

**Delivering excellent  
client service and  
creating long-term  
sustainable value**

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# A strong and sustainable business

## Delivering excellent client service

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.

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 30 December 2016 Dignity owned 792 funeral locations and operated 44 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.

This report demonstrates how our **clear and consistent strategy, strong governance, dedicated people and financial performance** combine to create and sustain value for all our stakeholders – our clients, employees, shareholders and the local communities we serve.

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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.



#### Stay informed

Find out more about Dignity and the latest financial information, results, presentations, reports and shareholder services or to view and download a pdf version of the 2016 Annual Report:

 [www.dignityfuneralsplc.co.uk](http://www.dignityfuneralsplc.co.uk)



Download  
2016 Annual  
Report.

## Key financial highlights

### Generating consistent returns

We have delivered a strong performance in 2016 along with consistent returns and sustained growth since flotation. Our continued success can also be measured by our high levels of client satisfaction and a continued commitment to excellent client service.

#### Strong cash generation

Our disciplined approach to cash, cost and capital has strengthened our balance sheet and allowed us to invest in the business both organically and through acquisitions.



#### Progressive dividend

Final dividend of 15.74 pence proposed, continuing the 10 per cent annual growth in the dividend per share.



#### Return of cash

£356.2 million returned to shareholders since flotation.



This summary booklet demonstrates how we are

## Creating long-term sustainable value

STRENGTH · STABILITY · GROWTH



### 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 every day.

Our clients are the foundation of our business and their trust is earned through our actions both individually and as a group. Our priorities and our success are determined by our impact on them.

We have built a strong reputation for consistently delivering excellent client service, enabling us to build long-term relationships and a well respected brand. We know that our clients value this which is why they continue to return and recommend us.

**98.8%**

98.8 per cent of families in the 2016 funeral services client survey said that Dignity met or exceeded their expectations.

View booklet



Close booklet



Print booklet



Print report



## Our history and purpose

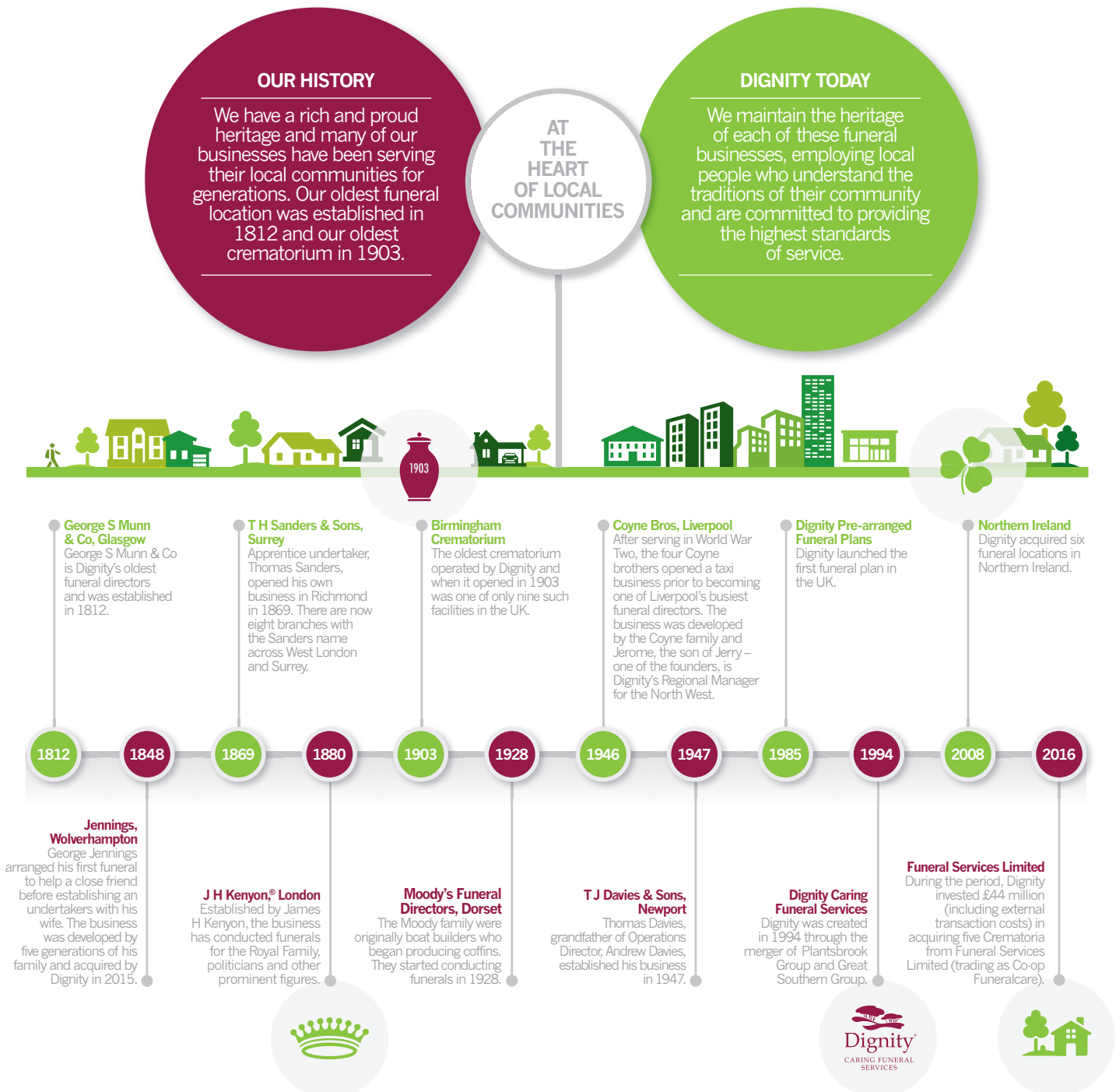
Dignity is one of the leading providers of funeral related services in the UK with strong business foundations.

**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.

**Although the local communities we serve have evolved throughout our history, our core purpose has remained the same.**

**As an industry leader working at the heart of local communities, we are well positioned to meet the needs of our clients for generations to come.**



## A strong core business

**3,000+**



Our people come from the towns and cities they serve or families that have been in the funeral profession for generations.

**792 Locations**



We operate a network of 792 funeral locations throughout the UK, generally trading under established local names.

**44 Crematoria**



We operate 44 crematoria in England and Scotland.

**743,000**



We have already helped more than 743,000 people plan for their funeral in advance.

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

### 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 2016

At 30 December 2016, we operated a network of 792 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 2016, Dignity conducted 70,700 funerals which represented approximately 11.8 per cent of total estimated deaths in Britain.

Read more about our performance in the Operating review: **p.16 and p.17**

**£217.8m**   **£79.0m**

Revenue

Underlying operating profit

**70,700**

Number of funerals conducted during 2016.

### 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 2016

At 30 December 2016, we operated 44 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 2016, we carried out 59,500 cremations representing 10.1 per cent of total estimated deaths in Britain.

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

**£67.5m**   **£37.6m**

Revenue

Underlying operating profit

**59,500**

Number of cremations conducted during 2016.

### 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 2016

At 30 December 2016, the number of active funeral plans increased to 404,000.

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 to p.22**

**£28.3m**   **£8.5m**

Revenue

Underlying operating profit

**404,000**

Number of active funeral plans as at 30 December 2016.

**Dignity continues to make excellent progress in growing and strengthening our business in line with our strategic objectives.**

#### Links

- Find out more about our strategy and business model: **p.08 and p.09**
- Find out more about our business operations, actions and progress: **p.16 to p.22**

## From the Chairman

Dignity's continued success is testament to our consistent focus and the dedication of our people.



Peter Hindley, Chairman

### Summary

- Consistent performance; a stable, predictable, cash generative business.
- Underlying operating profit up three per cent.
- Dividend per share increased by 10 per cent again.

+4%



**Underlying earnings per share** up 4% to 119.8 pence (2015: 114.8 pence).

15.74p



**Final dividend** of 15.74 pence, continuing the 10% annual growth in the dividend per share.

### 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.63

### Overview

2016 has been another successful year for the Group, with good financial performance and continued development of our network of locations.

In the last couple of years, Dignity has witnessed some notable changes. Firstly, the number of deaths increased significantly in 2015 and then continued to remain much higher than anticipated in 2016, helping us deliver stronger than expected financial performance in the last two years. Secondly, competition has continued to increase, particularly in funerals and pre-arranged funeral plans. These industries are unregulated which has encouraged new entrants. We are also seeing a number of businesses offering digital services in the funeral market.

We are tackling these changes head on. We continue to seek regulation of our markets, arguing that minimum standards of care should apply in funeral locations and for better regulation of pre-arranged plans. We are also seeking to develop our web presence in ways to help market our services, but also to help the level of service we provide our clients. Finally, we are introducing new, more affordable services that will appeal to customers we would not normally expect to be able to help. These efforts are the start of a multi year journey for us and we will update our stakeholders on how these efforts have

helped the business, as all of these areas represent opportunities for us given our scale and existing standard of facilities.

### Dividends

The Board is proposing a final dividend of 15.74 pence per Ordinary Share, bringing the total dividend for the year to 23.59 pence; another increase of 10 per cent on the previous year.

If shareholders approve this payment at the Annual General Meeting ('AGM') on 8 June 2017, then it will be paid on 30 June 2017 to members on the register at close of business on 19 May 2017.

### Governance and the Board

As a board, we are committed to maintaining our high standards of corporate governance. The Board continues to focus not only on what we deliver as a business, but also how we deliver. Ensuring that there is a high level of cultural integrity embedded within the way we operate is a key part of what we deliver as a business and how we deliver, as is our ability to drive sustainable performance and meaningful stakeholder value.

The composition of the Board has been stable, with one planned change to address succession planning. As already announced, Martin Pexton has left the Board and been replaced by Mary McNamara. I would like to thank Martin for his contribution to the Group and I am delighted to welcome Mary to the Board.

### Our people

As in previous years we have made a discretionary bonus payment to our employees, this year equating to £1,200 per full time employee. We have also decided to embed this amount in all employees' future pay rather than continue to treat it as a discretionary bonus. Therefore all employees have received a flat £1,200 pay increase (pro rated for part time employees) in January 2017. All other things being equal, the Group does not as a consequence anticipate making a discretionary bonus payment to staff in respect of 2017's performance. This salary increase applied across the business, including managers and Executive Directors alike.

### Outlook for 2017 and beyond

The number of deaths has been higher in 2016 than the Group originally anticipated following a significant increase in the number of deaths in 2015. Historical data would suggest that deaths in 2017 could be significantly lower than 2015 and 2016. Trading in the first few weeks of 2017 has however continued to be strong. As a result, the Board's financial expectations are unchanged for the year ahead.

The Board remains positive about the future prospects for the Group. However, given the increased size of the Group and increasing competition in each of our markets the Board has revised its medium-term target underlying EPS growth rate to eight per cent per annum from the current 10 per cent. As with the previous target, this objective includes the benefit of the reinvestment of cash generated by the business and the Group's ability to re-leverage its balance sheet either to fund acquisitions or return capital to shareholders.

### Creating value responsibly



Ensuring that there is a high level of cultural integrity embedded within the way we operate is a key part of what we deliver as a business and how we deliver, as is our ability to drive sustainable performance and meaningful stakeholder value.

### Acting with integrity to make a difference

- Helping families at a very difficult time remains our core purpose. We also aim to support the communities in which we operate and we are proud of the positive role that our operations and people play in society every day, whether this is through job creation and promoting good business practice, or supporting local charities and community organisations.

## Chief Executive's overview

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



Mike McCollum, Chief Executive

#### Performance in 2016

- Strong cost control.
- Core portfolio continues to deliver growth.
- Invested in the business where appropriate.
- Acquisitions add further value.

## 98.8%

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

#### Links

- ➔ See Market overview: p.06 and p.07
- ➔ See Strategy and business model: p.08 and p.09
- ➔ See Operating review: p.16 to p.22

#### Overview

A year ago, we described an extraordinary period in 2015, with the number of deaths increasing by seven per cent to 588,000. We noted that it was likely this sharp increase would normalise in 2016, but this has not been the case. Reported deaths were slightly higher than 2015 at 590,000. Allowing for the fact that 2016 represents a 53 week period for the Group, means that even on a 52 week comparable basis, deaths were only approximately two per cent lower in the period. This has enabled us to grow profits year on year and outperform expectations despite some headwinds experienced by the business.

The performance reflects a larger market share loss in our core business than seen before, combined with additional costs incurred to support the business. The market share decline follows stronger market share than expected in 2015. 2017 has started well but we continue to keep this under review.

We expect 2017 to be a year where we develop the business further in response to the changing environment in which we operate. For example, we have engaged with the reviews into funeral services by the Scottish and Westminster parliaments, arguing for regulation of funeral services and pre-arranged funeral plans. We are also working hard on introducing new digital services. The first such example is

the launch of Simplicity Cremations, a nationally available, online, affordable direct cremation service (where there is no traditional funeral service, simply the collection and unwitnessed cremation of the deceased and then return of the ashes). This does not replace the full service, traditional funeral that we provide, but rather provides families with a lower cost simple option. The market for this service is currently small but given our significant national networks of funeral locations and crematoria we are able to offer this service in a more comprehensive and cost effective way than other operators.

#### Corporate activity

The business invested £56.3 million on acquisitions in the period, including £41.1 million (excluding external transaction costs) to acquire five crematoria locations from Funeral Services Limited (trading as Co-op Funeralcare) (the 'Crematoria Acquisition'). This was an unexpected opportunity for the Group and one we were able to quickly respond to thanks to our strong balance sheet and detailed understanding of the market. The Crematoria Acquisition generated £1.0 million of operating profit in the period, in line with expectations.

We have also seen further developments in our plan to build new crematoria. An update on this is described in the Operating Review.

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

We continue to set aside resources to invest in our existing funeral and crematoria locations. We have increased the staffing of our property team in the year to manage our estate and associated capital expenditure more efficiently and to create additional recourse for finding funeral satellite locations and crematorium sites. This should help to free local management time so that they can further focus on delivering excellent client service.

#### Long-term focus drives strong performance

The business has yet again demonstrated its robustness and is well placed for the future. We hope to achieve our revised medium-term target of eight 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.

We will also need to ensure the high standards Dignity operates at are properly understood by all stakeholders; particularly given continued political and media interest in the sector and our ongoing support for better regulation of the industries in which we operate.

#### Driving sustainable performance



Our objective is to lead the funeral sector in professional standards and service. I believe we do this and that we continue to improve. Our clients value this which is why they return to us and recommend us, allowing us to report strong financial results.

#### Differentiating through service quality and consistency

- The results of our funeral service surveys continue to demonstrate the strength and quality of our people and operations.
- High levels of client satisfaction help us to build trust and maintain loyalty to our brand and services and develop strong relationships with both returning and new clients.
- Strategic and effective management of our resources and relationships is vital in ensuring the sustainability of our business.

#### Sustainability and continuity

- Our clear and consistent strategy remains focused on the principle that by operating with the best people and practices, we will continue to deliver outstanding service to our clients and generate sustained value for all our stakeholders.
- Our strong capital management underpins our ability to enhance our operations and services through: continuous improvement; investment in steady organic and acquired growth; and further strategic development.

## Market overview

### The UK funeral market and our strong position within it.

#### The funeral sector

- 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.

#### 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 of the market and key trends shaping the sector

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 circa 70 per cent owned by local authorities. It is estimated that three quarters of all funerals result in a cremation with the remainder being burials.

#### Regulation and licencing

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.

Legislative changes by the Scottish Government were enacted in 2016. This provides them with the powers to regulate the funeral industry and they are currently recruiting an Inspector of Funerals. Dignity welcomes this progress and has been party to initial discussions about the pending regulations. Dignity anticipates making further contributions to the discussion on the service standards required within the regulations to be introduced.

Crematoria are subject to environmental regulations in accordance with "The Secretary of States Guidance Notes for Crematoria – PG5/2(12)", with emission levels being monitored by Environmental

Health Officers in England and Wales and Scottish Environment Protection Agency in Scotland. The abatement of mercury emissions has improved the environmental position with Dignity exceeding the current legislation of 50 per cent abatement.

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.

Dignity also welcomes proposed changes to the Funeral Planning Authority ('FPA'), who act as a self regulatory body for the sale of pre-arranged funeral plans. As we understand them the changes will remove provider representation from the Board of the FPA and make them independent of those selling plans. Assuming the changes are implemented, registration with the FPA and compliance with its requirements will help to provide further comfort to customers as to the quality of the plan they are buying.

#### 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 53 weeks in 2016 was 590,000 compared to 588,000 for the 52 week period in 2015. 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 low of 539,000 in 2011, the last five years have seen deaths above that level.

#### Competitive environment

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.

Whilst we believe 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 long-term increases in the number of deaths, reaching approximately 700,000 by 2040. Deaths have been elevated in the last few years. Whether this marks the start of this longer-term trend or a temporary anomaly is too early to conclude.

### Our strategic response to factors influencing the funeral sector

#### Funeral affordability

We understand the needs and challenges our clients face such as price, affordability and choice balanced with quality of standards of service and care. We address this by being professional, open and transparent in how we act and by providing options and services that meet them effectively.

#### Government and regulatory policy change

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

The Group already operates at a very high standard using facilities appropriate for the dignified care of the deceased.

#### Our position and why our clients choose us

Our professional advice to the communities we serve remains to choose a funeral director on standards, service and facilities as well as cost. Every day we provide our clients with industry leading services they rely on. We constantly focus on building and enhancing our reputation through continuous improvement to deliver services that our clients value.



**Delivering on our promises**

**Developing full potential**

**Doing the right thing**

**As an industry leader:**

- We set the highest standards;
- We listen, understand and respond; and
- We strive for continuous improvement to meet and exceed expectations.

- We invest in our people;
- We embrace diversity and inclusion; and
- We manage the business for the long-term.

- We put safety first;
- We act ethically and with integrity; and
- We care about our communities.

**Links**

- ➔ See Strategy and business model: **p.08 and p.09**
- ➔ See Our KPIs: **p.10 to p.12**
- ➔ See The Client Survey performance: **p.13**
- ➔ See Operating review: **p.16 to p.22**

**Focused on services that make a difference to our clients and maintain our strong market position**

**OUR STRENGTHS**

**Dignity's funeral market share**

**11.8%** (2015: 12.3%)

**Funeral services:**

Dignity has approximately 11.8 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.

**MEETING OUR CLIENTS' NEEDS**

**How are we doing this:**

- In today's digitally enabled and data rich world it is essential that we equip our people with the latest technology and tools to support their activities and the services we provide to our clients.
- Enabled by technology, we are evolving our presence online, providing clients with on demand information when and how they need it.



**Dignity's crematoria market share**

**10.1%** (2015: 9.8%)

**Crematoria:**

With 44 crematoria, Dignity is the largest single operator in Britain. The cremations performed represent approximately 10.1 per cent of deaths in Britain. There is still significant scope to expand through acquisition or new builds where possible.

**How are we doing this:**

- Our facilities continue to offer respectful ways to memorialise loved ones in peaceful settings.
- We use technology to enhance music choices available at services, given increasingly varied choices by families.

**Number of active pre-arranged funeral plans**

**404,000** (2015: 374,000)

**Pre-arranged funeral plans:**

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.

**How are we doing this:**

- We continue to review the plans offered to customers to ensure they are appropriate to their needs.

**The ways we connect with our clients**

We are in an era that is increasingly defined by digital technology, but one in which personal face-to-face service will continue to be of critical importance.

The impact of digital technology has now become a mainstream factor in every day life and clients interact with us in multiple ways, using various channels and it is a key part of our development to recognise and respond to these trends.



**Market trends and client insights**

One of our key strengths is that we focus solely on the funeral sector. This enables us to continually monitor evolving market trends to ensure we continue to improve and meet our clients' needs and preferences and helps us to anticipate and respond to developments and opportunities.

**84%**

Reputation, recommendation and previous experience, together with pre-arranged funerals represent 84 per cent of the Group's business.

This has been broadly constant for the last 10 years.

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**



## Strategy and business model

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

### A consistent strategy and focus

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 objective is to lead the funeral sector in professional standards and service; acting responsibly in all our relationships and playing a positive role in the local communities we serve.

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

#### EXCELLENT CLIENT SERVICE

Ensuring the highest levels of client service:

- 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.

**Continued focus:**

- Quality and consistency of service delivery remains our focus. Building strong relationships with our clients and aligning strategically with their needs is critical to broadening and deepening the level of value we provide and supporting our growth ambitions.

#### PEOPLE AND EXPERTISE

Recruiting, developing and retaining the best people:

- 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.

**Continued focus:**

- The high number of long service employees is testament to the strength of our unique Dignity culture.

#### A STRONG CORE PORTFOLIO

**Funeral services**

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

**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.

**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.

**Continued focus:**

- We invest significantly in our existing business, striving to ensure it is one of the highest standard, both in client facing areas and behind the scenes. We also seek to invest in new business that will help Dignity grow and create value.
- We remain a significant provider of pre-arranged funeral plans and continue to work with our established partners and develop new partnerships to sell plans efficiently.

#### STRONG CAPITAL MANAGEMENT

Delivering long-term shareholder returns:

- 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.

**Continued focus:**

- We remain cash generative which, together with our continued focus on costs, places us in a strong position to invest for further growth and enhance shareholder value.

### A STRONG PLATFORM DRIVING GROWTH AND DELIVERING LONG-TERM VALUE

#### STRENGTH

Staying focused on leveraging our competitive strengths and consistently delivering excellent client service.

**Drives enduring demand for our products and services.**

#### STABILITY

Maintaining our strong position in a stable industry with opportunities to acquire market share.

**Supports our long-term growth objectives.**

#### GROWTH

Managing the business to deliver strong EPS growth, cash flow and return on capital.

**Delivers long-term sustainable value.**

# The consistent returns we generate for our shareholders creates value and benefits all our stakeholders.

## Links

- Find out more about our KPIs and how we measure performance: **p.10 to p.12**
- Find out more about how we manage and mitigate risk: **p.27 to p.31**
- Find out more about our CSR commitments: **p.32 to p.36**
- Find out about our governance framework within which we conduct our business and deliver our strategic objectives: **p.38 and p.39**

## A robust and sustainable business model



### 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 group.
- Our people are our most important asset and we value and invest in them as they are integral to the delivery of our strategic objectives.
- For shareholders, our priority is to 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.

## Creating and delivering value



### OUR CLIENTS

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



### OUR PEOPLE

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



### OUR SHAREHOLDERS

- We aim to deliver the best possible operational performance from the business to deliver maximum returns to our shareholders over the long-term. The financial performance that results is based on growth that is consistent and profitable.



### COMMUNITIES

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

## Governance

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

## Risk

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

## KPIs

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

## Remuneration

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

# Our key performance indicators

We track our performance against a number of consistent KPIs which are aligned to our strategic vision.

## OUR ONGOING STRATEGIC OBJECTIVES

Our ongoing strategic objectives underpin and integrate our activities. We use non-financial and financial KPIs to both manage the business and ensure that the Group's strategy and objectives are being delivered.

**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.

## HOW WE MEASURE PERFORMANCE

- 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.

## Non-financial KPIs

**KPI** [Link to strategic objective](#)

**Total estimated number of deaths in Britain** (number) 1

**590,000**

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

**Developments in 2016**  
Deaths were higher than anticipated in the period. Historical data would suggest that deaths in 2017 could be significantly lower than 2015 and 2016.

**Funeral market share excluding Northern Ireland** (per cent) 1 3 4

**11.8%**

**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 2016**  
The reduction in market share is more than anticipated. The Board is keeping this under review.

**Number of funerals performed** (number) 1 3 4

**70,700**

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

**Developments in 2016**  
Changes are a consequence of the total number of deaths and the Group's market share.

Links

- See Strategy and business model: **p.08 and p.09**
- See Principal risks and uncertainties: **p.27 to p.31**
- See Report on Directors' remuneration: **p.50 to p.63**
- A summary of the Group's financial record for the last five years can be found on: **p.116 and p.117**

Financial KPIs

**KPI** Link to strategic objective

**Crematoria market share** (per cent) 1 3

Year	Market Share (%)
2012	9.2%
2013	9.9%
2014	9.7%
2015	9.8%
2016	10.1%

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

**Developments in 2016**  
Market share has increased, principally reflecting the effect of recent acquisitions.

**KPI** Link to strategic objective

**Underlying earnings per share** (pence) 1 2 3 4 5

Year	Earnings per share (pence)
2012	62.8p
2013	72.1p
2014	85.8p
2015	114.8p
2016	119.8p

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

**Developments in 2016**  
This growth follows the increase in operating profit.

**Number of cremations performed** (number) 1 3

Year	Number of cremations
2012	50,500
2013	55,500
2014	53,400
2015	57,700
2016	59,500

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

**Developments in 2016**  
Changes are a consequence of the total number of deaths and the Group's market share.

**Underlying operating profit** (£m) 1 2 3 4

Year	Operating profit (£m)
2012	£69.4m
2013	£78.4m
2014	£84.9m
2015	£98.7m
2016	£101.7m

**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 2016**  
Good growth driven by higher than expected deaths as well as acquisition activity.

**Active pre-arranged funeral plans** (number) 4

Year	Number of plans
2012	290,000
2013	323,000
2014	348,000
2015	374,000
2016	404,000

**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 2016**  
This increase reflects continued sales activity offset by the crystallisation of plans sold in previous periods.

**Cash generated from operations** (£m) 5

Year	Cash generated (£m)
2012	£83.3m
2013	£94.2m
2014	£104.4m
2015	£125.2m
2016	£121.1m

**Definition**  
This is the statutory cash generated from operations excluding external transaction costs and (in 2013 and 2014) exceptional pension contributions.

**Developments in 2016**  
The Group continues to convert operating profit into cash efficiently.

OUR FIVE YEAR PERFORMANCE

- Our KPIs have remained consistent over the last five years, enabling clarity and transparency in both reporting and management.
- Each of the Group's KPIs over this 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.
- The Board continues to monitor the Group's progress and to assess the performance and continued delivery of our strategy.

## Our key performance indicators continued

The vast majority of our funeral business relies on reputation, recommendation and previous experience and we strive to maintain and improve client satisfaction across our business.

### ENSURING EXCELLENT CLIENT SERVICE

#### What does this mean?

We are committed to delivering the highest standards of service and care, whether helping people arrange a funeral, choosing a memorial or arranging a funeral plan.

#### Why is this important?

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

#### How are we different?

Our success rests on having the right people, with the right skills and experience to deliver high quality services consistently and we strive for continuous improvement in the service and facilities we provide. Our clients value this which is why they return to us and recommend us.

#### Our approach

We are committed to both quality of service and business success and how we operate is integral to what we deliver.

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

#### Our vision and values

#### 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 culture

Our people come from the towns and cities they serve or are from families that have been in the funeral profession for generations.

Our business principles, Code of Conduct and core Group values have helped us to create a distinctive and diverse Dignity culture. This is essential to ensure we remain consistent in the standards of behaviour all our employees adhere to when supporting our clients and that we deliver the excellent service upon which our business depends.

#### The way we work

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 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.

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.

### KPI

Link to strategic objective

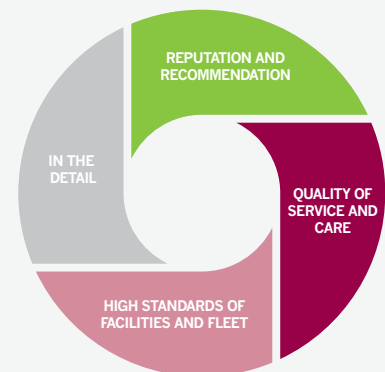
#### CLIENT SATISFACTION IN OUR FUNERAL SERVICES 1

##### Objective

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

##### Definition

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



##### Maintaining client satisfaction

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

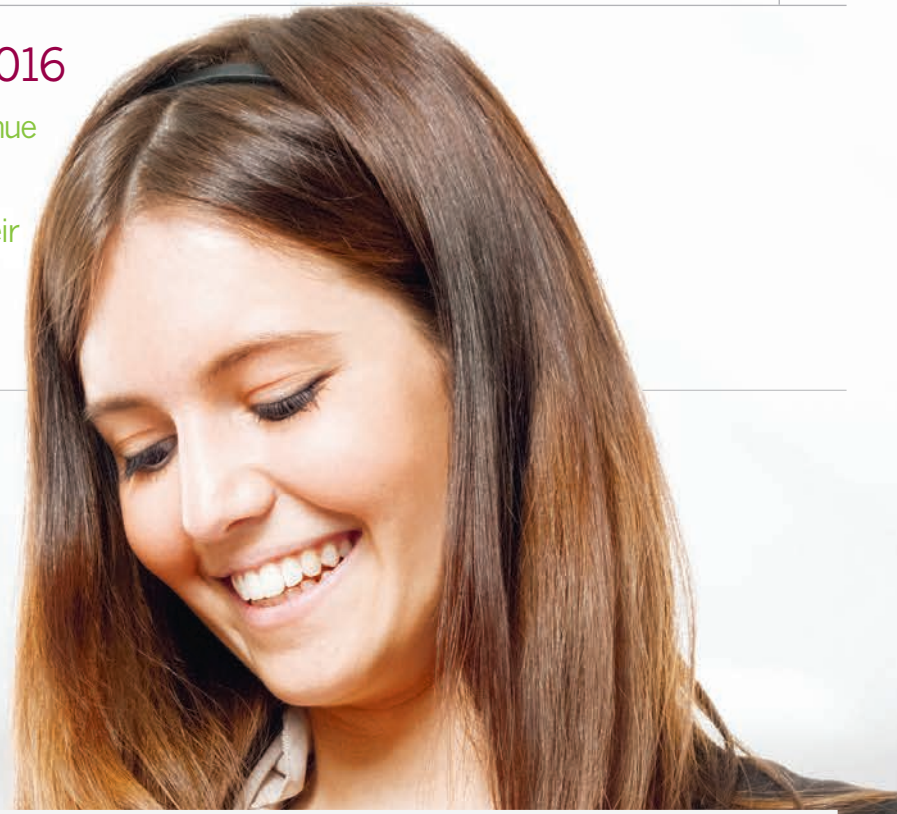
Our ongoing commitment to high levels of client satisfaction continues to generate high levels of referrals as demonstrated in the graph below.

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



# The Dignity Client Survey 2016

Our funeral service survey results continue to demonstrate the outstanding work being consistently done by our staff. They remain focused on performing their roles to the best of their ability, allowing the Group to help many families at a difficult time.



## WHAT WE FOCUS ON

### Ensuring the highest levels of client service

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

### Recruiting, developing and retaining the best people

We seek to recruit and retain the best people through appropriate remuneration and ongoing training. Over 22 per cent of Dignity employees have over 10 years service.

### Continued investment

In 2016, we invested £19.6 million in capital expenditure on the core business to ensure that both our client-facing areas and behind the scenes facilities are maintained to the highest standards. See Financial Review for further details.

### Listening to our clients; providing clear advice and guidance

We act with compassion and care, pay attention to detail, spend as much time as the client needs, we are open and straightforward and keep in regular contact with the client.

## WHAT OUR CLIENTS SAY

### Reputation and recommendation

**98.8%** (2015: 99.2%)

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

**97.7%** (2015: 98.0%)

97.7 per cent of respondents would recommend us.

### Quality of service and care

**99.9%** (2015: 99.9%)

99.9 per cent thought our staff were respectful.

**99.7%** (2015: 99.7%)

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

**99.1%** (2015: 99.3%)

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

### High standards of facilities and fleet

**99.8%** (2015: 99.8%)

99.8 per cent thought our premises were clean and tidy.

**99.8%** (2015: 99.8%)

99.8 per cent thought our vehicles were clean and comfortable.

### In the detail

**99.2%** (2015: 99.3%)

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

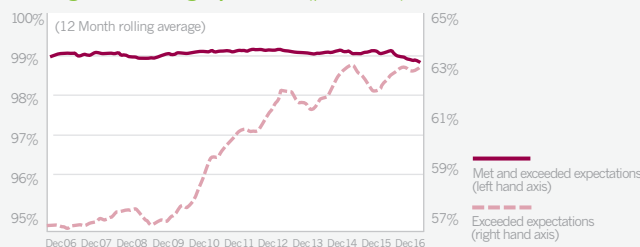
**99.1%** (2015: 99.1%)

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

**98.5%** (2015: 98.6%)

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

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



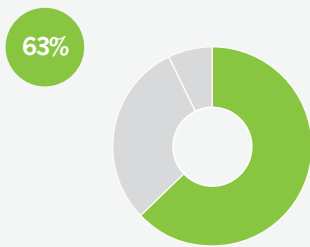
# Our summary performance in 2016

The Group has continued to perform strongly in 2016.

## Operational and Financial Summary

### Funeral services

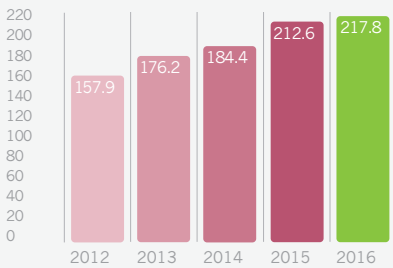
Group underlying operating profit share (%)



Revenue (£m)



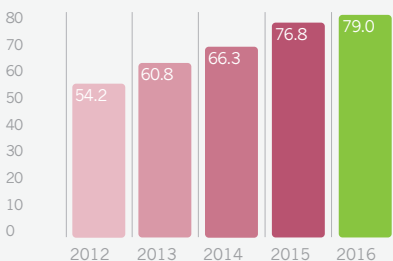
Revenue up 2% to £217.8 million



Underlying operating profit (£m)

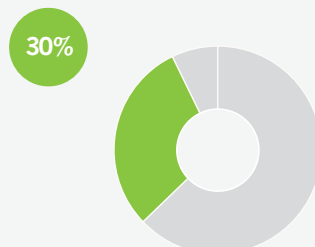


Underlying operating profit up 3% to £79.0 million



### Crematoria

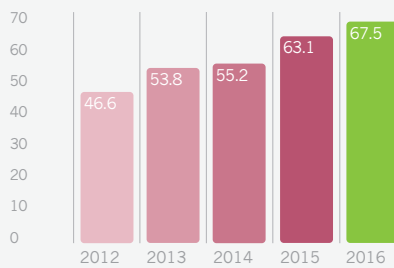
Group underlying operating profit share (%)



Revenue (£m)



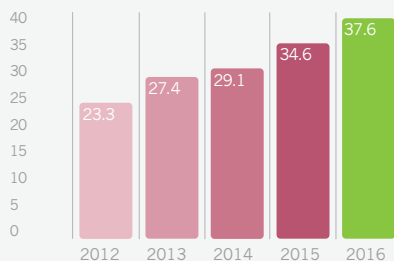
Revenue up 7% to £67.5 million



Underlying operating profit (£m)

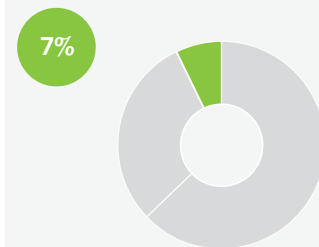


Underlying operating profit up 9% to £37.6 million



### Pre-arranged funeral plans

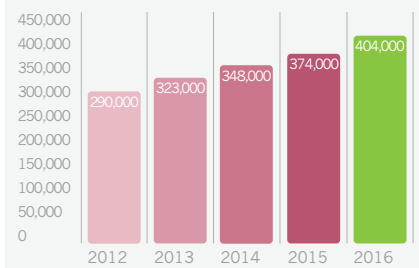
Group underlying operating profit share (%)



Total number of active plans

404,000

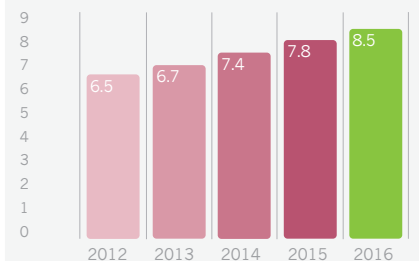
Total active pre-arranged funeral plans increased to 404,000



Underlying operating profit (£m)



Underlying operating profit up 9% to £8.5 million





We made good progress across all our operations, with each division performing in line with the Board's expectations.

Links

- See Operating review: p.16 to p.22
- Find out more about our Group financial performance: p.23 to p.26
- Find out more about our CSR performance: p.32 to p.36

Funeral services



Performance in 2016

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

Crematoria

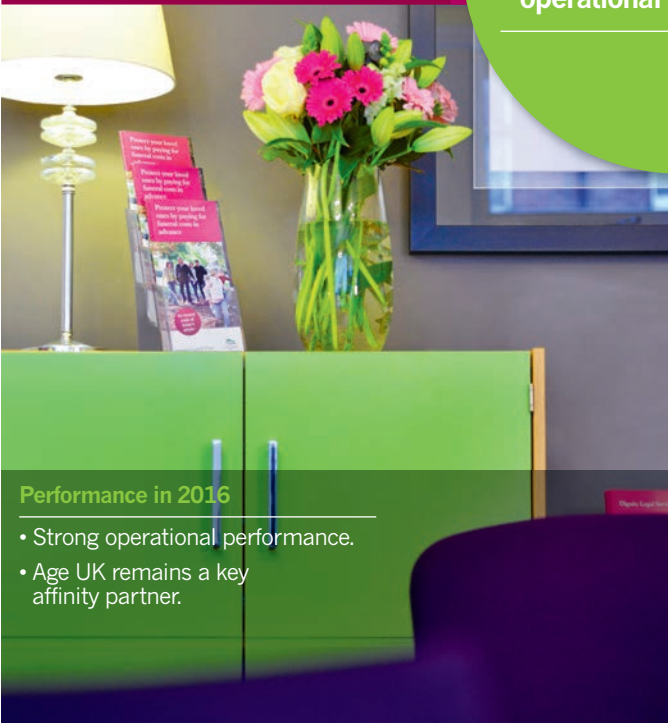


Performance in 2016

- Nine per cent increase in underlying operating profit.
- Five crematoria acquired.
- Three crematoria approved for construction.
- One further planning application being processed.

Delivering excellent service continues to provide our strategic focus and drives our operational performance.

Pre-arranged funeral plans



Performance in 2016

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

Corporate and social responsibility



A responsible business

- At the heart of our business is a commitment to doing the right thing; behaving ethically, working safely, reducing our environmental impact, recruiting, developing and retaining the best people and making a real difference to the communities we serve.

# Operating review



**CLIENT SERVICE**

Reputation and recommendation remain a key driver in someone's choice of funeral director. Many of our clients continue to return and recommend us because of the consistent quality of service we deliver.

## Acquisition and satellite locations

### £15.5m

During 2016, Dignity invested £15.5 million in the acquisition of 11 established funeral businesses and the development of our satellite location programme. These enable us to increase the Group's national presence and to serve more families.



**Our strengths**

Dignity has the size, experience and financial flexibility to implement value-enhancing investments in our established locations to support service improvements, drive organic growth and fund longer-term strategic development of our business.



## Local expertise and service delivery

Many of our staff come from the local communities they serve, have long service experience or come from families who have been serving the funeral profession for generations. We recognise the value this brings to our business and together with our ongoing investment enables our staff to meet the ongoing needs of our clients.

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

### FUNERAL SERVICES

#### Performance

As at 30 December 2016, the Group operated a network of 792 (2015: 767) funeral locations throughout the United Kingdom, generally trading under local established names.

During the period, the Group conducted 70,700 funerals compared to 73,500 in 2015.

Approximately one per cent of all funerals were conducted in Northern Ireland. Excluding Northern Ireland, these funerals represent approximately 11.8 per cent (2015: 12.3 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 £79.0 million (2015: £76.8 million), an increase of three per cent.

This financial performance reflects the lower number of funerals performed. Market share was lower than expected, offsetting a better than expected performance in 2015. The Group continues to keep this under review.

#### Progress and Developments

##### Investment in the core portfolio

Significant cash resources continue to be used to maintain the Group's locations and fleet. In 2016, £13.6 million was invested in maintenance capital expenditure.

##### Funeral location portfolio

The Group acquired 16 funeral locations for a total investment of £14.7 million. These acquisitions performed in line with expectations. £0.8 million was also invested in our satellite location programme, with 11 opening in the period. Two locations were closed, principally where it was considered commercially appropriate not to renew leases.

##### Outlook

The funeral division has performed well and is well placed for the future. Satellite locations opened in recent years continue to be profitable and the Group continues to see this as an opportunity to help grow the business. Consequently, the Group anticipates opening approximately 20 satellites per year at a capital cost of approximately £1 million.

Pre-arranged funerals continue to be a source of incremental funerals, with approximately 25 per cent of all funerals performed in the year (2015: 24 per cent) having 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.

#### Case study



### Enhancing existing or acquired locations

#### Northern Ireland

Ravenhill Funerals in Belfast was completely refurbished during the period to give the premises a modern and light atmosphere whilst retaining the facilities that recognise the importance of local traditions.

In 2016, Dignity also acquired and converted a former Quaker Meeting House in Lisburn into a funeral branch with a service chapel for Kirkwood Funeral Directors, a well-established business with premises in Newtownards and Belfast.

Above: Ravenhill Funerals in Belfast.



**Left: 1.** Marvo Samuel, Funeral Service Arranger at W S Bond, Ealing. **2.** We work closely with our clients to ensure that we arrange the funeral they want for their loved ones. **Main picture:** Burton on Trent & District Funeral Directors, Staffordshire.



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**STRATEGIC FOCUS**

**Continued investment**

**£13.6m**

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 continuous service improvements. During the period, Dignity invested £13.6 million to further improve the facilities and services we offer our clients.

**792 Locations**

The Group's coverage is achieved through our 792 funeral locations and we continue to seek opportunities for further growth.

Our competitive advantage is sustained by investing in the best people, our locations and services.

**QUALITY AND CONSISTENCY**

Every day our staff deliver high standards of service and care, supporting our clients and helping our business to achieve our objective of differentiating through quality and consistency. We will continue to achieve this by investing in the best people, our locations and services, enabling us to deliver the excellent client service upon which our business depends.

## Operating review continued



### Our strengths

Our focus, scale and experience sets us apart and we continue to build on and reinforce the competitive strengths in our business by developing, managing and acquiring crematoria.

We also seek to add value and differentiate through strong partnerships with local authorities and through the construction of new-build crematoria which represent an opportunity to develop and invest in new facilities in areas that will benefit the local community.

1



## 44 Crematoria

Dignity currently operates 44 crematoria and remains the largest single operator in Britain. The combination of acquisition activity and our organic investment enables us to create and sustain further value.



### Local initiatives and commitment

Our local crematoria are tended by a team of experts from our gardeners who continue to maintain and sensitively landscape our gardens of remembrance to enable families to enjoy the peaceful surroundings, to our memorial consultants who provide advice and guidance on choice of memorials and ways to commemorate loved ones.

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

### CREMATORIA

#### Performance

The Group remains the largest single operator of crematoria in Britain, operating 44 (2015: 39) crematoria as at 30 December 2016. The Group performed 59,500 cremations (2015: 57,700) in the period, representing 10.1 per cent (2015: 9.8 per cent) of total estimated deaths in Britain.

Underlying operating profit was £37.6 million (2015: £34.6 million), an increase of nine 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. Acquisition of crematoria has also assisted operating profit growth.

Sales of memorials and other items have been stable, equating to approximately £273 per cremation compared to £276 in the previous period.

#### Progress and Developments

£1.0 million of the operating profit in the period was generated by the Crematoria Acquisition. This acquisition has performed in line with expectations and is consistent with the Group's guidance at acquisition of anticipated EBITDA of £2.9 million in 2017.

The Group has also invested £3.7 million maintaining its locations in the period.

The Group now has planning permission on three locations for new crematoria, with the third receiving planning permission in December 2016. Finalisation of building plans and addressing local planning requirements means that these locations are expected to open in 2018 and 2019. The total capital commitment for these locations is expected to be approximately £13 million to £14 million. Each of the locations with planning permission will take five to seven years to reach maturity, performing 800 to 1,000 cremations per year.

The Group also has one live planning application for which it is awaiting a decision and has options over a number of other pieces of land where no capital commitment will arise unless planning permission for a new crematorium is obtained in due course.

#### 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.

#### Case study



Enhancing existing crematoria

#### Surrey & Sussex Crematorium

We continue to develop and invest in our existing crematoria portfolio, helping us to deliver enhanced facilities to the families we serve.

During 2016, all public areas at Surrey & Sussex Crematorium, including both chapels, were extensively refurbished and the audio visual system upgraded to help those attending services with large congregations.

**Above:** One of the refurbished chapels at Surrey & Sussex Crematorium.



**Left: 1.** David Smith, Groundsperson at Grenoside Crematorium, Sheffield.

**Main picture:** Lichfield & District Crematorium is one of five facilities acquired during the period. The crematorium is situated in 10 acres of land in Staffordshire and the chapel has seating for up to 80 people. The Gardens of Remembrance are being further developed to provide a place of beauty and tranquility for bereaved families to visit.



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## STRATEGIC FOCUS

Acquisition of five crematoria  
from Funeral Services Limited

**£44m**

In 2016, Dignity completed the acquisition of five crematoria from Funeral Services Limited (trading as Co-op Funeralcare) for £44 million (including external transaction costs); Craigton Crematorium, Glasgow; Emstrey Crematorium and Cemetery, Shrewsbury; Grenoside Crematorium, Sheffield; Stockport Crematorium and Cemetery and Lichfield & District Crematorium, Staffordshire.

We recognise the potential growth opportunities these locations provide as they enable us to extend our services into new geographic areas, represent a good investment for Dignity and support our continued growth.

# Maintaining our market-leading position and developing growth opportunities.

## EXPERTISE AND COMMITMENT

We leverage our scale, expertise and commitment combined with strong management and development of our core portfolio to enable us to maintain our market-leading position and capture future growth opportunities. In the last twelve years we have successfully acquired, developed and integrated several crematoria into our growing network. This ongoing commitment supports both our objective of meeting local needs and our growth ambitions.

# Operating review continued



1

**CLIENT SERVICE**

We continue to have a strong market presence in pre-arranged funeral plans and through our strong customer relationships, affinity partnerships and our established branch network, we continue to help more people plan ahead.

**Left: 1.** Dignity's Pre-arrangement website is continually developed with new tools and content that help clients choose the right Funeral Plan for them. **Below: 2.** Literature is available in branches to help clients pre-arrange their funeral. **Main picture right:** Senior Branch Development Manager, Graham Rogers and Funeral Service Arranger, Alpa Parmar organise a Funeral Plan Open Day at J A Massey & Sons in Harrow.



## Our strengths

We continue to build on our reputation as one of the UK's leading providers of pre-arranged funeral plans. We have already helped more than 743,000 people plan and pay for their funeral in advance. This is testament to the strength of our brand and that our client proposition is both recognised and valued.



2

## Affinity partnership developments

We believe that it is important to develop strong relationships not only with our clients but also with other organisations where we see an opportunity to deliver mutual benefit. Working with established businesses with trusted brands allows the Group to expand the opportunities for selling pre-arranged funeral plans and is essential to the long-term development of the division.

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

### 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 £8.5 million (2015: £7.8 million), an increase of nine per cent.

In overall terms, approximately 49,000 (2015: 38,000) new plan sales were made and the number of active pre-arranged funeral plans increased to 404,000 (2015: 374,000) as at 30 December 2016. 20,000 (2015: 4,000) of the sales represent plans linked to life assurance plans with third parties rather than trust based plan sales.

Whilst the contribution to this year's operating profit from the marketing activity is reported at the time of sale, it is important to recognise that the

sales made represent significant potential future revenues for the funeral division. These amounts will be recognised as and when the funerals are performed. As with all the Group's divisions, pre-arranged funeral plan profits broadly reflect the cash generated by that activity.

#### Progress and Developments

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

The Group has continued to work hard at developing its portfolio of affinity partners and has formed a number of new partnerships in the period with organisations in the retail and financial services arena with further trials expected in 2017.

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 2016, the Trusts held over £860 million of assets. Average assets per plan are greater than the amount currently received for performing a funeral. However, the latest actuarial valuations of the pre-arranged

funeral plan trusts (at 23 September 2016) showed them to have a small actuarial deficit, driven by the volatility in the markets and low gilt yields.

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

The Trustees continue to take external advice on their investment strategy, with the overall objective of achieving a real return over time.

The Trustees have informed the Group that they continue to take independent advice regarding the Trust's investment strategy. As a result, it is anticipated that the investment allocation by class will develop further during 2017 and beyond, gradually resulting in a portfolio in the following profile:

	Example investment types	Target (%)
Defensive investments	Index linked gilts and corporate bonds	22
Illiquid investments	Private investments	16
Core growth investments	Equities	22
Growth fixed income and alternative investments	Property funds and emerging market debt	40

Protect your family by paying for funeral costs in advance



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**STRATEGIC FOCUS**

**Funeral plan open days**

Active funeral plans continue to represent future potential incremental business for the funeral division as the Group expects to perform the majority of these funerals. Our funeral plan open days which are held in our local branches provide the opportunity for us to demonstrate the expertise of our people and services, to engage with the local community, reach potential new clients and increase awareness of the benefits of a Dignity funeral plan.

**Active funeral plans**

**404,000**

404,000 people have active funeral plans with Dignity.

We are committed to building relationships through the consistent delivery of excellent client service.

**REPUTATION AND RELATIONSHIPS**

We connect with our customers locally in our branches, online and through our affinity partners. We use our strong reputation for trust, quality and service to win both new customers and develop existing relationships. We continue to build and develop our strategic partnerships and strengthen the unique positioning of our brand to ensure that the demand for our products and services is sustained.

## Operating review continued



## £23.4m

Costs in the period were £23.4 million. Central support functions continue to grow to ensure operational activity is appropriately supported as the business grows.

**Left:** Adam Dunleavy, Senior Accounts Administrator; Jayne Ackrill, Group Management Accountant and Jason Barnes, Ledger Manager in the Finance Department at Dignity's Head Office.

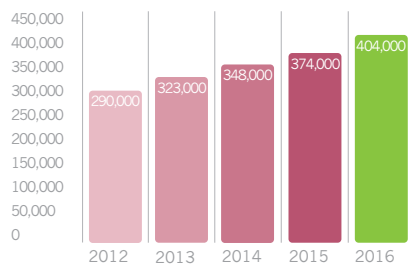
These developments in the Trust's investment strategy are expected to enhance investment returns in the longer-term for a broadly similar level of risk as that currently taken. The strategy will however, potentially result in greater volatility year on year in the reported value of the Trust's assets.

### 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.

### Total number of active plans



### 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 centrally.

#### Developments

Costs in the period were £23.4 million (2015: £20.5 million), an increase of 14.1 per cent.

Investment in central overheads continues in order to respond to the activities of the Group. Incentive costs, including LTIP costs and cash bonuses, have increased from £6.3 million to £8.3 million. Excluding these bonus costs, central overheads represent 4.8 per cent (2015: 4.7 per cent) of revenues.

Capital expenditure of £2.3 million has been incurred on central projects predominantly relating to IT that will help the business as a whole operate more efficiently. This includes £1.3 million incurred to date on the update of the

Group's accounting software described last year. This new system went live in early 2017 as originally anticipated. The remainder of the anticipated £3 million commitment is therefore expected to be incurred in 2017.

In addition, given the increase in headcount in central overheads (and pre-need operations, which are based at the Group's Head Office), the Group has taken additional leased office space in Sutton Coldfield to support operations. This resulted in capital spend of £0.2 million in the period, with a further £0.9 million to be spent in 2017 prior to it being able to be used in early 2017.

#### Outlook

The Group will continue to respond to the needs of the business, providing additional central resource where necessary to help growth or manage compliance with appropriate laws and regulations.



## Financial review

Our financial performance has been strong and we have made further progress in developing the Group.



Steve Whittern, Finance Director

### Performance in 2016



We remain cash generative with strong profit growth, which together with our continued focus on service delivery improvements and cost control, ensures we are well positioned to invest for further growth and to enhance shareholder value.

**£313.6m**

Revenue up 3% to £313.6 million (2015: £305.3 million).

**£101.7m**

Underlying operating profit up 3% to £101.7 million (2015: £98.7 million).

**119.8p**

Underlying earnings per share increased 4% to 119.8 pence (2015: 114.8 pence).

### 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:

	53 week period ended 30 Dec 2016	52 week period ended 25 Dec 2015	Increase/ (decrease) %
Revenue (£million)	313.6	305.3	3
Underlying operating profit <sup>(a)</sup> (£million)	101.7	98.7	3
Underlying profit before tax <sup>(a)</sup> (£million)	75.2	72.2	4
Underlying earnings per share <sup>(a)</sup> (pence)	119.8	114.8	4
Cash generated from operations <sup>(b)</sup> (£million)	121.1	125.2	(3)
Operating profit (£million)	97.7	95.5	2
Profit before tax (£million)	71.2	69.0	3
Basic earnings per share (pence)	115.3	115.2	-
Dividends paid in the period:			
Interim dividend (pence)	7.85	7.14	10
Final dividend (pence)	14.31	13.01	10

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

<sup>(b)</sup> Cash generated from operations excludes external transaction costs.

The Board has proposed a dividend of 15.74 pence per Ordinary Share as a final distribution of profits relating to 2016 to be paid on 30 June 2017, subject to shareholder approval.

### 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:

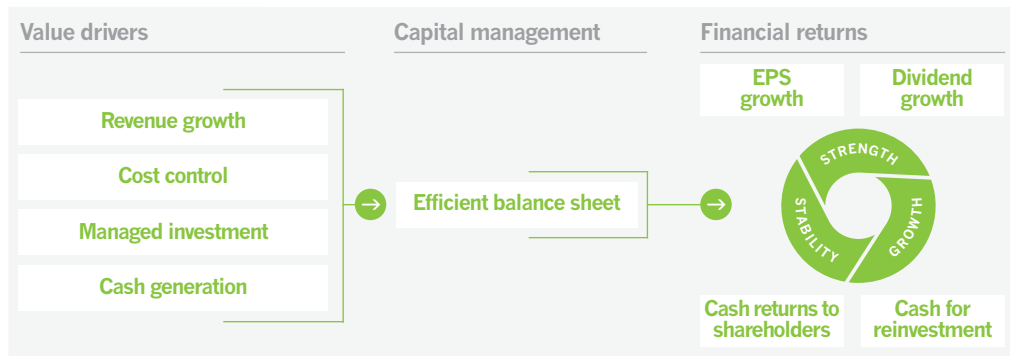
	53 week period ended 30 Dec 2016 £m	52 week period ended 25 Dec 2015 £m
<b>Operating profit for the period as reported</b>	97.7	95.5
Add/(deduct) the effects of:		
Profit on sale of fixed assets	(0.1)	-
External transaction costs	4.1	3.2
<b>Underlying operating profit</b>	101.7	98.7
Net finance costs	(26.5)	(26.5)
<b>Underlying profit before tax</b>	75.2	72.2
Tax charge on underlying profit before tax <sup>(c)</sup>	(15.8)	(15.5)
<b>Underlying profit after tax</b>	59.4	56.7
Weighted average number of Ordinary Shares in issue during the period (million)	49.6	49.4
Underlying EPS (pence)	119.8p	114.8p
Increase in Underlying EPS (per cent)	4%	34%

<sup>(c)</sup> Excludes exceptional tax credit of £1.8 million (2015: £3.4 million).

### Earnings per share

The Group's statutory profit after tax was £57.2 million (2015: £56.9 million). Basic earnings per share were 115.3 pence per share (2015: 115.2 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 £59.4 million (2015: £56.7 million), giving underlying earnings per share of 119.8 pence per share (2015: 114.8 pence per share), an increase of four per cent.

# Financial review continued



## Delivering long-term shareholder returns

The Group has performed strongly since IPO delivering sustained returns for shareholders 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.

## £22.8m

£22.8 million has been invested in maintaining our property and fleet portfolio.

## £56.3m

£56.3 million has been invested in acquisitions from existing cash reserves.

## £356.2m

Since flotation, £356.2 million in cash including dividends has been returned to shareholders.

The growth rate for underlying EPS exceeded the growth in underlying operating profit, reflecting the leveraging effect of the Group's capital structure.

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

Capital expenditure on property, plant and equipment and intangible assets was £22.8 million (2015: £19.9 million).

This is analysed as:

	30 Dec 2016 £m	25 Dec 2015 £m
Maintenance capital expenditure:		
Funeral services	13.6	12.1
Crematoria	3.7	2.5
Other	2.3	1.0
Total maintenance capital expenditure <sup>(a)</sup>	19.6	15.6
Branch relocations	1.6	3.9
Satellite locations	0.8	0.3
Development of new crematoria and cemeteries	0.8	0.1
Total property, plant and equipment	22.8	19.9
Partly funded by:		
Disposal proceeds	(1.0)	(0.8)
Net capital expenditure	21.8	19.1

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

## Cash flow and cash balances

Cash generated from operations was £121.1 million (2015: £125.2 million) stated before external transaction costs of £3.9 million (2015: £3.2 million). The reduction year on year despite an increase in operating profit reflects timing differences of working capital items year on year. The longer-term expectation of profits converting efficiently to cash is unchanged.

As a result of the strong year, the Group was able to fund all of its corporate activity from its cash reserves, spending £56.3 million (net of cash acquired and excluding external transaction costs) on the acquisition of 16 funeral locations and five crematoria locations and balancing payments in respect of prior year acquisitions.

Cash balances at the end of the period were £67.1 million (2015: £98.8 million). The remainder of the Group's cash reserves are essentially free for use as it sees fit. However, in its planning, the Group sets aside approximately £23.8 million for future corporation tax and dividend payments expected to be spent in 2017.

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

## Pensions

The balance sheet shows a deficit of £25.9 million before deferred tax (2015: deficit of £12.5 million). The Group concluded a consultation with employees in February 2017. Following this consultation, the Group decided to close its defined benefit pension to any further accrual. Affected employees will instead be able to contribute between four and 10 per cent of salary into a defined contribution scheme, which will be matched by the Group.

The Group does not expect the actuarial position of the scheme to change significantly prior to its triennial valuation in April 2017. Consequently, a schedule of contributions is expected to have to be agreed with the Trustees of the scheme during 2017.

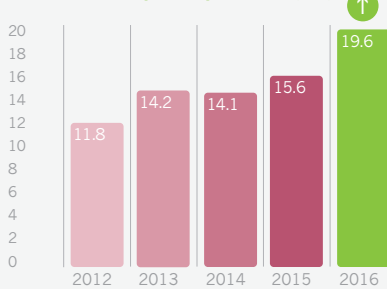
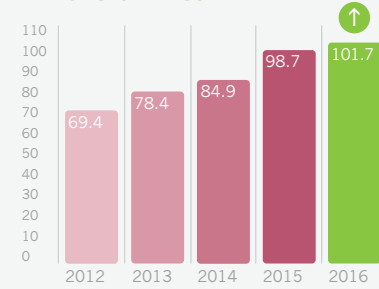
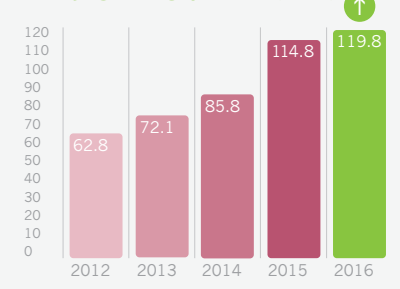
## Taxation

The Group's effective tax rate on underlying profits in the period was 21.0 per cent (2015: 21.5 per cent) excluding the exceptional rate change. Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016. This will mean headline corporation tax rates will reduce to 19 per cent from 1 April 2017 and 17 per cent from 1 April 2020. The Group has therefore recognised an exceptional credit in the income statement of £1.8 million in order to state its deferred tax balances at the new long-term rate.

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 2017, 2018 and 2019 of 20.0 per cent.

## Links

- See Strategy and business model: p.08 and p.09
- See Our KPIs: p.10 to p.12
- See Principal risks and uncertainties: p.27 to p.31

**Maintenance capital expenditure (£m)****Underlying operating profit (£m)****Underlying earnings per share (pence)**

The Group's net cash tax payments were £10.6 million (2015: £3.7 million) in the period. The Group expects corporation tax payments to increase in 2017 and over time for cash taxes to be broadly equivalent to its income statement charge. Legislative changes requiring an acceleration of quarterly payments on account have been delayed and will not now impact the Group until 2020 when the Group will pay 18 months of cash tax, reverting to 12 months in each year thereafter.

**Capital structure and financing****Secured Notes**

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

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 Secured Notes. The principal is repaid completely over the life of the Secured Notes and is therefore scheduled to be repaid by 2049. The interest rate is fixed for the life of the Secured Notes and interest is calculated on the principal.

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

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

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

Given the duration of the Secured Notes, this structure is capable of being used to periodically issue further Secured 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 Secured Notes requires EBITDA to total debt service to be above 1.5 times. The ratio at 30 December 2016 was 3.37 times (2015: 3.35 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 had an undrawn Funeral Acquisition Facility of £26.25 million which was originally created to help fund the acquisition of a business in 2015. 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 availability of this facility has been extended until the end of March 2017.

Discussions are currently underway with a view to replacing both facilities with a new revolving credit facility for a similar level of debt to give the Group more certainty in the medium term over a line of credit, should it be required.

**Leverage**

Our objective is to run an efficient balance sheet. Our priority is to invest to drive organic growth and make acquisitions in line with our strategic objectives. We aim to balance this investment for further growth whilst generating attractive returns for shareholders.

**£11m**

The Group has continued to increase dividends per share by 10 per cent and has paid £11 million to shareholders in normal dividends in the period.

## Financial review continued

### Outlook

The Group's strong balance sheet gives it the ability to respond quickly to business needs and corporate development opportunities and we remain focused on:

- Strong capital management.
- Continued investment underpinned by strong investment disciplines.
- A progressive dividend policy.
- Returning cash generated to shareholders.

We are well positioned and aim to invest in opportunities that create value for the Group by maximising the efficient use of capital while carefully managing cash and Group liquidity. Our balance sheet is strong, allowing us to fund growth opportunities to generate enhanced shareholder returns.

### Net debt

The Group's net debt is analysed as:

	30 Dec 2016 £m	25 Dec 2015 £m
Net amounts owing on Secured Notes	(573.9)	(586.5)
Add: unamortised issue costs	(0.7)	(0.7)
Gross amounts owing on Secured Notes	(574.6)	(587.2)
Net amounts owing on Crematoria Acquisition Facility	(15.7)	(15.7)
Add: unamortised issue costs on Crematoria Acquisition Facility	(0.1)	(0.1)
Gross amounts owing	(590.4)	(603.0)
Accrued interest on Secured Notes	(0.3)	(12.8)
Accrued interest on Crematoria Acquisition Facility	(0.1)	(0.1)
Cash and cash equivalents	67.1	98.8
Net debt	(523.7)	(517.1)

The Group's gross debt outstanding was £590.4 million (2015: £603.0 million). Net debt was £523.7 million (2015: £517.1 million).

The market value of the Secured Notes at the balance sheet date was £678.0 million (2015: £615.5 million).

### Net finance costs

The Group's underlying finance costs substantially consist of the interest on the Secured Notes and ancillary instruments. The net finance cost in the period relating to these instruments was £25.4 million (2015: £25.6 million).

Finance costs of £0.6 million (2015: £0.6 million) were incurred in respect of the Crematoria Acquisition Facility.

Other ongoing finance costs incurred in the period amounted to £0.9 million (2015: £0.8 million), including the unwinding of discounts on the Group's provisions and other financial liabilities.

Interest receivable on bank deposits was £0.4 million (2015: £0.5 million).

### 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.

### Links

→ See Financial statements:  
p.66 to p.106

→ See Financial record:  
p.116 and p.117

# Principal risks and uncertainties

The effective assessment and management of risk is key to the delivery of the Group's strategy.

### Risk governance

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

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

### Risk appetite

Our risk appetite remains broadly unchanged in 2016. Risk appetite is the level of risk the Group is willing to take to achieve its strategic objectives and is set by the Board. The Board looks at the Group's appetite to risk across a number of areas including market, financing, operations, strategy and execution, developments, cybersecurity and technology and brand.

The Group's risk appetite is set in the context of our focus on one sector – funeral services. As experts in this sector we are able to mitigate the risk involved in growing the business by acquisition, development and our active asset management strategy. This focus on our core strengths is balanced by a more cautious approach to risk in other areas.

### Our approach to risk management

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

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

### Responsibilities and actions

#### The Board

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

#### Risk process

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

#### Risk assessment

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

#### Identify

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

#### Assess

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

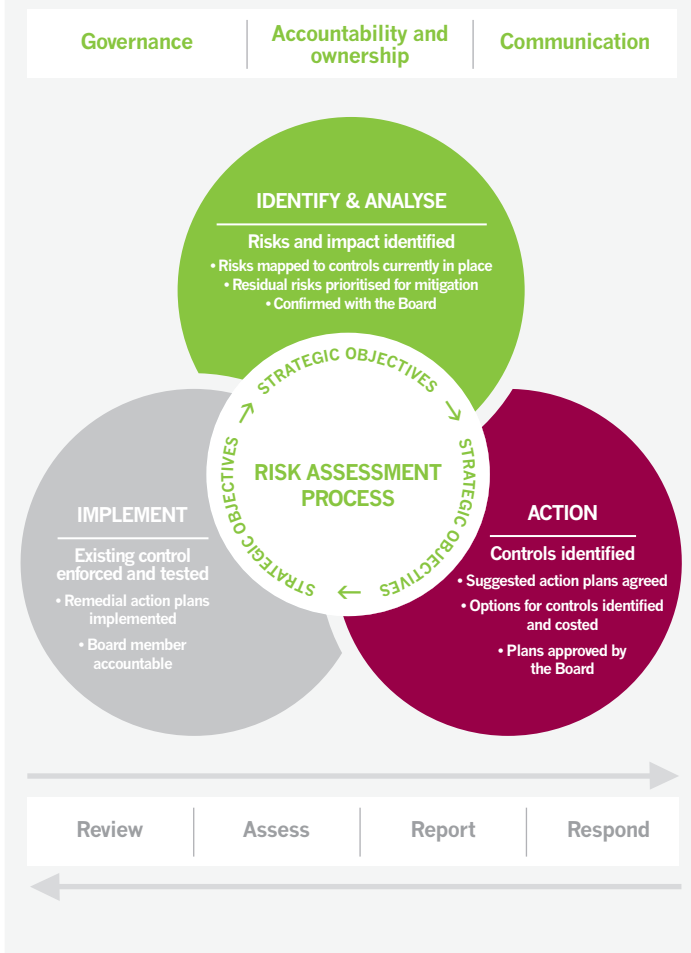
#### Mitigating activities

Mitigants are identified against each risk where possible.

#### Review and internal audit

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

### The risk management framework



## Principal risks and uncertainties continued

### Risk status summary and new risks

The ongoing review of the Group's principal risks focuses on how these risks may evolve. Since the publication of last year's Annual Report, we consider the following key principal risks to have an increased risk exposure.

### Increasing and emerging risk trends

The focus of both the government and the media on the cost of funerals has increased which may affect the ability to increase average revenues per funeral or cremation. In addition, there appears to be increased competition in both the funeral and pre-arranged funeral plan markets.

### Regulation

The increased focus on the whole sector may increase the likelihood of regulation of funerals in the UK as a whole and not just in Scotland. In addition, this could lead to regulation of the funeral plan sector with the Funeral Planning Authorities being re-constituted to be more of a regulatory body.

### Reliance on technology/Data governance

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

### Our principal risks and uncertainties

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

#### Operational risk management

- Significant reduction in the death rate
- Nationwide adverse publicity
- Ability to increase average revenues per funeral or cremation
- Significant reduction in market share
- Demographic shifts in population
- Competition
- Taxes
- Regulation of pre-arranged funeral plans
- Regulation of the funeral industry
- Changes in the funding of the pre-arranged funeral plan business

#### Financial risk management




- Financial Covenant under the Secured Notes

### The principal risks we have identified




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

In the tables on pages 29 to 31 we provide a summary of each risk, a description of the potential impact and a summary of mitigating actions.

#### Key: Risk trend measures

-  Risk exposure increased
-  Risk exposure decreased
-  No significant change

#### Links

-  See Strategy and business model: [p.08](#) and [p.09](#)
-  See Our KPIs: [p.10](#) to [p.12](#)
-  See Governance: [p.37](#) to [p.65](#)

**Risks in the context of our strategic objectives**

The Group has a proactive approach to measuring performance and considers risk as an integral part of decision-making, both about current and future performance, with the Board being responsible for the level of risk that the Group is willing to accept. The Board manages this by linking risk appetite to its strategic objectives, being mapped against defined impact and likelihood scales, in order to define where the level of risk sits.

**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 description and impact	Mitigating activities	2016 Commentary	Change
1 3 5	<b>Significant reduction in the death rate</b> 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 risk is mitigated by the geographical spread of locations, the ability to control costs and the ability to acquire funerals.	The number of deaths in 2016 was higher than expected. → See Market overview: p.06 and p.07	↔
1 3 4 5	<b>Nationwide adverse publicity</b> 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. → See The Client Survey performance: p.13	↔
1 5	<b>Ability to increase average revenues per funeral or cremation</b> 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. → See Operating review: p.16 to p.22	↔
1 5	<b>Significant reduction in market share</b> 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.	Market share was slightly lower than the Board's expectations. However, this offsets 2015, where the closing position was slightly higher than expected. → See Operating review: p.16 to p.22	↔
1 3 5	<b>Demographic shifts in population</b> 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. This is mitigated by the geographical spread of locations coupled with the ability to acquire funeral locations in areas of higher demand.	There have been no material changes, with satellites being opened and businesses acquired in appropriate areas. → See Operating review: p.16 to p.22	↔
1 3 4 5	<b>Competition</b> The UK funeral services market and crematoria market is currently very fragmented.  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.  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.  There are a number of potential affinity partners who could replace existing ones or add to existing relationships.	No major changes noted. Denials of planning applications for crematoria demonstrate the barriers to entry. → See Operating review: p.16 to p.22	↔

## Principal risks and uncertainties continued

## Operational risk management continued

Strategic objective link	Risk description and impact	Mitigating activities	2016 Commentary	Change
1 5	<p><b>Taxes</b></p> <p>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.</p>	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	<p><b>Regulation of pre-arranged funeral plans</b></p> <p>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.</p>	Any changes would apply to the industry as a whole and not just the Group. This risk is also mitigated through the high standards of selling and administration of pre-arranged funeral plans operated by the Group.	No significant changes noted in the period. → See Market overview: p.06 and p.07	↔
1 2 3 5	<p><b>Regulation of the funeral industry</b></p> <p>Legislative changes by the Scottish Government were enacted in 2016. This provides them with the powers to regulate the funeral industry and they are currently recruiting an Inspector of Funerals. Dignity welcomes this progress.</p> <p>Regulation could result in increased compliance costs for the industry as a whole.</p>	The Group already operates at a very high standard, using facilities appropriate for the dignified care of the deceased.	We continue to seek regulation of our markets. → See Market overview: p.06 and p.07	↔
4 5	<p><b>Changes in the funding of the pre-arranged funeral plan business</b></p> <p>The Group has given commitments to pre-arranged funeral plan members to provide certain funeral services in the future. Funding for these plans is reliant on either insurance companies paying the amounts owed or the pre-arranged funeral plan trusts having sufficient assets.</p> <p>If this is not the case, then the Group may receive a lower amount per funeral than expected and thus generate lower profits.</p>	There is considerable regulation around insurance companies which is designed, amongst other things, to ensure that the insurance companies meet their obligations. The Trusts hold assets with the objective of achieving returns slightly in excess of inflation.	The latest actuarial valuation of the pre-arranged funeral plan trusts demonstrates a small actuarial deficit.  However the average assets per plan are still robust. → 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 description and impact	Mitigating activities	2016 Commentary	Change
5	<p><b>Financial Covenant under the Secured Notes</b> 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.</p> <p>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.</p>	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.	<p>No significant changes noted in the period.</p> <p>→ See Financial review: p.23 to p.26</p>	↔

**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 2019.

The key consideration of viability is the Group's ability to service its Secured Notes as and when those obligations fall due, twice a year. The Directors have fully considered severe but reasonable scenarios, and the effectiveness of any mitigating actions, on the Group's ability to generate funds to meet those obligations. 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 27 to 31).

# Corporate and social responsibility

## Operating sustainably and responsibly.



**Richard Portman**, Corporate Services Director

### Introduction

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

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

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

To support the delivery of our strategic objectives we have four key areas of responsible and sustainable focus

#### Business integrity and ethics

Our commitment to high and ethical standards strengthens our reputation with clients and other stakeholders. 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.

##### Priorities

- Ensure we operate with integrity.
- Adhere to our Code of Conduct and high standard practices.
- Maintain legal and regulatory compliance and ethical decision-making.

##### Outcome for the business

- Maintain our reputation for integrity.

#### Health, Safety and Environmental performance

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. 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.

##### Priorities

- Ensure the health and safety of our people at work.
- Reducing energy consumption and our environmental footprint.
- Proactive management, accountability and transparency with regards to our environmental footprint.

##### Outcome for the business

- Supports our sustainable development by working safely and reducing our environmental impact.

#### Our people

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.

##### Priorities

- Promote equal opportunities and diversity.
- Provide career development opportunities.
- Provide training and development.
- Operate with due regard for human rights.
- Reward and recognition.

##### Outcome for the business

- Attract and retain the best people.

#### Building strong relationships and community impact

We are committed to building strong relationships with all our stakeholders, making a difference to the clients we serve and positively contributing to the local communities in which we operate.

##### Priorities

- Build closer relationships locally, developing a greater understanding of community and clients' needs.
- Recruit, train and develop local people.
- Participate in activities that make a difference.
- Act in the long-term interests of all our stakeholders.

##### Outcome for the business

- Enhances business reputation, sustains longevity and contributes to local communities.

### Why CSR is important to Dignity

Promoting a culture of responsibility, working to the highest standards and practices, developing our people and delivering operational efficiencies form key elements of our values and business strategy.

Conducting our business responsibly enables us to meet our obligations to our stakeholders and delivers real business benefits by helping us create long-term value.

We define our reporting in terms of our workplace, the environment and communities in which we play an important part. We strive to improve the way we perform, manage and report on corporate social responsibility (CSR) matters across all aspects of our business.

### Reward and recognition

In a competitive marketplace we recognise the importance of financially rewarding employees appropriately for the value they bring to the business. Managing and differentiating performance is critical to ensuring our staff fulfil their potential and the delivery of our objectives. Dignity has rewarded its loyal staff with Long Service Awards totalling £0.2 million in 2016.

## THE STRENGTH AND QUALITY OF OUR PEOPLE

### Governance, strategy and objectives

The Board places a high priority on attracting and retaining the right people as an integral part of our strategic objective of continuing to prioritise excellent client service which we believe will lead to organic growth. The Board is supported by a strong HR team who are dedicated to meeting the requirements of a growing Group. This team is responsible for the integration of new staff and the development and welfare of people across the business.

Our Code of Conduct is reinforced by our Staff Handbook. 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 [www.dignityfuneralsplc.co.uk](http://www.dignityfuneralsplc.co.uk).

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.

### Culture, engagement and communication

Communication, engagement and inclusion are at the heart of our culture. To achieve our business objectives we need engaged employees dedicated to our vision and values. We aim to provide an inclusive and collaborative culture that values every individual and provides the tools and opportunities to fulfil their potential and add value to the business.

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 and a number of communications specific to certain parts of the business to keep all employees informed of what is happening within the organisation.

**Below: 1.** Polly O'Brien, Client Service Advisor, Sutton Coldfield. **2.** Vivien Russell, Administrator, Ravenhill Funerals, Belfast. **3.** Stephen Knox, Trainee Funeral Director, Ravenhill Funerals, Belfast.

### Learning and development

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 2016, 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.

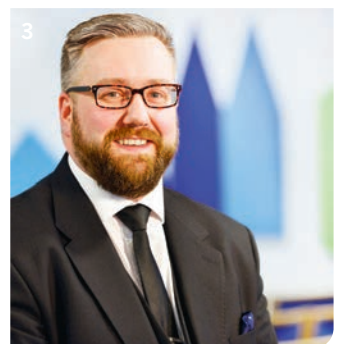
Personal development, planning and identification of training needs form a key part of our performance review process. We continue to provide a variety of learning and development opportunities, ranging from workshops and mentoring to online resources and internal and external training courses.

### Leadership and capabilities

Our focus on leadership development has delivered enhanced capability in our talent pipeline, through a more rigorous and consistent approach to assessing and developing talent and a greater focus on development plans. We consistently challenge ourselves to have the right skills and competencies to support our growth ambitions. We believe that this is best achieved through a balance of recruiting the very best external candidates to bring fresh approaches and perspectives, whilst also developing our existing employees. We continue to focus on building new relationships with universities and opportunities for apprentice programmes while continuing to expand our internal learning offerings and other development opportunities.

### Diversity and inclusion

With operations across the UK we have a diverse and engaged workforce that reflects our geographic footprint and their local knowledge. 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 continues to be a member of Business Disability Forum, a not-for-profit organisation that encourages the fair treatment of disabled people in the workplace and their community.



# Corporate and social responsibility continued

## Our people support our growth ambitions

Building a strong and diverse business that attracts, retains, develops, engages and inspires the right people with the right skills is central to supporting both our core purpose of delivering excellent client service and our growth ambitions.

We believe that the quality of our people is a strong enabler of business growth and we develop our employees' capabilities so that they can fulfil their potential and help us reach ours.

## THE STRENGTH AND QUALITY OF OUR PEOPLE CONTINUED

### 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**  
**22%**

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

### Career development

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

**Gender diversity**  
**24%**

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

**33%**

33 per cent of Dignity's senior and middle managers are female.

## WORKING SAFELY IN THE WORKPLACE

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

### Governance and management

Dignity has a full-time Head of Health and Safety who is supported by eight Health & Safety Officers with a broad collective experience from differing organisational backgrounds. Dignity's Head Office, crematoria and coffin manufacturing factory also have their own managers with responsibility for Health and Safety. In the last eight years the number of accidents has reduced by 27 per cent. Dignity continues to proactively monitor health and safety through quarterly analysis, inspection of premises, surveillance and regular reports to the Board and monitors reactively by investigating accidents and analysing statistics.

Dignity's coffin manufacturing facility in East Yorkshire has OHSAS 18001 accreditation officially recognising the factory as a safe and healthy environment in which to work.

### Health and safety performance

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

### Driving continuous improvement

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

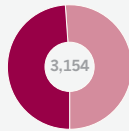
## Employee diversity

### Senior managers (% & number)



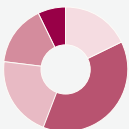
Male 76% (25 senior managers)  
Female 24% (8 senior managers)

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



Male 49% (1,551 employees)  
Female 51% (1,603 employees)

### Employee service (% & number)



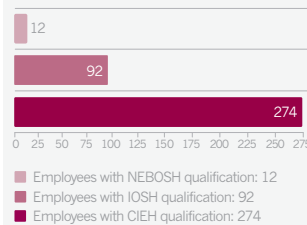
Less than 1 year: 18% (580 employees)  
1-4 years: 38% (1,187 employees)  
5-9 years: 21% (677 employees)  
10-19 years: 16% (493 employees)  
Over 20 years: 7% (217 employees)

### Positive about disability



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

### Health & safety training (number)



### Reduction in reportable accidents

**27%**

In the last eight years the number of accidents has reduced by 27 per cent.

## Integrity, ethics and human rights

### FTSE4Good

At Dignity we are committed to our Code of Conduct and Ethics Policy which reflects the way we operate. All staff within Dignity are expected to act with integrity and treat people fairly, with courtesy and respect, be responsible, respect diversity and communicate openly.

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 supporting universal human rights.

### Modern Slavery Act

Dignity is compliant with the Modern Slavery Act of 2015 and we are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business.

To ensure that we are complaint we complete house audits; conduct spot checks and use labour monitoring and payroll systems. A revised version of our Chief Executive's statement on the Modern Slavery Act can be found on our corporate website [www.dignityfuneralsplc.co.uk](http://www.dignityfuneralsplc.co.uk).



**Reducing our carbon footprint and environmental impact**

• As part of the Group's ongoing commitment to reducing its carbon footprint and environmental impacts, Dignity has been reporting to the CDP since 2008.

**Raw materials and sustainable sourcing**

• Our coffins are manufactured using raw materials that are sourced from well managed and sustainable sources.

**ISO 14001 accreditation**

• Dignity's coffin manufacturing facility has ISO 14001 accreditation which demonstrates our commitment to environmental management.



**External recognition of our sustainability performance**



FTSE4Good

**MANAGING OUR ENVIRONMENTAL IMPACT**

In 2016, 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 32,500 cremations at Dignity crematoria were mercury abated during 2016, representing 55 per cent of the total number of cremations.

Dignity's coffin manufacturing facility has ISO 14001 accreditation, an internationally accepted standard for an effective environmental management system that is designed to address the balance between maintaining profitability and reducing environmental impact. Our coffins are manufactured using raw materials that are sourced from well-managed and sustainable sources. 96 per cent of the coffins manufactured by Dignity are from Forest Stewardship Council ('FSC') accredited timber.

**CDP**

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

Dignity's 2016 submission achieved a 'B' rating, our best ever result. During the period, Dignity also reported on water and waste management for the first time under the scope 3 requirements.

**ESOS compliance**

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

**Waste reduction initiatives**

Unwanted materials are divided into categories; general waste and cardboard. Waste at approximately 200 Dignity premises is now collected by the same contractor allowing us to measure usage with greater accuracy and reduce the amount of waste deposited in landfill sites.

**Smart energy management**

**93%**

We had fitted 1,055 electric smart meters by the end of the period with a further 79 remaining to be fitted in 2017. This represents 93 per cent of the estate where such meters may be fitted.

In addition, we had fitted 517 gas loggers by the end of the period with a further 56 remaining to be fitted in 2017. This represents 90 per cent of the estate.

**Greenhouse gas emissions reporting for 2016**

The Group reports its greenhouse gas to CDP on an annual basis in tonnes of carbon dioxide equivalent resulting from the combustion of fuel (direct scope 1 Emissions) and that resulting from the purchase of electricity (indirect scope 2 Emissions). The emissions for the last five years are as follows:

	2016	2015	2014	2013	2012
Scope 1	15,616	14,988	14,437	15,077	15,097
Scope 2	7,106	7,455	7,389	7,151	7,861
Total	22,722	22,443	21,826	22,228	22,958
Per FTE Employee	8.0	8.2	8.5	9.0	10.0

Our energy consumption figures over the same periods are:

	2016	2015	2014	2013	2012
MWh	91,413	87,730	86,738	91,315	88,573

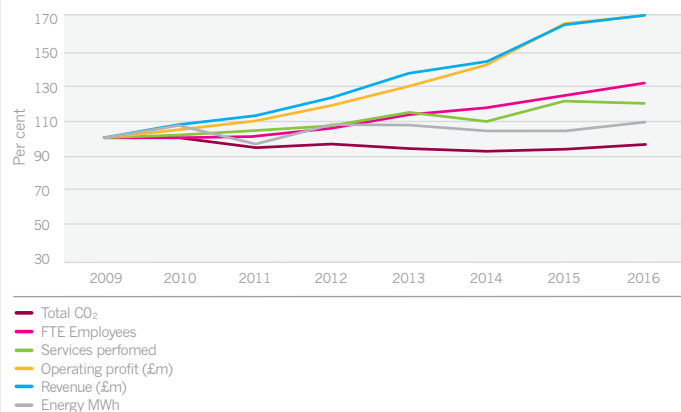
**Methodology**

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

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

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

**Percentage index graph scope 1 & 2**



## Corporate and social responsibility continued

### Find out more

Further details on our CSR activities, performance and case studies can be found on Dignity's website:

 [www.dignityfuneralsplc.co.uk/responsibility](http://www.dignityfuneralsplc.co.uk/responsibility)

### AT THE HEART OF OUR LOCAL COMMUNITIES

Helping people at one of the most difficult times in their lives is our core social purpose and contributing to the communities in which we operate benefits both local people and our business.

It helps to promote awareness of our brand and values, enhances our reputation, promotes employee engagement and attracts new clients to our business. Making a meaningful difference to the local communities we serve remains a key quality of our business.

Our operations are located across many UK towns and cities and as such we have an important role in supporting our communities. 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 community relationships and charitable programmes are primarily managed at a local level to allow our businesses to focus on the needs of their local communities.

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



As the ultimate people business, our employees are keen to support their local communities and charities in any way they can help to make a difference. This effort is operated on local and national levels to great effect through volunteering, fundraising activities and donations.



1



### Supporting Marie Curie since 2012

In 2016, Dignity raised £40,000 for its corporate charity, Marie Curie, and over the last five years our staff have helped to raise over £300,000 in support of this vital charity. There are nine Marie Curie hospices located in Belfast, Bradford, Edinburgh, Glasgow, Hampstead, London, Liverpool, Penarth and Solihull. Each Dignity branch and crematoria was linked with their local Marie Curie fundraising office so that the money that is raised will care for local patients in their community.

Fundraising initiatives included charity car washes, second-hand book sales, a pop music concert featuring Elvis and Abba tribute acts and Christmas memorial trees. 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.

**Above: 1.** Oliver Coote, Funeral Director, L Fulcher Funeral Directors, Bury St Edmunds. **Right: 2.** Sandra Whiteside, Funeral Manager, Ravenhill Funerals, Belfast.



2



### Dignity's new corporate charity 2017

British Heart Foundation's mission is to win the fight against cardiovascular disease and their vision is a world in which people do not die prematurely or suffer from cardiovascular disease.

Heart disease touches us all, including staff and clients. From raising money, to raising awareness, corporate partnerships are vital to helping beat heart disease.

Working in partnership with The British Heart Foundation will bring benefits to our business whilst helping to raise vital funds to fight heart disease. The new partnership will enable Dignity to:

- Motivate staff and encourage team building;
- Meet our Corporate Social Responsibility objectives;
- Help beat heart disease in the communities in which we operate by training staff in CPR techniques and installing defibrillators at some of our buildings;
- Reach new audiences; and
- Build brand profile.

## Governance section

How the Dignity Board sets strategic direction and provides oversight and control.

### Statement of Code Compliance

Dignity plc is subject to the UK Corporate Governance Code (the 'Code') issued by the Financial Reporting Council (available at [frc.org.uk](http://frc.org.uk)), which was published in September 2014. As a listed company, Dignity is required to report on how it has applied the principles of the Code and this is set out in the following pages. The Board is pleased to report that Dignity has complied with all of the provisions of the Code throughout the period ended 30 December 2016 and to the date of this document, with the exception of a short period between Martin Pexton having stepped down from the Board on 3 February 2017 until the appointment of Mary McNamara on 1 March 2017 where the Group did not fully comply with provision B.1.2 of the Code which requires that least half the board, excluding the chairman, should comprise non-executive directors.

### 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

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

#### REMUNERATION

Prudent oversight of Executive remuneration.

#### ENGAGEMENT

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

### In this section

38	Chairman's introduction to governance
39	Our governance structure
40	Board of Directors
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46	Audit Committee report
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50	Report on Directors' remuneration
64	Directors' report

## Chairman's introduction to governance

Good governance is fundamental to the ongoing success of the Group. It is the responsibility of the Board to lead by example.

**Peter Hindley**, Chairman



### Dear Shareholder,

On behalf of the Board I am pleased to present the Group's Corporate Governance Report for 2016. Our report is intended to provide shareholders with a clear and comprehensive explanation of what good governance means within Dignity, what it means to us as the Board of Directors, how it is applied and how it guides our decision making.

We are reporting in line with the UK Corporate Governance Code (the 'Code') and I am pleased to advise that Dignity has complied with all relevant provisions throughout the period ending 30 December 2016. How we have achieved this is covered in this section of our Annual Report and comprehensively explains our approach to and the application of good Corporate Governance.

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 8 June 2017 and take the opportunity to meet the management team at this important event. We will take both formal questions at that meeting and be available for more informal conversation and questions afterwards.

**Peter Hindley**, Chairman  
8 March 2017



Dignity is committed to maintaining the highest standards in corporate governance and ensuring values and behaviours are consistent across the business.

### Compliance with the UK Corporate Governance Code

It is the Board's opinion the Group has been fully compliant with the Code throughout the 53 week period ending on 30 December 2016 and remained fully compliant at the date the Annual Report for 2016 was published, with the exception of a short period between Martin Pexton having stepped down from the Board on 3 February 2017 until the appointment of Mary McNamara on 1 March 2017 where the Group did not fully comply with provision B.1.2 of the Code which requires that least half the board, excluding the chairman, should comprise non-executive directors.

### Directors' Report

The Directors present their report for Dignity plc for the period ending 30 December 2016.

### Corporate Governance

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

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

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

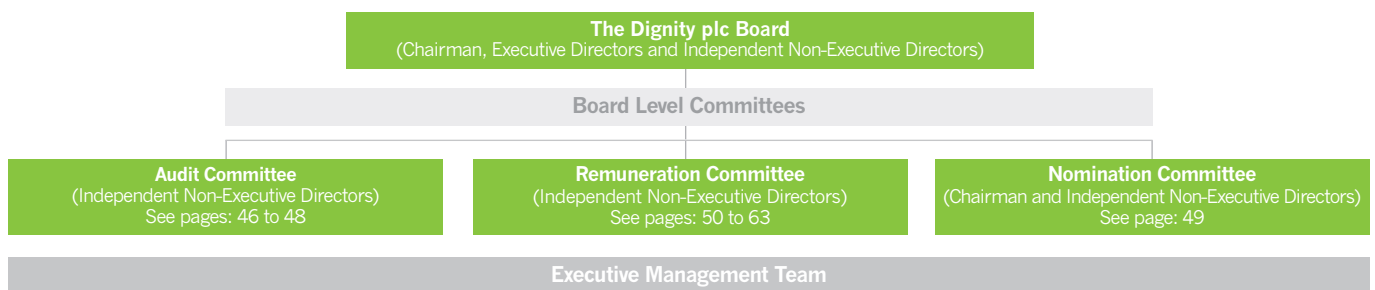
### Links

- 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.63**
- See Directors' report: **p.64 and p.65**



## Our governance structure

The Board is responsible for good stewardship; it sets the strategic direction and risk appetite within which the Executive management generate and drive value, underpinned by an effective governance framework.



### 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.

### 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 63.

### 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.

### 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;
- Crematorium Director: Steve Gant;
- Commercial Director: Steve Wallis;
- Head of Corporate Development – Crematoria: Alan Lathbury; and
- Head of Corporate Development – Funerals and Head of Internal Audit: Debbie Ginn.

## Board of Directors

A strong and experienced Board.



**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.



The composition of the Board is balanced to align with our strategic objectives and corporate responsibilities. Our Board members combine to provide a strong and complementary mix of skills and experience and together are committed to building the long-term success of the Group.

**Peter Hindley**  
Non-Executive Chairman



**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 Companion of the Chartered Management Institute and is a Member of the Investor Relations Society. He is also one of the Trustees of the Dignity Welfare Trust.

**External appointments:**

None.



**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 is a Non-Executive Director, and Audit Chair of Scapa Group plc, and has previously served as a member of the Cabinet Office Audit and Risk Committee and the Board for Actuarial Standards. He was Chief Financial Officer of Synthomer plc for seven years, stepping down in 2015, prior to which he held a number of senior roles with ICI plc. He is a Chartered Accountant (ICAEW) and a Fellow of the Association of Corporate Treasurers (FCT).

**Board Committee Membership**

as at 30 December 2016

	Audit Committee	Remuneration Committee	Nomination Committee
Peter Hindley			▲
Alan McWalter	●	▲	●
David Blackwood	▲	●	●
Jane Ashcroft	●	●	●
Martin Pexton (resigned 3 February 2017)	●	●	●

▲ 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 and of the National Housing Federation, 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.



**Mary McNamara**  
Non-Executive Director

Appointed to the Board: 2017

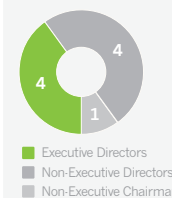
**Background and experience:**

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

**Board composition, balance and tenure**

The Board 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.63**

## 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 Group of this size, complexity and organisational structure.

The four independent Non-Executive Directors who served for the period were: Jane Ashcroft, Alan McWalter, Martin Pexton and David Blackwood. Martin Pexton resigned from the Board on 3 February 2017 and after a comprehensive and rigorous search conducted by an external recruitment agency Mary McNamara was appointed as Non-Executive Director on 1 March 2017. 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, upon request, 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 Mary McNamara are independent of management, as defined by the Code.

All Directors are able to take independent professional advice on the furtherance of their duties 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, security and tax matters as required or as requested by any director. In addition any newly appointed director receives appropriate induction training. Mary McNamara is receiving such training following her appointment.

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 £100 million.

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

In accordance with the Code, all Directors will submit themselves for re-election 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 again completed in 2016, following the one in 2013, by Independent Audit Ltd, a specialist company, entirely independent of the Group. This meets the requirements of the Code that an external evaluation takes place on at least a three yearly basis.

The evaluation included the circulation of a questionnaire to each Director to stimulate thinking prior to a face to face interview with the external assessor. The performance of individual directors was also considered as part of this process.

The results of the evaluation were then collated, discussed with the Chairman, a detailed report sent to all Directors followed by a presentation to the full Board by Independent Audit Ltd at their meeting in September 2016. The evaluation concluded that the Board and its three Sub-Committees operate very effectively and there were no significant areas of concern. Subsequent to that presentation the Directors had a full comprehensive discussion regarding the performance of the Board and its Committees and agreed any action points arising.

## Board and Board Committee Attendance

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

	Main Board <sup>(i)</sup>	Audit Committee	Remuneration Committee	Nomination Committee
<b>Number of meetings</b>	<b>7</b>	<b>3</b>	<b>6</b>	<b>2</b>
Jane Ashcroft	7	3	5	1
David Blackwood	7	3	6	2
Andrew Davies	7	3 <sup>(ii)</sup>	–	–
Peter Hindley	7	3 <sup>(ii)</sup>	6 <sup>(ii)</sup>	2
Mike McCollum	7	3 <sup>(ii)</sup>	4 <sup>(ii)</sup>	1 <sup>(ii)</sup>
Alan McWalter	7	3	6	2
Martin Pexton	7	3	6	2
Richard Portman	7	3 <sup>(ii)</sup>	4 <sup>(ii)</sup>	1 <sup>(ii)</sup>
Steve Whittern	7	3 <sup>(ii)</sup>	–	–

- (i) Only full Board meetings, of which there are seven per annum, have been included in the attendance analysis. Twelve 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) Martin Pexton resigned from the Board of Directors on 3 February 2017 and was replaced by Mary McNamara. He attended all Board and Committee meetings prior to his departure.

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 2016. 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 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 throughout the period and in place up to the date the Governance Report was signed and approved for the Annual Report and Accounts 2016.

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

Internal Audit completes a programme of work each year that provides assurance that the internal controls have been operated as designed and also proposes improvements where appropriate and necessary. Coupled with this, the formal six monthly review of the Risk Register provides a further 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.

## Directors' statement on corporate governance continued

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 formally reviews risk management annually and receives reports from Executive Management and Internal Audit regarding weaknesses in internal control, any losses arising out of weaknesses in internal control and progress in implementing revised procedures to improve and enhance internal control. It also identifies the significant controls upon which reliance will be placed. Any significant control weaknesses would be reported to the full Board at their next meeting. There have been no reports of weaknesses that have resulted or would have resulted in a material misstatement or loss in the period, nor in the period up to the date this Annual Report was published.

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

- **Financial Reporting** – The Group has a comprehensive system of internal budgeting and forecasting. The Group's monthly actual results analysed by operating division are reported to the Board and significant variances to budget are investigated with revised forecasts prepared as necessary;
- **Financial Controls** – The Executive Directors have defined appropriate and necessary financial controls and procedures to be employed by operational management. Key controls over major business risks include reviews against budgets and forecasts, review against key performance indicators and exception reporting;
- **Quality and Integrity of Personnel** – One of the Group's core values is integrity. This is regarded as vital to the maintenance of the Group's system of internal financial control. The Directors have put in place an organisation structure appropriate to the size and complexity of the Group with defined lines of responsibility and delegation of authority where the Board considers it necessary and appropriate. There is also a Code of Conduct applicable to all employees of the Group as well as specific policies such as Anti Bribery and Corruption 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 2016 (as in 2015), 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 two private meetings with the Chairman of the Audit Committee during 2016;

- **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 16 to 22.

## 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 generally 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 8 June 2017. 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](http://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:

Holder	As at 3 March 2017		As at 30 December 2016	
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
BAM & Oppenheimer Funds	4,968,414	9.99%	4,968,414	9.99%
Kames Capital	1,965,357	3.95%	2,460,352	4.95%
Aberdeen Asset Management	2,486,851	5.00%	2,486,851	5.00%
Montanaro Group	1,973,316	3.97%	1,973,316	3.97%
Franklin Templeton Investment Management Limited	2,448,905	4.92%	2,448,905	4.92%
Blackrock Investment Management	2,472,586	4.97%	2,472,586	4.97%
MFS Investment Management	2,460,953	5.04%	2,460,953	5.04%
Aviva	1,522,323	3.06%	1,986,475	3.99%

By order of the Board

**Richard Portman**  
Company Secretary

8 March 2017

## 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 second report as the Chairman of the Audit Committee.

### Membership and Process

The following Directors served on the Audit Committee (the 'Committee') during 2016: me as Chairman, Alan McWalter (Senior Independent Director), Jane Ashcroft and Martin Pexton each of whom are independent Non-Executive Directors. Martin Pexton resigned from the Board and this Committee on 3 February 2017 and was replaced by Mary McNamara who was appointed to the Board and this Committee on 1 March 2017. All other Committee members served through to the date of this report.

The Board is satisfied that I have, as Chairman of the Committee, 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 2016; in February prior to the release of the Preliminary Announcement for 2015; prior to the release of the Interim Announcement for 2016 in July; and again in December 2016 immediately prior to the end of the financial period. The Committee also met in March 2017 prior to the release of the Preliminary Announcement for 2016. 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 Corporate Services 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, met with the Lead Partner a total of two 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](http://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 2015 and 2016 Annual Report and Accounts and the 2016 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 2015 and 2016 financial statements;
- 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 period end with the external auditors, which addressed the planned audit approach to 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 2016 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 2015, and agreed with the judgements reached by management and confirmed we had fully complied with IAS19.
- Acquisition of five crematoria from Funeral Services Limited. We considered the appropriateness of the accounting treatment of the acquisition, including the fair value of assets acquired and the consequential allocation of goodwill.
- Pre-arranged funeral plans trusts – The Committee considered the on-going treatment of the Trusts under IFRS 10 along with the additional disclosure requirements of IFRS 12.

### 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 2017. The Committee was, based on that review, fully satisfied with EY's performance in 2016 and a resolution to re-appoint them as external auditors will be tabled at the AGM on 8 June 2017.

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

### Policy on non-audit fees

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

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

The policy also precludes the use of the external auditors for certain types of work. All such work will be fully analysed in the Annual Report between tax compliance and advisory, non statutory acquisition related services and statutory services. Audit Committee approval is required prior to the work being commenced and further disclosure of the works and the reasons for it being performed by the external auditors will be 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 2016, completion of turnover certificates, a financial covenants compliance certificate and certifications required as part of the Group's membership renewal of the FPA. Total fees of £42,000 were charged for the non-audit services compared to £288,000 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 2016.

## 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 third 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 2016 (as in 2015), there were quarterly meetings between the Head of Internal Audit and the Executive Directors formally to review and discuss Internal Audit's work programme and findings. In addition, regular meetings between Internal Audit and the external auditors, EY, were held during the year to discuss and plan audit work and to ensure a complementary approach. The Head of Internal Audit provides reports to the Audit Committee at every full meeting and met on a one to one basis with me, as the Chairman of the Audit Committee on two 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.

This Audit Committee report was reviewed and approved by the Board on 8 March 2017.

### **David Blackwood**

Chairman of the Audit Committee

8 March 2017

## Nomination Committee report

The Committee successfully recruited a new Non-Executive Director.

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



### Dear Shareholder,

On behalf of the Board, I am pleased to present the 2016 Nomination Committee report.

During 2016 the Nomination Committee (the 'Committee') consisted of me (as Chairman), Alan McWalter (Senior Independent Director), Jane Ashcroft, David Blackwood and Martin Pexton who subsequently resigned from the Board on 3 February 2017 and was replaced by Mary McNamara who joined on 1 March 2017. 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 in respect of all the Directors and senior managers;
- Identified and nominated for approval by the full Board a suitable candidate to fill the vacancy arising upon the resignation from the Board of Martin Pexton;
- 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](http://www.dignityfuneralsplc.co.uk).

The Committee met twice in 2016. 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 2015 Annual Report Martin Pexton indicated that he intended to step down from the Board in early 2017. The Nomination Committee therefore retained the executive search agency Norman Broadbent 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 have the ability to be Chairman of the Remuneration Committee in the future. I am pleased to advise that at the end of a rigorous recruitment process we appointed Mary McNamara, her biographical details are on page 41 of this Annual Report.

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

Name	Length of tenure at 30 December 2016 (years)							
	1	2	3	4	5	6	7	8
David Blackwood								
Alan McWalter								
Jane Ashcroft								
Mary McNamara								

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 in 2015 and the appointment of David Blackwood that percentage fell to 11 per cent. However we remained fully committed to increasing the proportion of women serving on the Board of Dignity back to 20 per cent or higher whilst continuing to remain mindful of the overall need to recruit the very best candidates regardless of gender. With the appointment of Mary McNamara I am pleased to advise that percentage is once again 22 per cent. The Group will continue to encourage similar diversity in senior management positions and throughout the workforce. Diversity is outlined in more detail in the Corporate and Social Responsibility Report on pages 33 and 34.

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 external 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 8 March 2017.

**Peter Hindley**  
Chairman of the Nomination Committee

8 March 2017

## Report on Directors' remuneration

for the 53 week period ended 30 December 2016

We remain committed to ensuring the remuneration of Executive Directors remains closely aligned to the interests of shareholders.

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



### Dear Shareholder,

On behalf of the Board, I am pleased to present this Directors' Remuneration Report for the year ended 30 December 2016. Last year, at the 2016 AGM, we renewed our Remuneration Policy and were pleased to receive more than 96 per cent of votes in favour of both the binding Remuneration Policy vote and the advisory Remuneration Report vote. On behalf of the Remuneration Committee, I would like to thank shareholders for their continued support. Since no changes are proposed to the remuneration policy, this year there will only be a single advisory vote on this statement and the Annual Report on Remuneration.

### Performance and reward in 2016

Dignity delivered a strong financial performance in 2016 with underlying earnings before taxation increasing by four per cent to £75.2 million. Underlying after tax earnings were £59.4 million in the period, an increase of five per cent on 2015. Underlying earnings per share in the period were 119.8 pence per share compared to 114.8 pence per share in 2015, an increase of four per cent.

### 2016 annual bonus outcome

As highlighted above, 2016 was a year of continued growth building on an exceptional prior year. The annual bonus in 2016 was measured against stretching earnings before interest and tax ('EBIT') targets, our key short-term financial performance indicator. EBIT of £101.7 million was three per cent above 2015 EBIT and above both the target and stretch levels set by the Committee. As a result, full bonuses have been awarded. The portion of bonus above 100 per cent of salary will be deferred in shares for two years in line with the approved remuneration policy.

The LTIP award granted in 2014 was subject to performance against two equally weighted measures, relative total shareholder return ('TSR') and earnings per share growth ('EPS'). Following the three year performance period ending 30 December 2016, Dignity's TSR ranked above the upper quartile and actual EPS had grown by more than the target set in 2014. As a result, the 2014 LTIP award will vest in full.

The Committee believes the bonus and LTIP outcomes are fully warranted and reflect the very strong recent performance of the Group.

### Remuneration in 2017

The Group is pleased to announce that a bonus of £1,200 was awarded to all employees not included in any other bonus scheme based on the strong financial performance in 2016 with the amount pro-rated for part time staff or those who joined during the year.

The Remuneration Committee has made the following decisions for the year ahead:

- Base salary increases received by the Executive Directors shall mirror those received by the wider workforce in monetary terms. This followed a recommendation from the Chief Executive. With the exception of promotion or exceptional circumstances, all full time employees including Executive Directors shall receive an increase of £1,200. As the same monetary increase is being provided, in percentage of salary terms, the Executive Directors' increases are lower than the typical employee increase.
- The annual maximum bonus will remain at 135 per cent of base salary for the Chief Executive and 125 per cent for the other Executive Directors. The structure is unchanged with the bonus being measured against stretching underlying EBIT targets and deferral into options applying for bonuses in excess of 100 per cent of salary.
- It is expected that LTIP awards will be granted in 2017 and these shall be in line with last year's awards based on a 150 per cent of base salary grant for all Executive Directors. The awards will vest subject to performance measured over three financial years, 2017-2019, against EPS and relative TSR targets. Any award that vests will be subject to a two year holding period.

Finally, we the Committee would like to thank Martin Pexton, who stepped down in February 2017, for his hard work and his contributions to both the Committee and to the Board. We wish him all the success in the future. I would also like to welcome Mary McNamara who joined the Committee on 1 March 2017 upon her appointment to the Board of Dignity.

The Remuneration Committee actively seeks and welcomes feedback from the Company's shareholders. On behalf of the Committee, I welcome your feedback and ask for your support at the forthcoming Annual General Meeting.

**Alan McWalter**

Chairman of the Remuneration Committee

8 March 2017

## REMUNERATION POLICY REPORT

This section of the Directors' Remuneration Report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The full Directors' Remuneration Policy, approved for three years from the 2016 AGM held on 9 June 2016, is shown on pages 52 to 56 for ease of reference. Please note that the information shown has been updated to take account of the fact that the policy is now approved and enacted rather than proposed.

### 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.

The table on pages 52 and 53 summarises the main components of Dignity's ongoing remuneration policy. Details of how the Committee will implement the policy are provided in the Annual Report on Remuneration on page 56.

## Report on Directors' remuneration continued

for the 53 week period ended 30 December 2016

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. 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. In deciding appropriate levels, the Committee takes into account: <ul style="list-style-type: none"> <li>the role, experience, responsibility and performance (individual and Group);</li> <li>increases applied to the broader workforce; and</li> <li>relevant market information for similar roles in broadly similar UK listed companies and companies of a similar size.</li> </ul>	There is no prescribed maximum. 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. Salaries for 2017 are: CEO: £511,500; Operations Director: £326,700; Finance Director: £316,200; and Corporate Services Director: £247,950.	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 and broadband at each Executive Director's home residence, mobile phone, family private medical cover and a pre-arranged funeral plan for the individual or spouse. Relocation or other related expenses may be offered, as required. Executive Directors are also eligible to participate in the all-employee HMRC approved share schemes on the same basis as other employees. 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. Relocation expenses must be reasonable and necessary. 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. The Company may contribute to selected individuals' personal pension schemes or is able to make salary supplements in lieu of pension contributions. 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. 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. 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. 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. Bonus payments, including deferred bonus awards, are subject to recovery and withholding provisions in the event of financial misstatement or miscalculation of performance conditions. 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 Group'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. 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. 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. <ul style="list-style-type: none"> <li>Nothing is payable for performance below a minimum level of EBIT.</li> <li>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.</li> <li>Bonus is payable on a pro-rata basis for performance between the first and second targets.</li> </ul> See Note 2.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
<b>Long-Term Incentive Plan</b>	<p>Incentivises selected employees and Executive Directors to achieve successful execution of business strategy over the longer-term.</p> <p>Provides long-term retention.</p> <p>Aligns the interests of the Executives and shareholders through the requirement to build up a substantial shareholding.</p>	<p>Awards are normally granted annually in the form of nil cost options or conditional share awards.</p> <p>Participation and individual award levels will be reviewed annually (subject to the individual limit) taking into account matters such as market practice, overall remuneration, the performance of the Group and the Executive being granted the award.</p> <p>Awards normally vest after three years subject to the achievement of stretching performance conditions and continued employment.</p> <p>Awards are subject to recovery and withholding provisions in the event of financial misstatement or miscalculation.</p> <p>Following vesting, Executive Directors will be required to retain their net of tax vested shares for two years.</p> <p>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.</p> <p>See Note 1.</p>	<p>The maximum annual award that can be made to an individual in any given financial year is 150 per cent of salary.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>Performance periods will normally start from the beginning of the financial year in which the award is made.</p> <p>See Note 3.</p>
<b>Non-Executive Chairman and Directors' fees</b>	<p>To attract and retain a high quality Chairman and experienced Non-Executive Directors.</p>	<p>The Board determines the fees of the Non-Executive Directors. They are based upon recommendations from the Chairman and Chief Executive (or, in the case of the Chairman, based on recommendations from the Remuneration Committee and the Chief Executive).</p> <p>Both the Chairman and the Non-Executive Directors are paid annual fees and do not participate in any incentive plans or receive pension or other benefits.</p> <p>The Chairman receives a single fee covering all his duties. The Non-Executive Directors receive a basic fee and additional fees payable for chairing the Audit and Remuneration Committees and for performing the Senior Independent Director role.</p> <p>The Chairman and Non-Executive Directors shall be entitled to have reimbursed all expenses that they reasonably incur in the performance of their duties, including those expenses that have been deemed to be taxable benefits by HMRC. This includes any personal tax that may become due.</p> <p>The level of fees of the Non-Executive Directors reflects the time commitment and responsibility of their respective roles. Their fees are reviewed from time to time against broadly similar UK listed companies and companies of a similar size.</p> <p>In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment of the Non-Executive Chairman and Directors.</p>	<p>There is no prescribed maximum, however, any increase to fees will be considered in light of the expected time commitment in performing the roles, increases received by the wider workforce and market rates in comparable companies.</p>	<p>Neither the Non-Executive Chairman nor the Non-Executive Directors are eligible for any performance related remuneration.</p>
<b>Share ownership guidelines</b>	<p>To align the interests of management and shareholders and promote a long-term approach to performance.</p>	<p>Executive Directors are required to build and maintain a holding of shares to the value of at least 200 per cent of base salary. 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 resulted in the following required holdings or Ordinary Shares:</p> <ul style="list-style-type: none"> <li>• Mike McCollum 43,709 Ordinary Shares.</li> <li>• Andrew Davies 27,880 Ordinary Shares.</li> <li>• Richard Portman 21,135 Ordinary Shares.</li> <li>• Steve Whittern 26,981 Ordinary Shares.</li> </ul> <p>Until the guideline is met, the executive is required to retain 50 per cent of shares acquired under the Company's share plans (after allowing for tax and national insurance liabilities).</p>	<p>Not applicable.</p>	<p>Not applicable.</p>

#### 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 Group'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 Group'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 Group value creation.

## Report on Directors' remuneration continued

for the 53 week period ended 30 December 2016

### 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):

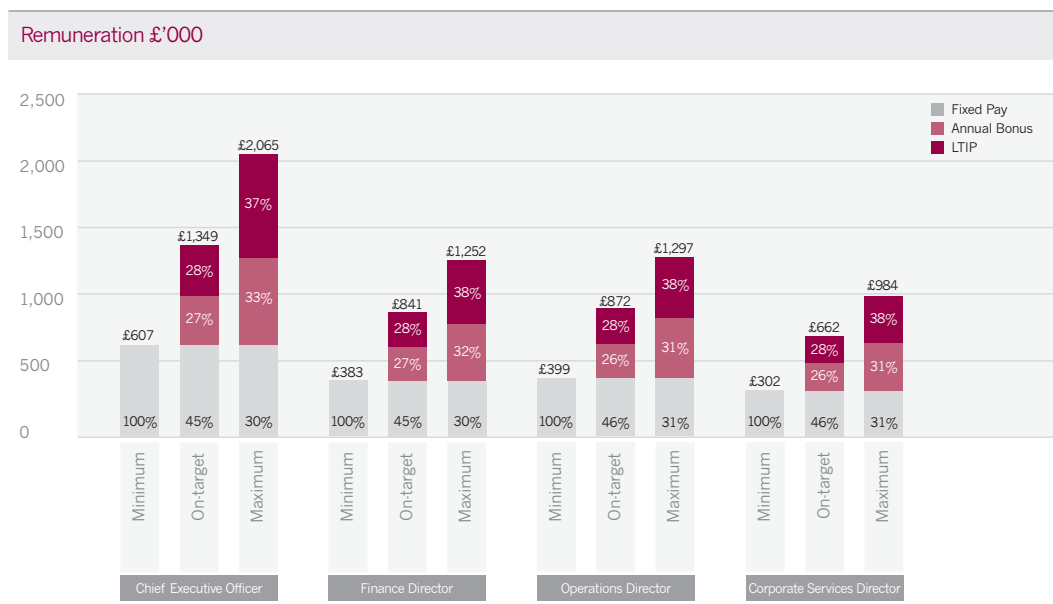
- Who participates in the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or a payment;
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Determination of a good leaver (in addition to any specified categories) 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 was 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 2017 vary under three performance scenarios: minimum, on-target and maximum.



#### Notes

- Minimum comprises fixed pay, which includes 2017 basic salary, the value of benefits in 2016 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.



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 2016	3 months	36 months
David Blackwood	1 October 2015	3 months	12 months
Alan McWalter	1 January 2015	3 months	12 months
Jane Ashcroft	1 April 2016	3 months	15 months
Mary McNamara	1 March 2017	3 months	n/a

Martin Pexton served on the Board throughout 2016 and resigned on 3 February 2017.

For Executive Directors, the Company may in its absolute discretion at any time after notice is served by either party, terminate a Director's contract with immediate effect by paying an amount equal to base salary for the then unexpired period of notice plus the fair value of contractual benefits subject to the deduction of tax.

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 53 week period ended 30 December 2016

### 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 2017 AGM. The information below includes how we intend to operate our policy in 2017 and the pay outcomes in respect of the 2016 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 2017

#### Salaries

Following a Group-wide review of base salaries it was determined that all full-time employees shall receive an increase of £1,200 in 2017. Part time employees will receive a pro rata increase. The Committee decided, following a recommendation from the Chief Executive, that the Executive Directors shall receive the same increase as all other employees.

Therefore, the proposed salaries as at 1 January 2017 are:

	2017 £	2016 £	Increase %
Mike McCollum	£511,500	£510,300	0.2
Andrew Davies	£326,700	£325,500	0.4
Richard Portman	£247,950	£246,750	0.5
Steve Whittern	£316,200	£315,000	0.4

### 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 2017 are as detailed below and have been increased by two per cent from those in 2016:

	2017 £	2016 £	Increase %
Peter Hindley	£173,350	£169,950	2
Jane Ashcroft	£46,850	£45,900	2
David Blackwood	£56,200	£55,100	2
Alan McWalter	£62,850	£61,600	2
Mary McNamara*	£39,042	–	–

\*Mary McNamara was appointed on the 1 March 2017.

The base fees for Non-Executive Directors in 2017 are £46,850. The Senior Independent Director receives an additional fee of £9,700 and the Chairs of the Audit and Remuneration Committees receive additional fees of £9,350 and £6,300 respectively.

### Pension and Benefits

All Executive Directors will receive a salary supplement in lieu of pension of 15 per cent of their basic salary. Benefits will be provided in line with the approved remuneration policy.

### Annual bonus

For 2017, the maximum bonus potential shall be 135 per cent for the Chief Executive and 125 per cent for the remaining Executive Directors.

The annual bonus will continue to be solely based on stretching underlying EBIT targets which the Committee believes provides a sound measure of trading performance and a good balance with EPS and TSR which are 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.

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 2017 awards will be subject to a relative TSR measure measured against the constituents of the FTSE 350 and the other half subject to challenging EPS growth targets. The performance period for both tranches will be the three financial years, 2016-2018.

Performance conditions	Weighting	Threshold vesting	Threshold	Target vesting	Target	Maximum vesting	Maximum
Relative TSR	50%	25%	Median	–	–	100%	Upper quartile or higher
EPS	50%	15%	136.8p	50%	144.0p	100%	154.8p or higher

No vesting may occur under the relative TSR measure unless the Committee considers that the underlying financial performance of the Group has been satisfactory.

Under the EPS measure, vesting for performance between threshold and target and between target and maximum is determined on a straight line basis. Under the TSR measure vesting between threshold and maximum is determined on a straight line basis.

Awards will be subject to a post-vesting holding period of two years. 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 53 week period ended 30 December 2016

## Single total remuneration figure for Directors

The following table presents a single total remuneration figure for 2016 for the Executive and Non-Executive Directors.

		Fixed Pay			Pay for Performance			Total Remuneration £'000
		Salary £'000	Benefits <sup>(a)</sup> £'000	Pension <sup>(b)</sup> £'000	Annual Bonus <sup>(c)</sup> £'000	LTIP <sup>(d)</sup> £'000	Other <sup>(e)</sup> £'000	
<b>Executive Directors</b>								
Mike McCollum	2016	510	19	77	689	1,138	–	2,433
	2015	486	19	73	486	1,376	–	2,440
Andrew Davies	2016	326	23	49	407	646	–	1,451
	2015	310	26	–	310	782	–	1,428
Richard Portman	2016	247	17	37	308	550	6	1,165
	2015	235	17	35	235	626	–	1,148
Steve Whittern	2016	315	19	47	394	633	–	1,408
	2015	300	19	–	300	692	–	1,311
<b>Non-Executive Directors</b>								
Peter Hindley	2016	170	1	–	–	–	–	171
	2015	167	1	–	–	–	–	168
Jane Ashcroft	2016	46	–	–	–	–	–	46
	2015	45	–	–	–	–	–	45
David Blackwood <sup>(e)</sup>	2016	55	–	–	–	–	–	55
	2015	14	–	–	–	–	–	14
Alan McWalter	2016	62	–	–	–	–	–	62
	2015	60	–	–	–	–	–	60
Martin Pexton	2016	46	–	–	–	–	–	46
	2015	45	–	–	–	–	–	45

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

<sup>(b)</sup> The pension benefit is set at 15 per cent of basic salary. In 2015 only Mike McCollum and Richard Portman received this benefit. Under the revised remuneration policy approved by shareholders at the 2016 AGM it now applies to all Executive Directors.

<sup>(c)</sup> The bonus refers to performance in the 2015 and 2016 financial years. The cash element, being 100 per cent of basic salary, of the bonus awarded for performance relating to 2016 is due to be paid at the end of March 2017. The remainder of the bonus; 35 per cent of basic salary in respect of Mike McCollum and 25 per cent of basic salary for the remaining Executive Directors is deferred shares which have to be held for two years.

<sup>(d)</sup> The LTIP value relates to the award that was granted 24 March 2014. The performance period for this award ends on 30 December 2016. The value shown is calculated by reference to the average share price in the last quarter of the 2016 financial year. The comparative number is the value of the 2013 LTIP that vested in 2016.

<sup>(e)</sup> David Blackwood was appointed to the Board on 1 October 2015.

<sup>(f)</sup> The other remuneration represents the gain on exercise and disposal of SAYE options granted in 2013.

## Determination of 2016 annual bonus outcome

The targets for the 2016 annual bonus were based on the achievement of an underlying EBIT target:

	Weighting %	Target (for which 70% of maximum payable) £m	Stretch (for which 100% of maximum payable) £m	2016 achieved £m	Bonus payable (out of maximum) %
EBIT	100	96.7	99.1	101.7	100

The strong performance of the Group during 2016 meant that the EBIT target of £96.7 million was exceeded by £5 million (5.2 per cent). As a consequence both the target and stretch targets for EBIT were met. Accordingly, the Committee awarded Executive Directors full bonuses in respect of the 2016 financial year, being 135 per cent of base salary for the Chief Executive and 125 per cent of base salary for the other Executive Directors.

Director	Bonus maximum % of base salary	EPS achievement % of award	Bonus awarded £'000	Cash bonus £'000	Deferred bonus £'000
Mike McCollum	135	100	689	510	179
Andrew Davies	125	100	407	326	81
Richard Portman	125	100	308	246	62
Steve Whittern	125	100	394	315	79

Bonus in excess of 100 per cent of base salary will be deferred in shares for a period of two years.

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

Half of the LTIP awards made in 2014 were subject to a relative TSR condition and half subject to EPS, both measured over the three year period which ended on 30 December 2016.

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

EPS condition	<i>Performance required</i>	% 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%

Dignity's TSR over the three year measurement period was 83.6 per cent ranking Dignity in 30th place out of the 325 companies in the TSR peer group. Underlying EPS increased from 72.1 pence to 119.8 pence, a compound increase of 18.4 per cent. Consequently 100 per cent of the 2014 awards will vest, subject to formal ratification by the Remuneration Committee at the appropriate time.

Director	2014 PSP award number of shares	EPS vesting % of target	TSR vesting % of target	Average share price (1 October – 30 December 2016) £	Estimated award value £'000
Mike McCollum	43,999	100	100	25.87	1,138
Andrew Davies	24,991	100	100	25.87	646
Richard Portman	21,249	100	100	25.87	550
Steve Whittern	24,483	100	100	25.87	633

The estimated value of the award is based on the average share price over the last quarter of the financial year. The actual value will be the value at the vesting date.

### LTIP awards granted in the year

LTIP awards granted in the form of nil cost options to Executive Directors on 15 June 2016 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	31,435	765,450	• Threshold: 15% for EPS and 25% for TSR.	28.12.15 – 28.12.18
Andrew Davies	20,051	488,250		28.12.15 – 28.12.18
Richard Portman	15,200	370,125	• 100% for maximum vesting.	28.12.15 – 28.12.18
Steve Whittern	19,405	472,500		28.12.15 – 28.12.18

\* Based on a face value grant of 150 per cent of salary and using a 28 day average share price to 25 December 2015 of 2,435 pence.

Half of the 2016 award vest subject to a relative TSR measure measured against the constituents of the FTSE 350 as at 28 December 2015 and the other half subject to EPS growth targets. The performance period for both tranches is measured over 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 128.1 pence, 15 per cent vests for EPS of 128.1 pence, 50 per cent vests for EPS of 134.8 pence with 100 per cent vesting for EPS of 144.9 pence. 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 53 week period ended 30 December 2016

### 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 25.12.15	Granted during year	Lapsed during year	Vested and exercised during year	As at 30.12.16	Earliest date shares can be acquired	Latest date shares can be acquired
Mike McCollum	19.03.13 <sup>(ii)</sup>	1,023	57,050	–	–	57,050	–	20.03.16	18.03.23
	24.03.14 <sup>(iii)</sup>	1,353	43,999	–	–	–	43,999	25.03.17	24.03.24
	05.03.15 <sup>(iv)</sup>	1,742	34,874	–	–	–	34,874	06.03.18	05.03.25
	15.06.16 <sup>(v)</sup>	2,435	–	31,435	–	–	31,435	15.06.19	15.06.26
Andrew Davies	19.03.13 <sup>(ii)</sup>	1,023	32,405	–	–	32,405	–	20.03.16	18.03.23
	24.03.14 <sup>(iii)</sup>	1,353	24,991	–	–	–	24,991	25.03.17	24.03.24
	05.03.15 <sup>(iv)</sup>	1,742	22,245	–	–	–	22,245	06.03.18	05.03.25
	15.06.16 <sup>(v)</sup>	2,435	–	20,051	–	–	20,051	15.06.19	15.06.26
Richard Portman	19.03.13 <sup>(ii)</sup>	1,023	25,929	–	–	25,929	–	20.03.16	18.03.23
	24.03.14 <sup>(iii)</sup>	1,353	21,249	–	–	–	21,249	25.03.17	24.03.24
	05.03.15 <sup>(iv)</sup>	1,742	16,863	–	–	–	16,863	06.03.18	05.03.25
	15.06.16 <sup>(v)</sup>	2,435	–	15,200	–	–	15,200	15.06.19	15.06.26
Steve Whittern	19.03.13 <sup>(ii)</sup>	1,023	28,715	–	–	28,715	–	20.03.16	18.03.23
	24.03.14 <sup>(iii)</sup>	1,353	24,483	–	–	–	24,483	25.03.17	24.03.24
	05.03.15 <sup>(iv)</sup>	1,742	21,527	–	–	–	21,527	06.03.18	05.03.25
	15.06.16 <sup>(v)</sup>	2,435	–	19,405	–	–	19,405	15.06.19	15.06.26

(i) Half of the share awards under the LTIP are subject to a comparative TSR performance condition against the constituents of the FTSE 350. Awards will only be released if the Group's comparative TSR performance is equal or greater than the median level of performance over the performance period at which point 25 per cent of the award will be released with full vesting occurring for an upper quartile performance. Vesting occurs on a straight line basis between these points. The other half of the awards are based on EPS growth targets.

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

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

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

(v) Number of options derived based on the average mid-market share price for the previous 28 days to 25 December 2015.

The aggregate gain on the exercise of options, both Long-Term Incentive Plan and Save As You Earn, by Directors in the period was £3.6 million (2015: £3.8 million).

### Directors' interest in shares

The interests of the Directors in the share capital of Dignity plc at 30 December 2016 are set out below:

	Number of Ordinary Shares			Subject to performance conditions under the LTIP
	At 25 December 2015	At 30 December 2016		
		Legally owned	Subject to SAYE	
Mike McCollum	183,334	183,334	–	110,308
Andrew Davies	137,254	137,254	–	67,287
Richard Portman	93,630	92,280	332	53,312
Steve Whittern	19,586	27,000	–	65,415
Peter Hindley	160,696	160,696	–	–
David Blackwood	2,189	2,189	–	–
Alan McWalter	2,552	2,552	–	–
Jane Ashcroft	917	917	–	–
Martin Pexton	2,750	2,750	–	–
Mary McNamara <sup>(1)</sup>	–	–	–	–

<sup>(1)</sup> At the date of her appointment, Mary McNamara did not own any shares in the Company.

There has been no change in the interests set out above between 30 December 2016 and 8 March 2017.

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 26 February 2016 as adjusted for any subsequent share consolidations. All Executive Directors meet that guideline.

## Directors' total pension entitlements

	Age at 30.12.16	Pensionable service at 30.12.16 Years	Accrued pension 25.12.15 £	Accrued pension 30.12.16 £	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	49	15.667	108,944	–	–	–	76,545	– 76,545	65	2,178,880	–	
Richard Portman	55	14.583	43,487	43,487	–	–	37,013	– 37,013	65	869,740	869,740	
Andrew Davies	55	–	–	–	–	–	48,825	– 48,825	65	–	–	
Steve Whittern	42	–	–	–	–	–	47,250	– 47,250	65	–	–	

- (1) Mike McCollum and Richard Portman were deferred members of the Dignity Pension & Assurance Scheme, which is a defined benefit and tax approved scheme. Mike McCollum ceased to be an active member of the Scheme on 31 March 2012 and Richard Portman ceased to be an active member on 31 March 2014. Instead they receive a pension supplement of 15 per cent of base salary. The Group has also arranged permanent life cover equal to the benefit they would have received had they remained in the Scheme. Mike McCollum transferred his benefits out of the Scheme in January 2016. Richard Portman continues to be entitled to a deferred pension under the Scheme.
- (2) Andrew Davies and Steve Whittern now receive a pension supplement equal to 15 per cent of base salary which commenced at the start of the period.
- (3) Transfer values have been calculated in accordance with the transfer value basis set by the Trustee.
- (4) 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.

## 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 2016 financial year compared with the prior year.

	2016 £m	2015 £m	Change %
Dividends	11.0	10.0	10
Employee remuneration costs	99.7	94.7	5

## 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.

	2016 £'000	2015 £'000	Change %
Chief Executive (£'000)			
– Salary	510	486	5
– Benefits	96	92	4
– Bonus	1,827	1,862	(2)
	£	£	Change %
Full time equivalent average employee (£) <sup>(1)</sup>			
– Salary	24,487	24,054	2
– Benefits	1,697	1,620	5
– Bonus	4,036	4,718	(14)

<sup>(1)</sup> There are 3,154 employees at 30 December 2016 (25 December 2015: 3,038), of which 810 (2015: 736) were part time.

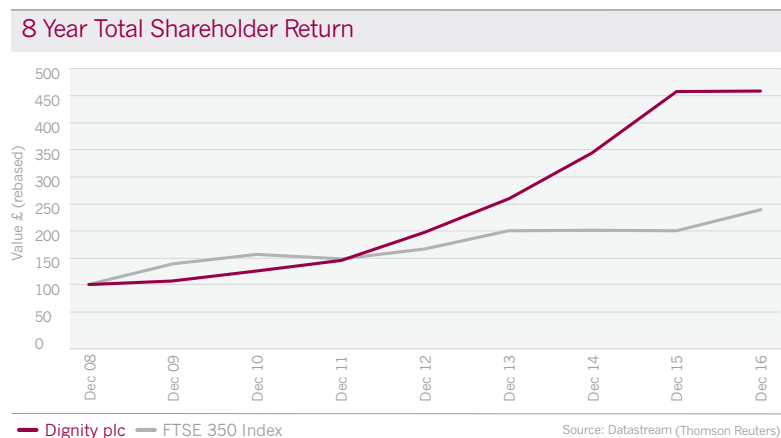
The comparative numbers for 2015 have been restated as the method of calculation was comprehensively reviewed in the period.

## Report on Directors' remuneration continued

for the 53 week period ended 30 December 2016

### Performance graph and single figure table

The following graph shows the Company's TSR performance over the last eight 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 30 December 2016, of £100 invested in Dignity plc on 26 December 2008, compared with the value of £100 invested in the FTSE 350 Index on the same date.

The table below shows the total remuneration figure for the CEO over the same eight 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	2016
CEO single total figure of remuneration (£'000)	1,018	899	917	2,081	2,217	2,426	2,440	2,433
Annual bonus pay-out relative to maximum (%)	85	100	100	100	100	100	100	100
LTIP vesting (%)	63	–	–	100	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 in 2016 comprised all the other Non-Executive Directors: Jane Ashcroft, David Blackwood and Martin Pexton. Martin Pexton resigned from the Board of Dignity plc on 3 February 2017 and was replaced by Mary McNamara on 1 March 2017 who was also appointed to serve on the Remuneration Committee.

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 seven 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 approved the payment of the 2015 performance related bonus, dealt with the vesting of the shares awarded in 2013 under the LTIP scheme and approved the amendments to the Rules of the LTIP and the Rules of the new Deferred Annual Bonus Scheme.



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 £35,754 + VAT and were charged on a time spent basis.

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

Votes cast by proxy and at the Annual General Meeting held on 9 June 2016 in respect of the Remuneration Report and Policy are as shown below:

	Remuneration Report		Remuneration Policy	
	Total number of votes	Percentage of votes cast	Total number of votes	Percentage of votes cast
For	38,273,742	96.9	38,061,712	96.3
Against	440,335	1.1	790,561	2.0
Abstentions	802,328	2.0	664,132	1.7
<b>Total</b>	<b>39,516,405</b>	<b>100</b>	<b>39,516,405</b>	<b>100</b>

On behalf of the Board

#### Alan McWalter

Chairman of the Remuneration Committee

8 March 2017

## Directors' report

for the 53 week period ended 30 December 2016

The Directors present their report and the audited consolidated financial statements for Dignity plc and its subsidiaries for the 53 week period ended 30 December 2016.

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 including Financial Reporting Standard 101, Reduced Disclosure Framework ('FRS 101') (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent; and
- State whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Report on Directors' Remuneration comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's websites 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 pages 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 36 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, 213,851 Ordinary Shares of 12 48/143 pence each were issued to satisfy Long-Term Incentive Plan share awards vesting in the period and 104,008 Ordinary Shares of 12 48/143 pence each were issued to satisfy options exercised under the 2013 Save As You Earn Scheme which matured on 1 December 2016. Of that total 1,541 were issued to retirees prior to the maturity of the scheme.

The issued share capital of Dignity plc at 30 December 2016 consisted of 49,738,150 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 9 June 2016 gives Dignity plc the authority to purchase up to 4,963,440 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 £4,081,822 of which up to £612,273 may be for cash. These authorities will expire at the conclusion of the next AGM on 8 June 2017. 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 70. The Group's profit before tax amounted to £71.2 million (2016: £69.0 million).

### Dividends

An interim dividend of 7.85 pence per Ordinary Share was paid to shareholders on 28 October 2016. The Board has proposed a final dividend of 15.74 pence (2015: 14.31 pence) per share, which, subject to approval at the AGM, will be paid on 30 June 2017 to shareholders on the register at close of business on 19 May 2017.

### Employment policies

During the period, the Group has maintained its obligations to effectively communicate and involve employees in its affairs. Methods of communication used include an in-house magazine, team talks, regular bulletins, both national and regional and management briefings. This is discussed in more detail in the Corporate and Social Responsibility Report on pages 32 to 36.

Employment policies are designed to provide equal opportunities irrespective of age, sexuality, colour, ethnic or national origin, religion, nationality, sex or marital status. Full consideration is given to the employment, training and career development of disabled persons, subject only to their aptitudes and abilities. The Group endeavours, as far as is practicable, to treat disabled persons equally with others and will also endeavour to help and accommodate persons who become disabled whilst working for Dignity.

The Directors will be publishing gender pay data on the corporate website [www.dignityfuneralsplc.co.uk](http://www.dignityfuneralsplc.co.uk) during 2017 in accordance with the Equality Act 2010 (Gender Pay Gap) Regulations 2017 that came into force on 1 October 2016.

### 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 8 June 2017. 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 £100 million. The Directors of each of the Company's subsidiaries have the benefit of an indemnity provision in the Company's Articles of Association. The indemnity provision, which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006, was in force throughout the period and is currently in force.

### Health and safety policy

The Group's operations are designed at all times in such a way as to ensure, so far as reasonably practicable, the health, safety and welfare of all of our employees and all other persons who may be attending our premises. This is discussed in the Corporate and Social Responsibility Report on page 34.

### 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 35 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 3 March 2017.

### 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 36 has been approved by the Board.

By order of the Board

### Richard Portman

Company Secretary

8 March 2017

# Independent auditors' report to the members of Dignity plc

for the 53 week period ended 30 December 2016

## 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 30 December 2016 and of the group's profit for the 53 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 Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework"; 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
<ul style="list-style-type: none"> <li>• Consolidated balance sheet as at 30 December 2016</li> <li>• Consolidated income statement for the 53 week period then ended</li> <li>• Consolidated statement of comprehensive income for the 53 week period then ended</li> <li>• Consolidated statement of changes in equity for the 53 week period then ended</li> <li>• Consolidated cash flow statement for the 53 week period then ended</li> <li>• Related notes to the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>• Company balance sheet as at 30 December 2016</li> <li>• Statement of changes in equity for the 53 week period then ended</li> <li>• Related notes to the financial statements</li> </ul>

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

## Overview of our audit approach

Risks of material misstatement that had the greatest effect on our overall audit strategy and the allocation of resources in the audit	<ul style="list-style-type: none"> <li>• The risk of inappropriate revenue recognition. Specifically 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.</li> <li>• The risk of fraud and management override. Specifically risks inherent in those areas where manual journals are posted at head office as part of the financial statement close process.</li> </ul>
Audit scope	<ul style="list-style-type: none"> <li>• We performed an audit on the consolidated financial records of the Group to the materiality and performance materiality described below.</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>• Overall Group materiality was £3.7 million which represents 5% of profit before tax.</li> </ul>

## Our assessment of risk of material misstatement

We identified the risks of material misstatement described opposite 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
<p><b>The risk of inappropriate revenue recognition</b></p> <p>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.</p> <p><i>Refer to the Accounting policies (pages 74 to 81); and Note 3 of the Consolidated Financial Statements (pages 82 to 84).</i></p>	<ul style="list-style-type: none"> <li>• We carried out testing relating to controls over revenue recognition, including the timing of revenue recognition;</li> <li>• We evaluated the controls in the IT systems that support the recording of revenue;</li> <li>• We performed detailed cut-off testing on the provision of funerals and cremations delivered around the period end;</li> <li>• We performed detailed cut-off testing on the marketing allowances arising on pre-arranged funeral plans issued around the period end;</li> <li>• We performed analytical procedures to compare revenue recognised with expectations from past experience, management's forecasts and, where possible, external market data in respect of the numbers of deaths in the period and obtained corroborative evidence to support divergences from our expectations;</li> <li>• We reconciled the aggregate revenue amounts extracted from the front end sales systems to revenue recorded in the general ledger and audited material reconciling items that arose therefrom; and</li> <li>• We identified and obtained support for journals generated at head office impacting revenue.</li> </ul>	<p>Based upon the procedures performed we are satisfied that revenue, as presented in the Annual Report &amp; Accounts, is not materially misstated.</p>
<p><b>The risk of fraud and management override</b></p> <p>We considered the risks inherent in those areas where manual journals are posted at head office as part of the financial statement close process and in particular in respect of subjective areas which we considered to be most susceptible to management override. These areas were considered to be the bad debt provision, pre-need cancellation provision, dilapidations provision and cost accruals.</p>	<ul style="list-style-type: none"> <li>• We performed data analytics to identify journal entries that we believed to be potentially unusual. We obtained supporting evidence for each of those journals identified; and</li> <li>• We have performed audit procedures in respect of each of the estimates listed to identify evidence of management bias.</li> </ul>	<p>Based on the results of the procedures performed, including journal entry testing, we have not identified any anomalies.</p>
<p><b>The scope of our audit</b></p> <p>Our assessment of audit risk, our evaluation of materiality and performance materiality determines our audit scope. Taken together, this enables us to form an opinion on the consolidated financial statements. The group finance function operates from head office and 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.</p>		
<p><b>Our application of materiality</b></p> <p>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.</p>		
<p><b>Materiality</b></p> <p><i>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.</i></p> <p>We determined materiality for the Group to be £3.7 million (2015: £3.4 million), which is 5% (2015: 5%) of profit before tax. We believe that profit before tax is the most relevant measure of the underlying financial performance of the Group.</p>		
<p><b>Performance materiality</b></p> <p><i>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.</i></p> <p>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% (2015: 75%) of our planning materiality, namely £2.8 million (2015: £2.6 million).</p>		
<p><b>Reporting threshold</b></p> <p><i>An amount below which identified misstatements are considered as being clearly trivial.</i></p> <p>We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.2 million (2015: £0.2 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.</p>		

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

for the 53 week period ended 30 December 2016

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 64, 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:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

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:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have no exceptions to report.

## Listing Rules review requirements

We are required to review:

- the directors' statement in relation to going concern, set out on page 65, and longer-term viability, set out on page 31; and
- 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:

- 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;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- 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
- 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  
8 March 2017

### 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.

## Financial Statements

**Consolidated income statement**

for the 53 week period ended 30 December 2016

	Note	53 week period ended 30 December 2016 £m	52 week period ended 25 December 2015 £m
<b>Revenue</b>	3	<b>313.6</b>	305.3
Cost of sales		<b>(128.1)</b>	(123.3)
<b>Gross profit</b>		<b>185.5</b>	182.0
Administrative expenses		<b>(87.8)</b>	(86.5)
<b>Operating profit</b>	3	<b>97.7</b>	95.5
Analysed as:			
Underlying operating profit	3	<b>101.7</b>	98.7
Profit on sale of fixed assets		<b>0.1</b>	–
External transaction costs	5	<b>(4.1)</b>	(3.2)
<b>Operating profit</b>	3	<b>97.7</b>	95.5
Finance costs	4	<b>(26.9)</b>	(27.0)
Finance income	4	<b>0.4</b>	0.5
<b>Profit before tax</b>	5	<b>71.2</b>	69.0
Taxation – before exceptional items		<b>(15.8)</b>	(15.5)
Taxation – exceptional		<b>1.8</b>	3.4
Taxation	6	<b>(14.0)</b>	(12.1)
<b>Profit for the period attributable to equity shareholders</b>	3	<b>57.2</b>	56.9
<b>Earnings per share for profit attributable to equity shareholders</b>			
– Basic (pence)	8	<b>115.3p</b>	115.2p
– Diluted (pence)	8	<b>114.6p</b>	114.5p

**Consolidated statement of comprehensive income**

for the 53 week period ended 30 December 2016

	Note	53 week period ended 30 December 2016 £m	52 week period ended 25 December 2015 £m
<b>Profit for the period</b>		<b>57.2</b>	56.9
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurement loss on retirement benefit obligations	28	<b>(12.5)</b>	(1.4)
Tax credit on remeasurement on retirement benefit obligations		<b>2.3</b>	0.3
Restatement of deferred tax for the change in UK tax rate		<b>(0.3)</b>	(0.2)
<b>Other comprehensive loss</b>		<b>(10.5)</b>	(1.3)
<b>Comprehensive income for the period</b>		<b>46.7</b>	55.6
<b>Attributable to:</b>			
Equity shareholders of the parent		<b>46.7</b>	55.6



# Consolidated balance sheet

as at 30 December 2016

	Note	30 December 2016 £m	25 December 2015 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	9	215.9	201.5
Intangible assets	9	142.2	126.7
Property, plant and equipment	10	235.4	200.6
Financial and other assets	11	11.3	10.3
		<b>604.8</b>	539.1
<b>Current assets</b>			
Inventories	13	6.1	6.4
Trade and other receivables	14	37.0	31.9
Cash and cash equivalents	15	67.1	98.8
		<b>110.2</b>	137.1
<b>Total assets</b>		<b>715.0</b>	676.2
<b>Liabilities</b>			
<b>Current liabilities</b>			
Financial liabilities	16	8.8	8.3
Trade and other payables	17	59.3	67.5
Current tax liabilities		5.4	5.4
Provisions for liabilities	19	1.6	1.5
		<b>75.1</b>	82.7
<b>Non-current liabilities</b>			
Financial liabilities	16	581.5	594.6
Deferred tax liabilities	20	25.7	21.7
Other non-current liabilities	17	2.8	2.3
Provisions for liabilities	19	7.5	6.3
Retirement benefit obligation	28	25.9	12.5
		<b>643.4</b>	637.4
<b>Total liabilities</b>		<b>718.5</b>	720.1
<b>Shareholders' equity</b>			
Ordinary share capital	22	6.1	6.1
Share premium account		8.5	4.8
Capital redemption reserve		141.7	141.7
Other reserves		(3.5)	(4.5)
Retained earnings		(156.3)	(192.0)
<b>Total equity</b>		<b>(3.5)</b>	(43.9)
<b>Total equity and liabilities</b>		<b>715.0</b>	676.2

The financial statements on pages 70 to 106 were approved by the Board of Directors on 8 March 2017 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 53 week period ended 30 December 2016

	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 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 <sup>(1)</sup>	–	2.0	–	–	–	2.0
Gift to Employee Benefit Trust	–	–	–	(2.0)	–	(2.0)
Dividends (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)
Profit for the 53 weeks ended 30 December 2016	–	–	–	–	57.2	<b>57.2</b>
Remeasurement loss on defined benefit obligations	–	–	–	–	(12.5)	<b>(12.5)</b>
Tax on pensions	–	–	–	–	2.3	<b>2.3</b>
Restatement of deferred tax for the change in UK tax rate	–	–	–	–	(0.3)	<b>(0.3)</b>
Total comprehensive income	–	–	–	–	46.7	<b>46.7</b>
Effects of employee share options	–	–	–	3.0	–	<b>3.0</b>
Tax on employee share options	–	–	–	0.2	–	<b>0.2</b>
Proceeds from share issue <sup>(2)</sup>	–	3.7	–	–	–	<b>3.7</b>
Gift to Employee Benefit Trust	–	–	–	(2.2)	–	<b>(2.2)</b>
Dividends (note 7)	–	–	–	–	(11.0)	<b>(11.0)</b>
<b>Shareholders' equity as at 30 December 2016</b>	<b>6.1</b>	<b>8.5</b>	<b>141.7</b>	<b>(3.5)</b>	<b>(156.3)</b>	<b>(3.5)</b>

(1) Relating to issue of 249,067 shares under 2012 LTIP scheme and 1,044 shares under 2013 SAYE scheme.

(2) Relating to issue of 213,851 shares under 2013 LTIP scheme and 104,008 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 tax, together with a £12.3 million merger reserve.

# Consolidated statement of cash flows

for the 53 week period ended 30 December 2016

	Note	53 week period ended 30 December 2016 £m	52 week period ended 25 December 2015 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations before external transaction costs	25	121.1	125.2
External transaction costs paid in respect of acquisitions		(3.9)	(3.2)
<b>Cash generated from operations</b>		<b>117.2</b>	<b>122.0</b>
Finance income received		0.5	0.6
Finance costs paid		(38.5)	(19.1)
Transfer from restricted bank accounts for finance costs		12.8	5.6
Payments to restricted bank accounts for finance costs	15	(0.3)	(12.8)
Total payments in respect of finance costs		(26.0)	(26.3)
Tax paid		(10.6)	(3.7)
<b>Net cash generated from operating activities</b>		<b>81.1</b>	<b>92.6</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries and businesses (net of cash acquired)	26	(56.3)	(50.0)
Proceeds from sale of property, plant and equipment		1.0	0.8
Maintenance capital expenditure <sup>(1)</sup>		(19.6)	(15.6)
Branch relocations		(1.6)	(3.9)
Satellite locations		(0.8)	(0.3)
Development of new crematoria and cemeteries		(0.8)	(0.1)
Purchase of property, plant and equipment and intangible assets		(22.8)	(19.9)
<b>Net cash used in investing activities</b>		<b>(78.1)</b>	<b>(69.1)</b>
<b>Cash flows from financing activities</b>			
Issue costs in respect of borrowings and Secured Notes		–	(0.1)
Issue costs in respect of debt facility		(0.1)	(0.2)
Proceeds from share issue		1.5	–
Repayment of borrowings		(12.6)	(8.1)
Transfer from restricted bank accounts for repayment of borrowings		4.1	4.0
Payments to restricted bank accounts for repayment of borrowings	15	–	(4.1)
Total payments in respect of borrowings		(8.5)	(8.2)
Dividends paid to shareholders on Ordinary Shares	7	(11.0)	(10.0)
<b>Net cash used in financing activities</b>		<b>(18.1)</b>	<b>(18.5)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(15.1)</b>	<b>5.0</b>
Cash and cash equivalents at the beginning of the period		81.9	76.9
<b>Cash and cash equivalents at the end of the period</b>	15	<b>66.8</b>	<b>81.9</b>
Restricted cash	15	0.3	16.9
<b>Cash and cash equivalents at the end of the period as reported in the consolidated balance sheet</b>	15	<b>67.1</b>	<b>98.8</b>

(1) Maintenance capital expenditure includes vehicle replacement programme, improvements to locations and purchases of other tangible and intangible assets.

# Notes to the financial statements

for the 53 week period ended 30 December 2016

## 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 53 week period ended 30 December 2016 are prepared in accordance with all applicable International Financial Reporting Standards ('IFRSs'), as adopted by the European Union. These financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee ('IFRIC') interpretations (as issued by the International Accounting Standards Board) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In the current period, the Group's consolidated financial statements have been prepared for the 53 week period ended 30 December 2016. For the comparative period, the Group's consolidated financial statements have been prepared for the 52 week period ended 25 December 2015.

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 both periods, 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.

## 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 has not sought any Recoveries from the Trusts since 2012.

The Group makes payments on behalf of the Trusts relating to the ongoing overheads of the Trusts, refunds to members of the Trusts in event of cancellation, and the payments made to third party funeral directors when the funeral is ultimately performed. All such payments are reimbursed in full by the Trusts on demand, in accordance with the terms of the relevant Trust's deed.

Neither the sales value of plans nor the costs of providing funerals are recognised in the financial statements of the Group when a pre-arranged funeral plan is sold.

Each Dignity marketing company contractually guarantees with the customer of a pre-arranged funeral plan that (i) if the customer chooses to cancel their selected funeral plan, a full refund will be made to the customer of all monies paid in respect thereof (less in certain cases an administration fee payable to the relevant Dignity marketing company); (ii) the funeral director's services (as selected by the customer) will be provided regardless of price rises in the future; and (iii) for the majority of plans sold, specific disbursements (such as crematoria fees, ministers' fees and doctors' fees) will be provided regardless of price rises in the future.

#### Insurance plans

The Group is the named beneficiary on a number of life assurance products sold by third party insurance companies, in consideration for which the Group has committed to performing the funeral (including some disbursements) of the plan holder at a discount to its rates prevailing at the time of death.

A commission is paid to the insurers when the policy is initially charged to the Group. These costs are carried as a prepayment and charged to the income statement as a funeral is performed, with the cost per funeral estimated based on the total costs incurred and the expected level of policies where the Group will be involved in the fulfilment of the funeral. This expectation is reviewed annually.

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.

# Notes to the financial statements continued

for the 53 week period ended 30 December 2016

## 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 not vest. The estimate of the level of vesting is reviewed at least annually, with any impact on the cumulative charge being recognised immediately. When the options are exercised the Company issues new shares.

### Earnings per Ordinary Share

Basic Earnings per Ordinary Share ('EPS') is calculated by dividing the profit 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 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 paid for subsidiaries and other businesses over the fair values of the net assets acquired and liabilities assumed, is capitalised and stated at historical cost less provisions for impairment.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The businesses and subsidiaries acquired are generally combined with existing operations in the year of acquisition, or the year thereafter and are therefore only considered to be separate cash-generating units during this time.

### Intangible assets – trade names

Intangible trade names are recognised as assets at the estimated fair value of the consideration paid to acquire them and are carried at historical cost less 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.

### 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.

## 1 Accounting policies (continued)

### 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 20 years on a straight line basis, recognising that each year's additional marketing activity generates incremental revenues and profits to the Group for at least the following 20 years.

### Intangible assets – other

As part of the Crematoria Acquisition, the Group acquired interests in two crematoria subject to finite periods of operation (by way of lease and/or service concession). The fair value of these interests has been identified and recognised as a separate intangible asset. The value of each interest will be amortised over the remaining period of operation.

### 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.

# Notes to the financial statements continued

for the 53 week period ended 30 December 2016

## 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 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 temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted, by the balance sheet date.

### Pensions

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to retained earnings in other comprehensive income in the period in which they arise.

### 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.



## 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 (2015: nil).

### Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the financial statements when paid.

### Financial instruments

#### Borrowings

All borrowings are stated at the fair value of consideration received after deduction of transaction costs and subsequently at amortised cost. The transaction costs, interest payable and premium on debt finance are charged/credited to the income statement, as finance costs/income, on a constant-yield basis over the term of the borrowings, or over a shorter period where it is more likely than not that the lender will require earlier repayment, using the effective interest method.

#### Trade receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost. A provision for impairment is established based on historical experience. When a trade receivable is not collectable it is written-off against the allowance account. Subsequent recovery of amounts previously written-off are credited against administrative expenses in the income statement.

#### Trade payables

Trade payables are not interest bearing and are initially recognised at fair value and subsequently measured at amortised cost.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct transaction costs.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on demand deposits and amounts included in accounts restricted for specific uses.

### Critical accounting estimates 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 key judgements and 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, was considered by the Group in 2015 with specific reference to the non-consolidation of the pre-need trust.

IFRS 10 built on existing principles by identifying the concept of control as the determining factor on whether an entity should be included within the consolidated financial statements of the parent company. In order to have control, IFRS 10 requires a parent company to have power over the investee, an exposure to variable returns because of its involvement in the investee and the ability to use its power over the investee to affect the amount of the variable returns.

# Notes to the financial statements

 continued

for the 53 week period ended 30 December 2016

## 1 Accounting policies (continued)

### IFRS 10 consideration

Power over the investee. Power arises when the investor has existing rights that gives them the ability to direct the relevant activities of the investee, being those activities which influence the returns achieved by the investee.

The investor is exposed, or has rights, to variable returns from its involvement with the investee.

The investor has the ability to use its power over the investee to affect the amount of the investor's returns.

### Analysis

Dignity has no voting rights over the Trusts or any rights to direct the activities of the Trusts. Whilst Dignity has the power to appoint or remove trustees, legislation requires the majority of trustees to be independent of Dignity.

Whilst Dignity controls the charge levied to the Trusts for the provision of funeral services, it does not have the power to direct the investment decisions of the Trusts.

Dignity receives an allowance for the marketing of the plans and for the performance of a funeral. From time to time Dignity may receive a surplus from the Trusts.

Ultimately Dignity's return is wholly dependent on the investment performance of the Trusts.

A majority of the Trustees are required, by legislation, to be independent of Dignity and therefore Dignity does not, and cannot, control the actions of the Trustees.

The investment strategy is set, implemented and monitored by the Trustees. Consequently, Dignity does not have the power to affect the amount of its returns.

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.

### 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.

### 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.

### Standards, amendments and interpretations effective in 2016

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year that have a material impact on the Group.

### Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted

The following standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2016 or later periods but which the Group has not early adopted:

## 1 Accounting policies (continued)

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 15, Revenue from contracts with customers, effective 1 January 2018 and will therefore impact the Group's 2019 financial results. 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 however, from the work performed to date it is not expected to have a material impact on the Group.

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 £205 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 Secured Notes, which are at fixed interest rates, resulting in a predetermined repayment profile. The fair value of these financial instruments is based on underlying gilt prices and yield spreads based on the market's current view of the risk profile of the Secured Notes. Consequently, the fair value of these instruments will fluctuate. Fair values are not relevant to the Group unless it was to change its funding strategy and repay the Secured Notes early.

The Group 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.

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 2017 then the Group would receive £0.1 million less interest income on an annualised basis for each £10.0 million held.

None of the Group's other financial liabilities or financial assets carry any significant interest rate risk.

### Credit risk

Trade receivables are the main source of credit risk to the Group. However, this risk is minimised as much as possible through well-established credit control procedures. Quantitative disclosures regarding the ageing of these receivables are included in note 21(c).

### Liquidity risk

The Group manages its liquidity risk by maintaining sufficient cash reserves, committed undrawn borrowing facilities and regular monitoring and forecasting of cash balances. In addition, the Group is required under the terms of its secured borrowings to maintain a precisely defined EBITDA to total debt service ratio of at least 1.5 times in respect of the securitisation group. This ratio was determined when raising the debt as being sufficient to ensure all borrowings could be repaid. This covenant test has been satisfied on each quarterly testing date in the period. At 30 December 2016 the actual ratio was 3.37 times (2015: 3.35 times).

# Notes to the financial statements

 continued

for the 53 week period ended 30 December 2016

## 2 Financial risk management (continued)

### 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 Secured Notes, rated A and BBB respectively by Fitch and Standard & Poor's.

The Group monitors its capital structure based on the ratio of gross debt, as summarised in note 24, to underlying earnings before interest, taxation, depreciation and amortisation.

In order to achieve these objectives, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or issue further Class A and B Secured Notes.

During the period, the Group achieved its covenants for the Secured Notes under the terms of the Group's secured borrowings (see 'Liquidity risk' above).

### 3 Revenue and segmental analysis

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker of the Group has been identified as the 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 operating 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 for these items provides a useful indication of the Group's performance.

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

	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
<b>53 week period ended 30 December 2016</b>						
Funeral services	217.8	90.6	(11.6)	79.0	(0.9)	78.1
Crematoria – existing	65.1	40.0	(3.4)	36.6	0.1	36.7
Crematoria – acquisitions	2.4	1.1	(0.1)	1.0	(3.0)	(2.0)
Crematoria	67.5	41.1	(3.5)	37.6	(2.9)	34.7
Pre-arranged funeral plans	28.3	8.7	(0.2)	8.5	–	8.5
Central overheads	–	(22.6)	(0.8)	(23.4)	(0.2)	(23.6)
Group	313.6	117.8	(16.1)	101.7	(4.0)	97.7
Finance costs				(26.9)	–	(26.9)
Finance income				0.4	–	0.4
Profit before tax				75.2	(4.0)	71.2
Taxation – continuing activities				(15.8)	–	(15.8)
Taxation – exceptional				–	1.8	1.8
Taxation				(15.8)	1.8	(14.0)
Underlying earnings for the period				59.4		
Total other items					(2.2)	
Profit after taxation						57.2

### Earnings per share for profit attributable to equity shareholders

– Basic (pence)	119.8p	115.3p
– Diluted (pence)	119.0p	114.6p

### 3 Revenue and segmental analysis (continued)

The segment assets and liabilities were as follows:

As at 30 December 2016	Funeral Services £m	Crematoria £m	Pre-arranged funeral plans £m	Central overheads £m	Group £m
Segment assets	433.5	185.1	22.6	6.7	647.9
Unallocated assets:					
Cash and cash equivalents					67.1
<b>Total assets</b>					<b>715.0</b>
Segment liabilities	(60.8)	(11.1)	(8.5)	(16.9)	(97.3)
Unallocated liabilities:					
Borrowings – excluding finance leases					(589.6)
Accrued interest					(0.5)
Corporation tax					(5.4)
Deferred tax					(25.7)
<b>Total liabilities</b>					<b>(718.5)</b>
<b>Other segment items:</b>					
Additions to non-current assets (other than financial instruments and deferred tax)	29.5	45.5	–	3.8	78.8
Depreciation (note 10)	11.6	3.5	–	0.8	15.9
Amortisation (note 9)	–	–	0.1	0.1	0.2
Impairment of trade receivables (note 21 (c))	1.6	0.1	–	–	1.7
Other non-cash expenses (note 23)	–	–	–	3.6	3.6
Profit on sale of fixed assets	0.1	–	–	–	0.1

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 <sup>(1)</sup>	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 overheads	–	(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.

# Notes to the financial statements

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for the 53 week period ended 30 December 2016

## 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
<b>Total assets</b>					<b>676.2</b>
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)
<b>Total liabilities</b>					<b>(720.1)</b>
<b>Other segment items:</b>					
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

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

	53 week period ended 30 December 2016 £m	52 week period ended 25 December 2015 £m
<b>Finance costs</b>		
Secured Notes	<b>24.7</b>	25.0
Crematoria Acquisition Facility	<b>0.6</b>	0.6
Other loans	<b>1.0</b>	0.9
Net finance cost on retirement benefit obligations (note 28)	<b>0.4</b>	0.3
Unwinding of discounts	<b>0.2</b>	0.2
<b>Finance costs</b>	<b>26.9</b>	27.0
<b>Finance income</b>		
Bank deposits	<b>(0.4)</b>	(0.5)
<b>Finance income</b>	<b>(0.4)</b>	(0.5)
<b>Net finance costs</b>	<b>26.5</b>	26.5

## 5 Profit before tax

	53 week period ended 30 December 2016 £m	52 week period ended 25 December 2015 £m
<b>Analysis by nature</b>		
The following items have been included in arriving at profit/(loss) before tax:		
Staff costs (note 27)	99.7	94.7
Cost of inventories recognised as an expense (included in cost of sales)	16.7	16.2
Depreciation of property, plant and equipment – owned assets (note 10)	15.9	14.5
Amortisation of intangible assets (included in administrative expenses) (note 9)	0.2	0.1
Operating lease rentals – property	10.9	9.6
External transaction costs	4.1	3.2
Trade receivables impairment (included in administrative expenses) (note 21(c))	1.7	2.2
<b>Services provided by the Group's auditors and its associates:</b>		
Fees payable to the Company's auditors for the audit of parent company and consolidated financial statements	0.1	0.1
Fees payable to the Company's auditors and its associates for other services:		
– The audit of Company's subsidiaries	0.2	0.2
– Tax advisory services	–	–
– Other advisory services	–	–
	<b>0.3</b>	<b>0.3</b>

### External transaction costs

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

During 2016, the Group paid £42,000 of fees to the Group's auditor in connection with the other non-audit services. See the Audit Committee report for further details.

## 6 Taxation

	53 week period ended 30 December 2016 £m	52 week period ended 25 December 2015 £m
<b>Analysis of charge in the period</b>		
Current tax – current period	11.0	10.4
Adjustments for prior period	0.1	–
Total corporation tax	11.1	10.4
Deferred tax – current period	4.9	5.1
Adjustments for prior period	(0.2)	–
Restatement of deferred tax for the change in UK tax rate	(1.8)	(3.4)
Total deferred tax	2.9	1.7
Taxation	14.0	12.1
<b>Tax on items credited to other comprehensive income or equity</b>		
Deferred tax credit on remeasurement losses on retirement benefit obligations	(2.4)	(0.3)
Deferred tax charge/(credit) relating to maturity of option schemes	0.5	(0.1)
Restatement of deferred tax for the change in UK tax rate	0.3	0.3
Total deferred tax credited to other comprehensive income or equity	(1.6)	(0.1)
Corporation tax charge relating to retirement benefit obligations	0.1	–
Corporation tax credit relating to maturity of option schemes	(0.7)	(0.7)
Total corporation tax credited to other comprehensive income or equity	(0.6)	(0.7)

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for the 53 week period ended 30 December 2016

## 6 Taxation (continued)

The taxation charge in the period is lower (2015: lower) than the standard rate of corporation tax in the UK of 20.0 per cent (2015: 20.25 per cent). The differences are explained below:

	53 week period ended 30 December 2016 £m	52 week period ended 25 December 2015 £m
Profit before taxation	71.2	69.0
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 20.0% (2015: 20.25%)	14.2	14.0
Effects of:		
Adjustments in respect of prior period	(0.1)	–
Exceptional adjustment in respect of closing deferred tax rate change	(1.8)	(3.4)
Expenses not deductible for tax purposes	1.7	1.5
<b>Total taxation</b>	<b>14.0</b>	<b>12.1</b>

Under IFRS the tax rate is lower (2015: lower) than the standard UK tax rate of 20.0 per cent (2015: 20.25 per cent) principally due to the exceptional adjustment (2015: exceptional adjustment). The standard rate of corporation tax in the UK changed from 21 per cent to 20 per cent with effect from 1 April 2015. The Group's underlying profits for this accounting period are taxed at an effective rate of 21.0 per cent (2015: 21.5 per cent). 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 2017, 2018 and 2019 of 20.0 per cent. The Group does not have any provisions for uncertain tax positions.

Legislation to reduce the main rate of corporation tax from 18 per cent to 17 per cent from 1 April 2020 was 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 £1.8 million through its income statement, a debit of £0.3 million through other comprehensive income to reflect the one off reduction in the period of the Group's deferred tax position.

## 7 Dividends

	53 week period ended 30 December 2016 £m	52 week period ended 25 December 2015 £m
Final dividend paid: 14.31p per Ordinary Share (2015: 13.01p)	7.1	6.5
Interim dividend paid: 7.85p per Ordinary Share (2015: 7.14p)	3.9	3.5
<b>Dividend on Ordinary Shares</b>	<b>11.0</b>	<b>10.0</b>

The interim dividend represents the interim dividend that was approved and paid in the period out of earnings generated in the same period.

The final dividend represents the final dividend that was approved and paid in the period relating to the earnings generated in the previous period.

Consequently, total dividends recognised in the period were £11.0 million, 22.16 pence per share (2015: £10.0 million, 20.15 pence per share).

A final dividend of 15.74 pence per share, in respect of 2016, has been proposed by the Board. Based on the number of shares in issue at the date of signing this report the total final dividend payment is approximately £7.9 million. This will be paid on 30 June 2017 provided that approval is gained from shareholders at the Annual General Meeting on 8 June 2017 and will be paid to shareholders on the register at close of business on 19 May 2017.

## 8 Earnings per share

The calculation of basic earnings per Ordinary Share has been based on the profit attributable to equity shareholders for the relevant period.

For diluted earnings per Ordinary Share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of any dilutive potential Ordinary Shares.

The Group has two classes of potentially dilutive Ordinary Shares being those share options granted to employees under the Group's SAYE Scheme and the contingently issuable shares under the Group's LTIP Schemes. At the balance sheet date, the performance criteria for the vesting of the awards under the LTIP Schemes 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.



## 8 Earnings per share (continued)

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.

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
<b>53 week period ended 30 December 2016</b>			
<b>Underlying profit after taxation and EPS</b>	<b>59.4</b>	<b>49.6</b>	<b>119.8</b>
Add: Exceptional items, loss on sale of fixed assets and external transaction costs (net of taxation of £nil million)	(2.2)		
<b>Profit attributable to shareholders – Basic EPS</b>	<b>57.2</b>	<b>49.6</b>	<b>115.3</b>
<b>Profit attributable to shareholders – Diluted EPS</b>	<b>57.2</b>	<b>49.9</b>	<b>114.6</b>
<b>52 week period ended 25 December 2015</b>			
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

## 9 Goodwill and other intangible assets

	Trade names £m	Use of third party brand name £m	Other £m	Software £m	Non- complete agreements £m	Sub-total £m	Goodwill £m	Total £m
<b>Cost</b>								
At 26 December 2014	92.2	3.2	–	4.0	0.2	99.6	182.3	281.9
Acquisition of subsidiaries and other businesses	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
Acquisition of subsidiaries and other businesses (note 26(a))	9.7	–	4.7	–	–	14.4	14.4	28.8
Additions	–	–	–	1.3	–	1.3	–	1.3
Disposal	–	–	–	(0.7)	–	(0.7)	–	(0.7)
<b>At 30 December 2016</b>	<b>134.5</b>	<b>3.2</b>	<b>4.7</b>	<b>4.6</b>	<b>0.2</b>	<b>147.2</b>	<b>215.9</b>	<b>363.1</b>
<b>Accumulated amortisation</b>								
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)
Amortisation charge	–	(0.1)	–	(0.1)	–	(0.2)	–	(0.2)
Disposal	–	–	–	0.7	–	0.7	–	0.7
<b>At 30 December 2016</b>	<b>–</b>	<b>(1.4)</b>	<b>–</b>	<b>(3.4)</b>	<b>(0.2)</b>	<b>(5.0)</b>	<b>–</b>	<b>(5.0)</b>
<b>Net book amount at 30 December 2016</b>	<b>134.5</b>	<b>1.8</b>	<b>4.7</b>	<b>1.2</b>	<b>–</b>	<b>142.2</b>	<b>215.9</b>	<b>358.1</b>
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

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## 9 Goodwill and other intangible assets (continued)

### Impairment tests for goodwill and trade names

As described in note 1, goodwill and trade names 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:

<b>At 30 December 2016</b>	<b>Trade names £m</b>	<b>Goodwill £m</b>	<b>Total £m</b>
Funeral services	134.5	155.4	289.9
Crematoria	–	55.8	55.8
Pre-arranged funeral plans	–	4.7	4.7
	<b>134.5</b>	<b>215.9</b>	<b>350.4</b>
<b>At 25 December 2015</b>			
Funeral services	124.8	149.9	274.7
Crematoria	–	46.9	46.9
Pre-arranged funeral plans	–	4.7	4.7
	124.8	201.5	326.3

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 (2015: 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 6.0 per cent (2015: 8.1 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 17.4 per cent (2015: 18.1 per cent), or the growth rate would have to reduce to at least minus 10.3 per cent (2015: minus 9.2 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 (2015: £nil).

## 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
<b>Cost</b>						
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	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
Additions	3.4	1.2	1.0	8.3	7.5	21.4
Acquisition of subsidiaries and other businesses (note 26(a))	28.7	–	0.8	0.5	–	30.0
Disposals	(1.4)	(1.8)	(4.8)	(3.0)	–	(11.0)
Reclassification	1.5	1.3	1.8	0.5	(5.1)	–
<b>At 30 December 2016</b>	<b>157.6</b>	<b>50.6</b>	<b>44.1</b>	<b>74.6</b>	<b>9.0</b>	<b>335.9</b>
<b>Accumulated depreciation</b>						
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
At 25 December 2015	(24.0)	(16.4)	(24.5)	(30.0)	–	(94.9)
Depreciation charge	(3.6)	(2.1)	(4.2)	(6.0)	–	(15.9)
Disposals	1.2	1.7	4.8	2.6	–	10.3
<b>At 30 December 2016</b>	<b>(26.4)</b>	<b>(16.8)</b>	<b>(23.9)</b>	<b>(33.4)</b>	<b>–</b>	<b>(100.5)</b>
<b>Net book amount at 30 December 2016</b>	<b>131.2</b>	<b>33.8</b>	<b>20.2</b>	<b>41.2</b>	<b>9.0</b>	<b>235.4</b>
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

Depreciation expense of £6.0 million (2015: £5.4 million) is included within cost of sales and £9.9 million (2015: £9.1 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:

	30 December 2016 £m	25 December 2015 £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 £8.6 million (2015: £7.7 million) in respect of property, plant and equipment and intangible assets.

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## 11 Non-current financial and other assets

	Note	30 December 2016 £m	25 December 2015 £m
Prepayments	(a)	<b>7.4</b>	7.5
Deferred commissions	(b)	<b>3.9</b>	2.8
		<b>11.3</b>	10.3

### (a) Prepayments

This balance represents the amounts paid to acquire the long leasehold interest in land at certain of the Group's properties. Management consider that leases greater than 50 years at inception are long leases. The balance is expensed on a straight line basis over the term of the relevant lease. The leases expire at various times over the next 30 to 125 years.

### (b) Deferred commissions

The Group is the named beneficiary on a number of life assurance products sold by third party insurance companies, in consideration for which the Group has committed to performing the funeral (including some disbursements) of the plan holder at a discount to its rates prevailing at the time of death.

## 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

	30 December 2016 £m	25 December 2015 £m
Materials	<b>0.2</b>	0.2
Finished goods	<b>5.9</b>	6.2
	<b>6.1</b>	6.4

There were no inventory write-downs in either period.

## 14 Trade and other receivables

	30 December 2016 £m	25 December 2015 £m
Trade receivables	<b>25.6</b>	24.0
Less: provision for impairment (note 21(c))	<b>(6.2)</b>	(5.7)
Net trade receivables	<b>19.4</b>	18.3
Receivables due from pre-arranged funeral plans trusts (note 29) <sup>(1)</sup>	<b>11.2</b>	9.7
Prepayments and accrued income	<b>4.4</b>	2.3
Other receivables	<b>2.0</b>	1.6
	<b>37.0</b>	31.9

(1) Included in this amount is approximately £2.2 million (2015: £1.2 million) falling due after more than one year.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Due to this, management believes there is no further credit risk provision required in excess of normal provision for doubtful recoverables. For further details of the trade receivables past due and impaired refer to note 21(c).

Due to the short-term nature of these balances, the carrying value is considered to be their fair value.

**15 Cash and cash equivalents**

	30 December 2016 £m	25 December 2015 £m
<b>Operating cash as reported in the consolidated statement of cash flows as cash and cash equivalents</b>	<b>66.8</b>	81.9
Amounts set aside for debt service payments	<b>0.3</b>	16.9
<b>Cash and cash equivalents as reported in the balance sheet</b>	<b>67.1</b>	98.8

**Amounts set aside for debt service payments**

This amount was transferred to restricted bank accounts which could only be used for the payment of the interest and principal on the Secured Notes, the repayment of liabilities due on the Group's commitment fees due on its undrawn borrowing facilities (see note 21(d)) and for no other purpose. Consequently, this amount did not meet the definition of cash and cash equivalents in IAS 7, Statement of Cash Flows. This amount was used to pay these respective parties on 3 January 2017. Of this amount, £0.3 million (2015: £12.8 million) is shown within the Statement of Cash Flows as 'Payments to restricted bank accounts for finance costs' and £nil million (2015: £4.1 million) is shown within 'Financing activities' as 'Payments to restricted bank accounts for repayment of borrowings'.

**16 Financial liabilities**

	Note	30 December 2016 £m	25 December 2015 £m
<b>Current</b>			
Secured A Notes	(a)	<b>8.8</b>	8.3
	(d)	<b>8.8</b>	8.3
<b>Non-current</b>			
Secured Notes	(a)	<b>565.1</b>	578.2
Finance lease obligations	(b)	<b>0.7</b>	0.7
Crematoria Acquisition Facility	(c)	<b>15.7</b>	15.7
		<b>581.5</b>	594.6

**(a) Secured Notes**

On 17 October 2014, Dignity Finance PLC issued the Secured Notes. Interest is payable on the Secured Notes on 30 June and 31 December of each year.

Transaction costs of £0.3 million and £0.4 million were incurred directly relating to the issue of the Secured A Notes and the Secured B Notes respectively. At 30 December 2016, £0.3 million (2015: £0.3 million) and £0.4 million (2015: £0.4 million) of the transaction costs in respect of the Secured A Notes and the Secured B Notes respectively remain unamortised.

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

The amortisation profile of the Secured Notes is as follows:

**Secured A Notes**

	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m
June	4.4	4.6	4.7	4.9	5.1	5.2	5.4	5.6	5.8	6.0	6.2
December	4.4	4.6	4.8	4.9	5.1	5.3	5.5	5.7	5.9	6.1	6.4
Total	8.8	9.2	9.5	9.8	10.2	10.5	10.9	11.3	11.7	12.1	12.6
				2028 £m	2029 £m	2030 £m	2031 £m	2032 £m	2033 £m	2034 £m	Total £m
June				6.4	6.7	6.9	7.2	7.4	7.7	8.0	108.2
December				6.6	6.8	7.1	7.3	7.6	7.8	8.1	110.0
Total				13.0	13.5	14.0	14.5	15.0	15.5	16.1	218.2

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## 16 Financial liabilities (continued)

### Secured 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

	30 December 2016 £m	25 December 2015 £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
	<b>0.7</b>	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 91.

At 30 December 2016, £15.8 million (2015: £15.8 million) of the principal was outstanding. At 30 December 2016, £0.1 million (2015: £0.1 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.

## 17 Trade and other payables

	30 December 2016 £m	25 December 2015 £m
<b>Current</b>		
Trade payables	7.4	7.5
Tax and social security	2.6	1.7
Other current liabilities	2.2	2.2
Accruals	39.9	50.3
Deferred income	7.2	5.8
	<b>59.3</b>	67.5
<b>Non-current</b>		
Deferred income	0.9	1.0
Deferred consideration for acquisitions	0.2	0.1
Other non-current liabilities	1.7	1.2
	<b>2.8</b>	2.3

## 18 Obligations under finance leases and operating leases

For minimum lease payments obligations under finance leases refer to note 21(d)(ii).  
The minimum lease payments under non-cancellable operating leases fall due as follows:

	30 December 2016 £m	25 December 2015 £m
Not later than one year	11.8	10.3
Later than one year but not more than five years	35.4	28.5
More than five years	157.8	135.6
	<b>205.0</b>	174.4

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

Sublease payments received in the year amount to £0.6 million (2015: £0.5 million). Total future sublease payments receivable relating to operating leases amount to £0.6 million (2015: £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	6.3	0.1	1.4	7.8
Charged to income statement	1.4	–	–	1.4
Arising on acquisitions	0.2	–	–	0.2
Released to income statement	(0.2)	–	(0.1)	(0.3)
Utilised in period	(0.2)	–	–	(0.2)
Amortisation of discount	0.2	–	–	0.2
<b>At end of period</b>	<b>7.7</b>	<b>0.1</b>	<b>1.3</b>	<b>9.1</b>

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

	30 December 2016 £m	25 December 2015 £m
Current	1.6	1.5
Non-current	7.5	6.3
	<b>9.1</b>	7.8

### (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, £1.2 million (2015: £1.0 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 2025.

### (b) Onerous contracts

The Group has provided for the discounted future costs of certain contracts to which the Group is legally bound. These contracts relate to vacant leasehold properties and other contracts from which no economic benefit is derived. The provision will be utilised over the term of the contracts and it is anticipated that it will be fully utilised by 2034.

### (c) Cancellation provision

As described in note 1, the Group receives monies from certain pre-arranged funeral plan trusts in respect of the marketing of pre-arranged funeral plans, which are refundable to the Trust in the event of cancellation.

The provision covers the expected cost of such cancellations anticipated to occur in future years relating to plans sold before the balance sheet date and is anticipated to be utilised over the next five years.

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for the 53 week period ended 30 December 2016

### 20 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of either 17 or 19 per cent (2015: between 18 and 20 per cent).

The movement on the deferred tax account is as shown below:

	30 December 2016 £m	25 December 2015 £m
At beginning of period	21.7	13.6
Charged to income statement (note 6)	4.7	5.1
Restatement of deferred tax for the change in UK tax rate	(1.5)	(3.1)
Taken to other comprehensive income (note 6)	(2.4)	(0.3)
Taken to equity (note 6)	0.5	(0.1)
Arising on acquisitions (note 26(a))	2.7	6.5
<b>At end of period</b>	<b>25.7</b>	<b>21.7</b>

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below:

### Deferred tax liabilities

	Accelerated tax depreciation £m	Other £m	Total £m
At beginning of period	14.9	17.9	32.8
Charged to income statement (note 6)	–	0.1	0.1
Restatement of deferred tax for the change in UK tax rate taken to the income statement	(0.8)	(1.1)	(1.9)
Arising on acquisitions (note 26(a))	0.1	2.6	2.7
<b>At end of period</b>	<b>14.2</b>	<b>19.5</b>	<b>33.7</b>

### Deferred tax assets

	Non trade deficits £m	Pensions £m	Other £m	Total £m
At beginning of period	(6.7)	(2.3)	(2.1)	(11.1)
Charged/(credited) to income statement (note 6)	4.7	–	(0.1)	4.6
Restatement of deferred tax for the change in UK tax rate taken to other comprehensive income	–	0.3	–	0.3
Restatement of deferred tax for the change in UK tax rate taken to the income statement	–	–	0.1	0.1
Taken to other comprehensive income	–	(2.4)	–	(2.4)
Taken to equity	–	–	0.5	0.5
<b>At end of period</b>	<b>(2.0)</b>	<b>(4.4)</b>	<b>(1.6)</b>	<b>(8.0)</b>

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision at 30 December 2016 was £25.7million (2015: £21.7 million).

Other deferred tax liabilities includes trade names and capital gains rolled forward, other deferred tax assets includes option schemes £1.3 million (2015: £1.7 million) and long service awards £0.2 million (2015: £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.



## 20 Deferred tax (continued)

The deferred income tax credited to other comprehensive income or charged to equity during the period was as follows:

	53 week period ended 30 December 2016 £m	52 week period ended 25 December 2015 £m
Deferred tax credit on remeasurement losses on retirement benefit obligations	(2.4)	(0.3)
Restatement of deferred tax for the change in UK tax rate	0.3	0.2
Total credited to other comprehensive income	(2.1)	(0.1)
Deferred tax charge/(credit) relating to maturity of option schemes	0.5	(0.1)
Restatement of deferred tax for the change in UK tax rate	-	0.1
Total charged to equity	0.5	-

## 21 Financial instruments

### Fair values of non-derivative financial assets and financial liabilities

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at relevant interest rates.

Trade receivables are held net of provision for impairment.

### Fair value estimation

IFRS 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

All assets and liabilities are held at amortised cost.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### (a) Fair value of current and non-current financial assets and liabilities

	30 December 2016			25 December 2015		
	Nominal value £m	Book value £m	Fair value £m	Nominal value £m	Book value £m	Fair value £m
Secured A Notes – 3.5456% maturing 31 December 2034	218.2	217.9	241.8	230.8	230.5	238.7
Secured B Notes – 4.6956% maturing 31 December 2049	356.4	356.0	436.2	356.4	356.0	376.8
Crematoria Acquisition Facility	15.8	15.7	15.8	15.8	15.7	15.8
Finance leases	0.7	0.7	0.7	0.7	0.7	0.7
Total	591.1	590.3	694.5	603.7	602.9	632.0

The Crematoria Acquisition Facility and Secured 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 Secured 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.

## Notes to the financial statements continued

for the 53 week period ended 30 December 2016

**21 Financial instruments (continued)****(b) Maturity of financial liabilities**

The tables below analyse the Group's financial liabilities, which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows, including interest costs yet to be incurred.

	30 December 2016					Total £m
	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	
<b>Cash liabilities</b>						
Secured Notes (gross)	8.8	9.2	9.5	20.0	527.1	574.6
Interest payable on Secured Notes	24.4	24.0	23.7	46.5	405.4	524.0
Crematoria Acquisition Facility	–	15.8	–	–	–	15.8
Interest payable on Crematoria Acquisition Facility	0.5	0.1	–	–	–	0.6
Finance leases	0.1	0.1	0.1	–	2.5	2.8
<b>Debt repayments</b>	<b>33.8</b>	<b>49.2</b>	<b>33.3</b>	<b>66.5</b>	<b>935.0</b>	<b>1,117.8</b>
Other financial liabilities	59.3	0.3	0.4	0.7	0.6	61.3
	<b>93.1</b>	<b>49.5</b>	<b>33.7</b>	<b>67.2</b>	<b>935.6</b>	<b>1,179.1</b>

	25 December 2015					Total £m
	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	
<b>Cash liabilities</b>						
Secured Notes (gross)	8.3	8.7	9.0	19.0	542.2	587.2
Interest payable on Secured 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
<b>Debt repayments</b>	<b>33.7</b>	<b>33.8</b>	<b>49.2</b>	<b>66.5</b>	<b>985.0</b>	<b>1,168.2</b>
Other financial liabilities	54.9	0.3	0.3	0.7	0.8	57.0
	<b>88.6</b>	<b>34.1</b>	<b>49.5</b>	<b>67.2</b>	<b>985.8</b>	<b>1,225.2</b>

The amounts disclosed in the tables below represent the anticipated amortisation profile for the issue costs relating to the Group's financial liabilities.

	30 December 2016					Total £m
	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	
<b>Non-cash liabilities</b>						
Issue costs on Secured Notes	–	–	–	–	0.7	0.7
Issue costs on Crematoria Acquisition Facility	–	0.1	–	–	–	0.1
	–	<b>0.1</b>	–	–	<b>0.7</b>	<b>0.8</b>

	25 December 2015					Total £m
	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	
<b>Non-cash liabilities</b>						
Issue costs on Secured Notes	–	–	–	–	0.7	0.7
Issue costs on Crematoria Acquisition Facility	–	0.1	–	–	–	0.1
	–	<b>0.1</b>	–	–	<b>0.7</b>	<b>0.8</b>

**21 Financial instruments (continued)****(c) Trade receivables**

As at 30 December 2016, £12.7 million of the individual gross trade receivables (2015: £11.4 million) were past due and partially impaired. A provision for impairment is established based on historical experience. The amount of the provision, as at 30 December 2016, was £6.2 million (2015: £5.7 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:

	30 December 2016 £m	25 December 2015 £m
One to six months	6.4	7.0
Over six months	6.3	4.4
	<b>12.7</b>	11.4

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:

	30 December 2016 £m	25 December 2015 £m
At beginning of period	(5.7)	(4.9)
Charged to income statement	(1.7)	(2.2)
Utilised in period	1.2	1.4
At end of period	<b>(6.2)</b>	(5.7)

**(d) Borrowing facilities**

(i) The Group has the following undrawn committed borrowing facilities available at 30 December 2016, all of which were at floating interest rates, in respect of which all conditions precedent had been met at that date:

	30 December 2016 £m	25 December 2015 £m
Expiring within one year	26.2	26.2
Expiring between one and two years	—	—
Expiring in more than two years	60.0	60.0
	<b>86.2</b>	86.2

£55.0 million (2015: £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 (2015: £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 March 2017. 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:

	30 December 2016 £m	25 December 2015 £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	2.5	2.6
	<b>2.8</b>	2.9
Future finance costs on finance leases	(2.1)	(2.2)
Present value of finance lease liabilities	<b>0.7</b>	0.7

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## 22 Ordinary share capital

	30 December 2016 £m	25 December 2015 £m
<b>Allotted and fully paid Equity shares</b>		
49,738,150 (2015: 49,420,291) Ordinary Shares of 12 48/143 pence (2015: 12 48/143 pence) each	<b>6.1</b>	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 213,851 shares issued under the 2013 LTIP scheme and £1.5 million (2015: £nil million) consideration in relation to the 104,008 (2015: 1,044) shares issued under the 2013 SAYE scheme.

### Potential issues of Ordinary Shares

Certain employees hold options to subscribe for shares in the Company under an approved Save As You Earn ('SAYE') Scheme started in 2016. In addition, Executive Directors and senior management hold options to subscribe for shares in the Company under Long-Term Incentive Plans ('LTIPs') awarded in 2014, 2015 and 2016.

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	2016 Number	2015 Number	2014 Number
2013 – SAYE	1,469.00	1 December 2016 to 31 May 2017	<b>13,533</b>	119,810	130,364
2016 – SAYE	2,706.00	1 December 2019 to 31 May 2020	<b>137,563</b>	n/a	n/a
2014 – LTIP	–	25 March 2017 to 24 March 2024	<b>184,780</b>	184,780	186,780
2015 – LTIP	–	6 March 2018 to 5 March 2025	<b>155,540</b>	155,540	n/a
2016 – LTIP	–	15 June 2019 to 15 June 2026	<b>131,082</b>	n/a	n/a

## 23 Share-based payments

In respect of share-based payment arrangements, total charges to the income statement were £3.6 million (2015: £2.4 million). The Directors consider that these amounts are not material and hence further detailed disclosures have been omitted.

## 24 Net debt

	30 December 2016 £m	25 December 2015 £m
Net amounts owing on Secured Notes per financial statements	<b>(573.9)</b>	(586.5)
Add: unamortised issue costs (note 16(a))	<b>(0.7)</b>	(0.7)
Gross amounts owing on Secured Notes	<b>(574.6)</b>	(587.2)
Net amounts owing on Crematoria Acquisition Facility per financial statements	<b>(15.7)</b>	(15.7)
Add: unamortised issue costs on Crematoria Acquisition Facility (note 16(c))	<b>(0.1)</b>	(0.1)
Gross amounts owing	<b>(590.4)</b>	(603.0)
Accrued interest on Secured Notes	<b>(0.3)</b>	(12.8)
Accrued interest on Crematoria Acquisition Facility	<b>(0.1)</b>	(0.1)
Cash and cash equivalents (note 15)	<b>67.1</b>	98.8
Net debt	<b>(523.7)</b>	(517.1)

In addition to the above, the consolidated balance sheet also includes finance lease obligations and other financial liabilities which totalled £0.7 million (2015: £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 Secured Notes requires EBITDA to total debt service ('EBITDA DSCR'), in the securitisation group, to be at least 1.5 times. At 30 December 2016, the actual ratio was 3.37 times (2015: 3.35 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.

## 25 Reconciliation of cash generated from operations

	53 week period ended 30 December 2016 £m	52 week period ended 25 December 2015 £m
Net profit for the period	57.2	56.9
Adjustments for:		
Taxation	14.0	12.1
Net finance costs	26.5	26.5
Profit on disposal of fixed assets	(0.1)	–
Depreciation charges	15.9	14.5
Amortisation of intangibles	0.2	0.1
Movement in inventories	0.4	0.1
Movement in trade receivables	(0.6)	(1.6)
Movement in trade payables	1.3	3.2
External transaction costs	4.1	3.2
Changes in other working capital (excluding acquisitions)	(1.4)	7.8
Employee share option charges (note 23)	3.6	2.4
Cash generated from operations before external transaction costs	121.1	125.2

### Other non-cash transactions

Non-cash charges comprise of amortisation of deferred debt issue costs, as discussed in note 16(a).

## 26 Acquisitions

### (a) Acquisition of subsidiary and other businesses

	Crematoria Acquisition provisional fair value £m	Other acquisitions provisional fair value £m	Total provisional fair value £m
Property, plant and equipment	28.1	1.9	30.0
Intangible assets: trade names	–	9.7	9.7
Intangible assets: other	4.7	–	4.7
Cash acquired	–	1.2	1.2
Receivables	0.2	0.4	0.6
Provisions (note 19)	–	(0.2)	(0.2)
Other working capital	–	(0.2)	(0.2)
Deferred taxation (note 20)	(0.8)	(1.9)	(2.7)
<b>Net assets acquired</b>	<b>32.2</b>	<b>10.9</b>	<b>43.1</b>
Goodwill arising	8.9	5.5	14.4
	<b>41.1</b>	<b>16.4</b>	<b>57.5</b>

### Satisfied by:

Cash paid on completion (funded from internally generated cash flows)	57.0
Accrued consideration	0.5

<b>Total consideration</b>	<b>57.5</b>
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The residual excess of the consideration paid over the net assets acquired is recognised as goodwill, none of which is tax deductible. This goodwill represents future benefits to the Group in terms of revenue, market share and delivering the Group's strategy.

The fair values ascribed reflect provisional amounts, which will be finalised in 2017 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.

Post acquisition operating performance of the Crematoria Acquisition is disclosed in note 3 to the Annual Report.

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## 26 Acquisitions (continued)

### Crematoria Acquisition

On 31 May 2016, the Group announced that it had signed a conditional sale and purchase agreement to acquire five crematoria operated by Funeral Services Limited (trading as Co-op Funeralcare) ('FSL').

On 27 June 2016, the Group acquired three freehold locations from FSL. On 22 July a leasehold location was also acquired from FSL with the remaining leasehold location acquired in October. The consideration payable for all five locations was £41.1 million excluding external transaction costs.

If the Group had owned the Crematoria Acquisition for the entire period, then the estimated revenue for the period would be £6.3 million and the estimated operating profit before transaction costs would be £2.4 million. These estimates assume an extrapolation of the Crematoria Acquisition operating performance post acquisition.

The provisional fair value includes £4.7 million relating to other intangible assets. See note 1 for further details.

This acquisition has been accounted for under the acquisition method and disclosed separately.

### Other acquisitions

During 2016, the Group also acquired the operational interest of 16 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

	53 week period ended 30 December 2016 £m	52 week period ended 25 December 2015 £m
Cash paid on completion	57.0	48.6
Cash paid in respect of prior year acquisitions	0.5	2.7
Cash acquired on acquisition	(1.2)	(1.3)
Acquisition of subsidiaries and businesses as reported in the cash flow statement	56.3	50.0

## 27 Employees and Directors

	53 week period ended 30 December 2016 £m	52 week period ended 25 December 2015 £m
Wages and salaries	86.2	83.6
Social security costs	6.5	5.9
Other pension costs (note 28)	3.4	2.8
Share option charges (note 23)	3.6	2.4
	99.7	94.7

Key management are considered to be the Board of Directors only. Total key management remuneration in the period was £6.0 million (2015: £4.6 million), including £2.1 million (2015: £1.4 million) of share option charges. The monthly average number of people, including Directors, employed by the Group during the period was as follows:

	2016 Number	2015 Number
Management and administration	176	173
Funeral services staff	2,488	2,373
Crematoria staff	346	327
Pre-arranged funeral plan staff	113	92
	3,123	2,965

### Directors' emoluments

Details of Directors' emoluments are disclosed in the Report on Directors' Remuneration on pages 56 to 63 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:

	2016 £m	2015 £m
Defined contribution schemes	<b>1.5</b>	1.1

### 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 30 December 2016 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 2016 was £1.4 million (2015: £1.4 million).

The principal actuarial assumptions at the balance sheet date were:

Assumptions	2016 %	2015 %
Discount rate	<b>2.7</b>	3.8
Rate of increase in salaries	<b>2.4</b>	2.1
Rate of increase in payment of post April 1997 pensionable service	<b>3.3</b>	3.05
Rate of increase in payment of post April 2005 pensionable service	<b>2.25</b>	2.15
RPI price inflation assumption	<b>3.4</b>	3.1
CPI price inflation assumption	<b>2.4</b>	2.1

The demographic assumptions used include rates for mortality which, for example, lead to an average projected life expectancy of 20.8 (2015: 20.7) years for male members and 26.2 (2015: 26.1) years for female members currently aged 65 and of 22.1 (2015: 22.0) years from age 65 for male members and 27.7 (2015: 27.6) 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:

	2016 £m	2015 £m
Fair value of plan assets	<b>107.9</b>	94.4
Present value of funded obligations	<b>(133.8)</b>	(106.9)
<b>Net obligation recognised in the balance sheet</b>	<b>(25.9)</b>	(12.5)

### Analysis of amount charged to income statement in respect of defined benefit schemes<sup>(a)</sup>

	2016 £m	2015 £m
<b>Current service cost included within cost of sales (staff costs)</b>	<b>1.3</b>	1.3
<b>Administration expenses paid by the scheme</b>	<b>0.6</b>	0.4
<b>Interest costs less interest income included within net finance cost</b>	<b>0.4</b>	0.3

Expected contributions to the Group's pension scheme for the 52 week period ended 29 December 2017 are approximately £0.2 million as a result of the matters disclosed in note 32, post balance sheet events.

# Notes to the financial statements

 continued

for the 53 week period ended 30 December 2016

## 28 Pension commitments (continued)

### Analysis of fair value of plan assets

	2016		2015	
	£m	%	£m	%
Equity and diversified growth funds	<b>70.2</b>	<b>65.0</b>	43.0	45.5
Debt	<b>37.4</b>	<b>34.7</b>	28.0	29.7
Cash	<b>0.3</b>	<b>0.3</b>	23.4	24.8
<b>Fair value of plan assets</b>	<b>107.9</b>	<b>100.0</b>	94.4	100.0

At 30 December 2016 and 25 December 2015 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<sup>(a)</sup>:

	2016 £m	2015 £m
Present value of obligation at beginning of period	<b>(106.9)</b>	(105.5)
Current service cost	<b>(1.3)</b>	(1.3)
Interest cost	<b>(4.0)</b>	(3.8)
Benefits paid	<b>5.6</b>	3.6
Contributions by participants	<b>(1.4)</b>	(1.5)
Remeasurement (losses)/gains – financial	<b>(26.3)</b>	1.9
Remeasurement gains/(losses) – experience	<b>0.5</b>	(0.3)
<b>Present value of obligation at end of period</b>	<b>(133.8)</b>	(106.9)

### Changes in the fair value of plan assets are as follows<sup>(a)</sup>:

	2016 £m	2015 £m
Fair value of plan assets at beginning of period	<b>94.4</b>	95.0
Interest income on plan assets	<b>3.6</b>	3.5
Contributions by Group	<b>1.4</b>	1.4
Contributions by participants	<b>1.4</b>	1.5
Benefits paid	<b>(5.6)</b>	(3.6)
Administration expenses paid by the scheme <sup>(b)</sup>	<b>(0.8)</b>	(0.6)
Remeasurement gains/(losses)	<b>13.5</b>	(2.8)
<b>Fair value of plan assets at end of period</b>	<b>107.9</b>	94.4

(a) The prior period has been restated to disclose separately the costs incurred by the scheme for administrative expenses.

(b) Administration expenses paid by the scheme includes £0.2 million (2015: £0.2 million) charged to other comprehensive income.

### Analysis of the movement in the balance sheet obligation

	2016 £m	2015 £m
At beginning of period	<b>(12.5)</b>	(10.5)
Total expense as above charged to the income statement	<b>(2.3)</b>	(2.0)
Remeasurement losses and administration expenses charged to other comprehensive income	<b>(12.5)</b>	(1.4)
Contributions by Group	<b>1.4</b>	1.4
<b>At end of period</b>	<b>(25.9)</b>	(12.5)

The actual return on plan assets was £17.1 million (2015: £0.7 million).



## 28 Pension commitments (continued)

Change in assumptions	Liabilities £m	Assets £m	Deficit £m	(Increase)/ decrease in deficit £m
No change	(133.8)	107.9	(25.9)	–
0.25% rise in discount rate	(128.4)	107.9	(20.5)	5.4
0.25% fall in discount rate	(139.8)	107.9	(31.9)	(6.0)
0.25% rise in inflation	(137.3)	107.9	(29.4)	(3.5)
0.25% fall in inflation	(130.0)	107.9	(22.1)	3.8

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 30 December 2016, 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 period ending 25 December 2015.

### Analysis of present value of scheme liabilities

	2016	2015
Active members	36%	38%
Deferred pensioners	27%	27%
Current pensioners	37%	35%
Average duration of liabilities	17 years	17 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 contributions payable by the employer are set by the Trustees after consulting the employer and in accordance with the funding requirements of the Pensions Act 2004.

### Funding arrangements

The Trustees use the Projected Unit funding method. The last full triennial actuarial valuation was undertaken as at 6 April 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 53 week period ended 30 December 2016

### 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 increases at rates in excess of investment returns.

The Trustees have informed the Group that they continue to take independent advice regarding the Trust's investment strategy. As a result, it is anticipated that the investment allocation by class will develop further during 2017 and beyond, gradually resulting in a portfolio in the following profile:

	Example investment types	Target (%)
Defensive investments	Index linked gilts and corporate bonds	22
Illiquid investments	Private investments	16
Core growth investments	Equities	22
Growth fixed income and alternative investments	Property funds and emerging market debt	40

These developments in the Trust's investment strategy are expected to enhance investment returns in the longer-term for a broadly similar level of risk as that currently taken. 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 £863.9 million at 30 December 2016 (2015: £736.0 million) in respect of 299,000 (2015: 290,000) active pre-arranged funeral plans. 68,000 (2015: 49,000) 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 37,000 (2015: 35,000) 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 23 September 2016 (2015: 25 September 2015) using assumptions determined by the Trustees. Given the significant reduction in bond yields, the actuarial valuation of the liabilities in respect of the pre-arranged funeral plan trusts have increased to £839.7 million as at 23 September 2016 (2015: £692.1 million). The corresponding market value of the assets of the pre-arranged funeral plan trusts was £831.5 million (2015: £696.9 million) as at the same date. Consequently the actuarial valuations recorded a total deficit of £8.2 million at 23 September 2016 (2015: surplus of £4.8 million).

Nonetheless, the Trustees have advised that the Trusts hold assets of approximately £2,900 (2015: £2,500) per active plan at the balance sheet date. On average the Group received approximately £2,500 (2015: £2,450) in the period for the performance of each funeral (including amounts to cover disbursements such as crematoria fees, ministers' fees and doctors' fees).

The Trustees have advised that the Recent Trusts have approximately £19 million of assets as at the balance sheet date and no material actuarial surplus or deficit.

#### Transactions with the Group

During the period, the Group entered into transactions with the National Funeral Trust, the Trust for Age UK Funeral Plans and the Dignity Limited Trust Fund (the 'Principal Trusts') and the Trusts related to businesses acquired since 2013 ('Recent Trusts') (and collectively, the 'Trusts') associated with the pre-arranged funeral plan businesses. The nature of the relationship with the Trusts is set out above and in the accounting policies. Amounts may only be paid out of the Trusts in accordance with the relevant Trust Deeds.

Transactions principally comprise:

- The recovery of marketing and administration allowances in relation to plans sold net of cancellations (which are recognised by the Group as revenue within the pre-arranged funeral plan division at the time of the sale); and
- Receipts from the Trusts in respect of funerals provided (which are recognised by the Group as revenue within the funeral division when the funeral is performed).

## 29 Pre-arranged funeral plans (continued)

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.

Transactions are summarised below:

	Transactions during the period		Amounts due to the Group at the period end	
	2016 £m	2015 £m	2016 £m	2015 £m
Dignity Limited Trust Fund	0.3	0.3	–	–
National Funeral Trust	44.4	41.5	6.8	4.7
Trust for Age UK Funeral Plans	36.5	38.5	4.2	4.6
Recent Trusts	2.1	2.0	0.2	0.4
<b>Total</b>	<b>83.3</b>	<b>82.3</b>	<b>11.2</b>	<b>9.7</b>

Amounts due to the Group from the Trusts are included in Trade and other receivables.

The above transactions were included within revenue under the following captions:

	Transactions during the period	
	2016 £m	2015 £m
Funeral services revenue	42.6	40.0
Pre-arranged funeral plans revenue	27.3	29.0

In addition to the transactions recognised within revenue in the table above, there were £13.4 million (2015: £13.3 million) of transactions between the Group and the Trusts which represented amounts paid to the Group to reimburse them for trust expenses, monies repaid to members on cancellation and monies paid to third parties for the performance of some funeral services; all of which have no impact on the income statement.

## 30 Contingent liabilities

### (a) Securitisation

BNY Mellon Corporate Trustee Services Limited in its capacity as Security Trustee of the Secured Notes has the following guarantees and charges:

- The Dignity (2002) Group have granted the Security Trustee fixed and floating charges over the assets and undertakings of the Dignity (2002) Group;<sup>(1)</sup>
- Dignity plc has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity (2004) Limited, Dignity (2008) Limited, Dignity (2011) Limited and Dignity Holdings No.3 Limited;
- Dignity (2004) Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings No. 2 Limited and Dignity (2002) Limited;
- Dignity Holdings No. 2 Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings Limited;
- Dignity Holdings Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Mezzco Limited;
- Dignity Holdings Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loans (both interest and non interest bearing) to Dignity (2002) Limited;
- Dignity Mezzco Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loan to Dignity (2002) Limited;
- Dignity (2004) Limited has granted the Security Trustee, with full title guarantee a floating charge over the assets now or in the future owned by Dignity (2004) Limited (other than those assets validly and effectively charged by way of fixed security);
- Dignity plc, Dignity Holdings No.2 Limited, Dignity Holdings Limited and Dignity Mezzco Limited has granted the Security Trustee, with full title guarantee a floating charge over the assets now or in the future owned by each of Dignity plc, Dignity Holdings No.2 Limited, Dignity Holdings Limited and Dignity Mezzco Limited (other than those assets validly and effectively charged by way of fixed security);

## Notes to the financial statements continued

for the 53 week period ended 30 December 2016

### 30 Contingent liabilities (continued)

- The Guarantors<sup>(ii)</sup> each irrevocably and unconditionally jointly and severally guarantees to the Security Trustee punctual performance by each other Obligor of that Obligor's obligations and agrees as a primary obligation to indemnify the Security Trustee immediately on demand against any cost, loss or liability suffered by it if any obligation guaranteed by the Guarantors is or becomes unenforceable, invalid or illegal;
- Dignity Funerals Limited and Derriman & Haynes Funeral Services Limited has granted the Security Trustee with full title guarantee, a first legal mortgage over each of its rights, title and interest from time to time in properties situated in England and Wales;
- Dignity Funerals Limited has granted the Security Trustee with full title guarantee<sup>(iii)</sup>, a first legal mortgage over its rights, title and interest from time to time in properties situated in Northern Ireland;
- Dignity Finance PLC has granted BNY Mellon Corporate Trustee Services Limited (in its capacity as Note Trustee) with full title guarantee, an assignment by way of security of its benefit in each Issuer Transaction Document (other than the Trust Documents), the Security Trust Deed and each Obligor Security Document and charges by way of first fixed charge the benefit of its accounts; and
- Dignity Funerals Limited has, in respect of any Scottish property which is capable of being so charged, granted 'standard securities' in favour of the Security Trustee<sup>(iv)</sup>.

(i) Means Dignity (2002) Limited and its subsidiaries.

(ii) Means the Obligors (other than Dignity (2002) Limited (as Borrower)), Dignity (2004) Limited, Dignity plc, Dignity Holdings No.2 Limited, Dignity Holdings Limited and Dignity Mezzco Limited.

(iii) This mortgage is governed by the laws of Northern Ireland.

(iv) The standard securities are governed by Scots Law.

At 30 December 2016, the amount outstanding in relation to these borrowings was £574.6 million (2015: £587.2 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 30 December 2016, the amount outstanding in relation to these borrowings was £15.8 million (2015: £15.8 million).

### 31 Related party transactions

There are no related party transactions for either period.

### 32 Post balance sheet events

#### *Acquisition activity*

The Group has acquired three funeral locations and one small crematorium since the balance sheet date.

#### *Defined benefit pension scheme*

The Group concluded a consultation with employees in February 2017. Following this consultation, the Group decided to close its defined benefit pension to any further accrual. Affected employees will instead be able to contribute between four and 10 per cent of salary into a defined contribution scheme, which will be matched by the Group. The resulting curtailment charge is expected to be no more than £0.2 million.

# Dignity plc Company balance sheet

as at 30 December 2016

	Note	30 December 2016 £m	25 December 2015 £m
<b>Fixed assets</b>			
Investments	C2	<b>147.0</b>	143.4
<b>Current assets</b>			
Trade and other receivables	C3	<b>264.3</b>	207.9
Cash		<b>46.6</b>	46.3
<b>Total current assets</b>		<b>310.9</b>	254.2
<b>Creditors: amounts falling due within one year</b>	C4	<b>(15.7)</b>	(13.9)
<b>Net current assets</b>		<b>295.2</b>	240.3
<b>Total assets less current liabilities</b>		<b>442.2</b>	383.7
<b>Net assets</b>		<b>442.2</b>	383.7
<b>Capital and reserves</b>			
Called up share capital	C5	<b>6.1</b>	6.1
Share premium account		<b>8.5</b>	4.8
Capital redemption reserve		<b>141.7</b>	141.7
Other reserves		<b>4.4</b>	3.6
Retained earnings		<b>281.5</b>	227.5
<b>Total equity</b>		<b>442.2</b>	383.7

The financial statements on pages 107 to 115 were approved by the Board of Directors on 8 March 2017 and were signed on its behalf by:

**M K McCollum**  
Chief Executive

**S L Whittern**  
Finance Director

## Dignity plc Company statement of changes in equity

for the 53 week period ended 30 December 2016

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total £m
Shareholders' equity as at 26 December 2014	6.1	2.8	141.7	3.2	167.6	321.4
Profit for the period	–	–	–	–	69.9	69.9
<b>Other comprehensive income for the period</b>						
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)
Total transactions with owners, recognised directly in equity	–	2.0	–	0.4	(10.0)	(7.6)
Shareholders' equity as at 25 December 2015	6.1	4.8	141.7	3.6	227.5	383.7
Profit for the period	–	–	–	–	65.0	<b>65.0</b>
<b>Other comprehensive income for the period</b>						
Effects of employee share options	–	–	–	3.0	–	<b>3.0</b>
Proceeds from share issue	–	3.7	–	–	–	<b>3.7</b>
Gift to Employee Benefit Trust	–	–	–	(2.2)	–	<b>(2.2)</b>
Dividends paid on Ordinary Shares	–	–	–	–	(11.0)	<b>(11.0)</b>
Total transactions with owners, recognised directly in equity	–	3.7	–	0.8	(11.0)	<b>(6.5)</b>
<b>Shareholders' equity as at 30 December 2016</b>	<b>6.1</b>	<b>8.5</b>	<b>141.7</b>	<b>4.4</b>	<b>281.5</b>	<b>442.2</b>

### Capital redemption reserve

The capital redemption reserve represents £80,002,465 B Shares that were issued on 2 August 2006 and redeemed for cash on the same day, £19,274,610 B Shares that were issued on 10 October 2010 and redeemed for cash on 11 October 2010, £22,263,112 B Shares that were issued on 12 August 2013 and redeemed for cash on 20 August 2013 and £20,154,070 B Shares that were issued and redeemed for cash in November 2014.

### Other reserves

Other reserves includes movements relating to the Group's SAYE and LTIP schemes.

# Notes to the Dignity plc financial statements

for the 53 week period ended 30 December 2016

## C1 Principal accounting policies

### Basis of preparation

The financial statements of the Company for the period ended 30 December 2016 were authorised for issue by the Board of Directors and the balance sheet was signed on the Board's behalf by Mr M K McCollum and Mr S L Whittern. The Company is incorporated and domiciled in England and Wales. The Company's registered address is 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

The financial statements of the Company have been prepared in accordance with the Companies Act 2006, as applicable to companies using Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). The financial statements have been prepared on a going concern basis under the historical cost convention. The principal accounting policies are set out below and have been applied consistently throughout the year.

The Company's financial statements are presented in Sterling and all values are stated in pound million rounded to one decimal place (£m) except where otherwise indicated.

In accordance with the concession granted under Section 408 of the Companies Act 2006, the income statement of the Company has not been separately presented in the financial statements.

In the current period, the Company's financial statements have been prepared for the 53 week period ended 30 December 2016. For the comparative period, the Company's financial statements have been prepared for the 52 week period ended 25 December 2015.

### Transition to FRS 101

The Company has applied Financial Reporting Standard 101, Reduced Disclosure Framework ('FRS 101'), for the first time in these financial statements. The transition date from the previous UK GAAP was 27 December 2014.

In preparing these financial statements, the Company has started from an opening balance sheet as at 27 December 2014, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. Adopting FRS 101 has not resulted in a change to the entity's financial position or financial performance in the current or previous year.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6 – 33 of IFRS 1 "First time adoption of International Financial Reporting Standards", except for paragraphs 6 and 21 in respect of the requirement to present an opening statement of financial position at the date of transition.

### Exemptions:

The following exemptions from the requirements of International Financial Reporting Standards ("IFRS") have been applied in the preparation of these financial statements:

- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows);
  - 10(f) (statement of financial position as at the beginning of the preceding period);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information);
  - 40A-D (requirements for a third statement of financial position);
  - 111 (cash flow statement information); and
  - 134-136 (capital management disclosures).
- Paragraph 38 of IAS 1 'Presentation of financial statements' comparative information requirements in respect of: Paragraph 79 (a) (iv) of IAS 1 'Presentation of financial statements'.
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

# Notes to the Dignity plc financial statements continued

for the 53 week period ended 30 December 2016

## C1 Principal accounting policies (continued)

The Company is eligible to apply the above exemptions as it is included in the consolidated financial statements of Dignity plc who prepare financial statements under IFRS and include the above disclosures. The shareholders of the Company did not object to the application of these exemptions when notified during the financial year.

The consolidated financial statements of Dignity plc are available from 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

### New standards, amendments and IFRIC interpretations

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 30 December 2016, have had a material impact on the Company.

### Critical accounting estimates and assumptions

The preparation of the financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Management has not made any judgements, estimates or assumptions in preparing these financial statements that materially affects the application of policies or the reported amounts of assets, liabilities, income or expenses of the Company.

### Fixed asset investments

Fixed asset investments are stated at historical cost, less any provision for impairment.

### Impairment of fixed assets

The carrying values of fixed assets are reviewed for impairment in periods where events or changes in circumstances indicate that the carrying value may not be recoverable or at the end of the first full financial year following the recognition. Any impairment in the value of fixed assets below depreciated historical cost is charged to the income statement within operating profit. A reversal of an impairment loss is recognised in the income statement to the extent that the original loss was recognised.

### Employee share schemes

The Company operates two employee share schemes: The Save As You Earn Scheme ('SAYE') and Long-Term Incentive Plan Scheme ('LTIP').

The Company applies IFRS 2 in respect of share option schemes resulting in the charge for such schemes being recognised in a subsidiary of the Company. The Company's financial statements reflect the cost of the scheme as an increase in the cost of investment in the subsidiary with the corresponding credit included within other reserves.

### Employee share trust

The assets of the employee share trust are held by a separate limited company, of which the Directors consider that Dignity plc has de facto control. In accordance with IFRS, Accounting for ESOP Trusts and the substance of the transaction, the trust's assets and liabilities are recognised in the Company's balance sheet.

### Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the financial statements when paid.

### Financial instruments

#### Borrowings

All borrowings are initially recognised at fair value and subsequently measured at amortised cost in relation to amounts owed to group undertakings.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct transaction costs.

#### Cash at bank and in hand

Cash at bank and in hand includes demand deposits and amounts included in accounts restricted for specific uses.



**C2 Investments in subsidiary undertakings**

Cost and net book amount	£m
At beginning of period	143.4
Additions in respect of share-based payments	3.6
<b>At end of period</b>	<b>147.0</b>

Additions in the period reflect the effect of capital contributions to subsidiaries as a result of share-based payment schemes operated in those company's over the shares of Dignity plc.

A detailed listing of all subsidiary undertakings is included in note C9 below.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

**C3 Trade and other receivables: amounts falling due within one year**

	30 December 2016 £m	25 December 2015 £m
Amounts owed by group undertakings	263.3	207.2
Other debtors	–	0.1
Corporation tax	1.0	0.6
	<b>264.3</b>	<b>207.9</b>

**C4 Creditors: amounts falling due within one year**

	30 December 2016 £m	25 December 2015 £m
Amounts owed to subsidiary undertakings	14.5	13.4
Accruals	1.2	0.5
	<b>15.7</b>	<b>13.9</b>

**C5 Called up share capital and reserves**

	30 December 2016 £m	25 December 2015 £m
<b>Allotted and fully paid Equity shares</b>		
49,738,150 (2015: 49,420,291) Ordinary Shares of 12 48/143 pence (2015: 12 48/143 pence) each	<b>6.1</b>	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.

# Notes to the Dignity plc financial statements

 continued

for the 53 week period ended 30 December 2016

## C6 Dividends

	53 week period ended 30 December 2016 £m	52 week period ended 25 December 2015 £m
Final dividend paid: 14.31p per Ordinary Share (2015: 13.01p)	7.1	6.5
Interim dividend paid: 7.85p per Ordinary Share (2015: 7.14p)	3.9	3.5
<b>Dividend on Ordinary Shares</b>	<b>11.0</b>	<b>10.0</b>

The interim dividend represents the interim dividend that was approved and paid in the period out of earnings generated in the same period.

The final dividend represents the final dividend that was approved and paid in the period relating to the earnings generated in the previous period.

Consequently, total dividends recognised in the period were £11.0 million, 22.16 pence per share (2015: £10.0 million, 20.15 pence per share).

A final dividend of 15.74 pence per share, in respect of 2016, has been proposed by the Board. Based on the number of shares in issue at the date of signing this report the total final dividend payment is approximately £7.9 million. This will be paid on 30 June 2017 provided that approval is gained from shareholders at the Annual General Meeting on 8 June 2017 and will be paid to shareholders on the register at close of business on 19 May 2017.

## C7 Staff costs

### Directors' remuneration

Details of the Directors' emoluments are included in pages 56 to 63. They received no emoluments in respect of their services to the Company (2015: nil).

## C8 Related party transactions

There are no 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 2017

Company name	Principal activity
Dignity Funerals No.4 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
Funeral Arrangements Online Limited	Funeral services
H Eaton & Sons Holdings Limited	Intermediate holding company
H.Eaton & Sons Limited	Funeral services
Inverclyde Funeral Directors Limited	Funeral services
Jonathan Walker Funeral Directors Limited	Funeral services
Newco (Crematoria) Limited	Funeral services
Newco (Crematoria) 2 Limited	Funeral services
Newco (Crematoria) 3 Limited	Funeral services
Spotland Bridge Funeral Services Limited	Funeral services
WM. Jordan & Son (Funeral Directors) Limited	Funeral services

## Notes to the Dignity plc financial statements continued

for the 53 week period ended 30 December 2016

**C9 Subsidiary undertakings (continued)****Dormant companies**

A & N Duckworth Limited	Downs Crematorium Limited	H.G.Brown & Sanders Limited
A Ashton & Sons Limited	Dowsett & Jenkins Limited	H.Hill Funeral Service Limited
A Bennett & Sons Limited	Dundee Crematorium Limited	H.R.H. Holdings Limited
A F Townsend (Funeral Directors) Limited	Dunning (Undertaking) Limited	Hambrook & Johns Limited
A Hazel & Sons Limited	Dyson Richards Limited	Hanningtons (Funeral Directors) Limited
A Shepherd & Sons Limited		Hardacres Funeral Directors Limited
A T Genders Limited	E Hurton & Son Limited	Harry Williams & Sons (Cambridge) Limited
A V Band Limited	E M Lander Limited	Heighton & Son Limited
A. Haxby & Sons (Filey) Limited	E Seymour & Son Limited	Hemley Funeral Service Limited
Abbey Funeral Service Limited	E. Brigham Funeral Directors Limited	Henry Naylor (Funeral Directors) Limited
Adela Funeral Homes Limited	E.F.Edwards Limited	Henry Paul Limited
Anglian Funeral Service Limited	E.Finch & Sons Limited	Henry Smith (Wandsworth) Limited
Armitage (Funeral Directors) Limited	Earl Of Plymouth Limited	Highfield Funeral Service Limited
Arthur Denyer Limited	Eden Park Estate Limited	Hindu Funeral Service Limited
Arthur G Whitehead (Westminster) Limited	Edmund & Lewis Limited	Hodgson Holdings (Scotland) Limited
Ashton & Ebbutt Limited	Edward Lewis Wicks & Sons Limited	Hodgson Holdings Limited
Ashton Ebbutt Holdings Limited	Ely Funeral Service Limited	Holdfast (Funerals) Limited
Ashton Memorials Limited	Ever 1324 Limited	Howard Jenkins (Edge Hill) Limited
Ashtons (Brighton) Limited	Ever 1326 Limited	Hunters Funeral Directors Limited
Associated Funeral Services Limited	Ever 1327 Limited	
Astley Funerals Limited	Exeter & Devon Crematorium Limited	Ian Clarke Funeral Service Limited
		Ingall Services Limited
B & B Funeral Directors Limited	F L Mildred & Sons (Funeral Directors) Limited	Invicta Memorials Limited
B. Bernard & Sons Limited	F. Kneeshaw & Sons (Funeral Directors) Limited	
Baguley Bros. Limited	F.E.J. Green & Sons Limited	J H Kenyon Limited
Banks Funeral Service Limited	F.G.Pymm (Funeral Directors) Limited	J H Raven Limited
Birmingham Crematorium (1973) Limited	F.Harrison & Son (Funeral Directors) Limited	J Kynaston Limited
Boyce Anderson Motors Limited	F. J. Gibb Limited	J Steadman & Sons Limited
Bracher Brothers Limited	F.Smith & Son (Staines) Limited	J.W.Tate & Son (Holdings) Limited
Brighton Stonemasons Limited	Family Funeral Services Limited	J.W.Tate & Son Limited
Broadwater Limousines Limited	Farebrother Funeral Services Limited	Jack Lee & Sons Limited
Broomco (2013) Limited	Fisher & Townsend (Funeral Directors) Limited	James Allen & Son (Disley) Limited
	Flowers By Design Limited	James Crook Limited
C Powell Funeral Service Limited	Ford Ennals Funeral Services Limited	John & William Shering Limited
Caledonian Funeral Services Limited	Forethought Limited	John Bardgett & Sons Limited
Carrwood Funeral Supplies Limited	Francis Chappel & Sons Limited	John G Ashton & Co (Funeral Directors) Limited
Castle Court Funeral & Limousine Services Limited	Frank Stephenson & Son (Funeral Directors) Limited	Johnson Funeral Supplies Limited
Chichester Crematorium Limited	Frederick W Chitty & Co Limited	Johnson-Sears Limited
Chosen Heritage (Scotland) Limited	Fredk. W.Paine Limited	Jonathan Harvey Limited
Chosen Heritage Limited	Funeral Debt Collection Limited	Joseph Swift (Funeral Director) Limited
Chosen Heritage Services Limited	Funeral Services London Limited	Joseph Tomlinson & Sons Limited
Clegg Humphreys Limited		Joslin Memorials (1974) Limited
Cooksey & Son Limited	G. M. Charlesworth & Son Limited	
Cooksley & Son Limited	G.F. Cook (Funerals) Limited	Kellaways (Funeral Service) Limited
Coombes & Sons (Bovey Tracey) Limited	G.F.Hunt (Bath) Limited	Ken Gregory & Sons Limited
Counties Crematorium Limited	G.Gamble & Son Limited	Kent Funeral Supplies Limited
Coyne Brothers Limited	G.Smith (Wooburn) Limited	Kenyon Air Transportation Limited
Cumbernauld Funeral Services Ltd	George Hall & Son Funeral Directors Limited	Kenyon Emergency Services Limited
Cyril H. Lovegrove Limited	George S. Munn & Company, Limited	Kenyon Repatriation Limited
	George Stanton (1935) Limited	Kenyon Securities Limited
D J Thomas (Funeral Directors) Limited	Gerald Martin Funeral Directors Limited	Kenyons Funeral Directors Limited
D. J. Evans Forse & Co Limited	Ginns & Gutteridge Limited	Kirkwoods (Funeral Directors) Limited
D.Walsh & Son Limited	Gornalls Funeral Services Limited	
Daly & Company Limited	Graham Sullivan Funeral Directors Limited	L Fulcher Limited
David B Hendry Limited	Grave Design Limited	L J Clegg Limited
David Silvey & Son Limited	Great Southern Group Limited	Lambeth & Brixton Community Funeral Services Limited
Davis McMullan Funeral Directors Limited	Grimmett & Timms Limited	Lambeth Funeral Services Limited
Derriman & Haynes Funeral Services Limited		Lea Valley Funeral Services Limited
Dewi Reynolds & Sons Limited	H & G Wilde Funeral Directors Limited	Leeds Limousines Limited
Dignity (2009) Limited	H A Harrold & Son Limited	Leehope Services Limited
Dignity Caring Funeral Services Limited	H J Dawson Limited	London Necropolis Company Limited
Dignity Funerals No.2 Limited	H J Phillips & Son (Funeral Directors) Limited	Longhurst (Undertakers) Limited
Dignity In Destiny Limited	H Johnson & Sons Limited	Lowden Wells Limited
Dignity Legal Services Limited	H Leslie Humphreys Limited	
Dignity Manufacturing Limited	H Tonkin Limited	
Dillistone Funeral Service Limited	H. J. Whalley & Sons Limited	
Docklands Funeral Services Limited	H. Towell Ltd	
Dottridge Brothers Limited	H.Copeland & Son Limited	
Downer & White Limited	H.Dorricott & J.Bent Limited	

**C9 Subsidiary undertakings (continued)****Dormant companies continued**

MacIntosh & Steven Limited	Remembrance Limited	U.F.D. Limited
Mahony & Ward Limited	Robemanor Limited	UK Funerals Limited
Malcolm J Presland Limited	Roberts & Brain Limited	UKF Limited
Mannerings Limited	Romney Marsh Funeral Services Limited	
Mathias's of Putney Limited	Rosspark Limited	W G Dixon Limited
Maxwell Bros. Limited		W G Rathbone Funeral Directors Limited
Meadow Pool Limited	S A Bates & Sons Limited	W S Bond Limited
Mews & Yeatmans Limited	S Wellens & Sons Limited	W S Harrison & Son Limited
Mid Sussex Funeral Services Limited	Saftway Limited	W Thorp & Sons (Leigh-on-Sea) Limited
Middleton & Wood (1919) Limited	Salenew Limited	W.E. Turner (Funeral Furnishers) Limited
Monumental Masons Limited	Sanders Goodale & Co.Limited	W.Garstin & Sons Limited
Moodys Funeral Directors Limited	SCI Pre Arrangement Limited	Walmsley Hammond (Rayleigh) Limited
Moray Crematorium Holdings Limited	Seaford Funeral Service Limited	Warburton Funerals Limited
Moray Crematorium Limited	Seddons of Southport Limited	Wetton Funeral Services Limited
Morecambe & Heysham Funeral Service Limited	Selim Smith & Co. Limited	White Lady Funerals Limited
	Serenity Limited	Whyte Funeral Services Limited
N A Medd Limited	Shankill Funeral Services Limited	William Pearce & Son Limited
National Funeral Trust Limited	Silver Lady Funeral Service Limited	Wilmshurst & Dickson Limited
Newport Hire (I.W.) Limited	Simplicity Funerals Limited	Woodfield Park Funeral Home Limited
Newsome's Funeral Service (Royston) Limited	Simpsons (Undertakers Requisites) Limited	
Norfolk Crematorium Limited	Starway & Garnett Funeral Service Limited	Yew Holdings Limited
Northampton Crematorium Limited	Swift & Mildred Limited	
Norwich Crematorium Holdings Limited		
Norwich Crematorium Limited	T & R O'Brien Limited	
Oxford Crematorium Limited	T H Fenton Limited	
	T S Annison & Sons Limited	
Patrick Stonemasons Limited	T. S. Horlock & Son Limited	
Personal Choice Funeral Plan Limited	T.H.Sanders & Higgs Limited	
PFG Hodgson Kenyon (Services) Limited	T.H.Sanders & Sons Limited	
PFG Hodgson Kenyon (UK) Limited	T J Brown & Sons Limited	
PFG Hodgson Kenyon Limited	T.J.Davies & Sons (Funeral Directors) Limited	
Philip Ford & Son (Funeral Directors) Limited	Taylor's Funerals (Wirral) Limited	
Phillips Funeral Plans Limited	The Crematorium Kenyon Limited	
Phillips Funeral Services Limited	The Dignity Plan Limited	
Phillips Holdings (Hertfordshire) Limited	The East Riding Crematorium Company Limited	
Phillips Supplies Limited	The Haltemprice Crematorium Limited	
Piccioni (Masonry) Limited	The Lawrence Funeral Service Limited	
Plantsbrook Group Limited	The Leverton Funeral Service (Dartford) Limited	
Plantsbrook Limited	The South London & Southern Counties Cremation Society Limited	
Preston Ireland Bowker Limited	The South London Crematorium Co Limited	
Priestley & Cockett Limited	The Tifford Funeral Service Limited	
	Thomas Brothers (Wellington and Taunton) Limited	
R Butler & Sons Limited	Thompsons (Busbys) Limited	
R C Holden & Son Limited	Thompsons (Funeral Furnishers) Limited	
R Garner Son & Wood Limited	Thompsons (Maguires) Limited	
R.Davies & Son Limited	Thompsons (Rimmers) Limited	
R.S. Johnson & Sons Limited	Tovey & Morris Limited	
R.S.Scott (Funerals) Limited		
Ravenhill Funeral Services 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.

## Financial record\*

## Summarised consolidated income statement

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Revenue					
Funeral services	<b>217.8</b>	212.6	184.4	176.2	157.9
Crematoria	<b>67.5</b>	63.1	55.2	53.8	46.6
Pre-arranged funeral plans	<b>28.3</b>	29.6	29.3	26.7	25.1
	<b>313.6</b>	305.3	268.9	256.7	229.6
Underlying operating profit					
Funeral services	<b>79.0</b>	76.8	66.3	60.8	54.2
Crematoria	<b>37.6</b>	34.6	29.1	27.4	23.3
Pre-arranged funeral plans	<b>8.5</b>	7.8	7.4	6.7	6.5
Central overheads	<b>(23.4)</b>	(20.5)	(17.9)	(16.5)	(14.6)
	<b>101.7</b>	98.7	84.9	78.4	69.4
Underlying finance costs	<b>(26.9)</b>	(27.0)	(30.6)	(28.9)	(25.8)
Finance income	<b>0.4</b>	0.5	4.2	3.4	2.5
Underlying profit before tax	<b>75.2</b>	72.2	58.5	52.9	46.1
Taxation	<b>(15.8)</b>	(15.5)	(13.1)	(12.9)	(11.7)
Underlying profit after tax	<b>59.4</b>	56.7	45.4	40.0	34.4
Underlying earnings per share (pence)	<b>119.8p</b>	114.8p	85.8p	72.1p	62.8p
Operating profit	<b>97.7</b>	95.5	82.9	75.1	68.7
Profit/(loss) after tax	<b>57.2</b>	56.9	(55.0)	40.4	35.7
Basic earnings per share (pence)	<b>115.3p</b>	115.2p	(104.0p)	72.8p	65.1p

## Key performance indicators

	2016	2015	2014	2013	2012
Total estimated number of deaths in Britain (number)	<b>590,000</b>	588,000	550,000	560,000	551,000
Number of funerals performed (number)	<b>70,700</b>	73,500	65,600	68,000	63,200
Funeral market share** (per cent)	<b>11.8%</b>	12.3%	11.7%	11.9%	11.2%
Number of cremations performed (number)	<b>59,500</b>	57,700	53,400	55,500	50,500
Crematoria market share (per cent)	<b>10.1%</b>	9.8%	9.7%	9.9%	9.2%
Active pre-arranged funeral plans (number)	<b>404,000</b>	374,000	348,000	323,000	290,000
Cash generated from operations (£million)	<b>121.1</b>	125.2	104.4	94.2	83.3

## Net debt

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Net amounts owing on Secured Notes per financial statements	<b>(573.9)</b>	(586.5)	(594.6)	(403.0)	(318.9)
Add: unamortised issue costs on Secured Notes	<b>(0.7)</b>	(0.7)	(0.7)	(16.3)	(14.6)
Gross amounts owing on Secured Notes per financial statements	<b>(574.6)</b>	(587.2)	(595.3)	(419.3)	(333.5)
Net amounts owing on Crematoria Acquisition Facility per financial statements	<b>(15.7)</b>	(15.7)	(15.6)	(15.6)	(10.0)
Add: unamortised issue costs on Crematoria Acquisition Facility	<b>(0.1)</b>	(0.1)	(0.2)	(0.2)	–
Gross amounts owing	<b>(590.4)</b>	(603.0)	(611.1)	(435.1)	(343.5)
Accrued interest on Secured Notes	<b>(0.3)</b>	(12.8)	(5.7)	(14.3)	(11.6)
Accrued interest on Crematoria Acquisition Facility	<b>(0.1)</b>	(0.1)	–	–	(0.1)
Cash and cash equivalents	<b>67.1</b>	98.8	86.5	79.3	55.6
Net debt	<b>(523.7)</b>	(517.1)	(530.3)	(370.1)	(299.6)

**Summarised consolidated balance sheet**

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
<b>Non-current assets</b>					
Goodwill and intangible assets	358.1	328.2	276.5	250.4	204.5
Property, plant and equipment	235.4	200.6	192.3	183.6	157.1
Financial and other assets	11.3	10.3	10.4	12.7	12.6
Retirement benefit asset	–	–	–	–	0.1
	<b>604.8</b>	539.1	479.2	446.7	374.3
<b>Current assets</b>					
Cash and cash equivalents – excluding collateralisation of Liquidity Facility	67.1	98.8	86.5	79.3	55.6
Cash and cash equivalents – collateralisation of Liquidity Facility	–	–	–	63.0	–
Cash and cash equivalents	67.1	98.8	86.5	142.3	55.6
Other current assets	43.1	38.3	36.5	34.4	32.1
	<b>110.2</b>	137.1	123.0	176.7	87.7
<b>Total assets</b>	<b>715.0</b>	676.2	602.2	623.4	462.0
Current liabilities	75.1	82.7	60.6	143.6	76.9
Non-current liabilities	643.4	637.4	634.1	437.6	340.5
<b>Total liabilities</b>	<b>718.5</b>	720.1	694.7	581.2	417.4
Equity attributable to shareholders	(3.5)	(43.9)	(92.5)	42.2	44.6
<b>Total equity and liabilities</b>	<b>715.0</b>	676.2	602.2	623.4	462.0

## NOTES

\* This information has been extracted from the current and previous Annual Reports and accordingly does not constitute audited information.

\*\* Market share excluding funerals performed in Northern Ireland.

\*\*\* In 2014, the Group refinanced its capital structure. Prior to 17 October 2014, the Group had on various occasions issued Class A Secured Notes due for final repayment in 2023 ('Old Class A Notes') and Class B Secured Notes due for final repayment in 2031 ('Old Class B Notes' and together with the Old Class A Notes, the 'Old Notes'). On 17 October 2014, the Group issued £238,904,000 Class A Secured 3.5456% Notes due 2034 ('New Class A Notes') and £356,402,000 Class B Secured 4.6956% Notes due 2049 ('New Class B Notes' and together with the New Class A Notes, the 'New Notes'). For the purpose of the financial record, the various classes of these notes are referred to as the Secured Notes. Elsewhere in this Annual Report, Secured Notes and associated references refers to the New Notes, as these were the only notes in issue in 2015 and 2016.

## 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](http://www.shareview.co.uk) where shareholders can check their holdings and find practical help on transferring shares and updating personal details. Alternatively they can be contacted by telephone on 0371 384 2674 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](http://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](http://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](http://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](http://www.mpsonline.org.uk).

### Annual General Meeting

The Company's Annual General Meeting will be held on 8 June 2017, at 11:00am at DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham, West Midlands, B2 4DL.



## Contact details and advisers

**Registered Office:**

Dignity plc  
4 King Edwards Court  
King Edwards Square  
Sutton Coldfield  
West Midlands B73 6AP

Tel: +44 (0) 121 354 1557  
Fax: +44 (0) 121 321 5644  
E-mail: [enquiries@dignityuk.co.uk](mailto:enquiries@dignityuk.co.uk)  
[www.dignityfuneralsplc.co.uk](http://www.dignityfuneralsplc.co.uk)

**Company Secretary:**

Richard Portman FCA

**Registered Number:**

4569346

**Registrars:**

Equiniti  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA

Tel: +44 (0) 371 384 2674  
Fax: +44 (0) 371 384 2100  
[www.shareview.co.uk](http://www.shareview.co.uk)

**Auditors:**

Ernst & Young LLP  
No.1 Colmore Square  
Birmingham B4 6HQ

**Joint Brokers:**

Panmure Gordon & Co  
One New Change  
London EC4M 9AF

Investec  
A division of Investec Bank plc  
2 Gresham Street  
London EC2V 7QP

**Principal Bankers:**

Royal Bank of Scotland plc  
West Midlands Corporate Office  
2 St Philips Place  
Birmingham B3 2RB

**Legal Advisers:**

DLA Piper UK LLP  
Victoria Square House  
Victoria Square  
Birmingham B2 4DL

## Financial calendar

<b>8 March 2017</b>	Preliminary announcement of 2016 results
<b>8 June 2017</b>	Annual General Meeting
<b>30 June 2017</b>	2017 financial half year end
<b>30 June 2017 (subject to shareholder approval)</b>	Payment of 2016 final dividend
<b>2 August 2017 (provisional)</b>	Announcement of interim results
<b>27 October 2017 (provisional)</b>	Payment of 2017 interim dividend
<b>29 December 2017</b>	Financial period end



#### Acknowledgements

Dignity would like to thank all those who participated in producing this Annual Report, particularly the members of staff for their contributions.

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[www.bexonwoodhouse.com](http://www.bexonwoodhouse.com)

Printed in the UK by CPI Colour, a certified CarbonNeutral® printing company, using vegetable based inks and water based sealants. The printer and paper manufacturing mill are both certified with ISO 14001 Environmental Management systems standards and both are Forest Stewardship Council® (FSC®) certified.

Dignity Lega

## Dignity plc

4 King Edwards Court  
King Edwards Square  
Sutton Coldfield  
West Midlands B73 6AP

[www.dignityfuneralsplc.co.uk](http://www.dignityfuneralsplc.co.uk)



Funeral services

Crematoria

Pre-arranged  
funeral plans