeral plan trusts (at 25 September 2015) showed them to have sufficient assets to pay out all funerals at the current projected rates payable to the Group anticipated by the actuary. The Trustees, the majority of whom are (and who are required by law to be) independent of the Group, have informed the Group that they have now, following independent external advice, completed a restructuring of the Trust's investments following a review of the Trust's investment strategy.

The Trustees have informed the Group that their strategy envisages holding investments in the following approximate profile:

| | Target (%) |
|---|---|
| Equities | 22 |
| Alternative investments | 13 |
| Developed credit and cash | 65 |

Equities will in the main be invested in developed markets, but will contain an exposure to emerging markets. Alternative investments relate to investments in markets such as reinsurance, emerging market debt and property funds.

This change in the Trust's investment strategy is expected to enhance investment returns in the longer-term for a similar level of risk. The strategy will however probably result in greater volatility year on year in the value of the Trust's assets.

### Outlook

Opportunities for growth continue through the development of existing relationships and the creation of new ones.

The Trustees have indicated that they will continue to work with their advisers to keep the investment strategy under review and amend it where appropriate.

## 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 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

Costs in the period were £20.5 million (2014: £17.9 million), an increase of 14.5 per cent.

As predicted in last year's annual report, investment has continued in central support functions (particularly IT and HR) to ensure operational activity is appropriately supported as the business grows. Incentive costs including LTIP costs and cash bonuses have increased from £5.8 million to £6.3 million. Excluding these bonus costs, central overheads represent 4.7 per cent (2014: 4.5 per cent) of revenues.

Capital expenditure of £1 million has been incurred on central projects predominantly relating to IT that will help the business as a whole operate more efficiently.

### Outlook

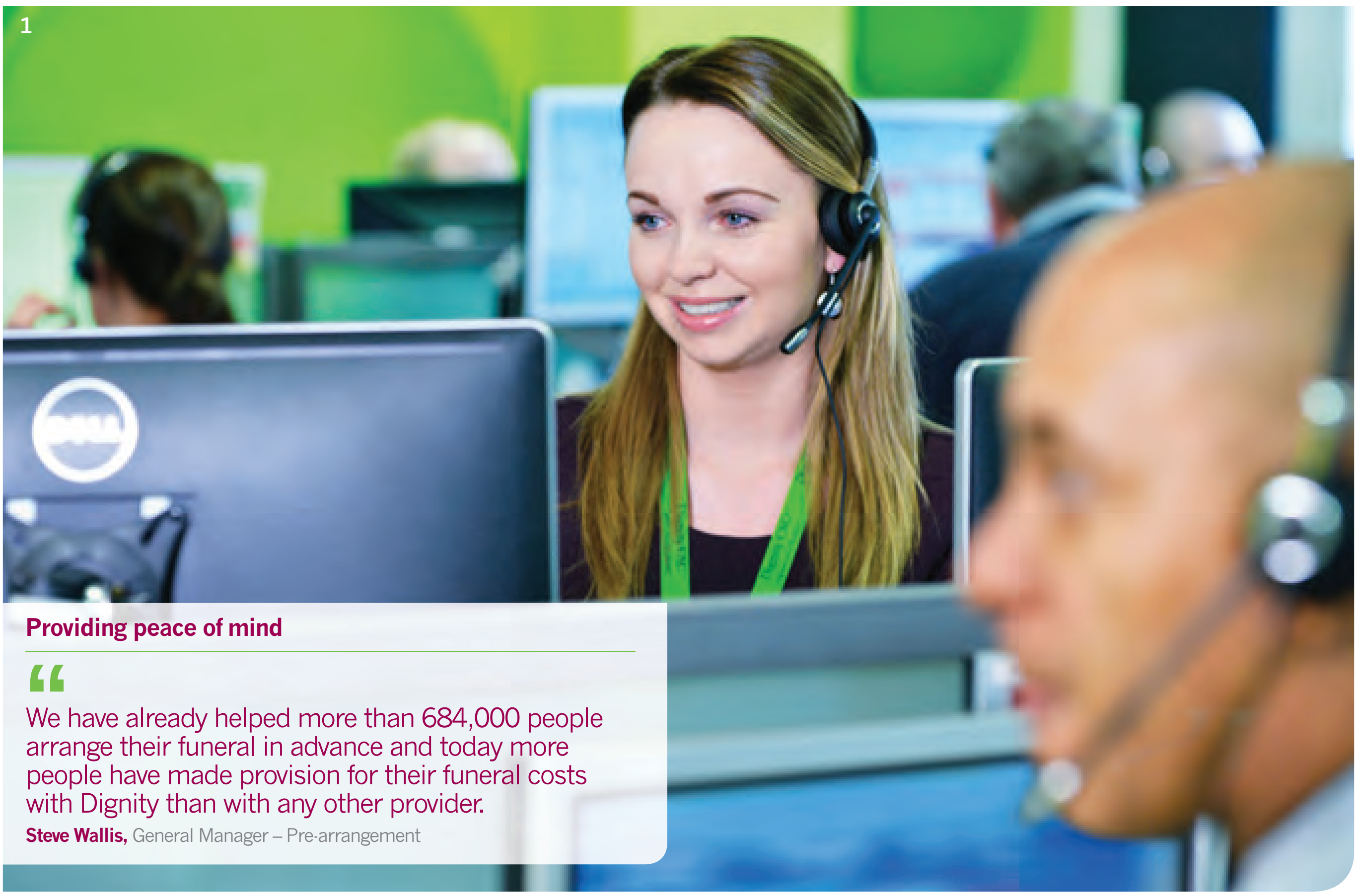
Further investment in head office departments is expected in 2016 as the business continues to grow.

The Group plans to update its accounting software in 2016. This is expected to generate a one-off capital cost of up to £3 million (including VAT, which represents a cost to the Group on such projects).

## Affinity partnership developments

Working with established businesses with trusted brands allows the Group to expand the opportunities for selling pre-arranged funeral plans.

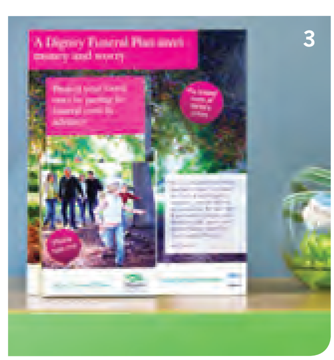
1. Performance Managers, Katie Pryce and Mark Porter in the Client Service Centre.
2. We continue to reach new clients through reputable affinity partners and established funeral locations.
3. Literature is available in branches to help clients pre-arrange their funeral.
4. Mark Hull (centre), Head of Marketing, with Campaign Managers, Andrew Griffin and Rebecca Long.




### Providing peace of mind

"We have already helped more than 684,000 people arrange their funeral in advance and today more people have made provision for their funeral costs with Dignity than with any other provider.

**Steve Wallis,** General Manager – Pre-arrangement



### Operating profit

**£7.8m**

The pre-arrangement division generated £7.8 million of underlying operating profit.

### Active funeral plans

**374,000**

374,000 people have active pre-arranged funeral plans.

### Focused marketing

**38,000**

Focused marketing activity has resulted in approximately 38,000 new funeral plan sales in the period.

### Direct sales of plans across our branch network

Our funeral locations also sell plans, giving customers the opportunity to pre-arrange their precise requirements.

# Financial review

## The 2015 results demonstrate we are consistently delivering a strong performance.


**Steve Whittern,** Finance Director

"As a result of the strong year, the Group was able to fund all of its corporate activity from its cash reserves."

### Performance in 2015

- Underlying earnings per share increased 34 per cent.
- £52.7 million of cash available for future corporate activity.

**£305.3m**

**Revenue** up 14 per cent to £305.3 million (2014: £268.9 million).

**£98.7m**

**Underlying operating profit** up 16 per cent to £98.7 million (2014: £84.9 million).

**20%**

**Cash generated from operations** up 20 per cent to £125.2 million (2014: £104.4 million).

### Introduction

These financial 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 25 Dec 2015 | 52 week period ended 26 Dec 2014 | Increase % |
|---|---|---|---|
| Revenue (£million) | **305.3** | 268.9 | 14 |
| Underlying operating profit[(a)] (£million) | **98.7** | 84.9 | 16 |
| Underlying profit before tax[(a)] (£million) | **72.2** | 58.5 | 23 |
| Underlying earnings per share[(a)] (pence) | **114.8** | 85.8 | 34 |
| Cash generated from operations[(b)] (£million) | **125.2** | 104.4 | 20 |
| Operating profit (£million) | **95.5** | 82.9 | 15 |
| Profit/(loss) before tax (£million) | **69.0** | (67.7) | n/a |
| Basic earnings/(loss) per share (pence) | **115.2** | (104.0) | n/a |
| Dividends paid in the period: | | | |
| Interim dividend (pence) | **7.14** | 6.49 | 10 |
| Final dividend (pence) | **13.01** | 11.83 | 10 |
| Return of Cash (£million) | **–** | 64.4 | n/a |

(a) Underlying amounts exclude profit (or loss) on sale of fixed assets, external transaction costs and exceptional items, net of tax where appropriate.

(b) Cash generated from operations excludes external transaction costs and the £1 million pension contribution made in 2014.

The Board has proposed a dividend of 14.31 pence per Ordinary Share as a final distribution of profits relating to 2015 to be paid on 24 June 2016, subject to shareholder approval.

### Terminology – 2014 refinancing

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'). Secured Notes refers to either the New Notes or the Old Notes depending on the period.

The market value of the Old Notes was significantly in excess of their carrying value. The refinancing in 2014 resulted in an exceptional charge of £124.2 million. As a result, the Group reported a statutory loss for the year. This and the associated costs of the transaction were, because of their nature and amount, disclosed as exceptional and excluded from the Group's underlying performance measure. Further details on the refinancing can be found in the 2014 Annual Report.

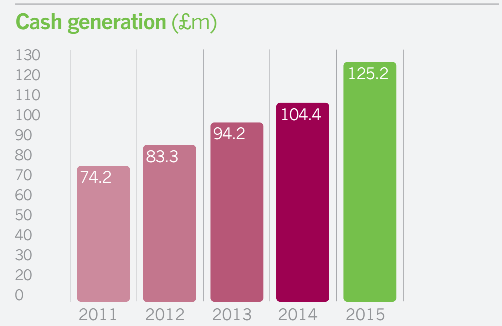
### Exceptional items and underlying reporting measures

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 or non-trading transactions. Accordingly, the following information is presented to aid understanding of the performance of the Group:

| | 52 week period ended 25 Dec 2015 £m | 52 week period ended 26 Dec 2014 £m |
|---|---|---|
| **Operating profit for the period as reported** | **95.5** | 82.9 |
| Add the effects of: | | |
| Loss on sale of fixed assets | **–** | 0.3 |
| External transaction costs | **3.2** | 1.7 |
| **Underlying operating profit** | **98.7** | 84.9 |
| Underlying net finance costs[(c)] | **(26.5)** | (26.4) |
| **Underlying profit before tax** | **72.2** | 58.5 |
| Tax charge on underlying profit before tax[(d)] | **(15.5)** | (13.1) |
| **Underlying profit after tax** | **56.7** | 45.4 |
| Weighted average number of Ordinary Shares in issue during the period (million) | **49.4** | 52.9 |
| Underlying EPS (pence) | **114.8p** | 85.8p |
| Increase in Underlying EPS (per cent) | **34%** | 19% |

(c) Excludes exceptional finance costs of £nil (2014: £124.2 million).

(d) Excludes exceptional tax credit of £3.4 million (2014: £25.8 million).




**£125.2m**

Converting operating profit efficiently into cash.

## Earnings per share

The Group's statutory profit after tax was £56.9 million (2014: loss after tax of £55.0 million). Basic earnings per share were 115.2 pence per share (2014: loss of earnings per share of 104.0 pence per share). The Group's measures of underlying performance exclude the effect (after tax) of the profit (or loss) on sale of fixed assets, external transaction costs and exceptional items. Consequently, underlying profit after tax was £56.7 million (2014: £45.4 million), giving underlying earnings per share of 114.8 pence per share (2014: 85.8 pence per share), an increase of 34 per cent.

The growth rate for underlying EPS exceeded the growth in underlying operating profit, reflecting the leveraging effect of the Group's capital structure, a reduction in the number of shares in issue as well as some benefit from the reduction in headline corporation tax rates.

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

## Cash flow and cash balances

Cash generated from operations was £125.2 million (2014: £104.4 million) stated before external transaction costs of £3.2 million (2014: £1.1 million), 2014's amount also included an exceptional contribution to the Group's pension scheme of £1.0 million. This has increased faster than the increase in operating profit as a result of positive working capital movements. As a principle, the Group continues to convert its accounting profits into cash broadly pound for pound.

Capital expenditure on property, plant and equipment was £19.9 million (2014: £17.2 million).

This is analysed as:

| | 25 Dec 2015 £m | 26 Dec 2014 £m |
|---|---|---|
| Vehicle replacement programme and improvements to locations | 15.6 | 14.1 |
| Branch relocations | 3.9 | 1.4 |
| Satellite locations | 0.3 | 0.1 |
| Development of new crematoria and cemeteries | 0.1 | 1.6 |
| Total property, plant and equipment | 19.9 | 17.2 |
| Partly funded by: | | |
| Disposal proceeds | (0.8) | (0.5) |
| Net capital expenditure | 19.1 | 16.7 |

Capital spend on branch relocations includes the purchase of the freehold interest of one of the Group's main service centres in London, which became available during the period. This secures a key support facility for the local businesses in the area, where suitable alternative premises were scarce.

As a result of the strong year, the Group was able to fund all of its corporate activity from its cash reserves, spending a net £50.0 million on the acquisition of 48 funeral locations and balancing payments in respect of 2014 acquisitions.

Cash balances at the end of the period were £98.8 million (2014: £86.5 million). The Group had £16.9 million (2014: £9.6 million) of cash that was, under the terms of the Group's securitisation, held in a separate account and used to pay amounts falling due on the Group's Secured Notes on 31 December 2015 (2014: 31 December 2014). These amounts do not therefore meet the definition of cash for cash flow reporting purposes.

Approximately £52.7 million of the remaining cash balance was immediately available for acquisitions and developments and approximately £19.8 million was set aside for future corporation tax and dividend payments (although this could be used for corporate activity if the Group saw fit).

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 £12.5 million before deferred tax (2014: deficit of £10.5 million). The size of the deficit remains manageable and the Group will continue to consider options for mitigating its liabilities.

## Taxation

The Group's effective tax rate on underlying profits in the period was 21.5 per cent (2014: 22.5 per cent) (excluding the exceptional rate change). Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015. This will mean headline corporation tax rates will reduce to 19 per cent from 1 April 2017 and 18 per cent from 1 April 2020. The Group has therefore recognised an exceptional credit in the income statement of £3.4 million in order to restate its deferred tax balances to the new long-term rate.

**£15.6m**

£15.6 million has been invested in maintaining our property and fleet portfolio.

**£50m**

£50 million has been invested in acquisitions from existing cash reserves.

Links

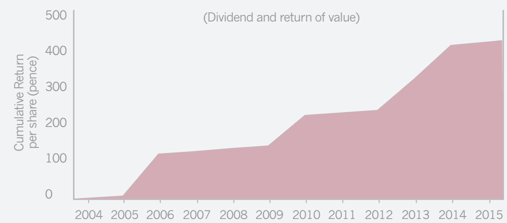
See Strategy and business model: **p.12 and p.13**
See Our KPIs: **p.14 and p.15**
See Principal risks and uncertainties: **p.28 to p.31**

# Financial review
continued

### Performing strongly since IPO

Delivering consistent increases since flotation, the Group has managed the business in a consistent way using the same strategy. This has delivered stable growth in operating profit and amounts returned to shareholders.

### Total monies returned to shareholders on cumulative basis




The Group continues to expect its effective tax rate to be approximately one per cent above the headline rate of corporation tax. This translates to an effective rate for 2016, 2017 and 2018 of 21.0 per cent, 20.5 per cent and 20.0 per cent respectively.

The Group's net cash tax payments were £3.7 million (2014: £6.9 million) in the period as a consequence of the 2014 refinancing. The Group expects corporation tax payments to increase in 2016 and 2017. Legislative changes requiring an acceleration of quarterly payments on account of corporation tax will result in the Group paying 18 months of cash tax in 2018. This will then revert to 12 months of cash tax in 2019 and beyond at a level approximately the same as the charge in the income statement.

## Capital structure and financing

### Secured Notes

The Group's principal source of long-term debt financing is the New Class A Notes and the New Class B Notes. They are rated A and BBB respectively by Fitch and Standard and Poor's (S&P).

The Board considers that maintaining a leveraged balance sheet is appropriate for the Group, given the stable and predictable nature of its cash flows. This predictability is matched in the New Notes. The principal is repaid completely over the life of the New Notes and is therefore scheduled to be repaid by 2049. The interest rate is fixed for the life of the New Notes and interest is calculated on the principal.

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

| | New A Notes | New 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 Standard & Poor's and Fitch | A | BBB |

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

Given the duration of the New Notes, this structure is capable of being used to periodically issue further New Notes when deemed appropriate and subject to market conditions. The majority of such proceeds have historically been returned to shareholders. This has the benefit of enhancing shareholder returns, whilst leaving sufficient free cash to invest in the growth of the business.

### Financial Covenant

The Group's primary financial covenant under the New Notes requires EBITDA to total debt service to be above 1.5 times. The ratio at 25 December 2015 was 3.35 times (2014: 10.69 times). The year on year reduction in the ratio reflects the timing of the issue of the New Notes in 2014, meaning that in the period to December 2014, a full year's EBITDA is being compared against a partial year of debt service. If the debt service was annualised the ratio for the comparative period would have been 2.95 times.

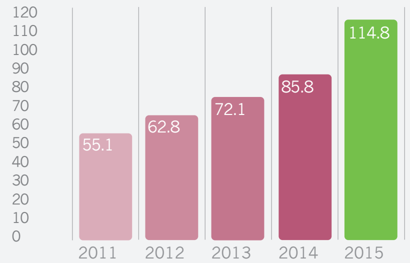
### Crematoria Acquisition Facility

The other external drawn source of debt funding is the Group's £15.8 million Crematoria Acquisition Facility, which is fully utilised. The facility is repayable in one amount in February 2018. Interest is fixed at approximately 3.3 per cent.

### Funeral Acquisition Facility

During the period, the Group obtained a Funeral Acquisition Facility of £26.25 million which was originally created to help fund the acquisition of Laurel Funerals. However, given the strong trading in the period leading up to the acquisition, the level of cash held by the Group meant that this facility was not required. The facility remains undrawn, attracting a non utilisation fee of approximately £150,000 per annum. If drawn, the facility will charge interest at a rate between 125 and 165 basis points per annum above LIBOR (depending on the ratio of EBITDA to gross debt). The facility is currently available until mid June 2016. However, the Group expects to extend its availability until the end of 2016 in order to maintain an efficient and flexible source of additional funding if required.

## Financial leverage enhances underlying earnings per share (pence)




## £10.0m

The Group has continued to increase dividends per share by 10 per cent and has paid £10 million to shareholders in normal dividends in the period.

## Net debt

The Group's net debt is analysed as:

| | 25 Dec 2015 £m | 26 Dec 2014 £m |
|---|---|---|
| Net amounts owing on New Notes | **(586.5)** | (594.6) |
| Add: unamortised issue costs | **(0.7)** | (0.7) |
| Gross amounts owing on Secured Notes | **(587.2)** | (595.3) |
| Net amounts owing on Crematoria Acquisition Facility | **(15.7)** | (15.6) |
| Add: unamortised issue costs on Crematoria Acquisition Facility | **(0.1)** | (0.2) |
| Gross amounts owing | **(603.0)** | (611.1) |
| Accrued interest on Secured Notes | **(12.8)** | (5.7) |
| Accrued interest on Crematoria Acquisition Facility | **(0.1)** | – |
| Cash and cash equivalents | **98.8** | 86.5 |
| Net debt | **(517.1)** | (530.3) |

The Group's gross debt outstanding was £603.0 million (2014: £611.1 million). Net debt was £517.1 million (2014: £530.3 million). Gross debt includes £4.1 million (2014: £4.0 million) that was repaid on 31 December 2015.

The market value of the New Notes at the balance sheet date was £615.5 million (2014: £643.2 million).

## Net finance costs

The Group's underlying finance costs substantially consist of the interest on the New Notes and ancillary instruments. The net finance cost in the period relating to these instruments was £25.6 million (2014: £25.2 million).

Finance costs of £0.6 million (2014: £0.6 million) were incurred in respect of the Crematoria Acquisition Facility.

Other ongoing finance costs incurred in the period amounted to £0.8 million (2014: £1.6 million), including the unwinding of discounts on the Group's provisions and other financial liabilities.

Interest receivable on bank deposits was £0.5 million (2014: £1.0 million).

## New accounting standard on leases

In January 2016, IFRS 16, Leases was issued. This is effective for accounting periods beginning on or after 1 January 2019 and will therefore impact the Group's 2020 financial results. Approximately 50 per cent of the Group's properties are on lease terms that are currently accounted for as an operating lease. As the notes to the consolidated accounts demonstrate, the Group has total minimum lease payments under non-cancellable operating leases of approximately £175 million. Whilst the net present value of these commitments 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 have some impact on the Group's reported profit after tax. The Group will be assessing this in due course but notes that the accounting standard does not affect the cash flows or underlying economics of the business.

## Forward-looking statements

Certain statements in this Annual Report are forward-looking. Although the Board believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

## Outlook

The Group's strong balance sheet gives it the ability to respond quickly to business needs and corporate development opportunities.

### Links

See Financial statements: **p.65 to p.108**
See Financial record: **p.116 and p.117**

# Principal risks and uncertainties

## Committed to managing risk effectively and robustly.

### Our principal Group risks

Outlined here is our assessment of 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.

### 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 Groups 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 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.

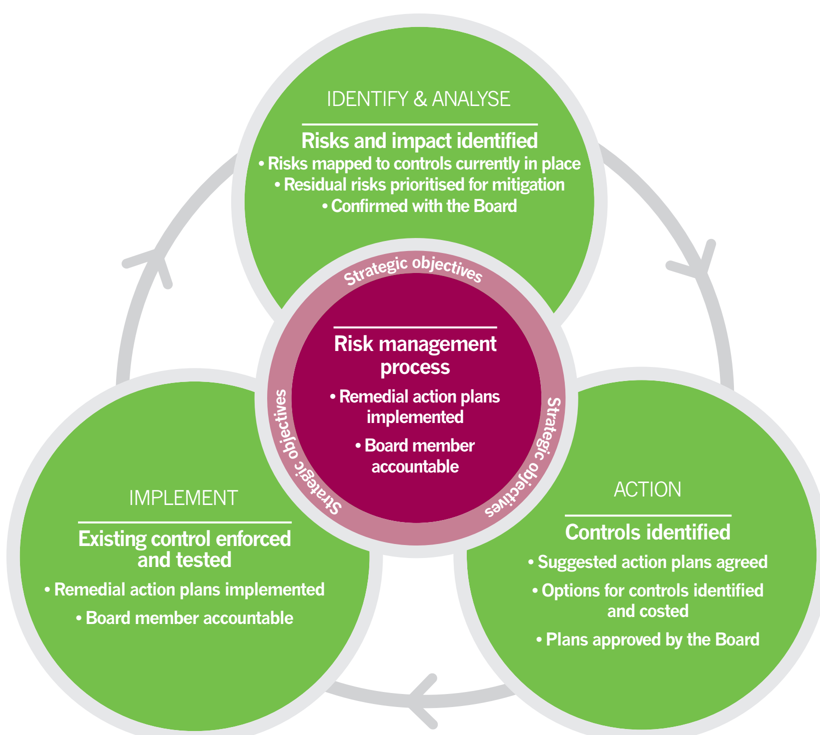
### Mitigating activities

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 management process




### Links

See Strategy and business model: **p.12 and p.13**
See Our KPIs: **p.14 and p.15**
See Governance: **p.38 to p.64**

## Risks in the context of our strategic objectives

As set out in page 13, we have clear strategic objectives against which we measure our performance. In the same way that we measure our performance against these objectives, we also consider our risks and their potential impact on these objectives as well as our approach to mitigating those risks.

### Key and link to strategic objective

1. Continue to prioritise excellent client service which we believe will lead to organic growth.
2. Control our costs without compromising the quality of our service.
3. Expand our funeral and crematoria portfolios.
4. Gain new clients through the sale of pre-arranged funeral plans.
5. Increase our returns through efficient capital management.

## Operational risk management

| Strategic objective link | Risk and impact | Mitigating activities | 2015 Commentary | Change |
|---|---|---|---|---|
| 1 3 5 | **Significant reduction in the death rate**<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 followed a similar profile to that predicted by the ONS, giving the Group the ability to plan its business accordingly. | The number of deaths was unusually high. However, there is a reasonable chance that 2016 may see a significant reduction, offsetting the high number of deaths in 2015.<br>See Market overview: **p.06 and p.07** | No significant change |
| 1 3 4 5 | **Nationwide adverse publicity**<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 ensuring appropriate policies and procedures are in place, which are designed to ensure excellent client service and careful selection of reputable partners. | There have been no such events in the period.<br>See The Client Survey performance: **p.16** | No significant change |
| 1 5 | **Ability to increase average revenues per funeral or cremation**<br>Operating profit growth is in part attributable to increases in the average revenue per funeral or cremation. There can be no guarantee that future average revenues per funeral or cremation will be maintained or increased. | The Group believes that its focus on excellent client service helps to mitigate this risk. | Average revenues increased in line with the Board's expectations.<br>See Operating review: **p.18 to p.23** | No significant change |
| 1 5 | **Significant reduction in market share**<br>It is possible that other external factors, such as new competitors, could result in a significant reduction in market share within funeral or crematoria operations. This would have a direct result on the financial performance of those divisions. | The Group believes that this risk is mitigated for funeral operations by reputation and recommendation being a key driver to the choice of funeral director being used. For crematoria operations this is mitigated by difficulties associated with building new crematoria. | Changes in market share were in line with the Board's expectations.<br>See Operating review: **p.18 to p.23** | No significant change |
| 1 3 5 | **Demographic shifts in population**<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. | There have been no material changes, with satellites being opened and businesses acquired in appropriate areas.<br>See Operating review: **p.18 to p.23** | No significant change |
| 1 3 4 5 | **Competition**<br>The UK funeral services market and crematoria market is currently very fragmented.<br>There can be no assurance that there will not be further consolidation in the industry or that increased competition in the industry, whether in the form of intensified price competition, service competition, over capacity or otherwise, would not lead to an erosion of the Group's market share, average revenues or costs and consequently a reduction in its profitability.<br>The retention of affinity partners who sell the Group's pre-arranged funeral plans is essential to the long-term development of the pre-arranged funeral plan division. The loss of an affinity partner could lead to a reduction in the amount of profit recognised in that division at the time of sale. Failure to replenish or increase the bank of pre-arranged funeral plans could affect market share of the funeral division in the longer-term. | There are barriers to entry in the funeral services market due to the importance of established local reputation and in the crematoria market due to the need to obtain planning approval for new crematoria and the cost of developing new crematoria.<br>There are a number of potential affinity partners who could replace existing ones or add to existing relationships. Evidence suggests that such partnerships can and are being developed. | No major changes noted. Denials of planning applications for crematoria in the period demonstrate the barriers to entry.<br>See Operating review: **p.18 to p.23** | No significant change |

**Key: Change in the year**
- Risk exposure increased
- Risk exposure decreased
- No significant change

Overview | Strategic Report | Governance | Financial Statements | Other Information

# Principal risks and uncertainties
continued

## Operational risk management continued

| Strategic objective link | Risk and impact | Mitigating activities | 2015 Commentary | Change |
|---|---|---|---|---|
| 1 5 | **Taxes**<br>There can be no assurance that changes will not be made to UK taxes, such as VAT. VAT is not currently chargeable on the majority of the Group's services. The introduction of such a tax could therefore significantly increase the cost to clients of the Group's services. | There are currently specific exemptions under European legislation for the UK on the VAT treatment of funerals. Any change would apply to the industry as a whole and not just the Group. | No significant changes noted in the period. | |
| 4 5 | **Regulation of pre-arranged funeral plans**<br>Pre-arranged funeral plans are not a regulated product, but are subject to a specific financial services exemption. Changes to the basis of any 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, which would have a direct impact on the profitability of the pre-arranged funeral plan division. | Any changes would apply to the industry as a whole and not just the Group. | No significant changes noted in the period.<br>See Market overview: **p.06 and p.07** | |
| 1 2 3 5 | **Regulation of the funeral industry**<br>The Scottish and Westminster parliaments have set up an inquiry to consider issues surrounding funeral poverty.<br>The Scottish Government is seeking to enact new legislation. Amongst other things, this could lead to the licensing of funeral directors in Scotland and the appointment of a Scottish Inspector of funerals.<br>Regulation would most likely result in increased compliance costs for the industry as a whole. | The Group already operates at a very high standard, using facilities appropriate for the dignified care of the deceased. | Whilst regulation has always been considered a risk, the increased rhetoric has led the Group to highlight the matter in its summary of principal risks. The Group would welcome the introduction of regulation requiring minimum standards of care. | |
| 4 5 | **Changes in the funding of the pre-arranged funeral plan business**<br>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 to meet their liabilities in the future.<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. Historically, these assets have been heavily weighted towards gilts and corporate bonds. The Trustees, who operate independently of the Group, have advised that they have implemented a new investment strategy covering a wider range of assets classes. The new strategy is intended to enhance investment returns for a similar level of risk, albeit with greater volatility. | The latest actuarial valuation of the pre-arranged funeral plan trusts confirmed that the Trusts continue to have sufficient assets to meet their liabilities.<br>See **Note 29.** | |

### How the Group finances its operations

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.

## Financial risk management

| Strategic objective link | Risk and impact | Mitigating activities | 2015 Commentary | Change |
|---|---|---|---|---|
| 5 | **Financial Covenant under the Secured Notes** 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 Noteholders. 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. | No significant changes noted in the period. See Financial review: **p.24 to p.27** | |

## 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 2018.

The key consideration of viability is the Group's ability to service its A and B 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. Three years has been selected as the appropriate period as the Directors strategic reviews look three years ahead.

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 28 to 31).

# Corporate and social responsibility

## Operating sustainably and responsibly is fundamental to delivering on our strategic objectives.


**Richard Portman,** Corporate Services Director

"To achieve our business goals we need to look after the communities, people and environment which support our operations, so we can continue delivering value to all our stakeholders.

### Performance in 2015

- 29 per cent of Dignity staff have over 10 years service;
- In the last five years the number of accidents has reduced by 25 per cent;
- Dignity's CDP (formerly Carbon Disclosure Project) submission was shortlisted for the "Best Year on Year Change in Performance" category amongst FTSE 350 companies; and
- Dignity raised £59,000 for its corporate charity, Marie Curie.

### In this section

In this section, we provide an overview of the importance and our approach to CSR and our performance in 2015. Further details and case studies can be found on Dignity's website: www.dignityfuneralsplc.co.uk/responsibility

### Links

See Strategy and business model: **p.12 and p.13**
See The Client Survey performance: **p.16**
See Governance: **p.38 to p.64**

### Sustainability and strategy

Dignity's sustainability programme shapes the way that we do business. Conducting our business in a responsible way is one of our fundamental values and a key element of our business growth strategy. Behaving in an ethical manner, working safely, reducing our environmental impact, developing our people and contributing to the communities we serve enables us to create long-term value for our stakeholders.

We define our reporting in terms of our workplace, the environment and the communities of which we play an important part. We strive to improve the way that we perform, manage and report on corporate and social responsibility ('CSR') matters across all aspects of our business. Within Dignity, Corporate Services Director, Richard Portman, is accountable for CSR and under this remit identifies major issues and reports these to his fellow Board members.

### Governance

#### Accountability

The governing principles of Dignity are that we are here to help people at one of the most difficult times of their lives and we do this with compassion, respect, openness and care. Our objective is to be the company that everyone knows they can trust in their time of need. Our values, which are ensconced in our governing principles, are a fundamental part of our culture. By living these values, we ensure that we operate in a responsible way and that we deliver the excellent service upon which our business depends.

#### Implementation

The flat management structure of Dignity means that local management are empowered to make decisions that provide quick and effective solutions to the needs of their clients, businesses and the communities they serve. Only seven per cent of our employees are based at our head office where they perform such necessary business tasks as Finance, IT, HR, Marketing and Purchasing. This approach demonstrates our commitment to providing staff in locations where they can directly help and support our clients.

#### Risk management

Our Code of Conduct ensures that all staff are aware of the principles that govern how we operate in the business environment and explains the standards of behaviour that all our employees are expected to adhere to.

Our Code of Conduct (which is available on our corporate website www.dignityfuneralsplc.co.uk) is reinforced by a staff handbook, 'Helping our clients every step of the way' which states that all clients should be supported during the funeral arrangements, at the service or when choosing a memorial or funeral plan in a caring and sensitive manner. We should be compassionate and caring; pay attention to detail; spend as much time as the client needs; be open and straightforward and keep in regular contact with the client.

### Business integrity and ethics

We make our clients feel confident in us so that they are reassured they are being served by responsible individuals working for a responsible company.

Dignity continues to be identified by the FTSE Group in its FTSE4Good initiative as a company that is working towards environmental sustainability, developing positive relationships with stakeholders and upholding and supporting universal human rights.

We build trust and respect with everyone touched by our business operations – our clients, our colleagues, our suppliers, trade associations, local authorities and members of the communities we serve. Everyone at Dignity understands that at all times they are an ambassador for Dignity and that the future success of the business depends on its reputation.

### Our four CSR commitments:


People development: **p.33 and p.34**


Health & Safety: **p.35**


Environment: **p.36**


Community: **p.37**

# Our People


## Managing and supporting our people

Dignity is a people business – with over 3,000 employees working across our operations from a wide range of backgrounds. Our success rests on having the right people, with the right skills and experience to deliver high quality services consistently.

Our business principles, Code of Conduct and core company values have helped us to create a distinctive Dignity culture.

### Key and link to strategic objective

1 Continue to prioritise excellent client service which we believe will lead to organic growth.

See Strategy and business model: **p.12 and p.13**

### Our commitment

We value our people and understand, respect and value personal and cultural differences. Dignity is committed to high standards of employment practice and aims to encourage, retain and develop successful employees.

For additional information:
www.dignityfuneralsplc.co.uk/responsibility

### What we focus on:

- Learning and development;
- Recognising achievement;
- Promoting diversity; and
- Employee engagement.

### What we believe in

- **What we are here to do:** To help people at one of the most difficult times in their lives.
- **How we do this:** With compassion, respect, openness and care.
- **What we want to be:** The company that everyone knows they can trust in their time of need.

## Our people, culture and values

Our people come from the towns and cities they serve or from families that have been in the funeral profession for generations. They are all dedicated to delivering excellent client service.

Our Code of Conduct is reinforced by our Staff Handbook which is given to all new employees working in our business. This document ensures that we embed all new employees into the Dignity culture and reminds existing members of staff of the standards of behaviour and attitudes that are expected of them. The Code of Conduct is also published on our corporate website. During 2015 our HR policies have been reviewed, updated and developed in a format where they can be easily accessed by managers and employees on our intranet.

We adhere to the Bribery and Corruption act of 2010 and have policies and procedures to minimise the risk of bribery. This is also published on our corporate website and we have advised our suppliers that our Bribery Policy is available on that website.

### Learning and development

Whether it's at the start of a career through our training initiatives; a flexible job for working parents or carers; or a second or third career for someone later in life; we offer job opportunities and support for people to fulfil their potential.

Dignity's investment in training enables our staff to provide our clients with the highest standards of service and care and to ensure that our rigorous procedures are followed in all branches. In 2015, Dignity continued to provide its staff with both relevant job training and tutoring for professional qualifications including the National Association of Funeral Directors (NAFD) Diploma in Funeral Directing; the London Association of Funeral Directors (LAFD) Certificate in Funeral Arranging & Administration and membership of the British Institute of Embalming.

### Reward and recognition

In a competitive marketplace we recognise the importance of financially rewarding employees appropriately for the value they bring to the business. Dignity has rewarded its loyal staff with long service awards totalling approximately £0.2 million in 2015.

### Promoting diversity

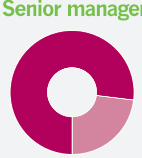
Dignity was awarded the Two Ticks Positive About Disability Symbol by Jobcentre Plus in 2014 and has continued to employ, retain and develop the abilities of disabled people. Dignity joined the Business Disability Forum in 2015, a not-for-profit organisation that encourages the fair treatment of disabled people in the workplace and their community.

### Employee engagement

To achieve our business objectives we need engaged employees dedicated to our vision and values. Dignity has continued to publish a quarterly in-house magazine, 'Dignity Express', to enable the Company's Directors, managers and employees to communicate objectives and client satisfaction results, explain developments in the funeral sector and to share best practice and news in a cost effective manner. 'Dignity Express' is supplemented by monthly bulletins to keep all employees informed of what is happening within the organisation.

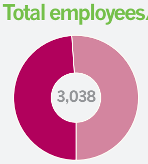
## Employee diversity

### Senior managers (% & number)



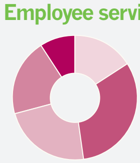
- Male 77% (23 senior managers)
- Female 23% (7 senior managers)

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




- Male 49% (1,498 employees)
- Female 51% (1,540 employees)

### Employee service (% & number)



- < 1 year: 16% (474 employees)
- 1–4 years: 32% (965 employees)
- 5–9 years: 23% (706 employees)
- 10–19 years: 20% (622 employees)
- >20 years: 9% (271 employees)

### Positive about disability

Dignity remains committed to employing, retaining and developing the abilities of disabled employees.

# Corporate and social responsibility
continued

## Our People continued

### Expanding our HR team

During 2015, Dignity's HR team has expanded to meet the requirements of a growing company. The team is responsible for the integration of new staff and the development and welfare of people across the Group.

1. Ella Rhodes, Head of HR (middle, left) with HR Business Partners, Maria Glenholmes, Steve Williams and Richard Preston.
2. Shirley Roberts, Regional Manager – Memorial Sales, has been with Dignity for 20 years and her experience and knowledge ensures Dignity crematoria offer a variety of memorial options.
3. Dignity Express, the company's staff magazine, was redesigned in 2015.
4. Angela Eames, Financial Controller, has performed various financial roles and has been involved with numerous significant projects in her 26 years with Dignity.

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### We value and invest in our people

"To achieve our business objectives we need dedicated employees who share our vision and values. Our people continue to be our most important asset.

**Mike McCollum,** Chief Executive

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### Attracting and retaining the best people

We want to attract and retain loyal employees who add value to what we do and recognising and rewarding performance and long service plays a key part in this.

### Long service

**29%**

29 per cent of Dignity staff (893 employees) have over 10 years service.

### Career development

We believe in nurturing talent, providing experience and formal qualifications, enabling our people to excel and create senior managers of the future.

### Gender diversity

**23%**

23 per cent of Dignity's senior managers are female.


# Health & Safety

### Our commitment

Our business is conducted in such a way as to ensure as far as is reasonably practical, the health, safety and welfare of all our employees and all persons who may be attending our premises.

For additional information: www.dignityfuneralsplc.co.uk/responsibility

### What we focus on:

- Ensuring safety;
- Proactive management;
- Employee welfare; and
- Occupational safety.

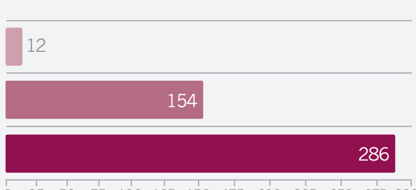
**Effective health & safety management in the workplace**
Dignity has a full-time Health and Safety Manager who is supported by eight Health & Safety Officers. Dignity's head office, crematoria and coffin manufacturing facility also have their own managers with responsibility for Health and Safety. In the last five years the number of accidents has reduced by 25 per cent.

Changes in personnel within the Health and Safety Department have created the opportunity to broaden the collective experience of the team thus increasing the level of support available within Dignity.

The current department is now one in which funeral experience is blended with knowledge gained in the armed forces and both local authority and private business sectors.

Whilst maintaining the annual trend of accident reduction, the department has focussed on preparation for the launch of a health and safety management resource in early 2016. This software, which includes a library of resources accessible to every employee, will enable managers to monitor compliance in real-time and proactively identify areas requiring action with the intention of further risk reduction across Dignity.

**Health & safety training** (number)




- Employees with NEBOSH qualification: 12
- Employees with IOSH qualification: 154
- Employees with CIEH qualification: 286


### Enhancing health & safety procedures

Dignity monitors health and safety proactively through quarterly analysis, premises inspections, surveillance and regular reports to the Board and monitors reactively by investigating accidents and analysing statistics.

**Reduction in reportable accidents**

**25%**

In the last five years the number of accidents has reduced by 25 per cent.

Overview
Strategic Report
Governance
Financial Statements
Other Information

Strategic Report

# Corporate and social responsibility
continued

## Environment

### Our commitment

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.

For additional information:
www.dignityfuneralsplc.co.uk/responsibility

### What we focus on:

- Reducing our carbon footprint;
- Reducing energy consumption;
- Promoting sustainable development; and
- Minimising our environmental impact.

### Managing our environmental impact

In 2015 our business continued 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 31,000 cremations at Dignity crematoria were mercury abated during 2015, representing 54 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. 97 per cent of the coffins manufactured by Dignity are from Forest Stewardship Council (FSC) accredited timber.

### CDP

As part of the Group'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 though 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 2015 submission represented a significant improvement in our reporting practices and environmental policy and as a result Dignity was shortlisted for the "Best Year on Year Change in Performance" category amongst FTSE 350 companies.

### ESOS compliance

Dignity qualifies for the Energy Savings Opportunity Scheme ('ESOS') and completed an ESOS assessment during 2015 confirming compliance by the revised due date of 29 January 2016.

### Award-winning crematorium

In May 2015, Dignity's Wyre Forest Crematorium in Worcestershire was honoured at the Stourport Civic Society Awards. The annual awards encourage and recognise projects that contribute to the quality of the environment in the town.

The crematorium and cemetery opened in December 2011 and is a state of the art facility set in 23 acres of superbly maintained grounds and is a great example of how an inspirational new building can transform an area and provide a high level of comfort to the local communities it serves.

### Smart energy management

We had fitted 1,011 electric smart meters by the end of the period with a further 88 remaining to be fitted in 2016. This represents 92 per cent of the estate where such meters may be fitted.

We have fitted 249 gas loggers so far, 50 per cent of the total estate of 502 sites where such loggers can be fitted. A further 84 have been installed since the period end so a further 165 remain to be fitted.

### Improving efficiency through investment

A new conveyor system was introduced at the coffin manufacturing facility. This reduces noise, material wastage and manual handling.

**Investment**

**£0.2m**

The new conveyor system required investment of £0.2 million.

### Greenhouse gas emissions reporting for 2015

Dignity 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:

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Scope 1 | 14,988 | 14,437 | 15,077 | 15,097 | 15,202 |
| Scope 2 | 7,455 | 7,389 | 7,151 | 7,861 | 7,388 |
| Total | 22,443 | 21,826 | 22,228 | 22,958 | 22,590 |
| Per FTE Employee | 8.2 | 8.5 | 9.0 | 10.0 | 10.2 |

#### 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 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.

The Group is starting to collate Scope 3 data with a view, if possible and feasible, to reporting it in the future.

# At the heart of local communities.

1. During 2015, Dignity sponsored a decorative owl statue for The Big Hoot to help raise funds for Birmingham Children's Hospital and increase tourism across the city. (Photograph courtesy of Kris Askey).
2. Dignity has continued to support Marie Curie's Great Daffodil Appeal in 2015 by selling lapel badges at our premises.
3. Dignity employees have continued to enthusiastically support our corporate charity.

## Community

### Our commitment

We are committed to making a difference to our clients and improving the welfare of all who live in the communities we serve.

For additional information:
www.dignityfuneralsplc.co.uk/responsibility

### What we focus on:

- Making a positive contribution to the local communities we serve;
- Building closer relationships with local communities; and
- Developing a greater understanding of our clients' and communities' needs.

We continue to build strong links with the communities in which we operate through local engagement and fundraising for charities.

### Local community engagement and charitable support

Our people support hundreds of local community initiatives and charitable events every year.

In 2015, Dignity raised £59,000 for its corporate charity, Marie Curie and has raised £274,000 since January 2012. Fundraising initiatives included charity car washes and taking part in sponsored walks, skydives and fun runs. Dignity also raised money for Marie Curie by taking part in national campaigns such as The Great Daffodil Appeal, where branches sold the charity's lapel badges and The Blooming Great Tea Party where visitors could purchase hot drinks and homemade cakes for a charitable donation.

To demonstrate our principles and values we have provided financial support for local sports clubs, hospices, nursing homes and churches in addition to fundraising for many other national and regional charities. Dignity has also continued to support a restoration project at a historic church close to its head office in Sutton Coldfield.

### The Big Hoot

During the summer of 2015, Dignity sponsored a decorative owl statue for The Big Hoot, a public art project that took place across Birmingham. The initiative aimed to attract tourists and inspire residents to explore areas of the city they may not have visited before. In October, the 90 owl statues were sold at auction and raised over £500,000 for Birmingham Children's Hospital.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### Marie Curie Cancer Care

## £274,000

Dignity continues to work with Marie Curie Cancer Care and over the last four years our staff have helped to raise more than £274,000 in support of this vital charity.

Governance

# Chairman's introduction to governance

Good governance is taken seriously at all levels within the Group and it is the responsibility of the Board to both lead by example and set the tone.

**Peter Hindley,** Chairman

**Dear Shareholder,**
On behalf of the Board I am pleased to present the Group's Corporate Governance Report for 2015. Our report is intended to provide shareholders with a clear and comprehensive explanation of what good governance means within Dignity and more particularly 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 (the 'Code') and I am pleased to advise that Dignity has complied with all relevant provisions throughout the period ending 25 December 2015. How we have achieved this is explained in more detail in this section of our Annual Report covering Governance.

Our Report for 2015 explains Dignity's approach to Corporate Governance. Separate reports are included from each of the Board Committees; we feel this gives the most comprehensive view of their activities.

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

I would encourage you to attend our Annual General Meeting on 9 June 2016 and take the opportunity to meet the management team at this important event.

**Peter Hindley,** Chairman
2 March 2016

"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 to drive strategic and performance progress.

## Compliance with the UK Corporate Governance Code

It is the Board's opinion the Group has been fully compliant with the Code throughout the 52 week period ending on 25 December 2015 and remained fully compliant at the date the Annual Report for 2015 was published.

## Directors' Report

The Directors present their report for Dignity plc for the period ending 25 December 2015.

## 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 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.

### Links

See Board of Directors: **p.40 and p.41**
See Directors' statement on corporate governance: **p.42 to p.45**
See Audit Committee report: **p.46 to p.48**
See Nomination Committee report: **p.49**
See Report on Directors' remuneration: **p.50 to p.62**
See Directors' report: **p.63 and p.64**

## Our governance principles

**LEADERSHIP**
Continued close focus on delivering on our strategy.

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

**ACCOUNTABILITY**
Close scrutiny and management of risks and controls.

**REMUNERATION**
Prudent oversight of executive remuneration.

**ENGAGEMENT**
Maintaining a strong and open relationship with shareholders.

# Our governance structure

**The Dignity plc Board**
(Chairman, Executive Directors and Independent Non-Executive Directors)

**Board Level Committees**

**Audit Committee**
(Independent Non-Executive Directors)

**Remuneration Committee**
(Independent Non-Executive Directors)

**Nomination Committee**
(Chairman and Independent Non-Executive Directors)

**Executive Management Team**

## 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 exists 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 four independent Non-Executive Directors, the same number as the Executive Directors as prescribed in the Code for listed companies included in the FTSE 250 Index.

## 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 if 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 46 to 62.

## Executive Management Team

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

- Chief Executive: Mike McCollum;
- Finance Director: Steve Whittern;
- Operations Director: Andrew Davies;
- Corporate Services Director: Richard Portman;
- General Manager – Crematoria: Steve Gant;
- General Manager – Pre-arrangement: Steve Wallis;
- Head of Corporate Development – Crematoria: Alan Lathbury; and
- Head of Corporate Development – Funerals and Head of Internal Audit: Debbie Ginn.

Governance

# Board of Directors

> "The Board's overarching objective is to provide effective leadership to the Group and is responsible for its long-term success.
>
> **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 management 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 has a law degree from Birmingham University, 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:
None.

**Andrew Davies**
Operations Director

### Appointed to the Board: 2004

**Background and experience:**

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

External appointments:
None.

**Richard Portman**
Corporate Services Director

### Appointed to the Board: 2006

**Background and experience:**

Richard joined SCI from HSBC as 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 Birmingham University, is a Fellow 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.

**Alan McWalter**
Senior Independent Director

## Appointed to the Board: 2009

### Background and experience:

Alan is Non-Executive Chairman of Churchill China plc, Belfield Furnishings Ltd and Senior Independent Director of SDL PLC. Prior to these roles Alan was Group Marketing Director of Marks and Spencer plc and before that held senior positions with Kingfisher plc and Thomson Consumer Electronics.

**David Blackwood**
Non-Executive Director

## Appointed to the Board: 2015

### Background and experience:

David was previously Chief Financial Officer of Synthomer plc, a global specialty chemicals business. Prior to that he spent twenty years with ICI plc, where he held a number of senior finance roles. He has previously served on the Audit and Risk committee of the Cabinet Office, and as a member of the FRC's Board for Actuarial Standards. He is a Chartered Accountant (ICAEW) and a Fellow of the Association of Corporate Treasurers (FCT).

## Board Committee Membership
as at 25 December 2015

| | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|
| Peter Hindley | | | ▲ |
| Alan McWalter | ● | ▲ | ● |
| David Blackwood | ▲ | ● | ● |
| Jane Ashcroft | ● | ● | ● |
| Martin Pexton | ● | ● | ● |

▲ Chairman
● Member

**Jane Ashcroft CBE**
Non-Executive Director

## Appointed to the Board: 2012

### Background and experience:

Jane is Chief Executive of Anchor, a leading provider of services to older people and has held a number of senior positions since joining them in 1999. She is also Non-Executive Director of Care England, Vice Chair of the associated Retirement Community Operators and was previously a Non-Executive Chair of Stroud & Swindon Building Society. 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 Silver Line and was created a CBE in the 2014 New Years honours list.

**Martin Pexton**
Non-Executive Director

## Appointed to the Board: 2012

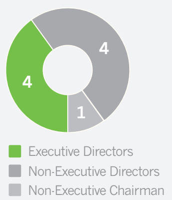
### Background and experience:

Martin was previously Managing Director of LMS Capital plc and prior to that an Executive Director of London Merchant Securities plc and Personnel Director of the law firm Allen & Overy. He has also in the past held a number of non-executive positions including roles with Minerva plc and Inflexion plc as well as a number with private companies. He has an MBA from the London Business School.

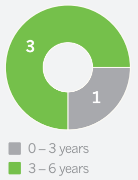
### Composition of the Board

The Board comprises eight 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 and also complies with the Code in respect of FTSE 250 listed companies.

**Executive and Non-Executive Directors**




**Non-Executive Tenure**




### Links

See Audit Committee report: **p.46 to p.48**
See Nomination Committee report: **p.49**
See Report on Directors' remuneration: **p.50 to p.62**

# 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 39. Informal meetings are held between individual Directors as required.

The management of the Group on a day to day basis is delegated, via the Executive Directors, to an experienced and generally long serving senior and middle management team whose size and structure 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 the 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 comprises eight Directors and the Non-Executive Chairman. There are the same number of independent Non-Executive Directors and Executive Directors which the Board consider to be an appropriate and effective combination and also complies with the Code in respect of FTSE 250 listed companies. The Board also considers that four Executive Directors are sufficient to manage a Company of this size, complexity and organisational structure.

The five independent Non-Executive Directors who served for the period were: Jane Ashcroft, Ishbel Macpherson, Alan McWalter, Martin Pexton and David Blackwood who replaced Ishbel Macpherson when she resigned from the Board on 30 September 2015. Biographical details for the serving Non-Executive Directors appear on pages 40 and 41. Their role is to challenge constructively the management of the Group and help develop proposals on 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 from the Company Secretary.

Alan McWalter is the Senior Independent 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, Alan McWalter, and Martin Pexton are independent of management, as defined by the Code.

All Directors are able to take independent professional advice on the furtherance of their duties if necessary at the Group's expense. They also have access to the advice and services of the Company Secretary, who is also the Corporate Services Director 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 and tax matters as required. In addition any newly appointed director receives appropriate induction training. David Blackwood received such training when he was appointed.

The Company maintains appropriate insurance cover in respect of any legal action against its Directors including in respect of prospectuses issued in connection with the issue of additional Secured Notes and Returns of Value to Shareholders. The level of cover is currently £90 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 at the forthcoming Annual General Meeting.

## Board Appraisal

In accordance with the requirements of the Code an external evaluation of the Board and its Committees was completed in 2013 by Independent Audit Ltd, a specialist company, entirely independent of the Group. The next external evaluation will be completed in 2016, again by Independent Audit Ltd to ensure a consistent approach and provide comparability to the evaluation in 2013.This meets the requirements of the Code that an external evaluation takes place on at least a three yearly basis.

During 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 then followed by a detailed review of the responses, by the Directors, 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 year was as follows:

| | Main Board(i) | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| **Number of meetings** | **7** | **3** | **4** | **2** |
| Jane Ashcroft | 7 | 3 | 4 | 2 |
| David Blackwood | 1(iv) | 1 | 1 | 1 |
| Andrew Davies | 7 | 3(ii) | – | – |
| Peter Hindley | 7 | 3(ii) | 4(ii) | 2 |
| Mike McCollum | 7 | 3(ii) | 1(ii) | 2(ii) |
| Alan McWalter | 7 | 3 | 4 | 2 |
| Ishbel Macpherson | 6(iv) | 2 | 3 | 1 |
| Martin Pexton | 7 | 3 | 4 | 2 |
| Richard Portman | 7 | 3(iii) | 2(iii) | 1(iii) |
| Steve Whittern | 7 | 3(ii) | – | – |

(i) Only full Board meetings, of which there are seven per annum, have been included in the attendance analysis. Eight further meetings were held with a quorum of Directors to approve announcements, documents or the issue of shares under the LTIP and SAYE schemes.

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

(iii) Richard Portman attended certain Committee meetings in his capacity as Company Secretary.

(iv) Ishbel Macpherson resigned from the Board of Directors on 30 September 2015 and was replaced by David Blackwood. She attended all Board and Committee meetings prior to her leaving and David Blackwood all meetings following his appointment.

The Board has seven full Board meetings per annum spread broadly equally across the year. After careful consideration it was decided that this is the appropriate number required to exercise effective governance and control. Further meetings are arranged if required.

When 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. A process exists whereby such views will be included in the minutes of the meeting if necessary.

Three meetings between the Chairman and the Non-Executive Directors, without the Executive Directors being present were held during 2015. These are usually scheduled to occur before full Board meetings.

### The Company Secretary

The Company Secretary, Richard Portman, is responsible for overseeing the preparation and distribution of all agendas, minutes and related Board and Committee papers. As Corporate Services Director, he attends the Board meetings in his capacity as a Director of the Company but as Company Secretary provides corporate governance advice if required. The minutes of the meeting are taken by an experienced Administrator from the Corporate Services function. Richard Portman also attends the Committee meetings when requested to do so by the Chairman of that Committee to provide corporate governance advice as Company Secretary with the minutes also being taken by the Administrator.

The Board is happy that the role of Company Secretary is undertaken by the Corporate Services Director as, whilst traditionally it might be considered more appropriate to have the roles separate, the Board believes in Dignity's case it is the most cost effective and sensible way of filling the role particularly given the skills and knowledge of the Corporate Services Director. 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 for the period and in place up to the date the Governance Report was signed and approved for the Annual Report and Accounts 2015.

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.

# Directors' statement on corporate governance continued

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 review mechanism for considering and reviewing internal controls. All such work is reported to and monitored by the Audit Committee who recommends approval to the full Board and is discussed in the Audit Committee Report on pages 46 to 48.

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 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 and Money Laundering;

- Internal Audit – The Group has a dedicated Internal Audit team, which reports to the Chief Executive 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 2015 (as in 2014), 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, 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 three private meetings with the Chairman of the Audit Committee during 2015;

- 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 29 to 31 of the Annual Report. These risks have also been formally considered when the Directors prepared their Viability Statement on page 31 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 around 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 18 to 23.

## Relationship with Shareholders

The Group recognises the importance of clear communication with shareholders.

Regular contact with institutional investors, fund managers and analysts is maintained 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 or requested to discuss any issues that they may have. The Chairman is also available to discuss governance and strategy matters with the major shareholders. The Corporate Services Director, in his additional role as Company Secretary deals with queries or enquiries from private shareholders. The Board is as interested in their concerns as it is of institutional and corporate shareholders.

The AGM provides an opportunity to meet the Board and senior management group. All shareholders are free to attend and put questions to any Director and in particular the chairmen of each of the Board Committees at the AGM on 9 June 2016. At least 20 days' notice will be given ahead of that meeting. Questions asked in person at the AGM will receive an oral 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 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 4 to 31 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.dignityfuneralsplc.co.uk, 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, where it will not disrupt services we are providing to our clients.

## Substantial shareholdings

The Group has been notified of the following interests of three per cent or more of the issued share capital of the Company:

| | As at 29 February 2016 | | As at 25 December 2015 | |
|---|---|---|---|---|
| Holder | Number of Ordinary Shares | Percentage of issued share capital | Number of Ordinary Shares | Percentage of issued share capital |
| BAM & Oppenheimer Funds | 4,968,414 | 10.05% | 4,968,414 | 10.05% |
| Kames Capital | 2,460,352 | 4.98% | 2,460,352 | 4.98% |
| Aberdeen Asset Management | 2,435,491 | 4.93% | 2,435,491 | 4.93% |
| Montanaro Group | 2,390,816 | 4.84% | 2,390,816 | 4.84% |
| Franklin Templeton Investment Management Limited | 2,448,905 | 4.96% | 2,448,905 | 4.96% |
| Blackrock Investment Management | 2,472,586 | 5.00% | 2,472,586 | 5.00% |
| MFS Investment Management | 2,491,500 | 5.04% | 2,491,500 | 5.04% |

By order of the Board

**Richard Portman**
Company Secretary

2 March 2016

Governance

# Audit Committee report

## The Committee works with the full Board to fulfil its oversight responsibilities.

**David Blackwood,** Chairman of the Audit Committee

**Dear Shareholder,**
On behalf of the Board, I am pleased to present my first report as the new Chairman of the Audit Committee.

### Membership and Process

The following Directors served on the Audit Committee (the 'Committee') during 2015 and through to the date of this report: me (as Chairman from 1 October 2015), Ishbel Macpherson (as Chairman until she resigned from the Board on 30 September 2015), Alan McWalter (Senior Independent Director), Jane Ashcroft and Martin Pexton each of whom are independent Non-Executive Directors.

The Board is satisfied that I have, as Chairman of the Committee (and my predecessor Ishbel Macpherson had), recent and relevant financial experience. 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 2015; in February prior to the release of the Preliminary Announcement for 2014; prior to the release of the Interim Announcement for 2015 in July; and again in December 2015 immediately prior to the end of the financial period. The Committee also met in February 2016 prior to the release of the Preliminary Announcement for 2015. The attendance records of the members is shown on page 43. The external auditors, Ernst & Young LLP ('EY'), the Chairman, the Chief Executive, the Finance Director, Operations Director, the Head of Internal Audit and the Financial Controller have attended meetings by invitation.

The Committee holds a private session with the Lead Partner from our external auditors without management present at least twice a year. In addition, I, as Chairman of the Audit Committee and my predecessor Ishbel Macpherson, met with the Lead Partner a total of three times through 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.

### Role

The Committee works with the full 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 on whether the Annual Report and Accounts, taken as a whole, is fair, balanced, understandable and provides information necessary for shareholders to assess the performance, business model and strategy of the Group;
- 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; all internal audit reports; review and monitor management's responses to the findings and recommendations of the internal audit function; and 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 are available on the Group's corporate website at www.dignityfuneralsplc.co.uk.

### Activities in the period

The key activities of the Committee during the period were:

- It reviewed the financial statements in the 2014 and 2015 Annual Report and Accounts and the 2015 Interim Report. As part of this review the Committee received reports from the external auditors on their audit of that Annual Report and their review of the interim results. It also reviewed the Preliminary and Interim Announcements made to the London Stock Exchange;
- At all meetings it reviewed reports made by Internal Audit which included the review of progress against the plan for the period, the results of principal audits and other significant findings, adequacy of management's responses and the timeliness of resolution of actions arising;
- Review and agreement of the three year rolling plan for Internal audit;

- A six month review and recommendation of formal adoption to the full Board of the Risk Register. This is part of a formal ongoing process of identifying, evaluating and managing the significant risks faced by the Group. The principal risks facing the Group are considered on pages 29 to 31 of the Annual Report;
- Formally review the going concern assumptions adopted in the preparation of the 2014 and 2015 accounts;
- 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 31;
- The Committee discussed the annual external audit plan in advance of the year end with the external auditors, which addressed the planned audit approach to these key accounting areas; and
- The Committee discussed the auditor's views on key judgement areas and audit findings relating to key accounting matters at the conclusion of the audit.

Areas that have been discussed and considered by the Committee in relation to the 2015 Annual Report are:

- Pensions – We examined the assumptions used in the actuarial valuation for the defined benefit pension scheme which include the discount rate, the inflation rate and mortality. We considered the consistency of the basis of calculation of the assumptions used with 2014, and agreed with the judgements reached by management.

- Acquisition of 36 locations from Laurel Funerals – We considered the appropriateness of the accounting treatment of the acquisition, including the allocation of goodwill and intangible trade names.

- Pre-arranged funeral plans trusts – The Committee considered the on-going treatment of the trusts following the adoption of IFRS 10 along with the additional disclosure requirements of IFRS 12.

## 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 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 has been completed in the first quarter of 2016. The Committee was, based on that review, fully satisfied with EY's performance in 2015.

EY were appointed in 2014 following a tender process and a resolution to re-appoint them as external auditors will be tabled at the AGM on 9 June 2016.

## 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 will be fully analysed in the Annual Report between tax compliance and advisory, non statutory acquisition related services and statutory services. If non-audit fees to be incurred with the external auditor are to be in excess of 20 per cent of the audit fee, Audit Committee approval will be 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 included 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 in the future, 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 2015 and completion of turnover certificates and financial covenants compliance certificate. Total fees of £40,000 were charged for the non-audit services compared to £0.2 million for audit services.

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 2015.

# Audit Committee report continued

## Audit partner rotation

Consistent with the Auditing Practices Board requirements, EY audit partners serve for a maximum of five years on listed clients. This is the second year that Simon O'Neill is Dignity's audit partner.

The Audit Committee considers that the relationship with the auditors is working well and is satisfied with their effectiveness. 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 Chief Executive 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 2015 (as in 2014), 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 or my predecessor Ishbel Macpherson on three occasions in the period.

## Whistleblowing

A formal process, 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. The Whistleblowing Policy was reviewed and updated during the period and was presented to and formally adopted by the full Board of Dignity.

This Audit Committee report was reviewed and approved by the Board on 2 March 2016.

**David Blackwood**
Chairman of the Audit Committee

2 March 2016

# Nomination Committee report

## The Committee successfully recruited a new Non-Executive Director to chair our Audit Committee.

**Peter Hindley,** Chairman of the Nomination Committee

**Dear Shareholder,**
On behalf of the Board, I am pleased to present the 2015 Nomination Committee report.

During 2015 the Nomination Committee (the 'Committee') consisted of me (as Chairman), Alan McWalter (Senior Independent Director), Jane Ashcroft, Martin Pexton, Ishbel Macpherson until she resigned from the Board on 30 September 2015 and thereafter David Blackwood each of whom are independent Non-Executive Directors. The Company Secretary, Richard Portman, acted as Secretary to the Committee when requested by me to do so. All members are considered to be independent by the Group having no day to day involvement with the Group.

During the year the Committee carried out the following tasks.

- Kept under review the structure, size and composition of the Board including ensuring that it has the necessary skills, knowledge and experience;
- Considered succession planning for the Directors and senior managers;
- Identified and nominated for approval by the full Board a suitable candidate to fill the vacancy arising upon the retirement from the Board of Ishbel Macpherson;
- Kept under review the leadership needs of the Group, both executive and non-executive;
- Reviewed the time required from the Non-Executive Directors; and
- Reviewed the results of the Board performance evaluation that relate to the composition of the Board.

The terms of reference of the Committee are available on the Group's corporate website at www.dignityfuneralsplc.co.uk.

The Committee met twice in 2015. 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 43.

I report on the Committee's proceedings at the next full Board meeting and the minutes of those meetings are made available to all members of the Board.

Subsequent to my letter in the 2014 Annual Report Ishbel Macpherson indicated that she intended to step down from the Board during 2015. The Nomination Committee retained the executive search agency Buchanan Harvey to provide a list of both male and female high calibre candidates with the appropriate skills and experience to not only be a Non-Executive Director of Dignity but also act as Chairman of the Audit Committee. I am pleased to advise that at the end of a rigorous recruitment process we appointed David Blackwood, his biographical details are on page 41 of this Annual Report.

All the Non-Executive Directors were reappointed for new two year terms during 2014 as I advised in my letter to shareholders last year. Martin Pexton and Jane Ashcroft have served on the Board since 1 April 2012, Alan McWalter since 12 January 2009 and David Blackwood since 1 October 2015.

The Committee, and by extension the full Board, continue to support the spirit of Lord Davies' Report "Women on Boards". In 2011 we set a goal of 20 per cent of Board positions to be filled by women by 2015. This objective was achieved in 2012. However, following the resignation of Ishbel Macpherson and the appointment of David Blackwood that percentage has fallen to 11 per cent. I remain fully committed to increasing the proportion of women serving on the Board of Dignity back to 20 per cent or higher but continue to remain mindful of the overall need to recruit the very best candidates regardless of gender. The Group will continue to encourage similar diversity in senior management positions and 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 the Davies Report and report on our compliance (Recommendation 4) and appointment process (Recommendation 5) in our Annual Report.

During the period, the Board completed an internal performance evaluation of itself and its Committees. The results of this are discussed on page 42.

Finally, the Company's Articles provide that all Directors retire by rotation with one third being subject to re-election each year. However we continue to adopt the provisions of the UK Corporate Governance Code such that all Directors offer themselves for re-election annually.

This Nomination Committee report was reviewed and approved by the Board on 2 March 2016.

**Peter Hindley**
Chairman of the Nomination Committee

2 March 2016

Governance

# Report on Directors' remuneration

for the 52 week period ended 25 December 2015

## We have carried out a comprehensive review of all of the Executive Directors' remuneration packages.

**Alan McWalter**, Chairman of the Remuneration Committee

**Dear Shareholder,**
On behalf of the Board, I am pleased to present the Remuneration Committee's Report on Directors' Remuneration for 2015.

Last year, we made some changes to the way we implemented our shareholder approved policy and I was pleased that we received a 97.7 per cent vote in favour of our Annual Report on Remuneration at the June 2015 AGM. Since then we have carried out a comprehensive review of all of the Executive Directors' remuneration packages and will be putting a new Remuneration Policy to a binding vote at the 2016 AGM. In addition, there will be an advisory vote on the Annual Report on Remuneration and there will also be a separate specific resolution to amend the rules of the Long Term Incentive Plan to enable the proposed awards to be made under the Plan.

The following report is divided into three sections. This letter summarises performance against incentive plan targets and provides an overview of changes to our Remuneration Policy, due to come into effect from the approval of the policy at the AGM. Our proposed Remuneration Policy follows on pages 51 to 56. The Annual Report on Remuneration sets out the pay outcomes for 2015 and how we intend to apply our policy for 2016.

### Background to the Review

Since IPO, Dignity's performance has been strong and as a result shareholder returns have been significantly above those of the FTSE 100 and 250 indices over one, three, five and ten year periods. Over that period, Dignity's market capitalisation has grown from £184 million at IPO in 2004 to £1.2 billion now and its enterprise value has increased from £419 million in 2004 to approximately £1.8 billion now. Dignity has also increased revenues from £136 million in 2004 to £176 million in 2008 and £305 million in 2015 and increased EPS from 19 pence in 2004 to 38 pence in 2008 and 115 pence in 2015.

During this time, the Group has benefitted from a very stable executive team. Both the Chief Executive and Operations Director have been on the Board since IPO and the four Executive Directors have all been on the Board since the beginning of 2009.

Given how instrumental the Directors have been in the Company's success since IPO, the Remuneration Committee believes that motivating and retaining this proven team is critical to the Company's future success and it is important that the remuneration arrangements are competitive, but not excessive, by market standards, with an appropriate balance between fixed and variable pay.

A detailed explanation of the various changes is set out on pages 51 and 62, but in summary:

- Base salaries have been increased by five per cent, resulting in salaries being positioned up to eight per cent below median of the FTSE 250 and around 25 per cent below median for the Corporate Services Director. Future salary increases for the duration of the policy are expected to be around those awarded to the wider workforce (subject to good personal and company performance) except where there are material revisions to current roles and responsibilities;

- A pension allowance of 15 per cent of salary p.a. will be payable to the Finance Director and Operations Director, to align them with the benefits received by the other Executive Directors;

- The bonus maximum will be increased from 100 per cent of salary to 135 per cent for the Chief Executive and 125 per cent for the other Directors. The CEO's 135 per cent bonus opportunity is below the median opportunity for CEOs in the FTSE 250 and 125 per cent is around mid-market, albeit in all cases being driven off below market base salaries. The payout at on-target performance will remain at 70 per cent of salary and there will continue to be zero payout for below on-target performance. For 2016, bonus will be based on stretching operating profit (rather than EPS) targets since the Committee believes that operating profit is a better measure of trading performance. In future any bonus earned above 100 per cent of salary will be deferred in shares for two years; and

- The normal LTIP award will be increased from 125 per cent of salary to 150 per cent and the Company will introduce a post-vesting holding period of two years. Vesting for the 2016 award will continue to be based 50 per cent on TSR and 50 per cent on EPS with 25 per cent of the TSR component and 15 per cent of the EPS component vesting at threshold. The Company will continue to set challenging EPS targets, further details of which are set out on page 57.

- The Committee encourages Directors to build up significant shareholdings in the Company and to reinforce this message, the share ownership guideline will be increased from 100 per cent of salary to 200 per cent.

These changes reflect the Company's strong performance, its increased size and complexity and the criticality of the current management team to Dignity's future success. In setting the revised packages, the Committee took account of pay levels in the FTSE 250. As a result of these changes, total target pay will be around 15 to 20 per cent below the median for the Chief Executive, Finance Director and Corporate Services Director against similar roles in the FTSE 250 and around four per cent below median for the Operations Director.

The Committee has carefully considered these proposals and is well aware that they are significant increases. However, the Committee considers that they are necessary and that, when considered in the context of the addition of several best practice features, such as bonus deferral and a post-vesting holding period, they are fair and reasonable.

## Performance and reward in 2015

As highlighted in the Strategic Report, 2015 was a year of continued strong performance and delivering shareholder returns. Underlying operating profit increased by 16 per cent to £98.7 million and underlying earnings per share by 34 per cent to 114.8 pence per share. This is reflected in the level of incentive pay vesting in 2015.

### Annual Bonus

EPS for 2015 was 114.8 pence, 34 per cent above 2014, and above the maximum target of 99.2 pence. Accordingly, a maximum bonus of 100 per cent of salary was payable.

### Long-Term Incentive Plan

The LTIP award made in 2013 will vest in March 2016, based on performance over the three years to 31 December 2015. 50 per cent of the award is based on TSR against the FTSE 350 and 50 per cent on EPS. The Company's TSR of 139.6 per cent was ranked above upper quartile, so 100 per cent of this part of the award will vest. EPS growth was 83 per cent over the three year period, which is higher than the EPS maximum target of RPI plus 11 per cent per annum. As a result, this part of the award will also vest at 100 per cent.

## Shareholder feedback

The Remuneration Committee actively seeks and welcomes feedback from the Company's shareholders. Following our Policy Review, we consulted with our major shareholders and shareholder bodies.

On behalf of the Committee, I commend this report to you and ask for your support at the forthcoming Annual General Meeting.

**Alan McWalter**
Chairman of the Remuneration Committee

2 March 2016

## 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) (Amendments) Regulations 2013. During the year, the Committee completed a review of executive remuneration and the Committee proposes to make a number of changes to the Policy, which was approved by shareholders at the 2014 AGM.

This Remuneration Policy will be put forward for shareholder approval at the AGM on 9 June 2016 and if the revised Policy is approved, it will take effect from the date of the AGM. There will also be a separate resolution at the AGM to approve a new Long Term Incentive Plan.

Details of how the Company will implement the Policy are provided in the Annual Report on Remuneration section starting on page 56.

## 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.

As a result of the 2015 remuneration review, the key policy changes being proposed to our remuneration policy for Executive Directors are:

- Pension – While there is no change to the previous policy, going forward, the intention is to provide the Finance Director and the Operations Director with a pension contribution of 15 per cent of salary which is in line with the other Executive Directors, backdated to 1 January 2016;
- Annual bonus – To provide an opportunity closer in line with market levels, it is proposed that the bonus maximum is increased to 135 per cent for the Chief Executive and 125 per cent for other Directors. Whilst the maximum is being increased, the current bonus target of 70 per cent of salary will remain and, therefore, the higher bonus potential will only be payable for above target performance and nothing is payable for achieving less than the target. Any bonus in excess of 100 per cent of salary must be deferred in shares for 2 years. Bonuses will continue to be subject to recovery and withholding provisions and will now be based on demanding EBIT rather than EPS targets; and
- Long-Term Incentive Plan – It is proposed to increase the individual limit award from 125 per cent to 150 per cent of salary to ensure that there is appropriate incentivisation and sufficient shareholder alignment through equity ownership. Awards will continue to be subject to recovery and withholding provisions.
- The share ownership guideline will be increased from 100 per cent to 200 per cent of salary.

Holding periods – A two year holding period will apply for Executive Directors' vested LTIP awards for the 2016 award and thereafter. The Remuneration Committee is confident that this revised policy will appropriately incentivise and retain the Dignity management team and that the increased focus on variable pay will provide greater alignment between executives' interests and those of shareholders.

# Report on Directors' remuneration continued

for the 52 week period ended 25 December 2015

The table below summarises the main components of Dignity's ongoing remuneration policy.

| Element | Purpose and link to strategy | Operation | Maximum Opportunity | Framework used to assess Performance |
|---|---|---|---|---|
| Base salary | Essential to recruit and retain executives of a high calibre.<br>Reflects an individual's experience, role and performance. | Salaries are paid monthly. They are normally reviewed annually and fixed for 12 months commencing 1 January.<br>In deciding appropriate levels, the Committee takes into account:<br>• the role, experience, responsibility and performance (individual and Group);<br>• increases applied to the broader workforce; and<br>• relevant market information for similar roles in broadly similar UK listed companies and companies of a similar size. | There is no prescribed maximum.<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.<br>Salaries for 2016 are:<br>CEO: £510,300;<br>Operations Director: £325,500;<br>Finance Director: £315,000; and<br>Corporate Services Director: £246,750. | The Committee reviews the salaries of Executive Directors each year taking due account of all the factors described in how the salary policy operates. |
| Benefits | To provide competitive benefits to help recruit and retain executives. | Benefits include provision of a company car (or cash allowance in lieu), fuel, landline telephone at residence, mobile phone, family private medical cover and a pre-arranged funeral plan for the individual or spouse.<br>Relocation or other related expenses may be offered, as required.<br>Executive Directors are also eligible to participate in the all-employee HMRC approved share schemes on the same basis as other employees.<br>Any 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>Relocation expenses must be reasonable and necessary.<br>HMRC tax-approved limits will apply to all employee share schemes. | Not applicable. |
| Pension | 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>The Company may contribute to selected individuals' personal pension schemes or is able to make salary supplements in lieu of pension contributions.<br>Details of the arrangements for the Directors are set out in the Annual Report on Remuneration. | The accrual rate under the defined benefit scheme is one eightieth of final salary for every completed year of service.<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. | Not applicable. |
| Annual bonus | 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. | Bonus payment is determined by the Committee after the year end, based on performance against targets set prior to the start of the year. Targets are reviewed annually.<br>Bonuses up to 100 per cent of salary will be payable in cash. Any bonus earned in excess of 100 per cent of salary will be deferred in shares. Deferred shares vest after two years subject to continued employment but no further performance targets.<br>A dividend equivalent provision allows the Committee to pay dividend equivalents on vested deferred shares (in cash or shares). This may assume the reinvestment of dividends on a cumulative basis.<br>Bonus payments, including deferred bonus awards, are subject to recovery and withholding provisions in the event of financial misstatement or miscalculation of performance conditions.<br>See Note 1. | The maximum award under the annual bonus scheme is 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 Company's strategic objectives. The bonus may be based on the achievement of an appropriate mix of challenging financial, strategic or personal targets. Measures and weightings may change each year to reflect any year-on-year changes to business priorities.<br>Financial measures which account for the majority, if not all, of the bonus may include measures such as EBIT (or other measures of profit) or cash flow.<br>For financial metrics, a range of targets may be set by the Committee, taking into account factors such as the business outlook for the year.<br>• Nothing is payable for performance below a minimum level of EBIT.<br>• Up to 70 per cent of salary (or an equivalent proportion of the financial element) is payable for meeting a demanding target with maximum bonus payable for achieving a second, more demanding target.<br>• Bonus is payable on a pro rata basis for performance between the first and second targets.<br>See Note 2. |

| Element | Purpose and link to strategy | Operation | Maximum Opportunity | Framework used to assess Performance |
|---|---|---|---|---|
| Long-Term Incentive Plan | Incentivises selected employees and Executive Directors to achieve successful execution of business strategy over the longer term.<br>Provides long-term retention.<br>Aligns the interests of the Executives and shareholders through the requirement to build up a substantial shareholding. | Awards are normally granted annually in the form of nil cost options or conditional share awards.<br>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 Company and the Executive being granted the award.<br>Awards normally vest after three years subject to the achievement of stretching performance conditions and continued employment.<br>Awards are subject to recovery and withholding provisions in the event of financial misstatement or miscalculation.<br>Following vesting, Executive Directors will be required to retain their net of tax vested shares for two years.<br>A dividend equivalent provision allows the Committee to pay dividend equivalents, at the Committee's discretion, on vested shares (in cash or shares) at the time of vesting and may assume the reinvestment of dividends on a cumulative basis. | The maximum annual award that can be made to an individual in any given financial year is 150 per cent of salary. | Awards under the LTIP vest subject to the satisfaction of challenging performance measures as set from time to time by the Remuneration Committee. Performance conditions may include a measure of profitability such as EPS, and another measure of long-term success, such as TSR.<br>Performance below the threshold target will result in zero vesting for each performance measure. 25 per cent of the award may vest for threshold performance.<br>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, the long-term business plan and external expectations.<br>Performance periods will normally start from the beginning of the financial year in which the award is made.<br>See Note 3. |
| Non-Executive Chairman and Directors' fees | To attract and retain a high quality Chairman and experienced Non-Executive Directors. | 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).<br>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.<br>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.<br>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.<br>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.<br>In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment of the Non-Executive Chairman and Directors. | There is no prescribed maximum, however, any increase to fees will be considered in light of the expected time commitment in performing the roles, increases received by the wider workforce and market rates in comparable companies. | Neither the Non-Executive Chairman nor the Non-Executive Directors are eligible for any performance related remuneration. |
| Share ownership guidelines | To align the interests of management and shareholders and promote a long-term approach to performance. | Executive Directors are required to build and maintain a holding of shares to the value of at least 200 per cent of base salary. This will be achieved by setting a specific number of shares required to be held by each Executive Director based on their 2016 salary and the 28 day average share price to 25 February 2016. This results in the following required holdings or Ordinary Shares:<br>• Mike McCollum 43,709 Ordinary Shares.<br>• Andrew Davies 27,880 Ordinary Shares.<br>• Richard Portman 21,135 Ordinary Shares.<br>• Steve Whittern 26,981 Ordinary Shares.<br>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). | Not applicable. | Not applicable. |

Notes

1. Recovery and withholding provisions apply to variable pay, to enable the company to recover amounts paid under the annual bonus and LTIP in the event of a restatement of the accounts or an error in calculation leading to an over-payment. 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 awards, reduction of the next bonus or LTIP vesting and seeking a cash repayment.
2. Annual bonus metrics will be determined at the start of each year, based on the Company's priorities for the coming year. Measures may include profit (such as operating profit, PBT or EPS) which is one of the key financial measures of growth.
3. LTIP performance metrics will be determined at the time of grant and based on the Company's long-term strategy. Total Shareholder Return is an important benchmark of the success of the business and provides a strong alignment with the returns received by shareholders. The EPS measure ensures a focus on long-term profitability which the Committee believes is a driver of shareholder value.
4. The Committee is made aware of pay structures across the wider Group when setting the remuneration policy for Executive Directors. The Committee considers the general basic salary increase for the broader employee population when determining the annual salary review for the Executive Directors. An annual bonus plan operates across all employees in the Group and all permanent employees are eligible to participate in the SAYE scheme. Overall, the remuneration policy for the Executive Directors is more heavily weighted towards variable pay than for other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the Executive Directors given it is the Executive Directors who are considered to have the greatest potential to influence Company value creation.

# Report on Directors' remuneration continued

for the 52 week period ended 25 December 2015

## 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 53):

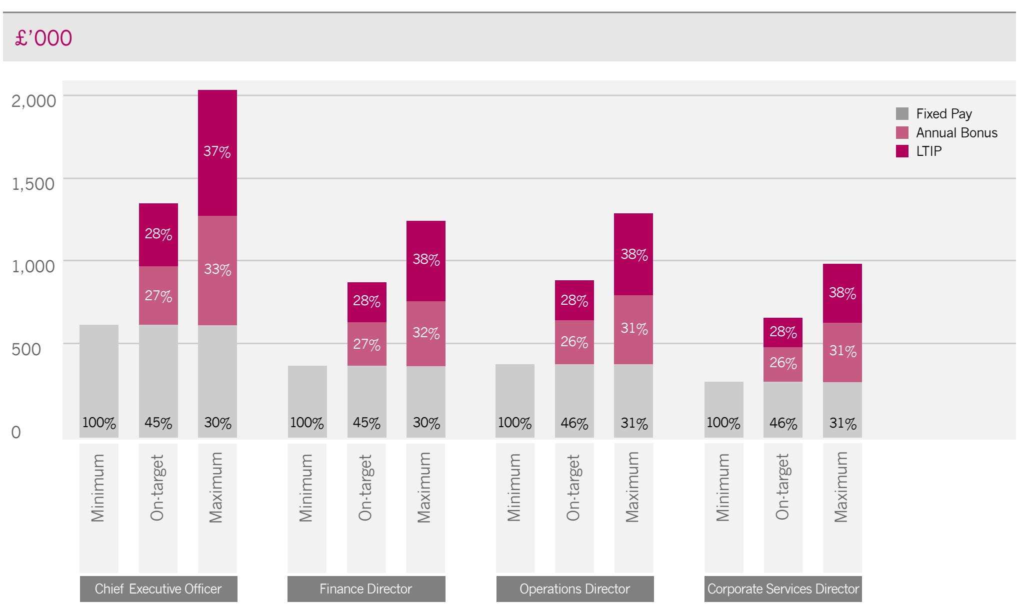
- Who participates in the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or a payment;
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Determination of a good leaver (in addition to any specified categories) 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

For the avoidance of doubt, in approving the Policy Report, authority is given to the Company to honour any commitments entered into with current or former directors that have been disclosed previously to shareholders.

## Remuneration scenarios for Executive Directors

The Company's policy results in a significant portion 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 2016 vary under three performance scenarios: minimum, on-target and maximum.




Notes
- Minimum comprises fixed pay, which includes 2016 basic salary, the value of benefits in 2015 and a 15 per cent company pension contribution.
- On-target comprises fixed pay and assumes a bonus of 70 per cent of salary is paid and 50 per cent of the LTIP vests.
- Maximum comprises fixed pay and assumes full bonus payment and LTIP vesting.
- No account has been taken of any changes in the Company's share price since the end of the period.

## 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. A pension contribution or cash in lieu of up to 15 per cent of salary may be provided or continued participation in the defined benefit pension scheme for a promoted employee who currently participates in the plan.

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, being 150 per cent of salary under the annual bonus plan and awards with a face value of 150 per cent of salary under the LTIP. 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, taking into account the form (cash or shares), timing 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 if necessary and as permitted under the LSE Listing Rules. 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 Company's policy is to have service contracts for Executive Directors that 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. Service contracts are available for inspection at the Company's registered office.

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.

In accordance with the terms of the UK Corporate Governance Code 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. Details of the service contracts with all Executive Directors and letters of appointment with Non-Executive Directors are as follows:

| Name | Contract date | Notice period | Unexpired term of contract or letter of appointment at period end |
|---|---|---|---|
| Mike McCollum | 1 April 2004 | 12 months | Rolling Contract |
| Andrew Davies | 1 April 2004 | 12 months | Rolling Contract |
| Richard Portman | 1 November 2006 | 12 months | Rolling Contract |
| Steve Whittern | 1 January 2009 | 12 months | Rolling Contract |
| Peter Hindley | 7 December 2013 | 3 months | 12 months |
| David Blackwood | 1 October 2015 | 3 months | 21 months |
| Alan McWalter | 1 January 2015 | 3 months | 12 months |
| Jane Ashcroft | 1 April 2014 | 3 months | 3 months |
| Martin Pexton | 1 April 2014 | 3 months | 3 months |

For Executive Directors, the Company may in its absolute discretion at any time after notice is served by either party, terminate a Directors' 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.

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 Group allows Executive Directors to hold a Non-Executive position with one other company or organisation, for which they can retain the fees earned. Mike McCollum was appointed a non-executive director of CVS Group plc on 2 April 2013 and received remuneration of £43,000 per annum (including an allowance for his role as Chairman of the Remuneration Committee).

# Report on Directors’ remuneration continued

for the 52 week period ended 25 December 2015

### Treatment of incentives

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. Should the Committee decide to make a payment in such circumstances, the rationale would be fully disclosed in the Annual Report on Remuneration.

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 and will not normally be subject to a pro rata reduction (unless the Committee determines otherwise). 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 be reduced pro-rata to reflect the proportion of the three year period actually served.

### 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 revised 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

The Company does not actively consult with employees on Directors' remuneration. However, when setting the remuneration policy for Executive Directors, the Committee takes into account the pay and employment conditions of other employees in the Group.

## ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration set out below (and the Chairman's Annual Statement) will be put to a single advisory shareholder vote at the 2016 AGM. The information below includes how we intend to operate our revised policy in 2016 and the pay outcomes in respect of the 2015 financial year. The information from the single total remunerations figures for Directors on page 58 to the end of the section on loss of office payments on page 61 has been audited. The remainder is unaudited.

### Implementation of Remuneration Policy in 2015

The Committee carried out a comprehensive review of executive remuneration in the last quarter of 2015. Reflecting the strong performance of the Company and its increased size and complexity, the Committee has decided to make a number of changes to the Directors' remuneration policy to ensure executive directors are appropriately incentivised and rewarded. The Committee is satisfied that the Directors' revised packages are commensurate with their present roles, experience and pay levels more generally in the FTSE 250. Subject to shareholders' approving our remuneration policy, details of how we will operate our policy in 2016 are provided below.

### Salaries

Following the review of Executive Directors' base salaries during the last quarter of the financial period ending 25 December 2015, the Committee decided to increase the Executive Directors' salaries as shown in the table below with effect from 1 January 2016.

The proposed salaries as at 1 January 2016 are:

| | 2016 | 2015 | Increase |
|---|---|---|---|
| Mike McCollum | £510,300 | £486,000 | 5% |
| Andrew Davies | £325,500 | £310,000 | 5% |
| Richard Portman | £246,750 | £235,000 | 5% |
| Steve Whittern | £315,000 | £300,000 | 5% |

Reflecting the strong performance of the Company, its increased size and complexity and the Committee’s desire to retain and motivate this proven management team, the Committee decided to increase the Executive Directors’ salaries by five per cent.

The Committee is conscious of shareholders’ calls for pay restraint and took into account the views of its largest shareholders and shareholder bodies when determining the 2016 increase. The Committee is aware of the dangers of over-reliance on market data but it believes the above increases are appropriate in light of each individual's performance and responsibility alongside Company performance. For information, the resulting salaries will be positioned up to eight per cent below the median of the FTSE 250 and around 25 per cent below median for the Corporate Services Director.

Future salary increases for the duration of the policy are expected to be around those awarded to the wider workforce (subject to good personal and company performance) except where there are material revisions to the current roles and responsibilities.

### Chairman and Non-Executive Directors' fees

As set out in the Policy Report, the Company's approach to setting Non-Executive Directors' remuneration is with reference to market levels in comparably sized FTSE companies, levels of responsibility and time commitments. The fees for 2016 are as detailed below:

| | 2016 | 2015 | Increase |
|---|---|---|---|
| Peter Hindley | £169,950 | £166,600 | 2% |
| Jane Ashcroft | £45,900 | £45,000 | 2% |
| David Blackwood | £55,100 | £54,000 | 2% |
| Alan McWalter | £61,600 | £60,400 | 2% |
| Martin Pexton | £45,900 | £45,000 | 2% |

The base fees for Non-Executive Directors in 2016 are £45,900. The Senior Independent Director receives an additional fee of £9,500 and the Chairs of the Audit and Remuneration Committees receive additional fees of £9,200 and £6,200 respectively. The fees have been increased by 2 per cent from 2015. David Blackwood was appointed to the Board on 1 October 2015. His fees for 2015 are shown on an annualised basis to allow comparison with 2016.

### Pension and Benefits

In order to ensure a fair and consistent pension policy, from 2016 all Executive Directors 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. If the new remuneration policy is approved, the Finance and Operations Directors will receive contributions of 15 per cent of salary per annum for the period from 1 January 2016.

### Annual bonus

The annual bonus will operate as detailed in the Policy Report.

For 2016, the annual bonus will be solely based on stretching underlying EBIT targets instead of EPS. The Committee believes that EBIT is a better measure of trading performance and it provides a good balance with EPS and TSR which continue to be used in the LTIP.

As in previous years, nothing will be payable for performance below a target level of performance, up to 70 per cent of salary is payable for achieving the target and full bonus (135 per cent of salary for the CEO and 125 per cent of salary for the other Executive Directors) for achieving a second, more demanding, target. The bonus is payable on a pro rata basis for performance between the first and second targets.

The EBIT targets themselves 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.

In accordance with the new policy, any bonus payable in excess of 100 per cent of salary will be deferred in shares. The deferred shares will vest after two years subject to continued employment.

### Long-term incentives

The intention is to make awards under the LTIP to Executive Directors with a face value of up to 150 per cent of salary.

Half of the 2016 awards will be subject to a relative TSR measure which will be measured against the constituents of the FTSE 350 as at 29 December 2015 and the other half subject to EPS growth targets. The performance period for both tranches will be the three financial years, 2016-2018.

- TSR – No part of this award vests if performance is below median, 25 per cent vests for achieving median, with 100 per cent vesting for upper quartile performance with straight line vesting in between. For this part of the award, no vesting can occur unless the Committee considers that the underlying financial performance of the Group has been satisfactory.

- EPS – No part of this award vests if underlying EPS in 2018 is lower than 128.1p, 15 per cent vests for EPS of 128.1p, 50 per cent vests for EPS of 134.8p with 100 per cent vesting for EPS of 144.9p. Straight line calculations are made to calculate the vesting percentage between each point.

As set out in the Chief Executive's overview, 2015 was an exceptional year following unusually high death rates in the UK. While the Committee generally intends to set financial targets based on the 10 per cent medium term target and market earnings expectations where appropriate, the 2016 EPS target recognises the high 2015 EPS performance however, it is considered challenging in the circumstances. It should be noted that the above target range produces a 50 per cent vesting for achieving 134.8p which represents current consensus for that year. In future years the Committee will set targets annually having regards to market expectations at the time of grant and the 10 per cent medium term EPS growth target.

Unlike previous years, the Committee wishes to add a requirement for Executive Directors to be subject to a post-vesting holding period of two years on this award and all awards thereafter. This requires Executive Directors to hold on to the net of tax number of vested shares for a period of two years following vesting.

# Report on Directors' remuneration continued

for the 52 week period ended 25 December 2015

## Single total remuneration figure for Directors

The following table presents a single total remuneration figure for 2015 for the Executive and Non-Executive Directors.

| | | Fixed Pay | | | Pay for Performance | | | |
|---|---|---|---|---|---|---|---|---|
| | | Salary £000's | Benefits(a) £000's | Pension(b) £000's | Annual Bonus(c) £000's | LTIP(d) £000's | Other(e) £000's | Total Remuneration £000's |
| **Executive Directors** | | | | | | | | |
| Mike McCollum | 2015 | 486 | 19 | 73 | 486 | 1,389 | – | 2,453 |
| | *2014* | *476* | *19* | *72* | *476* | *1,383* | – | *2,426* |
| Andrew Davies | 2015 | 310 | 26 | – | 310 | 789 | – | 1,435 |
| | *2014* | *271* | *28* | – | *271* | *972* | – | *1,542* |
| Richard Portman | 2015 | 235 | 17 | 35 | 235 | 631 | – | 1,153 |
| | *2014* | *230* | *18* | *33* | *230* | *778* | – | *1,289* |
| Steve Whittern | 2015 | 300 | 19 | – | 300 | 699 | – | 1,318 |
| | *2014* | *265* | *19* | – | *265* | *629* | – | *1,178* |
| **Non-Executive Directors** | | | | | | | | |
| Peter Hindley | 2015 | 167 | 1 | – | – | – | – | 168 |
| | *2014* | *163* | *1* | – | – | – | – | *164* |
| Jane Ashcroft | 2015 | 45 | – | – | – | – | – | 45 |
| | *2014* | *44* | – | – | – | – | – | *44* |
| David Blackwood(e) | 2015 | 14 | – | – | – | – | – | 14 |
| | *2014* | – | – | – | – | – | – | – |
| Alan McWalter | 2015 | 60 | – | – | – | – | – | 60 |
| | *2014* | *59* | – | – | – | – | – | *59* |
| Martin Pexton | 2015 | 45 | – | – | – | – | – | 45 |
| | *2014* | *44* | – | – | – | – | – | *44* |
| Ishbel Macpherson(e) | 2015 | 41 | – | – | – | – | – | 41 |
| | *2014* | *53* | – | – | – | – | – | *53* |

(a) Taxable benefits for the year included: provision of a company car or allowance, fuel, family private medical cover, landline telephone at each Executive Director's home residence and a mobile telephone together with a pre-arranged funeral plan in accordance with any scheme established by the Group in respect of the funeral of the Executive Director or his spouse.

(b) Pension includes a cash contribution for Mike McCollum and the value of participation in the Group's defined benefit pension scheme for Richard Portman to 31 March 2014 and a cash contribution for the remainder of 2014 and all of 2015.

(c) The bonus refers to performance in the 2015 financial year and is due to be paid in cash in March 2016.

(d) The LTIP value relates to the award that was granted 19 March 2013. The performance period for this award ends on 29 December 2015. The value shown is calculated by reference to the 28 day average share price on 25 December 2015. The comparative number is the 2012 LTIP that was exercised in 2015. The gain shown is based on the price each Director sold his shares.

(e) Ishbel Macpherson resigned from the Board on 30 September 2015 and David Blackwood was appointed to the Board on 1 October 2015.

### Determination of 2015 annual bonus outcome

The targets for the 2015 annual bonus were based on the achievement of set earnings per share growth targets. 70 per cent of the maximum bonus (being 100 per cent of salary for Executive Directors) was payable for achieving a first demanding underlying EPS target of 96.3 pence per share and 100 per cent for a second, more demanding underlying EPS target of 99.2 pence per share.

| | Weighting | Target (for which 70% of maximum payable) | Stretch (for which 100% of maximum payable) | 2015 achieved | Cash bonus payable (out of 100% of salary maximum) |
|---|---|---|---|---|---|
| Earnings per share | 100% | 96.3 pence | 99.2 pence | 114.8 pence | 100% |

The strong growth in underlying EPS over the year of 34 per cent meant that the first and second EPS targets were met. Accordingly, the Committee awarded Executive Directors full bonuses in respect of the 2015 financial year, being 100 per cent of base salary. None of the annual bonus is deferred.

### Determination of LTIP awards with performance periods ending in the year

Half of the LTIP awards made 2013 were subject to a relative TSR condition and half subject to EPS, both measured over the three year period which ended on 31 December 2015.

| TSR condition | TSR relative to FTSE 350 companies | |
|---|---|---|
| | *Performance required* | *% vesting* |
| Below threshold | Below median | 0% |
| Threshold | Median | 25% |
| Stretch or above | Upper quartile or above | 100% |
| Actual achieved | Above upper quartile | 100% |

| EPS condition | | |
|---|---|---|
| | *Performance required* | *% vesting* |
| Below threshold | Less than RPI +6% p.a. | 0% |
| Threshold | RPI +6% p.a. | 15% |
| Stretch | RPI +9% p.a. | 50% |
| Maximum or above | RPI +11% p.a. or higher | 100% |
| Actual achieved | RPI +11% p.a. or higher | 100% |

Based on the above performance, the 2013 LTIP will vest in full on 21 March 2016.

### 2012 LTIP award

In last year's report, an estimate for TSR of 100 per cent was provided based on performance to 26 December 2014. Following the end of the performance period on 28 March 2015, the final calculation was performed and Dignity's actual TSR over the three year period was 137.4 per cent placing Dignity 40 out of the 337 companies in the TSR peer group. Therefore the 100 per cent assumption was correct.

### LTIP awards granted in the year

LTIP awards granted in the form of nil cost options to Executive Directors on 5 March 2015 were as follows:

| Executive | Number of LTIP awards | Face/maximum value of awards at grant date*£ | % of award vesting at threshold and maximum | Performance period |
|---|---|---|---|---|
| Mike McCollum | 34,874 | 607,505 | • Threshold: 15% for EPS and 25% for TSR. | 6.3.2015 – 5.3.2018 |
| Andrew Davies | 22,245 | 387,500 | | 6.3.2015 – 5.3.2018 |
| Richard Portman | 16,863 | 293,750 | | 6.3.2015 – 5.3.2018 |
| Steve Whittern | 21,527 | 375,000 | • 100% for maximum vesting. | 6.3.2015 – 5.3.2018 |

* Based on a face value grant of 125 per cent of salary and using a 28 day average share price to 26 December 2014 of 1,742 pence.

Half of the 2015 award will vest subject to a relative TSR measure measured against the constituents of the FTSE 350 as at 29 December 2014 and the other half subject to EPS growth targets. The performance period for both tranches will be measured over the three financial years, 2015-2017.

- TSR – No part of this award vests if performance is below median, 25 per cent vests for achieving median, with 100 per cent vesting for upper quartile performance with straight line vesting in between. For this part of the award, no vesting can occur unless the Committee considers that the underlying financial performance of the Group has been satisfactory.

- EPS – No part of this award vests if compound annual growth in underlying EPS above RPI is less than six per cent p.a., 15 per cent vests for six per cent p.a. real growth, 50 per cent vests for nine per cent p.a. real growth with full vesting for 11 per cent p.a. real growth or better. Vesting is on a straight line basis for performance in between these points.

Clawback and malus provisions apply.

# Report on Directors' remuneration continued

for the 52 week period ended 25 December 2015

## 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 at grant (pence) | As at 26.12.14 | Granted during year | Lapsed during year | Vested and exercised during year | As at 25.12.15 | Earliest date shares can be acquired | Latest date shares can be acquired |
|---|---|---|---|---|---|---|---|---|---|
| Mike McCollum | 28.03.12(ii) | 815p | 70,219 | – | – | 70,219 | – | 29.03.15 | 27.03.22 |
| | 19.03.13(iii) | 1,023p | 57,050 | – | – | – | 57,050 | 20.03.16 | 18.03.23 |
| | 24.03.14(iv) | 1,353p | 43,999 | – | – | – | 43,999 | 25.03.17 | 24.03.24 |
| | 05.03.15(v) | 1,742p | – | 34,874 | – | – | 34,874 | 06.03.18 | 05.03.25 |
| Andrew Davies | 28.03.12(ii) | 815p | 39,884 | – | – | 39,884 | – | 29.03.15 | 27.03.22 |
| | 19.03.13(iii) | 1,023p | 32,405 | – | – | – | 32,405 | 20.03.16 | 18.03.23 |
| | 24.03.14(iv) | 1,353p | 24,991 | – | – | – | 24,991 | 25.03.17 | 24.03.24 |
| | 05.03.15(v) | 1,742p | – | 22,245 | – | – | 22,245 | 06.03.18 | 05.03.25 |
| Richard Portman | 28.03.12(ii) | 815p | 31,907 | – | – | 31,907 | – | 29.03.15 | 27.03.22 |
| | 19.03.13(iii) | 1,023p | 25,929 | – | – | – | 25,929 | 20.03.16 | 18.03.23 |
| | 24.03.14(iv) | 1,353p | 21,249 | – | – | – | 21,249 | 25.03.17 | 24.03.24 |
| | 05.03.15(v) | 1,742p | – | 16,863 | – | – | 16,863 | 06.03.18 | 05.03.25 |
| Steve Whittern | 28.03.12(ii) | 815p | 31,907 | – | – | 31,907 | – | 29.03.15 | 27.03.22 |
| | 19.03.13(iii) | 1,023p | 28,715 | – | – | – | 28,715 | 20.03.16 | 18.03.23 |
| | 24.03.14(iv) | 1,353p | 24,483 | – | – | – | 24,483 | 25.03.17 | 24.03.24 |
| | 05.03.15(v) | 1,742p | – | 21,527 | – | – | 21,527 | 06.03.18 | 05.03.25 |

(i) The awards under the LTIP made in 2012 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. Half of the awards made in 2013, 2014 and 2015 are subject to a relative TSR condition as described above with the other half based on EPS growth targets.

(ii) Number of options derived based on the average mid-market share price for the previous 28 days to 22 March 2012.

(iii) Number of options derived based on the average mid-market share price for the previous 28 days to 31 December 2012.

(iv) Number of options derived based on the average mid-market share price for the previous 28 days to 31 December 2013.

(v) Number of options derived based on the average mid-market share price for the previous 28 days to 26 December 2014.

## Directors' interest in shares

The interests of the Directors in the share capital of Dignity plc at 25 December 2015 are set out below.

| | Number of Ordinary Shares | | | |
|---|---|---|---|---|
| | | At 25 December 2015 | | |
| Name | At 26 December 2014 | Legally owned | Subject to SAYE | Subject to performance conditions under the LTIP |
| Mike McCollum | 183,334 | 183,334 | – | 135,923 |
| Andrew Davies | 137,254 | 137,254 | – | 79,641 |
| Richard Portman | 93,630 | 93,630 | 612 | 64,041 |
| Steve Whittern | 19,586 | 19,586 | – | 74,725 |
| Peter Hindley | 160,696 | 160,696 | – | – |
| David Blackwood(1) | – | 2,189 | – | – |
| Alan McWalter | 2,554 | 2,552 | – | – |
| Jane Ashcroft | 917 | 917 | – | – |
| Martin Pexton | 2,750 | 2,750 | – | – |
| Ishbel Macpherson | 4,847 | 4,847 | – | – |

(1) At the date of his appointment, David Blackwood did not own any shares in the Company.

There has been no change in the interests set out above between 25 December 2015 and 2 March 2016.

The shareholding guideline for the Executive Directors is that they hold 200 per cent of their basic salary as shares based on their salary at 26 February 2016 and the 28 day average share price to 25 February 2016 as adjusted for any subsequent share consolidations. All Executive Directors with the current exception of Steve Whittern meet that guideline.

## Directors' total pension entitlements

| | Age at 25.12.15 | Pensionable service at 25.12.15 (years) | Accrued pension 26.12.14 | Accrued pension 25.12.15 | Increase in accrued pension (net of inflation) during the year | Transfer value of increase (net of inflation and employee contributions) | Payment in lieu of retirement benefits i.e. pension supplement | Value x 20 over year (net of inflation and Directors' contributions) | Total pension benefits | Normal retirement age | Value x 20 at start of year | Value x 20 at end of year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mike McCollum | 48 | 15.667 | 107,652 | 108,944 | – | – | 72,900 | – | 72,900 | 65 | 2,153,040 | 2,178,880 |
| Richard Portman | 54 | 14.583 | 42,971 | 43,487 | – | – | 35,250 | – | 35,250 | 65 | 859,420 | 869,740 |

(1) Throughout 2015 the above Directors 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.

(2) Transfer values have been calculated in accordance with the transfer value basis set by the Trustees.

(3) Pension accruals shown are the amounts that would be paid annually on retirement based on service at the end of the current period. This equates to accrued entitlement.

(4) Mike McCollum ceased to be a member of the Dignity Pension and Assurance Scheme in January 2016.

## Loss of office payments

No Director left in the year and no compensation for loss of office was paid.

## Relative importance of spend on pay

The following table sets out the percentage change in dividends and overall spend on employee pay in the 2015 financial year compared with the prior year.

| | 2015 £m | 2014 £m | % change |
|---|---|---|---|
| Dividends | 10.0 | 9.8 | 2.0% |
| Return of Cash | nil | 64.4 | n/a |
| Total return to shareholders | 10.0 | 74.2 | –86.5% |
| Employee remuneration costs | 94.7 | 82.8 | 14.4% |

## Percentage change in CEO pay

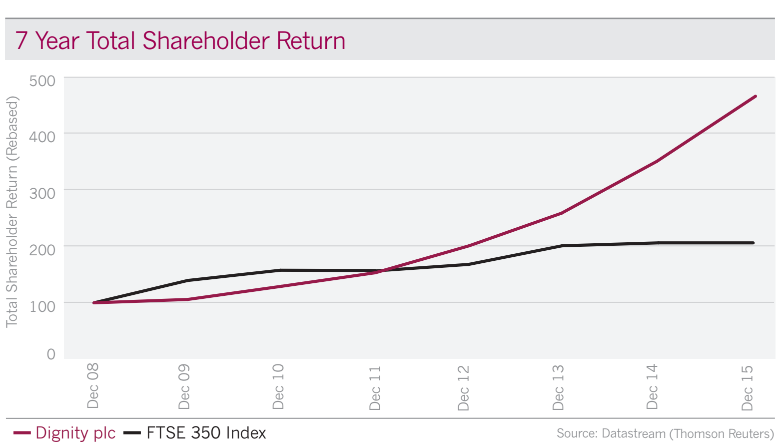
The table below shows the percentage year on year change in the value of salary, benefits and annual bonus for the Chief Executive between the current and previous year compared to that of the average employee on a full time equivalent basis.

| | 2015 | 2014 | % change |
|---|---|---|---|
| Chief Executive (£000's) | | | |
| – Salary | 486 | 476 | 2% |
| – Benefits | 92 | 91 | 1% |
| – Bonus | 1,875 | 1,859 | 1% |
| Full time equivalent average employee (£)[1] | | | |
| – Salary | 20,322 | 19,218 | 5.7% |
| – Benefits | 590 | 588 | 0.3% |
| – Bonus | 2,141 | 1,880 | 13.9% |

[1] There are 3,038 employees at 25 December 2015 (26 December 2014: 2,848), of which 736 (2014: 677) were part time.

## Performance graph and single figure table

The following graph shows the Company's TSR performance over the last seven financial years against the FTSE 350 index. The FTSE 350 has been chosen as the Company is a member of that index.




This graph shows the value, by 25 December 2015, of £100 invested in Dignity on 26 December 2008 compared with the value of £100 invested in the FTSE 350 Index.

# Report on Directors' remuneration continued

for the 52 week period ended 25 December 2015

The table below shows the total remuneration figure for the CEO over the same seven year period. The total remuneration figure includes the annual bonus and LTIP awards with performance periods ending in or shortly after the relevant year ends.

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|
| CEO single total figure of remuneration (£000's) | 1,018 | 899 | 917 | 2,081 | 2,217 | 2,426 | 2,453 |
| Annual bonus pay-out relative to maximum (%) | 85% | 100% | 100% | 100% | 100% | 100% | 100% |
| LTIP vesting (%) | 63% | – | – | 100% | 100% | 100% | 100% |

## Membership of the Remuneration Committee

The Code requires that a Group of the size of Dignity plc has a Remuneration Committee comprising a minimum of three non-executives. The Committee is chaired by Alan McWalter, Senior Independent Director. The Committee members comprised all the other Non-Executive Directors: Jane Ashcroft, David Blackwood from his appointment to the Board on 1 October 2015, Ishbel Macpherson until her resignation from Board on 30 September 2015 and Martin Pexton.

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 Non-Executive Directors are not eligible for pensions and do not participate in the Group's bonus or share schemes.

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 and its cost to the Group. The Committee considers the performance of the Executive Directors as a prelude to recommending their annual remuneration, bonus awards and share awards to the Board for final approval.

The Committee met four times during the year. At those meetings basic salaries of Executive Directors and senior managers were reviewed, the targets and quantum of annual performance related bonuses for Directors were also agreed, as were awards granted under the Group's Long-Term Incentive Plan ('LTIP'). The meetings also approved the payment of the 2014 performance related bonus and dealt with the vesting of the shares awarded in 2012 under the LTIP scheme. In the last quarter of 2015, the Committee carried out extensive work in forming a new remuneration policy for approval by shareholders at the AGM in 2016.

The Committee also receives advice from several sources, namely:

- The Chairman and the Chief Executive who attend the Remuneration Committee by invitation or when required and the Company Secretary, who is also the Corporate Services Director, attends meetings when required as Secretary to the Remuneration Committee. No Executive Director takes part in discussions relating to their own remuneration and benefits.
- New Bridge Street (a trading name of Aon Corporation) is the Committee's executive remuneration advisor and is a signatory to the Remuneration Consultants Group's Code of Conduct. Aon Corporation does not provide any other services to the Group.

New Bridge Street was appointed by the Remuneration Committee in 2012 to act as remuneration consultants and the Committee is satisfied that New Bridge Street's advice is objective and independent. During the year, New Bridge Street provided assistance in our policy review, a market update on remuneration and corporate governance developments, assistance with drafting the remuneration report in light of the new reporting and voting regulations and benchmarking data for Executive Directors. Total fees charged in the period were £53,822+ VAT and were charged on a time spent basis.

## Statement of shareholder voting at the AGM (Unaudited)

At last year's AGM, the Directors' Remuneration Report (Directors' Remuneration Policy and Annual Report on Remuneration) received the following votes from shareholders:

### Annual Report on Remuneration

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 37,556,247 | 95.98% |
| Against | 870,042 | 2.22% |
| Abstentions | 705,034 | 1.80% |
| **Total** | **39,131,323** | **100%** |

On behalf of the Board

**Alan McWalter**
Chairman of the Remuneration Committee

2 March 2016

# Directors' report

for the 52 week period ended 25 December 2015

The Directors present their report and the audited consolidated financial statements for Dignity plc and its subsidiaries for the 52 week period ended 25 December 2015.

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 and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (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 and 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 page 40 and 41 of the 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 4 to 37 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.

## Principal risks and uncertainties

Operational risks are considered on pages 29 and 30.

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, 249,067 Ordinary Shares of 12 48/143 pence each were issued to satisfy Long-Term Incentive Plan share awards vesting in the period and 1,044 Ordinary Shares of 12 48/143 were issued to satisfy options exercised by retirees under the 2013 Save As You Earn Scheme.

The issued share capital of Dignity plc at 25 December 2015 consisted of 49,420,291 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 11 June 2015 gives Dignity plc the authority to purchase up to 4,900,000 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 £4,043,673 of which up to £303,275 may be for cash. These authorities will expire at the conclusion of the next AGM on 9 June 2016. 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 69. The Group's profit before tax amounted to £69.0 million (2014: loss £67.7 million).

## Dividends

An interim dividend of 7.14 pence per Ordinary Share was paid in to shareholders on 30 October 2015. The Board has proposed a final dividend of 14.31 pence (2014: 13.01 pence) per share, which, subject to approval at the AGM, will be paid on 24 June 2016 to shareholders on the register at close of business on 20 May 2016.

## 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 newsletter, team talks, bulletins and management briefings. This is discussed in more detail in the Corporate and Social Responsibility Report on pages 32 to 37.

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.

# Directors' report continued

for the 52 week period ended 25 December 2015

## 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 55 and 60. 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 9 June 2016. The Directors have agreed, as in previous years, that they should all stand for re-election rather than relying on the Articles of Association of the Company that prescribe that one third of the Directors offer themselves for re-election each year.

During the period, the Company maintained liability insurance for its Directors and Officers to a value of £90 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 be attending our premises. This is discussed in the Corporate and Social Responsibility Report on page 35.

## 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 page 36 alongside other social and ethical considerations.

## 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 that 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 26 February 2016.

## Post balance sheet events

Please refer to note 32 of the Notes to the Consolidated Financial Statements for further details.

## 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 42 to 45, which is incorporated by reference.

## Strategic report

The Strategic report on pages 4 to 37 has been approved by the Board.

By order of the Board

**Richard Portman**
Company Secretary

2 March 2016

# Independent auditors' report to the members of Dignity plc

for the 52 week period ended 25 December 2015

## Opinion on financial statements

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 25 December 2015 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom General Accepted Accounting Practice (UK GAAP); 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.

## What we have audited

Dignity plc's financial statements comprise:

| Group | Parent company |
|---|---|
| • Consolidated balance sheet as at 25 December 2015<br>• Consolidated income statement for the 52 week period then ended<br>• Consolidated statement of comprehensive income for the 52 week period then ended<br>• Consolidated statement of changes in equity for the 52 week period then ended<br>• Consolidated cash flow statement for the 52 week period then ended<br>• Related notes to the financial statements | • Company balance sheet as at 25 December 2015<br>• Related notes to the financial statements |

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and 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 (UK GAAP).

## Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

| Risk | Our response to the risk | What we concluded to the Audit Committee |
|---|---|---|
| **The risk of inappropriate revenue recognition** | | |
| Our audit has identified, and addressed, specific risks around incorrect revenue cut-off at year end, the inappropriate recording of revenue for services not delivered, and the risk of inappropriate management override of the amount of revenue recorded.<br>(AC, AP, CAE)* | • We carried out testing relating to controls over revenue recognition, including the timing of revenue recognition;<br>• We evaluated the controls in the IT systems that support the recording of revenue;<br>• We performed detailed cut-off testing on the provision of funerals and cremations delivered around the period end;<br>• We performed revenue transaction testing, which included ensuring that the services had been delivered and the transaction has been appropriately recorded in the income statement;<br>• We performed analytical procedures to compare revenue recognised with expectations from past experience, management's forecasts and, where possible, external market data and obtained corroborative evidence to support divergences from our expectations;<br>• We identified and obtained support for journals generated at head office impacting revenue; and<br>• We ensured that the financial statement disclosures were in accordance with accounting standards. | That based on the results of the procedures performed, we identified no differences greater than our reporting threshold to report to the Audit Committee. |
| **The risk of fraud and management override** | | |
| We considered the risks inherent in those areas where manual journals are posted at head office as part of the financial statement close process. | • We performed tailored procedures, including analytical procedures and obtaining support for any unusual journals identified, sufficient to address the identified risk in respect of subjective areas which we considered to be most susceptible to management override. These areas were considered to be the bad debt provision, pre-need cancellation provision, dilapidations provision and cost accruals. | Based on the results of the procedures performed, including journal entry testing, we have not identified any anomalies. |

* These risks are discussed in other areas of the Annual Report as noted by the following key.
AC – See Audit Committee report: p.46 to p.48.
AP – See note 1 Accounting policies: p.73 to p.80.
CAE – See note 1 Critical accounting estimates: p.78 and p.79.

# Independent auditors' report to the members of Dignity plc continued

for the 52 week period ended 25 December 2015

In the prior year, our auditor's report included further risks of material misstatement as noted below.

In the current year we do not consider these items as having the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team for the following reasons:

- Accounting for the issue of New Secured Notes and Return of Cash – this was completed in the prior year, as such we do not consider this to represent a significant risk within our current year audit strategy.

- Determination of the assumptions used to derive the obligations for the defined benefit pension scheme – we downgraded this risk for the current year's audit based on experience the prior year audit and in the 2015 interim review where we found the assumptions to be within an acceptable range.

- Non consolidation of pre-need trusts and the judgement that trade names have indefinite lives – we considered the non-consolidation of pre-need trusts and the judgement regarding the non-amortisation of trade names in detail in the prior year, our first year as auditors, and concluded both were appropriate. The analysis in respect of pre-need trusts was updated at the Interim Review to encompass the requirements of IFRS 10 without any change to our conclusions. In the absence of any significant change in the market place, the business or in the related disclosures in the Annual Report we do not consider these matters need to remain areas of particular focus.

## The scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. The Group operates from head office and has common financial systems, processes and centralised controls covering all of its operations and individual 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 £3.4 million (2014: £2.9 million), which is 5 per cent of pre-tax income (2014: 5 per cent of pre-tax income after adding back the one-off costs related to the issuance of the New Secured Notes and Return of Cash). We believe that pre-tax income is the most relevant measure of the underlying financial performance of the Group.

## 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's overall control environment, our judgement was that performance materiality was 75 per cent (2014: 50 per cent) of our planning materiality, namely £2.58 million (2014: £1.45 million). We have increased our assessment of performance materiality from 50 per cent to 75 per cent as we used 50 per cent in the prior year given that it was an initial audit for the firm and in light of our experience and the limited number of differences identified we concluded that it was appropriate to use 75 per cent for the current year audit.

## 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 £0.17 million (2014: £0.15 million), which is set at 5 per cent 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.

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report & Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Respective responsibilities of directors and auditor**
As explained more fully in the Directors' Responsibilities Statement set out on page 63, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

**Opinion 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; and
- 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.

**Matters on which we are required to report by exception**

ISAs (UK and Ireland) reporting

| | |
|---|---|
| We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:<br>• materially inconsistent with the information in the audited financial statements; or<br>• apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or<br>• otherwise misleading.<br>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed. | We have no exceptions to report. |

Companies Act 2006 reporting

| | |
|---|---|
| We are required to report to you if, in our opinion:<br>• 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<br>• 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<br>• certain disclosures of directors' remuneration specified by law are not made; or<br>• we have not received all the information and explanations we require for our audit. | We have no exceptions to report. |

# Independent auditors' report to the members of Dignity plc continued

for the 52 week period ended 25 December 2015

## Listing Rules review requirements

| | |
|---|---|
| We are required to review:<br>• the directors' statement, set out on page 64, in relation to going concern and longer term viability, set out on page 31; and<br>• the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. | We have no exceptions to report. |

## Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

## ISAs (UK and Ireland) reporting

| | |
|---|---|
| We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:<br>• the directors' confirmation 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;<br>• the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;<br>• the directors' statement 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; and<br>• the directors' explanation 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. | We have nothing material to add or to draw attention to. |

Simon O'Neill (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
2 March 2016

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 25 December 2015

| | Note | 52 week period ended 25 December 2015 £m | 52 week period ended 26 December 2014 £m |
|---|---|---|---|
| **Revenue** | 3 | **305.3** | 268.9 |
| Cost of sales | | **(123.3)** | (109.0) |
| **Gross profit** | | **182.0** | 159.9 |
| Administrative expenses | | **(86.5)** | (77.0) |
| **Operating profit** | 3 | **95.5** | 82.9 |
| Analysed as: | | | |
| Underlying operating profit | 3 | **98.7** | 84.9 |
| Loss on sale of fixed assets | | **–** | (0.3) |
| External transaction costs | 5 | **(3.2)** | (1.7) |
| **Operating profit** | 3 | **95.5** | 82.9 |
| Finance costs | 4 | **(27.0)** | (154.8) |
| Analysed as: | | | |
| Underlying finance costs | | **(27.0)** | (30.6) |
| Loss on extinguishment of Old Notes – exceptional | 5 | **–** | (123.2) |
| Elimination of swap – exceptional | 5 | **–** | (1.0) |
| Finance costs | | **(27.0)** | (154.8) |
| Finance income | 4 | **0.5** | 4.2 |
| **Profit/(loss) before tax** | 5 | **69.0** | (67.7) |
| Taxation – before exceptional items | | **(15.5)** | (13.1) |
| Taxation – exceptional | | **3.4** | 25.8 |
| Taxation | 6 | **(12.1)** | 12.7 |
| **Profit/(loss) for the period attributable to equity shareholders** | 3 | **56.9** | (55.0) |
| **Earnings per share for profit/(loss) attributable to equity shareholders** | | | |
| – Basic (pence) | 8 | **115.2p** | (104.0)p |
| – Diluted (pence) | 8 | **114.5p** | (104.0)p |
| **Underlying Earnings per share (pence)** | 8 | **114.8p** | 85.8p |

# Consolidated statement of comprehensive income

for the 52 week period ended 25 December 2015

| | Note | 52 week period ended 25 December 2015 £m | 52 week period ended 26 December 2014 £m |
|---|---|---|---|
| **Profit/(loss) for the period** | | **56.9** | (55.0) |
| **Items that will not be reclassified to profit or loss** | | | |
| Remeasurement loss on retirement benefit obligations | 28 | **(1.4)** | (10.8) |
| Tax on remeasurement loss on retirement benefit obligations | | **0.3** | 2.2 |
| Restatement of deferred tax for the change in UK tax rate | | **(0.2)** | – |
| **Other comprehensive loss** | | **(1.3)** | (8.6) |
| **Total comprehensive income/(loss) for the period** | | **55.6** | (63.6) |
| **Attributable to:** | | | |
| Equity shareholders of the parent | | **55.6** | (63.6) |

# Consolidated balance sheet

as at 25 December 2015

| | Note | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 9 | **201.5** | 182.3 |
| Intangible assets | 9 | **126.7** | 94.2 |
| Property, plant and equipment | 10 | **200.6** | 192.3 |
| Financial and other assets | 11 | **10.3** | 10.4 |
| | | **539.1** | 479.2 |
| **Current assets** | | | |
| Inventories | 13 | **6.4** | 6.5 |
| Trade and other receivables | 14 | **31.9** | 30.0 |
| Cash and cash equivalents | 15 | **98.8** | 86.5 |
| | | **137.1** | 123.0 |
| **Total assets** | | **676.2** | 602.2 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Financial liabilities | 16 | **8.3** | 8.0 |
| Trade and other payables | 17 | **67.5** | 51.2 |
| Current tax liabilities | | **5.4** | – |
| Provisions for liabilities | 19 | **1.5** | 1.4 |
| | | **82.7** | 60.6 |
| **Non-current liabilities** | | | |
| Financial liabilities | 16 | **594.6** | 602.9 |
| Deferred tax liabilities | 20 | **21.7** | 13.6 |
| Other non-current liabilities | 17 | **2.3** | 2.6 |
| Provisions for liabilities | 19 | **6.3** | 4.5 |
| Retirement benefit obligation | 28 | **12.5** | 10.5 |
| | | **637.4** | 634.1 |
| **Total liabilities** | | **720.1** | 694.7 |
| **Shareholders' equity** | | | |
| Ordinary share capital | 22 | **6.1** | 6.1 |
| Share premium account | | **4.8** | 2.8 |
| Capital redemption reserve | | **141.7** | 141.7 |
| Other reserves | | **(4.5)** | (5.5) |
| Retained earnings | | **(192.0)** | (237.6) |
| **Total equity** | | **(43.9)** | (92.5) |
| **Total equity and liabilities** | | **676.2** | 602.2 |

The financial statements on pages 69 to 108 were approved by the Board of Directors on 2 March 2016 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 25 December 2015

| | Ordinary share capital £m | Share premium account £m | Capital redemption reserve £m | Other reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| Shareholders' equity as at 27 December 2013 | 6.0 | 20.8 | 121.6 | (6.4) | (99.8) | 42.2 |
| Loss for the 52 weeks ended 26 December 2014 | – | – | – | – | (55.0) | (55.0) |
| Remeasurement loss on defined benefit obligations | – | – | – | – | (10.8) | (10.8) |
| Tax on pensions | – | – | – | – | 2.2 | 2.2 |
| Total comprehensive income | – | – | – | – | (63.6) | (63.6) |
| Effects of employee share options | – | – | – | 2.0 | – | 2.0 |
| Tax on employee share options | – | – | – | 0.9 | – | 0.9 |
| Proceeds from share issue(1) | 0.1 | 2.1 | – | – | – | 2.2 |
| Gift to Employee Benefit Trust | – | – | – | (2.0) | – | (2.0) |
| Issue and redemption of B Shares in respect of Capital Option (see note 7) | – | (20.1) | 20.1 | – | (20.1) | (20.1) |
| Dividend in respect of Special Dividend Option (see note 7) | – | – | – | – | (44.3) | (44.3) |
| Dividends (see note 7) | – | – | – | – | (9.8) | (9.8) |
| Shareholders' equity as at 26 December 2014 | 6.1 | 2.8 | 141.7 | (5.5) | (237.6) | (92.5) |
| Profit for the 52 weeks ended 25 December 2015 | – | – | – | – | 56.9 | **56.9** |
| Remeasurement loss on defined benefit obligations | – | – | – | – | (1.4) | **(1.4)** |
| Tax on pensions | – | – | – | – | 0.3 | **0.3** |
| Restatement of deferred tax for the change in UK tax rate | – | – | – | – | (0.2) | **(0.2)** |
| Total comprehensive income | – | – | – | – | 55.6 | **55.6** |
| Effects of employee share options | – | – | – | 2.4 | – | **2.4** |
| Tax on employee share options | – | – | – | 0.7 | – | **0.7** |
| Restatement of deferred tax for the change in UK tax rate | – | – | – | (0.1) | – | **(0.1)** |
| Proceeds from share issue(2) | – | 2.0 | – | – | – | **2.0** |
| Gift to Employee Benefit Trust | – | – | – | (2.0) | – | **(2.0)** |
| Dividends (see note 7) | – | – | – | – | (10.0) | **(10.0)** |
| **Shareholders' equity as at 25 December 2015** | **6.1** | **4.8** | **141.7** | **(4.5)** | **(192.0)** | **(43.9)** |

(1) Relating to issue of 281,430 shares under 2011 LTIP scheme and 14,896 shares under 2010 SAYE scheme.
(2) Relating to issue of 249,067 shares under 2012 LTIP scheme and 1,044 shares under 2013 SAYE 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 deferred tax, together with a £12.3 million merger reserve.

# Consolidated statement of cash flows

for the 52 week period ended 25 December 2015

| | Note | 52 week period ended 25 December 2015 £m | 52 week period ended 26 December 2014 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations before external transaction costs and exceptional pension contributions | 25 | **125.2** | 104.4 |
| Exceptional contribution to pension scheme | | **–** | (1.0) |
| External transaction costs in respect of acquisitions | | **(3.2)** | (1.1) |
| **Cash generated from operations** | | **122.0** | 102.3 |
| Finance income received | | **0.6** | 0.6 |
| Finance costs paid | | **(19.1)** | (38.0) |
| Transfer from restricted bank accounts for finance costs | | **5.6** | 14.6 |
| Payments to restricted bank accounts for finance costs | 15 | **(12.8)** | (5.6) |
| Total payments in respect of finance costs | | **(26.3)** | (29.0) |
| Tax paid | | **(3.7)** | (6.9) |
| **Net cash generated from operating activities** | | **92.6** | 67.0 |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries and businesses (net of cash acquired) | 26 | **(50.0)** | (24.7) |
| Proceeds from sale of property, plant and equipment | | **0.8** | 0.5 |
| Vehicle replacement programme and improvements to locations | | **(15.6)** | (14.1) |
| Branch relocations | | **(3.9)** | (1.4) |
| Satellite locations | | **(0.3)** | (0.1) |
| Development of new crematoria and cemeteries | | **(0.1)** | (1.6) |
| Purchase of property, plant and equipment | | **(19.9)** | (17.2) |
| **Net cash used in investing activities** | | **(69.1)** | (41.4) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of New Notes | | **–** | 94.0 |
| Cash settlement of Old Notes | | **–** | (5.9) |
| External transaction costs relating to extinguishment of Old Notes | | **–** | (5.8) |
| Net proceeds from issue of New Notes | | **–** | 82.3 |
| Issue costs in respect of borrowings and Secured Notes | | **(0.1)** | (0.9) |
| Issue costs in respect of debt facility | | **(0.2)** | – |
| Proceeds from share issue | | **–** | 0.1 |
| Repayment of swaps | | **–** | (5.1) |
| Repayment of borrowings | | **(8.1)** | (11.6) |
| Transfer from restricted bank accounts for repayment of borrowings | | **4.0** | 5.7 |
| Payments to restricted bank accounts for repayment of borrowings | 15 | **(4.1)** | (4.0) |
| Total payments in respect of borrowings | | **(8.2)** | (9.9) |
| Dividends paid to shareholders on Ordinary Shares | 7 | **(10.0)** | (9.8) |
| Redemption of B Shares in respect of Capital Option | 7 | **–** | (20.1) |
| Redemption of C Shares in respect of Special Dividend Option | 7 | **–** | (44.3) |
| **Net cash used in financing activities** | | **(18.5)** | (7.7) |
| **Net increase in cash and cash equivalents** | | **5.0** | 17.9 |
| Cash and cash equivalents at the beginning of the period | | **76.9** | 59.0 |
| **Cash and cash equivalents at the end of the period** | 15 | **81.9** | 76.9 |
| Restricted cash | 15 | **16.9** | 9.6 |
| **Cash and cash equivalents at the end of the period as reported in the consolidated balance sheet** | 15 | **98.8** | 86.5 |

# Notes to the financial statements

for the 52 week period ended 25 December 2015

## 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 25 December 2015 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.

The 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 where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain economic benefits from its activities.

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.

### Exceptional items and underlying profit

Exceptional items are of a non-recurring nature to the results for the period and are therefore presented separately. In 2014 the exceptional costs relate to the loss on extinguishment of the Old Notes, the repayment of the swap and the tax associated with those items. In 2015 the exceptional credit is due to the changes to the headline rate of corporation tax used to evaluate deferred tax.

In arriving at underlying profit exceptional items are added back together with external transaction costs and the profit or loss on sale of fixed assets. See the Financial review for further details.

### External transaction costs

External transaction costs, associated with acquisitions, refinancing or return of value to shareholders, are excluded from underlying profit as they are unconnected with the trading performance in the period and are therefore presented separately. They relate wholly to external costs incurred by the Group.

### 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.

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.

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 1 Accounting policies (continued)

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 United Kingdom 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 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 no further charge.

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

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 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.

## 1 Accounting policies (continued)

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 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 on ordinary activities after taxation by the weighted average number of shares in issue during the period. Diluted EPS is calculated by dividing profit on ordinary activities 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

Other than in respect of items measured at fair value on acquisition of businesses and in respect of share-based payments, the Group has no assets or liabilities measured and recognised at fair value. 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 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 business 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 provisions for amortisation and 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. Where there are indicators that a trade name has an indefinite life then these assets are not amortised but are subject to annual impairment reviews. The factors that indicate an indefinite life of trade names acquired include the fact that the Group is a significant operator in a well-established market with inelastic demand, where reputation, recommendation and previous experience acts as a barrier to entry for new trade names, and the Group's track record for actively monitoring and relocating trade names to combat shifting demographics. In addition, when allocating a useful life to acquired trade names, the following matters are considered:

- The strength of the trade name in its local environment which is assessed by reference to relative market share and anticipated profitability;
- The likelihood that market based factors could truncate a trade name's life such as competition and shifting demographics and the Group's ability to combat these;
- The length of time, prior to acquisition, for which trade has been conducted under the name acquired; and
- The likely support the Group will give to the name in its local environment through marketing and promotion, maintaining community awareness etc.

The useful lives of all capitalised trade names are considered to be indefinite and are reviewed on an annual basis.

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 1 Accounting policies (continued)

### 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.

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 twenty 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 twenty years.

### 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.

All other leases are 'operating leases' and the relevant annual rentals are charged to the income statement on a straight line basis.

## 1 Accounting policies (continued)

### 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 and 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. For other intangibles (principally trade names) this is considered at a regional level for each business segment as this is the level where cash inflows are largely independent. 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.

### 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 timing 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 equity in other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in the income statement.

### 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.

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.

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 1 Accounting policies (continued)

### 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 (2014: 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 costs. 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.

#### Early termination costs on borrowings

Premiums and discounts arising on the early repayment of borrowings are written-off to the income statement as incurred.

#### Early settlement of Old Notes

As discussed in the Group's critical accounting estimates and judgements, the early settlement of the Old Notes in the prior period was considered to be an extinguishment. Where refinanced borrowings are accounted for as an extinguishment of the original financial liability, costs or fees incurred are recognised as part of the gain or loss on extinguishment and written-off through exceptional finance costs.

#### 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 and 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 most sensitive estimates 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, has been considered by the Group in 2015 with specific reference to the non-consolidation of the pre-need trust, for further details please see the IFRS 10 note below.

For new trusts acquired in the period, the Directors consider the terms and conditions to determine whether non-consolidation is appropriate.

#### 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.

## 1 Accounting policies (continued)

### 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, consolidated income statement 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.

### Goodwill
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1 “Impairment of assets”. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations however, acquisitions in the period have been determined using fair value less cost to sell. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. Actual outcomes could vary from those calculated. See note 9 for further details.

### Other intangible assets
The decision process to ascertain whether trade names will have an indefinite life are detailed in note 1 “Intangible assets – trade names”. These assets with an indefinite life are reviewed for impairment on an annual basis. When a review for impairment is conducted, the recoverable amount is determined based on value-in-use calculations prepared on the basis of management’s assumptions and estimates. See note 9 for further details.

### Acquisition of companies
In accounting for business combinations, the identifiable assets, liabilities and contingent liabilities acquired have to be measured at their fair values. In particular, some judgement is required in estimating the split between intangible assets and goodwill and determining the fair value of properties. Details concerning acquisitions of companies are outlined in note 26.

### Early settlement of Old Notes
In the prior period, consideration was given as to whether the exchange of the Old Notes for New Notes constituted a modification of their terms or an early settlement (‘extinguishment’). Further details can be found in the Group’s 2014 annual report.

### Standards, amendments and interpretations effective in 2015
The Group has applied IFRS 10, Consolidated financial statements, in preparing these consolidated financial statements. IFRS 10 builds 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. The Group has specifically considered IFRS 10 in light of the Group’s non consolidation of its pre-arranged funeral plan trusts.

| IFRS 10 consideration | Analysis |
| --- | --- |
| 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. | 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.<br>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. |
| The investor is exposed, or has rights, to variable returns from its involvement with the investee. | 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.<br>Ultimately Dignity’s return is wholly dependent on the investment performance of the Trusts. |
| The investor has the ability to use its power over the investee to affect the amount of the investor’s returns. | 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.<br>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. |

The Group does not believe that, given the above conditions required for consolidation in the new standard, a change in accounting policy is required.

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 1 Accounting policies (continued)

The Group has applied IFRS 12, Disclosure of interests in other entities, in preparing these consolidated financial statements. This standard includes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group has reviewed the disclosures relating to its pre-arranged funeral plan trusts and amended where required.

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2015 that would be expected to 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 2015 or later periods but which the Group has not early adopted:

IAS 1, Presentation of financial statements (amendment), effective 1 January 2016. The amendments clarify, rather than significantly change, existing IAS 1 requirements. The Group has reviewed this amendment and it may result in the elimination of certain disclosures that are not material.

IFRS 9, Financial instruments (to replace) IAS 39, Financial instruments: Recognition and measurement. This standard introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for financial assets. The standard is not applicable until 1 January 2018. The impact of this standard is currently being assessed.

IFRS 15, Revenue from contracts with customers, effective 1 January 2018. This standard establishes a new five step model that will apply to revenue arising from contracts with customers. The principals in IFRS 15 provide a more structured approach to measure and recognise revenue. The impact of this standard is currently being assessed.

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 £175 million. 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. The Group will be assessing this in due course, but notes that the accounting standard does not affect the cash flows or underlying economics of the business.

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.

## 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 New 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 is also fully drawn on a £15.8 million Crematoria Acquisition Facility. The principal on the facility is repayable in one amount in February 2018 and interest is fixed at approximately 3.3 per cent. All interest is payable in cash on a quarterly basis. Consequently, the Group carries limited risk to increases in LIBOR on this facility.

## 2 Financial risk management (continued)

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 2016 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. 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 25 December 2015 the actual ratio was 3.35 times (2014: 10.69 times). The New Notes were issued on 17 October 2014. Consequently, Senior Interest only accrues from this date for the Relevant Period. Debt Service in 2014, assuming a full year Senior Interest would have been approximately £33.7 million. On this basis, the EBITDA DSCR would have been 2.95 times and the Free Cashflow DSCR would have been 2.47 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 is the New Notes, rated A and BBB respectively by Standard & Poor's and Fitch.

The Group monitors its capital structure based on 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 New Notes under the terms of the Group's secured borrowings (see 'Liquidity risk' above).

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 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 four 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.

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 profit is stated before profit or loss on sale of fixed assets, external transaction costs and exceptional items. Underlying operating profit is included as it is felt that adjusting operating profit/(loss) for these items provides a useful indication of the Group's performance.

The revenue and operating profit/(loss), by segment, was as follows:

| 52 week period ended 25 December 2015 | Revenue £m | Underlying operating profit/(loss) before depreciation and amortisation £m | Depreciation and amortisation £m | Underlying operating profit/(loss) £m | Profit on sale of fixed assets, external transaction costs and exceptional items £m | Operating profit/(loss) £m |
|---|---|---|---|---|---|---|
| Funeral services – existing | 206.2 | 85.0 | (10.5) | 74.5 | – | 74.5 |
| Funeral services – acquisitions(1) | 6.4 | 2.4 | (0.1) | 2.3 | (3.2) | (0.9) |
| Funeral services | 212.6 | 87.4 | (10.6) | 76.8 | (3.2) | 73.6 |
| Crematoria | 63.1 | 37.8 | (3.2) | 34.6 | – | 34.6 |
| Pre-arranged funeral plans | 29.6 | 8.0 | (0.2) | 7.8 | – | 7.8 |
| Central overheards | – | (19.9) | (0.6) | (20.5) | – | (20.5) |
| Group | 305.3 | 113.3 | (14.6) | 98.7 | (3.2) | 95.5 |
| Finance costs | | | | (27.0) | – | (27.0) |
| Finance income | | | | 0.5 | – | 0.5 |
| Profit before tax | | | | 72.2 | (3.2) | 69.0 |
| Taxation – continuing activities | | | | (15.5) | – | (15.5) |
| Taxation – exceptional | | | | – | 3.4 | 3.4 |
| Taxation | | | | (15.5) | 3.4 | (12.1) |
| Underlying earnings for the period | | | | 56.7 | | |
| Total other items | | | | | 0.2 | |
| Profit after taxation | | | | | | 56.9 |
| **Earnings per share for profit attributable to equity shareholders** | | | | | | |
| – Basic (pence) | | | | 114.8p | | 115.2p |
| – Diluted (pence) | | | | 114.1p | | 114.5p |

(1) Included within acquisitions is revenue of £4.3 million and underlying operating profit of £1.4 million in respect of the Laurel Funerals acquisition.

### 3 Revenue and segmental analysis (continued)

The segment assets and liabilities were as follows:

| As at 25 December 2015 | Funeral services £m | Crematoria £m | Pre-arranged funeral plans £m | Central overheads £m | Group £m |
|---|---|---|---|---|---|
| Segment assets | **412.9** | **140.8** | **19.6** | **4.1** | **577.4** |
| Unallocated assets: | | | | | |
| Cash and cash equivalents | | | | | **98.8** |
| **Total assets** | | | | | **676.2** |
| Segment liabilities | **(48.2)** | **(8.7)** | **(8.3)** | **(12.7)** | **(77.9)** |
| Unallocated liabilities: | | | | | |
| Borrowings – excluding finance leases | | | | | **(602.2)** |
| Accrued interest | | | | | **(12.9)** |
| Corporation tax | | | | | **(5.4)** |
| Deferred tax | | | | | **(21.7)** |
| **Total liabilities** | | | | | **(720.1)** |
| **Other segment items:** | | | | | |
| Additions to non-current assets (other than financial instruments and deferred tax) | **64.7** | **2.6** | **–** | **1.5** | **68.8** |
| Depreciation (note 10) | **10.6** | **3.2** | **–** | **0.7** | **14.5** |
| Amortisation (note 9) | **–** | **–** | **0.1** | **–** | **0.1** |
| Impairment of trade receivables (note 21 (c)) | **2.0** | **0.2** | **–** | **–** | **2.2** |
| Other non-cash expenses (note 23) | **–** | **–** | **–** | **2.4** | **2.4** |

The revenue and operating profit, by segment, was as follows:

| 52 week period ended 26 December 2014 | Revenue £m | Underlying operating profit/(loss) before depreciation and amortisation £m | Depreciation and amortisation £m | Underlying operating profit/(loss) £m | Loss on sale of fixed assets, external transaction costs and exceptional items £m | Operating profit/(loss) £m |
|---|---|---|---|---|---|---|
| Funeral services | 184.4 | 75.9 | (9.6) | 66.3 | (1.5) | 64.8 |
| Crematoria | 55.2 | 32.3 | (3.2) | 29.1 | (0.2) | 28.9 |
| Pre-arranged funeral plans | 29.3 | 7.6 | (0.2) | 7.4 | – | 7.4 |
| Central overheads | – | (17.4) | (0.5) | (17.9) | (0.3) | (18.2) |
| Group | 268.9 | 98.4 | (13.5) | 84.9 | (2.0) | 82.9 |
| Finance costs | | | | (30.6) | (124.2) | (154.8) |
| Finance income | | | | 4.2 | – | 4.2 |
| (Loss)/profit before tax | | | | 58.5 | (126.2) | (67.7) |
| Taxation – continuing activities | | | | (13.1) | – | (13.1) |
| Taxation – exceptional | | | | – | 25.8 | 25.8 |
| Taxation | | | | (13.1) | 25.8 | 12.7 |
| Underlying earnings for the period | | | | 45.4 | | |
| Total other items | | | | | (100.4) | |
| Loss after taxation | | | | | | (55.0) |

| | | |
|---|---|---|
| **Earnings per share for (loss)/profit attributable to equity shareholders** | | |
| – Basic and diluted (pence) | 85.8p | (104.0)p |

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 3 Revenue and segmental analysis (continued)

The segment assets and liabilities were as follows:

| As at 26 December 2014 | Funeral services £m | Crematoria £m | Pre-arranged funeral plans £m | Central overheads £m | Group £m |
|---|---|---|---|---|---|
| Segment assets | 350.8 | 141.3 | 19.5 | 3.1 | 514.7 |
| Unallocated assets: | | | | | |
| Cash and cash equivalents | | | | | 86.5 |
| Corporation tax | | | | | 1.0 |
| **Total assets** | | | | | 602.2 |
| Segment liabilities | (39.7) | (7.8) | (8.1) | (9.6) | (65.2) |
| Unallocated liabilities: | | | | | |
| Borrowings – excluding finance leases | | | | | (610.2) |
| Accrued interest | | | | | (5.7) |
| Deferred tax | | | | | (13.6) |
| **Total liabilities** | | | | | (694.7) |
| **Other segment items:** | | | | | |
| Additions to non-current assets (other than financial instruments and deferred tax) | 40.5 | 3.4 | – | 1.3 | 45.2 |
| Depreciation (note 10) | 9.6 | 3.2 | – | 0.5 | 13.3 |
| Amortisation (note 9) | – | – | 0.2 | – | 0.2 |
| Impairment of trade receivables (note 21(c)) | 1.6 | – | – | – | 1.6 |
| Other non-cash expenses (note 23) | – | – | – | 2.0 | 2.0 |
| Loss on sale of fixed assets | (0.3) | – | – | – | (0.3) |

Cash generated from operations, at a divisional level, is considered to be broadly similar to the amount of underlying operating profit by each division.

## 4 Net finance costs

| | **52 week period ended 25 December 2015 £m** | 52 week period ended 26 December 2014 £m |
|---|---|---|
| **Finance costs** | | |
| Old Notes | **–** | 21.8 |
| New Notes | **25.0** | 5.1 |
| Amortisation of issue costs | **–** | 1.5 |
| Crematoria Acquisition Facility | **0.6** | 0.6 |
| Other loans | **0.9** | 1.3 |
| Net finance cost on retirement benefit obligations (note 28) | **0.3** | – |
| Unwinding of discounts | **0.2** | 0.3 |
| **Underlying finance costs** | **27.0** | 30.6 |
| Extinguishment of Old Notes – exceptional | **–** | 123.2 |
| Elimination of swap – exceptional | **–** | 1.0 |
| **Finance costs** | **27.0** | 154.8 |
| **Finance income** | | |
| Bank deposits | **(0.5)** | (1.0) |
| Amortisation of premium on Old Notes | **–** | (3.2) |
| **Finance income** | **(0.5)** | (4.2) |
| **Net finance costs** | **26.5** | 150.6 |

## 5 Profit/(loss) before tax

| Analysis by nature | 52 week period ended 25 December 2015 £m | 52 week period ended 26 December 2014 £m |
|---|---|---|
| The following items have been included in arriving at profit/(loss) before tax: | | |
| Staff costs (note 27) | **94.7** | 82.8 |
| Cost of inventories recognised as an expense (included in cost of sales) | **16.2** | 14.7 |
| Depreciation of property, plant and equipment – owned assets (note 10) | **14.5** | 13.3 |
| Amortisation of intangible assets (included in administrative expenses) (note 9) | **0.1** | 0.2 |
| Operating lease rentals – property | **9.6** | 8.7 |
| External transaction costs | **3.2** | 1.7 |
| Loss on extinguishment of Old Notes – exceptional | **–** | 123.2 |
| Elimination of swap – exceptional | **–** | 1.0 |
| Trade receivables impairment (included in administrative expenses) (note 21(c)) | **2.2** | 1.6 |
| **Services provided by the Group's auditors and its associates:** | | |
| 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** | 0.1 |
| – Tax advisory services | **–** | – |
| – Other advisory services | **–** | – |
| | **0.3** | 0.2 |

### External transaction costs

The current period relates to acquisition expenses which are not deductible for tax purposes.

The prior period related to £1.4 million of other external acquisition expense and £0.3 million external costs relating to the Return of Cash. There was no impact on taxation.

During 2015, the Group paid £40,000 of fees to the Group's auditor in connection with the other non-audit services. See the Audit Committee report for further details.

### 2014 Items

### Loss on extinguishment of Old Notes – exceptional

In 2014, the Group exchanged Old Notes with a book value of £404.6 million, stated before deduction of net unamortised issue costs of £14.8 million, for New Notes with a value of £501.3 million and cash of £5.9 million. The Group incurred incremental costs of £5.8 million in respect of this exchange. As explained in note 1, this exchange was assessed as being an extinguishment of the Old Notes and the issue of New Notes, such that a loss on extinguishment of £123.2 million arose. The impact on taxation on this is a credit of £25.6 million.

### Elimination of swap – exceptional

The swap terminated in 2014 had a fair value of £5.1 million and a carrying value of £4.1 million, resulting in an exceptional finance cost of £1.0 million. The impact on taxation on this is a credit of £0.2 million.

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 6 Taxation

| Analysis of charge in the period | 52 week period ended 25 December 2015 £m | 52 week period ended 26 December 2014 £m |
|---|---|---|
| Current tax – current period | **10.4** | 0.6 |
| Adjustments for prior period | **–** | (0.7) |
| Total corporation tax | **10.4** | (0.1) |
| Deferred tax – current period | **5.1** | (1.2) |
| Non trade deficit recognised in the period | **–** | (11.6) |
| Adjustments for prior period | **–** | 0.2 |
| Restatement of deferred tax for the change in UK tax rate | **(3.4)** | – |
| Total deferred tax | **1.7** | (12.6) |
| Taxation | **12.1** | (12.7) |

| Tax on items credited to other comprehensive income or equity | 52 week period ended 25 December 2015 £m | 52 week period ended 26 December 2014 £m |
|---|---|---|
| Deferred tax credit on remeasurement losses on retirement benefit obligations | **(0.3)** | (2.2) |
| Deferred tax credit relating to maturity of option schemes | **(0.1)** | (0.3) |
| Restatement of deferred tax for the change in UK tax rate | **0.3** | – |
| Total deferred tax credited to other comprehensive income or equity | **(0.1)** | (2.5) |
| Corporation tax credit relating to maturity of option schemes | **(0.7)** | (0.6) |
| Total corporation tax credited to equity | **(0.7)** | (0.6) |

The taxation charge in the period is lower (2014: higher) than the standard rate of corporation tax in the UK of 20.25 per cent (2014: 21.5 per cent). The differences are explained below:

| | 52 week period ended 25 December 2015 £m | 52 week period ended 26 December 2014 £m |
|---|---|---|
| Profit/(loss) before taxation | **69.0** | (67.7) |
| Profit/(loss) before taxation multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%) | **14.0** | (14.6) |
| Effects of: | | |
| Adjustments in respect of prior period | **–** | (0.5) |
| Exceptional adjustment in respect of closing deferred tax rate change in 2015 | **(3.4)** | – |
| Expenses not deductible for tax purposes | **1.5** | 2.4 |
| Total taxation | **12.1** | (12.7) |

Under IFRS the tax rate is lower (2014: lower) than the standard UK tax rate of 20.25 per cent (2014: 21.5 per cent) principally due to the exceptional adjustment (2014: combination of the impact of disallowable trading expenses and expenditure on the Group's premises that does not attract any deductions for tax purposes). The standard rate of corporation tax in the UK changed from 21 per cent to 20 per cent with effect from 1 April 2015. Accordingly the Group's underlying profits for this accounting period are taxed at an effective rate of 21.5 per cent (2014: 22.5 per cent). The Group does not have any provisions for uncertain tax positions.

Legislation to reduce the main rate of corporation tax from 20 per cent to 19 per cent from 1 April 2017 and then to 18 per cent from 1 April 2020 were substantively enacted at the balance sheet date and so the deferred tax balance has been calculated at the rates at which it is expected to be incurred. As a result, the Group recognised exceptional tax credit of £3.4 million through its income statement, a debit of £0.2 million through other comprehensive income and a debit of £0.1 million through equity to reflect the one off reduction in the period of the Group's deferred tax position.

## 7 Dividends

| | 52 week period ended 25 December 2015 £m | 52 week period ended 26 December 2014 £m |
|---|---|---|
| Final dividend paid: 13.01p per Ordinary Share (2014: 11.83p) | **6.5** | 6.3 |
| Interim dividend paid: 7.14p per Ordinary Share (2014: 6.49p) | **3.5** | 3.5 |
| **Dividend on Ordinary Shares** | **10.0** | 9.8 |

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 £10.0 million, 20.15 pence per share (2014: £74.2 million, 138.32 pence per share).

A final dividend of 14.31 pence per share, in respect of 2015, 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 £7.1 million. This will be paid on 24 June 2016 provided that approval is gained from shareholders at the Annual General Meeting on 9 June 2016 and will be paid to shareholders on the register at close of business on 20 May 2016.

### 2014 Return of Cash

On 7 November 2014, the Group returned a total of £64.4 million to ordinary shareholders equating to £1.20 for each Ordinary Share held following the issue of the New Notes. Ordinary shareholders were able to elect to receive this Return of Cash as either:

(a) A return of capital (the 'Capital Option').

(b) A special dividend (the 'Special Dividend Option').

Ordinary shareholders elected to receive £20.1 million as a return of capital and £44.3 million as a special dividend.

## 8 Earnings per share

The calculation of basic earnings per Ordinary Share has been based on the profit or loss 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 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. In prior periods, the potential issue of new shares pursuant to the Group's share option plans had no impact on the calculation of earnings per share.

For the period ended 26 December 2014, any potential ordinary shares to be included when considering diluted earnings per share were anti-dilutive. As a result there was no difference between basic earnings per share and basic diluted earnings per share.

The Board believes that profit on ordinary activities before profit (or loss) on sale of fixed assets, external transaction costs, exceptional items and after taxation is a useful indication of the Group's performance, as it excludes significant non-recurring items. This reporting measure is defined as 'Underlying profit after taxation'.

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.

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 8 Earnings per share (continued)

In 2014, shareholders approved a share capital consolidation together with a Special Dividend of £1.08 per Ordinary Share. The overall effect of this transaction was that of a share repurchase at fair value. The reduction in the number of Ordinary Shares is the result of a corresponding reduction in resources and therefore no adjustment has been made to the earnings per share calculation.

Reconciliations of the earnings and the weighted average number of shares used in the calculations are set out below:

| | Earnings £m | Weighted average number of shares millions | Per share amount pence |
|---|---|---|---|
| **52 week period ended 25 December 2015 Underlying profit after taxation and EPS** | **56.7** | **49.4** | **114.8** |
| Add: Exceptional items, loss on sale of fixed assets and external transaction costs (net of taxation of £nil million) | **0.2** | | |
| **Profit attributable to shareholders – Basic EPS** | **56.9** | **49.4** | **115.2** |
| **Profit attributable to shareholders – Diluted EPS** | **56.9** | **49.7** | **114.5** |
| 52 week period ended 26 December 2014 Underlying profit after taxation and EPS | 45.4 | 52.9 | 85.8 |
| Add: Exceptional items, loss on sale of fixed assets and external transaction costs (net of taxation of £25.8 million) | (100.4) | | |
| Loss attributable to shareholders – Basic and diluted EPS | (55.0) | 52.9 | (104.0) |

## 9 Goodwill and other intangible assets

| | Trade names £m | Use of third party brand name £m | Software £m | Non-compete agreements £m | Sub-total £m | Goodwill £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 27 December 2013 | 74.5 | 3.2 | 4.0 | 0.2 | 81.9 | 173.7 | 255.6 |
| Acquisition of subsidiaries and other businesses | 17.7 | – | – | – | 17.7 | 8.6 | 26.3 |
| At 26 December 2014 | 92.2 | 3.2 | 4.0 | 0.2 | 99.6 | 182.3 | 281.9 |
| Acquisition of subsidiaries and other businesses (note 26(a)) | 32.6 | – | – | – | 32.6 | 19.2 | 51.8 |
| **At 25 December 2015** | **124.8** | **3.2** | **4.0** | **0.2** | **132.2** | **201.5** | **333.7** |
| **Accumulated amortisation** | | | | | | | |
| At 27 December 2013 | – | (1.0) | (4.0) | (0.2) | (5.2) | – | (5.2) |
| Amortisation charge | – | (0.2) | – | – | (0.2) | – | (0.2) |
| At 26 December 2014 | – | (1.2) | (4.0) | (0.2) | (5.4) | – | (5.4) |
| Amortisation charge | – | (0.1) | – | – | (0.1) | – | (0.1) |
| **At 25 December 2015** | **–** | **(1.3)** | **(4.0)** | **(0.2)** | **(5.5)** | **–** | **(5.5)** |
| **Net book amount at 25 December 2015** | **124.8** | **1.9** | **–** | **–** | **126.7** | **201.5** | **328.2** |
| Net book amount at 26 December 2014 | 92.2 | 2.0 | – | – | 94.2 | 182.3 | 276.5 |
| Net book amount at 27 December 2013 | 74.5 | 2.2 | – | – | 76.7 | 173.7 | 250.4 |

## 9 Goodwill and other intangible assets (continued)

### Impairment tests for goodwill and other intangible assets

As described in note 1, goodwill and other intangible assets with an indefinite life are subject to annual impairment tests in accordance with IAS 36, Impairment of Assets.

For the purpose of impairment testing:

(i) Goodwill (excluding goodwill acquired in the period) is tested at a business segment level.

(ii) Other intangible assets are allocated to the Group's cash-generating units (CGUs) which are considered to be on a regional basis.

The segmental allocation is shown below:

| At 25 December 2015 | Intangible assets £m | Goodwill £m | Total £m |
|---|---|---|---|
| Funeral services | **124.8** | **149.9** | **274.7** |
| Crematoria | **–** | **46.9** | **46.9** |
| Pre-arranged funeral plans | **1.9** | **4.7** | **6.6** |
| | **126.7** | **201.5** | **328.2** |
| At 26 December 2014 | | | |
| Funeral services | 92.2 | 130.7 | 222.9 |
| Crematoria | – | 46.9 | 46.9 |
| Pre-arranged funeral plans | 2.0 | 4.7 | 6.7 |
| | 94.2 | 182.3 | 276.5 |

The recoverable amount of a CGU is based on a value-in-use calculation for goodwill and intangible assets existing at the start of the period.

The value-in-use calculations use cash flow projections based on the latest management expectations. 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 (based on actual experience) and anticipated price increases (based on actual experience). Cash flows beyond the initial 12 month period are extrapolated using a growth rate of 2.25 per cent (2014: 2.25 per cent), being an estimate of long-term growth rates for impairment review purposes only. The cash flows are discounted at a pre-tax rate of 8.1 per cent (2014: 10.2 per cent). This rate is used for each CGU because they all have similar risk profiles. Based on these calculations, the discount rate would have to increase to at least 18.1 per cent (2014: 18 per cent), or the growth rate would have to reduce to at least minus 9.2 per cent (2014: minus 6.1 per cent) to result in any impairment of goodwill, intangible assets, property, plant and equipment and working capital.

For acquisitions made in the period, the recoverable amount of cash-generating units has been determined on the basis of fair value less costs to sell. The consideration paid in each case supports the valuation of goodwill which is subject to an annual impairment review.

On the basis of the above, the review indicated that no impairment arose in any segment (2014: £nil).

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 10 Property, plant and equipment

| | Freehold land and buildings £m | Leasehold buildings £m | Plant, machinery, fixtures and fittings £m | Motor vehicles £m | Work in progress £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 27 December 2013 | 114.5 | 42.7 | 42.7 | 56.3 | 4.0 | 260.2 |
| Additions | 0.9 | 2.6 | 1.7 | 7.4 | 6.8 | 19.4 |
| Acquisition of subsidiaries and other businesses | 1.8 | 0.1 | – | 1.7 | – | 3.6 |
| Disposals | – | (0.3) | (3.8) | (4.7) | (0.1) | (8.9) |
| Reclassification | 1.0 | 2.9 | 2.1 | 0.1 | (6.1) | – |
| At 26 December 2014 | 118.2 | 48.0 | 42.7 | 60.8 | 4.6 | 274.3 |
| Additions | 0.8 | 1.0 | 1.6 | 8.0 | 8.6 | 20.0 |
| Acquisition of subsidiaries and other businesses (note 26(a)) | 2.3 | – | – | 1.2 | – | 3.5 |
| Disposals | (0.4) | (0.1) | (0.1) | (1.7) | – | (2.3) |
| Reclassification | 4.5 | 1.0 | 1.1 | – | (6.6) | – |
| **At 25 December 2015** | **125.4** | **49.9** | **45.3** | **68.3** | **6.6** | **295.5** |
| **Accumulated depreciation** | | | | | | |
| At 27 December 2013 | (18.3) | (12.8) | (20.2) | (25.3) | – | (76.6) |
| Depreciation charge | (2.8) | (1.9) | (4.0) | (4.6) | – | (13.3) |
| Disposals | – | 0.2 | 3.8 | 3.9 | – | 7.9 |
| At 26 December 2014 | (21.1) | (14.5) | (20.4) | (26.0) | – | (82.0) |
| Depreciation charge | (3.0) | (2.0) | (4.2) | (5.3) | – | (14.5) |
| Disposals | 0.1 | 0.1 | 0.1 | 1.3 | – | 1.6 |
| Reclassification | – | – | – | – | – | – |
| **At 25 December 2015** | **(24.0)** | **(16.4)** | **(24.5)** | **(30.0)** | **–** | **(94.9)** |
| **Net book amount at 25 December 2015** | **101.4** | **33.5** | **20.8** | **38.3** | **6.6** | **200.6** |
| Net book amount at 26 December 2014 | 97.1 | 33.5 | 22.3 | 34.8 | 4.6 | 192.3 |
| Net book amount at 27 December 2013 | 96.2 | 29.9 | 22.5 | 31.0 | 4.0 | 183.6 |

Depreciation expense of £5.4 million (2014: £4.6 million) is included within cost of sales and £9.1 million (2014: £8.7 million) is included within administrative expenses.

Details of any securities 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:

| | 25 December 2015 £m | 26 December 2014 £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 £7.7 million (2014: £2.0 million).

## 11 Non-current financial and other assets

| | Note | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|---|
| Prepayments | (a) | **7.5** | 7.6 |
| Deferred commissions | (b) | **2.8** | 2.8 |
| | | **10.3** | 10.4 |

### (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 no further charge.

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

## 12 Investments
A list of all entities included within the financial information are included in note C9 to the Company's financial statements.

## 13 Inventories

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| Materials | **0.2** | 0.2 |
| Finished goods | **6.2** | 6.3 |
| | **6.4** | 6.5 |

There were no inventory write-downs in either period.

## 14 Trade and other receivables

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| Trade receivables | **24.0** | 20.6 |
| Less: provision for impairment (note 21(c)) | **(5.7)** | (4.9) |
| Net trade receivables | **18.3** | 15.7 |
| Receivables due from pre-arranged funeral plans trusts (note 29)[1] | **9.7** | 9.2 |
| Prepayments and accrued income | **2.3** | 2.7 |
| Other receivables | **1.6** | 1.4 |
| Corporation tax | **–** | 1.0 |
| | **31.9** | 30.0 |

(1) Included in this amount is approximately £1.2 million (2014: £0.5 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.

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 15 Cash and cash equivalents

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| **Operating cash as reported in the consolidated statement of cash flows as cash and cash equivalents** | **81.9** | 76.9 |
| Amounts set aside for debt service payments | **16.9** | 9.6 |
| **Cash and cash equivalents as reported in the balance sheet** | **98.8** | 86.5 |

### 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 and commitment fees due on its undrawn borrowing facilities (see note 21(d)) and for no other purpose. Consequently, this amount does 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 2015. Of this amount, £12.8 million (2014: £5.6 million) is shown within the Statement of Cash Flows as 'Payments to restricted bank accounts for finance costs' and £4.1 million (2014: £4.0 million) is shown within 'Financing activities' as 'Payments to restricted bank accounts for repayment of borrowings'.

## 16 Financial liabilities

| | Note | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|---|
| **Current** | | | |
| New A Notes | (a) | **8.3** | 8.0 |
| | (d) | **8.3** | 8.0 |
| **Non-current** | | | |
| New Notes | (a) | **578.2** | 586.6 |
| Finance lease obligations | (b) | **0.7** | 0.7 |
| Crematoria Acquisition Facility | (c) | **15.7** | 15.6 |
| | | **594.6** | 602.9 |

### (a) New Notes

On 17 October 2014, Dignity Finance PLC issued the New Notes. Interest is payable on the New 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 New A Notes and the New B Notes respectively. At 25 December 2015, £0.3 million (2014: £0.3 million) and £0.4 million (2014: £0.4 million) of the transaction costs in respect of the New A Notes and the New B Notes respectively remain unamortised.

For further details of security over the New Notes see note 30(a).

The amortisation profile of the New Notes is as follows:

### New A Notes

| | 2015 £m | 2016 £m | 2017 £m | 2018 £m | 2019 £m | 2020 £m | 2021 £m | 2022 £m | 2023 £m | 2024 £m | 2025 £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| June | 4.1 | 4.2 | 4.4 | 4.6 | 4.7 | 4.9 | 5.1 | 5.2 | 5.4 | 5.6 | 5.8 |
| December | 4.1 | 4.3 | 4.4 | 4.6 | 4.8 | 4.9 | 5.1 | 5.3 | 5.5 | 5.7 | 5.9 |
| Total | 8.2 | 8.5 | 8.8 | 9.2 | 9.5 | 9.8 | 10.2 | 10.5 | 10.9 | 11.3 | 11.7 |

| | 2026 £m | 2027 £m | 2028 £m | 2029 £m | 2030 £m | 2031 £m | 2032 £m | 2033 £m | 2034 £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|
| June | 6.0 | 6.2 | 6.4 | 6.7 | 6.9 | 7.2 | 7.4 | 7.7 | 8.0 | 116.5 |
| December | 6.1 | 6.4 | 6.6 | 6.8 | 7.1 | 7.3 | 7.6 | 7.8 | 8.1 | 118.4 |
| Total | 12.1 | 12.6 | 13.0 | 13.5 | 14.0 | 14.5 | 15.0 | 15.5 | 16.1 | 234.9 |

## 16 Financial liabilities (continued)

### New B Notes

| | 2035 £m | 2036 £m | 2037 £m | 2038 £m | 2039 £m | 2040 £m | 2041 £m | 2042 £m | 2043 £m | 2044 £m | 2045 £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 £m | 2047 £m | 2048 £m | 2049 £m | Total £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 |

### (b) Obligations under finance leases

| | 25 December 2015 £m | 26 December 2014 £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 | **0.5** | 0.5 |
| | **0.7** | 0.7 |

The finance leases and hire purchase liabilities are secured on the related assets.

### (c) Crematoria Acquisition Facility
The Group is fully drawn on a £15.8 million Crematoria Acquisition Facility. The principal on the facility is repayable in one amount in February 2018 and interest is fixed at approximately 3.3 per cent. All interest is payable in cash on a quarterly basis. Consequently, the Group carries limited risk to increases in LIBOR on this facility.

The transaction costs incurred on the Crematoria Acquisition Facility were £0.2 million. The principal outstanding on the Crematoria Acquisition Facility and related issue costs have been presented on a net basis in the table on page 92.

At 25 December 2015, £15.8 million (2014: £15.8 million) of the principal was outstanding. At 25 December 2015, £0.1 million (2014: £0.2 million) of the transaction costs remained unamortised.

For further details of security over the Crematoria Acquisition Facility see note 30(b).

### (d) Current financial liabilities
The current financial liabilities represent the amounts falling due within one year of the Group's balance sheet date.

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# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 17 Trade and other payables

| Current | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| Trade payables | **7.5** | 5.3 |
| Tax and social security | **1.7** | 1.5 |
| Other current liabilities | **2.2** | 2.1 |
| Accruals | **50.3** | 38.4 |
| Deferred income | **5.8** | 3.9 |
| | **67.5** | 51.2 |
| **Non-current** | | |
| Deferred income | **1.0** | 1.1 |
| Deferred consideration for acquisitions | **0.1** | 0.1 |
| Other non-current liabilities | **1.2** | 1.4 |
| | **2.3** | 2.6 |

## 18 Obligations under finance leases and operating leases

For minimum lease payments obligations under finance leases refer to note 21(d)(ii).

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| The minimum lease payments under non-cancellable operating leases fall due as follows: | | |
| Not later than one year | **10.3** | 9.8 |
| Later than one year but not more than five years | **28.5** | 27.5 |
| More than five years | **135.6** | 131.3 |
| | **174.4** | 168.6 |

The non-cancellable operating leases principally relate to leasehold land and buildings.

Of the total operating lease payments charged to trading expenses, £nil million (2014: £nil million) are in respect of contingent rentals. The contingent rentals are based on the revenues generated at the specific locations.

Sublease payments received in the year amount to £0.5 million (2014: £0.5 million). Total future sublease payments receivable relating to operating leases amount to £0.7 million (2014: £0.7 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.

## 19 Provisions for liabilities

| | Dilapidations £m (a) | Onerous contracts £m (b) | Cancellation provision £m (c) | Total £m |
|---|---|---|---|---|
| At beginning of period | 4.5 | 0.1 | 1.3 | 5.9 |
| Charged to income statement | 1.6 | – | 0.1 | 1.7 |
| Arising on acquisitions | 0.8 | – | – | 0.8 |
| Released to income statement | (0.3) | – | – | (0.3) |
| Utilised in period | (0.4) | – | – | (0.4) |
| Amortisation of discount | 0.1 | – | – | 0.1 |
| **At end of period** | **6.3** | **0.1** | **1.4** | **7.8** |

Provisions have been analysed between current and non-current as follows:

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| Current | **1.5** | 1.4 |
| Non-current | **6.3** | 4.5 |
| | **7.8** | 5.9 |

## 19 Provisions for liabilities (continued)

### (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, £1.0 million (2014: £1.1 million), will be incurred in the following financial year, and the element relating to dilapidation obligations where no notice has been served will be utilised over the terms of the relevant property leases, the majority of which is expected to be by 31 December 2024.

### (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.

Included within the provision is an amount of £nil million (2014: £nil million) relating to the expected costs of ongoing rent reviews, the outcomes of which have been based on recent experience of similar reviews on other properties.

### (c) Cancellation provision
As described in note 1, the Group receives monies from certain pre-arranged funeral plan Trusts in respect of the marketing of pre-arranged funeral plans, which are refundable to the Trust in the event of cancellation.

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.

## 20 Deferred tax
Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of between 18 and 20 per cent (2014: 20 per cent).

The movement on the deferred tax account is as shown below:

| | **25 December 2015 £m** | 26 December 2014 £m |
|---|---|---|
| At beginning of period | **13.6** | 26.9 |
| Charged/(credited) to income statement (note 6) | **5.1** | (12.6) |
| Restatement of deferred tax for the change in UK tax rate | **(3.1)** | – |
| Taken to other comprehensive income (note 6) | **(0.3)** | (2.2) |
| Taken to equity (note 6) | **(0.1)** | (0.3) |
| Arising on acquisitions (note 26(a)) | **6.5** | 1.8 |
| **At end of period** | **21.7** | 13.6 |

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 depreciation £m** | **Other £m** | **Total £m** |
|---|---|---|---|
| At beginning of period | 15.5 | 13.9 | 29.4 |
| Charged/(credited) to income statement (note 6) | 0.7 | (0.1) | 0.6 |
| Restatement of deferred tax for the change in UK tax rate taken to the income statement | (1.7) | (2.0) | (3.7) |
| Arising on acquisitions | 0.4 | 6.1 | 6.5 |
| **At end of period** | **14.9** | **17.9** | **32.8** |

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 20 Deferred tax (continued)

### Deferred tax assets

| | Non trade deficits £m | Pensions £m | Other £m | Total £m |
|---|---|---|---|---|
| At beginning of period | (11.6) | (2.1) | (2.1) | (15.8) |
| Charged/(credited) to income statement (note 6) | 4.8 | (0.1) | (0.2) | 4.5 |
| Restatement of deferred tax for the change in UK tax rate taken to other comprehensive income | – | 0.2 | – | 0.2 |
| Restatement of deferred tax for the change in UK tax rate taken to equity | – | – | 0.1 | 0.1 |
| Restatement of deferred tax for the change in UK tax rate taken to the income statement | 0.1 | – | 0.2 | 0.3 |
| Taken to other comprehensive income | – | (0.3) | – | (0.3) |
| Taken to equity | – | – | (0.1) | (0.1) |
| **At end of period** | **(6.7)** | **(2.3)** | **(2.1)** | **(11.1)** |

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision at 25 December 2015 was £21.7 million (2014: £13.6 million).

Other deferred tax liabilities includes trade names and capital gains rolled forward, other deferred tax assets includes option schemes £1.7 million (2014: £1.6 million) and long service awards £0.2 million (2014: £0.2 million).

Elements of these deferred tax balances may be payable/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.

The deferred income tax credited to other comprehensive income or charged to equity during the period was as follows:

| | 52 week period ended 25 December 2015 £m | 52 week period ended 26 December 2014 £m |
|---|---|---|
| Deferred tax credit on remeasurement losses on retirement benefit obligations | **(0.3)** | (2.2) |
| Restatement of deferred tax for the change in UK tax rate | **0.2** | – |
| Total credited to other comprehensive income | **(0.1)** | (2.2) |
| Deferred tax charge relating to maturity of option schemes | **(0.1)** | (0.3) |
| Restatement of deferred tax for the change in UK tax rate | **0.1** | – |
| Total credited to equity | **–** | (0.3) |

## 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.

### 21 Financial instruments (continued)

### (a) Fair value of current and non-current financial assets and liabilities

| | 25 December 2015 | | | 26 December 2014 | | |
|---|---|---|---|---|---|---|
| | Nominal value £m | Book value £m | Fair value £m | Nominal value £m | Book value £m | Fair value £m |
| New A Notes – 3.5456% maturing 31 December 2034 | **230.8** | **230.5** | **238.7** | 238.9 | 238.6 | 248.5 |
| New B Notes – 4.6956% maturing 31 December 2049 | **356.4** | **356.0** | **376.8** | 356.4 | 356.0 | 394.7 |
| Crematoria Acquisition Facility | **15.8** | **15.7** | **15.8** | 15.8 | 15.6 | 15.8 |
| Finance leases | **0.7** | **0.7** | **0.7** | 0.7 | 0.7 | 0.7 |
| Total | **603.7** | **602.9** | **632.0** | 611.8 | 610.9 | 659.7 |

The Crematoria Acquisition Facility and New A and New B Notes are held at amortised cost. Finance lease payables represent the present value of future minimum lease payments. 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 New A and New B Notes are their market value at the balance sheet date and are considered to be level 1.

The fair value of the Crematoria Acquisition Facility is considered to be nominal value, given the nature of the loan and the source of the cash flows support its repayment and is considered to be level 3.

### (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.

| | 25 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | In less than one year £m | In more than one year but not more than two years £m | In more than two years but not more than three years £m | In more than three years but not more than five years £m | In more than five years £m | Total £m |
| **Cash liabilities** | | | | | | |
| New Notes (gross) | **8.3** | **8.7** | **9.0** | **19.0** | **542.2** | **587.2** |
| Interest payable on New Notes | **24.8** | **24.5** | **24.2** | **47.5** | **440.2** | **561.2** |
| Crematoria Acquisition Facility | **–** | **–** | **15.8** | **–** | **–** | **15.8** |
| Interest payable on Crematoria Acquisition Facility | **0.5** | **0.5** | **0.1** | **–** | **–** | **1.1** |
| Finance leases | **0.1** | **0.1** | **0.1** | **–** | **2.6** | **2.9** |
| **Debt repayments** | **33.7** | **33.8** | **49.2** | **66.5** | **985.0** | **1,168.2** |
| Other financial liabilities | **54.9** | **0.3** | **0.3** | **0.7** | **0.8** | **57.0** |
| | **88.6** | **34.1** | **49.5** | **67.2** | **985.8** | **1,225.2** |

| | 26 December 2014 | | | | | |
|---|---|---|---|---|---|---|
| | In less than one year £m | In more than one year but not more than two years £m | In more than two years but not more than three years £m | In more than three years but not more than five years £m | In more than five years £m | Total £m |
| **Cash liabilities** | | | | | | |
| New Notes (gross) | 8.1 | 8.3 | 8.7 | 18.3 | 551.9 | 595.3 |
| Interest payable on New Notes | 17.7 | 24.8 | 24.5 | 48.2 | 463.7 | 578.9 |
| Crematoria Acquisition Facility | – | – | – | 15.8 | – | 15.8 |
| Interest payable on Crematoria Acquisition Facility | 0.5 | 0.5 | 0.5 | 0.1 | – | 1.6 |
| Finance leases | – | 0.1 | 0.1 | 0.1 | 2.7 | 3.0 |
| **Debt repayments** | 26.3 | 33.7 | 33.8 | 82.5 | 1,018.3 | 1,194.6 |
| Other financial liabilities | 45.9 | 0.4 | 0.3 | 0.7 | 0.7 | 48.0 |
| | 72.2 | 34.1 | 34.1 | 83.2 | 1,019.0 | 1,242.6 |

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 21 Financial instruments (continued)

The amounts disclosed in the tables below represent the anticipated amortisation profile for the issue costs relating to the Group's financial liabilities.

| | 25 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | In less than one year £m | In more than one year but not more than two years £m | In more than two years but not more than three years £m | In more than three years but not more than five years £m | In more than five years £m | Total £m |
| **Non-cash liabilities** | | | | | | |
| Issue costs on New Notes | **–** | **–** | **–** | **–** | **0.7** | **0.7** |
| Issue costs on Crematoria Acquisition Facility | **–** | **0.1** | **–** | **–** | **–** | **0.1** |
| | **–** | **0.1** | **–** | **–** | **0.7** | **0.8** |

| | 26 December 2014 | | | | | |
|---|---|---|---|---|---|---|
| | In less than one year £m | In more than one year but not more than two years £m | In more than two years but not more than three years £m | In more than three years but not more than five years £m | In more than five years £m | Total £m |
| **Non-cash liabilities** | | | | | | |
| Issue costs on New Notes | – | – | – | – | 0.7 | 0.7 |
| Issue costs on Crematoria Acquisition Facility | – | 0.1 | 0.1 | – | – | 0.2 |
| | – | 0.1 | 0.1 | – | 0.7 | 0.9 |

### (c) Trade receivables

As at 25 December 2015, £11.4 million of the individual gross trade receivables (2014: £8.6 million) were past due and partially impaired. A provision for impairment is established based on historical experience. The amount of the provision, as at 25 December 2015, was £5.7 million (2014: £4.9 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:

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| One to six months | **7.0** | 4.6 |
| Over six months | **4.4** | 4.0 |
| | **11.4** | 8.6 |

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:

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| At beginning of period | **(4.9)** | (4.5) |
| Charged to income statement | **(2.2)** | (1.6) |
| Utilised in period | **1.4** | 1.2 |
| At end of period | **(5.7)** | (4.9) |

### (d) Borrowing facilities

(i) The Group has the following undrawn committed borrowing facilities available at 25 December 2015, all of which were at floating interest rates, in respect of which all conditions precedent had been met at that date:

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| Expiring within one year | **26.2** | – |
| Expiring between one and two years | **–** | – |
| Expiring in more than two years | **60.0** | 60.0 |
| | **86.2** | 60.0 |

## 21 Financial instruments (continued)

£55.0 million (2014: £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 (2014: £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.

£26.2 million relates to an acquisition facility provided by the Royal Bank of Scotland. It is a committed facility, capable of being drawn until June 2016. If drawn, the facility is repayable in June 2019. 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:

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| Not later than one year | **0.1** | 0.1 |
| Later than one year but not more than five years | **0.2** | 0.2 |
| More than five years | **2.6** | 2.7 |
| | **2.9** | 3.0 |
| Future finance costs on finance leases | **(2.2)** | (2.3) |
| Present value of finance lease liabilities | **0.7** | 0.7 |

## 22 Ordinary share capital

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| **Allotted and fully paid Equity shares** | | |
| 49,420,291 (2014: 49,170,180) Ordinary Shares of 12 48/143 pence (2014: 12 48/143 pence) each | **6.1** | 6.1 |

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 249,067 shares issued under the 2012 LTIP scheme, £nil million (2014: £nil million) consideration in relation to the 1,044 (2014: 14,896) shares issued under the 2013 SAYE scheme.

### Changes in issued share capital – 2014

On 31 October 2014, the Ordinary Share Capital of the Company was consolidated such that shareholders received 11 Ordinary Shares of 12 48/143 pence each in exchange for every 12 Ordinary Shares of 11 4/13 pence each held at close of business on 31 October 2014.

As a result of the Return of Cash undertaken in the year, bonus shares of 16,795,058 B Shares with a nominal value of £1.20 per share and 36,845,858 C Shares were issued. The B Shares were issued and redeemed for cash at par in November 2014. The C Shares were issued in November 2014 and converted to Deferred Shares on the same day. The deferred shares were subsequently repurchased for nominal consideration.

### 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 2013. In addition, Executive Directors and senior management hold options to subscribe for shares in the Company under Long-Term Incentive Plans ('LTIPs') awarded in 2013, 2014 and 2015.

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 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 | 2015 Number | 2014 Number | 2013 Number |
|---|---|---|---|---|---|
| 2013 – SAYE | 1,469.00 | 1 December 2016 to 31 May 2017 | **119,810** | 130,364 | 149,318 |
| 2013 – LTIP | – | 20 March 2016 to 18 March 2023 | **215,270** | 217,270 | 217,270 |
| 2014 – LTIP | – | 25 March 2017 to 24 March 2024 | **184,780** | 186,780 | n/a |
| 2015 – LTIP | – | 6 March 2017 to 5 March 2025 | **155,540** | n/a | n/a |

## 23 Share-based payments

In respect of share-based payment arrangements, total charges to the income statement were £2.4 million (2014: £2.0 million). The Directors consider that these amounts are not material and hence further detailed disclosures have been omitted.

## 24 Net debt

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| Net amounts owing on New Notes | **(586.5)** | (594.6) |
| Add: unamortised issue costs (note 16(a)) | **(0.7)** | (0.7) |
| Gross amounts owing on Secured Notes per financial statements | **(587.2)** | (595.3) |
| Net amounts owing on Crematoria Acquisition Facility per financial statements | **(15.7)** | (15.6) |
| Add: unamortised issue costs on Crematoria Acquisition Facility (note 16(c)) | **(0.1)** | (0.2) |
| Gross amounts owing | **(603.0)** | (611.1) |
| Accrued interest on Secured Notes | **(12.8)** | (5.7) |
| Accrued interest on Crematoria Acquisition Facility | **(0.1)** | – |
| Cash and cash equivalents (note 15) | **98.8** | 86.5 |
| Net debt | **(517.1)** | (530.3) |

In addition to the above, the consolidated balance sheet also includes finance lease obligations and other financial liabilities which totalled £0.7 million (2014: £0.7 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 New Notes requires EBITDA to total debt service to be at least 1.5 times. At 25 December 2015, the actual ratio was 3.35 times (2014: 10.69 times). The New Notes were issued on 17 October 2014. Consequently, Senior Interest only accrues from this date for the Relevant Period. Debt Service in 2014, assuming a full year Senior Interest would have been approximately £33.7 million. On this basis, the EBITDA DSCR would have been 2.95 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.

See note 5 and the Group's 2014 Annual Report for further details of the replacement of the Old Notes.

## 25 Reconciliation of cash generated from operations

| | 52 week period ended 25 December 2015 £m | 52 week period ended 26 December 2014 £m |
|---|---|---|
| Net profit/(loss) for the period | **56.9** | (55.0) |
| Adjustments for: | | |
| Taxation | **12.1** | (12.7) |
| Net finance costs | **26.5** | 26.4 |
| Loss on disposal of fixed assets | **–** | 0.3 |
| Depreciation charges | **14.5** | 13.3 |
| Amortisation of intangibles | **0.1** | 0.2 |
| Movement in inventories | **0.1** | 0.2 |
| Movement in trade receivables | **(1.6)** | 0.3 |
| Movement in trade payables | **3.2** | (0.6) |
| External transaction costs | **3.2** | 1.7 |
| Loss on extinguishment of Old Notes – exceptional | **–** | 123.2 |
| Elimination of swap – exceptional | **–** | 1.0 |
| Changes in other working capital (excluding acquisitions) | **7.8** | 4.1 |
| Employee share option charges (note 23) | **2.4** | 2.0 |
| Cash generated from operations before external transaction costs and exceptional pension contributions | **125.2** | 104.4 |

### Other non-cash transactions

In 2014, as described in note 5, the Group exchanged Old Notes with a book value of £404.6 million for New Notes with a value of £501.3 million and cash of £5.9 million.

Non-cash charges also comprise amortisation of deferred debt issue costs, as discussed in note 16(a).

## 26 Acquisitions

### (a) Acquisition of subsidiary and other businesses

| | Laurel Funerals provisional fair value £m | Other acquisitions provisional fair value £m | Total provisional fair value £m |
|---|---|---|---|
| Property, plant and equipment | **2.1** | **1.4** | **3.5** |
| Intangible assets: trade names | **26.6** | **6.0** | **32.6** |
| Cash acquired | **0.4** | **0.9** | **1.3** |
| Receivables | **0.5** | **0.5** | **1.0** |
| Provisions (note 19) | **(0.6)** | **(0.2)** | **(0.8)** |
| Other working capital | **(1.0)** | **(0.9)** | **(1.9)** |
| Deferred taxation (note 20) | **(5.6)** | **(0.9)** | **(6.5)** |
| **Net assets acquired** | **22.4** | **6.8** | **29.2** |
| Goodwill arising | **16.1** | **3.1** | **19.2** |
| | **38.5** | **9.9** | **48.4** |
| **Satisfied by:** | | | |
| Cash paid on completion (funded from internally generated cash flows) | | | **48.6** |
| Accrued consideration | | | **0.5** |
| Reduction in consideration payable for 2014 acquisitions(1) | | | **(0.7)** |
| **Total consideration** | | | **48.4** |

(1) Consideration payable for two acquisitions made in 2014 was reduced following the finalisation of completion accounts in accordance with the sale and purchase agreements of these acquisitions.

The residual excess of the consideration paid over the net assets acquired is recognised as goodwill, of which £0.8 million is tax deductable. 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 2016 once acquisition working capital balances have been converted into cash. 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.

Each acquisition made followed the Group's strategy to acquire such locations that will help the Group grow and create value for shareholders.

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 26 Acquisitions (continued)

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

Post acquisition operating performance of these acquisitions is disclosed in note 3 to the Annual Report.

### Laurel Funerals

On 13 July 2015, the Group acquired the entire issued share capital of LMF Equityco Limited ('Laurel Funerals') for a consideration of £38.1 million net of £0.4 million cash acquired. Laurel Funerals owns and operates 36 funeral locations.

If the Group had owned Laurel Funerals for the entire period, then the estimated revenue for the Laurel Funerals would be £10.4 million and the estimated operating profit would be £4.1 million. These estimates assume an extrapolation of the Laurel Funerals operating performance post acquisition. No material changes resulted from aligning the Laurel Funerals accounting policies to those of the Group.

No tax deductions are expected in relation to the goodwill recognised.

This acquisition has been accounted for under the acquisition method and disclosed separately.

### Other acquisitions

During 2015, the Group also acquired the operational interest of 12 funeral locations. These transactions were either acquisitions of trade and assets or acquisitions of the entire issued share capital of a limited company.

All other acquisitions have been accounted for under the acquisition method. None were individually material and consequently have been aggregated.

### (b) Reconciliation to cash flow statement

| | **52 week period ended 25 December 2015 £m** | 52 week period ended 26 December 2014 £m |
|---|---|---|
| Cash paid on completion | **48.6** | 29.0 |
| Cash paid in respect of prior year acquisitions | **2.7** | – |
| Cash acquired on acquisition | **(1.3)** | (4.3) |
| Acquisition of subsidiaries and businesses as reported in the cash flow statement | **50.0** | 24.7 |

## 27 Employees and Directors

| | **52 week period ended 25 December 2015 £m** | 52 week period ended 26 December 2014 £m |
|---|---|---|
| Wages and salaries | **83.6** | 73.4 |
| Social security costs | **5.9** | 5.2 |
| Other pension costs (note 28) | **2.8** | 2.2 |
| Share option charges (note 23) | **2.4** | 2.0 |
| | **94.7** | 82.8 |

Key management are considered to be the Board of Directors only. Total key management remuneration in the period was £4.6 million (2014: £4.3 million), including £1.4 million (2014: £1.3 million) of share option charges. The monthly average number of people, including Directors, employed by the Group during the period was as follows:

| | **2015 Number** | 2014 Number |
|---|---|---|
| Management and administration | **173** | 159 |
| Funeral services staff | **2,373** | 2,229 |
| Crematoria staff | **327** | 324 |
| Pre-arranged funeral plan staff | **92** | 76 |
| | **2,965** | 2,788 |

### Directors' emoluments

Details of Directors' emoluments are disclosed in the Report on Directors' Remuneration on pages 56 to 62 which form part of these consolidated financial statements.

## 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:

| | 2015 £m | 2014 £m |
|---|---|---|
| Defined contribution schemes | **1.1** | 0.9 |

### 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 2014 and updated to 25 December 2015 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 total monetary contribution paid by the employer for 2015 was £1.4 million (2014: £1.6 million). In addition special contributions of £nil million (2014: £1.0 million) have been paid to make the total contribution for the year £1.4 million (2014: £2.6 million).

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were:

| Assumptions | 2015 % | 2014 % |
|---|---|---|
| Discount rate | **3.8** | 3.7 |
| Rate of increase in salaries | **2.1** | 2.1 |
| Rate of increase in payment of post April 1997 pensionable service | **3.05** | 3.05 |
| Rate of increase in payment of post April 2005 pensionable service | **2.15** | 2.15 |
| RPI price inflation assumption | **3.1** | 3.1 |
| CPI price inflation assumption | **2.1** | 2.1 |

The demographic assumptions used include rates for mortality which, for example, lead to an average projected life expectancy of 20.7 (2014: 20.7) years for male members and 26.1 (2014: 26.0) years for female members currently aged 65 and of 22.0 (2014: 21.9) years from age 65 for male members and 27.6 (2014: 27.5) 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:

| | 2015 £m | 2014 £m |
|---|---|---|
| Fair value of plan assets | **94.4** | 95.0 |
| Present value of funded obligations | **(106.9)** | (105.5) |
| **Net obligation recognised in the balance sheet** | **(12.5)** | (10.5) |

### Analysis of amount charged to income statement in respect of defined benefit schemes

| | 2015 £m | 2014 £m |
|---|---|---|
| **Current service cost included within cost of sales (staff costs)** | **1.7** | 1.3 |
| **Interest costs less interest income included within net finance cost** | **0.3** | – |

Expected contributions to the Group's pension scheme for the 53 week period ended 30 December 2016 are approximately £1.5 million.

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 28 Pensions (continued)

### Analysis of fair value of plan assets

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Equity and diversified growth funds | **43.0** | **45.5** | 60.7 | 63.9 |
| Debt | **28.0** | **29.7** | 25.4 | 26.7 |
| Cash | **23.4** | **24.8** | 8.9 | 9.4 |
| **Fair value of plan assets** | **94.4** | **100.0** | 95.0 | 100.0 |

At 25 December 2015 and 26 December 2014 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:

| | 2015 £m | 2014 £m |
|---|---|---|
| Present value of obligation at beginning of period | **(105.5)** | (92.2) |
| Current service cost | **(1.7)** | (1.3) |
| Interest cost | **(3.8)** | (4.2) |
| Benefits paid | **4.2** | 3.7 |
| Contributions by participants | **(1.5)** | (1.5) |
| Remeasurement gains/(losses) – financial | **1.9** | (12.4) |
| Remeasurement gains – demographic | **–** | 1.0 |
| Remeasurement (losses)/gains – experience | **(0.5)** | 1.4 |
| **Present value of obligation at end of period** | **(106.9)** | (105.5) |

### Changes in the fair value of plan assets are as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| Fair value of plan assets at beginning of period | **95.0** | 91.2 |
| Interest income on plan assets | **3.5** | 4.2 |
| Contributions by Group | **1.4** | 2.6 |
| Contributions by participants | **1.5** | 1.5 |
| Benefits paid | **(4.2)** | (3.7) |
| Remeasurement losses | **(2.8)** | (0.8) |
| **Fair value of plan assets at end of period** | **94.4** | 95.0 |

### Analysis of the movement in the balance sheet obligation

| | 2015 £m | 2014 £m |
|---|---|---|
| At beginning of period | **(10.5)** | (1.0) |
| Total expense as above charged to the income statement | **(2.0)** | (1.3) |
| Remeasurement losses charged to other comprehensive income | **(1.4)** | (10.8) |
| Contributions by Group | **1.4** | 2.6 |
| **At end of period** | **(12.5)** | (10.5) |

The actual return on plan assets was £0.7 million (2014: £3.5 million).

### History of experience gains and losses

| | 2015 | 2014 |
|---|---|---|
| Experience adjustments arising on scheme liabilities: | | |
| Amount (£m) | **(0.5)** | 1.4 |
| Percentage of the present value of the scheme's liabilities | **0.5%** | 1.3% |
| Present value of scheme liabilities (£m) | **(106.9)** | (105.5) |
| Fair value of scheme assets (£m) | **94.4** | 95.0 |
| Deficit (£m) | **(12.5)** | (10.5) |

## 28 Pensions (continued)

| Change in assumptions | Liabilities £m | Assets £m | Deficit £m | Increase/ (decrease) in surplus £m |
|---|---|---|---|---|
| No change | **(106.9)** | **94.4** | **(12.5)** | **–** |
| 0.25% rise in discount rate | **(102.5)** | **94.4** | **(8.1)** | **4.4** |
| 0.25% fall in discount rate | **(111.7)** | **94.4** | **(17.3)** | **(4.8)** |
| 0.25% rise in inflation | **(109.7)** | **94.4** | **(15.3)** | **(2.8)** |
| 0.25% fall in inflation | **(103.9)** | **94.4** | **(9.5)** | **3.0** |

The above sensitivity analysis has been determined by applying the results of a fully accurate sensitivity analysis as at 6 April 2015 to the value placed on the Scheme liabilities as at 25 December 2015, assuming that the proportionate impact of the change in assumptions would be the same. It does not, therefore, allow for the impact of membership movements since 6 April 2015, although these would not be material. The same methodology was used for the sensitivity analysis undertaken for the year ending 26 December 2014.

### Analysis of present value of scheme liabilities

| | 2015 | 2014 |
|---|---|---|
| Active members | **38%** | 36% |
| Deferred pensioners | **27%** | 26% |
| Current pensioners | **35%** | 38% |
| Average duration of liabilities | **17 years** | 18 years |

### Scheme characteristic

The scheme is a final salary defined benefits scheme which was closed to new entrants on 1 October 2013. 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 contribution 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 Projected Unit funding method. The last full triennial actuarial valuation was undertaken as at 6 April 2014. Currently both the Employer and Scheme members pay contributions at the rate of 10 per cent of pensionable pay. The employer contributions include allowances for expenses of administering the scheme.

### Funding Risks

*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.

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

## 29 Pre-arranged funeral plans (continued)

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 increase at rates in excess of investment returns.

The Trustees have informed the Group that they have, following independent external advice, completed a restructuring of the Trust's investments following a review of the Trust's investment strategy.

Under their revised strategy the Trustees intend holding investments in the following approximate profile:

| | Target (%) |
|---|---|
| Equities | 22 |
| Alternative investments | 13 |
| Developed credit and cash | 65 |

Equities will in the main be invested in developed markets, but will contain an exposure to emerging markets. Alternative investments relate to investments in markets such as reinsurance, emerging market debt and property funds.

This change in the Trust's investment strategy is expected to enhance investment returns in the longer-term for a similar level of risk. The strategy will, however, potentially result in greater volatility year on year in the reported value of the Trust's assets.

The trustees have advised that the market value of the assets of the pre-arranged funeral plan trusts was £736.0 million at 25 December 2015 (2014: £678.0 million) in respect of 290,000 (2014: 275,000) active pre-arranged funeral plans. 49,000 (2014: 46,000) 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 35,000 (2014: 27,000) 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 25 September 2015 (2014: 26 September 2014) using assumptions determined by the trustees. These valuations showed the Trusts to have liabilities in respect of the pre-arranged funeral plan trusts of £692.1 million as at 25 September 2015 (2014: £612.9 million). The corresponding market value of the assets of the pre-arranged funeral plan trusts was £696.9 million (2014: £630.6 million) as at the same date. Consequently the actuarial valuations recorded total surpluses of £4.8 million at 25 September 2015 (2014: £17.7 million).

The trustees have advised that the Recent Trusts have approximately £22 million of assets as at the balance sheet date and no material surplus or deficit.

### Transactions with the Group

During the period, the Group entered into transactions with the Principal Trusts and the Recent Trusts (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;
- Reimbursement by the Trusts of expenses paid by the Group on behalf of the respective Trusts; and
- The payment of realised surpluses generated by the Trust funds as and when the trustees sanction such payments.

## 29 Pre-arranged funeral plans (continued)

Transactions are summarised below:

| | Transactions during the period | | Amounts due to the Group at the period end | |
|---|---|---|---|---|
| | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m |
| Dignity Limited Trust Fund | **0.3** | 0.3 | **–** | – |
| National Funeral Trust | **41.5** | 34.8 | **4.7** | 3.6 |
| Trust for Age UK Funeral Plans | **38.5** | 35.1 | **4.6** | 5.3 |
| Recent Trusts | **2.0** | 1.5 | **0.4** | 0.3 |
| Total | **82.3** | 71.7 | **9.7** | 9.2 |

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 | |
|---|---|---|
| | **2015 £m** | 2014 £m |
| Funeral services revenue | **40.0** | 32.1 |
| Pre-arranged funeral plans revenue | **29.0** | 28.0 |

In addition to the transactions recognised within revenue in the table above, there were £13.3 million (2014: £11.6 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.

### Average transaction amounts

The trustees have advised that the Trusts hold assets of approximately £2,500 (2014: £2,400) per active plan at the balance sheet date. On average the Group received approximately £2,450 (2014: £2,300) in the period for the performance of each funeral (including amounts to cover disbursements such as crematoria fees, ministers' fees and doctors' fees).

## 30 Contingent liabilities

### (a) Securitisation

BNY Mellon Corporate Trustee Services Limited in its capacity as Security Trustee of the New Notes has the following guarantees and charges:

- The Dignity (2002) Group have granted the Security Trustee fixed and floating charges over the assets and undertakings of the Dignity (2002) Group;(i)
- 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);
- The Guarantors(ii) 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;

# Notes to the financial statements continued

for the 52 week period ended 25 December 2015

### 30 Contingent liabilities (continued)

- 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(iii), 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(iv).

(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 25 December 2015, the amount outstanding in relation to these borrowings was £587.2 million (2014: £595.3 million).

### (b) Crematoria Acquisition Facility

As a consequence of the legal structure of the £15.8 million Crematoria Acquisition Facility:

- 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 and Dignity Crematoria No.2 Limited;
- Dignity (2008) Limited, Dignity Crematoria Limited and Dignity Crematoria No.2 Limited have granted NatWest fixed and floating charges over the assets and undertakings of each of Dignity (2008) Limited, Dignity Crematoria Limited, and Dignity Crematoria No.2 Limited; and
- Dignity plc have acted as guarantor in the event that Dignity (2008) Limited fails to pay interest due on the facility.

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

At 25 December 2015, the amount outstanding in relation to these borrowings was £15.8 million (2014: £15.8 million).

### 31 Related party transactions

There are no related party transactions for either period.

### 32 Post balance sheet events

The Group has acquired one funeral location since the balance sheet date.

# Dignity plc Company balance sheet

as at 25 December 2015

| | Note | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | C2 | **143.4** | 141.0 |
| **Current assets** | | | |
| Debtors | C3 | **207.9** | 160.7 |
| Cash at bank and in hand | | **46.3** | 32.4 |
| **Total current assets** | | **254.2** | 193.1 |
| **Creditors: amounts falling due within one year** | C4 | **(13.9)** | (12.7) |
| **Net current assets** | | **240.3** | 180.4 |
| **Total assets less current liabilities** | | **383.7** | 321.4 |
| **Net assets** | | **383.7** | 321.4 |
| **Capital and reserves** | | | |
| Called up share capital | C5 | **6.1** | 6.1 |
| Share premium account | C5 | **4.8** | 2.8 |
| Capital redemption reserve | C5 | **141.7** | 141.7 |
| Other reserves | C5 | **3.6** | 3.2 |
| Profit and loss account | C5 | **227.5** | 167.6 |
| **Total shareholders' funds** | C6 | **383.7** | 321.4 |

The financial statements on pages 109 to 115 were approved by the Board of Directors on 2 March 2016 and were signed on its behalf by:

**M K McCollum**
Chief Executive

**S L Whittern**
Finance Director

# Notes to the Dignity plc financial statements

for the 52 week period ended 25 December 2015

## C1 Principal accounting policies

### Basis of preparation

These financial statements are prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). A summary of the principal accounting policies, which have been consistently applied, is set out below.

In accordance with the concession granted under Section 408 of the Companies Act 2006, the profit and loss account 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 25 December 2015. For the comparative period, the Company's financial statements have been prepared for the 52 week period ended 26 December 2014.

Furthermore, the Company has taken advantage of the exemption provided within FRS 29, Financial Instruments and Disclosures, not to disclose details of any financial instruments held.

### 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 profit and loss account within operating profit. A reversal of an impairment loss is recognised in the profit and loss account to the extent that the original loss was recognised.

### 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 UITF 44 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 UITF 38, Accounting for ESOP Trusts and the substance of the transaction, the trust's assets and liabilities are recognised in the Company's balance sheet within share capital and reserves.

### 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.

## C2 Investments in subsidiary undertakings

| Cost and net book amount | £m |
|---|---|
| At beginning of period | 141.0 |
| Additions in respect of share-based payments | 2.4 |
| **At end of period** | **143.4** |

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 Debtors

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Amounts owed by group undertakings | **207.2** | 160.4 |
| Other debtors | **0.1** | 0.1 |
| Corporation tax | **0.6** | 0.2 |
| | **207.9** | 160.7 |

## C4 Creditors: amounts falling due within one year

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| Amounts owed to subsidiary undertakings | **13.4** | 12.4 |
| Accruals | **0.5** | 0.3 |
| | **13.9** | 12.7 |

## C5 Called up share capital and reserves

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| **Allotted and fully paid Equity shares** | | |
| 49,420,291 (2014: 49,170,180) Ordinary Shares of 12 48/143 pence (2014: 12 48/143 pence) each | **6.1** | 6.1 |

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.

| Reserves and share premium account | Share premium account £m | Capital redemption reserve £m | Other reserves £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|
| At beginning of period | 2.8 | 141.7 | 3.2 | 167.6 | 315.3 |
| Profit for the period | – | – | – | 69.9 | **69.9** |
| Effects of employee share options | – | – | 2.4 | – | **2.4** |
| Proceeds from share issue | 2.0 | – | – | – | **2.0** |
| Gift to Employee Benefit Trust | – | – | (2.0) | – | **(2.0)** |
| Dividends paid on Ordinary Shares | – | – | – | (10.0) | **(10.0)** |
| **At end of period** | **4.8** | **141.7** | **3.6** | **227.5** | **377.6** |

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 continued

for the 52 week period ended 25 December 2015

## C6 Reconciliation of movements in shareholders' funds

| | 25 December 2015 £m | 26 December 2014 £m |
|---|---|---|
| Profit for the period | **69.9** | 94.7 |
| Effects of employee share options | **2.4** | 2.0 |
| Proceeds from share issue | **2.0** | 2.2 |
| Gift to Employee Benefit Trust | **(2.0)** | (2.0) |
| Issue and redemption of B Shares in respect of Capital Option | **–** | (20.1) |
| Dividend in respect of Special Dividend Option | **–** | (44.3) |
| Dividends paid on Ordinary Shares | **(10.0)** | (9.8) |
| Net additions to shareholders' funds | **62.3** | 22.7 |
| Opening shareholders' funds | **321.4** | 298.7 |
| **Closing shareholders' funds** | **383.7** | 321.4 |

Amounts payable to the Group's auditors relating to the Company are included in note 5 of the Group financial statements and are not material to disclose separately.

## C7 Staff costs

### Directors' remuneration

The Directors are directors of the ultimate parent company, Dignity plc and details of their emoluments are included in pages 56 to 62. They received no emoluments in respect of their services to the Company (2014: nil).

## C8 Related party transactions

The Company has taken advantage of the exemption provided within FRS 8, Related Party Disclosures, not to disclose transactions with wholly owned subsidiary undertakings, whose voting rights are controlled within the Dignity plc group.

There are no other related party transactions for either period requiring disclosure.

## 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 2016

| Company name | Principal activity |
|---|---|
| Astley Funerals Limited | Funeral services |
| Dewi Reynolds & Sons Limited | Funeral services |
| Dignity Funerals No.4 Limited | Funeral services |
| F. J. Gibb Limited | Funeral services |
| Graham Sullivan Funeral Directors Limited | Funeral services |
| H Johnson & Sons Limited | Funeral services |
| Mahony & Ward Limited | Funeral services |
| T J Brown & Sons Limited | Funeral services |
| Arthur J. Nash Limited | Intermediate holding company |
| F. Jennings & Sons Limited | Intermediate holding company |
| F. M. & J. Wait & Co Limited | Intermediate holding company |
| K. Y. Green Limited | Intermediate holding company |
| W H Scott & Son Limited | Intermediate holding company |

# Notes to the Dignity plc financial statements continued

for the 52 week period ended 25 December 2015

## C9 Subsidiary undertakings (continued)

### Dormant companies

A & N Duckworth Limited
A Ashton & Sons Limited
A Bennett & Sons Limited
A F Townsend (Funeral Directors) Limited
A Hazel & Sons Limited
A Shepherd & Sons Limited
A T Genders Limited
A V Band Limited
A. Haxby & Sons (Filey) Limited
Abbey Funeral Service Limited
Adela Funeral Homes Limited
Anglian Funeral Service Limited
Armitage (Funeral Directors) Limited
Arthur Denyer Limited
Arthur G Whitehead (Westminster) Limited
Ashton & Ebbutt Limited
Ashton Ebbutt Holdings Limited
Ashton Memorials Limited
Ashtons (Brighton) Limited
Associated Funeral Services Limited

B & B Funeral Directors Limited
B. Bernard & Sons Limited
Baguley Bros. Limited
Banks Funeral Service Limited
Birmingham Crematorium (1973) Limited
Boyce Anderson Motors Limited
Bracher Brothers Limited
Brighton Stonemasons Limited
Broadwater Limousines Limited
Broomco (2013) Limited

C Powell Funeral Service Limited
Caledonian Funeral Services Limited
Carrwood Funeral Supplies Limited
Castle Court Funeral & Limousine Services Limited
Chichester Crematorium Limited
Chosen Heritage (Scotland) Limited
Chosen Heritage Limited
Chosen Heritage Services Limited
Clegg Humphreys Limited
Cooksey & Son Limited
Cooksley & Son Limited
Coombes & Sons (Bovey Tracey) Limited
Counties Crematorium Limited
Coyne Brothers Limited
Cumbernauld Funeral Services Ltd
Cyril H. Lovegrove Limited

D J Thomas (Funeral Directors) Limited
D. J. Evans Forse & Co Limited
D. Walsh & Son Limited
Daly & Company Limited
David B Hendry Limited
David Silvey & Son Limited
Davis McMullan Funeral Directors Limited
Derriman & Haynes Funeral Services Limited
Dignity (2009) Limited
Dignity Caring Funeral Services Limited
Dignity Funerals No.2 Limited
Dignity In Destiny Limited
Dignity Legal Services Limited
Dignity Manufacturing Limited
Dillistone Funeral Service Limited
Docklands Funeral Services Limited
Dottridge Brothers Limited
Downer & White Limited
Downs Crematorium Limited
Dowsett & Jenkins Limited
Dundee Crematorium Limited
Dunning (Undertaking) Limited
Dyson Richards Limited

E Hurton & Son Limited
E M Lander Limited
E Seymour & Son Limited
E. Brigham Funeral Directors Limited
E. F. Edwards Limited
E. Finch & Sons Limited
Earl Of Plymouth Limited
Eden Park Estate Limited
Edmund & Lewis Limited
Edward Lewis Wicks & Sons Limited
Ely Funeral Service Limited
Ever 1324 Limited
Ever 1326 Limited
Ever 1327 Limited
Exeter & Devon Crematorium Limited

F L Mildred & Sons (Funeral Directors) Limited
F. Kneeshaw & Sons (Funeral Directors) Limited
F. E. J. Green & Sons Limited
F. G. Pymm (Funeral Directors) Limited
F. Harrison & Son (Funeral Directors) Limited
F. Smith & Son (Staines) Limited
Family Funeral Services Limited
Farebrother Funeral Services Limited
Fisher & Townsend (Funeral Directors) Limited
Flowers By Design Limited
Ford Ennals Funeral Services Limited
Forethought Limited
Francis Chappel & Sons Limited
Frank Stephenson & Son (Funeral Directors) Limited
Frederick W Chitty & Co Limited
Fredk. W. Paine Limited
Funeral Debt Collection Limited
Funeral Services London Limited

G. M. Charlesworth & Son Limited
G. F. Cook (Funerals) Limited
G. F. Hunt (Bath) Limited
G. Gamble & Son Limited
G. Smith (Wooburn) Limited
George Hall & Son Funeral Directors Limited
George S. Munn & Company, Limited
George Stanton (1935) Limited
Gerald Martin Funeral Directors Limited
Ginns & Gutteridge Limited
Gornalls Funeral Services Limited
Grave Design Limited
Great Southern Group Limited
Grimmett & Timms Limited

H & G Wilde Funeral Directors Limited
H A Harrold & Son Limited
H J Dawson Limited
H J Phillips & Son (Funeral Directors) Limited
H Leslie Humphreys Limited
H Tonkin Limited
H. J. Whalley & Sons Limited
H. Towell Ltd
H. Copeland & Son Limited
H. Dorricott & J. Bent Limited
H. G. Brown & Sanders Limited
H. Hill Funeral Service Limited
H. R. H. Holdings Limited
Hambrook & Johns Limited
Hanningtons (Funeral Directors) Limited
Hardacres Funeral Directors Limited
Harry Williams & Sons (Cambridge) Limited
Heighton & Son Limited
Hemley Funeral Service Limited
Henry Naylor (Funeral Directors) Limited
Henry Paul Limited
Henry Smith (Wandsworth) Limited
Highfield Funeral Service Limited
Hindu Funeral Service Limited
Hodgson Holdings (Scotland) Limited
Hodgson Holdings Limited
Holdfast (Funerals) Limited
Howard Jenkins (Edge Hill) Limited
Hunters Funeral Directors Limited

Ian Clarke Funeral Service Limited
Ingall Services Limited
Invicta Memorials Limited

J H Kenyon Limited
J H Raven Limited
J Kynaston Limited
J Steadman & Sons Limited
J. W. Tate & Son (Holdings) Limited
J. W. Tate & Son Limited
Jack Lee & Sons Limited
James Allen & Son (Disley) Limited
James Crook Limited
John & William Shering Limited
John Bardgett & Sons Limited
John G Ashton & Co (Funeral Directors) Limited
Johnson Funeral Supplies Limited
Johnson-Sears Limited
Jonathan Harvey Limited
Joseph Swift (Funeral Director) Limited
Joseph Tomlinson & Sons Limited
Joslin Memorials (1974) Limited

Kellaways (Funeral Service) Limited
Ken Gregory & Sons Limited
Kent Funeral Supplies Limited
Kenyon Air Transportation Limited
Kenyon Emergency Services Limited
Kenyon Repatriation Limited
Kenyon Securities Limited
Kenyons Funeral Directors Limited
Kirkwoods (Funeral Directors) Limited

L Fulcher Limited
L J Clegg Limited
Lambeth & Brixton Community Funeral Services Limited
Lambeth Funeral Services Limited
Lea Valley Funeral Services Limited
Leeds Limousines Limited
Leehope Services Limited
London Necropolis Company Limited
Longhurst (Undertakers) Limited
Lowden Wells Limited

## C9 Subsidiary undertakings (continued)

**Dormant companies** continued

MacIntosh & Steven Limited
Malcolm J Presland Limited
Mannerings Limited
Mathias's of Putney Limited
Maxwell Bros. Limited
Meadow Pool Limited
Mews & Yeatmans Limited
Mid Sussex Funeral Services Limited
Middleton & Wood (1919) Limited
Monumental Masons Limited
Moodys Funeral Directors Limited
Moray Crematorium Holdings Limited
Moray Crematorium Limited
Morecambe & Heysham Funeral Service Limited

N A Medd Limited
National Funeral Trust Limited
Newport Hire (I.W.) Limited
Newsome's Funeral Service (Royston) Limited
Norfolk Crematorium Limited
Northampton Crematorium Limited
Norwich Crematorium Holdings Limited
Norwich Crematorium Limited

Oxford Crematorium Limited

Patrick Stonemasons Limited
Personal Choice Funeral Plan Limited
PFG Hodgson Kenyon (Services) Limited
PFG Hodgson Kenyon (UK) Limited
PFG Hodgson Kenyon Limited
Philip Ford & Son (Funeral Directors) Limited
Phillips Funeral Plans Limited
Phillips Funeral Services Limited
Phillips Holdings (Hertfordshire) Limited
Phillips Supplies Limited
Piccioni (Masonry) Limited
Plantsbrook Group Limited
Plantsbrook Limited
Preston Ireland Bowker Limited
Priestley & Cockett Limited

R Butler & Sons Limited
R C Holden & Son Limited
R Garner Son & Wood Limited
R. Davies & Son Limited
R. S. Johnson & Sons Limited
R. S. Scott (Funerals) Limited

Ravenhill Funeral Services Limited
Remembrance Limited
Robemanor Limited
Roberts & Brain Limited
Romney Marsh Funeral Services Limited
Rosspark Limited

S A Bates & Sons Limited
S Wellens & Sons Limited
Saftway Limited
Salenew Limited
Sanders Goodale & Co. Limited
SCI Pre Arrangement Limited
Seaford Funeral Service Limited
Seddons of Southport Limited
Selim Smith & Co. Limited
Serenity Limited
Shankill Funeral Services Limited
Silver Lady Funeral Service Limited
Simplicity Funerals Limited
Simpsons (Undertakers Requisites) Limited
Stanway & Garnett Funeral Service Limited
Swift & Mildred Limited

T & R O'Brien Limited
T H Fenton Limited
T S Annison & Sons Limited
T. S. Horlock & Son Limited
T. H. Sanders & Higgs Limited
T. H. Sanders & Sons Limited
T. J. Davies & Sons (Funeral Directors) Limited
Taylors Funerals (Wirral) Limited
The Crematorium Company Limited
The Dignity Plan Limited
The East Riding Crematorium Company Limited
The Haltemprice Crematorium Limited
The Lawrence Funeral Service Limited
The Leverton Funeral Service (Dartford) Limited
The South London & Southern Counties Cremation Society Limited
The South London Crematorium Co Limited
The Titford Funeral Service Limited
Thomas Brothers (Wellington and Taunton) Limited
Thompsons (Busbys) Limited
Thompsons (Funeral Furnishers) Limited
Thompsons (Maguires) Limited
Thompsons (Rimmers) Limited
Tovey & Morris Limited

U. F. D. Limited
UK Funerals Limited
UKF Limited

W G Dixon Limited
W G Rathbone Funeral Directors Limited
W S Bond Limited
W S Harrison & Son Limited
W Thorp & Sons (Leigh-on-Sea) Limited
W. E. Turner (Funeral Furnishers) Limited
W. Garstin & Sons Limited
Walmsley Hammond (Rayleigh) Limited
Warburton Funerals Limited
Wetton Funeral Services Limited
White Lady Funerals Limited
Whyte Funeral Services Limited
William Pearce & Son Limited
Wilmshurst & Dickson Limited
Woodfield Park Funeral Home Limited

Yew Holdings Limited

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 noted except for Pitcher & Le Quesne Limited where 99 per cent is owned.

# Financial record*

## Summarised consolidated income statement

| | 2015 £m | 2014 £m | 2013 £m | 2012 £m | 2011 £m |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Funeral services | **212.6** | 184.4 | 176.2 | 157.9 | 146.5 |
| Crematoria | **63.1** | 55.2 | 53.8 | 46.6 | 41.6 |
| Pre-arranged funeral plans | **29.6** | 29.3 | 26.7 | 25.1 | 22.0 |
| | **305.3** | 268.9 | 256.7 | 229.6 | 210.1 |
| Underlying operating profit | | | | | |
| Funeral services | **76.8** | 66.3 | 60.8 | 54.2 | 50.8 |
| Crematoria | **34.6** | 29.1 | 27.4 | 23.3 | 21.3 |
| Pre-arranged funeral plans | **7.8** | 7.4 | 6.7 | 6.5 | 5.5 |
| Central overheads | **(20.5)** | (17.9) | (16.5) | (14.6) | (13.1) |
| | **98.7** | 84.9 | 78.4 | 69.4 | 64.5 |
| Underlying finance costs | **(27.0)** | (30.6) | (28.9) | (25.8) | (25.9) |
| Finance income | **0.5** | 4.2 | 3.4 | 2.5 | 3.0 |
| Underlying profit before tax | **72.2** | 58.5 | 52.9 | 46.1 | 41.6 |
| Taxation | **(15.5)** | (13.1) | (12.9) | (11.7) | (11.4) |
| Underlying profit after tax | **56.7** | 45.4 | 40.0 | 34.4 | 30.2 |
| Underlying earnings per share (pence) | **114.8p** | 85.8p | 72.1p | 62.8p | 55.1p |
| Operating profit | **95.5** | 82.9 | 75.1 | 68.7 | 63.2 |
| Profit/(loss) after tax | **56.9** | (55.0) | 40.4 | 35.7 | 34.3 |
| Basic earnings per share (pence) | **115.2p** | (104.0p) | 72.8p | 65.1p | 62.6p |

## Key performance indicators

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Total estimated number of deaths in Britain (number) | **588,000** | 550,000 | 560,000 | 551,000 | 539,000 |
| Number of funerals performed (number) | **73,500** | 65,600 | 68,000 | 63,200 | 62,300 |
| Funeral market share** (per cent) | **12.3%** | 11.7% | 11.9% | 11.2% | 11.3% |
| Number of cremations performed (number) | **57,700** | 53,400 | 55,500 | 50,500 | 47,600 |
| Crematoria market share (per cent) | **9.8%** | 9.7% | 9.9% | 9.2% | 8.8% |
| Active pre-arranged funeral plans (number) | **374,000** | 348,000 | 323,000 | 290,000 | 265,000 |
| Cash generated from operations (£million) | **125.2** | 104.4 | 94.2 | 83.3 | 74.2 |

## Net debt

| | 2015 £m | 2014 £m | 2013 £m | 2012 £m | 2011 £m |
|---|---|---|---|---|---|
| Net amounts owing on Old Notes per financial statements | **–** | – | (403.0) | (318.9) | (323.3) |
| Net amounts owing on New Notes per financial statements | **(586.5)** | (594.6) | – | – | – |
| Add: unamortised issue costs – Old Notes | **–** | – | (16.3) | (14.6) | (16.2) |
| Add: unamortised issue costs – New Notes | **(0.7)** | (0.7) | – | – | – |
| Gross amounts owing on Secured Notes per financial statements | **(587.2)** | (595.3) | (419.3) | (333.5) | (339.5) |
| Net amounts owing on Crematoria Acquisition Facility per financial statements | **(15.7)** | (15.6) | (15.6) | (10.0) | (9.9) |
| Add: unamortised issue costs on Crematoria Acquisition Facility | **(0.1)** | (0.2) | (0.2) | – | (0.1) |
| Gross amounts owing | **(603.0)** | (611.1) | (435.1) | (343.5) | (349.5) |
| Accrued interest on Old Notes | **–** | – | (14.3) | (11.6) | – |
| Accrued interest on New Notes | **(12.8)** | (5.7) | – | – | – |
| Accrued interest on Crematoria Acquisition Facility | **(0.1)** | – | – | (0.1) | (0.1) |
| Cash and cash equivalents | **98.8** | 86.5 | 79.3 | 55.6 | 36.9 |
| Net debt | **(517.1)** | (530.3) | (370.1) | (299.6) | (312.7) |

## Summarised consolidated balance sheet

| | 2015 £m | 2014 £m | 2013 £m | 2012 £m | 2011 £m |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Goodwill and intangible assets | **328.2** | 276.5 | 250.4 | 204.5 | 194.3 |
| Property, plant and equipment | **200.6** | 192.3 | 183.6 | 157.1 | 147.6 |
| Financial and other assets | **10.3** | 10.4 | 12.7 | 12.6 | 12.6 |
| Retirement benefit asset | **–** | – | – | 0.1 | 1.3 |
| | **539.1** | 479.2 | 446.7 | 374.3 | 355.8 |
| **Current assets** | | | | | |
| Cash and cash equivalents – excluding collateralisation of Liquidity Facility | **98.8** | 86.5 | 79.3 | 55.6 | 36.9 |
| Cash and cash equivalents – collateralisation of Liquidity Facility | **–** | – | 63.0 | – | – |
| Cash and cash equivalents | **98.8** | 86.5 | 142.3 | 55.6 | 36.9 |
| Other current assets | **38.3** | 36.5 | 34.4 | 32.1 | 30.5 |
| | **137.1** | 123.0 | 176.7 | 87.7 | 67.4 |
| **Total assets** | **676.2** | 602.2 | 623.4 | 462.0 | 423.2 |
| Current liabilities | **82.7** | 60.6 | 143.6 | 76.9 | 45.6 |
| Non-current liabilities | **637.4** | 634.1 | 437.6 | 340.5 | 360.4 |
| **Total liabilities** | **720.1** | 694.7 | 581.2 | 417.4 | 406.0 |
| Equity attributable to shareholders | **(43.9)** | (92.5) | 42.2 | 44.6 | 17.2 |
| **Total equity and liabilities** | **676.2** | 602.2 | 623.4 | 462.0 | 423.2 |

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.

# Shareholder information

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

## 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 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 if calling from within the UK, or +44 (0) 121 415 7047 if calling from outside the UK, or by fax on 0371 384 2100 if faxing from within the UK, or +44 (0) 190 383 3113 if faxing from outside the UK.

## Shareholder communications

Shareholder documents are only sent in paper format to shareholders who have elected to receive documents in this way. This approach enables the Company to reduce printing and distribution costs and its impact on the environment. 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.dignityfuneralsplc.co.uk. Shareholders may also choose to receive this notification via e-mail with a link to the relevant page on the website.

Shareholders who wish to receive e-mail notification should register online at www.shareview.co.uk click on 'Register' 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.dignityfuneralsplc.co.uk.

## 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.

## Annual General Meeting

The Company's Annual General Meeting will be held on 9 June 2016, at 11.00am at DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham, West Midlands, B2 4DL.

# Contact details and advisers

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E-mail: enquiries@dignityuk.co.uk
www.dignityfuneralsplc.co.uk

**Company Secretary:**
Richard Portman FCA

**Registered Number:**
4569346

**Registrars:**
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**Joint Brokers:**
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One New Change
London EC4M 9AF

Investec
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London EC2V 7QP

**Principal Bankers:**
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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

| | |
|---|---|
| **2 March 2016** | Preliminary announcement of 2015 results |
| **9 June 2016** | Annual General Meeting |
| **24 June 2016** | 2016 financial half year end |
| **24 June 2016 (subject to shareholder approval)** | Payment of 2015 final dividend |
| **27 July 2016 (provisional)** | Announcement of interim results |
| **28 October 2016 (provisional)** | Payment of 2016 interim dividend |
| **30 December 2016** | Financial period end |


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