Annual Report 2019

Dignity plc Annual Report & Accounts

Delivering excellent client service and **leading** through change

Welcome to the 2019 Annual Report

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In this Strategic Report

We are here to help people at one of the most difficult times in their lives and we are honoured to serve the communities we are part of

Our Purpose

- We are committed to meeting our customers' changing needs and exceeding their expectations.

See p.18

In a changing and increasingly competitive funeral sector

Market Context

- We are adapting to change and responding to market challenges and opportunities.

See p.20

We have clear strategic objectives

Strategy and Business Model

- We are continuing to build on the strong fundamentals of the business and use these as a platform for change.
- Being more distinctive in the marketplace.
- Embracing technology in developing and delivering our services for customers.
- Continuing to be a good corporate citizen.

See p.28

Our Transformation Plan is evolving to changing circumstances and on track

The Core Components

- We are modernising the client proposition.
- Investing in and simplifying the operating model.
- Streamlining central support and investing in technology to centralise and automate administrative processes.

See p.21

We have a strong culture and shared values

People and Culture

- We are passionate about delivering excellent client service.

Values

- We serve our customers with expertise, compassion and commitment.

See p.18

We are focused on sustainable growth

Key performance indicators

- Measuring progress and performance.

See p.30

Group summary performance

- Delivering in line with expectations, after allowing for lower than anticipated deaths.

See p.10

We have strong leadership and act responsibly and sustainably

Non-financial performance

- We are helping to make a difference as a responsible and sustainable business.

See p.52

Governance

- We have a strong Board committed to robust corporate governance.

See p.14

To achieve our ambition and meet our stakeholder expectations

Our Vision

- To lead the funeral sector in terms of quality, standards and value-for-money.
- Creating and preserving value for all our stakeholders.

See p.18

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Leading through change/

We are a strong but changing business

Our Purpose

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

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

Technology Services & Brands

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

Our People & Culture

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

Our Vision

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

Our Transformation Journey

In 2018 we began a period of radical transformation and we are making good progress on our journey to deliver our objectives. During and after this change we will continue to be a caring business with core values built around quality, providing excellent customer service and high standards of care.

In a rapidly changing and competitive funeral industry, we are alert to the challenges we face and are determined to seize the opportunity to create a business that is clearly differentiated from the competition and gives customers a clear choice.

> “Leading through quality, standards & value-for-money”

Leading through change/

We are building a distinctive and powerful market offer

What We stand for

- **It's the promise we make to our customers;**
- **It's the quality of our products and services; and**
- **It's the expectations of our customer service standards.**

Creating a differentiated customer experience

Engaging

with more customers through digital and promotional channels.

The way that we connect with our customers continues to change. Going online is now increasingly the preferred route for people looking for information and our industry is no exception. 45 per cent (compared to 38 per cent a year ago) of our clients now find us online and over 67 per cent of our website traffic comes from mobile devices. We continue to develop our online support services and promotional initiatives to meet customer expectations. We are building a leading digital presence and a compelling multi-channel service offering.

Empowering

customers to choose and arrange the funeral that's right for them and their family.

We are determined to ensure that our distinctive Dignity and Simplicity brands provide families with greater choice and flexibility, whether they are looking for a traditional value-for-money service or a simple affordable alternative. We will achieve this without losing the heritage embedded in our local trading names. In addition, our Online Funeral Notices service provides customers with a convenient way to share details of funeral arrangements through social media and the internet. It also allows friends and family to arrange flowers and make donations.

Enabling

customers to interact with us when and how they want.

We are developing a more customer-centric service model adapted to better suit evolving client needs. Our enhanced digital offering is part of this with the Group's websites registering approximately 5.6 million visits on a year to date basis, up 211 per cent on the comparable prior year period. We are starting to change the way we work at branch level too and have started to pilot home visits to customers by our staff as part of a radical overhaul of how we serve our customers.

Evolving

our customer proposition and the way we work to support change.

The changing way in which people are choosing to arrange a funeral and what they value drives how we evolve and modernise our services to support them better and meet their priorities and expectations.

We have commenced one of the most radical, complicated and challenging elements of our Transformation Plan in terms of transforming our branches. This involves working in materially different ways, revising our processes and changing the way we arrange funerals for our customers.

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Leading through change/

We are determined to meet our stakeholder expectations

Society

Changes in societal expectations and attitudes towards arranging a funeral, the role of technology in our daily lives and increased customer choice is transforming the way we need to serve our customers today and in the future. We must use this opportunity to stay connected, relevant and responsive to change through our customer propositions.

& Sustainability

Sustainability is about the actions we take to fulfil our purpose against the backdrop of an ever changing world and we remain committed to driving a sustainable business that is both socially and environmentally responsible and commercially successful.

A responsible and sustainable business with a broader societal purpose

We are involved in a fundamental and timeless human ritual and are mindful of the responsibility this places on us.

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

As a leader we must take account of broader issues than just our own performance as a business. Of course, it is essential that we deliver value to our shareholders. But it is also important that we provide value to our customers and make a positive contribution to society as a whole.

Beyond Transformation

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

We are confident about the future and about the possibilities that will open up for the business and the role we continue to play in helping to raise standards in the industry.

Engaging with stakeholders

We engage with our stakeholders to gain insights into their needs and identify the material issues they have. This feedback forms part of our decision making and helps us continually improve and progress towards our vision.

- Our Customers
- Our People
- Investors
- Industry & Policymakers
- Communities & Society

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Leading through change/

We remain focused on delivering excellent client service

Funeral services

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

Services we provide

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

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

69,400 (2018: 72,300)

Number of funerals conducted during 2019.

820 (2018: 831)

Number of funeral locations we operate in the UK.

Crematoria

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

Services we provide

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

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

64,800 (2018: 65,200)

Number of cremations conducted during 2019.

46 (2018: 46)

Number of crematoria we operate in England and Scotland.

Pre-arranged funeral plans

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

Services we provide

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

523,000 (2018: 486,000)

Number of active funeral plans as at 27 December 2019.

> **"We have a long-term commitment to the customer and we are shaping our services around their evolving needs."**

A strong and caring business

We are proud to be one of the UK's leading funeral service providers. We are a strong and caring business and our reputation, experience and dedicated people are our most valuable assets. By striving for the highest standards and through the quality of our products and services we provide across our business, we build trust with society and the families and communities we serve.

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

45%

Approximately 45 per cent (compared to 38 per cent in 2018) of our customers now find us online, with over 67 per cent of our website traffic coming from mobile devices.

Low-cost cremation service

As part of our commitment to providing simple and affordable alternatives we were the first funeral company to provide a nationwide low-cost attended cremation service without a funeral director.

National network

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

30%

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

60 minutes

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

5.6 million visits to our websites

Dignity receives approximately 5.6 million visits to our websites annually. This compares to 1.8 million visits in 2018.

99% reputation & recommendation

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

Source: Dignity Client Survey 2019

997,000 pre-arranged plans

We have already helped more than 997,000 people plan for their funerals in advance, of which 523,000 remain outstanding.

We are privileged to provide services that mean so much to our customers

Taking the greatest care

Being trusted with something as important as a persons final wishes is an honour and a privilege that we never take lightly.

DIGNITY

Simple, low-cost funerals

We offer families greater choice and flexibility in how they remember their loved ones whilst we focus on providing the essential care and practical elements of the cremation.

SIMPLICITY CREMATIONS

We know that families value quality, seclusion and time

We serve at the heart of our local communities and take great care to create a peaceful and tranquil environment for people to visit and reflect.

THE CREMATORIUM AND MEMORIAL GROUP

We're helping more people plan ahead

We are one of the UK's most trusted providers of pre-arranged funeral plans, providing peace of mind to you and your family.

FUNERAL PLANS

Our Summary Performance 2019

Our performance in 2019 was consistent with market expectations. However, underlying operating profit decreased by 21 per cent to £63.3 million and average income per funeral reduced from £2,973 to £2,930 reflecting the impact of a changing competitive landscape. On a statutory basis, operating profit was £44.8 million, a decrease of 41 per cent.

We are engaged in a wide-ranging Transformation Plan, alongside a major investment programme which continues to make good progress. This Plan will create a funeral business that remains focused on quality, whilst evolving to adapt to, and lead, a changing marketplace.

The Group has changed its accounting policy in respect of certain pre-arranged funeral plan trusts and the adoption of IFRS 15. This has resulted in the consolidation of the Group's primary pre-arranged funeral plan trusts. This has been applied retrospectively and therefore certain statutory amounts have been restated. See the Financial review and accounting policies note for further details.

- **Funeral market share** showing positive response to changes in proposition compared to 2016 and 2017.
- **Transformation Plan progressed as planned** and key pilot initiatives underway.
- **Strong market share** performance by crematoria business.
- **Simplicity Cremations continues to grow** strongly.
- **Group fully engaged with the CMA** market investigation.
- **The Group welcomes proposed regulation of pre-arranged funerals** HM Treasury announced in June 2019.

The progression of our Transformation Plan

1/ **Modernise the client proposition**

2/ **Invest in and simplify the operating model**

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

Timing will change

The Group is adapting aspects of the Plan pending the outcome of the CMA investigation.

Forward-looking statements

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

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

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

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Financial highlights

Revenue[1] £338.9m (2018: £353.7m)	Operating profit £44.8m (2018: £75.9m)	Underlying operating profit £63.3m (2018: £80.2m)
Dividends paid in the period 15.74p (2018: 24.38p)	Basic earnings per share 69.8p (2018: Loss of 34.0p)	Underlying earnings per share 60.6p (2018: 85.8p)
Number of deaths 584,000 (2018: 599,000)	Cash generated from operations £64.6m (2018: £104.2m)	Underlying cash generated from operations £71.8m (2018: £101.9m)

By division

Funeral services

Group operating profit share (before central overheads) (%) 60%

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

Underlying revenue[1] £203.3m (2018: £214.9m)	Operating profit £54.7m (2018: £67.0m)	Underlying operating profit £56.3m (2018: £62.2m)

Crematoria

Group operating profit share (before central overheads) (%) 40%

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

Underlying revenue[1] £76.8m (2018: £78.0m)	Operating profit £37.2m (2018: £39.6m)	Underlying operating profit £38.4m (2018: £40.3m)

Pre-arranged funeral plans

Underlying revenue[1] £21.2m (2018: £22.7m)	Underlying operating profit £nil (2018: £2.8m)

Central overheads

Costs £47.1m (2018: £30.7m)	Underlying costs £31.4m (2018: £25.1m)

(1) Total underlying revenue was £301.3 million (2018: £315.6 million). On a statutory basis the Group recognised Funeral services revenue of £262.1 million (2018: £275.7 million) and Crematoria revenue of £76.8 million (2018: £78.0 million). Pre-arranged funeral plans are not a separate division in statutory terms.

Prior year adjustments
The Group has changed its accounting policy in respect of certain pre-arranged funeral plan trusts and the adoption of IFRS 15. This has been applied retrospectively and therefore certain statutory amounts have been restated. See accounting policies note for further details.

Alternative performance measures (APMs)
The Board believes that whilst statutory reporting measures provide financial performance of the Group under GAAP, APMs are necessary to enable users of the financial statements to fully understand the trading performance and financial position of the business. The APMs provided are aligned with those used in the day-to-day management of the business and allow for greater comparability across periods. For this reason, the APMs provided exclude the impact of consolidating the Trusts and the changes which relate to the adoption of IFRS 15, both of which are considered to mask the underlying trading performance of the Group, as well as non-underlying items comprising certain non-recurring and non-trading transactions. Further detail may be found on pages 167 and 168.

Chairman's statement

We are seeking to build a responsive, resilient business capable of adapting to a backdrop of change

Clive Whiley, Non-Executive Chairman

"At the moment we are navigating our way through a period of unprecedented industry and Group change, driven by a rapidly changing yet still unregulated marketplace. However, I share the Board's vision for stronger regulation of our industry, one in which high-quality providers like Dignity can thrive, offering the customer competitively priced and excellent services."

Introduction and overview

At the outset I would like to thank my predecessor, Peter Hindley, who led the IPO in 2004 before serving as Chairman for a decade leading up to his retirement from the Board in June 2019. I am delighted to have been invited to become Chairman of Dignity and it is a privilege to be involved in determining the future direction of the UK's leading funeral services provider.

The funeral industry is experiencing a period of unprecedented change and I join as the Group enters the formative stages of a radical overhaul, being delivered through its Transformation Plan. Given my previous experience of change management I will bring a fresh perspective and encouragement to the Board and the many individuals involved in delivering what is a major corporate undertaking. In essence the complete re-engineering of a national, 800 plus branch network across the full bandwidth of the business.

Whilst the backdrop of falling underlying operating profit and the suspension of the dividend is obviously disappointing for shareholders, the senior management team deserve credit for their foresight in commencing these radical changes at the beginning of 2018. This strategic focus and determination developed with their advisers and project team, has enabled the Transformation Plan to run alongside business as usual activities ensuring that the Group continues to deliver day in day out for its customers. It is easy to forget that these decisions were taken before the Competition and Markets Authority ('CMA') launched its market study on 1 June 2018.

Overall 2019 has been a productive year, with significant work undertaken to improve our client proposition, develop our digital presence and build our central capabilities.

I strongly endorse the leadership role the Group has taken in calling for proper regulation, both for the at-need sector and pre-arranged sector of the funeral industry. The lack of regulation in the industry will continue to shock members of the public when press stories appear highlighting poor or scandalous care of a family's loved one. I know that Dignity upholds the highest professional standards. I also now know that some others do not.

That is why the Group welcomed the CMA investigation (which was launched in March 2019, shortly after the release of the Group's 2018 preliminary results), even though it creates further uncertainty in the short-term. This investigation, along with HM Treasury's determination to regulate pre-arranged funerals, means that the next year or so will be even more challenging.

Therefore it is undoubtedly true to say that at the moment we are navigating our way through a period of unprecedented industry and Group change, driven by a rapidly changing and still unregulated marketplace. However, I share the Board's vision for a regulated industry, one in which strong and high-quality providers like Dignity can thrive, offering the customer competitively priced and excellent services.

That is the goal that we as a Board are working towards. We are determined and confident that we can get ahead of the curve and land in a strong, leadership position. This will benefit our customers, shareholders and all stakeholders and help usher in a new era for the funeral industry.

Strategy

In order to achieve our vision and meet the challenges we face it is essential that our strategy and the plans to support it are periodically reviewed to ensure they are still fit for purpose. Therefore, as the incoming Chairman my priority is to review the strategy with the Board, as highlighted in our Third Quarter trading update in November 2019.

That review cannot conclude prior to the outcome of the CMA's investigation which has the potential to require significant change of the industry beyond that originally contemplated by our Transformation Plan. Hence we are focused on how our plans might need to change to cover all eventualities and we will report further once the CMA position becomes clearer. In the meantime, we have paused or adapted certain aspects of our plans pending the outcome of our review and the CMA's work. Although these plans are commercially sensitive, it is unlikely that the Group will begin to realise any material savings from the transformation until 2021 (a year later than planned). However, our overall expected annualised savings of £8 million (increasing to £13 million in the longer-term) and investment cost of £33 million (net of £17 million disposal proceeds) is unchanged.

Even with this backdrop, several issues and priorities requiring focus remain and these are as follows:

Pricing

There is inescapably downward pressure on average incomes. They need to reduce to stabilise and ultimately grow market share. They will also naturally reduce as more and more people select simpler, less traditional options such as direct cremation. Our proposition and associated pricing remain key priorities for 2020 and the years ahead.

Transformation Plan priorities

The pilot initiatives launched recently are providing us with invaluable insight on the likely success of new ways of working and job roles for operational staff. However, the challenge of affecting major change to working practices while continuing to run a business day-to-day cannot be underestimated. This, coupled with the scale of the change: 800 plus branches and associated new mortuary care centres, and deliberate changes to our timing plans for the reasons described earlier strongly suggest caution with regard to the original target date for completion at the end of 2021.

Given this information and the importance of getting the customer interface right, we as a Board judged it appropriate to signal a 12 month extension to ensure a full and effective roll out. Change at branch and customer level must be permanent and entrenched. We will not, and cannot, cut corners.

Addressing the challenges our business and the funeral industry faces

The funeral industry must change. This means regulation and we support moves to bring this about. Customers must be treated fairly and be assured of minimum acceptable standards whichever funeral director they choose.

This need for regulation applies also to pre-arranged funeral plans and we have played our part in highlighting the questionable practices of some providers and have welcomed the opinion from HM Treasury on regulation.

Chairman's statement continued

A strong business

Despite the challenges outlined above, the 2019 performance described in this Annual Report clearly demonstrates the underlying strength of the business. I am confident also that the shifts of emphasis on strategy and the Transformation Plan outlined above will ensure we remain successful in the long-term.

It is clear that we are changing and we have momentum. We have a strategy and a plan and we are confident we will achieve our goal of transforming the Group.

Our vision is to lead the industry in terms of quality, standards and value-for-money and to become the pre-eminent funeral services business in the UK. We now offer customers an unprecedented and extremely competitive range of services and price options. This is a sign of our future intent.

Engaging with the CMA

We welcomed the CMA's full market investigation into the funeral and crematoria sector when it was announced in March 2019 and we are cooperating fully. Since then we have attended a hearing of the CMA panel, facilitated site visits and responded to detailed questions necessary for a proper analysis of the industry. We want to play a leading role as a responsible and progressive corporate citizen in the funeral industry as it undergoes long overdue change.

The CMA's work in the sector provides an unparalleled opportunity to improve standards and protect consumers. UK consumers assume all funeral directors are the same, that their market is regulated and each of them is operating to a consistent set of professional standards, when in fact none of these statements are true.

Dignity's research has shown that 92 per cent of consumers did not know that funeral directors were not regulated in the UK, but once they were aware 80 per cent supported regulation to ensure minimum standards. The Group would welcome regulation which sets out minimum standards for core activities such as the care of the deceased and minimum standards of storage facilities.

Board changes

I am pleased to announce today that Dean Moore has joined the Group as a Non-Executive Director. Given Dean's experience, he will succeed David Blackwood as Chair of the Audit Committee from the conclusion of the Annual General Meeting on 11 June 2020.

David Blackwood will not seek re-election at the AGM and I would like to thank him for his involvement in the Group over the last five years, in particular for his efforts as Interim Chairman prior to my appointment on 26 September 2019.

We continue to seek a further non-executive director who can act as Remuneration Committee Chair and will make a further announcement in due course.

Governance and Corporate Social Responsibility

Dignity has a strong record of good corporate governance and this will continue under my chairmanship.

Regarding corporate responsibility, the Group has always operated to high standards of corporate behaviour and sought to be a responsible corporate citizen. It has valued its people and sought to engage in society at large, something that comes naturally in a business such as ours. We have also sought to minimise our impact on the environment. We have recognised, however, that the major changes afoot within the business present an opportunity to review our role and performance as a good corporate citizen. We provide further information on that in our CSR section.

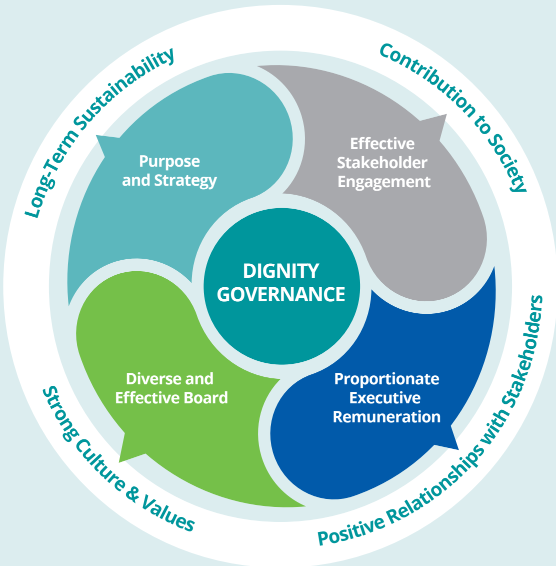
Our people, culture and values

Dignity's strong reputation for customer service rests with the diligence and care of its front line staff. This culture of caring has once again been evident during the work the Transformation Team has done on the initial branch pilots. Genuine admiration for the lengths to which Dignity staff routinely go to serve customers has been a constant refrain from within the Team.

Strong governance, leadership and purpose

The Board is fully committed to ensuring that high standards of good governance are in place and consistently applied in the boardroom and throughout the organisation. It will embrace the new UK Corporate Governance Code 2018, which applies to the Group from next year.

This pronounces that a positive relationship between companies, shareholders and other stakeholders, including the workforce is a driver of long-term sustainable growth and having a strong workplace culture aligned with the Company's purpose, business strategy and values is an essential underpin to any successful business. At Dignity, many of these fundamentals already exist, and we will continue to look at ways in which we can further strengthen and extend our current position in response to the new Code.



During the year, the percentage of clients who would definitely recommend our services increased to 91 per cent (from 90 per cent), so notwithstanding the changes facing the business, client service has not been sacrificed in any way.

This professionalism, pride and empathy clearly extends across the whole workforce given the outstanding client service research results that the Group publishes year after year. As the incoming Chairman I can only add my voice and thanks to all of you who make the Dignity promise come alive, especially during these challenging times. For us as a Board it is essential that in a bid to make the business more efficient and effective we do not lose that which makes us special: the commitment of our people.

Dividends

As previously announced, although the Group has significant cash resources at hand and continues to be cash generative, in order to maintain maximum flexibility and liquidity during the transformation, the Board has concluded that it is prudent to temporarily cease dividend payments. The Group has an established track record of returning cash to shareholders at appropriate times over many years and once the uncertain competitive environment becomes clearer, it anticipates resuming dividend payments or returning excess cash to shareholders.

Looking ahead

We have a strong business that is ready and willing to adapt to the challenges ahead. However, the challenges are significant. Average income per funeral and cremation are likely to reduce further; the CMA investigation could materially impact our plans; our Transformation Plan is strong however timing needs to be amended pending the outcome of the CMA investigation, thereby delaying anticipated savings.

The impact of these challenges is currently unclear. For example, the draft report from the CMA is not anticipated until April or May 2020, with their final report currently due by the end of September 2020. The Board anticipates making further comment on the Group's outlook following the release of the Provisional Decision Report.

Clive Whiley, Non-Executive Chairman
11 March 2020

Summary outlook

- The outcome of the CMA's investigation could materially impact the industry and the Group.
- To manage this change we are adapting and pausing certain aspects of our Transformation Plan.
- Realisation of cost savings is expected to be delayed.
- There is downward pressure on average income per funeral and cremation.

Chief Executive's review

We are adapting and responding to change

Mike McCollum, Chief Executive

"We are pleased with progress against our set objectives and with our Transformation Plan. At the end of the year we began our first branch pilot, testing new ways of working at three networks in the Midlands. These pilots have yielded invaluable insights and very significant encouragement about the potential to enhance our level of service to the customer.

Our digital presence has grown strongly, and alongside significant work on our pricing and proposition, we are seeing market share responding in a more positive way than two years ago. Central capabilities have been developed. All this work has also been achieved whilst improving the service provided to our clients."

Overview and performance

In 2019 we posted another resilient performance amid unprecedented change in the funeral industry. We met market expectations and delivered an operating performance in line with the Board's expectations, allowing for the significantly lower number of deaths particularly in the first half of the year. Our market share remained robust, demonstrating a continued positive response to the Group's updated service offer and price points introduced since January 2018. Lower deaths and the expected reduction in average funeral income meant that underlying operating profit decreased by 21 per cent (to £63.3 million). Average income per funeral was down from £2,973 to £2,930. The funeral mix continues to evolve in the light of new service offers and ongoing pricing trials and we continue to make good progress in identifying the best balance between price and service offer. Our crematoria and pre-arranged funeral plan businesses also performed well. Average income per cremation was £1,186 (2018: £1,197), reflecting the evolving mix of our locations and service offerings.

We are pleased with progress against our set objectives and with our Transformation Plan which we set out in detail in last year's Annual Report. In 2019, activity has been focused on all aspects of the Plan. We commenced one of the most radical, complicated and challenging elements of our Transformation Plan, transforming our branches, working in materially different ways and changing our processes and the way we arrange funerals for our customers. These branch pilots have yielded invaluable insights and very significant encouragement about the potential to enhance our level of service to the customer. Further pilots will build on the lessons learned from earlier ones.

As our new Chairman, Clive Whiley, indicated in his statement, given the profound impact the CMA investigation could have on the size and shape of our business we have decided to delay the roll-out of key aspects of our Transformation Plan. Expected savings will therefore be realised later than originally anticipated.

The arrival of Clive in September has provided fresh focus and additional perspective and under his leadership the Board is reviewing the Group's strategy and Transformation Plan.

The Board recognises that there is still a lot of work to do but we are confident of achieving our goals. We have the platform, focus and ambition to get ahead of the competitive curve and to continue to provide sustainable growth while maintaining the highest possible standards of customer service. The fundamentals of our business remain compelling and strong in an industry experiencing unprecedented change and scrutiny.

Much of this scrutiny has come from the CMA and HM Treasury. On 28 March 2019 the CMA confirmed its widely anticipated full market investigation into the funeral and crematoria sector. We made clear our support for such an investigation in the interest of helping to create a properly regulated industry while highlighting a number of important issues. In last year's Annual Report we published extracts from our response to the CMA and since then we have established a strong working group of internal and external colleagues. The Group has continued to engage with the CMA to provide it with detailed information on the Group's at-need and crematoria markets and its wider observations on these markets generally. The CMA has started to release its working papers and is expected to issue its Provisional Decision Report in April or May.

At this point it is worth restating what I said in last year's Annual Report. A CMA investigation will last many months and, if other market investigations are a guide, will generate much interest and comment, some of it hostile towards major industry players like ourselves. However, it is important for our stakeholders and interested parties to remember that what matters is the outcome and findings of the investigation, not the inevitable twists, turns and commentary.

Meanwhile, in a separate development, the Group continues to anticipate Financial Conduct Authority ('FCA') regulation of pre-arranged funerals and is preparing accordingly. In June 2019 HM Treasury confirmed consumer detriment is present in the funeral plan market, and that the government has maintained its position that bringing funeral plan providers within the remit of the FCA would be the most effective policy response for strengthening the regulation of the market. The Group welcomed this decision as, for a long time, it has led the industry in best practice and called for regulation of the pre-arranged funeral sector to protect customers. Dignity's research, published together with Fairer Finance, has highlighted the poor sales practices and financial management risks that certain providers engage in. The Group currently anticipates regulation in approximately two years time and is planning accordingly.

Where we are now

The Transformation Plan is helping us to build a distinctive and powerful market offer. We are delivering a differentiated customer experience and we remain determined to meet stakeholder expectations. One of the key objectives of the Transformation Plan is to mobilise our funeral arrangers. We have concluded an initial branch pilot and the response from

The right strategy for change and delivering our Transformation Plan

We have acted with speed and purpose in the light of unprecedented changes to our industry. Our focus is on delivering our Transformation Plan while at the same time continuing to deliver day in day out for our customers.

The Group is adapting aspects of the Plan pending the outcome of the CMA investigation.

Our opportunity is clear

We have a clear opportunity to ensure the business is fit for the future, whatever that may bring. The uncertainty of the CMA investigation means that we do however need to plan carefully to ensure we can respond to any outcome without wasting resources in the meantime.

Our Strategic priorities

1/ Identify the appropriate propositions and price points to stabilise and then grow market share.

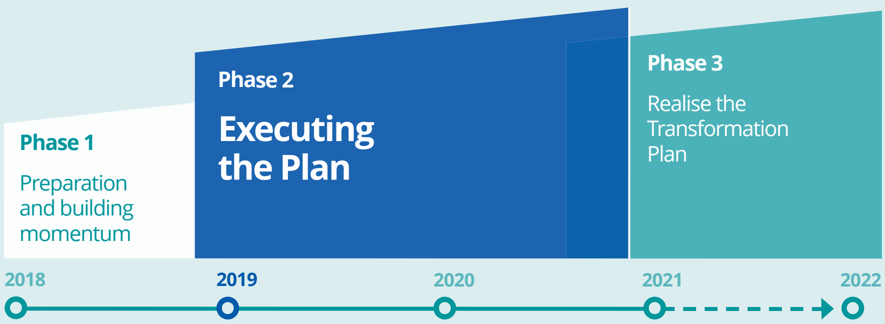
2/ Modernise the ways of working with appropriate technology to enhance client service.

3/ Adapt our plans as necessary to respond to the CMA investigation.

4/ Balance keeping the momentum of the transformation, without wasting time or capital on aspects that may need adjustment before implementation.

5/ Ensure decisions support excellent client service.

The progression of our Transformation Plan



Chief Executive's review continued

customers and staff has been very positive. We are confident that the significant work put into the design of the pilots is paying off.

For example approximately 50 per cent of funeral arrangements are now being made in the client's home in the pilot area. However, no pilot is perfect, and we are currently understanding how things should be refined to address areas for improvement.

We have made further good progress on identifying the optimum price/service mix. We have not however completely stabilised our funeral market share which saw a small like-for-like decline in 2019. Work continues to develop and launch various trials to gain additional understanding. However we do expect a further reduction in average funeral income will be necessary to stabilise and then grow market share.

Whilst we have described a conscious pausing of aspects of the transformation, our overall expectations of realising net annualised savings of £8 million, growing to £13 million in due course, from a net investment of £33 million, remain unchanged at this time.

I am also pleased with our progress in marketing and the digital arena. Customers are changing the way they make their decisions and it is important we are visible, transparent and have an attractive proposition that represents good value.

Finally, our pre-need and crematoria businesses continue to perform well relative to their markets. However, we are mindful of the pressure possible on average income per cremation as customers make alternative choices.

Purpose and vision

We have a clear purpose. We are here to help people at one of the most difficult times in their lives and we are honoured to serve the communities we are part of. Listening to our customers and understanding their changing attitudes and lifestyles drives what we do as a business. Every day we want to meet and exceed our customers' expectations. We aim to do this by delivering excellent client service through the continued dedication of our people and by serving our customers with expertise, compassion and commitment.

Our vision is to lead the funeral industry in terms of quality, standards and value-for-money. To achieve this we are building a more coherent, cohesive and technology-enabled business, one geared to meeting the changing needs of our customers. In addition, we have always taken our role as a responsible corporate citizen extremely seriously and recognised that our broader role in society goes beyond just creating value for our shareholders. We will therefore continue to be a responsible and sustainable business, determined to meet both our social responsibilities and the expectations of all our stakeholders.

People and culture

Our people will be central to whether our transformation succeeds. Perhaps the most crucial group will be those who have direct contact with our customers. It is essential that our service levels, of which we are justly proud, do not falter. We help people at an extremely vulnerable time in their lives which means that we are a truly people business. This means that our employees must be caring, thoughtful and truly engaged with our customers. Their continued care and commitment is the bedrock on which this Group and its culture are based, something that has been described as 'The Dignity Way'.

Managers across the business also have a major responsibility during this time of change to keep close to their teams, to encourage and to lead by example. The same is true of the Board. We have a duty to make the best decisions we can but also to make sure that we communicate well and lead by example.

CMA investigation into the funeral industry

Introduction and overview

A lot has happened since we announced a reduction to our pricing in January 2018. The CMA is the UK's competition authority. It is an independent, non-ministerial government department with responsibility for carrying out investigations into mergers, markets and the regulated industries and enforcing competition and consumer law. In June 2018 it announced a market study into the funeral industry 'to review how well the market works and whether consumers are getting a good deal.'

In November 2018 it published its interim report and consultation, part of which proposed that an 18-month market investigation should be conducted by the CMA to consider how the market could be made to work better.

As a leading player in the funeral industry and a long-standing campaigner for its regulation, Dignity welcomed the CMA's interest in the funeral industry and made two public statements in response. The first, in November 2018 was an immediate response on the day of the release of the CMA's interim report. The second, in January 2019, was in response to an invitation by the CMA for views from interested parties on the issues raised in its report. Details of these responses can be found in last year's Annual Report or on the Group's website.

Update and Dignity's response

Since then, in March 2019, the CMA confirmed its widely anticipated market investigation into the funeral and crematoria markets. Dignity welcomed the investigation and is cooperating fully with the CMA. In particular, it has established a strong working group of internal and external resource and will seek to focus on these key areas:

- Quality of service provided to meet customer needs;
- Regulation of the industry to protect customers; and
- Capital employed in the crematoria.

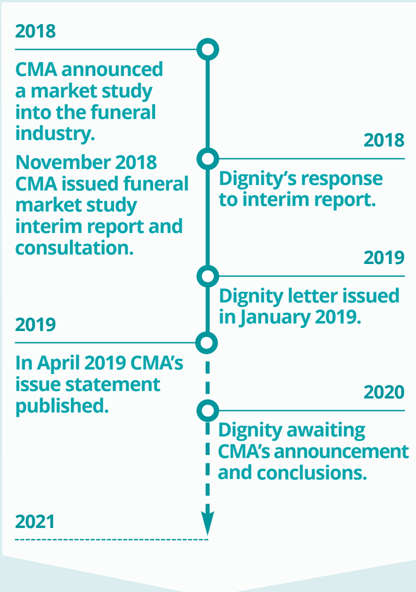
1/ Dignity has received and is responding to several working papers on the qualitative aspects of funeral and crematoria provision. Dignity believes that improving the qualitative aspects of the funeral industry is an important part of delivering customer value.

2/ Further, Dignity has received and is responding to a number of working papers relating to regulation remedies and increased price transparency of the funeral market. Dignity has repeatedly called for regulation of the funeral sector and will continue to work with the CMA to assist in the development of an appropriate regulatory standard.

3/ Dignity continues to highlight the capital intensive nature of building new crematoria and continues to work with the CMA in its analysis of this area.

Where we are now

Dignity has attended a hearing of the CMA's panel, facilitated site visits and has responded to detailed questions necessary for a proper analysis of the industry.



Next steps and timeline

The CMA has published a number of working papers as it gathers and analyses evidence. Dignity is responding to these papers where appropriate. The papers are expected to form the basis of the Provisional Decision Report which is due to be released in April or May 2020. A period of consultation will follow, culminating in the release of the Final Report, which – according to the CMA's current published timetable – must be issued by 27 September 2020. The CMA may propose remedies or regulation to improve how the market works for consumers.

The CMA can seek an extension of six months to this timeline, if they consider it necessary.

"We hope that through its investigation, the CMA is able to create a framework that ensures that customers are supported, feel respected and are able to exercise the choices available to them in an informed way."

HM Treasury – Opinion on statutory regulation of pre-arranged funerals through the Financial Conduct Authority

In June 2019, HM Treasury announced its opinion that it would be appropriate to introduce statutory regulation of pre-arranged funerals through the Financial Conduct Authority. Dignity's recent research, published together with Fairer Finance, has highlighted the poor sales practices and financial management risks that certain providers engage in. The Group welcomes this opinion from HM Treasury as, for a long time, it has led the industry in best practice and called for regulation of the pre-arranged funeral sector to protect consumers.

The Group continues to anticipate regulation of pre-arranged funerals in approximately two years and is preparing accordingly.

"The Group welcomes this opinion from HM Treasury as, for a long time, it has led the industry in best practice and called for regulation of the pre-arranged funeral sector to protect consumers."

Chief Executive's review continued

The funeral market is significantly changing

Market context

The UK funeral market

The UK funeral market is getting more dynamic. The internet continues to change everything, and consumer behaviour is evolving rapidly. The death rate has slowly decreased while the number of funeral directors has increased rapidly. There are around 30 per cent fewer deaths per funeral director in the UK compared to 25 years ago.

Scale and structure of the market

The funeral director market remains very fragmented, with approximately two thirds of funeral directors being small owner managed businesses. There are approximately 300 crematoria in the UK, with circa 64 per cent owned by local authorities. It is estimated that three quarters of all funerals result in a cremation with the remainder being burials.

Changes in the competitive dynamics of the sector

The funeral market is already extremely competitive, however, more can be done to improve the ability of customers to exercise the choice that exists, especially through greater pricing transparency. In addition we have a growing and ageing population. In short, the changing way in which people are choosing to arrange a funeral and what they value drives how we evolve and modernise our services to support them better and meet their priorities and expectations.

Deaths in Great Britain

In 2019 the initial publication of recorded total estimated deaths in Britain for 52 weeks was 584,000, two and a half percent lower than the 52 weeks in 2018. Some of the Group's key performance indicators rely on the total number of estimated deaths for each period and this information is obtained from the Office for National Statistics (ONS). 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. The ONS expects long-term increases in the number of deaths. These estimates were updated by ONS in October 2019, increasing expectations by approximately 20,000 per year. They anticipate approximately 600,000 deaths in 2020, increasing to approximately 740,000 in 2040.

A Changing Funeral Market

78%

The proportion of funerals involving a cremation has grown in the past 60 years, from 35 per cent in 1960 to 78 per cent in 2019.

Source: Cremation Society Statistics

Updated data from ONS

Latest ONS expectations increase the anticipated number of deaths from 2020 onwards.

Increasing competition

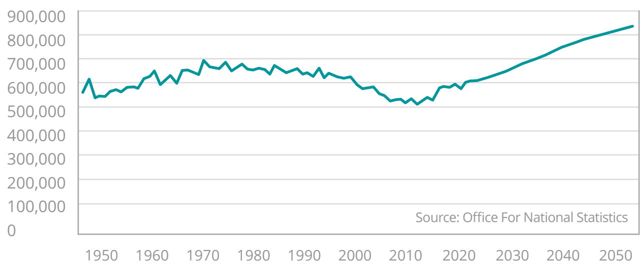
The UK market is already very competitive and increasingly dynamic. The number of funeral directors has increased rapidly, the internet continues to change everything and consumer behaviour is evolving quickly.

Increase

In low-cost and alternative funeral arrangements.

Deaths in Great Britain

Long-term expectations are for the number of deaths to reach 740,000 by 2040.



Changing Expectations

- **Regulation & Standards**

- **Flexibility & Choice**

- **Connecting Digitally**

- **Price & Affordability**

We are progressing our Transformation Plan

Our Transformation Journey – where we are now

Good progress has been made in understanding the changing relationship between prices and our market share. This has been supported by tremendous work to develop our online presence and new customer literature. Alongside this, successful tests of new ways of working and positive responses to our new branding, provide a good position to progress further changes.

Strategic priorities and areas of focus

We have to be mindful of our priorities given the outcome of the CMA investigation is unknown. That said, our priorities are:

- understanding the most appropriate price and service offer for the future;
- continuing to roll out new ways of working supported by appropriate technology; and
- continuing to build a leading digital presence.

Components of the Transformation Plan

1/ Modernise the client proposition

- Implement more client-centric service model.
- Launch new product and pricing structure.
- Build national brands (Dignity and Simplicity Cremations).

2/ Invest in and simplify the operating model

- Separate front and back of house.
- Right-sized branch network.
- Scale operating networks.

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

- Simplified, focused management structure.
- Invest in support capabilities and IT systems.

The progression of our Transformation Plan

Phase 1
Preparation and building momentum

Phase 2
Executing the Plan

Phase 3
Realise the Transformation Plan

2018 — 2019 — 2020 — 2021 - - - → 2022

Financial implications

We continue to anticipate a net investment of £33 million to deliver £8 million of annualised savings in the near term, increasing to £13 million over time. As detailed earlier, this will take a little longer to realise.

Chief Executive's review continued
We are progressing our Transformation Plan continued

1/ 2/ 3/

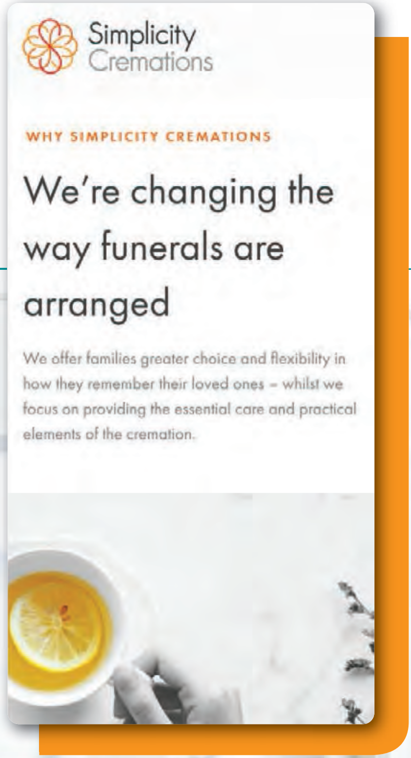
Modernise the client proposition

Our initiatives cover four core areas:

- Implementing new technologies to support the arrangement process.
- Trialling of different service propositions.
- Continued marketing and development of the Simplicity Cremations brand and proposition.
- Build a national Dignity brand.

New advertising campaigns for Simplicity Cremations launched

2019 saw further trials of Simplicity campaigns and their success is encouraging. At-need Simplicity volumes have increased 117 per cent year-on-year in aggregate.



Pilot networks

We are trialling and testing response to new technologies and different service propositions

The Group continues to trial various propositions at different price points. At its core is a move away from a packaged service offering to an unbundled approach, where customers can personalise their own requirements.

Initial launch and testing response to our new Dignity brand

In 2019, we began to introduce new signage on our locations, supported by new marketing literature using the new brand identity.

1/ 2/ 3/

Invest in and simplify the operating model

Our initiatives cover three core areas:

- Separation of front of house and back of house activities.
- Focus on operational efficiency through the use of technology.
- Right size the operational network.

Increasing our focus on client service and community engagement

By providing staff with roles focusing on their strengths either in the front or back of house, those tasked with arranging funerals can spend more time focusing on client service and getting involved in their local communities.

Front of house

We are trialling mobile technology for client facing arrangers

We have launched trials of new ways of working and operational management in three pilot networks and we are mobilising our funeral managers to enable them to respond more proactively to clients' needs.

Back of house

New resource management tool

A new resource management tool is in place. This initial version provides the basic functionality to manage staff and vehicle resources more efficiently. It will be enhanced over time with greater functionality.

Chief Executive's review continued
We are progressing our Transformation Plan continued

1/ 2/ 3/

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

Our initiatives cover four core areas:

- Introduction of consistent management roles.
- Use of technology to enhance customer service and improve operational efficiency.
- Evolving operational and business reporting for the new ways of working and changing competitive environment.
- Implementation of a modern source-to-pay solution to support efficient procurement.

Modern telephone system implemented in our Client Service Centre

A new telephone system has been implemented at our Client Service Centre in Sutton Coldfield to help enhance our business resilience and to use the latest technology to improve the way we interact with our clients.

We have an IT strategy in place to support change

Technology is central to our transformation plans and selecting appropriate solutions for each task is critical to their success.

Modern source-to-pay solution for procurement activities

This system will give staff a more efficient way of ordering items they need and to process the purchase efficiently. It will also help to ensure we can realise synergies from our size by ensuring the correct suppliers are used.

Tablet-based arrangement software

The pilot networks are trialling a new tablet-based software to help the client understand the funeral arrangements they are making.

We are transforming through continued collaboration

Our people and culture matter during and beyond Transformation

A strong culture and shared values across our business

Everyone at Dignity recognises the important part they play in helping clients at one of the most difficult times in their lives. The transformation is about enhancing the service we provide. It is not about compromising on standards. To achieve this, it is vital that our staff understand our plans at the appropriate times; receive the correct training to perform their roles to the best of their ability; and receive constructive feedback on how they have performed.

It is inevitably an uncertain time for staff. Sadly, a small number of people did choose to take redundancy as part of the implementation of our pilot networks. However, others also saw their roles changed for the better, received promotions and are now enjoying new challenges in the business.

"During and after this change we will continue to be a caring business with core values built around quality, providing excellent customer service and high standards of care."

Mike McCollum, Chief Executive

We are a caring business

What we are here to do:
To help people at one of the most difficult times in their lives.

How we do this:
By helping to create unique and personal funerals, done with care, compassion, respect, knowledge and professionalism.

What we want to be:
The company that everyone knows they can trust in their time of need.

What we stand for

- It's the promise we make to our customers;
- It's the purpose we have as a business, why we exist;
- It's the values we stand for that guide our behaviour;
- It's the quality of the products we sell and services we deliver;
- It's the expectations of our customer service standards;
- It's the experiences we create;
- It's the way we communicate;
- It's the way we work with suppliers;
- It's the way we treat the environment; and
- It's the way we treat each other.

From Good to Great

Good to Great is how we describe our Transformation Plan internally. We do a good job (and actually provide excellent client service), but we can do better: we can provide an even better service; we can enhance our facilities where needed; we can avoid some of the small things that sometimes go wrong by paying even greater attention to detail.

Putting this all together, we can go from Good to Great.

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Chief Executive's review continued

Leading the way in increasing choice for consumers

Reflecting a changing society

Playing a leading role in the funeral industry

A research report by Trajectory and Simplicity Cremations

As one of the leading funeral services providers in the UK, we are committed to increasing choice for consumers and ensuring there is a wide range of options available to them at different price points.

Our study, **'Low-cost and alternative funeral solutions'**, adds to the range of research we have undertaken in recent years, with the intention of creating a robust evidence base grounded in consumer insight that allows us to better understand what people want and need from the funeral sector.

The report comes at a time when policymakers are considering their approach to the funeral industry. The CMA is expected to publish its recommendations for the funeral market later this year, the Department for Work and Pensions (DWP) is currently exploring options for improving the Social Fund Funeral Expenses Payment, and the Scottish Government is undertaking significant work on funeral costs and standards. The recent decision by DWP to increase the value of the Social Fund Funeral Expenses Payment reflects the willingness of policymakers to act in this area, and the wider collaboration of agents operating in the funeral market whether parliamentarians, funeral directors, crematoria, faith groups, celebrants and importantly consumer groups.

We hope that this research will prove useful as policymakers consider the changes currently taking place in the sector, and the policy changes that are required to ensure consumers get the best possible outcomes. At the same time we will continue to facilitate and encourage greater collaboration across the industry and with others who have an interest in the sector.

Our report considers consumer awareness of, and attitudes towards, a range of low-cost and alternative funeral solutions, including direct cremation, natural burial, DIY funerals, state support and even donating to medical science. Findings highlight the discomfort some people feel in selecting low-cost and alternative funerals. Many hold back due to a lack of awareness, explicit instruction or because they feel judged if they deviate from a traditional funeral and go against perceived societal and cultural norms.

In our conclusion we set out a series of recommendations directed at both policymakers and the industry for how we believe less traditional solutions can be normalised, creating an environment where people can freely select the funeral they and their loved ones want.

In most cases a traditional funeral probably will remain the option that most closely fits a person's needs, but it should not be their only option. There is no one reason why consumers may want to explore low-cost or alternative options: for some it is about need, others what they want, and finally for others what they can afford. Whatever the reason, people should have a choice.

At Dignity we have led the way in increasing choice for consumers. We were the first funeral director to offer a national direct cremation service and have built on this by developing our Simplicity Cremations brand which offers a range of lower cost and alternative funeral services.

But we also recognise that some consumers who choose a more traditional funeral will also need help with funeral costs. That is why we have been working closely with both the DWP and the Scottish Government to ensure the state benefit system works for those arranging a funeral. We have offered to look at aligning our processes where possible to make the application process smoother and have reduced our prices significantly with more to come.

Simplicity Cremations

"We will continue to facilitate and encourage greater collaboration across the industry and with others who have an interest in the sector."

Leading through change

Q&A with Mike McCollum, Chief Executive

Q/A

Q/ Are the pilots proving more problematic than first anticipated?

No. On the contrary, our first branch pilots have been exciting and encouraging. Approximately 50 per cent of funeral arrangements are now being made in the clients' home in the pilot area, a key objective of the Transformation Plan being to mobilise our funeral arrangers. However, you cannot underestimate the challenge of implementing major changes to working practices while continuing to run an 800 branch business. Given that we are determined to embed real change we have made the right decision to extend the timescale. We will not, and must not, cut corners on this crucial aspect of our business, the customer interface.

Q/ What findings from the pilots have really surprised you?

What has really surprised and impressed members of the Transformation Team working with branch colleagues has been the levels of commitment and willingness to go the extra mile for customers. This has not been a surprise to me as the Board has long known that it is our people who provide our 'X factor'. However, I have been pleased, and perhaps a little surprised, by their enthusiasm for radical and challenging change. We are asking people to work in materially different ways, changing processes and the way we arrange funerals for our customers. In addition to that, there have been a myriad of insights, many small, but all contributing to a growing confidence that the offer to our customers will be significantly enhanced when the Transformation Plan is completed.

Q/ How have staff reacted?

As I have mentioned previously, it appears that staff so far have reacted very positively but we cannot be complacent. Improved employee engagement has been a major priority this year and we have taken significant steps to improve it through initiatives such as our Employee Forum. We have worked hard to ensure we can deliver the necessary changes at branch level and that employees can provide feedback and are properly informed and trained. In addition we have created a much larger Human Resources function with a wider range of additional skill sets to ensure it properly fits the needs of our employees and the business during, and following, this period of change.

Q/ How disappointed are you by the one year delay in completing the Group's transformation?

The most important thing is getting the transformation of our business implemented properly and sustainably. A cosmetic exercise would not take us very far into the future and from the outset we were determined to make fundamental changes, however far reaching the impact. I believe our investors and stakeholders understand that we are in this for the long haul and that in the greater scheme of things, a year's delay is a price well worth paying if it means we get it right.

Q/ When will you have full clarity on the best price/service offer mix?

Our funeral mix continues to evolve in the light of new service offers and ongoing pricing trials and we continue to make good progress in identifying the best balance between our price and service offer. We have not however completely stabilised our funeral market share which saw a small like-for-like decline in 2019. Work continues to gain additional understanding. However, we are not yet in a position to provide full clarity on the best price/service offer mix.

Vision

Our vision is to lead the funeral industry in terms of quality, standards and value-for- money. To achieve this we are building a more coherent, cohesive and technology-enabled business, one geared to meeting the changing needs of our customers. In addition, we have always taken our role as a responsible corporate citizen extremely seriously and have recognised that our broader role in society goes beyond just creating value for our shareholders. We will continue to be a responsible and sustainable business, determined to meet both our social responsibilities and the expectations of all our stakeholders.

Mike McCollum, Chief Executive
11 March 2020

Strategy and business model

Evolving our strategy to create and deliver sustainable value

2018 marked the start of a new strategy for the Group in response to a quickly changing competitive landscape and this approach was maintained in 2019.

Our strategic objectives

Protect market share and reposition the Group for growth

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

How:

- By offering a wide choice of new price points and services to our clients while preserving our unrivalled levels of service.
- By continuing to prioritise excellent client service regardless of market segment which we believe will lead to organic growth.
- Our Transformation Plan will result in our funeral operations being organised to run more efficiently and effectively.

Establish new market positioning

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

How:

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

Re-base the business model and market expectations

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

How:

- By continuing to gauge market response to various pricing and service scenarios while maintaining our high levels of professional service and care.
- Segmented approach to the market, borne out by the developments of the Simplicity Cremations business.

Our overall strategic approach

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

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

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

2/ Be more distinctive in the marketplace

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

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

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

4/ Continue to be a good corporate citizen

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

How we operate

Operating profitably and efficiently:

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

Controlling and measuring performance:

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

Operating responsibly:

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

Maintaining performance across our operations:

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

Building strong relationships:

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

Creating and delivering value

Our clients

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

Our people

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

Our shareholders

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

Communities

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

Governance

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

See p.61

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.

See p.46

KPIs

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

See p.30

Remuneration

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

See p.77

Key performance indicators

Measuring our performance

The link between our strategy and our KPIs

Historical KPIs remain relevant

The Group has had a consistent set of KPIs used to monitor the performance of the business against its strategy for many years. These KPIs have continued to remain relevant during the changes in the last year. Financial KPIs are measured by reference to underlying operating performance and are therefore unaffected by the accounting policy changes made in the period.

How we measure performance

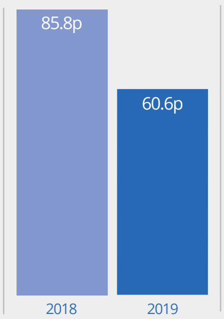
- We monitor our performance by measuring and tracking KPIs that we believe are important to our longer-term success.
- Each KPI reflects a quantifiable measure of different aspects of the Group's strategy. They act as headlines for the Board, allowing them to use more detailed management information 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.

Our KPIs are aligned with our strategic objectives

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

Financial KPIs

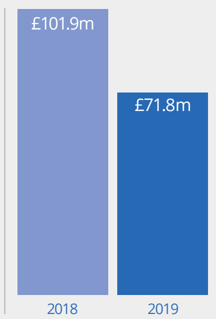
Underlying earnings per share (pence) — 60.6p



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

Developments in 2019
The reduction follows the decrease in underlying operating profit.

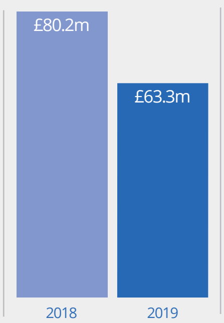
Underlying cash generated from operations (£m) — £71.8m



Definition
This is the statutory cash generated from operations excluding non-underlying items and the impact of the change in pre-need trust accounting and IFRS 15.

Developments in 2019
The Group continues to convert operating profit into cash efficiently, subject to timing differences and cash incurred in respect of commission payments.

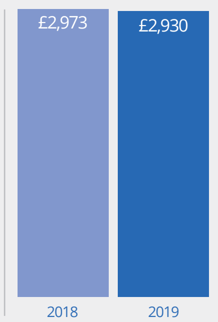
Underlying operating profit (£m) — £63.3m



Definition
This is the statutory operating profit of the Group excluding non-underlying items and the impact of the change in pre-need trust accounting and IFRS 15.

Developments in 2019
Underlying operating profit declined year-on-year, primarily driven by lower deaths, lower average incomes and ongoing cost inflation.

Average income per funeral (£) — £2,930

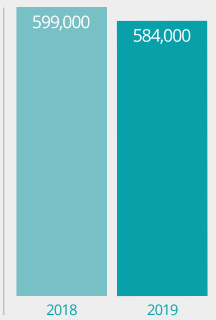


Definition
Net underlying funeral revenue divided by the number of funerals performed in the relevant period.

Developments in 2019
This reduction year-on-year is consistent with the Group's strategic price changes.

Non-financial KPIs

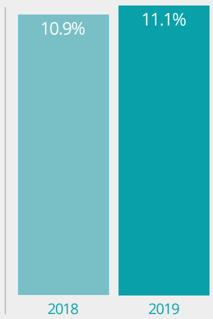
Total estimated number of deaths in Britain (number) — 584,000



Definition
This is as reported by the Office for National Statistics.

Developments in 2019
Deaths were lower than originally anticipated at the beginning of the year.

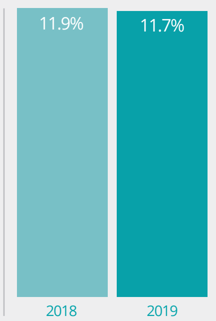
Crematoria market share (per cent) — 11.1%



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

Developments in 2019
Market share has increased, reflecting the effect of increases in the number of locations combined with an increase in the number of Simplicity and other direct cremations being performed.

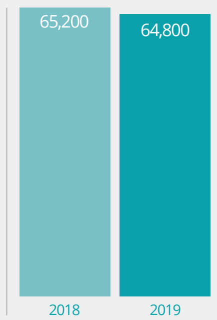
Funeral market share excluding Northern Ireland (per cent) — 11.7%



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 2019
Whilst market share is lower than 2018, it continues to show a positive response from changes in proposition and pricing.

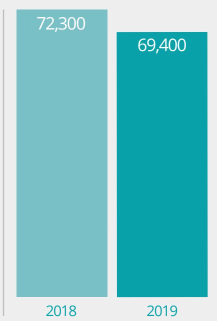
Number of cremations performed (number) — 64,800



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

Developments in 2019
Changes are a consequence of the total number of deaths and the Group's market share.

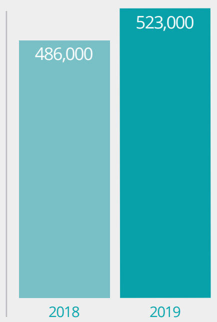
Number of funerals performed (number) — 69,400



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

Developments in 2019
Changes are a consequence of the total number of deaths and the Group's market share.

Active pre-arranged funeral plans (number) — 523,000



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 2019
This increase reflects continued sales activity offset by the crystallisation of plans sold in previous periods.

Key performance indicators continued

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

Non-financial KPIs continued

Delivering excellent client service

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

Customer perception on quality and value-for-money

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

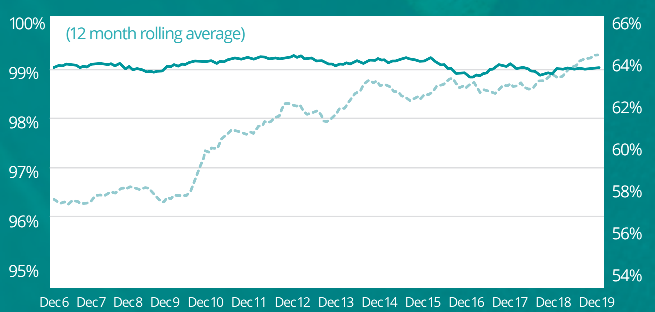
Broader client choice

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

Brands and customer experience

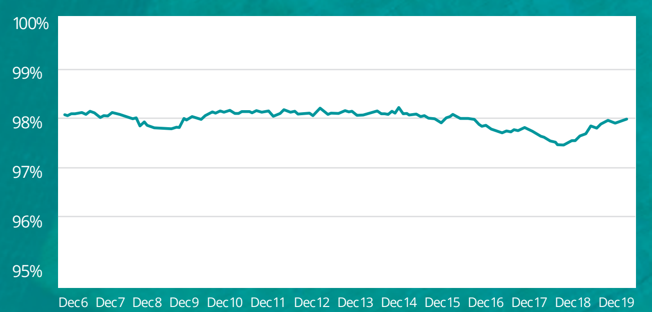
Awareness of our brands and a positive customer experience will help protect and ultimately grow market share. Our surveys provide some information and we support this through broader activities to understand how aware people are of our brands.

Meeting and exceeding expectations (% of clients)



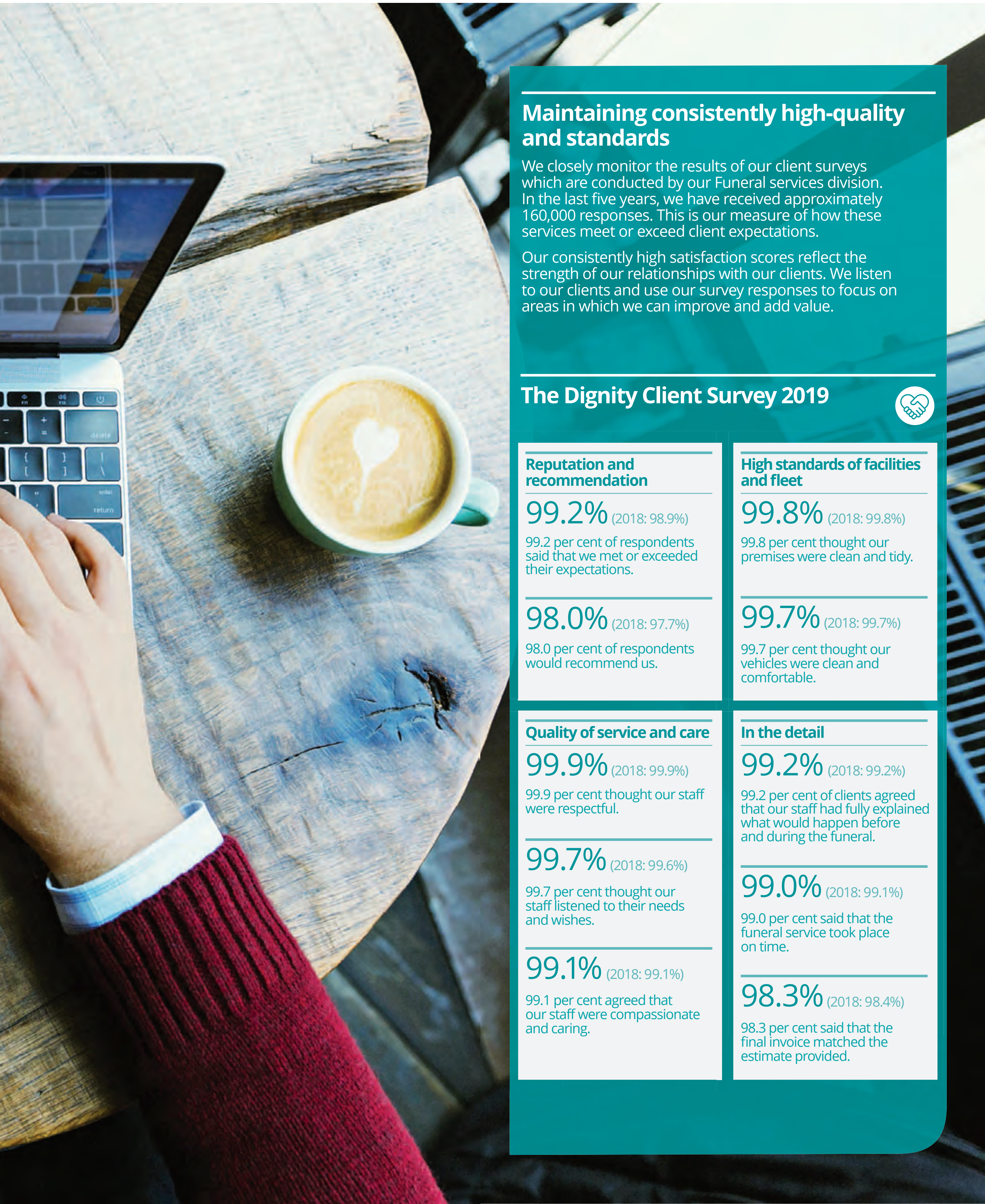
Met and exceeded expectations (left hand axis)
Exceeded expectations (right hand axis)

Recommending our services (% of clients)



Percentage of clients willing to recommend Dignity's services

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



Maintaining consistently high-quality and standards

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

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

The Dignity Client Survey 2019

Reputation and recommendation

99.2% (2018: 98.9%)

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

98.0% (2018: 97.7%)

98.0 per cent of respondents would recommend us.

High standards of facilities and fleet

99.8% (2018: 99.8%)

99.8 per cent thought our premises were clean and tidy.

99.7% (2018: 99.7%)

99.7 per cent thought our vehicles were clean and comfortable.

Quality of service and care

99.9% (2018: 99.9%)

99.9 per cent thought our staff were respectful.

99.7% (2018: 99.6%)

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

99.1% (2018: 99.1%)

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

In the detail

99.2% (2018: 99.2%)

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

99.0% (2018: 99.1%)

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

98.3% (2018: 98.4%)

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

Operating review

Funeral services

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

Performance

As at 27 December 2019, the Group operated a network of 820 (2018: 831) funeral locations throughout the United Kingdom, generally trading under local established names.

During the period, the Group conducted 69,400 funerals compared to 72,300 in 2018.

Underlying operating profit was £56.3 million (2018: £62.2 million), a reduction of nine per cent. In broad terms, this can be explained by the following factors:

	H1 £m	H2 £m	FY £m
Underlying operating profit – 2018	42.1	20.1	62.2
Impact of: Number of deaths	(7.0)	3.6	**(3.4)**
Market share	(2.0)	(1.7)	**(3.7)**
Average incomes	(4.4)	0.9	**(3.5)**
Cost base decreases	1.6	2.9	**4.5**
Acquisition activity	0.2	–	**0.2**
Underlying operating profit – 2019	30.5	25.8	**56.3**

Items totalling £1.6 million (2018: £(4.8) million) excluded from underlying operating profit resulted in statutory operating profit of £54.7 million (2018: £67.0 million). These items are discussed in the Financial review, but relate to non-underlying items and the impact of accounting policy changes required for the Group's statutory reporting.

Progress and Developments

Market share

Approximately one per cent of all funerals were conducted in Northern Ireland. Excluding Northern Ireland, these funerals represented approximately 11.7 per cent (2018: 11.9 per cent) of total estimated deaths in Britain. Whilst funerals divided by estimated deaths is a reasonable measure of our market share, the Group does not have a complete national presence and consequently, this calculation can only ever be an estimate.

Funeral mix and average income

	Funeral type	Q1 2019 Actual	Q2 2019 Actual	H1 2019 Actual	Q3 2019 Actual	Q4 2019 Actual	H2 2019 Actual	FY 2019 Actual
Average underlying income (£)	Full service	3,542	3,585	3,558	3,608	3,613	3,605	**3,578**
	Simple and limited service	2,159	2,000	2,089	2,000	1,995	1,996	**2,047**
	Pre-need	1,826	1,789	1,806	1,879	1,899	1,890	**1,846**
	Other (including Simplicity)	773	734	756	772	780	774	**770**
Volume mix (%)	Full service	52	53	52	52	52	52	**52**
	Simple and limited service	14	13	14	14	13	13	**14**
	Pre-need	27	28	28	27	28	28	**27**
	Other (including Simplicity)	7	6	6	7	7	7	**7**
Weighted average (£)		2,691	2,705	2,694	2,717	2,724	2,717	**2,699**
Ancillary underlying income (£)		213	233	225	227	214	224	**231**
Average income per funeral (£)		2,904	2,938	2,919	2,944	2,938	2,941	**2,930**

Funeral mix and average income

	Funeral type	Q4 2017 Actual	Q1 2018 Actual	Q2 2018 Actual	H1 2018 Actual	Q3 2018 Actual	Q4 2018 Actual	H2 2018 Actual	FY 2018 Actual
Average underlying income (£)	Full service	3,910	3,875	3,700	3,800	3,695	3,590	3,639	3,735
	Simple and limited service	2,659	2,100	2,340	2,240	2,420	2,435	2,429	2,350
	Pre-need	1,707	1,680	1,680	1,680	1,720	1,750	1,737	1,705
	Other (including Simplicity)	537	580	535	560	550	610	514	570
Volume mix (%)	Full service	59	55	48	52	44	43	43	48
	Simple and limited service	8	12	20	15	24	24	25	19
	Pre-need	27	28	26	27	26	27	26	27
	Other (including Simplicity)	6	5	6	6	6	6	6	6
Weighted average (£)		3,024	2,883	2,713	2,799	2,688	2,637	2,654	2,734
Ancillary underlying income (£)		250	212	225	224	233	260	256	239
Average income per funeral (£)		3,274	3,095	2,938	3,023	2,921	2,897	2,910	2,973

On a comparable basis, excluding any funerals from locations not contributing to the whole of 2018 and 2019, market share was 11.6 per cent, compared to 11.8 per cent in 2018. Whilst this is a significant improvement on the dramatic market share declines witnessed in 2016 and 2017, it demonstrates that further trials are necessary to complete the Group's understanding of the changing relationship between price and market share.

Funeral mix

Trials of limited service funerals ceased at the beginning of 2019.

Average income

Average income has been in line with the Group's expectations of £2,940. This average will however decline as the Group implements further trials.

Investment

Investment in the Group's locations and fleet have continued. In 2019, £5.4 million was invested in maintenance capital expenditure. Expenditure was lower in 2019 than in previous years as the Group focused on priorities around the Transformation Plan. The Group anticipates higher spend in 2020.

There was one opening and 12 closures in the year in line with the Group's Transformation Plan.

Outlook

The Group plans to continue trialling various changes to its service offerings during 2020. As part of this, it continues to roll out its Tailored funeral offering, where customers can select relevant services for their needs with support from the Group's outstanding funeral arranging staff. Approximately one third of our regions now have the Tailored funeral and the final roll out is expected to be completed in 2020.

"Average income per funeral has been in line with the Group's expectations of £2,940."

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

98%

A caring personal service

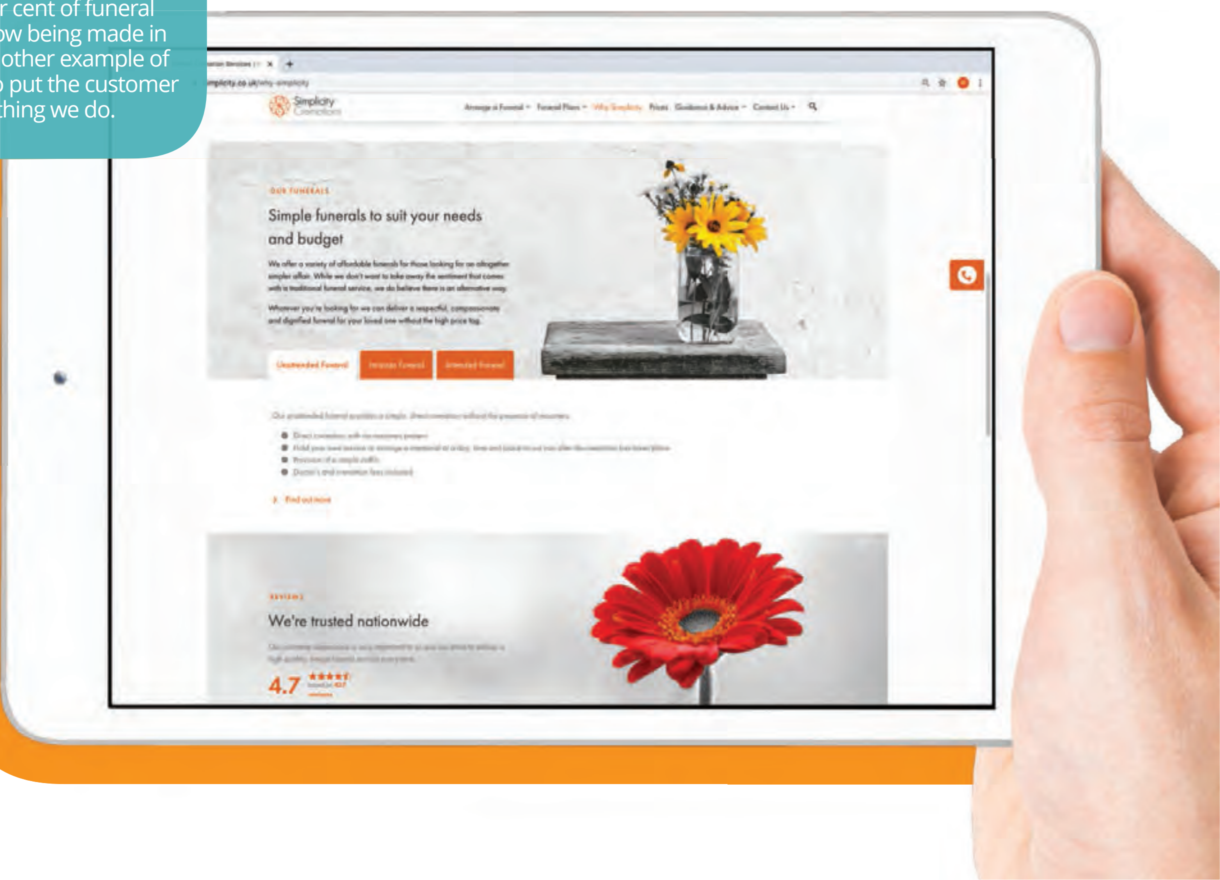
We offer customers a caring personal service; 98 per cent would recommend us.

"I experienced a compassionate, patient and really professional service. They took great care of me and my loved one at what was a difficult time."

Service and innovation

We have always been proud of the quality of service we provide for customers but the root and branch review taking place within our business at the moment provides an opportunity for change and innovation. We are currently running pilot schemes where approximately 50 per cent of funeral arrangements are now being made in the clients' home. Another example of our determination to put the customer at the heart of everything we do.

Gold Trusted Service Award 2019 feefo



Operating review continued
Crematoria

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

Performance
The Group remains the largest single operator of crematoria in Britain, operating 46 (2018: 46) crematoria as at 27 December 2019. The Group performed 64,800 cremations (2018: 65,200) in the period, representing 11.1 per cent (2018: 10.9 per cent) of total estimated deaths in Britain.

Underlying operating profit was £38.4 million (2018: £40.3 million), a decrease of five per cent. This reduction in profitability is driven by the number of deaths and lower average incomes from the increased use of direct cremation, partially off-set by an improvement in market share. This is explained in the table below:

	H1 £m	H2 £m	FY £m
Underlying operating profit – 2018	23.4	16.9	40.3
Impact of: Number of deaths	(2.4)	1.1	**(1.3)**
Market share	0.8	(0.3)	**0.5**
Average incomes	(0.6)	0.2	**(0.4)**
Cost base increases	(0.5)	(0.5)	**(1.0)**
Acquisition activity	0.1	0.2	**0.3**
Underlying operating profit – 2019	20.8	17.6	**38.4**

Sales of memorials and other items have been consistent, equating to approximately £275 per cremation compared to £276 in the previous period.

Non-underlying items of £1.2 million (2018: £0.7 million) excluded from underlying operating profit resulted in statutory operating profit of £37.2 million (2018: £39.6 million).

Progress and Developments
The Group has invested £3.3 million maintaining its locations in the period.

As previously announced in November 2019, whilst the Group has three locations with planning permission, it is delaying construction wherever possible pending the outcome of the CMA investigation, as it is unclear whether these developments will achieve returns consistent with previous new builds of approximately 13 per cent.

Outlook
Crematoria remains a stable and cash generative aspect of the Group's operations.

"Dignity is the largest single operator of crematoria in Britain, operating 46 crematoria as at 27 December 2019. The company performed 64,800 cremations last year, representing 11.1 per cent of total estimated deaths in Britain."

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

72%
Service times
Approximately 72 per cent of Dignity's own crematoria allocate 60 minutes for a service, with the remainder of locations offering 45 minutes for a standard service.

Service and visitor experience

Our crematoria provide a range of cremation services, from basic unattended cremations to traditional full services. Our extensive, peaceful grounds allow clients to remember their loved ones in a very personal way.

Our research tells us that many customers greatly value an unhurried experience when attending a cremation service. As a result 72 per cent of Dignity's own crematoria offer 60 minutes for a standard cremation. The remainder have a minimum of 45 minutes.

Branding roll-out
Our Crematorium and Memorial Group brand is being rolled out across our crematoria network. 10 locations have yet to be rebranded and these will be completed in the first half of 2020.

"I greatly value a peaceful place to visit and remember my loved one."

Operating review continued

Pre-arranged funeral plans

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

Statutory presentation

For statutory purposes the Group now has two reporting segments, Funeral services and Crematoria. This follows the adoption of IFRS 15, as a result of which the Group has concluded that only a single performance obligation exists when a pre-arranged funeral plan is sold, being the performance of a funeral.

Underlying performance

For the purpose of alternative performance measures the Group has three reporting segments, Funeral services, Crematoria and Pre-arranged funeral plans as the chief operating decision maker reviews segmental performance before applying the effect of IFRS 15 and the consolidation of the Trusts.

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

Underlying operating profit was £nil compared to £2.8 million in the previous year, reflecting lower levels of marketing allowances being received at the point of sale. On a statutory basis, pre-need is not considered to be a separate operating division.

In overall terms, approximately 58,000 (2018: 58,000) new plan sales were made and the number of active pre-arranged funeral plans increased to 523,000 (2018: 486,000) as at 27 December 2019. Trust based sales in the year were 26,000 (2018: 24,000). All plan sales are stated net of cancellations.

Of the sales in the period 32,000 (2018: 34,000) represent plans linked to life assurance plans with third parties rather than trust based plan sales and 164,000 (2018: 134,000) active insurance plans are in place at 27 December 2019. Not all of these insurance backed plans include an obligation to provide a guaranteed funeral and we anticipate the cancellation experience to be significantly higher than is witnessed on trust based sales.

These amounts will be recognised as and when the funerals are performed. As with all the Group's divisions, pre-arranged funeral plan underlying 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, in ways that support the strong reputation of the Group.

The financial position of the Trusts holding members' monies is crucial, given the Group ultimately guarantees the promises made to members. At the end of 2019, the Trusts had average assets per plan of £3,300 (2018: £3,000) in respect of 311,000 trust based funeral plans. Average assets per plan are greater than the amount currently received by the Trading Group for performing a funeral.

The latest actuarial valuations of the Trusts (at 27 September 2019) showed them to have a surplus of £17 million, based on prudent assumptions. This valuation is based on the amounts the Trusts are expected to pay when a funeral is performed rather than the actual cost of performance (being a lower amount) to the Group. If the discount rate used had equalled the long-term investment target of the Trust's funds, then according to the actuarial valuations, the Trusts would have reported aggregate surpluses of approximately £156 million.

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

Outlook

The Group will continue to engage with relevant parties as appropriate regarding regulation whilst maintaining focus on selling high-quality, competitive products to customers.

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

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

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

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

"Working with Fairer Finance, Dignity has called for more consumer protection in the funeral plan market."

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

Gold Trusted Service Award 2019 feefo

"The choices were clear and simple and I have planned for the future to help my family and give me peace of mind."

997,000

Pre-arranged plans

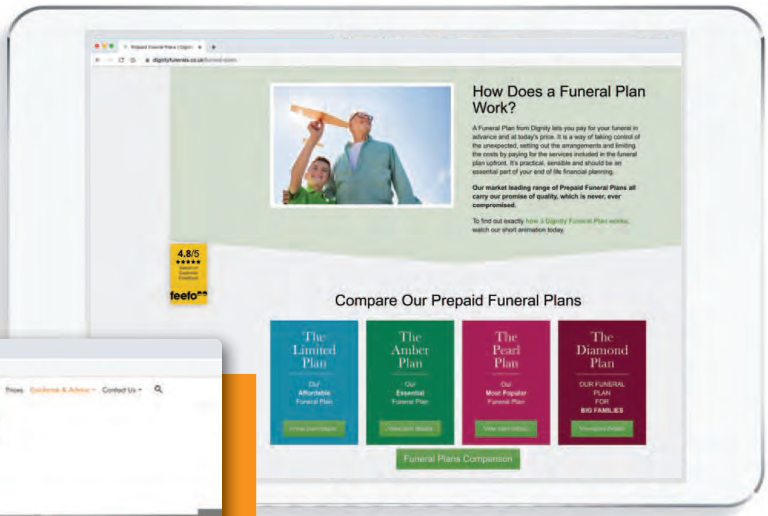
We have already helped more than 997,000 people plan for their funerals in advance of which 523,000 remain outstanding.

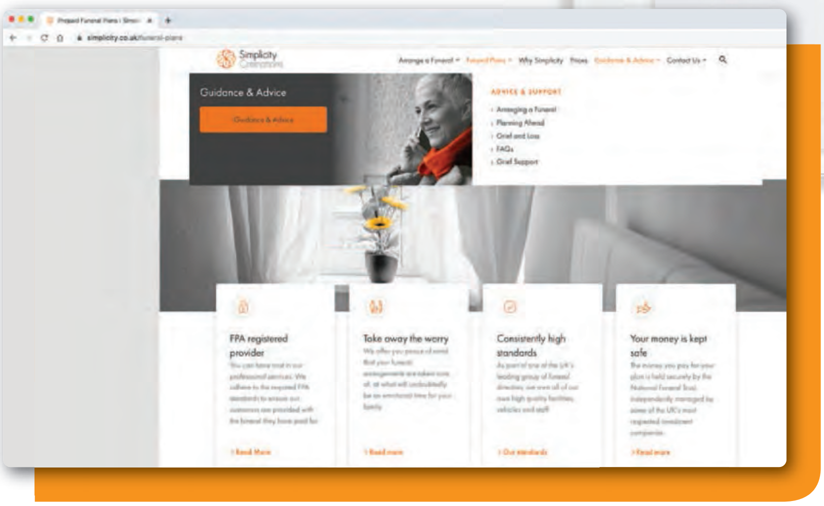
Service, quality and trust

We are one of the UK's largest providers of pre-arranged funeral plans and we continue to strengthen our business in this growing market. This is a real testament, we believe, to our reputation for high levels of service, quality and trustworthiness.

Regulation

Dignity's recent research, published together with Fairer Finance, has highlighted the poor sales practices and financial management risks that certain providers engage in. The Group welcomes the opinion from HM Treasury to introduce statutory regulation of pre-arranged funerals through the Financial Conduct Authority. We continue to anticipate regulation of pre-arranged funerals in approximately two years and we are preparing accordingly.





Operating review continued

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

Central overheads

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

Developments
Underlying costs in the period were £31.4 million (2018: £25.1 million). As anticipated, this reflects continued investment in digital activities and central capabilities, consistent with the Transformation Plan. The table below summarises the key movements:

	H1 £m	H2 £m	**FY £m**
Central overheads – 2018	11.9	13.2	25.1
Impact of: Digital activities	1.5	0.5	**2.0**
Salaries – central support functions	0.7	2.0	**2.7**
Other costs	–	0.7	**0.7**
IT support fees	0.3	0.3	**0.6**
Depreciation	0.2	0.1	**0.3**
Central overheads – 2019	14.6	16.8	**31.4**

Non-underlying items of £15.7 million (2018: £5.6 million) excluded from underlying costs resulted in costs of £47.1 million (2018: £30.7 million).

Maintenance capital expenditure of £1.1 million has been incurred on central projects predominantly relating to IT that will help the business as a whole operate more efficiently.

Outlook
The Group will continue to invest in central functions and marketing activity to support the Group's plans, through the recruitment of more employees and increased marketing online and in other media. Building core functions is a necessary precursor to field based administrative functions being centralised.

Financial review

We have delivered a resilient performance in line with expectations

Steve Whittern, Finance Director

"Our performance in 2019 was resilient and in line with market expectations. However, underlying operating profit decreased by 21 per cent to £63.3 million and average income per funeral reduced from £2,973 to £2,930 reflecting the impact of a changing competitive landscape.

Against this, our funeral market share showed a positive response to changes in our market proposition compared to 2016 and 2017 (which saw significant funeral market share reductions), there was a strong market share performance by our crematoria business and our Transformation Plan progressed as planned with key branch pilots underway. Strong cash generation will enable us to continue to invest in our business in line with our strategic objectives.

The fundamentals of our business remain compelling and strong and we have continued our relentless commitment to quality, value-for-money and service levels."

Introduction

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

In 2019, the Group has adopted IFRS 15 and has also changed its accounting policy in respect of its two principal pre-need trusts being the Trust for Age UK Plans ('Age UK') and the National Funeral Trust ('NFT'), together the 'Trusts'. For accounting purposes, the Trusts are now considered to be controlled by the Group and are incorporated in the Group's consolidated financial statements. The Trading Group refers to Dignity and its subsidiaries, excluding the Trusts. Further details can be found in the Group's accounting policy disclosures.

The Board believes that whilst statutory reporting measures provide financial performance of the Group under GAAP, alternative performance measures are necessary to enable users of the financial statements to fully understand the trading performance and financial position of the business.

The alternative performance measures provided are aligned with those used in the day-to-day management of the business and allow for greater comparability across periods.

For this reason, the alternative performance measures provided exclude the impact of consolidating the Trusts and the changes which relate to the adoption of IFRS 15, both of which are considered to mask the underlying trading performance of the Group, as well as non-underlying items comprising certain non-recurring and non-trading transactions.

Financial highlights

The Group's financial performance is summarised below:

	52 week period ended 27 Dec 2019	52 week period ended 28 Dec 2018 restated	Decrease %
Underlying revenue[a] (£million)	301.3	315.6	5
Underlying operating profit[a] (£million)	63.3	80.2	21
Underlying profit before tax[a] (£million)	37.7	54.4	31
Underlying earnings per share[a] (pence)	60.6	85.8	29
Underlying cash generated from operations[a] (£million)	71.8	101.9	30
Revenue (£million)	338.9	353.7	4
Operating profit (£million)	44.8	75.9	41
Profit/(loss) before tax (£million)	44.1	(18.0)	
Basic earnings/(loss) per share (pence)	69.8	(34.0)	
Cash generated from operations (£million)	64.6	104.2	38
Dividends paid in the period:			
Interim dividend (pence)	–	8.64	n/a
Final dividend (pence)	15.74	15.74	–

[a] Further details of alternative performance measures can be found on pages 167 and 168.

Underlying revenue
£301.3m
(2018: £315.6m)

Underlying cash generated from operations
£71.8m
(2018: £101.9m)

Underlying operating profit
£63.3m
(2018: £80.2m)

Transformation Plan costs
£12.1m
(2018: £2.7m)

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Financial review continued

As announced in the Group's 2019 interim results, although the Group has significant cash resources at hand and continues to be cash generative, in order to maintain maximum flexibility and liquidity during the transformation, the Board has concluded that it is prudent to temporarily cease dividend payments. The Group has an established track record of returning cash to shareholders at appropriate times over many years and once the current uncertain competitive environment becomes clearer, it anticipates resuming dividend payments or returning excess cash to shareholders.

Alternative performance measures

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

In particular, as the Group's change of accounting policy in respect of the Trusts has not impacted the way it operates or considers the economics of this operating activity, underlying measures have not had to be restated as a consequence of the accounting policy change.

Detailed information on non-underlying items is set out on page 167 and a reconciliation of statutory revenue to underlying revenue is detailed in note 3.

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

	52 week period ended 27 Dec 2019 £m	52 week period ended 28 Dec 2018 restated £m
Operating profit for the period as reported	**44.8**	75.9
Add the effects of:		
Transformation Plan costs	**12.1**	2.7
(Profit)/loss on sale of fixed assets	**(1.0)**	0.3
External transaction costs in respect of completed and aborted transactions	**0.9**	0.8
Acquisition related amortisation	**4.8**	4.9
Operating and competition review costs	**3.5**	2.7
GMP past service cost	**–**	1.4
Trade name impairment/write-off	**6.8**	1.1
Impact of Trust consolidation and IFRS 15	**(8.6)**	(9.6)
Underlying operating profit [a]	**63.3**	80.2
Underlying net finance costs	**(25.6)**	(25.8)
Underlying profit before tax [a]	**37.7**	54.4
Tax charge on underlying profit before tax	**(7.4)**	(11.5)
Underlying profit after tax [a]	**30.3**	42.9
Weighted average number of Ordinary Shares in issue during the period (million)	**50.0**	50.0
Underlying EPS (pence)[a]	**60.6**	85.8
Decrease in underlying EPS (per cent)	**29**	33

[a] Further details of alternative performance measures can be found on pages 167 and 168.

Earnings per share

The Group's statutory profit after tax was £34.9 million (2018: Loss of £17.0 million). Basic earnings per share were 69.8 pence per share (2018: Loss of 34.0 pence per share). Underlying profit after tax was £30.3 million (2018: £42.9 million), giving underlying earnings per share of 60.6 pence per share (2018: 85.8 pence per share), a reduction of 29 per cent.

Transformation Plan

Costs incurred in 2019

The Group continued to invest significantly in 2019 to support the Transformation Plan. Costs incurred to date are summarised as follows:

	Total £m	**2019 £m**	2018 £m
External advisers' fees	**1.7**	**0.6**	1.1
Brand development and marketing costs	**5.4**	**4.3**	1.1
Costs of additional staff to support the Transformation	**5.2**	**4.7**	0.5
Dilapidation costs	**0.5**	**0.5**	–
Irrecoverable VAT	**1.6**	**1.6**	–
Other	**0.4**	**0.4**	–
Total costs incurred	**14.8**	**12.1**	2.7

The overall cost and benefit of the Transformation Plan

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

Costs

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

	Total £m
IT systems	6
Property and equipment	35
Other costs to implement plan	9
	50

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

Benefits

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

	Short-term (2022) £m	Long-term (2028) £m
Branch and service delivery network	7	12
Streamlined management and administration	5	5
Investments in central support and IT	(4)	(4)
	8	13

Other items excluded from underlying operating profit

Profit on sale of fixed assets
Profits arising from the sale of fixed assets are excluded as they are unconnected with the trading performance in the period.

External transaction costs
External transaction costs primarily reflect amounts paid to external parties for legal, tax and other advice in respect of the Group's acquisitions and unsuccessful crematoria planning developments.

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

Operating and competition review costs
The Group has incurred costs with external advisers to support the Group's response to the CMA's funeral market study and HM Treasury's consultation on the funeral plan sector. Costs were also incurred in 2018 with external advisers to support its operational review.

GMP past service cost
In 2018, the Group was required to recognise an estimate of the impact of the implementation of Guaranteed Minimum Pension ('GMP') equalisation.

Trade name impairment
In 2019, the Group assessed the carrying value of its trade names. In light of the lower level of profitability and lower anticipated average income per funeral, an impairment of £6.8 million has been recognised.

Trade name write-off
During 2018, the Group closed the last location trading under a particular trading name. As this trading name had specific intangible assets related to it, they were required to be written-off.

Pre-need accounting policy/IFRS 15
As described elsewhere in this report, the Group changed its accounting policy in respect of the Trusts and in respect of IFRS 15. This adjustment reverses the impact of these policy changes in order to maintain underlying performance measures with those used in the day-to-day management of the business.

Capital expenditure
Capital expenditure on property, plant and equipment and intangible assets was £18.3 million (2018: £25.0 million).

This is analysed as:	27 Dec 2019 £m	28 Dec 2018 £m
Maintenance capital expenditure:		
Funeral services	**5.4**	10.4
Crematoria	**3.3**	4.5
Other	**1.1**	1.2
Total maintenance capital expenditure [a]	**9.8**	16.1
Branch relocations	**1.1**	0.8
Transformation capital expenditure	**1.7**	–
Satellite locations	**0.3**	1.4
Development of new crematoria and cemeteries	**5.4**	6.7
Total property, plant and equipment	**18.3**	25.0
Partly funded by:		
Disposal proceeds – vehicles	**(0.2)**	(0.4)
Disposal proceeds – properties [b]	**(1.9)**	–
Net capital expenditure	**16.2**	24.6

[a] Maintenance capital expenditure includes vehicle replacement programme, improvements to locations and purchases of other tangible and intangible assets.

[b] Property disposals are the result of the Transformation Plan.

The Group will continue to invest in the maintenance of its existing portfolio of vehicles and funeral and crematoria locations. The Group's Transformation Plan will capture the majority of planned capital expenditure on its funeral business.

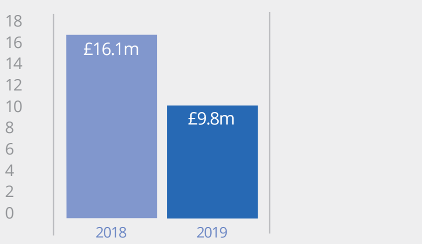
Impairment of investment in associated undertaking
The Group has previously invested in Funeral Zone Limited ('Funeral Zone'). In October 2019, Funeral Zone filed statutory accounts recognising the inherent going concern risks it faced. The Group has reviewed and assessed the performance outlook of Funeral Zone and concluded that its investment is fully impaired.

Cash flow and cash balances for the Trading Group
Underlying cash generated from operations was £71.8 million (2018: £101.9 million).

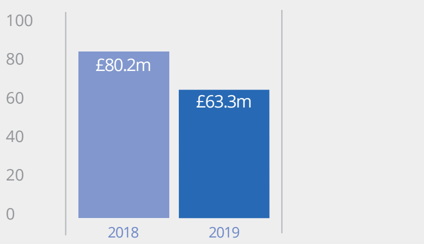
Other working capital changes were consistent with the Group's experience of converting profits into cash, subject to timing differences and cash incurred in respect of commission payments.

Cash balances at the end of the period were £57.9 million (2018: £66.9 million). Further details and analysis of the Group's cash balances are included in note 16 to the consolidated financial statements.

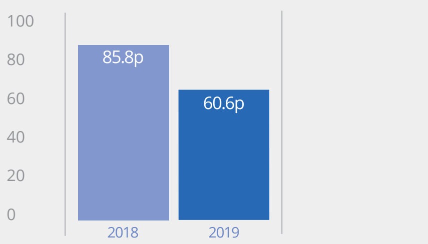
Maintenance capital expenditure (£m)



Underlying operating profit (£m)



Underlying earnings per share (pence)



Financial review continued

Pensions
The balance sheet shows a deficit of £26.0 million before deferred tax (2018: deficit of £25.2 million). The scheme currently represents an annual cash obligation of £2.2 million. However, the scheme is due its next triennial valuation as at April 2020, the outcome of which will determine future annual cash obligations, most likely from 2021 onwards.

Taxation
The Group's effective tax rate on underlying profits in the period was 19.5 per cent (2018: 21.2 per cent).

The current period underlying effective tax rate is lower than originally anticipated due to the effects of prior year items with a tax impact totalling £0.5 million.

In 2020, the Group expects its underlying effective tax rate to be approximately one and a half to two per cent above the headline rate of corporation tax. This translates to an underlying effective rate of between 19.0 per cent and 19.5 per cent.

Capital structure and financing for the Trading Group

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

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

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

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

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

Financial Covenant
The Group's primary financial covenant under the Secured Notes requires EBITDA to total debt service to be above 1.5 times. The ratio at 27 December 2019 was 2.13 times (2018: 2.55 times). This covenant calculation uses a prescribed definition of EBITDA detailed in the loan documentation and only represents the profit of a sub group of the Group which is party to the loans (the 'securitisation group'). Furthermore, the calculations are unaffected by the changes in accounting policy described elsewhere, as the Group was able to elect to disregard those changes when making the calculations.

EBITDA for this calculation can be reconciled to the Group's statutory operating profit as follows:

	27 Dec 2019 £m
EBITDA per covenant calculation – Securitisation Group	**72.3**
Add: EBITDA of entities outside Securitisation Group	**11.6**
Add: Non cash items [(a)]	**(1.3)**
Underlying operating profit before depreciation and amortisation – Group	**82.6**
Underlying depreciation and amortisation	**(19.3)**
Non-underlying items	**(27.1)**
Impact of Trust consolidation and IFRS 15	**8.6**
Operating profit	**44.8**

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

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

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

This provides the Group ongoing flexibility in a cost effective manner, as if undrawn, the facility represents an annual cost of approximately £0.3 million. Given the Group's healthy cash balances, the RCF is undrawn at the time of the release of this announcement and was not drawn at any point in the year.

Net debt
The Group had net debt of £506.2 million (2018: £506.8 million) at the balance sheet date. See note 26 for further details.

Whilst the Group has no plans to do so, should it wish to repay all amounts due under the Secured Notes, the cost to do so at the year end would have been approximately £791.9 million, (Class A Notes: £231.4 million; Class B Notes: £560.5 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 £24.4 million (2018: £24.8 million).

Other ongoing underlying finance costs incurred in the period amounted to £1.4 million (2018: £1.2 million), including the unwinding of discounts on the Group's provisions and other financial liabilities.

Interest receivable on bank deposits was £0.2 million (2018: £0.2 million).

Shareholders' deficit

Consolidating the Trusts and adopting IFRS 15, has a significant impact on our reported results. The recognition of contract liabilities (the majority of which are expected to fall due after one year) in excess of the Trusts' financial assets has caused the Group's balance sheet to show an overall deficit in shareholders' funds.

This deficit, which only arises on consolidation, has no impact on the Group's future ability to pay dividends to shareholders, which relies on the reserves in the Company and not the Group.

Trust balances

At the balance sheet date, the Trusts had £947.5 million (2018: £862.4 million) of financial assets and £15.5 million (2018: £13.8 million) of cash, which was recognised in the consolidated balance sheet. The movement in financial assets is primarily attributable to remeasurement gains recognised in the consolidated income statement of £79.5 million (2018: loss of £24.0 million), reflecting changes in asset values and net purchases of financial assets of £9.5 million (2018: £20.7 million).

Aggregated contract liabilities totalled £1,304.6 million (2018: £1,256.1 million) with the primary movements being sales of new plans of £91.2 million (2018: £92.7 million), increases due to significant financing of £54.1 million (2018: £53.3 million) and releases due to death or cancellation totalling £96.8 million (2018: £95.5 million).

Accounting policy changes

As described elsewhere, the Group has changed its accounting policy in respect of the Trusts. As a consequence, the Group has also decided not to apply IFRS 15 on a modified retrospective approach, but rather to apply it fully retrospectively. The impact of these changes are detailed in note 35.

The impact of IFRS 16 – Leases

As the Group's balance sheet date is the nearest Friday to 31 December, it is not required to and will not adopt IFRS 16 until its 2020 results. In broad terms, this standard requires the Group to recognise an asset and liability on its balance sheet for operating leases that are currently held off balance sheet. As approximately half of the Group's funeral properties and some of its crematoria are leased, this will have a material impact in the Group's statutory results. The Group currently anticipates recognising an initial asset of approximately £94.9 million and an initial liability of approximately £93.8 million. The difference of £1.1 million which relates to opening amounts relating to prepaid lease payments which will be reflected through the statement of changes in equity on 28 December 2019 as required under the transition approach being followed where the comparative results disclosed in the 2020 annual report are not restated. Operating costs of approximately £11.9 million will be replaced by a depreciation charge of approximately £9.1 million and a finance cost of approximately £4.6 million. As such statutory operating profit will increase by approximately £2.8 million in each of the next few years, assuming no change in the Group's property portfolio.

These changes will not impact the Group's securitisation covenants, as the Group has the ability to elect to disregard new accounting standards in order to maintain consistency of measurement.

Q&A with Steve Whittern, Finance Director

Q/A

Outlook

Through the delivery of our Transformation Plan we have a major opportunity to provide sustainable long-term value and lead the industry in terms of standards and value-for-money.

Q/ What impact will the slowing down of your plans have on the Group's overall finances?

We continue to have strong cash balances and the ability to support our plans, even if they take a little longer. Pausing dividends and crematoria developments helps us maintain maximum flexibility.

Q/ What are the cost implications of extending the Transformation Plan by one year?

We continue to believe we can execute the Plan on the original economics we have described.

Q/ How much further do you expect average funeral prices to fall?

At this stage, we cannot say. The market remains competitive and the CMA's final conclusions will not be known until later in the year.

Q/ What impact will the delay in some cost savings have?

We do not anticipate realising any savings in 2020. However, we still expect to achieve £8 million of annualised savings by the end of the Plan, which should then increase further to £13 million per year.

Q/ Is a return to a dividend payment a possibility for next year?

2020 will be focused on investing in the business and maintaining economic flexibility.

Principal risks and uncertainties

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

Risk appetite

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

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

Our approach to risk management

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

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

Responsibilities and actions

The Board

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

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

Mitigating factors are identified against each risk where possible.

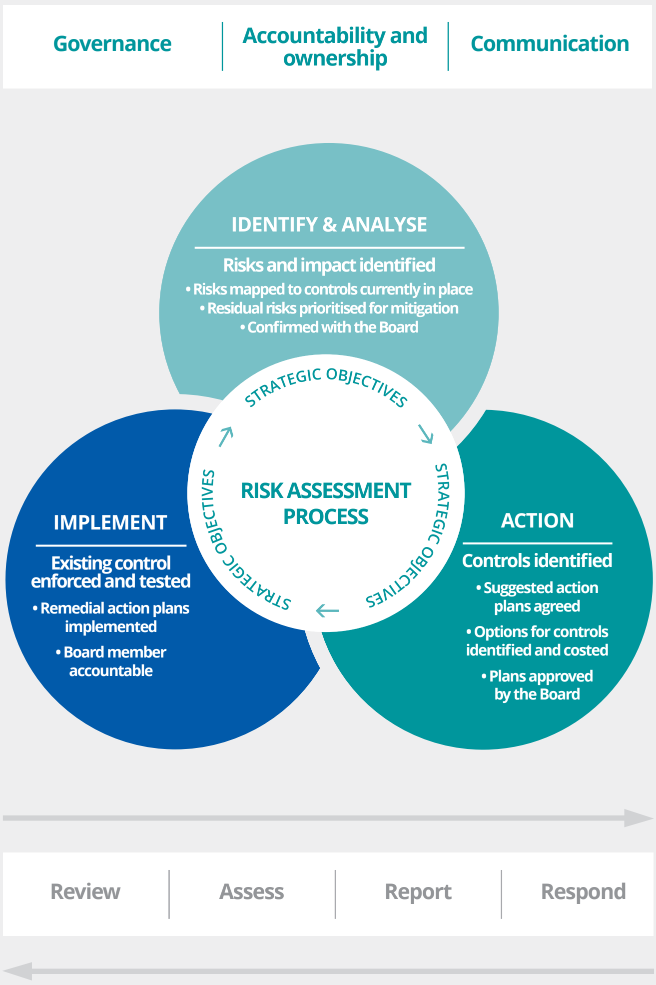
Review and internal audit

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

Risk governance

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

The risk management framework



Links

See Strategy and business model: **p.28 and p.29**
See KPIs: **p.30 to p.33**
See Governance: **p.60 to p.94**

Risk status summary

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

Increasing risk trends

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

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

Pre-arranged funeral plans

As the Group now consolidates certain pre-need trusts, any related risks in respect of them are required to be considered. However, the Group considers that these have already been disclosed, as ultimately the risk surrounds the level of funding for pre-arranged funeral plans.

Cyber risk

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

COVID –19

The potential risks of COVID –19 to the Group are being assessed regularly in light of the developing guidance and commentary from the Government.

The Group has business continuity and pandemic plans that are being assessed and adapted as necessary in case of need.

Our principal risks and uncertainties

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

Operational risk management

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

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 48 to 51 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

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Principal risks and uncertainties continued

Operational risk management

Risk description and impact	Mitigating activities and commentary	Change
Significant reduction in the death rate There is a risk that the number of deaths in any year significantly reduces. This would have a direct result on the financial performance of both the funeral and crematoria divisions.	The profile of deaths has historically seen intra year changes of +/-1 per cent giving the Group the ability to plan its business accordingly. The ONS long-term projection is for deaths to increase. The risk is mitigated by the ability to control costs and the price structure and the ability to acquire funerals and crematoria, although this would not mitigate a short-term significant reduction in the number of deaths. The number of deaths in 2019 was 584,000 which was three per cent below the prior year and lower than the Group's original expectation. See Chief Executive's review: **p.16 to p.27**	
Nationwide adverse publicity 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 the Group. The risk is increased as the Dignity brand is marketed more widely.	This risk is addressed by the strategic decision made as part of the Transformation Plan to support development of strong national brands via the Group's websites, TV and radio advertising and prominent signage at our funeral locations leading to increased awareness of the Group and its services. With significant investment committed already and planned for subsequent years, we are building and positioning a strong brand that will be more resilient to adverse publicity should that arise. See The Client Survey performance: **p.33**	
Fall in average income per funeral or cremation either resulting from market changes or the CMA capping prices There has been increasing price competition in the funeral market, resulting in material price reductions by the Group in recent years. It is highly likely that pricing pressure will remain for the foreseeable future and it may not therefore be possible to maintain average incomes per funeral or cremations at the current level.	The Group's Transformation Plan will result in a more efficient business that can accommodate more competitive pricing, but which continues to provide clients with a greater range of choice, underpinned by excellent client service. This will be supported by strong reputational management together with significant investment in both marketing and the Group's online profile and presence. The Group will continue to adapt to serve evolving client needs. This will be through investment in digital capabilities including an enhanced reporting capability of business intelligence and management information which will enable risks and trends to be identified promptly and accurately. See Operating review: **p.34 to p.40**	
Disruptive new business models leading to a significant reduction in market share It is possible that external factors such as new competitors and the increased impact of the internet on the sector, could result in a significant reduction in market share within funeral and crematoria operations. This would have a direct result on the financial performance of those divisions.	The Group believes that this risk is mitigated by its reputation as a high-quality provider and with recommendation being a key driver to the choice of funeral director being used. In addition, the Group's actions on pricing and promotion sought to protect the Group's funeral market share by offering more affordable options. This focus on affordability has allowed our market share to begin to stabilise. For crematoria operations this is mitigated by the Group's experience and ability in managing the development of new crematoria. Additionally, the combination of the development of strong national brands and significant investment in digital capability together with a range of product and price offerings to clients will strengthen the Group's competitiveness. See Operating review: **p.34 to p.40**	
Demographic shifts in population There can be no assurance that demographic shifts in population will not lead to a reduced demand for funeral services in areas where Dignity operates.	In such situations, Dignity would seek to follow the population shift by rebalancing the funeral location network together with meeting the developing cultural requirements. See Operating review: **p.34 to p.40**	

Operational risk management (continued)

Risk description and impact	Mitigating activities and commentary	Change
Competition The UK funeral services, crematoria and pre-need markets are currently fragmented. There could be further consolidation or increased competition in the industry, whether in the form of intensified price competition, service competition, over capacity facilitated by the internet or otherwise, which could lead to an erosion of the Group's market share, average incomes or costs and consequently a reduction in its profitability. Failure to replenish or increase the bank of pre-arranged funeral plans could affect market share of the funeral division in the longer-term. Competition continues to intensify, with additional funeral directors opening at varying price points, alongside an increase in the popularity of direct cremations.	Under the Transformation Plan, the funeral service model will be adapted to better suit evolving client needs and to improve efficiency. We will provide customers with a more tailored service, allowing them to choose how they wish to interact with Dignity in arranging a funeral through mobile staff and improved digital capabilities. We have developed a new tiered funeral pricing proposition, specifically targeting different market segments that will provide greater flexibility to meet individual client needs. By unbundling our prices and services to provide our customers with greater flexibility to create the right funeral, we will be able to provide greater consistency and competitiveness on price, while reflecting Dignity's premium service levels. Building national brands with a significant online presence and visibility leverages our scale and addresses the needs of increasingly digitally focused clients. Through the Dignity and Simplicity names, we plan to build known, national brands to leverage scale advantages in the digital age. We will develop our marketing proposition to promote the Group's commitment to high standards of care, quality of service delivery and competitive entry prices. We also recognise that our established local funeral trading names continue to have significant value in the communities they serve. Through better allocation of our resources, the resultant efficiencies will allow us to reduce the number of funeral operating networks and their associated cost. Support functions are being centralised where appropriate to ensure a cost effective and consistent high standard of service. There are challenges to opening new crematoria due to the need to obtain planning approval and the costs of development. Dignity has extensive experience in managing the development of new crematoria. The Group offers a market leading pre-need product, the marketing of which will benefit from the current and future significant investment in marketing and enhanced digital presence. See Chief Executive's review: **p.16 to p.27**	↗
Regulation of pre-arranged funeral plans HM Treasury has said "Responses to the call for evidence have confirmed that consumer detriment is present in the market and that there is a need for compulsory regulation of the sector. In the light of the responses to the call for evidence, the government has maintained its position that bringing funeral plan providers within the remit of the FCA would be the most effective policy response for strengthening the regulation of the market." Regulation could affect the Group's opportunity to sell pre-arranged funeral plans in the future or could result in the Group not being able to draw down the current level of marketing allowances.	Any changes would apply to the industry as a whole and not just the Group. Regulation could materially change the business model and would likely increase costs. The risk is mitigated through the high standards of selling and administration of market leading pre-arranged funeral plans operated by the Group which will benefit from the significant investment in marketing and an enhanced digital presence. We continue to seek appropriate regulation of our markets and welcome the consultation by HM Treasury, in which we are actively engaged. See Chief Executive's review: **p.16 to p.27**	↗
Regulation of the funeral industry Regulation could result in increased compliance costs for the industry as a whole or other unforeseen consequences including capping of funeral and cremation prices.	The Group already operates at a very high standard, compared to the majority of our competitors, using facilities appropriate for the dignified care of the deceased. The impact of price caps is impossible to quantify at this stage.	↗

Principal risks and uncertainties continued

Operational risk management (continued)

Risk description and impact	Mitigating activities and commentary	Change
Changes in the funding of the pre-arranged funeral plan business In the current regulatory environment, 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. If this is not the case then the Group may receive a lower amount per funeral.	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 an actuarial surplus. This is supported by robust average assets per plan. See **note 30.**	
Implementation of the Transformation Plan In 2018, Dignity conducted an operational review which resulted in the development of a Transformation Plan. The core components of the Transformation Plan are: • Modernise the client proposition; • Invest in and simplify the operating model; and • Streamline central support and invest in technology to centralise and automate administrative processes. A risk exists that the Plan is either not implemented correctly or proves to be materially disruptive to the funeral business with the possible result of cost escalation or failure to realise benefits.	This risk has been and will be mitigated by executive leadership in the business supported by the Transformation Director who reports to the Chief Executive. The Transformation Team has made substantial progress within a clearly defined and accountable project framework. Delivery in 2019 has been in line with expectations. See Chief Executive's review: **p.16 to p.27**	
Direct cremations Growth in the direct cremation market could reduce average income in the funeral business and adversely affect the volume mix and average income in the crematoria business.	The Group has addressed this with Simplicity Cremations which offers low-cost direct cremations without any initial funeral service that are both respectful and dignified. They are an affordable alternative to a full funeral or for those who wish to have a simple cremation. The Group also now offers a Simplicity pre-arranged funeral plan option. Simplicity Cremations is being promoted via a strong online presence together with TV advertising. Other media advertising is also planned. See Chief Executive's review: **p.16 to p.27**	
CMA investigation into the funeral industry The CMA full market investigation into the funeral market examines whether the information provided by funeral directors on prices and services is clear enough for people to be able to choose the best option for them. It is also looking at how prices have changed over time and the factors that affect them. Cremation fees are being considered as part of the review. The initial CMA working papers indicate possible remedies including the introduction of a quality regulation regime, measures to promote greater information transparency, price controls and local authority procurement of funeral directors services. Pricing controls, if implemented, could have a significantly detrimental impact on the Group.	Dignity has engaged constructively with the CMA and strongly supports the opportunity to improve standards within the sector and meet the expectations of consumers. Dignity has pro-actively been making changes to its business for some time in response to changing customer demand and will continue to review its operations to ensure that the CMA's concerns are addressed. The Group is focused on enhancing the customer proposition, its service and pricing model and will continue to adapt to serve evolving client needs. Price is a factor when making a decision, but quality is also a vital component and ultimately ensures that consumers are happy with services provided. Whilst Dignity's Simplicity service is the lowest price, nationally available, attended funeral service, our research demonstrates that consumers consider the smooth running of the funeral and proper care of the deceased more than cost. Our business has been built with a focus on high-quality service delivery and we closely monitor the results of our client surveys to ensure we continue to maintain the highest levels of excellent client service and standards of care. However, until potential price caps are actually realised, it is impossible to quantify the impact or potential mitigation. See Chief Executive's review: **p.16 to p.27**	

Financial risk management

Risk description and impact	Mitigating activities and commentary	Change
Financial Covenant under the Secured Notes The Group's Secured Notes requires EBITDA to total debt service to be above 1.5 times. If this financial covenant (which is applicable to the securitised subgroup of Dignity) is not achieved, then this may lead to an Event of Default under the terms of the Secured Notes, which could result in the Security Trustee taking control of the Securitisation Group on behalf of the Secured Note holders. 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.	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. Current trading continues to support the Group's financial obligations, however lower reported profitability increases the risk of breaching covenants. See Financial review: **p.41 to p.45**	↗

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 2022.

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

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

- the Group's current position and trading prospects;
- the current and ongoing strategy;
- the Board's appetite for risk; and
- a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and how they are managed, as explained in this Strategic Report (pages 46 to 51).

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Non-financial information statement

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

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

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

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

Reporting requirement	Impacts	Relevant sections of Annual Report and related policies
Employees	We are truly a people business because we help people at an extremely difficult time in their lives. Meeting their needs means that our employees must be caring, thoughtful and truly engaged with those they serve. Dignity staff show clients care and commitment demonstrating what we call 'The Dignity Way'. This describes a special culture and way of working that means delivering the highest standards of service and going the extra mile. We believe that the quality of our people is a strong enabler of business growth. We value our people as they are a great asset. We support them by recognising and rewarding performance and long service plays a key part in this. We aim to provide a safe working environment, encourage personal development, responsibility and respect, and attract a diverse and inclusive workforce.	• Strategy and business model – page 28 • Corporate and Social Responsibility – page 53 • Directors' Report – page 92 • Code of Conduct[1] • Equality and Diversity Policy[1] • Health and Safety Policy • Our CSR commitments[1]
Environment	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.	• Corporate and Social Responsibility – page 53 • Our CSR commitments[1]
Waste disposal	Dignity produces waste that is hazardous. Specifically this is items such as gloves used for handling the deceased, waste arising from embalming and mercury from cremator abatement, which are placed in dedicated containers and are collected by contractors and incinerated. All sites where this happens have been registered as required under the legislation. All other waste is disposed of in accordance with local authority regulations. The Regional Health and Safety Managers also monitor this area. A waste disposal mission statement has been issued to all sites.	• Health, Safety and Environmental Performance – page 58 • Safe Handling and Use of Substances Policy • Waste Disposal Mission Statement
Crematoria emissions	Crematoria are subject to emission controls from the local authority areas in which they are sited. They are licensed on an annual basis with quarterly emissions testing information being submitted to the local authority. All cremators are subject to rigorous maintenance schedules completed by an external contractor. Air Pollution Control is a risk for all crematoria. The Company's nominated service provider completes a planned test programme on all cremators which includes emissions testing. This mitigates the risk of any air pollution control issues.	• Health, Safety and Environmental Performance – page 58 • Our CSR commitments[1]
Ethical Sourcing	There is a risk that Dignity could use a supplier that manufactures or purchases goods that are made using slave, forced or child labour. This risk is mitigated firstly by purchasing via a reputable agent and secondly by ethical audits. Factories that supply Dignity are inspected by the General Manager of Dignity Manufacturing on a three yearly cycle and ethical questionnaires completed in conjunction with the owners of those factories. An E-Learning Module addressing the Modern Slavery Act is rolled out to managers.	• Modern Slavery Act Statement[1] • E-Learning Module • Our CSR commitments[1]
Human Rights	We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. Our stated commitment is to act ethically and with integrity in all our business relationships and to implement and enforce effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains or in any part of the business.	• Modern Slavery Act Statement[1] • Our CSR commitments[1]
Anti-corruption and anti-bribery	We are committed to conducting our operations in a fair and ethical manner and will not tolerate any form of bribery or corruption from employees, suppliers or other parties.	• Anti-bribery and Corruption Policy[1] • Money Laundering Policy • Code of Conduct[1] • Ethics and Conflicts of Interest Policy • Annual declarations of compliance with both the Ethics and Conflicts of Interest Policy and other relevant policies and laws.
Due diligence processes implemented in the pursuit of policies	We have induction, training and e-learning programmes to ensure that our policies and processes are understood and implemented by our employees. Our policies and processes promote and embed a culture of responsibility and performance that adds value to all of our stakeholders. In 2019, an Annual Compliance Declaration was completed by each member of the Executive and Senior Management Teams for the individual to confirm compliance with all applicable rules, regulations and policies.	• For our strategy and business model, relationships and services, see page 28 • Our non-financial key performance indicators are shown on page 31 • For our principal risks and uncertainties and how they are mitigated, see page 46 (1) These can be found on the Group's website www.dignityfunerals.co.uk/corporate.

Corporate and social responsibility

Richard Portman, Corporate Services Director

Our CSR Strategy Review

"In last year's Annual Report I announced a review of our CSR strategy. This was in the context of the unprecedented change taking place in the business through our Transformation Plan. Because the Plan involves a root and branch appraisal of our business and operations it provides a valuable opportunity to review all aspects of our role and behaviour as a corporate citizen."

Areas of focus

We started the review by looking again at how our operations – what we do as a business day-to-day – intersect with CSR issues, in particular, employee engagement, our communities and the environment. These three areas of focus have been the bedrock of our CSR thinking over the years from which we have developed three specific CSR pillars:

Our People (Expertise and Culture); Relationships (Building strong relationships and community impact); and Resources (Health, Safety and Environmental Performance).

Employee engagement ('Our People') is essential if we are to successfully deliver the Transformation Plan. As a result, improved employee engagement has been a major priority this year and we have looked carefully at this crucial area and taken significant steps to improve it through initiatives such as our Employee Forum. We have worked hard to ensure we can deliver the necessary changes at branch level and that employees can provide feedback and are properly informed and trained.

One consequence of this activity has been the creation of a much larger Human Resources function with a wider range of additional skill sets to ensure it properly fits the needs of our employees and the business. At the same time, great care is being taken to ensure that our strong, caring culture is preserved in the midst of widespread change. Achieving this balance is of prime importance. As part of our Transformation Plan we will evaluate our CSR pillar, 'Our People (Expertise and Culture)', ensuring it is aligned to the business strategy, to industry Best Practice and the expectations of both our internal and external stakeholders. A full definition of what we mean and what is required by managers and employees will be developed when the Transformation Plan is closer to completion.

Regarding the environment, part of our 'Resources (Health, Safety and Environmental Performance)' CSR pillar, we will monitor whether changes to working practices as a result of the Transformation Plan may impact our carbon footprint. The likely impact cannot yet be fully assessed given that we are in the early stages of piloting these changes. We will have a better picture at the end of 2020. However, at present, our carbon footprint remains low – we continue to report to the CDP (formerly Carbon Disclosure Project) on an annual basis and have retained our B score.

Regarding communities, part of our 'Relationships (Building strong relationships and community impact)' pillar, the work of our Transformation Plan team at branch level has demonstrated the high-quality of many of our branches' relationships with their communities and the type of outreach that takes place. We want to capture and share good examples across the whole Group and encourage wider adoption in order to further enhance our reputation as a positive contributor within the communities we so proudly serve.

Looking at the changing needs of clients, we recognise the future requirement to provide 'sustainable' funerals. What that might mean in practice will require definition but the demand for non-traditional and 'sustainable' alternatives is likely to grow. Over time we will evaluate what 'good' looks like in the market and assess what standards can be developed in order to offer a genuine alternative that our clients have confidence in and which will withstand rigorous stakeholder scrutiny.

Corporate and social responsibility continued

As well as looking at what we do we have reviewed what Best Practice in CSR looks like amongst a number of similar and also dissimilar businesses. We have also taken account of both current and developing thinking around sustainability and ESG (Environmental, Social and Governance). What is clear is that the interest in sustainability and ESG matters is now a dominant theme and many companies are explicitly aligning CSR policies and practices with their corporate strategy.

As a Board we have long placed strong corporate governance at the heart of the way we run the business on behalf of all our stakeholders. We recognise also that the support of our employees in such a caring profession is fundamental. The role of our branches in their communities is becoming more visible through the work of the Transformation Plan team. Members of that team have been greatly impressed by the level of staff commitment. This is borne out by the high customer satisfaction scores that we return, year after year. We can make a strong case that we are a force for good in our communities.

However, we cannot be complacent. There is a need now, more than ever, to not only update our sustainability policies and set appropriate goals and KPIs but also to ensure that our policies are aligned to the overall corporate strategy. We also recognise that we can explain our CSR strategy, policy and practices better within the business. Those practices, which are changing and evolving as a result of the Transformation Plan, in particular employee engagement, need to be embedded in the management culture. Other, existing good practices, must be articulated better, shared and properly understood and owned by employees.

Celebrating experience and promoting diversity

Employee diversity

Senior managers (% & number)

- Male: 80% (24 employees)
- Female: 20% (6 employees)

Senior and middle managers (% & number)

- Male: 62% (113 employees)
- Female: 38% (68 employees)

A revised CSR Strategy

As the Transformation Plan reaches its conclusion, the Group will publish a revised CSR strategy. We will strengthen our existing approach by taking account of emerging trends and priorities in CSR which are relevant to our business. If necessary we must be prepared to go beyond the 'People', 'Relationships' and 'Resources' framework currently in place.

Recommendations

The recommendations of the review are as follows:

1/ The Group will prepare and publish a refreshed CSR Strategy document which is clearly aligned and designed for employees and other stakeholders. It will make clear what the Group regards as best practice and the requirements on management and employees. It will be used to help drive and sustain the changes being made in the business by the Transformation.

2/ We will consider whether to extend the CSR framework, currently comprising: Our People (Expertise and Culture); Relationships (Building strong relationships and community impact); and Resources (Health, Safety and Environmental Performance).

3/ We will ensure that our revised strategy is in line with any potential upcoming social and environmental legislation e.g. carbon reduction targets and waste management, as well as industry best practice.

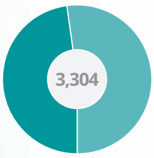
4/ We will ensure that our strategy includes both internal and external targets that are transparent and will keep stakeholders up to date with our progress and challenges.

"The revised CSR Strategy will ideally be produced and published during 2021 following further work with the Transformation Plan team on areas including employee engagement and environmental impact."

Our people

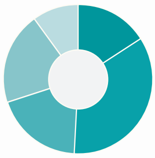
Expertise and culture

Total employees/ratio (% & number)



- Male: 48% (1,574 employees)
- Female: 52% (1,730 employees)

Employee service (% & number)



- Less than 1 year: 16% (520 employees)
- 1–4 years: 35% (1,150 employees)
- 5–9 years: 19% (645 employees)
- 10–19 years: 20% (655 employees)
- Over 20 years: 10% (334 employees)

Long service

30%

30 per cent of our people have worked at Dignity for more than 10 years.

Building engagement

For a business that prides itself on communicating sensitively with clients, we have to ensure the same care and consideration is shown towards our own people too. That means regular dialogue which is accessible through a variety of channels, with the opportunity for colleagues to interact and easily share their feedback.

With a continued focus on the Transformation Plan, it is clear that employees will also want to know how changes affect them and their particular roles.

Adopting a multi-channel approach has seen us develop digital communications solutions that sit alongside our established company newsletter. Good to Great is a dedicated website housing news, blogs, FAQs, diary dates, occasional competitions and opinion polls. Users can comment on site content and enter into related discussions with their colleagues.

We will soon be adding a secure section for managers to facilitate information sharing and promoting best practice through toolkits.

Other initiatives include a fortnightly email bulletin charting the progress of the Transformation Plan, monthly managers' calls, Town Hall presentations for head office colleagues and regular engagement surveys. This summer we will run the second of our Good to Great Live management conferences with keynote speakers and detailed business updates.

from good to great

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Corporate and social responsibility continued

Supporting each other

More frequent and accessible communication is complemented by an increase in the face to face support available to colleagues, particularly those in operational roles across funerals, crematoria and manufacturing.

Our HR department has expanded to include a team of nine regional Business Partners. The role is very much a consultative one, so rather than focus solely on reactive and administrative issues, the Partners provide guidance in areas such as recruitment, learning and development and improving business results.

Across the organisation, we have been looking carefully at people support and specifically the area of reward and recognition. We are exploring opportunities for additional benefits that enhance our position as a desirable and appealing place to work.

We care deeply about the wellbeing of our people and continue to offer access to an Employee Assistance Programme. This free and confidential advice service is available 24/7 and enables colleagues to discuss any issues that may be causing them concern, be they related to work, home life, or their physical and mental health.

Giving our people a voice

During the last year we successfully established a new Employee Forum to facilitate regular and constructive engagement between colleagues and senior management, including the Board.

Hundreds applied for the opportunity to represent their colleagues and business area through the Forum and the successful 17 candidates were chosen following a staff vote.

The purpose of the Employee Forum is to share information on a broad range of topics, everything from business performance and operational initiatives to future strategy and vision. It also creates a platform for relaying colleagues' opinions, feelings and ideas, helping to ensure that the business decisions we make are fully informed with insight from all major stakeholders.

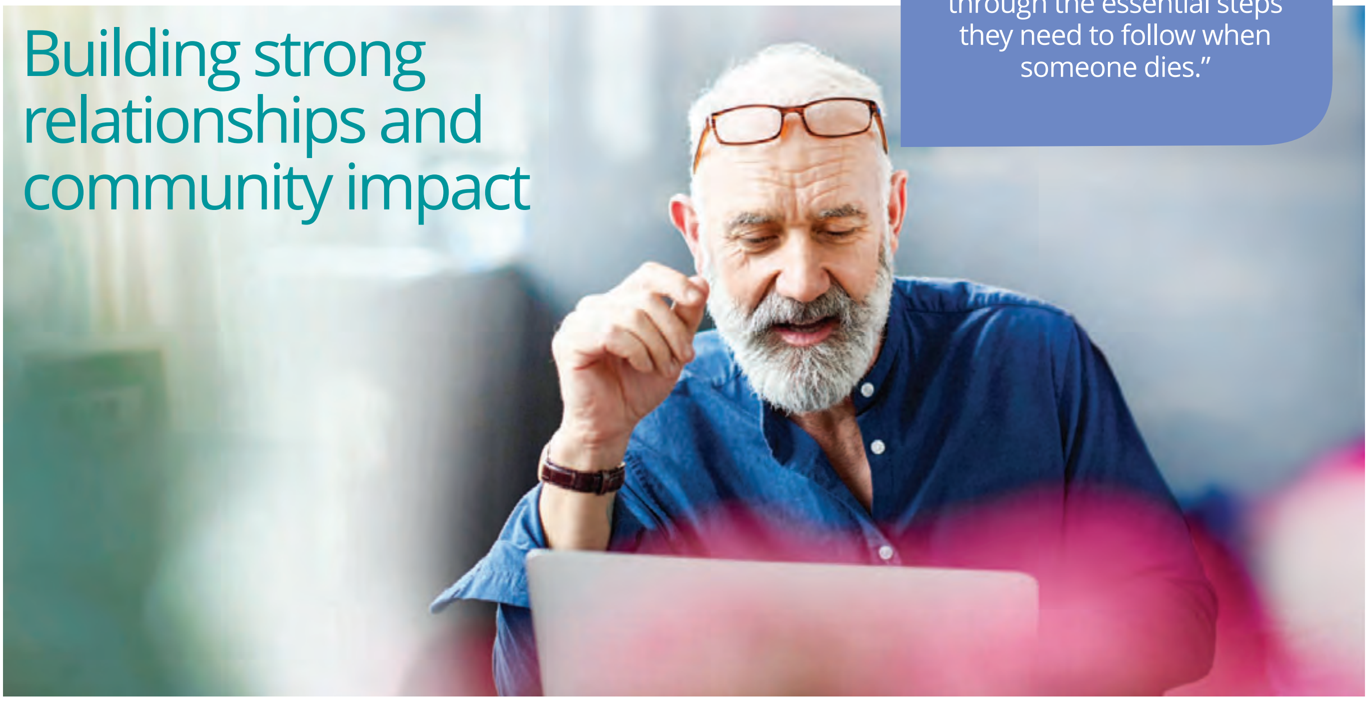
Three meetings have been held to date, each attended by Chief Executive Mike McCollum, and the outputs shared through communications tools such as our internal newsletter.

"More frequent and accessible communication is complemented by an increase in the face to face support available to colleagues."

Relationships

> "In our desire to become more digitally enabled and offer greater choice to customers, we have taken our knowledge to create an innovative online tool that guides people through the essential steps they need to follow when someone dies."

Building strong relationships and community impact



Reaching out to our local communities

From the clients and families we care for, to the communities we serve, building and maintaining strong external relationships plays a key role in the overall success of our business.

In the case of our clients, relationships frequently extend beyond the funeral itself – after all, the grieving process is never so straightforward and will affect different people in different ways over different timespans.

A popular and welcome initiative has been the communal memorial services coordinated by our colleagues in the build up to Christmas. We organise hundreds across the country, both for clients we have helped, as well as wider members of the community who also wish to participate.

The services are a chance to remember and celebrate loved ones, whose names are read out as a mark of respect, before family members are invited to light a candle. Poignant, emotional, but also comforting, it is a chance for Funeral Directors and Funeral Arrangers to speak with families and offer further support if required.

Guidance just a click away

In our desire to become more digitally enabled and offer greater choice to customers, we have taken our knowledge to create an innovative online tool that guides people through the essential steps they need to follow when someone dies. An extension of our website, the tool is mobile friendly, easy to navigate and produces a bespoke checklist for the user based on the answers they provide to a series of questions related to the circumstances of their loss.

Location tracking recommends external organisations that can help and, if required, also signposts a selection of our nearest funeral directors. The service is not reserved for Dignity customers and can help anyone in need of guidance when trying to cope with the sometimes complex procedures associated with registering a death.

Supporting a variety of charities

Dignity is proud to work with a number of charitable partners, sometimes through fundraising activities or sponsorship, or alternatively by giving up our time and offering assistance to local projects near our branches and crematoria.

We have enjoyed a longstanding partnership with the British Heart Foundation and in the past year presented the charity with a donation of approximately £234,000.

Among the related projects we have supported is the installation of defibrillation equipment into all Dignity operated crematoria throughout England and Scotland, while colleagues have been learning valuable CPR techniques that could also help to save a life in the event of an emergency.

As the partnership continues, we will be looking at carrying out similar installations on the exteriors of our funeral branches and office premises in busy locations where there are currently no defibrillators nearby.

Alongside such large scale national partnerships, we also recognise the importance of responding to more localised causes where many of our funeral branches and crematoria have proud connections to their respective communities that span generations.

In short, one size does not fit all and we encourage colleagues to identify the particular charities and community groups they want to support, often following requests from a client. We are also considering the feasibility of topping up localised fundraising through a centrally administered grants scheme.

British Heart Foundation

We have enjoyed a longstanding partnership with the British Heart Foundation.

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Corporate and social responsibility continued

Health, Safety and Environmental performance

Working safely and reducing our environmental impact

Reduction in reportable accidents

17%

Since 2009 the number of accidents has reduced by 17 per cent.

Mercury abated cremations

35,000

A total of 35,000 cremations at our crematoria during 2019 were mercury abated, exceeding the required industry standard.

Waste management partnership

We have entered into a new partnership with Veolia to handle our general and mixed recyclable waste on a national basis.

Reducing our carbon footprint and environmental impacts

We have calculated our Scope 1 and Scope 2 GHG emissions since 2010 and work alongside Ecometrica Ltd to assist with our carbon emissions reporting. This supports greater transparency and accuracy of data. We also reported on water and waste management under the Scope 3 requirements.

Keeping people safe

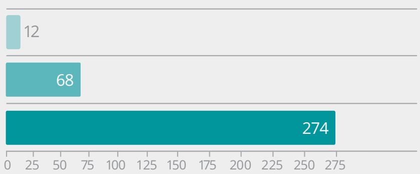
Safety in the workplace remains a priority, helping to protect the people who work at, and visit, our premises. Working in a safe environment allows us to focus on delivering excellent service to our clients, while also supporting employee engagement and retention.

Dignity has a full-time Head of Health and Safety and a team of eight regional Health and Safety Officers providing support services to our branches, crematoria, manufacturing site and head office locations.

The team works hard to minimise incidents and improve our safety culture and behaviours. We monitor health and safety through quarterly analysis, inspection of premises, surveillance and regular reports to the Board.

We also proactively identify areas requiring action with the intention of further risk reduction across the business.

Health & safety training (number)



Employees with NEBOSH qualification: 12
Employees with IOSH qualification: 68
Employees with CIEH qualification: 274

Managing our environmental impact

Our business has a well-established culture of safety and operational excellence and aims to provide strong leadership in the pursuit of safe and environmentally responsible workplaces. We are mindful of the importance of minimising the impact our business activities have on the environment and the need to mitigate future risks wherever possible.

A total of 35,000 cremations at our crematoria during 2019 were mercury abated. This represents 54 per cent of all the cremations carried out, which exceeds the required industry standard set by the Department for Environment, Food and Rural Affairs.

We are aware that new technology is in development that will help to reduce nitrogen oxide emissions at crematoria and are supporting the exclusive testing of such equipment in partnership with the manufacturer at one of our sites in Northampton. In addition, we are investigating the potential benefits of alternative fuels and energy recovery as ways of lowering consumption levels. We hope to be able to report positive progress in these areas over the next 12 months.

Dignity's coffin manufacturing facility has ISO14001 accreditation, an internationally recognised standard for an effective environmental management system that is designed to address the balance between reducing environmental impact and maintaining profitability.

Our coffins are manufactured using raw materials that originate from well-managed and sustainable sources. For example, 98 per cent of the coffins we produced last year were manufactured using timber certified by the Forest Stewardship Council (FSC).

Waste management services

After carrying out a detailed review of our supplier agreements for waste management we have entered into a new partnership with Veolia to handle our general and mixed recyclable waste on a national basis.

Working with a single provider rather than managing multiple contracts makes the process more streamlined and brings cost savings as well. We track where waste is going once collected and with Veolia's support our objective over the course of the contract is to ensure nothing is sent to landfill.

Environmental reporting

As part of our ongoing commitment to reduce our carbon footprint and environmental impacts, Dignity has reported to CDP (formerly the Carbon Disclosure Project) since 2008. CDP is a not-for-profit organisation that measures disclosures from thousands of companies and cities across the world. It encourages best practice in reporting and reducing environmental impact through a scoring process.

Scoring is based on a number of criteria designed to assess Energy Management practices and Environmental Strategy, specifically around Performance and Reporting, Risk Management and Business Strategy in relation to climate change.

Dignity's 2019 submission achieved a 'B' rating, with 'A' being the highest rating and 'E' being the lowest. We also reported on water and waste management under the Scope 3 requirements.

Environmental performance

Greenhouse gas emissions reporting for 2019

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:

	2019	2018	2017	2016	2015
Scope 1	**15,844**	16,028	15,535	15,616	14,988
Scope 2	**59**	174	423	7,106	7,455
Total	**15,903**	16,202	15,958	22,722	22,443
Per FTE Employee	**5.2**	5.3	4.8	8.0	8.2

Our energy consumption figures over the same periods are:

	2019	2018	2017	2016	2015
MWh	**94,067**	95,147	92,121	91,413	87,730

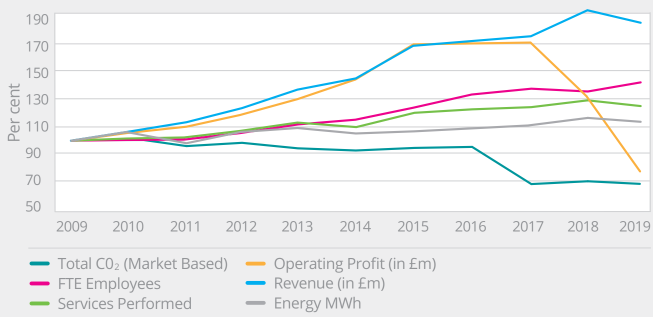
Methodology

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 work alongside Ecometrica Ltd to assist with our carbon emissions reporting. This 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 the Scope 2 calculation method together with the latest emission factors from recognised public sources, principally Defra/DECC. In addition, Dignity's carbon emissions disclosure has been undertaken in accordance with the Companies Act 2006.

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



Governance

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Chairman's introduction to governance

The Board is committed to a strong governance framework based on openness, accountability and trust. It is an essential part of the way we do business.

Clive Whiley, Chairman

Dear Shareholder,

Following my appointment as the Chairman of your Company in September 2019, I am delighted to present on behalf of the Board the Group's Corporate Governance Report for 2019. This report is intended to provide shareholders with a clear and comprehensive explanation of what good governance means within Dignity, what it means to us as the Board of Directors, how it is applied and how it guides our decision making.

We are reporting in line with the UK Corporate Governance Code April 2016 (the 'Code'). Save for the exceptions noted later, Dignity has complied with all relevant provisions throughout the period ending 27 December 2019. How we have achieved this is covered in this section of our Annual Report and comprehensively explains our approach to and the application of good corporate governance.

The Financial Reporting Council released a new version of the Code in July 2018 which applies to reporting periods beginning on or after 1 January 2019. This 2018 Code will therefore apply during the course of the year ending 25 December 2020. As a business we are adopting early much of the 2018 Code and changes will be reflected in next year's report.

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

Clive Whiley
Chairman

11 March 2020

Compliance with the UK Corporate Governance Code

In the 2019 reporting period, Dignity plc was subject to the April 2016 UK Corporate Governance Code (the 'Code') issued by the Financial Reporting Council (available at frc.org.uk). As a listed company, Dignity is required to report on how it has applied the principles of the Code and this is set out in the following pages. The Board is pleased to report that, other than as detailed in the paragraphs below, Dignity has complied with all of the provisions of the Code throughout the period ended 27 December 2019 and remained compliant at the date this 2019 Annual Report was published.

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

In May 2018, the Board announced that Peter Hindley, in accordance with his wishes, would retire from the Board in 2019 and he did so on 13 June 2019. I was appointed independent Non-Executive Chairman on 26 September 2019. In the period between Peter retiring and my appointment, David Blackwood, our Senior Independent Director, was appointed Interim Chairman. During this interim period and indeed prior to this when James Wilson was appointed on 1 May 2019, the Company was not compliant with Code Provision B.1.2 which requires at least half of the board excluding the chairman, to comprise of independent non-executive directors.

Board Changes

James Wilson was appointed to the Board on 1 May 2019. James is a partner at Phoenix Asset Management Partners Limited which manages 26.7 per cent of the Company's shares. James has no involvement in how the shares in the Company are voted.

When Peter Hindley stood down from the Board in June 2019, the Board comprised three Executive and four Non-Executive Directors, three of whom were independent.

Mary McNamara, Chair of the Remuneration Committee, stood down from the Board at year end, 27 December 2019, due to a substantial increase in commitments with her other Board appointments.

Following Mary McNamara's retirement from the Board at year end, the Board reduced to three Executive and three Non-Executive Directors.

Dean Moore was appointed to the Board as an independent Non-Executive Director on 11 March 2020.

At the current time and in addition to the Chairman, the Board comprises three Executive and four Non-Executive Directors, three of whom are independent.

Chairman's introduction to governance continued

Board induction

Following appointment, an induction programme is provided to new directors so that he or she becomes as effective as possible in their role within the shortest practicable time.

The induction programme includes:

- Briefings with directors, senior managers and advisers;
- A briefing on the role a director and the framework in which the Board operates;
- Provision of Board and Committee papers and governance documents such as the Schedule of Matters Reserved for the Board;
- Provision of corporate policies; and
- Analysts' reports.

The Code requirement is for at least half the Board, excluding the Chairman, to be Non-Executive Directors determined by the Board to be independent. Jane Ashcroft, David Blackwood and Dean Moore are considered independent.

Directors' Report

The Directors present their report for Dignity plc for the period ending 27 December 2019.

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.

Governance structure

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

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

Board Level Committees

Audit Committee
(Independent Non-Executive Directors)

Remuneration Committee
(Independent Non-Executive Directors)

Nomination Committee
(Chairman and Independent Non-Executive Directors)

Executive Management Team

The Board

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

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

The Chairman

The Chairman is responsible for:

- The leadership of the Board;
- Ensuring the Board functions effectively in all aspects of its role;
- Facilitating the effective contribution of the Non-Executive Directors and ensuring a constructive working relationship between Executive and Non-Executive Directors;
- Making sure all Directors receive accurate, timely and clear information;
- Setting the agenda so all strategic and other important issues are discussed, ensuring sufficient time is devoted to discussing such issues; and
- Making sure there is effective communication with stakeholders and acting as the public face of the Group.

Non-Executive Directors

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

Senior Independent Director

The Senior Independent Director (who was Interim Chairman from June 2019 until Clive Whiley's appointment in September 2019) provides a sounding board for the Chairman and acts as an intermediary for other Directors if needed and is available to meet and liaise with shareholders as required.

The Chief Executive and Executive Directors

The Chief Executive and Executive Directors are responsible for:

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

Committees of the Board

There are three standing committees of the Board: the Audit Committee; the Remuneration Committee; and the Nomination Committee. The Terms of Reference of these Committees are set by the Board and are available on the Dignity plc corporate website. Membership is reserved for the Independent Non-Executive Directors save for the Nomination Committee which is chaired by the Non-Executive Chairman. The Board Committee Reports are on pages 72 to 91.

Executive Management Team

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

- Chief Executive: Mike McCollum;
- Finance Director: Steve Whittern;
- Corporate Services Director: Richard Portman;
- Crematoria Director: Steve Gant;
- Marketing Director: Mark Hull;
- Director of Funeral Operations: Andrew Judd;
- Business Development Director: Alan Lathbury;
- Director of Pre Arrangement: Paul Toghill; and
- Transformation Director: Paul Turner.

Board of Directors

A strong, balanced and experienced Board

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

Clive Whiley
Non-Executive Chairman

Clive Whiley
Non-Executive Chairman

Appointed to the Board: 2019

Background and experience:
Clive has over thirty five years' experience in regulated strategic management positions since becoming a Member of the London Stock Exchange. He has extensive main board executive director experience across a broad range of financial services, engineering, manufacturing, distribution, retail and leisure businesses encompassing the UK, Europe, North America, Australasia, the Middle East and China. He is Chairman of Mothercare plc and a Non-Executive Director of Grand Harbour Marina plc and Camper & Nicholsons Marina Investments Limited and Chairman of China Venture Capital Management Limited, First China Venture Capital Limited and Y-LEE Limited.

Mike McCollum
Chief Executive

Appointed to the Board: 2004

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

External appointments:
Non-Executive Director of CVS Group plc.

Steve Whittern
Finance Director

Appointed to the Board: 2009

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

External appointments:
Senior Non-Executive Director of Medica Group PLC.

Richard Portman
Corporate Services Director

Appointed to the Board: 2006

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

External appointments:
None.

Jane Ashcroft CBE
A N R

Independent Non-Executive Director

Appointed to the Board: 2012

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

Dean Moore
A N R

Independent Non-Executive Director

Appointed to the Board: 2020

Background and experience:
Dean is a chartered accountant with extensive public company experience having previously been Chief Financial Officer at Cineworld plc, N Brown Group plc, T&S Stores plc and Graham Group plc and formerly non-executive Chairman of Tuxedo Money Solutions Limited. He is currently an independent non-executive director and Chairman of the Audit Committee at Cineworld plc and Audit Committee Chairman and Senior Independent Director of Volex plc.

Dean will become Chairman of the Audit Committee in succession to David Blackwood.

David Blackwood
A N R

Senior Independent Non-Executive Director

Appointed to the Board: 2015

Background and experience:
David is a Non-Executive Director and Audit Committee Chair of Scapa Group plc and a Non-Executive Director of Stobart Group Limited and has previously served as a member of the Cabinet Office Audit and Risk Committee and the Board for Actuarial Standards. He was Chief Financial Officer of Synthomer plc for seven years, stepping down in 2015, prior to which he held a number of senior roles with ICI plc. He is a member of the Institute of Chartered Accountants in England and Wales and a Fellow of the Association of Corporate Treasurers. David became Senior Independent Non-Executive Director of Dignity on 31 January 2018. He was Interim Chairman from June to September 2019 and is currently Acting Chairman of the Remuneration Committee.

James Wilson
N

Non-Executive Director

Appointed to the Board: 2019

Background and experience:
James joined the Board as a Non-Executive Director on 1 May 2019. James is a partner at Phoenix Asset Management Partners Limited and manages The Huginn Fund. James joined Phoenix in 2013. Prior to this, James spent three years at Aviva Investors in the Pan-European equity team. James holds a masters degree in Civil Engineering from the University of Durham and is a Chartered Financial Analyst. James is a Non-Executive Director of Hornby Plc.

Tim George
Company Secretary

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

Board composition, balance and tenure

The Board comprises seven Directors and the Non-Executive Chairman. There are three independent Non-Executive Directors and three Executive Directors.

Executive and Non-Executive Directors

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

Non-Executive Tenure

- 0 – 3 years
- 3+ years

Key to Committee membership

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

The Board records its thanks to Peter Hindley who stood down from the Board on 13 June 2019 after 28 years of service to the Company and the outstanding contribution he made to Dignity over those years. Also to Mary McNamara who stood down at year end, for her wise counsel and support through a challenging period.

Links

See Audit Committee report: **p.72 to p.74**
See Nomination Committee report: **p.75 and p.76**
See Report on Directors' remuneration: **p.77 to p.91**

Executive Management Team

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

The role of the Executive Management Team

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

Mike McCollum
Chief Executive

Full biography on page 64

Steve Whittern
Finance Director

Full biography on page 64

Richard Portman
Corporate Services Director

Full biography on page 64

Steve Gant
Crematoria Director

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

Mark Hull
Marketing Director

Mark joined Dignity in 2013 as Head of Marketing for funeral plans and has since progressed and established the marketing function for the Group, which he now leads. Responsibilities cover Brand, Promotion, Digital Marketing and Experience, Proposition and Communications.

Mark is a Chartered Marketer and Member of the Chartered Institute of Marketing and is also a Chartered Manager and Fellow of the Chartered Management Institute. He holds a Marketing degree from the University of Hertfordshire, a postgraduate diploma in Marketing from London Guildhall and an MBA from Cranfield University.

Andrew Judd
Director of Funeral Operations

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

Andrew has progressed through a variety of roles within both the Co-operative Group and independent sectors. He holds a degree from Wolverhampton University in Economics and Business and holds additional professional qualifications in both Funeral Service Management and Funeral Directing. He has held office in both the British Institute of Funeral Directors currently sitting on the Executive Committee for Professional Standards and Cross Industry Steering Committee for the Funeral Service Consumer Standards Review.

Alan Lathbury
Business Development Director

Alan joined what is now Dignity in 1999. He is a Fellow of the Chartered Institute of Management Accountants and holds an MBA in Business and Finance. His principle areas of responsibility are Business Development of Crematoria, through acquisition of existing crematoria, building of new greenfield location crematoria and through partnerships with local authorities to manage existing bereavement services. Currently Alan is managing the Company's response to the Competition and Market Authority's investigation into the funeral industry.

Paul Toghill
Director of Pre Arrangement

Paul joined Dignity in 2006. His key area of responsibility is the running of Dignity Pre Arrangement, which includes Proposition, Distribution, Marketing and Operations.

Paul has worked in the life insurance and pre-arranged funeral plan markets for over 25 years, with a particular focus on funeral propositions, distribution and the strategic development of affinity partnerships including within FCA regulated markets.

Paul is a Member of the Institute of Direct and Digital Marketing, and holds a Diploma in Interactive and Direct Marketing.

Paul Turner
Transformation Director

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

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

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 63. Informal meetings are held between individual Directors as required.

The day-to-day management of the Group is delegated to the Executive Directors and the wider Executive Management Team (see page 66) supported by an experienced and generally long serving senior and middle management team, the size and structure of which is commensurate with the complexity of the Group's activities. Managers have the necessary skills and knowledge relevant to their areas of responsibility. The remainder of the responsibilities rest with the Board however, certain capital expenditures and acquisition projects are delegated under a formally adopted Schedule of Matters Reserved for the Board and Expenditure Authorisation Policy.

All Directors are provided with the necessary papers in advance of the meetings to permit them to make informed decisions at those meetings. The Board also considers employee issues and key management appointments, including the role of Company Secretary.

The Board now comprises seven Directors and the Non-Executive Chairman. During the period the total number of directors who served was nine. Peter Hindley, former Non-Executive Chairman, retired from the Board on 13 June 2019 and Mary McNamara, former Chair of the Remuneration Committee retired from the Board on 27 December 2019. There are currently three independent Non-Executive Directors and three Executive Directors.

The Board considers that three Executive Directors, supported by the wider Executive Management Team, details of which are on page 66, are sufficient to manage a Group of this size, complexity and organisational structure.

There were three independent Non-Executive Directors who served for the period: Jane Ashcroft, David Blackwood and Mary McNamara. Mary McNamara retired from the Board on 27 December 2019 due to a substantial increase in commitments with her other Board appointments.

Biographical details for the serving Non-Executive Directors appear on page 65. Their role is to challenge constructively the management of the Group and to assist in the development of strategy. The Non-Executive Directors are chosen for their diversity of skills and experience. Each Non-Executive Director is appointed for a fixed term of two years, subject to annual re-election by shareholders. This term may then be renewed by mutual consent up to a maximum of nine years in accordance with the Code. Appointments beyond six years are also subject to rigorous review prior to approval. The Non-Executive letters of appointment are available, upon request, from the Company Secretary.

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

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

Jane Ashcroft, David Blackwood and Dean Moore (appointed post year end) are independent of management as defined by the Code. Mary McNamara who retired from the Board at year end was also an independent Non-Executive Director.

David Blackwood was interim Chairman of the Company from the retirement of Peter Hindley on 12 June 2019 until Clive Whiley was appointed Chairman on 26 September 2019. This interim position did not compromise David Blackwood's independence as defined in the April 2016 UK Corporate Governance Code.

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

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

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

In accordance with the Code, all Directors will submit themselves for election or re-election as appropriate at the 2020 Annual General Meeting.

Directors' statement on corporate governance continued

Board Appraisal

In accordance with the requirements of the Code, an external evaluation of the Board and its Committees was completed in 2019. The evaluation was conducted by Lintstock Limited a corporate advisory firm, 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. A further external evaluation will be undertaken in 2022.

During the period, the Board undertook a formal and rigorous evaluation of its own performance and that of its Committees and Directors by way of the issue of a detailed online questionnaire to all Directors. This was followed by a detailed review by Lintstock Limited and the Board of the responses and identification of any actions arising.

Specific matters reviewed by the Board were:

- Board composition;
- Stakeholder oversight;
- Board dynamics;
- Board support;
- Management and focus of meetings;
- Case study: CMA funerals market investigation;
- Strategic oversight;
- Risk Management and internal control;
- Succession planning and human resource management; and
- Priorities for change.

Issues arising from the evaluation are reviewed and addressed.

The Non-Executive Directors, led by the Senior Independent Director, are responsible for the performance evaluation of the Chairman taking in to account the views of the other Executive Directors. The Board was satisfied that its performance and that of its Chairman, individual Directors and Committees was of the appropriate standard.

Board and Board Committee Attendance

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

	Main Board(i)	Audit Committee	Remuneration Committee(ii)	Nomination Committee
Number of meetings	**8**	**3**	**3**	**2**
Jane Ashcroft	8	3	3	2
David Blackwood	8	3	3	2
Peter Hindley	2(iv)	1(iii)	2(iii)	–
Mike McCollum	8	3(iii)	3(iii)	2(iii)
Mary McNamara	8	3	3	2
Richard Portman	8	3(iii)	–	–
Clive Whiley	3(iv)	1(iii)	1(iii)	1
Steve Whittern	8	3(iii)	1(iii)	–
James Wilson	6(iv)	2(iii)	–	1

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

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

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

(iv) Peter Hindley retired from the Board on 13 June 2019. James Wilson was appointed to the Board on 1 May 2019 and Clive Whiley on 26 September 2019.

Dean Moore was appointed to the Board on 11 March 2020.

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

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

The Chairman and the Non-Executive Directors met during 2019 without the Executive Directors present. These are usually scheduled to occur following full Board meetings. The Non-Executive Directors also met during 2019 without the Chairman present.

The Company Secretary

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

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

Internal Control and Risk Management

The Board has responsibility for the Group's system of internal control and risk management, which is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. A formal and ongoing process of identifying, evaluating and managing the significant risks faced by the Group was in place throughout the period and in place up to the date the Governance Report was signed and approved for the Annual Report and Accounts 2019.

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

Internal Audit completes a programme of work each year that provides assurance that the internal controls have been operated as designed and also proposes improvements where appropriate and necessary. Coupled with this, the formal six monthly review of the Risk Register provides a further mechanism for considering and reviewing internal controls. All such work is reported to and monitored by the Audit Committee which recommends approval to the full Board and is discussed in the Audit Committee Report on pages 72 to 74.

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

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

- Financial Reporting – The Group has a comprehensive system of internal budgeting and forecasting. The Group's monthly actual results analysed by operating division are reported to the Board and significant variances to budget are investigated with revised forecasts prepared as necessary;
- Financial Controls – The Executive Directors have defined appropriate and necessary financial controls and procedures to be employed by operational management. Key controls over major business risks include reviews against budgets and forecasts, review against key performance indicators and exception reporting;
- Quality and Integrity of Personnel – One of the Group's core values is integrity. This is regarded as vital to the maintenance of the Group's system of internal financial control. The Directors have put in place an organisation structure appropriate to the size and complexity of the Group with defined lines of responsibility and delegation of authority where the Board considers it necessary and appropriate. There is also a Code of Conduct applicable to all employees of the Group as well as specific policies such as Anti Bribery and Corruption, Slavery and Human Trafficking and Money Laundering;
- Internal Audit – The Group has a dedicated Internal Audit team, which reports to the Corporate Services Director and the Audit Committee. The latter reviews and approves the annual work plan of the Internal Audit function which tests the effectiveness of many controls. Any significant weaknesses are reported to management and the Audit Committee on a timely basis. It coordinates the completion of self-assessment reports by operational management that assists in highlighting areas of control weakness or exposure. Internal audit reviews are completed on such areas together with selected areas of the head office function and any area where an Executive Director requests a review.

  During 2019 (as in previous years), there were quarterly meetings between the Head of Internal Audit and the Executive Directors to formally review and discuss Internal Audit's work programme and findings. In addition, regular meetings between the Head of Internal Audit and the external auditors, Ernst & Young LLP ('EY'), were held during the year to discuss and plan audit work and to ensure a complementary approach. The Head of Internal Audit formally reports to the Audit Committee at every meeting and also held private meetings with the Chairman of the Audit Committee during 2019;
- 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

Directors' statement on corporate governance continued

- 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 46 to 51 of the Annual Report. These risks have also been formally considered when the Directors prepared their Viability Statement on page 51 of this Annual Report in accordance with provision C2.2 of the Code.

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

An explanation of how the Group aims to create and preserve value and the strategy for delivering its objectives is included in the Operating Review on pages 34 to 40.

Relationship with Shareholders

The Group recognises the importance of clear communication with shareholders.

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

The AGM provides an opportunity to meet the Board and the Executive Management Team. All shareholders are free to attend and put questions to any Director and the Chairman of each of the Board Committees at the AGM on 11 June 2020. At least 20 days' notice will be given ahead of that meeting. Questions asked in person at the AGM will receive a verbal response whenever possible, otherwise a written response will be provided as soon as practicable after the AGM. Questions raised at any other time will normally receive a written response. Shareholders attending the AGM will also have the opportunity to meet informally with all the Directors and the Executive Management Team after the meeting has concluded.

On 14 June 2019, the Company announced that at the Annual General Meeting held on 13 June 2019 more than 20 per cent of the votes cast on Resolution 15 ("To authorise the Board to make political donations or incur political expenditure") were against the resolution.

As stated in the AGM Notice and in common with many companies, it is not the Company's policy to make donations to political parties, or to make other political donations within the normal meaning of that expression, and the Directors have no intention of changing that policy. The purpose of Resolution 15 was to avoid the inadvertent infringement of provisions within the Companies Act 2006.

Following discussions with one of our major shareholders which has a general policy not to support this resolution, we believe this shareholder now has a better understanding of the purpose behind the resolution.

The Directors consider that this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model, risks and strategy. In order to assess whether the Annual Report and Accounts were fair, balanced and understandable, the Board received an early draft to enable time for review and comment. The Audit Committee then met to consider the criteria for a fair, balanced and understandable Annual Report and to review the process underpinning the compilation and assurance of the report, in relation to financial and non-financial management information. At that meeting they considered the Annual Report and Accounts as a whole and discussed the tone, balance and language of the document, being mindful of the UK reporting requirements and consistency between narrative sections and the financial statements. As part of this process the Board considered the Group's reporting governance framework and the views of the external auditor as reported to the Audit Committee. Pages 1 to 51 provide an assessment of the Group's affairs.

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

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

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

Our approach to diversity

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

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

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

- Monitor decisions on recruitment, selection, training and promotion to ensure they are based solely on objective and job related criteria;
- Provide training for managers to ensure that they understand the nature of discrimination and are fully aware of their responsibilities in implementing our Equality and Diversity policy;
- Provide awareness for employees to ensure that they have a greater understanding of equality and diversity in the workplace;
- Provide information and advice on the implications of the relevant legislation and on assistance available to help in the employment of people with disabilities;
- Ensure that all policies are applied thoroughly and fairly particularly those relating to any complaint involving discrimination or harassment;
- Communicate this policy to employees, suppliers and third parties, where applicable, through induction, training and communications; and
- Encourage our suppliers and third parties to adopt policies and working practices, which reflect our own views and values on equality and diversity and that of our clients.

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

For further details on Employee diversity, see pages 54 and 55 of the Corporate and Social Responsibility report.

Substantial shareholdings

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

	As at 6 March 2020		As at 27 December 2019	
Holder	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
Phoenix Asset Management Limited	13,357,471	26.71	13,357,471	26.71
John Stewart Jakes	3,669,612	7.34	3,669,612	7.34
Klarus Capital Limited	2,606,669	5.21	2,606,669	5.21
Artemis Investment Management LLP	2,505,451	5.01	2,505,451	5.01
Harris Associates L.P.	2,483,419	4.97	2,483,419	4.97
Prudential plc group of companies	2,469,210	4.94	2,469,210	4.94
Pictet Asset Management Limited	2,394,069	4.79	2,394,069	4.79
Standard Life Aberdeen plc	2,335,990	4.67	2,335,990	4.67
Granular Capital Limited	1,549,139	3.10	–	–

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

By order of the Board

Tim George
Company Secretary

11 March 2020

Audit Committee report

The Audit Committee continues to monitor the integrity of financial statements, the effectiveness of risk management and internal controls and the implementation of new accounting standards.

David Blackwood, Chairman of the Audit Committee

Dear Shareholder,

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

Membership and Process

The following Directors served on the Audit Committee (the 'Committee') during 2019: myself as Chairman, Jane Ashcroft and Mary McNamara. All of us are independent Non-Executive Directors and, other than Mary who stood down as a Non-Executive Director on 27 December 2019, served through to the date of this report.

I was interim Chairman of the Company from the retirement of Peter Hindley on 12 June 2019 until Clive Whiley was appointed Chairman on 26 September 2019. This interim position did not compromise my independence as defined in the April 2016 UK Corporate Governance Code.

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

Dean Moore was appointed to the Board and this Committee on 11 March 2020.

Dean is a chartered accountant with extensive public company experience and is currently an independent non-executive director and Chairman of the Audit Committee at Cineworld plc and Audit Committee Chairman and Senior Independent Director of Volex plc.

Dean will become Chairman of the Audit Committee in succession to me following the AGM on 11 June 2020.

The Committee met three times during 2019; in March prior to the release of the Preliminary Announcement for 2018; prior to the release of the Interim Announcement for 2019 in August; and again in December 2019 immediately prior to the end of the financial period. The Committee also met in March 2020 prior to the release of the Preliminary Announcement for 2019. The attendance records of the members are shown on page 68. All Committee members were present at all meetings. The external auditors, EY, the Chairman, the Chief Executive, the Finance Director, the Corporate Services Director, the Head of Internal Audit and the Financial Controller have all attended meetings by invitation.

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

Member	Since	Experience
David Blackwood	2015	Previously CFO of Synthomer plc, Chartered Accountant and Fellow of the Association of Corporate Treasurers.
Jane Ashcroft	2012	Currently CEO of Anchor Hanover, Fellow of the Institute of Chartered Secretaries and Administrators and Member of the Chartered Institute of Personnel and Development.
Mary McNamara (retired 27 December 2019)	2017	Previously CEO of the Commercial Division of Close Brothers Bank, and held a number of leadership roles within GE.
Dean Moore	2020	Currently Chairman of the Audit Committees at Cineworld plc and Volex plc.

Key Responsibilities

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

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

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

Activities in the period

The key activities of the Committee during the period were:

- A comprehensive review of the 2018 and 2019 Annual Report and Accounts and the 2019 Interim Report. This review was to ensure that the Committee was completely satisfied that the information was fair, balanced and understandable. As part of this review the Committee received reports from the external auditors on their audit of that Annual Report and Accounts and their review of the interim results. The Committee also reviewed the Preliminary and Interim Announcements to be made to the London Stock Exchange;
- At all meetings, the review of Internal Audit progress against the Internal Audit plan for the period, the results of principal audits and other significant findings, adequacy of management's responses and the timeliness of the resolution of actions arising;
- Review and agreement of the 2020 Internal Audit Plan and budget;
- A six monthly review of the Group's Principal Risks and recommendation of formal adoption by the Board. This is part of a formal ongoing process of identifying, evaluating and managing the significant risks faced by the Group. A review of the Risk Register was also completed in March 2020. The principal risks facing the Group are considered on pages 46 to 51 of this Annual Report;
- Completion of a comprehensive review of Dignity's risk control framework and its linkage to the Risk Register and Viability Statement included in the Strategic Report on page 51;
- The formal review of the going concern assumptions adopted in the preparation of the 2018 and 2019 financial statements;
- In advance of the financial period end, the review with the external auditors, EY, of the annual external audit plan, which addressed the planned audit approach to key audit matters;
- Consideration of the external auditor's views on key judgement areas and audit findings relating to key accounting matters at the conclusion of the audit;
- A review of IFRS 10 'Consolidated Financial Statements' and pre-need trust accounting in response to the Financial Reporting Council's question as to whether the Trusts should be consolidated in the Group's accounts;
- An assessment of the effectiveness of the external auditors; and
- We reviewed the Financial and Reporting Council letter for Audit Committee Chairs and Finance Directors to consider the applicability of the matters raised for the Group's financial statements.

Areas that have been discussed and considered by the Committee in relation to the 2019 Annual Report and Accounts are:

- Impairment – we considered the results of the impairment tests performed, ensuring that the assessment made and conclusions reached were consistent with the analysis and reflected the changes in the funeral and crematoria industries which include increased consumer price awareness and competition, digitalisation and the uncertainty surrounding the conclusions that will be drawn by the CMA industry review;
- Pre-arranged funeral plans trusts – the Committee agreed it was appropriate for the Group to revise its overall conclusions on control of the two main trusts as discussed in note 1 to the accounts. Accordingly the Committee concluded that the change in accounting policy to consolidate these trusts was appropriate and concluded the accounting in accordance with IFRS 10 was fairly stated and that appropriate disclosures had been made;
- Revenue – the Committee considered and approved the accounting policy changes necessary to comply with the new standard, IFRS 15 'Revenue from Contracts with Customers';
- Pensions – the Committee examined the assumptions used in the actuarial valuation for the defined benefit pension scheme considering the consistency of approach with the prior year and compliance with the requirements of IAS 19 and concluded they were appropriate;
- Risk – the Committee performed a comprehensive review of the principal risks and uncertainties disclosed in the 2019 Annual Report based on the changing and competitive environment in which the Group operates;
- Viability – the Committee performed an assessment and ratification of the Viability Statement, including giving due consideration to severe but plausible downside risks; and
- Leases – the Committee considered the disclosure provided in respect of the impact of IFRS 16 'Lease Accounting' will have in future accounting policies and concluded it was appropriate. See note 1 to the financial statements for further details.

External audit

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

The Audit Committee, on an annual basis, formally considers the performance and independence of the external auditors. The formal annual review was completed in the first quarter of 2020. This review took the form of a detailed questionnaire that was sent to all Committee members and attendees at the Committee meetings. The respondents were asked to grade all aspects of the service provided. The Committee was, based on that review which indicated a strong level of confidence in the external auditors, fully satisfied with EY's performance in 2019 and a resolution to re-appoint them as external auditors will be tabled at the AGM on 11 June 2020.

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.

Audit Committee report continued

Policy on non-audit fees

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

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

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

In the period, EY undertook no non-audit work on behalf of the Group except for their review of the Interim Report for 2019, completion of turnover certificates, a financial covenants compliance certificate and certifications required as part of the Group's membership renewal of the Funeral Planning Authority. Total fees of £65,000 were charged for the non-audit services compared to £640,000 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 2019.

Audit partner rotation

Consistent with the requirements of the Financial Reporting Council's Ethical Standard, EY audit partners serve for a maximum of five years on listed clients. Adrian Roberts is Dignity's audit partner having been appointed to the role in 2019.

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

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

Internal Audit

The Group has a dedicated Internal Audit team, which reports to the Corporate Services Director and the Audit Committee. The Head of Internal Audit coordinates a risk-assessed programme of work across all departments and operations of the Company with the aim of ensuring full coverage over a three-year cycle. Where appropriate, Internal Audit utilise support from professional services firms to provide subject matter expertise on specialist areas.

During 2019 (as in previous years), there were quarterly meetings between the Head of Internal Audit and the Executive Directors formally to review and discuss Internal Audit's work programme and findings. In addition, regular meetings between Internal Audit and the external auditors, EY, were held during the year to discuss and plan audit work and to ensure a complementary approach. The Head of Internal Audit provides reports to the Audit Committee at every full meeting and met on a one to one basis with me, as the Chairman of the Audit Committee, on three occasions in the period. In addition, a private meeting is held annually between the Audit Committee members and the Head of Internal Audit, without any Executive Directors present. This process allows the Committee to have appropriate discussion and debate with the Head of Internal Audit as well as to monitor the effectiveness of the Internal Audit function, including comprehensive review of all reports and their conclusions.

Whistleblowing

A formal policy and procedure 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. A whistleblowing report is formally reviewed on an annual basis by the Committee or more frequently should the need arise.

Annual Evaluation

During the period, the Board completed performance evaluations of itself and its Committees. The results of this are discussed on page 68. Specific matters reviewed by the Committee were:

- Time management and composition;
- Committee processes and support;
- The relationship with the Finance Director, External Audit Partner and the Head of Internal Audit;
- The effectiveness of the Committee in reviewing the Group's financial reporting, the system of internal controls and monitoring the management of risk; and
- Priorities for change.

Issues arising from the evaluation are reviewed and addressed.

This Audit Committee report was reviewed and approved by the Board on 11 March 2020.

David Blackwood
Chairman of the Audit Committee

11 March 2020

Nomination Committee report

The Committee has overseen the appointment of both a new Chairman and Non-Executive Director. The Committee ensures we have the right blend of skills and experience on the Board to deliver our strategy.

Clive Whiley, Chairman of the Nomination Committee

Dear Shareholder,
On behalf of the Board, it is my pleasure to present the 2019 Nomination Committee report, my first as both Chairman of the Company and the Nomination Committee.

During 2019, the membership of the Nomination Committee (the 'Committee') comprised Jane Ashcroft, David Blackwood, Mary McNamara and Peter Hindley as Chairman until he stood down from the Board on 13 June 2019. James Wilson became a member of the Committee on his appointment to the Board on 1 May 2019.

I was appointed to the Board as Chairman on 26 September 2019 and also became Chairman on the Nomination Committee at this time.

Mary McNamara retired from the Board on 27 December 2019 due to a substantial increase in commitments with her other directorships.

David Blackwood is currently Acting Chairman of the Remuneration Committee.

Dean Moore was appointed to the Board and this Committee on 11 March 2020.

All members, apart from James Wilson, are independent Non-Executive Directors. The Chief Executive attends Committee meetings by invitation. The Company Secretary is Secretary to the Committee.

Currently the Committee is looking to appoint an independent Non-Executive Director who will chair the Remuneration Committee.

The authorities delegated to the Committee by the Board comprise, among other matters:

- The review of the structure, size, and composition of the Board;
- The evaluation of the balance of skills, knowledge, independence, diversity and experience of the Board including the impact of new appointments;
- Overseeing and recommending the recruitment of new directors;
- Ensuring appointments are made against objective criteria; and
- Succession planning to ensure processes and plans are in place with regard to both Board and senior appointments; Keeping under review the leadership needs of the Group; and ensuring that the Non-Executive Directors can meet the time requirements of the role.

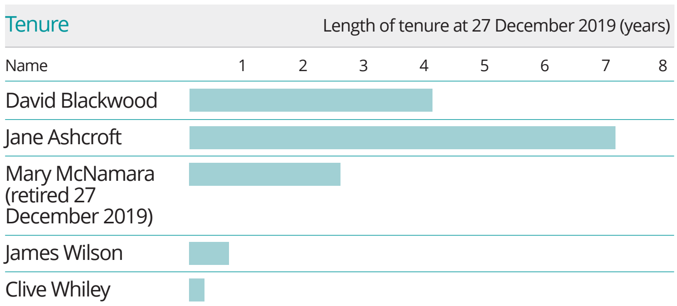
The principal duties of the Committee in 2019 were overseeing the appointment of a successor to Peter Hindley, the former Chairman, and the appointment of James Wilson who is a partner at Phoenix Asset Management Limited which currently manages 26.7 per cent of the Company's shares. The Committee also continued the monitoring and oversight of succession planning processes. The Committee received at both meetings in 2019 updates on ongoing succession planning and talent mapping at various levels within the Group, identifying individuals and any development requirements necessary to ensure effective succession.

The Committee is committed to embedding inclusion and diversity at Board and executive level and throughout the Group. The Company provides a balanced, supportive and flexible culture and environment with working practices to accommodate peoples' needs. In so doing, it aims to continue to attract and retain the best candidates and ensure the development of all Group employees.

Succession planning, development and leadership requirements will continue to be reviewed in 2020.

The members of the Committee's attendance record is set out on page 68. The Committee's proceedings are reported at the next Board meeting and the Committee's minutes are made available to all members of the Board.

All the Non-Executive Directors are appointed for two year terms which may then be renewed up to maximum of nine years service in accordance with the independence guidelines in the 2016 UK Corporate Governance Code.



At 27 December 2019, James Wilson had been on the Board for eight months and Clive Whiley three months.

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

Nomination Committee report continued

The Committee and the Board continue to support the objectives of Lord Davies' Report 'Women on Boards'. Following Mary McNamara's retirement from the Board, Jane Ashcroft is currently the only woman on a Board of eight Directors (12.5 per cent). While the Committee will continue to pursue a policy of ensuring that the best people are appointed for the relevant roles, the benefits of greater diversity are recognised and will continue to be taken into account when considering a particular appointment.

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

During the period, the Board completed performance evaluations of itself and its Committees. The results of this are discussed on page 68. Specific matters reviewed by the Committee were:

- Time management and composition;
- Committee processes and support;
- Performance in reviewing the composition of the Board;
- The process by which Board appointments are made; and
- Priorities for change.

Issues arising from the evaluation are reviewed and addressed.

Finally, all Directors offer themselves for election or re-election at the AGM on 11 June 2020 and I will be available at the AGM to answer questions on the work of the Committee.

This Nomination Committee report was reviewed and approved by the Board on 11 March 2020.

Clive Whiley
Chairman of the Nomination Committee

11 March 2020

Report on Directors' remuneration

for the 52 week period ended 27 December 2019

The Remuneration Committee has continued to monitor and review developments in corporate governance and focused robustly on the implementation of the 2019-2021 remuneration policy to ensure that it is aligned to the business strategy, purpose and values and that management is incentivised to deliver to stakeholders.

David Blackwood, Acting Chairman of the Remuneration Committee

Dear Shareholder,

On behalf of the Board, I am pleased to present this Directors' Remuneration Report for the period ended 27 December 2019. I am writing this report in my capacity as Acting Chairman of the Remuneration Committee following Mary McNamara retiring from the Board on 27 December. I am grateful to Mary for her effective leadership of the Committee through a challenging period for the business and her smooth handover to me.

The recruitment of a new independent Non-Executive Director to chair the Remuneration Committee is currently being undertaken.

Last year, following a detailed review of our remuneration policy and investor consultation, we received AGM approval with 92.6 per cent of shareholders voting in favour of the policy. We are grateful to our major investors for their feedback during the consultation process for the new policy and for all shareholders giving their support. We have reviewed the policy and the Committee is comfortable that this still supports the long-term business strategy and so we are proposing no changes to the policy for FY2020.

Performance in 2019 and annual bonus and 2017-19 LTIP outcome

The 2019 annual bonus was measured 70 per cent against stretching underlying operating profit targets, our key short-term financial performance indicator. Underlying operating profit in 2019 was £63.3 million, which was below the minimum threshold for any bonus payment and so no bonus was payable under this element. The remaining 30 per cent of the bonus was based on the achievement of three key strategic initiatives, being the delivery of the annual objectives under the Transformation Plan, Customer Service and Funeral Market Share. For the 10 per cent element based on the Transformation Plan, 57 of the 59 deliverables were completed and a further 13 additional deliverables were achieved resulting in a bonus of 8 per cent. For the 10 per cent element based on Funeral Market Share, the threshold target 11.94 per cent was not met so no bonus was payable in respect of this objective. For the 10 per cent element based on Customer Recommendation, at 90.88 per cent the maximum target was exceeded by 0.81 per cent resulting in a bonus of 10 per cent. The Committee is comfortable that the progress against these strategic KPIs will generate sustainable shareholder value and on this basis is comfortable that 18 per cent out of the maximum 30 per cent available for this part of the bonus should be payable. The total bonus payable therefore was 18 per cent of maximum.

The LTIP award granted in 2017 was subject to performance against two equally weighted measures, relative total shareholder return ('TSR') compared to the FTSE 350 and earnings per share growth ('EPS'). Following the three year performance period ending 27 December 2019 Dignity's TSR performance and our underlying EPS of 60.6 pence were both below the minimum performance threshold. As a result, the LTIP award lapsed with no shares vesting.

The Committee considers that there has been an appropriate link between reward and performance and that there has been no need to use discretion to change the formula driven outcome from the 2019 incentive plans.

How we will apply the new policy in 2020

No base salary increases have been awarded to the Executive Directors for the third year running. The average increase to the wider workforce was broadly two per cent.

The maximum annual bonus will remain at 135 per cent of base salary for the Chief Executive and 125 per cent for the other Executive Directors. 70 per cent of the bonus will be based on stretching underlying operating profit targets and 30 per cent on three well-defined strategic objectives which underpin our strategy as set out on page 86.

In relation to the FY20 LTIP award the Committee has considered carefully the grant level and the performance metrics that should apply and recognises that it remains very difficult to set accurate long-term financial performance conditions until the findings of the CMA report are published. Accordingly, the Committee has decided that the FY20 LTIP awards should be delayed until after the CMA interim report is published, which we anticipate will be around April or May 2020. There will be full disclosure of the grant level and the performance conditions contained in the RNS announcement for the award and again in next year's Directors' Remuneration Report.

New Company Chairman

On 26 September 2019, Clive Whiley was appointed as Company Chairman on an annual fee of £175,000.

James Wilson who was appointed to the Board on 1 May 2019 has elected not to receive a Non-Executive Director's fee.

Dean Moore was appointed a Non-Executive Director on 11 March 2020 and will serve on this Committee. Dean will receive a fee of £46,850 per annum which will increase by £9,350 per annum when he becomes Chairman of the Audit Committee.

Concluding remarks

On behalf of the Remuneration Committee, I would like to thank shareholders for their ongoing support and I look forward to this continuing at the forthcoming Annual General Meeting.

David Blackwood
Acting Chairman of the Remuneration Committee

11 March 2020

Report on Directors' remuneration continued

for the 52 week period ended 27 December 2019

REMUNERATION POLICY REPORT

This section of the Directors' Remuneration Report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and sets out the remuneration policy which shareholders approved at the AGM on 13 June 2019. The policy took formal effect from the date of approval and is intended to apply until the 2022 AGM.

Overview of Remuneration Policy

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

- Align rewards with the interests of shareholders;
- Motivate and encourage superior performance;
- Allow the Group to retain the talent needed to execute its business strategy;
- Enable the Group to be competitive when recruiting appropriately skilled and experienced management; and
- Ensure that the overall package for each Director is linked to strategic objectives of the Group.

The table on pages 79 and 80 summarises the main components of Dignity's remuneration policy. Details of how the Committee will implement the policy are provided in the Annual Report on Remuneration on page 83.

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. To provide a fair fixed level of pay commensurate for the role, ensuring no over reliance on variable pay.	Salaries are paid monthly. They are normally reviewed annually and fixed for 12 months commencing 1 January. In deciding appropriate levels, the Committee takes into account: • the role, experience, responsibility and performance (individual and Group); • increases applied to the broader workforce; and • relevant market information for similar roles in broadly similar companies of a similar size.	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.	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 and to ensure the well-being of the executives.	Benefits include but are not limited to provision of a company car (or cash allowance in lieu), fuel, landline telephone and broadband at each Executive Director's home residence, mobile phone, family private medical cover and a pre-arranged funeral plan for the individual or spouse. 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 business expenses incurred in carrying out an executive's duties which are deemed to be taxable will be reimbursed by the Company together with any personal tax due.	There is no prescribed maximum as costs may vary in accordance with market conditions. 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.	The accrual rate under the defined benefit scheme was 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. The Committee will provide a pension provision for new Executive Directors' in line with that of the workforce.	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.	20 per cent of any annual bonus earned will be deferred in shares, with the remainder being payable in cash. Deferred shares vest after two years subject to continued employment but no further performance targets. The vesting period continues post cessation of employment. A dividend equivalent provision allows the Committee to pay an additional amount equal to the value of the dividends that would have been payable on the vested deferred shares over the vesting period (normally in shares but may be in cash in exceptional circumstances). This may assume the reinvestment of dividends on a cumulative basis. Bonus payments, including deferred bonus awards, are subject to recovery and withholding provisions as set out in note 1.	135 per cent of salary for the Chief Executive and 125 per cent of salary for the other Directors.	Performance metrics are selected annually based on the Group's strategic objectives. The bonus may be based on the achievement of an appropriate mix of challenging financial, strategic or personal targets with financial measures accounting for the majority of the bonus. Measures and weightings may change each year to reflect any year-on-year changes to business priorities. • For financial metrics, a range of targets may be set by the Committee, taking into account the business outlook for the year. For financial metrics up to 20 per cent of the maximum potential bonus is payable for threshold performance and up to 60 per cent of maximum potential bonus is payable for target performance. • In relation to strategic targets the structure of the target will vary based on the nature of the target set and it will not always be practicable to set targets using a graduated scale. Vesting may therefore take place in full if specific criteria are met in full. The Committee may adjust the bonus that is payable if it considers the formulaic outcome is not representative of the underlying performance of the Company, investor experience or employee reward outcome. See note 2.

Report on Directors' remuneration continued

for the 52 week period ended 27 December 2019

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
Long-Term Incentive Plan	Incentivises selected employees and Executive Directors to achieve successful execution of business strategy over the longer-term. Provides long-term retention. Aligns the interests of the Executives and shareholders through the requirement to build up a substantial shareholding.	Awards are normally granted annually in the form of nil cost options or conditional share awards. 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. Awards normally vest after three years subject to the achievement of stretching performance conditions and continued employment. Following vesting, the net of tax vested shares must be retained for two years. The post vesting holding period continues post cessation of employment. Awards are subject to recovery and withholding provisions as set out in note 1. A dividend equivalent provision allows the Committee to pay an additional amount equal to the value of the dividends that would have been payable on the vested shares over the vesting period (normally in shares but may be in cash in exceptional circumstances) and may assume the reinvestment of dividends on a cumulative basis.	150 per cent of salary.	Awards under the LTIP vest subject to the satisfaction of challenging performance targets set at the time of award. 25 per cent of the award vests for threshold performance. Performance periods will normally start from the beginning of the financial year in which the award is made. The Committee may scale back the LTIP vesting amount if it considers the formulaic outcome is not representative of the underlying performance of the Company, investor experience or employee reward outcome. See note 2 for additional detail.
Non-Executive Chairman and Directors' fees	To attract and retain a high-quality Chairman and experienced Non-Executive Directors.	The Board determines the fees of the Non-Executive Directors. They are based upon recommendations from the Chairman and Chief Executive (or, in the case of the Chairman, based on recommendations from the Remuneration Committee and the Chief Executive). 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. James Wilson has elected not to receive a fee. The Chairman receives a single fee covering all his duties. The Non-Executive Directors receive a basic fee and additional fees payable for chairing the Audit and Remuneration Committees and for performing the Senior Independent Director role. Supplemental fees may be paid for additional responsibilities and activities and additional fees for chairing new board committees or for other additional roles requiring additional time commitment. 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. 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. In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment of the Non-Executive Chairman and Directors.	There is no prescribed maximum, however, any increase to fees will be considered in light of the expected time commitment in performing the role, scope and responsibility, increases received by the wider workforce and market rates in comparable companies.	Neither the Non-Executive Chairman nor the Non-Executive Directors are eligible for any performance related remuneration.
Share ownership requirement	To align the interests of management and shareholders and promote a long-term approach to performance.	Executive Directors are required to build and maintain a holding of shares to the value of at least 200 per cent of base salary. We will value shareholdings using the value of beneficially owned shares plus the net of tax value of deferred bonus shares and vested but unexercised LTIP awards. The calculation of the shareholding level will be based on the average price for the last month of the financial year and the salary at the end of the financial year. 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). In addition, a shareholding requirement of 50 per cent of the 200 per cent of salary in-service requirement (i.e. 100 per cent of salary) is required to be held for one-year post cessation of employment applying to share awards granted from 2019.	Not applicable.	Not applicable.

Notes

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

Bonus Plan and LTIP discretions

The Committee will operate the annual bonus plan and LTIP according to their respective rules and in accordance with the Listing Rules and HMRC rules where relevant. A copy of the LTIP rules is available on request from the Company Secretary. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following (albeit with the level of award restricted as set out in the policy table on page 80):

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

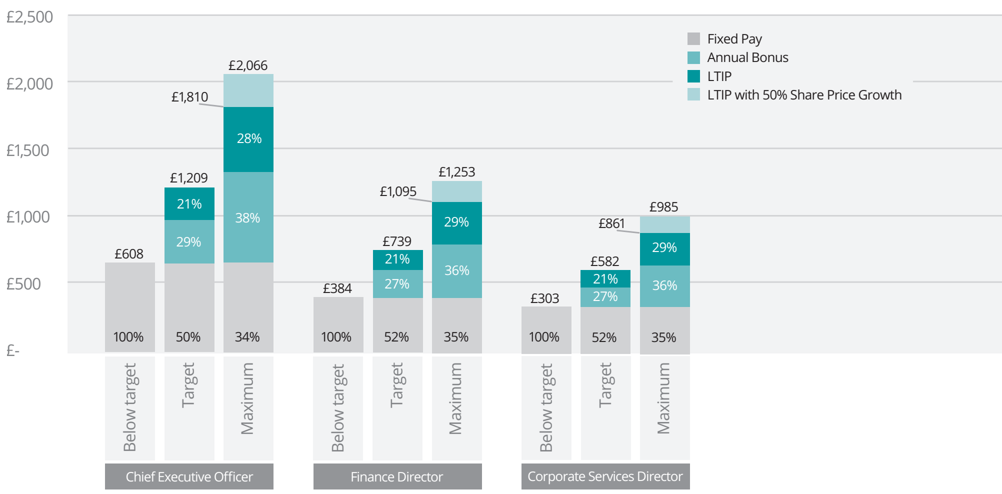
Legacy arrangements

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

Remuneration scenarios for Executive Directors

The Company's policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The graph below illustrates how the total pay opportunities for the Executive Directors for 2020 vary under three performance scenarios: minimum, target and maximum. For the purpose of these scenarios this assumes that the LTIP award level remains at the same level as FY19. However, as noted elsewhere in this report the grant level and performance conditions for FY20 have not yet been determined.

Remuneration (£000s)



Notes

- Below target comprises fixed pay, which comprises 2020 basic salary, the value of benefits in 2019 and a 15 per cent of salary, company pension contribution.
- Target comprises fixed pay and assumes a bonus of 50 per cent of maximum is paid and 50 per cent of the LTIP award vests.
- Maximum comprises fixed pay and assumes full bonus payment of 135 per cent of salary for the Chief Executive and 125 per cent for other Executive Directors and full LTIP vesting of 100 per cent of salary for all Executive Directors. A 50 per cent increase in the value of the LTIP is also to show the impact of the share price growth. The 50 per cent increase is calculated using the maximum expected LTIP value.

Recruitment and Promotion policy

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

Salary levels for Executive Directors will be set in accordance with the Company's remuneration policy, taking into account the experience and calibre of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be made over subsequent years subject to individual performance and development in the role. Benefits will generally be provided in line with the approved policy, with relocation or other expenses provided for if necessary. For any new appointments, the pension contribution will be in line with that applying to the majority of the workforce.

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The structure of variable pay elements will be in accordance with the Company's approved policy detailed above. The maximum variable pay opportunity will be as set out in the remuneration policy table. Different performance measures may be set initially for the annual bonus in the year of joining, taking into account the responsibilities of the individual, and the point in the financial year that he or she joined the Board.

In the case of external recruitment, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer), this may be provided, with the new awards taking into account the form (cash or shares), timing left to vesting, the extent to which performance conditions apply and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Replacement share awards, if used, may be granted using the Company's existing share plans to the extent possible, although awards may also be granted outside of these schemes. The aim of any such award would be to ensure that as far as possible, the expected value and structure of the award will be no more generous than the amount forfeited.

In the case of an internal recruitment, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant or adjusted as considered desirable to reflect the new role.

Fees for a new Chairman or Non-Executive Director will be set in line with the approved policy.

Service contracts and payments for loss of office

The Service contracts for Executive Directors will continue indefinitely unless determined by their notice period. Under the Executive Directors' service contracts and in line with the policy for new appointments, 12 months' notice of termination of employment is required by either party.

All Non-Executive Directors have letters of appointment with the Company for an initial period of two years, subject to annual re-appointment at the AGM. Appointments may be terminated with three months' notice. The appointment letters for the Chairman and Non-Executive Directors provide that no compensation is payable on termination, other than accrued fees and expenses.

All Directors submit themselves for election or re-election at the Annual General Meeting each year. Service contracts and letters of appointment are available for inspection at the Company's registered office.

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

An Executive Director's service contract may be terminated without notice for certain events such as gross misconduct or a serious breach of contract. No payment or compensation beyond salary (and the value of holiday entitlement) accrued up to the date of termination will be made if such an event occurs.

There are no special provisions relating to change of control. The policy on termination is that the Group does not make payments beyond its contractual obligations and the Committee ensures that there are no unjustified payments for failure.

Any statutory payments required by law may be made. The Company may also pay outplacement, legal and other reasonable relevant costs associated with termination and may settle any claim or potential claim relating to the termination.

Treatment of outstanding incentive awards

At the discretion of the Committee, for certain good leaver circumstances (such as death, illness, injury, disability, redundancy, retirement, their employing company ceasing to be a Group company or the undertaking business or division for which he or she works being sold out of the Company's group, or any other circumstances at the discretion of the Committee), a pro-rata bonus may become payable at the normal payment date for the period of employment and based on full year performance.

The treatment of share-based incentives previously granted to an Executive Director will be determined based on the plan rules. The default treatment will be for outstanding awards to lapse on cessation of employment. However, an executive will be treated as a 'good leaver' under certain circumstances such as death, illness, injury, disability, redundancy, retirement, their employing company ceasing to be a Group company or the undertaking business or division for which he or she works being sold out of the Company's group, or any other circumstances at the discretion of the Committee. Under the Deferred Share Bonus Plan, if treated as a good leaver, awards will normally vest on the original vesting date. Under the LTIP, if treated as a good leaver, awards will vest at the normal vesting date subject to the extent to which performance targets have been achieved. The number of LTIP awards that would vest will normally be reduced pro-rata to reflect the proportion of the three year period actually served. A post vest holding period would continue to apply.

External directorships
The Group allows Executive Directors to hold a Non-Executive position with one other company or organisation, for which they can retain the fees earned.

How shareholder views are taken into account
The Remuneration Committee is committed to ensuring an open dialogue with our shareholders and therefore, where changes are being made to the remuneration policy or where there is a material change in which we operate our policy, we will consult with major shareholders in advance. The Remuneration Committee adopted such an approach in putting together this policy by consulting the Company's largest shareholders and shareholder advisory bodies beforehand.

In addition, the Committee considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally.

Consideration of employment conditions elsewhere in the Group
As part of the Committee's wider remit and as part of the Directors' Remuneration Policy review process, the Committee reviewed with management the pay structures across the wider Group and certain changes were made to the wider Group policy as a result of the review to ensure an appropriate and clear cascade of the Executive Directors' policy to the wider Group. The Committee will continue within its Terms of Reference to monitor pay policies and practices within the wider Group and to provide input and challenge in respect of current policies and practices as well as any proposed future review and changes to ensure that they are appropriate, fair, aligned to the Executive Directors' Remuneration Policy and support the culture and growth of the business.

An Employee Forum was established in 2019 following an election of Employee Representatives. The Forum provides the opportunity for the appointed Employee Representatives to discuss business objectives, facilitate change and continuous improvement through a pro-active dialogue. It's also a place in where they can share suggestions, ideas and feedback from the colleagues they represent, to help shape the Transformation Plan and our future. The Company Secretary has engaged with the Forum to explain the alignment of the Directors' Remuneration Policy to the wider Group pay policy.

ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration set out below (together with the Remuneration Committee Chairman's Annual Statement) will be put to an advisory shareholder vote at the 2020 AGM. The information below includes how we intend to operate our policy in 2020 and the pay outcomes in respect of the 2019 financial year. The information from the single total remuneration figures for Directors on page 85 to the end of the section on loss of office payments on page 88 has been audited. The remainder is unaudited.

Implementation of Remuneration Policy in 2020

Salaries
The Committee has determined that the Executive Directors will not receive a base salary increase for 2020. Therefore, the salaries as at 1 January 2020 are:

	2020 £	2019 £	Increase %
Mike McCollum	511,500	511,500	–
Richard Portman	247,950	247,950	–
Steve Whittern	316,200	316,200	–

Chairman and Non-Executive Directors' fees
The fees for other Non-Executive Directors, are as detailed below. There is no increase in fee levels for 2020 other than the minor rounding up of the fee for the new Chairman, Clive Whiley:

	2020 £	2019 £	Increase %
Chairman	175,000	173,350	1
Basic fee for Non-Executive Directors	46,850	46,850	–
Supplementary Senior Independent Director fee	9,700	9,700	–
Supplementary Audit Committee Chairman fee	9,350	9,350	–
Supplementary Remuneration Committee Chairman fee	6,300	6,300	–

Report on Directors' remuneration continued

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Pension and Benefits

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

Pension contribution for new Executive Directors will be in line with the pension plan for the majority of the workforce, which is currently four per cent of base salary.

Annual bonus

The maximum bonus potential will be unchanged, at 135 per cent of salary for the Chief Executive and 125 per cent of salary for the other Executive Directors.

70 per cent of the bonus will continue to be based on underlying operating profit targets and 30 per cent on strategic objectives, which are common to all Directors.

For the underlying operating profit element 20 per cent of the maximum will become payable for achieving a target level of performance, rising incrementally so that there will be a full pay out for significant over-achievement of target. There will be no threshold level of payment for performance below target. The strategic objectives support the Group's strategy and business model as set out on page 86 of the Annual Report. As we are in the second year of the Transformation Plan the Objectives are the same as for FY19, but with updated target ranges. The achievement of the strategic objectives will be determined on a similar basis, using numeric ranges where possible and are set out below.

- Increasing funeral market share, with a sliding scale of performance;
- Customer satisfaction based on a 'definitely recommend' result, with a sliding scale of performance; and
- Achieving key objectives from our Transformation Plan. This will be assessed by the Committee at the year end and differentiating between delivery of most aspects of the Plan, delivery of all aspects of the Plan and over-delivery of the Plan, for differing levels of bonus to be payable.

There will be Committee discretion to adjust the formula driven outturn to ensure that the bonus payments also reflect performance more broadly and the experience of other stakeholders in the business.

The underlying profit element target range and the strategic objective targets are deemed to be commercially sensitive and have not been disclosed prospectively. However, full retrospective disclosure of the targets and performance against them will be provided in next year's Remuneration Report.

20 per cent of any annual bonus earned will be deferred in shares. The deferred shares will vest after two years subject to continued employment.

Long-Term Incentive Plan

Taking into account the ongoing weakness in our share price relating to the CMA report findings, the Committee will determine the LTIP grant levels and performance conditions after the CMA Provisional Decision Report is published, later in 2020. There will be full disclosure of the grant level and the performance conditions in the RNS announcement for the award and again in next year's Directors' Remuneration Report.

Executive Directors will be required to hold the net of tax vested shares for two years following vesting.

Total remuneration payable to Directors in 2019

		Fixed Pay			Pay for Performance			
		Salary £000	Benefits[a] £000	Pension[b] £000	Annual Bonus[c] £000	LTIP[d] £000	Other £000	Total Remuneration £000
Executive Directors								
Mike McCollum	2019	512	20	77	124	–	–	733
	2018	*512*	*20*	*77*	*401*	–	–	*1,010*
Richard Portman	2019	248	18	37	56	–	–	359
	2018	*248*	*18*	*37*	*180*	–	–	*483*
Steve Whittern	2019	316	20	47	71	–	–	454
	2018	*316*	*21*	*47*	*229*	–	–	*613*
Non-Executive Directors								
Clive Whiley	2019	46	–	–	–	–	–	46
	2018	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Peter Hindley	2019	78	3	–	–	–	–	81
	2018	*173*	*1*	–	–	–	–	*174*
Jane Ashcroft	2019	47	–	–	–	–	–	47
	2018	*47*	–	–	–	–	–	*47*
David Blackwood	2019	110	–	–	–	–	–	110
	2018	*67*	–	–	–	–	–	*67*
Mary McNamara	2019	54	–	–	–	–	–	54
	2018	*54*	–	–	–	–	–	*54*
James Wilson	2019	–	–	–	–	–	–	–
	2018	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*

[a] 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.

[b] The pension benefit is set at 15 per cent of basic salary.

[c] The bonus relates to performance in the 2019 financial year.

[d] The LTIP award granted on 16 June 2017 has lapsed as the performance targets were not met.

[e] Peter Hindley retired from the Board on 13 June 2019. Clive Whiley joined the Board on 26 September 2019. David Blackwood was Interim Chairman in the period between Peter Hindley's retirement and Clive Whiley's appointment during which period he received an increased fee (based pro-rata on the Chairman's annual fee) to reflect additional responsibilities.

[f] James Wilson has elected not to receive a Non-Executive Director's fee.

[g] Dean Moore was appointed to the Board on 11 March 2020 and is, therefore, not included in the table above. Dean Moore will receive an annual fee of £46,850 which will increase by £9,350 when he becomes Chairman of the Audit Committee.

Determination of 2019 annual bonus

The 2019 annual bonus was based on the achievement of underlying operating profit targets (70 per cent) and strategic targets (30 per cent).

Bonus payment against the underlying operating profit range is set out below:

	Weighting %	Target (for which 20% of maximum payable) £m	Stretch (for which 100% of maximum payable) £m	2019 actual £m	Bonus payable (out of maximum) %
Underlying operating profit	70	64	80.2	63.3	–
Strategic measures	30			60 per cent	18

Strategic objectives were set based on the three most critical business priorities for the year each equally weighted at 10 per cent.

Report on Directors' remuneration continued

for the 52 week period ended 27 December 2019

The strategic objectives and the Committee's assessment of their achievement is summarised below:

Detail of objective

1. Funeral Market Share (10 per cent out of the 30 per cent Strategic Objectives element) is the number of funerals performed by the Company's group in Great Britain (excluding Northern Ireland) in the 2019 financial year as a proportion of the total estimated number of deaths in that region during the period (as estimated and calculated by the Company).

The target range required the Company's Funeral Market Share to be between 11.94 per cent, at which point 20 per cent of this element of the bonus would be payable, and 12.08 per cent (or greater) at which point 100 per cent of this element of the bonus would be payable.

Committee assessment
With a funeral market share of 11.7 per cent the threshold target was not met.

Outcome
0 per cent out of 10 per cent payable.

Detail of objective

2. Customer Recommendation (10 per cent out of the 30 per cent Strategic Objectives element) means the percentage of customer survey respondents for funerals conducted in the 2019 financial year who confirmed that they would definitely recommend Dignity, measured by reference to the total number of surveys received for the current financial year by the end of February 2020.

The target range required the Customer Recommendation to be between 89.92 per cent, at which point 20 per cent of this element of the bonus would be payable, and 90.07 per cent (or greater) at which point 100 per cent of this element of the bonus would be payable.

Committee assessment
The Company's Customer Recommendation score was 90.88 per cent, resulting in the maximum target being exceeded.

Outcome
10 per cent out of 10 per cent payable.

Detail of objective

3. Transformation Plan (10 per cent out of the 30 per cent Strategic Objectives element) relates to the progress made in the 2019 financial year in implementing the Transformation Plan.

The Committee took account of whether exceptional performance has been demonstrated in the delivery of the Transformation Plan in FY19.

Committee assessment
57 of 59 deliverables were completed and an additional 13 deliverables added in the year were also achieved.

Outcome
The Committee determined that in light of the good progress during the year in relation to the Transformation Plan, with significant over-delivery of the additional objectives, 8 per cent out of 10 per cent of the bonus should be payable.

Summary of performance achievement and bonus payments
Therefore, overall for 2019, payment of 0 per cent of the underlying operating profit element (accounting for 70 per cent of the bonus) and 18 per cent of the strategic objectives (accounting for the remaining 30 per cent) resulted in an overall bonus of 18 per cent of maximum being payable.

Director	Bonus maximum (% of base salary)	Pay-out (% of maximum)	Bonus outcome (£)
Mike McCollum	135	18	124,294
Richard Portman	125	18	55,789
Steve Whittern	125	18	71,145

20 per cent of any bonus earned is deferred in shares, for 2 years.

The Committee is comfortable that this bonus outcome is appropriate in the context of the broader company performance and that discretion has not needed to be used to adjust the formula driven outcome.

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Determination of LTIP awards with performance periods ending in the year

Half of the LTIP awards made in 2017 were subject to a relative TSR condition and half subject to underlying EPS growth targets, both measured over the three year period which ended on 27 December 2019. These awards lapsed in full, as shown below:

TSR condition	TSR relative to FTSE 350 companies (excluding investment trusts)	
	Performance required	*% vesting*
Below threshold	Below median	–
Threshold	Median	25
Stretch or above	Upper quartile or above	100
Actual achieved	**301 out of 312 companies**	**–**

EPS condition		
	Performance required	*% vesting*
Below threshold	Less than 136.8p	–
Threshold	136.8p	15
Maximum or above	144p	100
Actual achieved	**60.6p**	**–**

Director	2017 LTIP award number of shares	EPS vesting % of target	TSR vesting % of target	Award value £000
Mike McCollum	31,435	–	–	–
Richard Portman	15,200	–	–	–
Steve Whittern	19,405	–	–	–

LTIP awards granted in the year

LTIP awards granted in the form of nil cost options to Executive Directors on 13 June 2019 were as follows:

Executive	Number of LTIP awards	Face/maximum value of awards at grant date*£	% of award vesting at threshold	Performance period
Mike McCollum	80,741	511,494	25	01.01.19 – 31.12.21
Richard Portman	39,139	247,946	25	01.01.19 – 31.12.21
Steve Whittern	49,913	316,199	25	01.01.19 – 31.12.21

* Based on a share price on the date of grant on 13 June 2019 of 633.5 pence.

The 2019 award will vest subject to a range of relative total shareholder return performance against the companies comprising the FTSE SmallCap Index (excluding investment trusts). The vesting of this award is dependent on the following:

	TSR relative to FTSE SmallCap companies(1)	
	Performance required	*% vesting*
Below threshold	Below median	–
Threshold	Median	25
Stretch or above	Upper quartile or above	100

(1) The baseline for the TSR calculation for Dignity will reflect the average share price over the 30 days prior to 8 March 2019, (being the date that the Company concluded the policy and its application for FY19) which is higher than the share price at the start of the performance period. The baseline for all of the other companies in the comparator group is the average TSR over the final three months of the 2019 financial year. The closing TSR will be based on the TSR over the final three months of the performance period, for all companies.

As a second performance condition, the Committee will review the underlying financial performance of the Company over the performance period and the progress in implementing our strategic priorities, including growth in market share, to determine whether the level of vesting indicated by the relative TSR performance is appropriate and the Committee will scale back the level of vesting if it considers that this is not the case.

Clawback and malus provisions apply and there is a holding period requiring the net of tax value of shares to be held for two years after the awards vest.

Report on Directors' remuneration continued

for the 52 week period ended 27 December 2019

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 date of grant (pence)	As at 28.12.18	Granted during year	Lapsed during year	Vested and exercised during year	As at 27.12.19	Earliest date shares can be acquired	Latest date shares can be acquired
Mike McCollum	15.06.16(i)	2,435	31,435	–	31,435	–	–	15.06.19	15.06.26
	16.03.17(ii)	2,455	31,253	–	–	–	31,253	16.03.20	16.03.27
	23.03.18(iii)	890	31,253	–	–	–	31,253	23.03.21	23.03.28
	13.06.19(iv)	633.5	–	80,741	–	–	80,741	13.06.22	13.06.29
Richard Portman	15.06.16(i)	2,435	15,200	–	15,200	–	–	15.06.19	15.06.26
	16.03.17(ii)	2,455	15,150	–	–	–	15,150	16.03.20	16.03.27
	23.03.18(iii)	890	15,150	–	–	–	15,150	23.03.21	23.03.28
	13.06.19(iv)	633.5	–	39,139	–	–	39,139	13.06.22	13.06.29
Steve Whittern	15.06.16(i)	2,435	19,405	–	19,405	–	–	15.06.19	15.06.26
	16.03.17(ii)	2,455	19,320	–	–	–	19,320	16.03.20	16.03.27
	23.03.18(iii)	890	19,320	–	–	–	19,320	23.03.21	23.03.28
	13.06.19(iv)	633.5	–	49,913	–	–	49,913	13.06.22	13.06.29

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

(ii) Number of options derived based on the average mid-market share price for the previous 28 working days to 30 December 2016. 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.

(iii) Number of options derived based on the same number of shares as the prior year's awards. The share price of 890 pence in the table above is at the grant date. Awards subject to a range of share price targets, from 1,500p to 1,950p for 25 per cent to 100 per cent vesting and a financial performance underpin. The 2018 awards will vest based on absolute TSR. Full vesting will require performance broadly equivalent to returning the share price to the level it was prior to the 19 January 2018 pricing announcement.

(iv) Number of awards scaled back from usual policy of 150 per cent of salary, to 100 per cent of salary. The 2019 award is based on relative TSR compared to the FTSE SmallCap Index with a separate financial and strategic performance condition.

The aggregate gain on the exercise of Long-Term Incentive Plan options by the continuing Directors in the period was £nil (2018: £nil).

Directors' interest in shares

The interests of the Directors in the share capital of Dignity plc at 27 December 2019 are set out below:

	Number of Ordinary Shares							
		At 27 December 2019						
	At 28 December 2018 Legally owned	At 27 December 2019 Legally owned	Subject to SAYE	Deferred Annual Bonus Options	Subject to performance conditions under the LTIP	Vested but unexercised under the LTIP	Value of shares counting towards proposed shareholding guideline(1)	Percentage of salary held as shares(1)
Mike McCollum	126,845	126,845	–	7,092	143,247	17,437	£826,486	162
Richard Portman	50,000	50,000	332	2,449	69,439	8,431	£329,579	133
Steve Whittern	38,076	38,076	–	3,127	88,553	10,763	£268,537	85
Peter Hindley(2)	106,873	–	–	–	–	–	–	–
Clive Whiley(3)	3,000	3,000	–	–	–	–	–	–
David Blackwood	7,154	7,154	–	–	–	–	–	–
Jane Ashcroft	1,917	1,917	–	–	–	–	–	–
Mary McNamara	5,500	5,500	–	–	–	–	–	–
James Wilson	1,000	1,000	–	–	–	–	–	–

(1) Based on the average share price of the last financial month of the year of 591 pence and includes legally owned shares plus the net of tax value (i.e. tax and national insurance at 47 per cent) of deferred bonus options and vested but unexercised LTIP awards.

(2) Peter Hindley retired from the Board on 13 June 2019.

(3) Clive Whiley was appointed to the Board on 26 September 2019. Clive Whiley has a beneficial interest via Zodiac Executive Pension Scheme, of which he is the sole beneficiary, in 3,000 Dignity plc shares.

Dean Moore was appointed to the Board on 11 March 2020 and has no interest in Dignity plc shares.

There has been no change in the interests set out above between 27 December 2019 and 11 March 2020.

Shareholding guideline

The current shareholding guideline for the Executive Directors was not met and, accordingly, the Executive Directors are below the required shareholding level and will be required to retain at least 50 per cent of the net of tax value of shares at such time as future awards vest until the required guideline of 200 per cent of salary is achieved.

Loss of office payments and payments to past Directors

There were no loss of office payments during the year.

Relative importance of spend on pay between employee pay and distributions to shareholders

The following table sets out the percentage change in dividends and overall spend on employee pay in the 2019 financial year compared with the prior year.

	2019 £m	2018 £m	Change %
Dividends	7.9	12.2	(35)
Employee remuneration costs	107.4	107.2	–

Legacy pension arrangements

Mike McCollum and Richard Portman were deferred members of the Dignity Pension & Assurance Scheme, which is a defined benefit and tax approved scheme. Mike McCollum ceased to be an active member of the Scheme on 31 March 2012 and Richard Portman ceased to be an active member on 31 March 2014. Instead they receive a pension supplement of 15 per cent of base salary. The Group has also arranged permanent life cover equal to the benefit they would have received had they remained in the Scheme. Mike McCollum transferred his benefits out of the Scheme in January 2016 and Richard Portman transferred his benefits out of the Scheme in January 2018.

Percentage change in CEO pay

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

	2019 £000	2018 £000	Change %
Chief Executive			
– Salary	512	512	–
– Benefits	97	97	–
– Annual bonus	124	401	(69)

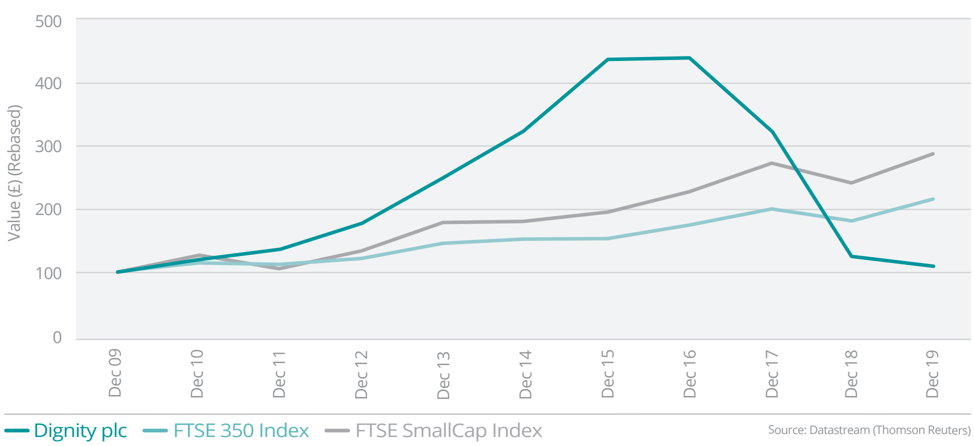
	£	£	Change %
Full time equivalent average employee [(1)]			
– Salary	26,478	26,777	(1)
– Benefits	1,834	1,791	2
– Performance related pay	574	1,083	(47)

(1) There are 3,304 employees at 27 December 2019 (28 December 2018: 3,261), of which 791 (2018: 752) were part time.

Long-Term Total Shareholder Return Performance and CEO pay over this period

The following graph shows the Company's TSR performance over the last ten financial years against the FTSE 350 Index and the FTSE SmallCap Index. The FTSE 350 Index has been chosen as the Company has been a member of that Index until recently and the FTSE SmallCap Index has been chosen as it is now a member of that Index.

Ten Year Total Shareholder Return



This graph shows the value, by 27 December 2019, of £100 invested in Dignity plc on 25 December 2009, compared with the value of £100 invested in the FTSE 350 Index and FTSE SmallCap Index on the same date.

Report on Directors' remuneration continued

for the 52 week period ended 27 December 2019

The table below shows the total remuneration figure for the CEO over the same ten year period.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CEO single total figure of remuneration (£000)	899	917	2,081	2,217	2,426	2,440	2,372	966	1,010	733
Annual bonus pay-out relative to maximum (%)	100	100	100	100	100	100	100	–	58	18
LTIP vesting (%)	–	–	100	100	100	100	100	50	–	–

Details of Directors' service contracts and letters of appointment

Details of the service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors are as follows:

Name	Contract date	Notice period
Mike McCollum	1 April 2004	12 months
Richard Portman	1 November 2006	12 months
Steve Whittern	1 January 2009	12 months
Clive Whiley	26 September 2019	3 months
David Blackwood	1 October 2015	3 months
Jane Ashcroft	1 April 2016	3 months
James Wilson	1 May 2019	3 months
Dean Moore	11 March 2020	3 months

External directorships

Mike McCollum is a Non-Executive Director of CVS Group plc and received fees of £46,000 in the year to 31 December 2019. Steve Whittern is a Senior Non-Executive Director of Medica Group plc and received fees of £60,000 in the year to 31 December 2019. The Committee and the Board have considered these appointments and have concluded that for both Directors there is a benefit to Dignity in the executives serving as a Non-Executive Director on a different company Board and that they have sufficient time to be able to commit to their Dignity roles and that these directorships do not impede their ability to fully discharge their responsibilities. In both cases fees earned are retained by the Directors.

Membership of the Remuneration Committee

The Remuneration Committee comprises three independent Non-Executive Directors. During 2019, the Committee was chaired by Mary McNamara and the Committee members in 2019 comprised Mary McNamara (until 27 December 2019) together with Jane Ashcroft and David Blackwood (who assumed the role of Acting Committee Chairman from that date).

The Remuneration Committee members have no personal financial interest, other than as shareholders, in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business.

The Remuneration Committee determines and agrees with the Board, within formal terms of reference, the framework and policy of Directors' and senior management's remuneration. The Committee met four times during the year. At the start of the year the Committee determined the incentive payments for 2018 and the new remuneration policy for 2019-21, including continuing (from FY18) a consultation with major shareholders.

The Committee receives advice from several sources, namely:

- The Chairman, Chief Executive, Finance Director and Corporate Services Director, who attend the Remuneration Committee by invitation, and the Company Secretary, who attends meetings as Secretary to the Committee. No individual takes part in discussions relating to their own remuneration and benefits.

- Korn Ferry, who were appointed by the Committee as its independent advisers on 3 August 2018 following a tendering process. Korn Ferry report directly to the Committee Chairman and are signatories of the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). Korn Ferry provides other consulting services on leadership development, but this is an entirely separate team independent from the team advising the Committee and the advice to the Committee is therefore considered independent. During 2019, total fees charged in the period by Korn Ferry in relation to advice to the committee were £74,751 +VAT (2018: £55,796 +VAT) and were charged on a time spent basis.

Annual Evaluation

During the period, the Board completed performance evaluations of itself and its Committees. The results of this are discussed on page 68. Specific matters reviewed by the Committee were:

- Time management and composition;
- Committee processes and support;
- Understanding of the regulatory environment with regard to remuneration matters;
- The alignment of management incentives with strategic aims;
- Engagement with and challenge of the external remuneration consultants; and
- Priorities for change.

Issues arising from the evaluation are reviewed and addressed.

Statement of shareholder voting at the AGM (Unaudited)

Votes cast by proxy at the Annual General Meeting held on 13 June 2019 in respect of the Remuneration Report and in respect of the binding three year policy vote, are as shown below:

2019 AGM	Remuneration Report	
	Total number of votes	Percentage of votes cast
For	16,790,774	92.6
Against	1,339,744	7.4
Total votes cast	**18,130,518**	**100**
Abstentions	13,583,903	n/a

2019 AGM	Remuneration Policy	
	Total number of votes	Percentage of votes cast
For	17,956,750	98.14
Against	340,926	1.86
Total votes cast	**18,297,676**	**100**
Abstentions	13,416,745	n/a

On behalf of the Board

David Blackwood
Acting Chairman of the Remuneration Committee

11 March 2020

Directors' report

for the 52 week period ended 27 December 2019

The Directors present their report and the audited consolidated financial statements for Dignity plc and its subsidiaries for the 52 week period ended 27 December 2019.

The company registration number of Dignity plc is 4569346.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Report on Directors' Remuneration and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101, Reduced Disclosure Framework ('FRS 101') (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

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

The Directors are responsible for the maintenance and integrity of the Group's websites. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 64 and 65 of this Annual Report, confirm that, to the best of their knowledge and belief:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Strategic Report on pages 1 to 59 of the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Responsibility statement of the Directors in respect of the Annual Report

The Directors confirm that to the best of their knowledge:

- The consolidated financial statements prepared in accordance with IFRSs as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit of the Company and undertakings included in the consolidation as a whole;
- This Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that they face; and
- Having taken into account all matters considered by the Board and brought to the attention of the Board during the year, the Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable. The Directors believe that the disclosures set out in this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Principal risks and uncertainties

Operational risks are considered on pages 48 to 50.

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, 3,455 Ordinary Shares of 12 48/143 pence each were issued to satisfy a Deferred Bonus Plan award which vested in the period.

The issued share capital of Dignity plc at 27 December 2019 consisted of 50,012,394 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 13 June 2019 gives Dignity plc the authority to purchase up to 5,000,894 Ordinary Shares of 12 48/143 pence each at not less than nominal value and not more than five per cent above the average middle market quotation for the preceding five business days. At the same meeting the Company was also given authority to allot Ordinary Shares up to an aggregate nominal value of £4,112,623 of which up to £308,447 may be for cash. These authorities will expire at the conclusion of the next AGM on 11 June 2020. 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 104. The Group's profit before tax amounted to £44.1 million (2018: restated loss of £18.0 million).

Dividends

A 2018 final dividend of 15.74 pence per Ordinary Share was paid to shareholders on 28 June 2019.

Although the Group has significant cash resources at hand and continues to be cash generative, in order to maintain maximum flexibility and liquidity during the transformation, the Board has concluded that it is prudent to temporarily cease dividend payments. The Group has an established track record of returning cash to shareholders at appropriate times over many years and once the current uncertain competitive environment becomes clearer, it anticipates resuming dividend payments or returning excess cash to shareholders.

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 Employee Forum, an in-house magazine, team talks, regular bulletins both national and regional, regular town hall briefings on the progress of the Transformation Plan, and management briefings. This is discussed in more detail in the Corporate and Social Responsibility Report on pages 53 to 59.

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

The Directors published gender pay data on the corporate website www.dignityfunerals.co.uk/corporate during 2019 in accordance with the Equality Act 2010 (Gender Pay Gap) Regulations 2017.

Directors and their interests

Details of the Directors of the Company who were in office during the period and up to the date of signing the financial statements are shown in the Report on Directors' Remuneration on pages 88 to 90.

In accordance with the April 2016 UK Corporate Governance Code, at the AGM, all Directors will retire as Directors of the Company and, being eligible, offer themselves for election or re-election at the AGM on 11 June 2020.

During the period, the Company maintained liability insurance for its Directors and Officers to a value of £100 million. The Directors of each of the Company's subsidiaries have the benefit of an indemnity provision in the Company's Articles of Association. The indemnity provision, which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006, was in force throughout the period and is currently in force.

Health and Safety policy

The Group's operations are designed at all times in such a way as to ensure, so far as reasonably practicable, the health, safety and welfare of all of our employees and all other persons who may attend our premises. This is discussed in the Corporate and Social Responsibility Report on page 58.

Corporate Social Responsibility

Maintaining the quality of the environment in which we all live is an important concern for the Group. This is discussed in the Corporate and Social Responsibility Report on pages 58 and 59 alongside other social and ethical considerations.

Going concern

The Directors have conducted a rigorous and proportionate assessment of the Group's ability to continue in existence for the foreseeable future. They receive and review regularly management accounts, cash balances, forecasts and the annual budget together with covenant reporting. After careful consideration, and mindful of the current market conditions, the Directors confirm they are satisfied that the Group has adequate resources to continue operating for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing the financial statements. The Directors formally considered this matter at the Board meeting held on 6 March 2020.

Directors' report continued

for the 52 week period ended 27 December 2019

Post balance sheet events

Subsequent to the year end, there has been a general downturn in financial markets which will have impacted the value of the financial assets held by the Trusts. This impact will change daily and has not been quantified at the time of this Annual Report. Given the diversified portfolio of assets held, which includes other investments such as property, the impact across the whole portfolio of assets held cannot be readily estimated. See note 30 for the most recent actuarial position of the Trust based on long-term growth assumptions.

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 67 to 71, which is incorporated by reference.

Strategic Report

The Strategic Report on pages 1 to 59 has been approved by the Board.

By order of the Board

Tim George
Company Secretary

11 March 2020

Independent auditors' report to the members of Dignity plc
for the 52 week period ended 27 December 2019

Opinion

In our opinion:

- Dignity plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 27 December 2019 and of the group's profit for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Dignity plc which comprise:

Group	Parent company
• Consolidated income statement for the 52 week period ended 27 December 2019 • Consolidated statement of comprehensive income for the 52 week period ended 27 December 2019 • Consolidated balance sheet as at 27 December 2019 • Consolidated statement of changes in equity for the 52 week period ended 27 December 2019 • Consolidated statement of cash flows for the 52 week period ended 27 December 2019 • Related notes 1 to 35 to the financial statements, including a summary of significant accounting policies	• Balance sheet as at 27 December 2019 • Statement of changes in equity for the 52 week period ended 27 December 2019 • Related notes C1 to C9 to the financial statements including a summary of significant accounting policies

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 46 to 51 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 51 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 93 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

Independent auditors' report to the members of Dignity plc continued

for the 52 week period ended 27 December 2019

- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 51 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	Group • Revenue recognition – risk of management override. • Carrying value of goodwill, other intangible assets and property, plant and equipment. • Consolidation of and accounting for pre-need trusts. Company • Carrying value of subsidiary investments.
Audit scope	• We performed an audit on the consolidated financial records of the group to the materiality and performance materiality described below.
Materiality	• Overall group materiality of £1.5 million which represents 4.6% of underlying profit before tax (IFRS profit before tax, adding back net non-underlying costs (excluding the add back for amortisation of acquisition related intangibles)).

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee

Risk

Consolidation of and accounting for pre-need trusts

Management revised its judgement in the period regarding the extent of its power over the pre-need trusts, which has resulted in the consolidation of the two principal pre-need trusts, being the Trust for Age UK Plans ('Age UK') and the National Funeral Trust ('NFT'), together the 'Trusts'. The revised judgement is as explained in Note 1 to the Consolidated Financial Statements.

This change in accounting policy resulted in significant additional complexity to the financial statements, specifically:

i) The Trusts hold investments in level 2 and level 3 assets. The carrying values (£million) were as follows:

	Level 2	Level 3	Total
27 December 2019	708.1	239.4	947.5
28 December 2018	609.7	252.7	862.4
29 December 2017	625.0	240.6	865.6

Given the inherent valuation complexity, there is a risk of over/under statement of level 2 and level 3 assets. Where no active market prices exist, this risk is increased.

ii) Amounts received from funeral plan holders are deferred on the balance sheet within contract liabilities until the related funeral is performed or the plan cancelled. The deferred revenue balance as of 27 December 2019 was £1,289.0 million (2018: £1,240.3 million, 2017: £1,188.9 million). The group is required to evaluate a significant financing component rate for each cash flow deferred, being each customer payment related to a plan, as required by IFRS 15. These rates are applied to accrete cash flows from the date of customer payment to the satisfaction of the performance obligation when the funeral of the plan member is conducted. The incremental borrowing rate ('IBR') of the group (including the Trusts) has been evaluated by management as the appropriate rate to apply to deferred revenue as the significant financing component. The rate applied to each cash flow over time remains fixed until the revenue is recognised. There is judgement in determining the historic IBRs which vary over time and changes in the assessment of the IBRs initially applied to each cash flow could materially impact the deferred revenue balance held (and subsequent recognition of revenue); and

iii) The presentation and disclosure changes arising as a result of the consolidation of the Trusts, to include the primary statements and supporting notes.

Refer to the Accounting policies, Note 1, and Notes 13, 19, 23 and 35 of the Consolidated Financial Statements and the Audit Committee report (pages 72 to 74).

Our response to the risk

- We evaluated the judgement of the change in accounting policy by reviewing management's assessment and comparing their evaluation to the underlying terms of the agreements with the Trusts and the requirements of IFRS 10, Consolidated Financial Statements. Specifically, we reviewed and considered management's re-assessment of their judgement in respect of the following key areas:
- An increased level of emphasis being placed on the group's ability to remove and appoint trustee's; and
- A reduced level of emphasis being placed on the legal requirement that a majority of trustees are unconnected with the group.

Trust assets

Existence

- For all investments held at each balance sheet date we validated the existence of these assets by directly obtaining confirmation from the custodians of the number of units held. We reconciled these to the statements that we obtained directly from respective fund managers.

Valuation

- To test valuation of the index linked gilts and corporate bonds, equities, growth fixed income funds, property funds and emerging market debt investments at each balance sheet date, we traced the price per unit to publicly available information.
- For the growth fixed income fund classified as a level 3 asset, £133.0 million as at 27 December 2019 (2018 £160.8 million, 2017 £163.2 million), we also obtained and reviewed the ISAE 3402 SOC-1 Type II report for the third party investment management services for each of the three years to 31 December 2019. These reports concluded on the suitability of the design and operating effectiveness of controls over the valuation of assets held by the fund. Controls over valuation were assessed as effective. We also, with the help of our valuation specialist, obtained the pricing source information direct from the investment adviser and confirmed this observable data to be authentic.
- For the property fund level 3 asset (£65.9 million as of 27 December 2019, 2018 £63.0 million, 2017 £58.5 million) we also compared the unit price to net asset value per unit as per the most recent audited financial statements (to 30 June of each year) and redemption certificates close to the year end to validate any significant variances from the carrying value (when multiplied by the number of units held). We also obtained and reviewed the ISAE 3402 SOC-1 Type II report for the third party investment management services for years to 31 December 2017 and 2018. These reports concluded on the suitability of the design and operating effectiveness of controls over the valuation of assets held by the fund. Controls over valuation were assessed as effective.
- For the assets held in respect of the private (illiquid) investment fund, there is no active market price for this investment. For the opening balance sheet valuation as at 29 December 2017 (£16.5 million) and the comparative position as at 28 December 2018 (£27.9 million), these were tested by agreeing details to the fund's audited financial statements. As at 27 December 2019 (carrying value £40.1 million), as audited financial statements for the private (illiquid) investment fund were not yet available, we obtained and reviewed the ISAE 3402 SOC-1 Type II report for the third party investment management services for the year to 30 September 2019 with a bridging letter to 31 December 2019. This report concluded on the suitability of the design and operating effectiveness of controls over the valuation of assets held by the fund. Controls over valuation were assessed as effective. We also independently built an expectation of the valuation as at 27 December 2019 having considered the fund monthly management accounts (directly obtained from the fund manager) for December each year (2017, 2018 and 2019) and the level of investment units held by the Trusts as obtained directly from the asset custodian;

Trust deferred revenue liabilities

- We, with the support of our Treasury specialists, evaluated management's assessment and judgement in respect of determining the IBR of the group (to include the Trusts), specifically, we:
  - Assessed the credit rating of the group (including the Trusts) by considering Dignity plc's rating by confirming to third party market sources and the impact of the strong asset position of the Trusts; and
  - Compared the rates applied by management for the IBRs computed to comparable market data.
- In respect of management's model for the deferred revenue calculations we:
  - Tested the arithmetical accuracy of the model;
  - Agreed, for a sample of funeral plan transactions, the inputs to the model (including plan start date and cash flow amounts) to supporting documentation;
  - Agreed a sample of funeral plans utilised in the period to third party evidence in order to ensure it was appropriate for revenue to be recognised in the Income Statement in respect of these plans;
  - Evaluated the IBR sensitivity disclosure (as explained in Note 1) on the opening balance sheet as at 29 December 2017, by recomputing the amounts in management's model.
- We compared the journals posted by management on consolidation to account for the Trusts in the group financial statements by comparing the amounts posted to the outputs from the procedures performed above; and
- We performed a review of the presentation and disclosure of the consolidation of the Trusts in comparison to the requirements of IFRS.

Key observations communicated to the Audit Committee

The judgement to change the accounting policy is appropriate and has been applied and recorded in the financial statements in accordance with IFRS, notably in respect of the requirements of IFRS 10 Consolidated Financial Statements, IFRS 15 Revenue from Contracts with Customers, IFRS 9 Financial Instruments and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The carrying value of the Trust assets is fairly stated.

The deferred revenue liability is fairly stated and the judgements applied by management in determining this are appropriate, as is the sensitivity applied and disclosed in respect of the opening balance sheet position as at 29 December 2017.

The disclosures presented in respect of the consolidation of the Trusts are in accordance with IFRS, except for the omission of certain IFRS 13 disclosures on level 2 and level 3 assets as this information was not available to management (as explained in Note 23).

Independent auditors' report to the members of Dignity plc continued

for the 52 week period ended 27 December 2019

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition – risk of management override (Revenue 2019: £338.9 million, restated 2018: £353.7 million) Given investor focus on the group's underlying revenue (2019: £301.3 million, 2018: £315.6 million) we consider there to be a risk in relation to the manipulation by central management of the amount of revenue recorded. Management reward and incentive schemes based on achieving profit targets may also place pressure on management to manipulate revenue recognition. Therefore, there is a risk that central management may override controls to intentionally misstate revenue transactions through inappropriate manual journal entries, including those arising from consolidation of the Trusts and adoption of IFRS 15, Revenue from Contracts with Customers. Refer to the Accounting policies, Note 1, and Notes 3 and 35 of the Consolidated Financial Statements and the Audit Committee report (pages 72 to 74).	• We understood the group's revenue recognition policies and how they are applied, including the relevant controls, and performed a walkthrough to validate our understanding; • In respect of the funerals and crematoria segments, which together form 93% of the group's underlying revenue, we analysed the whole population of transactions from revenue recognition through to invoice settlement. Where the postings did not follow our expectation, we investigated and understood the characteristics of these entries and tested a sample to assess their validity by agreeing the transactions back to source documentation; • We reconciled the aggregate underlying revenue amounts extracted from the sales invoicing systems to revenue recorded in the general ledger and traced material reconciling items to supporting documentation; • We tested journal entries posted to revenue accounts, applying parameters designed to identify entries that were not in accordance with our expectations. This included analysing and selecting journals for testing which appeared unusual in nature either due to size, preparer or being manually posted. To assess their validity, we verified the journals to originating documentation; • We performed detailed testing over the adjustments to revenue made as a result of the consolidation of the Trusts and the IFRS 15 adjustment to recognise revenue in respect of pre-need disbursements and those services performed by non-Dignity funeral directors in the period, where the group is acting as principal in the arrangement. This testing compared the outputs of management's deferred income liability model to the journals posted; and • We performed analytical procedures to compare revenue recognised with expectations based on past experience, management's forecasts and, where possible, external market data in respect of the numbers of deaths in the period, assessed any contrary information and obtained corroborative evidence to support divergences from our expectations.	We have not identified any evidence of management override through inappropriate journal entries in respect of the amount of revenue recorded in the period.
Carrying value of goodwill, other intangible assets and property, plant and equipment (2019: £624.4 million, 2018: £639.0 million), net of a £6.8 million (2018: nil) impairment of trade names The group has a significant value of goodwill, other intangible assets, including trade names, and property plant and equipment recognised on the balance sheet. As outlined in the strategic report the group has faced a challenging year arising from continued changes in the funeral market and a lower than anticipated number of deaths. The group has experienced an overall decline in underlying operating profit from £80.2 million in 2018 to £63.3 million in 2019. Therefore, there is a risk that goodwill and the group's cash generating units ('CGUs'), in particular the funeral services segment and the related trade name CGUs, may not achieve the anticipated business performance to support their respective carrying values. Judgement is required in forecasting the future cash flows of each CGU, determination of the long-term growth rates applied to these cash flows, together with the rate at which they are discounted. Refer to the Accounting policies, Note 1, and Note 9 of the Consolidated Financial Statements and the Audit Committee report (pages 72 to 74).	• We examined management's methodology together with their models for assessing the valuation of goodwill, other intangible assets and property, plant and equipment balances to understand the composition of management's future cash flow forecasts and the process undertaken to prepare them. This included confirming the underlying cash flows were derived from the Board approved budgets and assessing the identified CGUs for completeness. We also re-performed the calculations in the model to test the mathematical integrity; • In comparison to the requirements of IAS 36 on impairment and giving due consideration to management's business model, we understood the methodology applied by management in performing its impairment tests of goodwill and trade names for the funeral segment; • We tested the key inputs to management's impairment model by: – analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience; – assessing the discount rate used by obtaining the underlying data used in the calculation and benchmarking it against an EY range derived from comparable organisations and market data, involving EY internal specialists to assist us with this assessment; and – challenging whether the forecast growth rates have been appropriately adjusted to reflect the changes in the group's strategy and the changes experienced in the funeral market, together with comparing them to observable market data. • We calculated the degree to which the key inputs and assumptions would need to fluctuate before an impairment was triggered and considered the likelihood of this occurring. We performed our own sensitivities on the group's forecasts and determined whether adequate headroom remained; and • We audited the related disclosures with reference to the requirements of IAS 36 and confirmed their consistency with the audited impairment models.	We consider the group's conclusions in respect of impairment of intangible and tangible assets are appropriate, and that the £6.8 million impairment of trade names is fairly stated. The impairment disclosures are in accordance with IAS 36.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Carrying value of subsidiary investments (2019: £149.9 million, 2018: £149.1 million) The parent company holds investments in subsidiaries with a significant carrying value. As at 27 December 2019, the market capitalisation of Dignity plc is lower than the net assets of the company, this is an indicator of impairment. Further, as explained above, the group has faced a challenging year arising from continued changes in the funeral market and a lower than anticipated number of deaths, thereby reducing underlying performance and profitability. There is therefore a risk that the subsidiaries may not achieve the anticipated business performance to support their respective carrying values. Judgement is required in forecasting the future cash flows of the subsidiary investments and the Trusts, determination of the long-term growth rates applied to these cash flows, together with the rate at which they are discounted. Refer to the Accounting policies, Note C1 and Note C2 of the Parent Company Financial Statements and the Audit Committee report (pages 72 to 74).	• Management tested the parent company investment in subsidiaries for potential impairment using a model which adjusts the value in use established as part of the goodwill impairment assessment (see analysis on goodwill above) for net debt, pensions and cashflows and assets associated with the Trusts; • We tested the mathematical integrity of the calculation performed; and • We examined management's methodology and model for assessing the valuation of investments to understand the composition of management's future cash flow forecasts and the process undertaken to prepare them. In addition to the steps noted above in respect of the value in use established for goodwill impairment assessment purposes, we vouched each of the adjustments made to amounts recorded elsewhere in the financial statements or underlying accounting records. • We audited the related disclosures with reference to the requirements of IAS 36.	Based on our procedures, we have not identified any impairment in the carrying value of investments.

In the prior year, our auditor's report included a key audit matter in relation to the risk of fraud and management override. In the current year, we updated our identified risk, keeping unchanged the risk of management override related to revenue recognition (as included above), but removed this risk from being associated directly with the bad debt provision, dilapidations provision and uninvoiced cost accruals. These estimates are based upon clear and structured 'mechanical' calculations that have been applied consistently for many years with the opportunity for management to materially override these calculations being limited.

Independent auditors' report to the members of Dignity plc continued

for the 52 week period ended 27 December 2019

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and performance materiality determine our audit scope. Taken together, this enables us to form an opinion on the consolidated financial statements. The group finance function operates from head office and there are common financial systems, processes and centralised controls covering all of its operations and individual operating locations. The audit of the group is undertaken by one audit team and the group audit has been performed on the consolidated financial records to the materiality and performance materiality described below.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £1.5 million (2018: £2.0 million), which is 4.6% of underlying profit before tax (IFRS profit before tax, adding back net non-underlying costs (excluding the add back for amortisation of acquisition related intangibles)) (2018: 5% of profit before tax).

We believe that this measure of underlying profit before tax is the most appropriate measure of the financial performance of the group on which to base audit materiality. In evaluating management's adjustment to derive underlying operating profit, we exclude the add back of the £4.8 million amortisation of acquisition related intangibles as this is a recurring item. Further, we have excluded from our materiality calculation the additional net profit of £36.6 million achieved by the group as a result of the consolidation of the pre-need trusts. This is on the basis that 2019 represents the first year in which consolidated results include these trusts and therefore we set materiality on a basis that is comparable with that determined in previous years and in line with how the trading business is operated. The exclusion of the impact of the consolidation of the Trusts is consistent with how management prepare their underlying results and communicate financial performance to investors.

Starting basis	• Profit before tax as reported in the financial statements – £41.1m
Adjustments	• Adjustment for non-underlying items (excluding acquisition related amortisation of £4.8 million) – £28.3 million • Exclude the profit impact of consolidation of the Trusts - £(36.6) million
Materiality	• Underlying profit before tax – £32.8 million • Materiality calculated at 4.6% – £1.5 million

We determined materiality for our audit of the standalone parent company financial statements to be £4.6 million (2018: £4.8 million), which is 1% (2018: 1%) of equity. Equity is the most appropriate measure given the parent company is an investment holding company with no revenue. The materiality determined for the standalone parent company financial statements exceeds the group materiality as it is determined on a different basis given the nature of the operations. For the purposes of the audit of the group financial statements, our procedures, including those on balances in the parent company, are undertaken with reference to the group materiality and performance materiality set out in this report.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group and parent company's overall control environment, our judgement was that performance materiality was 50% (2018: 75%) of our planning materiality, namely £0.8 million (2018: £1.5 million) for the group and £2.3 million (2018: £3.6 million) for the parent company. We reduced the percentage applied in determining performance materiality in light of the number and quantum of immaterial uncorrected and corrected misstatements arising in the 2018 audit.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1 million (2018: £0.1 million) for both the group and the parent company, which is set at 5% (rounded to nearest £0.1 million) of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the annual report set out on pages 1 to 94 and 167 to 171, including the Strategic Report set out on pages 1 to 59, Governance set out on pages 60 to 94 and Other Information set out on pages 167 to 171, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 92 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on page 72 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 61 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Independent auditors' report to the members of Dignity plc continued

for the 52 week period ended 27 December 2019

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 92, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code 2016) and the relevant tax compliance regulations in the UK. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to occupational health and safety and data protection.
- We understood how the group is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and any correspondence received from regulatory bodies.

- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programs and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of group management, internal audit; and focused testing, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company on 13 June 2019 to audit the financial statements for the 52 week period ending 27 December 2019 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is six years, covering the periods ending 26 December 2014 to 27 December 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Adrian Roberts (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham

11 March 2020

Notes:

1. The maintenance and integrity of the Dignity plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

for the 52 week period ended 27 December 2019

	Note	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 restated £m
Revenue	3	**338.9**	353.7
Cost of sales		**(161.7)**	(158.9)
Gross profit		**177.2**	194.8
Administrative expenses		**(132.4)**	(118.9)
Operating profit	3	**44.8**	75.9
Finance costs	4	**(25.8)**	(26.0)
Finance income	4	**0.2**	0.2
Share of loss and impairment in respect of associated undertakings	11	**(6.0)**	–
Deferred revenue significant financing	4	**(54.1)**	(53.3)
Remeasurement of financial assets held by the Trusts and related income	4	**85.0**	(14.8)
Profit/(loss) before tax	5	**44.1**	(18.0)
Taxation	6	**(9.2)**	1.0
Profit/(loss) for the period attributable to equity shareholders	3	**34.9**	(17.0)
Earnings/(loss) per share for profit attributable to equity shareholders			
– Basic (pence)	8	**69.8p**	(34.0)p
– Diluted (pence)	8	**69.8p**	(34.0)p

Prior year comparatives have been restated due to the impact of the adoption of IFRS 15, Revenue from Contracts with Customers, in addition to the impact of the change in accounting policy in respect of the consolidation of the Trusts. See note 1 for further details.

The alternative performance measures included within the Annual Report present information on a comparable basis with that presented in prior periods.

Consolidated statement of comprehensive income

for the 52 week period ended 27 December 2019

	Note	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 restated £m
Profit/(loss) for the period		**34.9**	(17.0)
Items that will not be reclassified to profit or loss			
Remeasurement loss on retirement benefit obligations	29	**(1.8)**	(0.6)
Tax credit on remeasurement on retirement benefit obligations		**0.3**	0.1
Other comprehensive loss		**(1.5)**	(0.5)
Comprehensive income/(loss) for the period		**33.4**	(17.5)
Attributable to:			
Equity shareholders of the parent		**33.4**	(17.5)

Prior year comparatives have been restated due to the impact of the adoption of IFRS 15, Revenue from Contracts with Customers, in addition to the impact of the change in accounting policy in respect of the consolidation of the Trusts. See note 1 for further details.

Consolidated balance sheet
as at 27 December 2019

	Note	27 December 2019 £m	28 December 2018 restated £m
Assets			
Non-current assets			
Goodwill	9	**232.6**	232.6
Intangible assets	9	**140.5**	152.3
Property, plant and equipment	10	**251.3**	254.1
Investments in associated undertakings	11	**–**	6.0
Financial and other assets	12	**18.2**	15.7
Financial assets held by the Trusts	13	**947.5**	862.4
Deferred commissions	19	**96.8**	94.5
Deferred tax asset	22	**14.0**	17.9
		1,700.9	1,635.5
Current assets			
Inventories	14	**7.9**	8.5
Trade and other receivables	15	**32.4**	31.3
Deferred commissions	19	**7.3**	7.1
Cash and cash equivalents – Trading Group		**57.9**	66.9
Cash and cash equivalents – held by the Trusts		**15.5**	13.8
Cash and cash equivalents	16	**73.4**	80.7
		121.0	127.6
Total assets		**1,821.9**	1,763.1
Liabilities			
Current liabilities			
Financial liabilities	17	**9.6**	9.3
Trade and other payables	18	**61.6**	66.8
Current tax liabilities		**1.7**	4.8
Contract liabilities	19	**95.5**	91.5
Provisions for liabilities	21	**2.0**	1.4
		170.4	173.8
Non-current liabilities			
Financial liabilities	17	**542.3**	551.9
Other non-current liabilities	18	**2.0**	2.1
Contract liabilities	19	**1,209.1**	1,164.6
Provisions for liabilities	21	**9.3**	9.4
Retirement benefit obligation	29	**26.0**	25.2
		1,788.7	1,753.2
Total liabilities		**1,959.1**	1,927.0
Shareholders' deficit			
Ordinary share capital	24	**6.2**	6.2
Share premium account		**12.5**	12.4
Capital redemption reserve		**141.7**	141.7
Other reserves		**(4.0)**	(5.1)
Retained earnings		**(293.6)**	(319.1)
Total deficit		**(137.2)**	(163.9)
Total deficit and liabilities		**1,821.9**	1,763.1

Prior year comparatives have been restated due to the impact of the adoption of IFRS 15, Revenue from Contracts with Customers, in addition to the impact of the change in accounting policy in respect of the consolidation of the Trusts. See note 1 for further details.

The alternative performance measures included within the Group's consolidated financial statements present information on a comparable basis.

The financial statements on pages 104 to 154 were approved by the Board of Directors on 11 March 2020 and were signed on its behalf by:

M K McCollum
Chief Executive

S L Whittern
Finance Director

Consolidated statement of changes in equity

for the 52 week period ended 27 December 2019

	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 29 December 2017 – as originally presented	6.2	11.1	141.7	(4.6)	(108.0)	46.4
Adjustment on change in accounting policy and adoption of IFRS 15 (note 35)	–	–	–	–	(181.4)	(181.4)
Shareholders' equity as at 29 December 2017 – restated	6.2	11.1	141.7	(4.6)	(289.4)	(135.0)
Loss for the 52 weeks ended 28 December 2018 – restated	–	–	–	–	(17.0)	(17.0)
Remeasurement loss on defined benefit obligations	–	–	–	–	(0.6)	(0.6)
Tax on retirement benefit obligations	–	–	–	–	0.1	0.1
Total comprehensive loss – restated	–	–	–	–	(17.5)	(17.5)
Effects of employee share options	–	–	–	0.8	–	0.8
Proceeds from share issue(1)	–	1.3	–	–	–	1.3
Gift to Employee Benefit Trust	–	–	–	(1.3)	–	(1.3)
Dividends (note 7)	–	–	–	–	(12.2)	(12.2)
Shareholders' equity as at 28 December 2018 – restated	6.2	12.4	141.7	(5.1)	(319.1)	(163.9)
Profit for the 52 weeks ended 27 December 2019	–	–	–	–	34.9	34.9
Remeasurement loss on retirement benefit obligations	–	–	–	–	(1.8)	(1.8)
Tax on retirement benefit obligations	–	–	–	–	0.3	0.3
Total comprehensive income	–	–	–	–	33.4	**33.4**
Effects of employee share options	–	–	–	1.1	–	**1.1**
Tax on employee share options	–	–	–	0.1	–	**0.1**
Proceeds from share issue(2)	–	0.1	–	–	–	**0.1**
Gift to Employee Benefit Trust	–	–	–	(0.1)	–	**(0.1)**
Dividends (note 7)	–	–	–	–	(7.9)	**(7.9)**
Shareholders' equity as at 27 December 2019	**6.2**	**12.5**	**141.7**	**(4.0)**	**(293.6)**	**(137.2)**

(1) Relating to issue of 77,038 shares under 2015 LTIP scheme.

(2) Relating to issue of 3,455 shares under 2016 DAB scheme.

Prior year comparatives have been restated due to the impact of the adoption of IFRS 15, Revenue from Contracts with Customers, in addition to the impact of the change in accounting policy in respect of the consolidation of the Trusts. See note 1 for further details.

The above amounts relate to transactions with owners of the Company except for the items reported within total comprehensive income.

Capital redemption reserve

The capital redemption reserve represents £80,002,465 B Shares that were issued on 2 August 2006 and redeemed for cash on the same day, £19,274,610 B Shares that were issued on 10 October 2010 and redeemed for cash on 11 October 2010, and £22,263,112 B Shares that were issued on 12 August 2013 and redeemed for cash on 20 August 2013 and £20,154,070 B Shares that were issued and redeemed for cash in November 2014.

Other reserves

Other reserves includes movements relating to the Group's SAYE and LTIP schemes and associated deferred tax, together with a £12.3 million merger reserve.

Consolidated statement of cash flows

for the 52 week period ended 27 December 2019

	Note	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 restated £m
Cash flows from operating activities			
Cash generated from operations	27	**64.6**	104.2
Finance income received		**0.3**	0.2
Finance costs paid		**(25.0)**	(13.1)
Transfer from restricted bank accounts for finance costs		**12.3**	0.3
Payments to restricted bank accounts for finance costs	16	**(12.1)**	(12.3)
Total payments in respect of finance costs		**(24.8)**	(25.1)
Tax paid		**(7.9)**	(11.6)
Net cash generated from operating activities		**32.2**	67.7
Cash flows from investing activities			
Investment in associated undertakings		**–**	(5.0)
Acquisition of subsidiaries and businesses (net of cash acquired)		**–**	(6.5)
Proceeds from sale of property, plant and equipment		**2.1**	0.4
Maintenance capital expenditure[(1)]		**(9.8)**	(16.1)
Branch relocations		**(1.1)**	(0.8)
Transformation capital expenditure		**(1.7)**	–
Satellite locations		**(0.3)**	(1.4)
Development of new crematoria and cemeteries		**(5.4)**	(6.7)
Purchase of property, plant and equipment and intangible assets		**(18.3)**	(25.0)
Purchase of financial assets (by the Trusts)	13	**(736.1)**	(625.5)
Disposals of financial assets (by the Trusts)	13	**726.6**	604.8
Realised return on financial assets		**3.6**	3.4
Net cash used in investing activities		**(22.1)**	(53.4)
Cash flows from financing activities			
Payments due under Secured Notes		**(9.3)**	(4.5)
Transfer from restricted bank accounts for repayment of borrowings		**4.6**	–
Payments to restricted bank accounts for repayment of borrowings	16	**(4.8)**	(4.6)
Total payments in respect of borrowings		**(9.5)**	(9.1)
Dividends paid to shareholders on Ordinary Shares	7	**(7.9)**	(12.2)
Net cash used in financing activities		**(17.4)**	(21.3)
Net decrease in cash and cash equivalents		**(7.3)**	(7.0)
Cash and cash equivalents at the beginning of the period		**63.8**	70.8
Cash and cash equivalents at the end of the period	16	**56.5**	63.8
Restricted cash	16	**16.9**	16.9
Cash and cash equivalents at the end of the period as reported in the consolidated balance sheet	16	**73.4**	80.7

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

Prior year comparatives have been restated due to the impact of the adoption of IFRS 15, Revenue from Contracts with Customers, in addition to the impact of the change in accounting policy in respect of the consolidation of the Trusts. See note 1 for further details.

Notes to the financial statements

for the 52 week period ended 27 December 2019

1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of preparation

European law requires that the Group's consolidated financial statements for the 52 week period ended 27 December 2019 are prepared in accordance with all applicable International Financial Reporting Standards ('IFRSs'), as adopted by the European Union. These financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee ('IFRIC') interpretations (as issued by the International Accounting Standards Board) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In the current period, the Group's consolidated financial statements have been prepared for the 52 week period ended 27 December 2019. For the comparative period, the Group's consolidated financial statements have been prepared for the 52 week period ended 28 December 2018.

The Group's consolidated financial statements are prepared on a going concern basis and have been prepared under the historical cost convention.

Preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. This will also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from those estimates.

Terminology:
Trusts refers to The National Funeral Trust and the Trust for Age UK Funeral Plans considered for accounting purposes to be controlled and therefore included in the consolidated financial statements of Dignity plc.

Trading Group refers to Dignity plc and its subsidiaries excluding the Trusts. Trading Group therefore represents what would have been described as the 'Dignity plc Group' or 'Group' in previous annual reports.

Group or Dignity plc Group refers to Dignity plc, including its subsidiaries and the Trusts.

Basis of consolidation

The financial statements are presented in the form of Group financial statements. The Group financial statements consolidate the accounts of the Company and the entities controlled by the Company (including all of its subsidiary entities) after eliminating internal transactions. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Results of subsidiary undertakings acquired during a 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.

Change in accounting policy

As explained further below, the Group has revisited the judgement regarding the extent of its control over the Trusts and as a result has revised its accounting policy to reflect the consolidation of the two principal pre-need trusts.

As a result of consolidating the Trusts, the Group has applied new accounting policies in respect of the recognition and measurement of the financial assets held by the Trusts and extended its revenue recognition policies to consider deferred revenue received from plan holders, refund liabilities and income received from plan holders under payment plans. The application of IFRS 15 to the Group as enlarged by the consolidation of the Trusts has also resulted in a change in the presentation of revenue and costs related to disbursements associated with pre-need plans and pre-need plans ultimately performed by non-Dignity funeral directors from an agent basis to a principal basis. This revision reflects the fact that, under IFRS 15, the Group controls the delivery of pre-need plans, including disbursements, and those plans where the funeral service is delivered by third parties.

Prior period comparatives have been restated to reflect the above change in accounting policy and the impact of IFRS 15. A reconciliation from the reported prior period comparatives has been provided in note 35 together with the third balance sheet required to be disclosed in support of the prior year adjustment.

Investments in associated undertakings

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not control or joint control over those policies.

1 Accounting policies (continued)

The Group's investment in an associate is accounted for using the equity method. The investment is initially recorded at cost and the carrying amount is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment. The consolidated income statement reflects the Group's share of the results of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. The Group aligns accounting policies and makes adjustments where necessary prior to recognising their share in the financial statements.

At each reporting date the Group performs a review to assess whether there is any objective evidence that the investment in the associate is impaired. Where such evidence exists the recoverable amount of the investment is determined by calculating its value in use. This recoverable amount is compared to the carrying amount of the investment and to the extent that the recoverable amount exceeds the carrying value of the investment, an impairment is recognised accordingly. Any impairment is recognised within 'Share of loss and impairment in respect of associated undertakings' in the consolidated income statement.

Alternative performance measures (APMs)

The Board believes that whilst statutory reporting measures provide financial performance of the Group under GAAP, APMs are necessary to enable users of the financial statements to fully understand the trading performance and financial position of the Group. The APMs provided are aligned with those used in the day-to-day management of the Group and allow for greater comparability across periods. For this reason, the APMs provided exclude the impact of consolidating the Trusts and the changes which relate to the adoption of IFRS 15, both of which are considered to mask the underlying trading performance of the Group, as well as non-underlying items comprising certain non-recurring and non-trading transactions. See financial review on page 43 and alternative performance measures on page 167 for further information.

Revenue

At-need funerals and cremations

Revenue from funeral operations related to at-need funerals comprises the amount recoverable from customers for the provision of funerals, income from crematoria and other services, once those services have been performed or the goods supplied.

Income from memorial sales is recognised at the point of sale, to the extent that the goods have been supplied. Costs of maintaining memorials are recognised as incurred.

The Group pays certain disbursements (such as crematoria fees, burial plots, ministers' fees and doctors' fees) on behalf of its clients. These amounts are recovered as part of the invoicing process. However, these amounts are not included within net revenues as they are simply passed on to the customer (plan holder) at cost and not controlled by Dignity.

All amounts are exclusive of VAT.

Pre-arranged funeral plans

Trust for Age UK Plans and National Funeral Trust

The Group markets and sells pre-arranged funeral plans, with monies received from selling funeral plans being held, invested and controlled by 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 sale of a pre-arranged plan is considered to have a single performance obligation, fulfilled by the delivery of the funeral service.

Amounts received from plan holders are deferred on the balance sheet within contract liabilities until the related funeral is performed or the plan cancelled. Where, based on historic experience, the Group expects that a proportion of plans will be cancelled, the deferral takes the form of a refund liability which, under the terms of the plan, is held based on the fixed amount received on inception of the plan. For the majority of plans where the service as per the funeral plan is expected to be performed, the deferred amount is subject to adjustment to reflect a significant financing component.

This significant financing component, which has been calculated based on the expected discount rate that would be reflected in a separate financing transaction between the Group and the plan holder at contract inception, is charged to the income statement as a finance cost each period until the performance obligation is satisfied. The discount rate applied is fixed at inception of each plan and is based on the estimated incremental borrowing rate of the Group at the time of each cash flow. See also critical accounting judgements on page 116 for the approach taken on initial application to consolidate the Trusts.

The amount deferred on the balance sheet includes amounts paid by the plan holder, which, in addition to the plan consideration includes amounts in respect of disbursements (such as crematoria fees, burial plots, ministers' fees and doctors' fees). When the service prescribed by the plan is delivered, revenue is recognised equal to the deferred revenue balance related to the specific plan. When a plan is cancelled, revenue is recognised equal to the deferred revenue balance related to the specific plan, less the fixed refund due to the plan holder.

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

1 Accounting policies (continued)

Trust for Age UK Plans and National Funeral Trust (continued)

All directly attributable costs in respect of the marketing of the pre-arranged funeral plans are held as deferred commissions in the consolidated balance sheet and recognised in the Group's consolidated income statement, within administration expenses, on the performance of a funeral (single performance obligation) or cancellation of the plan (if not refunded).

Contract liabilities and deferred commissions balances are split between current and non-current based on historical experience.

All costs in respect of the administration of the pre-arranged funeral plans are expensed in the Group's consolidated income statement as incurred, within the funeral services segment.

Dignity, through its marketing subsidiary companies, contractually guarantees with the holder of a pre-arranged funeral plan that (i) if the plan holder chooses to cancel their selected funeral plan, a full refund will be made to them 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 plan holder) 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.

Other trust plans

Revenue in respect of funeral services subject to pre-need plan arrangements associated with the other trusts is recognised on delivery of the underlying service at the amount paid from the other trust to the Group.

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.

Where a commission is paid to the insurers, these costs are carried as a prepayment and charged to the consolidated income statement as a funeral is performed.

Where a commission is payable only on delivery of the funeral no amounts are recorded until the funeral is performed.

In the event of the death of the policyholder, if the Group performs the funeral, it receives an agreed amount from the insurers which is recognised as revenue within the funeral services division. On occasions a third party will perform the funeral and the Group will pass on all monies received to that party and in this situation the Group is deemed to be acting as an agent and revenue is treated as pass through revenue and not grossed up within the consolidated income statement.

Share-based payments

The Group issues equity settled share-based payments to certain employees. A fair value for the equity settled share awards is measured at the date of grant. Management measures the fair value using the valuation technique that they consider to be the most appropriate to value each class of award, which include Black-Scholes calculations and Monte Carlo simulations. The valuations take into account factors such as non-transferability, exercise restrictions and behavioural considerations.

An expense is recognised to spread the fair value of each award over the vesting period on a straight line basis, after allowing for an estimate of the share awards that will eventually not vest. The estimate of the level of vesting is reviewed at least annually, with any impact on the cumulative charge being recognised immediately. When the options are exercised the Company issues new shares.

Earnings per Ordinary Share

Basic Earnings per Ordinary Share ('EPS') is calculated by dividing the profit after taxation by the weighted average number of shares in issue during the period. Diluted EPS is calculated by dividing profit after taxation by the weighted average number of shares in issue during the period increased by the effects of all dilutive potential Ordinary Shares (primarily share options). Underlying Earnings per Ordinary Share is calculated by dividing the underlying profit after tax by the weighted average number of shares in issue during the period.

Fair value measurement

The Group measures financial assets held by the Trusts at fair value and discloses fair values for all other financial assets and liabilities at each balance sheet date which are held at amortised cost.

Fair value related disclosures are set out in note 23 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 where required the use of unobservable inputs.

1 Accounting policies (continued)

Intangible assets – goodwill

Goodwill, which represents the excess of the fair value of the consideration paid for subsidiaries and other businesses over the fair values of the net assets acquired and liabilities assumed, is capitalised and stated at historical cost less provisions for impairment.

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

Intangible assets – trade names

Intangible trade names are recognised as assets at the estimated fair value of the consideration paid to acquire them and are carried at historical cost less amortisation and provisions for impairment. When acquired as part of a business combination the fair value is calculated by reference to the estimated incremental cash flows expected to arise by virtue of the trade name being well-established.

Amortisation is provided from the date of acquisition so as to write-off the asset on a straight line basis over the term of its useful life. The useful life for trade names is 35 years.

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

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

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	7% – 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.

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

1 Accounting policies (continued)

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, net of any incentives received from the lessor, are charged to the income statement on a straight line basis over the period of the lease.

Profit (or loss) on sale of fixed assets

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within profit (or loss) on sale of fixed assets in the income statement.

Impairment of assets

The carrying values of intangible assets and property, plant and equipment are reviewed for impairment in periods where events or changes in circumstances indicate that the carrying value may not be recoverable. Assets that have an indefinite useful life (e.g. goodwill) which are not subject to amortisation are tested annually for impairment.

Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. For goodwill this is considered at a business segment level as that is the level at which the return on assets acquired is monitored. Recoverable amount is the higher of fair value less costs to sell and value- in-use. In assessing value-in-use, the estimated future discounted cash flows of the cash-generating unit are estimated, based on latest management expectations for the following year and an annual growth rate in subsequent years. These cash flows are discounted at rates that management estimate to be the risk affected average cost of capital for the particular segment and compared to the carrying value of the relevant asset. Any impairment in the value of an asset below its carrying value is charged to the income statement within operating profit. A reversal of an impairment loss is recognised in the income statement to the extent that the original loss was recognised, net of the amortisation or depreciation that would have been charged. Any impairment loss recognised for goodwill will not be reversed.

Inventories

Inventories, which comprise funeral supplies and monumental masonry, are stated at the lower of cost and net realisable value. Cost includes all directly attributable costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred in completion and sale.

Taxation

The tax charge for the period includes the charge for tax currently payable and deferred tax. The current tax charge represents the estimated amount due that arises from the operations of the Group in the period and after making adjustments to estimates in respect of prior years.

Deferred tax is recognised in respect of all differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, except where the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax assets and liabilities are offset to generate a net asset or liability if the conditions of IAS 12 are met.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the deductible temporary difference can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted, by the balance sheet date.

1 Accounting policies (continued)

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

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

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

Changes in the present value of the defined benefit obligation resulting from plan amendments, curtailments or one off adjustments such as GMP equalisation are recognised immediately in the consolidated income statement as a past service cost.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation.

Provisions (other than deferred tax) are discounted where the present value of the provision is materially different to the undiscounted value. The unwinding of discounts is included within finance costs.

Employee share trust
The assets of the employee share trust are held by a separate limited company, of which the Directors consider that Dignity plc has de facto control. At the balance sheet date, the trust's assets and liabilities recognised in the Group's balance sheet within share capital and reserves were nil (2018: 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:

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

Financial assets
Financial assets are classified at initial recognition, and subsequently measured at, amortised cost, at fair value through other comprehensive income or fair value through profit and loss.

Initial Recognition & Measurement
The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

All investments held by the Trusts are held at fair value with movements reflected through profit and loss to ensure clarity for a user of the financial statements. This is because the Trusts objective of holding these investments is not to collect contractual cash flows or to sell financial assets but to focus on the fair value information to assess performance and make investment decisions.

All other financial assets (including trade receivables) are held at amortised cost as these assets give rise to cash flows that are solely payments of principal and, where applicable, interest on the principal amount and it is the Group's business model to collect the contractual cash flows.

The majority of the Group's trade receivables do not contain a significant financing component and are measured at the transaction price determined under IFRS 15.

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

1 Accounting policies (continued)

Subsequent Measurement

Financial assets held at fair value through profit and loss are carried in the consolidated balance sheet at fair value with net changes in fair value recognised in the income statement.

Financial assets held at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risk and rewards of the asset but has transferred control of the asset.

Impairment

The Group recognises an allowance for expected credit losses ('ECLs') for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for identifiable forward-looking factors specific to the debtors and the economic environment.

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. Cash and cash equivalents have an original maturity of three months or less, are subject to insignificant changes in value and are readily convertible into known amounts.

Trade receivables – accounting policy applied on and before 28 December 2018

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.

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.

Critical accounting judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements in certain circumstances that affect reported amounts. The key judgements affecting the financial statements are detailed below:

Consolidation of pre-need trusts

The Group markets and sells pre-arranged funeral plans, with monies received from selling funeral plans being held and invested by pre-arranged funeral plan trusts. These financial statements reflect the consolidation of the two principal pre-arranged funeral plan trusts being the Trust for Age UK Plans and the National Funeral Trust (together the 'Trusts'). The previous principle of non-consolidation, which was established many years ago, was reconsidered in 2015 following the introduction of IFRS 10 and is reconsidered annually to determine if there are any circumstances which would change the previous determination.

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

The decision as to whether to consolidate these trusts is a matter of significant judgement in respect of which the Group believes that informed individuals could reach alternative conclusions. Notably, during the period prior to the preparation of these financial statements, the Group has been in discussion with the Financial Reporting Council ('FRC'), regarding the matter and the extent to which the Group is able to affect its variable returns through power over the trustees, principally through its power to appoint and remove trustees.

1 Accounting policies (continued)

The Group previously concluded that the legislative requirement for a majority of trustees to be unconnected with Dignity meant that Dignity did not, and could not, control the actions of the trustees. Combined with the judgement that ultimately Dignity's return from the Trusts was wholly dependent on the investment performance of the Trusts and that the investment strategy of the Trusts was set, implemented and monitored by the trustees, Dignity previously concluded that it did not have the power to affect the amounts of its returns, that it did not control the Trusts and therefore that the Trusts should not be consolidated.

Upon re-examination of the factors that influence that decision, following the latest discussions with the FRC, the Group has concluded as part of its current year consideration of the recurring judgement that more weight should be attributed to its ability to appoint and remove trustees and less to the legislative requirement for a majority of trustees to be unconnected with Dignity. As a result, the Group has reached a revised judgement, the basis of which is summarised below, that it does have control as defined by IFRS 10 and should consolidate those pre-arranged funeral plan trusts where it has the ability to appoint and remove trustees.

Therefore, the Group has made a change in accounting policy, which has been reflected in these financial statements as a prior period restatement, full details of which are given in note 35.

Whether to consolidate the Trusts or not remains a key judgement and the basis of this judgement reflected in these financial statements is summarised in the table below. The table relates solely to the two principal trusts which are consolidated and for the purpose of the table, 'Dignity' refers to the Group excluding the Trusts.

IFRS 10 consideration	Analysis
Power over the investee. Power arises when the investor has existing rights that give them the ability to direct the relevant activities of the investee, being those activities which influence the returns achieved by the investee.	Whilst Dignity has no voting rights over the Trusts or any rights to direct the activities of the Trusts, it does have the power to appoint and remove a majority of trustees. Whilst legislation requires the majority of trustees to be unconnected with Dignity this right does not prevent Dignity removing a majority of the trustees from office such that on balance it is considered that Dignity is able to control the actions of the Trustees who in turn control the investment decisions of the Trusts and negotiate with Dignity the marketing allowance paid to Dignity on behalf of the Trust. Also, Dignity controls the charge levied to the Trusts for the provision of funeral services ('funeral cover').
The investor is exposed, or has rights, to variable returns from its involvement with the investee.	Dignity receives an allowance for the marketing of the plans and for the performance of a funeral. From time to time Dignity may receive a surplus from the Trusts. The extent of the marketing allowance establishes the amount to be held in Trust on which investment returns can be made. Ultimately Dignity's return is wholly dependent on the amounts held for investment in the Trusts and the investment performance of the Trusts.
The investor has the ability to use its power over the investee to affect the amount of the investor's returns.	Dignity establishes the level of funeral cover and negotiates the level of marketing allowance with the Trustees on an annual basis. The investment strategy is set, implemented and monitored by the Trustees. Consequently, as Dignity is on balance considered to control the actions of the Trustees, Dignity has the power to affect the amount of its returns.

For other, smaller trusts from which Dignity receives funeral cover in the event that they deliver a funeral service, the judgement is that the Group has no power over the actions of the investee as Dignity does not have the ability to appoint or remove trustees. Further, as these trusts do not accept new plans and the level of funeral cover paid by these trusts is derived based on the value of trust assets and the number of remaining open funeral plans alone, Dignity has no wider ability to affect its variable returns from these trusts. Consequently, Dignity is unable to use its power to influence its variable returns, such that the Group is not considered to control these trusts and therefore these trusts are not consolidated.

The FRC has confirmed that the matter is now closed. The FRC's question was originally contained in a letter issued in respect of our 2017 Annual Report & Accounts. The FRC's role is to consider compliance with reporting standards and is not to verify the information provided to them. Therefore, given the scope and inherent limitations of their review, which does not benefit from any detailed knowledge of the Group, it would not be appropriate to infer any assurance from their review that our 2017 Annual Report and Accounts was correct in all material respects.

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

1 Accounting policies (continued)

Critical accounting judgements (continued)

Deferred revenue and associated significant financing

The significant financing component is based on estimates made in respect of the enlarged Group's (to include the Trusts) incremental borrowing rate at the time of inception of each funeral plan. Once established the rate applied to a plan is fixed for the duration of the plan. Open plans date back a little over 30 years requiring rates to be estimated by assessing the historical corporate bond yields for a ten year bond with an equivalent credit rating to that of the Group (to include the Trusts), being the average approximation of time between the inception of the plan and the related performance obligation, over an extended period of time. A difference in these rates can have a material difference in the resulting deferred revenue balance. As at 28 December 2017, being the opening balance sheet date of these financial statements (see note 35), if all rates applied to each funeral plan cash flow at inception decreased/increased by 50 basis points, then the deferred revenue balance would reduce/increase by £43.3 million/£46.0 million, respectively, compared to the deferred revenue balance recognised of £1,188.9 million. Given the rates are fixed at inception, there is no further estimation uncertainty on these cash flows, and therefore no further sensitivity disclosures are applied as for more recent cash flows in respect of 2018 and 2019, the estimate of the Group's (including the Trusts) incremental borrowing rate contains less estimation uncertainty.

Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements in certain circumstances that affect reported amounts. The most sensitive estimates affecting the financial statements are detailed below:

Pensions

The Group operates a defined benefit pension scheme that is accounted for using methods that rely on actuarial assumptions to estimate costs and liabilities for inclusion in the financial statements. These actuarial assumptions include discount rates, assumed rates of return, salary increases and mortality rates.

While management believes that the actuarial assumptions are appropriate, any significant changes to those used would affect the consolidated balance sheet and consolidated statement of comprehensive income. The Group considers that the most significant assumptions are the discount rate and the inflation rate. See note 29 for further details.

Funeral services goodwill impairment assessment

Performing the annual impairment assessment for goodwill requires an estimation of the value-in-use of the cash generating units to which the goodwill has been allocated. The value-in-use calculation requires the use of estimates including those in respect of future cash flows, growth rates and an appropriate discount rate. See note 9 for further details.

Trade name intangible assets impairment assessment

An impairment assessment has been required on trade name intangible assets given the changes in the funeral market and the increase in the discount rate to be applied in determining their value-in-use. The value-in-use calculation also requires the use of other estimates including those in respect of future cash flows and growth rates. See note 9 for further details.

Recoverable value of investments in associated undertakings

The Group records its investment in Funeral Zone Limited ('Funeral Zone') as an associated undertaking. The ability to recover the carrying value of this investment is subject to uncertainty due to Funeral Zone being in its formative stages. Given ongoing losses recorded by Funeral Zone coupled with the going concern risk of the business, as noted in their most recent financial statements, the Group has fully provided against its investment. There are a number of potential outcomes over the next 12 months which the Group can influence but not control, which could result in a reversal or part reversal of the provision against the investment.

Fair value of financial assets

As set out in note 23 some of the Group's financial assets held by the Trusts are valued using inputs that are not based on observable data and therefore contain some estimates. This fair value information is provided by the investment manager engaged by the Trusts. The Group has no input to, or influence over, the valuation methodologies applied by the investment manager. See also note 23 on market risk.

Contract liabilities

Deferred revenue is split between current and non-current to reflect the expected number of plans to be utilised within the next 12 months. This is based on historical experience. Actual experience may differ due to factors such as death rate.

The refund liability is split between current and non-current based on historical experience to reflect the expected number of plans to be cancelled within the next 12 months. Actual cancellation rates may differ.

1 Accounting policies (continued)

Standards, amendments and interpretations effective in 2019

The Group has applied IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial Instruments for the first time in the preparation of the Group's consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

A description of the nature and effect of transition to this standard is presented in note 35.

IFRS 9, Financial Instruments – impact of adoption

Due to the nature of the Group's financial instruments there has been no material impact on the Group's consolidated financial statements on the adoption of IFRS 9.

Under IFRS 9 all financial assets and liabilities are measured at fair value on initial recognition, with the exception of certain trade receivables. Trade receivables that do not have a significant financing component are measured at their transaction price, being the invoice amount excluding sales tax. The Group has applied the practical expedient within the standard, as trade receivables (including at-need and pre-need) are expected to be settled in less than one year it can presume that all trade receivables do not contain a significant financing component. This represents a change in accounting policy. However, as the transaction price is not materially different to the fair value, this change in accounting policy has not had a material impact.

IFRS 9 subsequently measures financial assets and liabilities at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit and loss ('FVTPL'). As all assets and liabilities with the exception of trust financial assets were measured at amortised cost under IAS 39 there is no change in accounting policy on adoption of IFRS 9.

IFRS 9 establishes a new model for recognition and measurement of impairments for loans and receivables that are measured at amortised cost called the 'expected credit losses' model which replaces the IAS 39 incurred loss model. The Group has applied the expected credit loss model to its provisioning for at-need trade receivable balances using the simplified approach within the standard. This approach tracks trade receivable balances over an historic rolling 12 month period to create a provision matrix to be applied. This has not had a material impact and no transition adjustment has been recorded.

Trade receivables in respect of the Trusts represent plan instalments receivable from pre-need plan members to the extent that these are due at the balance sheet date but not yet received. No impairment provision is held against these receivables on the basis that a separate refund liability is recorded for expected plan cancellations. All amounts outstanding to be paid under a member's pre-need plan must be paid in full prior to the performance of the services under the plan.

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 2019 or later periods but which the Group has not early adopted:

IFRS 16, Leases

In its 2020 financial statements, the Group will adopt the requirements of IFRS 16, Leases, for the first time. The adoption of the standard will have a material impact on the Group's primary financial statements, including impacts on operating profit, profit before tax, total assets and total liabilities.

IFRS 16 is applicable for accounting periods beginning on or after 1 January 2019. Due to the fact that the Group's 2019 reporting period begins on 29 December 2018 the group will adopt IFRS 16 retrospectively for its 2020 reporting period beginning on 28 December 2019. Comparatives for the 2019 reporting period will not be restated as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules will therefore be recognised in the opening balance sheet on 28 December 2019.

Lessee accounting

Approximately 50 per cent of the Group's properties are on lease terms that are currently accounted for as an operating lease under the principles of IAS 17, Leases. The minimum undiscounted lease commitment on these leases is disclosed in note 20 and is approximately £228 million at the end of 2019.

On adoption of IFRS 16, the Group will recognise lease liabilities in relation to leases which had previously been classified as 'operating leases'. These liabilities will be measured at the present value of the remaining lease payments, discounted using the Trading Group's incremental borrowing rate ('IBR') as at 28 December 2019. The weighted average lessee's IBR that will be applied to the lease liabilities on 28 December 2019 is 4.9 per cent, with a minimum rate of 3.6 per cent and a maximum rate of 6.8 per cent.

Notes to the financial statements continued
for the 52 week period ended 27 December 2019

1 Accounting policies (continued)

IFRS 16, Leases (continued)

The IBRs have been determined as follows:

a) We have derived rates based on corporate bond yields to maturity reflecting the Group's indicative credit rating. In order to assess the Group's IBRs we have considered yield curves at 28 December 2019 for similarly rated listed corporate bonds for durations aligned with the adjusted unexpired lease durations at 28 December 2019.

b) An asset/lease specific adjustment would then be applied, if needed, to reflect the nature of the lease collateral. Such an adjustment has not been required on transition and we have performed a high level cross check against other indicators of lease pricing to confirm this. Given the specialised nature of Group's properties there are no direct property market benchmarks and therefore we have looked at retail, industrial and long income sub-sectors to obtain indicative references points.

On adoption of IFRS 16, the Group will recognise a right-of-use asset representing its right to use the underlying leased asset and a corresponding lease liability for future lease payables for each operating lease in which the Group is a lessee on its consolidated balance sheet.

Right-of-use assets will be measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 28 December 2019. Furthermore, assets relating to finance leases held on the balance sheet at 27 December 2019 will be transferred into the right-of-use asset.

The right-of-use asset will be depreciated on a straight-line basis over the life of the lease. Interest will be recognised on the lease liability, resulting in a higher interest expense in the earlier years of the lease term. The total expense recognised in the consolidated income statement over the life of the lease will be unaffected by the new standard, however, IFRS 16 will result in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases.

The lease term comprises the non-cancellable lease term, in addition to optional periods when the Group is reasonably certain to exercise an option to extend or not to terminate a lease.

Impact of the new standard
In order to estimate the impact on the Group's opening consolidated balance sheet for the period ending 25 December 2020, the lease portfolio at transition date has been used, which would result in the recognition of right-of-use assets in the region of £95.0 million, with corresponding lease liabilities in the region of £94.0 million.

Assuming no changes in the Group's property portfolio, operating profit will increase by approximately £2.8 million and profit before tax will decrease by approximately £1.8 million for the period ending 25 December 2020 as the pre-IFRS 16 estimated rental charge is replaced by a higher depreciation and interest charge. The Group's 2020 current tax charge will also reduce. However, there will be no impact on profit before tax or the Group's current tax charge over the life of the lease portfolio.

The cash flow statement will also change as finance costs paid will increase, tax paid will decrease and finance lease payments under financing activities will be incorporated. However, there will be no impact on the way the Group runs its business, and on a cash basis the group will pay out less cash due to the reduction in corporation tax.

Deferred tax
Due to the modified retrospective transition method being applied there will be negligible deferred tax implications on transition as the right-of-use asset equals the lease liability being recognised.

Practical expedients applied
In applying IFRS 16 for the first time, the Group will use the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of less than 12 months from the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

In addition, the Group has applied the low-value asset exemption on transition for existing lease contracts previously classified as operating leases for which the underlying asset rental is below £1,000 per annum.

The above exemptions in relation to lease terms less than 12 months and low-value assets will also be applied on an ongoing basis.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

1 Accounting policies (continued)

Other

IFRS 17, Insurance Contracts. The standard is expected to be effective 1 January 2021 and will therefore impact on the Group's 2022 Annual Report. The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The Group is in the early stages of assessing whether the standard will have an impact in relating to its pre-need funeral plans.

All other new accounting standards and interpretations that have been published are not effective for 27 December 2019 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods or on foreseeable future transactions.

The Group's securitisation documents contemplate accounting policy changes and provide a mechanism that ensure covenant calculations are not materially impacted to the detriment of either the Group or Noteholders.

2 Financial risk management

The Group finances its operations by a mixture of shareholders' funds, Secured Notes and bank borrowings. This approach seeks to minimise financing costs and generate optimum shareholder value through efficient leveraging of the Group's balance sheet, which is made possible by the stable and predictable cash-generative nature of the business.

It is not the Group's policy to actively trade in derivatives.

Market risk

Interest rate risk and other price risk

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

The Group has significant cash balances that are held by institutions with a long-term rating of at least BBB by Standard & Poor's and BBB- by Fitch. These balances earn interest by reference to the Bank of England base rate. If interest rates reduced by one per cent at the beginning of 2020 then the Group would receive £0.1 million less interest income on an annualised basis for each £10.0 million held.

The Trusts have trustees, the majority of whom are required by law to be unconnected to the Trading Group. The Trusts have separate professional advisers, meet regularly and operate an investment policy by reference to a statement of investment principles. The Trustees target a return of 1.5 to 2 per cent above RPI, subject to defined acceptable levels of absolute loss and risk of loss to the actuarial valuation.

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 23(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, excluding the pre-need trusts. 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 27 December 2019 the actual ratio was 2.13 times (2018: 2.55 times).

Capital risk management

The Group's objective under managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and repay holders of Secured Notes. It also aims to reduce its cost of capital by maintaining an optimal capital structure. The Group's capital comprises equity and net debt as set out in note 26. The Group's principal source of long-term debt financing are the Secured A Notes, rated A- by both Fitch and Standard & Poor's and the Secured B Notes rated BB+ and BB- respectively by Fitch and Standard & Poor's.

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

2 Financial risk management (continued)

The Group monitors its capital structure based on the ratio of the Trading Group gross debt, as summarised in note 26, to underlying earnings before interest, taxation, depreciation and amortisation.

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

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

3 Revenue and segmental analysis

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker of the Group has been identified as the three Executive Directors. For statutory purposes the Group now has two reporting segments, funeral services and crematoria. This follows the adoption of IFRS 15, as a result of which the Group has concluded that only a single performance obligation exists when a pre-arranged funeral plan is sold, being the performance of a funeral. The Group also reports central overheads, which comprise unallocated central expenses.

Revenue

Funeral services relate to two primary sources of revenue, reflecting the adoption of IFRS 15 and the Group's decision to change its accounting policy in respect of its pre-arranged funeral plan trusts:

Funerals arranged and funded by the customer at the time of need, in addition to ancillary items, such as memorials and floral tributes; and

Funerals arranged and funded by a pre-arranged Trust funeral plan, for which amounts recognised as revenue arise from the de-recognition of deferred revenue on completion of the related performance obligation.

Crematoria services relate to cremation services and the sale of memorials and burial plots at the Dignity operated crematoria and cemeteries.

Underlying revenue

For the purpose of alternative performance measures the Group has three reporting segments, funeral services, crematoria and pre-arranged funeral plans as the chief operating decision maker reviews segmental performance before applying the effect of IFRS 15.

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 revenue and underlying operating profit are stated before non-underlying items and the effect of consolidation of the Trusts and IFRS 15 as defined on page 167.

Reconciliations to statutory amounts

Non-underlying items represent certain non-recurring or non-trading transactions. See alternative performance measures on page 167 for further details.

Other adjustments reflect the impact of consolidating the Trusts and adopting IFRS 15. Underlying revenue substitutes revenue arising from the de-recognition of deferred revenue on completion of the related performance obligation, which includes the impact of significant financing as outlined in note 1, with the payments received from the Trusts on the death of a plan member, and recognises marketing allowances at the inception of a plan, net of an allowance for cancellations. Underlying revenue also excludes amounts relating to disbursements and external payments made when the performance of the plan funeral is delivered by third parties.

3 Revenue and segmental analysis (continued)

Disaggregated revenue

The disaggregated revenue and operating profit/(loss), by segment, is shown in the following tables.

52 week period ended 27 December 2019	Underlying Revenue £m	Other adjustments[1] £m	Revenue £m
Funeral services	203.3	58.8	262.1
Crematoria	76.8	–	76.8
Pre-arranged funeral plans	21.2	(21.2)	–
Group	301.3	37.6	338.9

(1) Other adjustments related to the consolidation of the Trusts.

Within funeral services revenue £91.7 million (2018: £92.5 million) relates to deferred revenue arising on the completion of performance obligations under pre-need trust plans.

In addition to the adjustments noted above relating to revenue, in arriving at underlying operating profit further 'other adjustments', reflecting the impact of consolidating the Trusts and adopting IFRS 15, have been recorded. This includes corresponding entries relating to the exclusion of disbursements and external payments made when the performance of the funeral is delivered by third parties, adjustments are also made to exclude the Trusts administration costs and to recognise commissions payable at the inception of a plan rather than on delivery of the funeral or cancellation.

52 week period ended 27 December 2019	Underlying operating profit/ (loss) before depreciation and amortisation £m	Underlying depreciation and amortisation £m	Underlying Operating profit/ (loss) £m	Non-underlying items £m	Other adjustments £m	Operating profit/(loss) £m
Funeral services	68.6	(12.3)	56.3	(10.0)	8.4	54.7
Crematoria	43.6	(5.2)	38.4	(1.2)	–	37.2
Pre-arranged funeral plans	–	–	–	(0.2)	0.2	–
Central overheads	(29.6)	(1.8)	(31.4)	(15.7)	–	(47.1)
Group	82.6	(19.3)	63.3	(27.1)	8.6	44.8
Finance costs			(25.8)			(25.8)
Finance income			0.2			0.2
Deferred revenue significant financing					(54.1)	(54.1)
Remeasurement of financial assets held by the Trusts and related income					85.0	85.0
Share of loss in associated undertakings				(0.6)		(0.6)
Impairment of investments in associated undertakings				(5.4)		(5.4)
Profit before tax			37.7	(33.1)	39.5	44.1
Taxation			(7.4)	4.9	(6.7)	(9.2)
Underlying earnings for the period			30.3			
Non-underlying items				(28.2)		
Other adjustments					32.8	
Profit after taxation						34.9
Earnings per share for profit attributable to equity shareholders						
– Basic (pence)			60.6p			69.8p
– Diluted (pence)						69.8p

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

3 Revenue and segmental analysis (continued)

52 week period ended 28 December 2018 – restated	Underlying Revenue £m	Other adjustments[1] £m	Revenue £m
Funeral services	214.9	60.8	275.7
Crematoria	78.0	–	78.0
Pre-arranged funeral plans	22.7	(22.7)	–
Group	315.6	38.1	353.7

(1) Other adjustments relate to the consolidation of the Trusts.

52 week period ended 28 December 2018 – restated	Underlying operating profit/(loss) before depreciation and amortisation £m	Underlying depreciation and amortisation £m	Underlying Operating profit/(loss) £m	Non-underlying items £m	Other adjustments £m	Operating profit/(loss) £m
Funeral services	75.0	(12.8)	62.2	(7.4)	12.2	67.0
Crematoria	44.9	(4.6)	40.3	(0.7)	–	39.6
Pre-arranged funeral plans	2.8	–	2.8	(0.2)	(2.6)	–
Central overheads	(23.5)	(1.6)	(25.1)	(5.6)	–	(30.7)
Group	99.2	(19.0)	80.2	(13.9)	9.6	75.9
Finance costs			(26.0)			(26.0)
Finance income			0.2			0.2
Deferred revenue significant financing					(53.3)	(53.3)
Remeasurement of financial assets held by the Trusts and related income					(14.8)	(14.8)
Profit/(loss) before tax			54.4	(13.9)	(58.5)	(18.0)
Taxation			(11.5)	2.5	10.0	1.0
Underlying earnings for the period			42.9			
Non-underlying items				(11.4)		
Accounting adjustments					(48.5)	
Loss after taxation						(17.0)
Earnings/(loss) per share for profit attributable to equity shareholders						
– Basic (pence)			85.8p			(34.0)p
– Diluted (pence)						(34.0)p

4 Net finance (income)/costs

	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 restated £m
Finance costs		
Secured Notes	**23.7**	24.1
Other loans	**1.3**	1.2
Net finance cost on retirement benefit obligations (note 29)	**0.7**	0.6
Unwinding of discounts	**0.1**	0.1
Finance costs	**25.8**	26.0
Finance income		
Bank deposits	**(0.2)**	(0.2)
Finance income	**(0.2)**	(0.2)
Underlying net finance costs	**25.6**	25.8
Deferred revenue significant financing (note 19)	**54.1**	53.3
Realised investment income (note 13)	**(5.5)**	(9.2)
Changes in fair value of financial assets held by the Trusts (note 13)	**(79.5)**	24.0
Remeasurement of financial assets held by the Trusts and related income	**(85.0)**	14.8
Net finance (income)/costs	**(5.3)**	93.9

5 Profit before tax

Analysis by nature	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 £m
The following items have been included in arriving at profit before tax:		
Staff costs (note 28)	**107.4**	107.2
Cost of inventories recognised as an expense (included in cost of sales)	**17.3**	17.5
Depreciation of property, plant and equipment – owned assets (note 10)	**19.1**	18.7
Amortisation of intangible assets (included in administrative expenses) (note 9)	**5.0**	5.1
Operating lease rentals – property	**15.0**	12.5
Trade receivables impairment (included in administrative expenses) (note 23(c))	**1.1**	2.7
Transformation Plan costs(1)	**12.1**	2.7
External transaction costs (included in administrative expenses)(1)	**0.9**	0.8
Operational review and competition review costs(1)	**3.5**	2.7
GMP past service cost (note 29)(1)	**–**	1.4
Trade name impairment/write-off (note 9)(1)	**6.8**	1.1
Share of loss of associated undertakings(1)	**0.6**	–
Impairment of investments in associated undertakings(1)	**5.4**	–
(Profit)/loss on sale of fixed assets(1)	**(1.0)**	0.3
Services provided by the Group's auditors and its associates:		
Fees payable to the Company's auditors for the audit of parent company and consolidated financial statements	**0.4**	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	**–**	–
	0.6	0.3

(1) Items are excluded in arriving at underlying performance measures. Please see the Alternative performance measures on page 167 for further details.

During 2019, the Group paid £65,000 (2018: £45,000) of fees to the Group's auditor, in addition to the amounts given above, in connection with non-audit services, which are specifically audit related assurance services. See the Audit Committee Report for further details.

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for the 52 week period ended 27 December 2019

6 Taxation

Analysis of charge/(credit) in the period	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 restated £m
Current tax – current period	**4.8**	9.6
Adjustments for prior period	**0.1**	0.3
Total corporation tax	**4.9**	9.9
Deferred tax – current period	**4.9**	(10.8)
Adjustments for prior period	**(0.6)**	(0.1)
Total deferred tax	**4.3**	(10.9)
Taxation	**9.2**	(1.0)

Tax on items credited to other comprehensive income or equity	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 £m
Deferred tax credit on remeasurement losses on retirement benefit obligations	**(0.3)**	(0.1)
Deferred tax credit relating to maturity of option schemes	**(0.1)**	–
Total deferred tax credited to other comprehensive income or equity	**(0.4)**	(0.1)

The taxation charge in the period is higher (2018: higher) than the standard rate of corporation tax in the UK of 19.0 per cent (2018: 19.0 per cent). The differences are explained below:

	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 restated £m
Profit/(loss) before taxation	**44.1**	(18.0)
Profit/(loss) before taxation multiplied by the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%)	**8.4**	(3.4)
Effects of:		
Adjustments in respect of prior period	**(0.5)**	0.2
Expenses not deductible for tax purposes	**1.3**	2.2
Total taxation charge/(credit)	**9.2**	(1.0)

Under IFRS the tax rate is higher (2018: higher) than the standard UK tax rate of 19.0 per cent (2018: 19.0 per cent) principally due to the non-deductible expenses and prior period adjustments (2018: non deductible expenses and prior period adjustments). See Financial Review for further details. The Group's effective tax rate on underlying profits in the period was 19.5 per cent (2018: 21.2 per cent). The current period underlying effective tax rate is higher due to the effects of permanent disallowables and pensions, partially offset by adjustments in respect of the prior period, with a tax impact totalling £0.2 million (2018: £1.4 million). The Group expects its future effective tax rate to be approximately one and a half to two per cent above the headline rate of corporation tax. This translates to an underlying effective rate for 2020 of between 19.0 per cent and 19.5 per cent, between 18.5 per cent and 19.0 per cent in 2021 and thereafter. The Group does not have any provisions for uncertain tax positions.

7 Dividends

	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 £m
Final dividend paid: 15.74p per Ordinary Share (2018: 15.74p)	**7.9**	7.9
Interim dividend paid: nil per Ordinary Share (2018: 8.64p)	**–**	4.3
Dividend on Ordinary Shares	**7.9**	12.2

The interim dividend represents the interim dividend that was approved and paid in the period out of earnings generated in the same period. No interim dividend was approved in 2019.

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 £7.9 million, 15.74 pence per share (2018: £12.2 million, 24.38 pence per share).

On 28 June 2019, the Group paid a final dividend, in respect of 2018, of 15.74 pence per share (2018: 15.74 pence per share) totalling £7.9 million (2018: £7.9 million). The Group is not proposing any dividend for the period ended 27 December 2019.

8 Earnings per share

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

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

The Group has two classes of potentially dilutive Ordinary Shares being those share options granted to employees under the Group's SAYE Scheme and the contingently issuable shares under the Group's LTIP Schemes. At the balance sheet date, the performance criteria for the vesting of the awards under the LTIP Schemes, including any deferred annual bonus, are assessed, as required by IAS 33, and to the extent that the performance criteria have been met those contingently issuable shares are included within the diluted EPS calculations.

The Group's underlying measures of profitability exclude non-underlying items, the effects of IFRS 15 and consolidation of the Trusts as set out on page 167. These items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day-to-day management of the business and allow for greater comparability across periods.

Accordingly, the Board believes that earnings per share calculated by reference to this underlying performance measure helps users of the financial statements to fully understand the trading performance and financial position of the Group.

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

8 Earnings per share (continued)

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

	Earnings £m	Weighted average number of shares millions	Per share amount pence
52 week period ended 27 December 2019			
Underlying profit after taxation and EPS	**30.3**	**50.0**	**60.6**
Add: Non-underlying items (net of taxation credit of £4.9 million)	**(28.2)**		
Add: Other adjustments (net of taxation charge of £6.7 million) (1)	**32.8**		
Profit attributable to shareholders – Basic EPS	**34.9**	**50.0**	**69.8**
Profit attributable to shareholders – Diluted EPS	**34.9**	**50.0**	**69.8**
52 week period ended 28 December 2018 – restated			
Underlying profit after taxation and EPS	42.9	50.0	85.8
Add: Non-underlying items (net of taxation credit of £2.5 million)	(11.4)		
Add: Other adjustments (net of taxation credit of £10.0 million) (1)	(48.5)		
Loss attributable to shareholders – Basic EPS	(17.0)	50.0	(34.0)
Loss attributable to shareholders – Diluted EPS	(17.0)	50.0	(34.0)

(1) See note 3 for further details.

9 Goodwill and other intangible assets

	Trade names(1) £m	Use of third party brand name £m	Other(2) £m	Software £m	Non-compete agreements £m	Sub-total £m	Goodwill £m	Total £m
Cost								
At 29 December 2017	152.4	3.2	4.7	2.5	0.2	163.0	226.1	389.1
Acquisition of subsidiaries and other businesses	2.8	–	–	–	–	2.8	3.4	6.2
Adjustment of 2017 acquisitions	(3.7)	–	–	–	–	(3.7)	3.1	(0.6)
Trade name write-off(3)	(1.1)	–	–	–	–	(1.1)	–	(1.1)
At 28 December 2018	150.4	3.2	4.7	2.5	0.2	161.0	232.6	393.6
At 27 December 2019	**150.4**	**3.2**	**4.7**	**2.5**	**0.2**	**161.0**	**232.6**	**393.6**
Accumulated amortisation and impairment								
At 29 December 2017	(1.1)	(1.6)	(0.5)	(0.2)	(0.2)	(3.6)	–	(3.6)
Amortisation charge	(4.3)	(0.1)	(0.4)	(0.3)	–	(5.1)	–	(5.1)
At 28 December 2018	(5.4)	(1.7)	(0.9)	(0.5)	(0.2)	(8.7)	–	(8.7)
Amortisation charge	(4.2)	(0.1)	(0.5)	(0.2)	–	(5.0)	–	(5.0)
Trade name impairment	(6.8)	–	–	–	–	(6.8)	–	(6.8)
At 27 December 2019	**(16.4)**	**(1.8)**	**(1.4)**	**(0.7)**	**(0.2)**	**(20.5)**	**–**	**(20.5)**
Net book amount at 27 December 2019	**134.0**	**1.4**	**3.3**	**1.8**	**–**	**140.5**	**232.6**	**373.1**
Net book amount at 28 December 2018	145.0	1.5	3.8	2.0	–	152.3	232.6	384.9
Net book amount at 29 December 2017	151.3	1.6	4.2	2.3	–	159.4	226.1	385.5

(1) Trade names arise on the acquisitions of funeral businesses and their fair value is calculated by reference to the estimated incremental cash flows expected to arise by virtue of the trade name being well-established. There are no individually material trade names that amount to 5 per cent or more of the total net book value.

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

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

9 Goodwill and other intangible assets (continued)

Impairment tests for goodwill and trade names
As described in note 1, goodwill is subject to an annual impairment test in accordance with IAS 36, Impairment of Assets. For the purpose of this impairment test goodwill is tested at a business segment level as this is the level at which the return on assets acquired, including goodwill, is monitored.

The segmental allocation of goodwill is shown below:

	27 December 2019 £m	28 December 2018 restated £m
Funeral services	**176.8**	176.8
Crematoria	**55.8**	55.8
	232.6	232.6

Recoverable amounts within the segmental allocation have been restated following the change in accounting policy in respect of the Trusts. All amounts previously allocated to the pre-arranged funeral plan segment are now allocated to the funeral services segment.

The recoverable amount of each segment is based on a value-in-use calculation.

The value-in-use calculations use cash flow projections derived from the latest annual budget. Key assumptions used to produce the annual budget are the estimated UK death rates (based on historical death rates supplied by ONS), anticipated market share, mix and pricing. Cash flows for all segments beyond the initial 12 month period are extrapolated using a growth rate of 2.25 per cent (2018: 2.25 per cent), being an estimate of long-term growth rates for impairment review purposes only, which reflects the expectations of long-term inflation and death rates. The cash flows for each segment are discounted at a pre-tax rate of 12.0 per cent (2018: 10.25 per cent).

The headroom for the funeral services division impairment test under the current assumptions used is £29.3 million (2018: £136.5 million). The discount rate would need to rise to 12.7 per cent (2018: 12.8 per cent), or the long-term growth rate would need to fall to 1.58 per cent (2018: fall to (0.3) per cent) for the impairment test to result in £nil headroom for this segment.

On the basis of the above, the review indicated that no impairment arose in any segment (2018: £nil).

If the value-in-use calculations used a discount rate of 13 per cent instead of 12 per cent, then an impairment of £11.7 million would need to be recognised. If the value-in-use calculations used a growth rate of 1.75 per cent instead of 2.25 per cent, then headroom will reduce by £22.5 million. If the value-in-use calculations used an initial cash flow assumption of £5 million less than that forecast, then an impairment of £25.0 million would need to be recognised.

In addition to the Group's annual goodwill impairment test, given the changes in the funeral market and an increase in the discount rate to be applied in determining value-in-use, an impairment test was performed in respect of the Group's trade name intangibles assets in accordance with the requirements of IAS 36. A value-in-use calculation has been performed against each recognisable trade name. The performance of this impairment test, which was based on the same cash flow projections and key assumptions as the goodwill impairment test set out above, indicated that an impairment within the funerals segment of £6.8 million (2018: £nil) arose and has been provided accordingly. This is due to lower levels of profitability and lower anticipated average income per funeral.

If the value-in-use calculations used a discount rate of 13 per cent instead of 12 per cent, then an impairment of £8.5 million would need to be recognised. If the value-in-use calculations used a growth rate of 1.75 per cent instead of 2.25 per cent, then an impairment of £7.7 million would need to be recognised. If the value-in-use calculations used an initial cash flow assumption of £5 million less than that forecast, then an impairment of £8.9 million would need to be recognised.

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

10 Property, plant and equipment

	Freehold land and buildings £m	Leasehold buildings £m	Plant, machinery, fixtures and fittings £m	Motor vehicles £m	Work in progress £m	Total £m
Cost						
At 29 December 2017	168.4	55.8	48.1	79.5	8.0	359.8
Additions	4.9	0.9	2.1	6.1	11.4	25.4
Acquisition of subsidiaries and other businesses	–	–	–	0.2	–	0.2
Disposals	(3.1)	(3.1)	–	(4.3)	–	(10.5)
Reclassification	8.5	4.3	3.6	0.1	(16.5)	–
At 28 December 2018	178.7	57.9	53.8	81.6	2.9	374.9
Additions	2.0	1.3	2.3	1.3	10.5	17.4
Disposals	(0.5)	(0.2)	(0.4)	(3.1)	–	(4.2)
Reclassification	1.8	5.2	2.6	–	(9.6)	–
At 27 December 2019	**182.0**	**64.2**	**58.3**	**79.8**	**3.8**	**388.1**
Accumulated depreciation						
At 29 December 2017	(30.4)	(19.2)	(25.1)	(37.1)	–	(111.8)
Depreciation charge	(4.9)	(2.8)	(4.3)	(6.7)	–	(18.7)
Disposals	3.1	3.1	–	3.5	–	9.7
At 28 December 2018	(32.2)	(18.9)	(29.4)	(40.3)	–	(120.8)
Depreciation charge	(5.3)	(3.2)	(4.6)	(6.0)	–	(19.1)
Disposals	0.2	0.1	0.3	2.5	–	3.1
At 27 December 2019	**(37.3)**	**(22.0)**	**(33.7)**	**(43.8)**	**–**	**(136.8)**
Net book amount at 27 December 2019	**144.7**	**42.2**	**24.6**	**36.0**	**3.8**	**251.3**
Net book amount at 28 December 2018	146.5	39.0	24.4	41.3	2.9	254.1
Net book amount at 29 December 2017	138.0	36.6	23.0	42.4	8.0	248.0

Depreciation expense of £8.5 million (2018: £7.8 million) is included within cost of sales and £10.6 million (2018: £10.9 million) is included within administrative expenses.

During the period the Group has reviewed the residual values and expected useful lives of its motor vehicles and made appropriate adjustments. Under IAS 8 these amendments have been applied prospectively and have not had a material impact.

Details of any security over assets are disclosed in note 31.

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:

	27 December 2019 £m	28 December 2018 £m
Cost	**1.0**	1.0
Accumulated depreciation	**(0.3)**	(0.3)
Net book amount	**0.7**	0.7

The Group had capital expenditure authorised by the Board and contracted for at the balance sheet date of £7.9 million (2018: £17.3 million) in respect of property, plant and equipment and intangible assets.

11 Investments in associated undertakings

In August 2018 and December 2018, the Group increased its investment in Funeral Zone. At 28 December 2018 and 27 December 2019 the Group has a 23.8 per cent investment. Funeral Zone is a UK online funeral resource for funeral directors and clients and has been invested in for its intellectual property opportunities. Funeral Zone is a private entity that is not listed on any public exchange. The registered office of Funeral Zone is Centenary House, Peninsula Park, Rydon Lane, Exeter, EX2 7XE.

The Group holds less than 2 per cent of the voting rights of Funeral Zone but is deemed to have significant influence principally due to holding a right to appoint a board member who would represent 25 per cent of the Board of Directors and therefore have the power to participate in the financial and operating policy decisions. The Group also holds a call option over a further 44.4 per cent of shares. These potential voting rights are not currently taken into consideration when assessing control as the call option is not considered to be substantive in nature at this time, due to the exercise price of the option. The option is considered to have a £nil fair value at 27 December 2019 for the same reason.

The following table illustrates the summarised financial information of the Group's investment in Funeral Zone.

	27 December 2019 £m	28 December 2018 £m
Current assets	**1.4**	4.9
Non-current assets	**1.6**	0.1
Current liabilities	**(0.4)**	(0.2)
Equity	**2.6**	4.8
Group's share in equity – 23.8%	**0.6**	1.1
Goodwill	**4.8**	4.9
Impairment	**(5.4)**	–
Group's carrying amount of investment	**–**	6.0

The summarised financial information is based on November 2019 management accounts as these are the most recent available. An adjustment of £0.3 million (2018: £0.1 million) has been included in the above reconciliation reflecting differences in accounting policies.

During the period the fair values ascribed to reflect 2018 provisional amounts were finalised and goodwill has been reduced by £0.1 million with a corresponding increase in the share of the carrying value of non-current assets. This reflects adjustments made in finalising the individual 2018 financial statements of Funeral Zone.

Funeral Zone had revenue to 30 November 2019 of £187,000 (December 2018: £3,000) and a loss for the period to 30 November 2019 of £2,312,000 (December 2018: loss of £177,000). The Group's share of the loss for the period to 27 December 2019, estimated using the November 2019 management accounts, amounted to £621,000 (2018: £42,000).

The Group has performed a review to assess whether there is objective evidence that the carrying value of the investment is impaired. Given ongoing losses recorded by Funeral Zone coupled with the going concern risk of the business, as noted in their most recent financial statements, the Group has fully provided against its investment.

12 Financial and other assets

	Note	27 December 2019 £m	28 December 2018 £m
Non-current			
Prepayments	(a)	**7.2**	7.3
Deferred insurance commissions	(b)	**11.0**	8.4
		18.2	15.7

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

12 Financial and other assets (continued)

(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 insurance 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.

13 Financial assets – held by the Trusts

	27 December 2019 £m	28 December 2018 £m
Financial assets – held by the Trusts	**947.5**	862.4

The Trusts continue to take independent advice regarding the investment strategy. As a result, it is anticipated that the investment allocation by class will develop further during 2020 and beyond, gradually resulting in a portfolio in the following profile:

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

The investment strategies are expected to provide returns in excess of inflation in the longer-term but will, however, potentially result in greater volatility year-on-year in the reported value of the Group's assets. See Operating review for further details.

Analysis of the movements in financial assets held by the Trusts:

	27 December 2019 £m	28 December 2018 £m
Fair value at the start of the period	**862.4**	865.6
Remeasurement recognised in the consolidated income statement	**79.5**	(24.0)
Investment income	**1.9**	5.8
Purchases	**736.1**	625.5
Disposals	**(726.6)**	(604.8)
Investment administrative expenses deducted at source	**(5.8)**	(5.7)
Fair value at the end of the period	**947.5**	862.4

Interest and dividend income received is included within remeasurements recognised in the consolidated income statement.

14 Inventories

	27 December 2019 £m	28 December 2018 £m
Materials	**0.5**	0.5
Finished goods	**7.4**	8.0
	7.9	8.5

There were no inventory write-downs in either period.

15 Trade and other receivables

	27 December 2019 £m	28 December 2018 restated £m
Trade receivables: Trusts	**11.4**	10.3
Trade receivables: at-need	**21.8**	21.6
Less: provision for impairment (note 23(c))	**(6.7)**	(6.9)
Net trade receivables	**26.5**	25.0
Prepayments and accrued income	**4.2**	5.0
Other receivables	**1.7**	1.3
	32.4	31.3

Trust trade receivables represent amounts due to the Group's Trusts in respect of plans sold, where the Group's performance obligation has yet to be satisfied. Instalments due to the Trusts after the balance sheet date are excluded as they are not contractually due.

At-need trade receivables represent all other trade receivables due to the Group.

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 receivables. For further details of the trade receivables past due and impaired refer to note 23(c).

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

16 Cash and cash equivalents

	Note	27 December 2019 £m	28 December 2018 restated £m
Trading Group		**41.0**	50.0
Trusts	(a)	**15.5**	13.8
Operating cash as reported in the consolidated statement of cash flows as cash and cash equivalents		**56.5**	63.8
Amounts set aside for debt service payments	(b)	**16.9**	16.9
Cash and cash equivalents as reported in the balance sheet		**73.4**	80.7

(a) Trusts cash balances
All assets of the Trusts can, by definition, only be used for certain prescribed purposes such as, but not limited to, the payment for a funeral or a refund on cancellation of a plan. They cannot be used for day-to-day operational activities of the wider Trading Group and could not, for example, be used to fund a capital expenditure project. The cash is held in Trust bank accounts but is accessible without restriction and can be used within the Trusts for any allowable purpose, such as payment following the performance of a funeral. As Dignity is considered to control the activities of the Trusts, this cash balance meets the requirements to be included in cash and cash equivalents for the purposes of IAS 7.

(b) 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 23(d)) and for no other purpose. Consequently, this amount did not meet the definition of cash and cash equivalents in IAS 7, Statement of Cash Flows. This amount was used to pay these respective parties on 31 December 2019. Of this amount, £12.1 million (2018: £12.3 million) is shown within the Statement of Cash Flows as 'Payments to restricted bank accounts for finance costs' and £4.8 million (2018: £4.6 million) is shown within 'Financing activities' as 'Payments to restricted bank accounts for repayment of borrowings'.

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17 Financial liabilities

	Note	27 December 2019 £m	28 December 2018 £m
Current			
Secured A Notes	(a)	**9.6**	9.3
	(b)	**9.6**	9.3
Non-current			
Secured Notes	(a)	**541.7**	551.3
Finance lease obligations	(c)	**0.6**	0.6
		542.3	551.9

(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 27 December 2019, £0.2 million (2018: £0.2 million) and £0.4 million (2018: £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 31(a).

The amortisation profile of the Secured Notes is as follows:

Secured A Notes

	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 £m	2029 £m	2030 £m
June	4.9	5.1	5.2	5.4	5.6	5.8	6.0	6.2	6.4	6.7	6.9
December	4.9	5.1	5.3	5.5	5.7	5.9	6.1	6.4	6.6	6.8	7.1
Total	9.8	10.2	10.5	10.9	11.3	11.7	12.1	12.6	13.0	13.5	14.0

	2031 £m	2032 £m	2033 £m	2034 £m	Total £m
June	7.2	7.4	7.7	7.9	94.4
December	7.3	7.6	7.8	8.1	96.2
Total	14.5	15.0	15.5	16.0	190.6

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

17 Financial liabilities (continued)

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

(c) Obligations under finance leases

	27 December 2019 £m	28 December 2018 £m
Obligations under finance leases and hire purchase payable:		
Within one year	–	–
Between one and two years	–	–
Between two and five years	0.2	0.2
After five years	0.4	0.4
	0.6	0.6

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

(d) Changes in liabilities arising from financing activities

	28 December 2018 £m	Cash flow £m	Other £m	27 December 2019 £m
Current				
Secured Notes	9.3	–	0.3	9.6
Non-current				
Secured Notes	551.3	(9.3)	(0.3)	541.7
Finance lease obligations	0.6	–	–	0.6
Total liabilities from financing activities	561.2	(9.3)	–	551.9

	29 December 2017 £m	Cash flow £m	Other £m	28 December 2018 £m
Current				
Secured Notes	4.5	–	4.8	9.3
Non-current				
Secured Notes	560.6	(4.5)	(4.8)	551.3
Finance lease obligations	0.6	–	–	0.6
Total liabilities from financing activities	565.7	(4.5)	–	561.2

The 'other' column includes the effect of reclassification of the non-current portion of Secured Notes and finance lease obligations to current due to the passage of time and the effect of not yet paid interest on the Secured Notes. The Group classifies interest paid as cash flows from operating activities.

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

18 Trade and other payables

	27 December 2019 £m	28 December 2018 restated £m
Current		
Trade payables	**7.5**	8.3
Tax and social security	**2.8**	3.1
Other current liabilities	**2.3**	2.1
Accruals	**44.9**	49.3
Deferred income relating to at-need deposits	**4.1**	4.0
	61.6	66.8
Non-current		
Other non-current liabilities	**1.4**	1.3
Deferred income relating to at-need deposits	**0.5**	0.7
Deferred consideration for acquisitions	**0.1**	0.1
	2.0	2.1

Accruals includes interest, payroll and trade accruals.

Deferred income relating to at-need deposits represents cash amounts received in advance for services such as a funeral arranged at the time of need.

19 Deferred commissions and contract liabilities

Deferred commissions

	27 December 2019 £m	28 December 2018 £m
Deferred commissions – current	**7.3**	7.1
Deferred commissions – non-current	**96.8**	94.5

Deferred commissions represent directly attributable costs in respect of the marketing of the pre-arranged funeral plans where the plan has yet to be used or cancelled. An amount of £6.4 million (2018: £6.3 million) has been amortised to the consolidated income statement within administrative expenses.

Contract liabilities

	Note	27 December 2019 £m	28 December 2018 £m
Current			
Contract liabilities – deferred revenue	(a)	**94.4**	90.4
Contract liabilities – refund liability	(b)	**1.1**	1.1
		95.5	91.5
Non-current			
Contract liabilities – deferred revenue	(a)	**1,194.6**	1,149.9
Contract liabilities – refund liability	(b)	**14.5**	14.7
		1,209.1	1,164.6

Movement in total contract liabilities

	27 December 2019 £m	28 December 2018 £m
Balance at the beginning of the year	**1,256.1**	1,205.6
Sale of new Trust plans	**91.2**	92.7
Increase due to significant financing	**54.1**	53.3
Recognition of revenue following delivery or cancellation of a Trust plan	**(96.8)**	(95.5)
Balance at the end of the year	**1,304.6**	1,256.1

19 Deferred commissions and contract liabilities (continued)

(a) Contract liabilities – deferred revenue

Deferred revenue represents amounts received from pre-arranged funeral plan holders adjusted to reflect a significant financing component, and for which the Group has not completed its performance obligations at the balance sheet date. The balance is split between current and non-current based on historical experience to reflect the expected number of plans to be utilised within the next 12 months.

(b) Contract liabilities – refund liability

Refund liabilities represent amounts received from pre-arranged funeral plan holders for which it is expected that the respective plans will be cancelled based on historical experience. The balance is split between current and non-current based on historical experience to reflect the expected number of plans to be cancelled within the next 12 months.

20 Obligations under finance leases and operating leases

For minimum lease payments obligations under finance leases refer to note 23(d)(ii).

The minimum lease payments under non-cancellable operating leases fall due as follows:

	27 December 2019 £m	28 December 2018 restated £m
Not later than one year	**13.8**	13.3
Later than one year but not more than five years	**43.0**	41.0
More than five years	**171.1**	157.5
	227.9	211.8

In preparing for the future adoption of IFRS 16, it was identified that lease commitment disclosures presented as at 28 December 2018 included £7.6 million of finance lease obligations in error. The 2018 comparatives have been restated to correct this.

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

Sublease payments received in the period amount to £0.3 million (2018: £0.4 million). Total future sublease payments receivable relating to operating leases amount to £0.4 million (2018: £0.5 million).

In addition, the Group has operating lease commitments with rentals determined in relation to revenues. No operating lease commitment disclosures are required for these arrangements, as future lease payments represent contingent rental payments. The rental expense in respect of contingent rentals was £1.5 million (2018: £1.3 million).

21 Provisions for liabilities

	Dilapidations £m (a)	Onerous contracts £m (b)	Total restated £m
At beginning of period – restated	10.7	0.1	10.8
Charged to income statement	1.7	–	1.7
Released to income statement	(1.1)	–	(1.1)
Utilised in period	(0.4)	–	(0.4)
Amortisation of discount	0.3	–	0.3
At end of period	**11.2**	**0.1**	**11.3**

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

	27 December 2019 £m	28 December 2018 restated £m
Current	**2.0**	1.4
Non-current	**9.3**	9.4
	11.3	10.8

Prior year comparatives have been restated to exclude the previously established cancellation provision due to the impact of the change in accounting policy in respect of the consolidation of the Trusts. See note 35 for further details.

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

21 Provisions for liabilities (continued)

(a) Dilapidations

The provision for dilapidations covers the costs of repair to leased premises occupied by the Group in respect of which a dilapidations notification has been received, and properties where a dilapidation obligation exists but for which no notification has been received.

It is anticipated that the element of provision relating to dilapidation notices served, £2.0 million (2018: £1.4 million), will be utilised in the following financial year, and the element relating to dilapidation obligations where no notice has been served will be utilised over the terms of the relevant property leases, the majority of which is expected to be by 31 December 2029.

(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.

22 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17 per cent (2018: 17 per cent).

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

	27 December 2019 £m	28 December 2018 restated £m
At beginning of period	(17.9)	(6.8)
Charged/(credited) to income statement (note 6)	4.3	(10.9)
Taken to other comprehensive income (note 6)	(0.3)	(0.1)
Taken to equity (note 6)	(0.1)	–
Arising on acquisitions	–	(0.1)
At end of period	**(14.0)**	(17.9)

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	Trade names £m	Deferred commissions and Trust assets £m	Other £m	Total £m
At beginning of period - restated	12.7	18.7	168.5	2.7	202.6
(Credited)/charged to income statement (note 6)	(0.9)	(1.6)	15.4	–	12.9
At end of period	**11.8**	**17.1**	**183.9**	**2.7**	**215.5**

Deferred tax assets

	Pensions £m	Contract liabilities £m	Other £m	Total £m
At beginning of period - restated	(4.5)	(215.6)	(0.4)	(220.5)
Charged/(credited) to income statement (note 6)	0.3	(8.7)	(0.2)	(8.6)
Taken to other comprehensive income/to equity	(0.3)	–	(0.1)	(0.4)
At end of period	**(4.5)**	**(224.3)**	**(0.7)**	**(229.5)**

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 27 December 2019 was £14.0 million (2018: £17.9 million). The Group has recognised the net deferred tax asset as this is expected to be recovered against future taxable profits.

Other deferred tax liabilities includes capital gains rolled forward and deferred tax on software and leasehold land. Other deferred tax assets includes option schemes, long service awards and finance leases.

22 Deferred tax (continued)

The deferred tax associated with deferred commissions, Trust assets and contract liabilities have arisen due to the impact of the adoption of IFRS 15, Revenue from Contracts with Customers, in addition to the impact of the change in accounting policy in respect of the consolidation of the Trusts. The deferred tax asset is calculated on the deferred revenue and refund liability and the deferred tax liability is calculated on the financial assets and deferred commissions. As the accounting policy change required a prior period adjustment, the prior period has also been restated.

Elements of these deferred tax balances may be payable or recoverable within one year. However, the Directors consider that it is not possible to quantify the amount because the level of uncertainty in the timing of events and have therefore classified the whole balance as due after more than one year.

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

	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 £m
Deferred tax credit on remeasurement losses on retirement benefit obligations	**(0.3)**	(0.1)
Total credited to other comprehensive income	**(0.3)**	(0.1)
Deferred tax credit relating to maturity of option schemes	**(0.1)**	–
Total credited to equity	**(0.1)**	–

23 Financial instruments

Fair values of non-derivative financial assets and financial liabilities

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).

Financial assets held by the Trusts are held at fair value. All other financial 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 Trust financial assets

	27 December 2019 £m	28 December 2018 £m
Financial assets at fair value through consolidated income statement		
Defensive investments – Index linked gilts and corporate bonds	**170.3**	164.7
Core growth investments – Equities	**268.5**	224.2
Growth fixed income and alternative investments – Property funds and emerging market debt	**468.6**	445.6
Illiquid investments – Private investments	**40.1**	27.9
Total financial assets at fair value	**947.5**	862.4

All other financial assets are held at amortised cost and there is no difference between the book value and the fair value of these assets, due to the short-term maturities of these instruments.

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

23 Financial instruments (continued)

The following table provides the fair value measurement hierarchy of the Trusts' financial assets.

27 December 2019	Total £m	Fair value measurement using: Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Defensive investments – Index linked gilts and corporate bonds	**170.3**	**–**	**170.3**	**–**
Core growth investments – Equities	**268.5**	**–**	**268.5**	**–**
Growth fixed income and alternative investments – Property funds and emerging market debt	**468.6**	**–**	**269.3**	**199.3**
Illiquid investments – Private investments	**40.1**	**–**	**–**	**40.1**

28 December 2018	Total £m	Fair value measurement using: Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Defensive investments – Index linked gilts and corporate bonds	164.7	–	164.7	–
Core growth investments – Equities	224.2	–	224.2	–
Growth fixed income and alternative investments – property funds and emerging market debt	445.6	–	220.8	224.8
Illiquid investments – Private investments	27.9	–	–	27.9

There were no transfers between level 1, level 2 or level 3 during 2019 or 2018.

The following methods and assumptions were used to estimate the fair values:

Defensive investments – level 2

The fair values of index linked gilts and corporate bonds are based on active market prices or price quotations at the reporting date. Whilst these assets have a quoted price on a recognised exchange adjustments are required in respect of related inflation factors, thereby making these measurements level 2 rather than level 1.

Core growth investments & Growth fixed income and alternative investments – level 2

These represent pooled investment funds that do not have a quoted price on a recognised exchange. The underlying assets of the pooled fund have been valued using active market prices or price quotations at the balance sheet date.

Growth fixed income and alternative investments & Illiquid investments – level 3

These investments hold some underlying investment that rely on significant unobservable inputs to price or a premium or discount may apply on exit.

In all cases, fair value information is provided by the investment manager engaged by the Trusts. The Group has no input to, or influence over the valuation methodologies applied by the investment manager.

Within the above reconciliation of financial assets through the consolidated income statement the following movements relate to level 3 assets:

	27 December 2019 £m	28 December 2018 £m
Fair value at the start of the period	**252.7**	249.2
Remeasurement recognised in the consolidated income statement	**8.3**	(1.3)
Purchases	**11.3**	15.3
Sales	**(30.3)**	(8.2)
Investment administrative expenses	**(2.6)**	(2.3)
Fair value at the end of the period	**239.4**	252.7

23 Financial instruments (continued)

At 27 December 2019, the Trust financial assets (all level 2 or 3, fair value of £947.5 million (2018: £862.4 million)) are exposed to market sensitivity and changes in valuation over time due to factors including currency, interest rate, property and commodity prices. As the fair value information is provided by the investment manager who has not been able to provide sensitivity analysis on the inputs to the fair values, the Group is unable to disclose this information. However, a 5 per cent movement in the fair value of these assets would result in a £47.4 million (2018: £43.1 million) increase/decrease to the carrying value, with a corresponding movement in an unrealised gain/loss in the income statement. A 10 per cent movement would increase this movement to £94.8 million (2018: £86.2 million).

(b) Fair value of current and non-current financial liabilities

	27 December 2019			28 December 2018		
	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	**195.5**	**195.3**	**209.7**	204.8	204.6	214.8
Secured B Notes – 4.6956% maturing 31 December 2049	**356.4**	**356.0**	**290.0**	356.4	356.0	316.8
Total	**551.9**	**551.3**	**499.7**	561.2	560.6	531.6

The Secured Notes are held at amortised cost. Other categories of financial liabilities include trade payables and contract liabilities, however there is no difference between the book value and fair value of these items.

The fair values of the Secured Notes are their market value at the balance sheet date and are considered to be level 1.

In addition to the above financial liabilities include finance lease payables of £0.6 million (2018: £0.6 million), which represent the present value of future minimum lease payments. At 27 December 2019 there is no difference between the nominal value, book value and fair value of this liability.

(c) Trade receivables

Credit risk
Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (at-need trade receivables).

Trade receivables
Due to the nature of the Group's customer base credit risk is managed by obtaining cash payments and/or deposits upfront where possible, setting up direct debt instalment payments from pre-need plan sales, together with staff training and internal control procedures to understand the customers' ability to pay for services. Outstanding trade receivables are regularly monitored with an established credit control policy in place.

At-need trade receivables are held net of provision for impairment. As at 27 December 2019, £10.7 million of the individual gross at-need trade receivables (2018: £11.2 million) were past due and partially impaired. Receivables are written off to the income statement when credit control procedures have been enforced. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on past experience together with any expected changes. The amount of the provision, as at 27 December 2019, was £6.7 million (2018: £6.9 million). The individually impaired receivables principally relate to monies owing for funerals performed by the funeral services division. The ageing of at-need receivables is as follows:

	27 December 2019 £m	28 December 2018 £m
One to six months	**5.0**	5.0
Over six months	**5.7**	6.2
	10.7	11.2

The amount of gross at-need trade receivables past due that were not impaired was not significant.

Notes to the financial statements continued
for the 52 week period ended 27 December 2019

23 Financial instruments (continued)

There is no expected credit loss on trade receivables held by the Trusts on the basis that a separate refund liability is recorded for expected plan cancellations. All amounts outstanding to be paid under a member's pre-need plan must be paid in full prior to the performance of the services under the plan. In the event of default any write-off would be offset by an equivalent or greater release of the related refund liability. See note 19.

Movements on the Group's loss allowance for trade receivables are as follows:

	27 December 2019 £m	28 December 2018 £m
At beginning of period	**(6.9)**	(6.2)
Charged to income statement	**(1.1)**	(2.7)
Utilised in period	**1.3**	2.0
At end of period	**(6.7)**	(6.9)

The maximum exposure to credit risk is the carrying value of each class of financial assets. The Group does not hold collateral as security.

Set out below is the information about credit risk exposure on at-need trade receivables using a provision matrix. £11.4 million (2018: £10.3 million) is excluded from the analysis as it relates to trade receivables held by the Trust.

27 December 2019				Days past due		
	Current	30-60 days	61-90 days	91 – 180 days	>181 days	Total
Expected credit loss rate	**3.0%**	11.0%	25.1%	43.4%	90.9%	
Estimated total gross carrying amount at default	**11.1**	2.7	0.9	1.4	5.7	21.8
Expected credit loss	**0.3**	0.3	0.2	0.6	5.3	6.7

Comparative information is not provided on the basis that IFRS 9, Financial Instruments is effective for the Group for the first time in the current period. The prior period provision was calculated using similar assumptions such that the transition to IFRS 9 had no material impact.

(d) Borrowing facilities

(i) The Group has the following undrawn committed borrowing facilities available at 27 December 2019, all of which were at floating interest rates, in respect of which all conditions precedent had been met at that date:

	27 December 2019 £m	28 December 2018 £m
Expiring within one year	**5.0**	5.0
Expiring between one and two years	**–**	–
Expiring in more than two years	**105.0**	105.0
	110.0	110.0

£55.0 million (2018: £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 (2018: £55.0 million) in a bank account, which the Group may access as if it represented a borrowing facility on the same terms. The facility is available on these terms until the Secured Notes have been repaid in full.

The Group has a £50 million Revolving Credit Facility ('RCF'), provided by the Royal Bank of Scotland, which is secured against certain trade and assets held by legal entities outside of the Group's securitisation structure.

The facility is available until July 2021, with the option to renew, subject to the bank's consent at the time, by a further year. The margin on the facility ranges from 150 to 225 basis points over LIBOR depending on the resulting gross leverage. This facility remains undrawn at the balance sheet date. Further details may be found in the Financial Review.

The remaining £5.0 million facility has been extended for a further 12 months and expires in October 2020. These facilities incur commitment fees at market rates.

23 Financial instruments (continued)

(ii) The minimum lease payments under finance leases fall due as follows:

	27 December 2019 £m	28 December 2018 £m
Not later than one year	**0.1**	0.1
Later than one year but not more than five years	**0.1**	0.1
More than five years	**2.4**	2.4
	2.6	2.6
Future finance costs on finance leases	**(2.0)**	(2.0)
Present value of finance lease liabilities	**0.6**	0.6

(e) 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. The amounts disclosed for contract liabilities relate solely to the refund liability component which is considered to be a financial liability based on the expectation that cash will be returned to the plan holder on the cancellation of the plan. The deferred revenue component of contract liabilities is not considered to be a financial liability as there is no expected obligation to deliver cash. The maturity profile of the refund liability represents the Group's assessment of the likely timing of such cash flows and the contractual undiscounted cash flow which would occur at that time.

	27 December 2019					
	In less than one year £m	**In more than one year but not more than two years £m**	**In more than two years but not more than three years £m**	**In more than three years but not more than five years £m**	**In more than five years £m**	**Total £m**
Cash liabilities						
Secured Notes (gross)	**9.6**	**15.1**	**10.6**	**22.2**	**494.4**	**551.9**
Interest payable on Secured Notes	**23.5**	**34.7**	**22.7**	**44.3**	**338.4**	**463.6**
Finance leases	**0.1**	**–**	**–**	**0.1**	**2.4**	**2.6**
Debt repayments	**33.2**	**49.8**	**33.3**	**66.6**	**835.2**	**1,018.1**
Other financial liabilities	**64.1**	**0.4**	**0.5**	**0.6**	**0.2**	**65.8**
	97.3	**50.2**	**33.8**	**67.2**	**835.4**	**1,083.9**
Refund liability	**1.1**	**1.1**	**1.1**	**2.2**	**10.1**	**15.6**
Total liabilities	**98.4**	**51.3**	**34.9**	**69.4**	**845.5**	**1,099.5**

	28 December 2018					
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	Total £m
Cash liabilities						
Secured Notes (gross)	9.3	9.6	15.1	21.5	505.7	561.2
Interest payable on Secured Notes	23.9	23.5	34.7	45.0	360.4	487.5
Finance leases	0.1	–	–	0.1	2.4	2.6
Debt repayments	33.3	33.1	49.8	66.6	868.5	1,051.3
Other financial liabilities	68.8	0.4	0.4	0.7	0.4	70.7
	102.1	33.5	50.2	67.3	868.9	1,122.0
Refund liability	1.1	1.1	1.1	2.2	10.3	15.8
Total liabilities	103.2	34.6	51.3	69.5	879.2	1,137.8

An administrative fee may be payable by the customer in the event of cancellation and therefore the refund liability may be lower than the total amount detailed above for refund liabilities. The administrative fee payable is dependent upon when the pre-need plan is cancelled and the type of pre-need plan originally sold.

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

23 Financial instruments (continued)

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

	27 December 2019					
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	Total £m
Non-cash liabilities						
Issue costs on Secured Notes	**–**	**–**	**–**	**–**	**0.6**	**0.6**
	–	**–**	**–**	**–**	**0.6**	**0.6**

	28 December 2018					
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	Total £m
Non-cash liabilities						
Issue costs on Secured Notes	–	–	–	–	0.6	0.6
	–	–	–	–	0.6	0.6

24 Ordinary share capital

	27 December 2019 £m	28 December 2018 £m
Allotted and fully paid Equity shares		
50,012,394 (2018: 50,008,939) Ordinary Shares of 12 48/143 pence (2018: 12 48/143 pence) each	**6.2**	6.2

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 3,455 shares issued under the 2016 DAB 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. In addition, Executive Directors and senior management hold options to subscribe for shares in the Company under Long-Term Incentive Plans ('LTIPs'), including deferred annual bonus, awarded in 2017, 2018 and 2019.

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	2019 Number	2018 Number	2017 Number
2016 – SAYE	2,706.00	1 December 2019 to 31 May 2020	**50,690**	79,708	113,221
2019 – SAYE	383.52	1 December 2022 to 31 May 2023	**498,164**	n/a	n/a
2017 – LTIP	–	16 March 2020 to 16 March 2027	**133,942**	133,942	133,942
2018 – LTIP	–	23 March 2021 to 23 March 2028	**146,157**	146,157	n/a
2019 – LTIP	–	12 June 2022 to 12 June 2029	**388,719**	n/a	n/a

25 Share-based payments

In respect of share-based payment arrangements, total charges to the income statement were £0.8 million (2018: £0.9 million). The Directors consider that these amounts are not material and hence further detailed disclosures have been omitted.

26 Net debt

	27 December 2019 £m	28 December 2018 £m
Net amounts owing on Secured Notes per financial statements	**(551.3)**	(560.6)
Add: unamortised issue costs (note 17(a))	**(0.6)**	(0.6)
Gross amounts owing	**(551.9)**	(561.2)
Accrued interest on Secured Notes	**(12.2)**	(12.3)
Accrued interest on Revolving Credit Facility	**–**	(0.2)
Cash and cash equivalents – Trading Group (note 16)	**57.9**	66.9
Net debt	**(506.2)**	(506.8)

Net debt is an alternative performance measure calculated as shown in the table.

In addition to the above, the consolidated balance sheet also includes finance lease obligations which totalled £0.6 million (2018: £0.6 million). These amounts do not represent sources of funding for the Group and are therefore excluded from the calculation of net debt.

The Group's primary financial covenant in respect of the Secured Notes requires EBITDA to total debt service ('EBITDA DSCR'), in the securitisation group, to be at least 1.5 times. At 27 December 2019, the actual ratio was 2.13 times (2018: 2.55 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.

27 Reconciliation of cash generated from operations

	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 restated £m
Net profit/(loss) for the period	**34.9**	(17.0)
Adjustments for:		
Taxation	**9.2**	(1.0)
Net finance (income)/costs	**(5.3)**	93.9
(Profit)/loss on sale of fixed assets	**(1.0)**	0.3
Depreciation charges	**19.1**	18.7
Amortisation of intangibles	**5.0**	5.1
Movement in inventories	**0.6**	(1.2)
Movement in trade receivables	**(1.5)**	4.4
Movement in trade payables	**(0.8)**	0.6
Movement in contract liabilities	**(5.6)**	(2.8)
Net pension charges less contributions	**(1.7)**	–
Trade name impairment/write-off (note 9)	**6.8**	1.1
Share of loss and impairment in respect of associated undertakings	**6.0**	–
Changes in other working capital (excluding acquisitions)	**(1.9)**	1.2
Employee share option charges (note 25)	**0.8**	0.9
Cash flows from operating activities	**64.6**	104.2

Other non-cash transactions

Non-cash charges comprise of amortisation of deferred debt issue costs, as discussed in note 17(a).

Notes to the financial statements continued
for the 52 week period ended 27 December 2019

28 Employees and Directors

	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 £m
Wages and salaries	**94.1**	92.5
Social security costs	**8.5**	8.2
Other pension costs (note 29)	**4.0**	5.5
Share option charges (note 25)	**0.8**	1.0
	107.4	107.2

Key management are considered to be the Board of Directors only. Total key management remuneration in the period was £2.2 million (2018: £3.0 million), including £0.3 million (2018: £0.5 million) of share option charges. The monthly average number of people, including Directors, employed by the Group during the period was as follows:

	2019 Number	2018 Number
Management and administration	**266**	221
Funeral services staff	**2,548**	2,542
Crematoria staff	**420**	380
Pre-arranged funeral plan staff	**180**	163
	3,414	3,306

Directors' emoluments
Details of Directors' emoluments are disclosed in the Report on Directors' Remuneration on pages 83 to 91 which form part of these consolidated financial statements.

29 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:

	2019 £m	2018 £m
Defined contribution schemes	**3.5**	3.4

Defined benefit plan
The Group operates a defined benefit scheme the Dignity Pension and Assurance Scheme. A full actuarial valuation was carried out as at 6 April 2017 and subsequent reviews were completed at 6 April 2018 and 6 April 2019. This latest view has been updated to 27 December 2019 by a qualified independent Actuary.

After consultation with members of the defined benefit plan, the Group closed the scheme to new entrants on 1 October 2013 and employee contributions were increased to 10 per cent (from 7 per cent) of pensionable salaries, with the Group contributing the same amount (an increase from 9.2 per cent). The plan closed to future accrual on 28 February 2017, except for members of the LGPS sections who continue to accrue benefits. No curtailment charge arose on the scheme closure. Contributions for ongoing service paid by the employer for 2019 were £0.1 million (2018: £0.1 million of contributions). In addition special contributions of £2.1 million (2018: £2.0 million) have been paid to make total contributions for the year of £2.2 million (2018: £2.1 million).

Following the Lloyds GMP equalisation case in October 2018, which ruled that treatment of men and women be bought in line for schemes with a guaranteed minimum pension, the Group was required in 2018 to recalculate member benefits. This resulted in the Group recognising a past service cost of £1.4 million in the prior period income statement, representing approximately 1.1 per cent of the Group's defined benefit pension liability at the time. No further revisions have been made to this estimate during the period, therefore no amendments have been made to the allowance included within the scheme liabilities as at 27 December 2019.

29 Pension commitments (continued)

The principal actuarial assumptions at the balance sheet date were:

Assumptions	2019 %	2018 %
Discount rate	**1.95**	2.80
Rate of increase in salaries	**2.20**	2.45
Rate of increase in payment of post April 1997 pensionable service	**3.10**	3.30
Rate of increase in payment of post April 2005 pensionable service	**2.20**	2.25
RPI price inflation assumption	**3.20**	3.45
CPI price inflation assumption	**2.20**	2.45

The demographic assumptions used include rates for mortality which, for example, lead to an average projected life expectancy of 19.8 (2018: 20.3) years for male members and 25.1 (2018: 25.6) years for female members currently aged 65 and of 20.7 (2018: 21.2) years from age 65 for male members and 26.3 (2018: 26.8) years from age 65 for female members currently aged 50.

Pensions and other post-retirement obligations

The amounts recognised in the balance sheet are determined as follows:

	2019 £m	2018 £m
Fair value of plan assets	**114.5**	103.5
Present value of funded obligations	**(140.5)**	(128.7)
Net obligation recognised in the balance sheet	**(26.0)**	(25.2)

Analysis of amount charged to income statement in respect of defined benefit schemes

	2019 £m	2018 £m
Current service cost included within cost of sales (staff costs)	**0.1**	0.2
Administration expenses paid by the scheme	**0.4**	0.5
Interest costs less interest income included within net finance cost	**0.7**	0.6
Past service costs	**–**	1.4

Analysis of fair value of plan assets

	2019		2018	
	£m	%	£m	%
Equity and diversified growth funds	**60.6**	**52.9**	56.2	54.3
Debt	**53.4**	**46.6**	46.5	44.9
Cash	**0.5**	**0.5**	0.8	0.8
Fair value of plan assets	**114.5**	**100.0**	103.5	100.0

At 27 December 2019 and 28 December 2018 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 within the fair value of plan assets.

Notes to the financial statements continued

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29 Pension commitments (continued)

Changes in the present value of the defined benefit obligation are as follows:

	2019 £m	2018 £m
Present value of obligation at beginning of period	**(128.7)**	(135.9)
Current service cost	**(0.1)**	(0.2)
Past service cost – GMP equalisation	**–**	(1.4)
Interest cost	**(3.5)**	(3.3)
Benefits paid	**5.2**	6.7
Remeasurement (losses)/gains – financial	**(16.6)**	6.1
Remeasurement gains – demographics	**2.5**	0.8
Remeasurement gains/(losses) – experience	**0.7**	(1.5)
Present value of obligation at end of period	**(140.5)**	(128.7)

Changes in the fair value of plan assets are as follows:

	2019 £m	2018 £m
Fair value of plan assets at beginning of period	**103.5**	111.9
Interest income on plan assets	**2.8**	2.7
Contributions by Group	**2.2**	2.1
Benefits paid	**(5.2)**	(6.7)
Administration expenses paid by the scheme[a]	**(0.6)**	(0.3)
Remeasurement gains/(losses)	**11.8**	(6.2)
Fair value of plan assets at end of period	**114.5**	103.5

(a) Administration expenses paid by the scheme includes £0.2 million charged (2018: £0.2 million credited) to other comprehensive income.

Analysis of the movement in the balance sheet obligation

	2019 £m	2018 £m
At beginning of period	**(25.2)**	(24.0)
Total expense as above charged to the income statement	**(1.2)**	(2.7)
Remeasurement losses and administration expenses charged to other comprehensive income	**(1.8)**	(0.6)
Contributions by Group	**2.2**	2.1
At end of period	**(26.0)**	(25.2)

The actual return on plan assets was £14.7 million (2018: £(3.5) million).

Change in assumptions	Liabilities £m	Assets £m	Deficit £m	(Increase)/ decrease in deficit £m
No change	**(140.5)**	**114.5**	**(26.0)**	**–**
0.25% rise in discount rate	**(134.0)**	**114.5**	**(19.5)**	**6.5**
0.25% fall in discount rate	**(147.4)**	**114.5**	**(32.9)**	**(6.9)**
0.25% rise in inflation	**(144.5)**	**114.5**	**(30.0)**	**(4.0)**
0.25% fall in inflation	**(136.2)**	**114.5**	**(21.7)**	**4.3**

The above sensitivity analysis has been determined by applying the results of a fully accurate sensitivity analysis as at 6 April 2017 to the value placed on the Scheme liabilities as at 27 December 2019, assuming that the proportionate impact of the change in assumptions would be the same. It is therefore approximate as it does not allow for the impact of plan experience since 6 April 2017. The same approach was used for the sensitivity analysis undertaken for the period ending 28 December 2018.

Analysis of present value of scheme liabilities	2019	2018
Active members[a]	**33%**	36%
Deferred pensioners	**26%**	24%
Current pensioners	**41%**	40%
Average duration of liabilities	**18.5 years**	18.5 years

(a) Active members are members of the Scheme who are still employed by the Group.

29 Pension commitments (continued)

Scheme characteristic
The Company currently operates a defined benefits plan, the Dignity Pension & Assurance Scheme. This scheme was closed to new members in 2013. The benefits provided by the plan are final salary defined benefit benefits with the contributions paid by the Employer on a balance of cost basis. The plan is run by the Trustees of the plan who ensure that the plan is run in accordance with the Trust Deed & Rules and complies with legislation. The Trustees are required by law to fund the plan on prudent funding assumptions under the Trust Deed & Rules of the plan. The contributions payable by the Employer to fund the plan are set by the Trustees after consulting the Employer.

The assets of the plan are invested in managed funds with Mercer. The managed funds are diversified by fund and by investment strategy.

The plan closed to future accrual on 28 February 2017, except for members of the LGPS Sections who continue to accrue benefits.

Funding arrangements
The Trustees use the Projected Unit funding method. The last full triennial actuarial valuation was undertaken as at 6 April 2017.

The annual commitment for deficit contributions is £1,700,000 per annum. These annual contributions are expected to meet the deficit on the funding basis by 31 March 2024 based on an assumption of investment returns of 4.5 per cent per annum.

In addition, the employees of the LGPS Section currently contribute to the plan in line with the rates set out in the Plan Rules and the expected employer contributions for the 52 week period ended 25 December 2020 are £45,720 in order to fund future service accrual.

The expenses of administering the plan and levies required by the Pensions Protection Fund and the Pensions Regulator are currently met by the Scheme. The Group contributes an additional £450,000 per annum in order to fund these expenses.

Funding Risks
The assets quoted are comprised as follows:

	2019 £m	2018 £m
Assets held by investment managers	**114.0**	102.7
Balance of the Trustees' bank account	**0.5**	0.8
Total	**114.5**	103.5

The following list is not exhaustive but covers the main risks for the plan. Some of the risks can be reduced by adjusting the funding strategy with the help of the Trustees, for example investment matching risk. Other risks cannot easily be removed, for example longevity risk, and Employer must be aware of these risks and ask the Trustees to monitor them closely.

Investment return risk
If the assets under-perform the returns assumed in setting the funding targets then additional contributions may be required at subsequent valuations.

Investment matching risk
The plan invests significantly in equity type assets, whereas the solvency target is closely related to the return on bonds. If equities type assets have fallen in value relative to the matching asset of bonds additional contributions may be required.

Longevity risk
If future improvements in mortality exceed the assumptions made then additional contributions may be required.

Legislative risk
The Government may introduce over riding legislation which leads to an increase in the value of Plan benefits.

Solvency risk
As the funding target is not a solvency target, and the investment strategy does not follow that required for a solvency target, the assets of the plan may not be sufficient to provide all members with the full value of their benefits on a plan wind-up.

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

30 Pre-arranged funeral plans

(a) Commitments

The Trading Group has sold pre-arranged funeral plans to clients in the past, giving commitments to these clients to perform their funeral. All monies from the sale of these funeral plans are paid into and controlled by a number of trusts. These include the Trusts consolidated within the Group's financial statements in addition to a number of other trusts (the 'Small Trusts'). The Small Trusts are not consolidated in the Group's results as the Group does not control these trusts.

The Group is obligated to perform these funerals in exchange for the assets of the respective trusts, whatever they may be. It is the view of the Directors that none of the commitments given to these clients are onerous to the Group. However ultimately, the Group is obligated to perform these funerals in exchange for the assets of the respective trusts, whatever they may be.

The Small Trusts had approximately £17.5 million (2018: £18.0 million) of net assets as at the balance sheet date.

Only the Trusts consolidated within the Group's financial statements receive funds relating to the sale of new plans.

(b) Actuarial valuation

The Trustees of the Trusts are required to have the Trusts' liabilities actuarially valued once a year. 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. Assets of the Trusts include instalment amounts due in the future from clients, as these amounts are payable on death and are therefore relevant to the actuarial valuation. However, this means that assets detailed in the actuarial valuations will not agree on a particular day to the assets recognised in the Group's consolidated balance sheet.

The Trustees have advised that the latest actuarial valuations of the Trusts were performed as at 27 September 2019 (2018: 28 September) using assumptions determined by the Trustees. Actuarial liabilities in respect of the Trusts have increased to £987 million as at 27 September 2019 (2018: £896 million). The corresponding market value of the assets of the Trusts was £1,004 million (2018: £930 million) as at the same date. Consequently the actuarial valuations recorded a total surplus of £17 million at 27 September 2019 (2018: surplus of £34 million). The Group considers these to be prudent assumptions. If the valuation had been performed using a discount rate equal to the long-term investment strategy target of the Trustees, then the valuations would have reported an aggregate surplus of approximately £156 million (2018: £160 million).

(c) Active members and assets per plan

	27 December 2019 Number	28 December 2018 Number
Supported by:		
The Trusts	**311,000**	306,000
The Small Trusts	**48,000**	46,000
Insurance Plans	**164,000**	134,000
	523,000	486,000

The Trusts have approximately £3,300 (2018: £3,000) per active plan. On average the Trading Group received approximately £2,900 (2018: £2,700) in the period for the performance of each funeral (including amounts to cover disbursements such as crematoria fees, ministers' fees and doctors' fees).

Insurance Plans are those plans for which the Group is the named beneficiary on life assurance products sold by third party insurance companies.

30 Pre-arranged funeral plans (continued)

(d) Transactions with the Group

During the period, the Group entered into transactions with the Small Trusts. Amounts may only be paid out of the Trusts in accordance with the relevant Trust Deeds. Transactions (which were recognised as revenue in the funeral division) amounted to £1.1 million (2018: £0.9 million) in the period and principally comprised receipts from the Small Trusts in respect of funerals provided. No amounts were due to the Group on either balance sheet date.

31 Contingent liabilities

(a) Securitisation

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

- The Dignity (2002) Group have granted the Security Trustee fixed and floating charges over all assets and undertakings of the Dignity (2002) Group;[(i)]
- Dignity plc has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity (2004) Limited, Dignity (2008) Limited, Dignity (2011) Limited and Dignity Holdings No.3 Limited;
- Dignity (2004) Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings No. 2 Limited and Dignity (2002) Limited;
- Dignity Holdings No. 2 Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings Limited;
- Dignity Holdings Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Mezzco Limited;
- Dignity Holdings Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loans (both interest and non interest bearing) to Dignity (2002) Limited;
- Dignity Mezzco Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loan to Dignity (2002) Limited;
- Dignity (2004) Limited has granted the Security Trustee, with full title guarantee a floating charge over the assets now or in the future owned by Dignity (2004) Limited (other than those assets validly and effectively charged by way of fixed security);
- Dignity plc, Dignity Holdings No.2 Limited, Dignity Holdings Limited and Dignity Mezzco Limited has granted the Security Trustee, with full title guarantee a floating charge over the assets now or in the future owned by each of Dignity plc, Dignity Holdings No.2 Limited, Dignity Holdings Limited and Dignity Mezzco Limited (other than those assets validly and effectively charged by way of fixed security);
- The Guarantors[(ii)] each irrevocably and unconditionally jointly and severally guarantees to the Security Trustee punctual performance by each other Obligor of that Obligor's obligations and agrees as a primary obligation to indemnify the Security Trustee immediately on demand against any cost, loss or liability suffered by it if any obligation guaranteed by the Guarantors is or becomes unenforceable, invalid or illegal;
- Dignity Funerals Limited and Derriman & Haynes Funeral Services Limited has granted the Security Trustee with full title guarantee, a first legal mortgage over each of its rights, title and interest from time to time in properties situated in England and Wales;
- Dignity Funerals Limited has granted the Security Trustee with full title guarantee[(iii)], a first legal mortgage over its rights, title and interest from time to time in properties situated in Northern Ireland;
- Dignity Finance PLC has granted BNY Mellon Corporate Trustee Services Limited (in its capacity as Note Trustee) with full title guarantee, an assignment by way of security of its benefit in each Issuer Transaction Document (other than the Trust Documents), the Security Trust Deed and each Obligor Security Document and charges by way of first fixed charge the benefit of its accounts; and
- Dignity Funerals Limited has, in respect of any Scottish property which is capable of being so charged, granted 'standard securities' in favour of the Security Trustee[(iv)].

(i) Means Dignity (2002) Limited and its subsidiaries.
(ii) Means the Obligors (other than Dignity (2002) Limited (as Borrower)), Dignity (2004) Limited, Dignity plc, Dignity Holdings No.2 Limited, Dignity Holdings Limited and Dignity Mezzco Limited.
(iii) This mortgage is governed by the laws of Northern Ireland.
(iv) The standard securities are governed by Scots Law.

At 27 December 2019, the amount outstanding in relation to these borrowings was £551.9 million (2018: £561.2 million).

Notes to the financial statements continued
for the 52 week period ended 27 December 2019

31 Contingent liabilities (continued)

(b) £50,000,000 Revolving Credit Facility
As a consequence of the legal structure of the £50 million Revolving Credit Facility:

- Dignity Funerals No. 3 Limited, Dignity Holdings No. 3 Limited, Dignity (2008) Limited, Dignity Crematoria Limited and Dignity Crematoria No.2 Limited have each granted NatWest (acting through its agent, the Royal Bank of Scotland plc ('NatWest')) fixed and floating charges over its assets and undertakings;
- Dignity Funerals No. 3 Limited has granted NatWest, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Arthur J Nash Limited, T J Brown & Sons Limited and Aberdeen Funeral Directors Limited;
- Dignity (2008) Limited has granted NatWest, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Crematoria Limited;
- Dignity Holdings No. 3 Limited has granted NatWest, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Funerals No. 3 Limited; and
- Dignity Crematoria Limited has granted NatWest, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Crematoria No.2 Limited.

32 Related party transactions
There are no related party transactions for either period.

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

34 Post balance sheet events
Subsequent to the year end, there has been a general downturn in financial markets which will have impacted the value of the financial assets held by the Trusts. This impact will change daily and has not been quantified at the time of this Annual Report. Given the diversified portfolio of assets held, which includes other investments such as property, the impact across the whole portfolio of assets held cannot be readily estimated. See note 30 for the most recent actuarial position of the Trust based on long-term growth assumptions.

35 Consolidation of the Trusts and adoption of IFRS 15

Change in accounting policy – Consolidation of the Trusts
As discussed in note 1, the Group previously concluded that the legislative requirement for a majority of trustees to be unconnected with Dignity meant that Dignity did not, and could not, control the actions of the trustees. Combined with the judgement that ultimately Dignity's return from the Trusts was wholly dependent on the investment performance of the Trusts and that the investment strategy of the Trusts was set, implemented and monitored by the trustees, Dignity previously concluded that it did not have the power to affect the amounts of its returns, that it did not control the Trusts and therefore that the Trusts should not be consolidated.

Upon re-examination of the factors that influence that decision, following the latest discussions with the FRC, the Group has concluded as part of its current year consideration of the recurring judgement that more weight should be attributed to its ability to appoint and remove trustees and less to the legislative requirement for a majority of trustees to be unconnected with Dignity. As a result, the Group has reached a revised judgement, the basis of which is summarised in note 1, that it does have control as defined by IFRS 10 and should consolidate those pre-arranged funeral plan trusts where it has the ability to appoint and remove trustees.

Therefore, the Group has made a change in accounting policy, which has been reflected in these financial statements as a prior period restatement.

35 Consolidation of the Trusts and adoption of IFRS 15 (continued)

Adoption of IFRS 15 – Revenue from Contracts with Customers

In addition, as disclosed in the Interim Report, the Group has adopted IFRS 15 during the period. In order to present financial information on a consistent basis, having consolidated the Trusts, the Group has revised its transition election under IFRS 15 to reflect the full retrospective adoption of that standard. The transition adjustments arising as a result of the adoption of IFRS 15 relate to the change to recognise the disbursement element of pre-need plans and the pre-need plan funeral services delivered by third party funeral directors on a principal basis. Furthermore, directly attributable costs associated with the inception of a pre-need plan, in the form of commissions payable either to employees or third parties, are now held as deferred commissions in the consolidated balance sheet up to the time the associated funeral is performed or cancelled. Once the funeral is performed the deferred commission costs are recognised in the consolidated income statement. Deferred commission balances are split between current and non-current based on historical experience.

Any other adjustments arising as a result of the consolidation of the Trusts would have been the same under IAS 18 as under IFRS 15.

Following the consolidation of the Trusts and on transition to IFRS 15 adjustments have been made to the consolidated balance sheet as at 28 December 2018 and 29 December 2017 and the consolidated income statement for the 52 week period to 28 December 2018.

The impact of consolidation on the balance sheet in both periods has been to recognise the assets and liabilities held by the Trusts, net of any adjustments to eliminate intra-group balances between the Trusts and the Trading Group. Contract liabilities in the form of deferred revenue have been recognised in respect of pre-need plans for which the Group has not completed its performance obligations by the period end. A refund liability has also been recognised for the proportion of plans not expected to be performed. In addition the Group has, in accordance with IFRS 15, recognised assets for deferred commissions for directly attributable marketing costs. Deferred tax has been provided, as necessary, on the adjustments recorded. Note 1 details the accounting polices in respect of these balances.

In respect of the income statement for the 52 week period to 28 December 2018 adjustments have been recorded to eliminate intra-group transactions between the Trusts and the Trading Group, primarily in respect of funeral payments and marketing allowance payments. Revenue is also adjusted for the deferred revenue balances on satisfaction of the related performance obligation. As outlined within note 1, an additional impact to revenue on consolidation of the Trusts is that the Group is considered to be principal in respect of all pre-need plans delivered. As a result, a corresponding adjustment to cost of sales has been recorded in respect of disbursements paid and for amounts paid to third parties when the performance of funerals have been sub-contracted in accordance with IFRS 15. A significant financing cost has been recognised on deferred revenue in accordance with the policy outlined in note 1. Deferred commissions have been amortised to the income statement in respect of plans which have been used or cancelled during the period. The administrative costs of the Trusts together with the remeasurement in the period of financial assets held by the Trusts and related income have also been recognised.

Notes to the financial statements continued

for the 52 week period ended 27 December 2019

35 Consolidation of the Trusts and adoption of IFRS 15 (continued)

28 December 2018 consolidated balance sheet (selected lines only):

		Consolidation of the Trusts						IFRS 15		
	28 Dec 2018 as originally presented £m	Recognition of trust assets and liabilities £m	Recognition of contract liabilities – deferred revenue £m	Derecognition of cancellation provision £m	Recognition of contract liabilities – refund liability £m	Deferred tax impact £m	Consolidation adjustments £m	Recognition of deferred costs in respect of commissions £m	Deferred tax impact £m	**28 Dec 2018 restated £m**
Non-current assets										
Financial assets – held by the Trusts	–	862.4								**862.4**
Deferred commissions	–							94.5		**94.5**
Deferred tax asset	–					35.2			(17.3)	**17.9**
Current assets										
Trade and other receivables	32.9	10.3					(11.9)			**31.3**
Deferred commissions	–							7.1		**7.1**
Cash	66.9	13.8								**80.7**
Current liabilities										
Financial liabilities	9.3									**9.3**
Trade and other payables	68.9	12.3	(2.5)				(11.9)			**66.8**
Contract liabilities	–		90.4		1.1					**91.5**
Provisions for liabilities	1.7			(0.3)						**1.4**
Non-current liabilities										
Deferred tax liabilities	29.2					(29.2)				**–**
Contract liabilities	–		1,149.9		14.7					**1,164.6**
Provisions for liabilities	9.9			(0.5)						**9.4**
Retained earnings	(89.2)	874.2	(1,237.8)	0.8	(15.8)	64.4	–	101.6	(17.3)	**(319.1)**

35 Consolidation of the Trusts and adoption of IFRS 15 (continued)

28 December 2018 consolidated income statement (selected lines only):

		Consolidation of the Trusts							IFRS 15				
	28 Dec 2018 as originally presented £m	Release of deferred revenue on death or cancellation £m	Removal of payments received from the Trusts on death £m	Payments on cancellation £m	Derecognise pre-need segment income £m	Recognition of the Trust costs £m	Recognition of significant financing component on deferred revenue £m	Remeasurement of Trust assets and related income £m	Amounts paid on subcontracted funerals £m	Recognition of disbursement element of pre-need plans £m	Net release of deferred costs in respect of commissions £m	Tax credit £m	**28 Dec 2018 restated £m**
Revenue	315.6	95.5	(47.6)	(3.0)	(22.7)					15.9			**353.7**
Cost of sales	(135.0)								(8.0)	(15.9)			**(158.9)**
Gross profit	**180.6**	**95.5**	**(47.6)**	**(3.0)**	**(22.7)**				**(8.0)**	–			**194.8**
Administrative expenses	(114.3)					(6.8)					2.2		**(118.9)**
Operating profit	**66.3**	**95.5**	**(47.6)**	**(3.0)**	**(22.7)**	**(6.8)**			**(8.0)**	–	**2.2**		**75.9**
Finance costs	(26.0)												**(26.0)**
Finance income	0.2												**0.2**
Deferred revenue significant financing	–						(53.3)						**(53.3)**
Remeasurement of Trust assets and related income	–							(14.8)					**(14.8)**
Profit/(loss) before tax	**40.5**	**95.5**	**(47.6)**	**(3.0)**	**(22.7)**	**(6.8)**	**(53.3)**	**(14.8)**	**(8.0)**	–	**2.2**		**(18.0)**
Taxation	(9.0)											10.0	**1.0**
Profit/(loss) for the period attributable to equity shareholders	**31.5**	**95.5**	**(47.6)**	**(3.0)**	**(22.7)**	**(6.8)**	**(53.3)**	**(14.8)**	**(8.0)**	–	**2.2**	**10.0**	**(17.0)**

Notes to the financial statements continued
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35 Consolidation of the Trusts and adoption of IFRS 15 (continued)

29 December 2017 consolidated balance sheet:

		Consolidation of the Trusts						IFRS 15		
	29 Dec 2017 as originally presented £m	Recognition of trust assets and liabilities £m	Recognition of contract liabilities – deferred revenue £m	Derecognition of cancellation provision £m	Recognition of contract liabilities – refund liability £m	Deferred tax impact £m	Consolidation adjustments £m	Recognition of deferred costs in respect of commissions £m	Deferred tax impact £m	**29 Dec 2017 restated £m**
Assets										
Non-current assets										
Goodwill	226.1									226.1
Intangible assets	159.4									159.4
Property, plant and equipment	248.0									248.0
Financial assets	14.3									14.3
Financial assets – held by the Trusts	–	865.6								865.6
Deferred commissions	–							92.4		92.4
Deferred tax asset	–					23.7			(16.9)	6.8
	647.8									**1,612.6**
Current assets										
Inventories	7.3									7.3
Trade and other receivables	38.3	9.1					(12.1)			35.3
Deferred commissions	–							7.0		7.0
Cash	49.3	21.8								71.1
	94.9									**120.7**
Total assets	**742.7**									**1,733.3**
Liabilities										
Current liabilities										
Financial liabilities	4.5									4.5
Trade and other payables	57.8	12.6	(2.9)				(12.1)			55.4
Current tax liabilities	6.2									6.2
Contract liabilities	–		87.1		1.2					88.3
Provisions for liabilities	1.5			(0.3)						1.2
	70.0									**155.6**
Non-current liabilities										
Financial liabilities	561.2									561.2
Deferred tax liabilities	30.3					(30.3)				–
Other non-current liabilities	2.3									2.3
Contract liabilities	–		1,101.8		15.5					1,117.3
Provisions for liabilities	8.5			(0.6)						7.9
Retirement benefit obligation	24.0									24.0
	626.3									**1,712.7**
Total liabilities	**696.3**									**1,868.3**
Shareholders' equity/(deficit)										
Ordinary share capital	6.2									**6.2**
Share premium account	11.1									**11.1**
Capital redemption reserve	141.7									**141.7**
Other reserves	(4.6)									**(4.6)**
Retained earnings	(108.0)	883.9	(1,186.0)	0.9	(16.7)	54.0	–	99.4	(16.9)	**(289.4)**
Total equity/(deficit)	**46.4**									**(135.0)**
	742.7									**1,733.3**

Dignity plc Company balance sheet

as at 27 December 2019

	Note	27 December 2019 £m	28 December 2018 £m
Fixed assets			
Investments	C2	**149.9**	149.1
Current assets			
Trade and other receivables	C3	**295.3**	304.7
Cash		**29.8**	40.6
Total current assets		**325.1**	345.3
Creditors: amounts falling due within one year	C4	**(15.0)**	(14.7)
Net current assets		**310.1**	330.6
Total assets less current liabilities		**460.0**	479.7
Net assets		**460.0**	479.7
Capital and reserves			
Called up share capital	C5	**6.2**	6.2
Share premium account		**12.5**	12.4
Capital redemption reserve		**141.7**	141.7
Other reserves		**3.7**	2.7
Retained earnings		**295.9**	316.7
Total equity		**460.0**	479.7

The Company has taken advantage of the exemption permitted by section 408 of the Companies Act 2006 not to publish its individual profit and loss account and related notes. The Company made a loss attributable to the equity shareholders of £12.6 million in the period (2018: profit of £32.1 million).

The financial statements on pages 155 to 164 were approved by the Board of Directors on 11 March 2020 and were signed on its behalf by:

M K McCollum
Chief Executive

S L Whittern
Finance Director

Dignity plc Company statement of changes in equity

for the 52 week period ended 27 December 2019

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total £m
Shareholders' equity as at 29 December 2017	6.2	11.1	141.7	3.2	296.8	459.0
Profit for the period	–	–	–	–	32.1	32.1
Effects of employee share options	–	–	–	0.8	–	0.8
Proceeds from share issue	–	1.3	–	–	–	1.3
Gift to Employee Benefit Trust	–	–	–	(1.3)	–	(1.3)
Dividends paid on Ordinary Shares	–	–	–	–	(12.2)	(12.2)
Total transactions with owners, recognised directly in equity	–	1.3	–	(0.5)	(12.2)	(11.4)
Shareholders' equity as at 28 December 2018	6.2	12.4	141.7	2.7	316.7	479.7
Adjustment on initial application of IFRS 9	–	–	–	–	(0.3)	(0.3)
Shareholders' equity as at 29 December 2018 – adjusted	6.2	12.4	141.7	2.7	316.4	479.4
Loss for the period	–	–	–	–	(12.6)	**(12.6)**
Effects of employee share options	–	–	–	1.1	–	**1.1**
Proceeds from share issue	–	0.1	–	–	–	**0.1**
Gift to Employee Benefit Trust	–	–	–	(0.1)	–	**(0.1)**
Dividends paid on Ordinary Shares	–	–	–	–	(7.9)	**(7.9)**
Total transactions with owners, recognised directly in equity	–	0.1	–	1.0	(7.9)	**(6.8)**
Shareholders' equity as at 27 December 2019	**6.2**	**12.5**	**141.7**	**3.7**	**295.9**	**460.0**

Capital redemption reserve

The capital redemption reserve represents £80,002,465 B Shares that were issued on 2 August 2006 and redeemed for cash on the same day, £19,274,610 B Shares that were issued on 10 October 2010 and redeemed for cash on 11 October 2010, £22,263,112 B Shares that were issued on 12 August 2013 and redeemed for cash on 20 August 2013 and £20,154,070 B Shares that were issued and redeemed for cash in November 2014.

Other reserves

Other reserves includes movements relating to the Group's SAYE and LTIP schemes.

Notes to the Dignity plc financial statements

for the 52 week period ended 27 December 2019

C1 Principal accounting policies

Basis of preparation

The financial statements of the Company for the period ended 27 December 2019 were authorised for issue by the Board of Directors and the balance sheet was signed on the Board's behalf by Mr M K McCollum and Mr S L Whittern. The Company is incorporated and domiciled in England and Wales. The Company's registered address is 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

The financial statements of the Company have been prepared in accordance with the Companies Act 2006, as applicable to companies using Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). The financial statements have been prepared on a going concern basis under the historical cost convention. The principal accounting policies are set out below and have been applied consistently throughout the year.

The Company's financial statements are presented in Sterling and all values are stated in pound million rounded to one decimal place (£m) except where otherwise indicated.

In accordance with the concession granted under Section 408 of the Companies Act 2006, the income statement of the Company has not been separately presented in the financial statements.

In the current period, the Company's financial statements have been prepared for the 52 week period ended 27 December 2019. For the comparative period, the Company's financial statements have been prepared for the 52 week period ended 28 December 2018.

Exemptions:

As permitted by FRS 101 the following exemptions from the requirements of International Financial Reporting Standards ('IFRS') have been applied in the preparation of these financial statements:

- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information);
  - 111 (cash flow statement information); and
  - 134-136 (capital management disclosures).
- Paragraph 38 of IAS 1 'Presentation of financial statements' comparative information requirements in respect of: Paragraph 79 (a) (iv) of IAS 1 'Presentation of financial statements'.
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

The Company is eligible to apply the above exemptions as it is included in the consolidated financial statements of Dignity plc who prepare financial statements under IFRS and include the above disclosures.

Notes to the Dignity plc financial statements continued
for the 52 week period ended 27 December 2019

C1 Principal accounting policies (continued)

New standards, amendments and IFRIC interpretations
The Company has applied IFRS 9, Financial instruments for the first time in the preparation of the Company's financial statements.

IFRS 9, Financial Instruments – impact of adoption
Under IFRS 9 all financial assets and liabilities are measured at fair value on initial recognition. IFRS 9 subsequently measures financial assets and liabilities at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit and loss ('FVTPL'). As all assets and liabilities were measured at amortised cost under IAS 39 there is no change in accounting policy on adoption of IFRS 9.

The Company has changed how it assesses impairment of receivables. The Company calculates expected credit losses ('ECL's') in line with the guidance under IFRS 9. Where there is evidence of impairment, any impairment loss is recognised in the income statement. On transition to IFRS 9, a transition adjustment of £0.3 million has been recorded in to opening equity reserves as at 29 December 2018. Comparatives have not been restated. There has been no movement in the ECL during the period.

No other new accounting standards or amendments to accounting standards, or IFRIC interpretations that are effective for the period ended 27 December 2019, 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 investment
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 – accounting policy applied from 29 December 2018

Borrowings
All borrowings and loans are initially recognised at the fair value of consideration received or paid after deduction of issue costs and are subsequently measured at amortised cost. The issue costs and interest payable or receivable on debt finance are charged/credited to the Income statement, as interest payable and similar charges or interest receivable and similar 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 and other receivables
Initial recognition and measurement
Financial assets are classified at initial recognition, and are subsequently measured, at amortised cost as the Company's financial assets give rise to cash flows that are solely payments of principal and, where applicable, interest on the principal amount and it is the Company's business model to collect the contractual cash flows.

C1 Principal accounting policies (continued)

Impairment
The Company recognises an allowance for expected credit losses (ECLs) for all receivables held at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12 month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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.

Financial instruments – accounting policy applied on or before 28 December 2018

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	149.1
Additions in respect of share-based payments	0.8
At end of period	**149.9**

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 market capitalisation of the Company was lower than the aggregate of the amount of the Company's investment in subsidiaries and receivables from those entities. However, the Directors believe that the carrying value of the investments is supported by their underlying net assets and value in use. This was considered in detail by reference to the Trading Group's value in use in addition to appropriate recognition for the value of the Trusts.

C3 Trade and other receivables: amounts falling due within one year

	27 December 2019 £m	28 December 2018 £m
Amounts owed by group undertakings	**295.3**	304.7

C4 Creditors: amounts falling due within one year

	27 December 2019 £m	28 December 2018 £m
Amounts owed to subsidiary undertakings	**12.4**	12.4
Accruals	**1.9**	1.1
Corporation tax	**0.7**	1.2
	15.0	14.7

Notes to the Dignity plc financial statements continued

for the 52 week period ended 27 December 2019

C5 Called up share capital and reserves

	27 December 2019 £m	28 December 2018 £m
Allotted and fully paid Equity shares		
50,012,394 (2018: 50,008,939) Ordinary Shares of 12 48/143p (2018: 12 48/143p) each	**6.2**	6.2

Each Ordinary Share carries equal voting rights and there are no restrictions on any share.

See note 24 of the Group's consolidated accounts for further details.

C6 Dividends

	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 £m
Final dividend paid: 15.74p per Ordinary Share (2018: 15.74p)	**7.9**	7.9
Interim dividend paid: nil per Ordinary Share (2018: 8.64p)	**–**	4.3
Dividend on Ordinary Shares	**7.9**	12.2

The interim dividend represents the interim dividend that was approved and paid in the period out of earnings generated in the same period. No interim dividend was declared in 2019.

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 £7.9 million, 15.74 pence per share (2018: £12.2 million, 24.38 pence per share).

On 28 June 2019, the Group paid a final dividend, in respect of 2018, of 15.74 pence per share (2018: 15.74 pence per share) totalling £7.9 million (2018: £7.9 million). The Group is not proposing any dividend for the period ended 27 December 2019.

C7 Staff costs

Directors' remuneration

Details of the Directors' emoluments are included in pages 83 to 91. They received no emoluments in respect of their services to the Company (2018: 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 2020

Company name	Principal activity
Newport & Telford Funeral Service Ltd	Funeral services

Notes to the Dignity plc financial statements continued

for the 52 week period ended 27 December 2019

C9 Subsidiary undertakings (continued)

Dormant companies

A & N Duckworth Limited
A. & G. Huteson Ltd
A Ashton & Sons Limited
A Bennett & Sons Limited
A F Townsend (Funeral Directors) Limited
A Hazel & Sons Limited
A Shepherd & Sons Limited
A T Genders Limited
A V Band Limited
A. Haxby & Sons (Filey) Limited
Abbey Funeral Service Limited
Adela Funeral Homes Limited
Aberdeen Funeral Directors Limited*
Anglian Funeral Service Limited
Armitage (Funeral Directors) Limited
Arthur Denyer Limited
Arthur G Whitehead (Westminster) Limited
Ashton & Ebbutt Limited
Ashton Ebbutt Holdings Limited
Ashton Memorials Limited
Ashtons (Brighton) Limited
Associated Funeral Services Limited
Astley Funerals Limited
Arthur J. Nash Limited

B & B Funeral Directors Limited
B. Bernard & Sons Limited
Baguley Bros. Limited
Banks Funeral Service Limited
Bayley Brothers Hereford Limited
Birmingham Crematorium (1973) Limited
Boyce Anderson Motors Limited**
Bracher Brothers Limited
Brighton Stonemasons Limited
Broadwater Limousines Limited

C Powell Funeral Service Limited
Caledonian Funeral Services Limited*
Carrwood Funeral Supplies Limited
Castle Court Funeral & Limousine Services Limited
Chichester Crematorium Limited
Chosen Heritage (Scotland) Limited*
Chosen Heritage Limited
Chosen Heritage Services Limited
Clegg Humphreys Limited
Cooksey & Son Limited
Cooksley & Son Limited
Coombes & Sons (Bovey Tracey) Limited
Counties Crematorium Limited
Coyne Brothers Limited
Cumbernauld Funeral Services Ltd*
Cyril H. Lovegrove Limited

D J Thomas (Funeral Directors) Limited
D. J. Evans Forse & Co Limited
D.Walsh & Son Limited
Daly & Company Limited
David B Hendry Limited
David Silvey & Son Limited
Davis McMullan Funeral Directors Limited
Derriman & Haynes Funeral Services Limited
Dewi Reynolds & Sons Limited
Dignity (2009) Limited
Dignity Caring Funeral Services Limited
Dignity Funerals No.2 Limited
Dignity Funerals No.4 Limited
Dignity In Destiny Limited
Dignity Legal Services Limited
Dignity Manufacturing Limited
Dillistone Funeral Service Limited
Docklands Funeral Services Limited
Dottridge Brothers Limited
Downer & White Limited
Downs Crematorium Limited
Dowsett & Jenkins Limited
Dundee Crematorium Limited*
Dunning (Undertaking) Limited
Dyson Richards Limited

E Hurton & Son Limited
E M Lander Limited
E Seymour & Son Limited
E. Brigham Funeral Directors Limited
E.F.Edwards Limited
E.Finch & Sons Limited
Earl Of Plymouth Limited
Eden Park Estate Limited
Edmund & Lewis Limited
Edward Lewis Wicks & Sons Limited
Ely Funeral Service Limited
Exeter & Devon Crematorium Limited
F L Mildred & Sons (Funeral Directors) Limited
F. Kneeshaw & Sons (Funeral Directors) Limited
F.E.J. Green & Sons Limited
F.G.Pymm (Funeral Directors) Limited
F.Harrison & Son (Funeral Directors) Limited
F. J. Gibb Limited
F.M. & J. Wait & Co Limited
F. Jennings & Sons Limited
F.Smith & Son (Staines) Limited
Family Funeral Services Limited
Farebrother Funeral Services Limited
Fisher & Townsend (Funeral Directors) Limited
Flowers By Design Limited
Ford Ennals Funeral Services Limited
Forethought Limited
Francis Chappel & Sons Limited
Frank Stephenson & Son (Funeral Directors) Limited
Frederick W Chitty & Co Limited
Fredk. W.Paine Limited
Funeral Arrangements Online Limited
Funeral Debt Collection Limited
Funeral Services London Limited

G & L Evans Ltd
G. M. Charlesworth & Son Limited
G.F. Cook (Funerals) Limited
G.F.Hunt (Bath) Limited
G.Gamble & Son Limited
G.Smith (Wooburn) Limited
George Hall & Son Funeral Directors Limited
George S. Munn & Company, Limited*
George Stanton (1935) Limited
Ginns & Gutteridge Limited
Gornalls Funeral Services Limited
Graeme Buckle Funeral Services Limited
Graham Sullivan Funeral Directors Limited
Grave Design Limited
Great Southern Group Limited
Grimmett & Timms Limited

C9 Subsidiary undertakings (continued)

Dormant companies (continued)

H & G Wilde Funeral Directors Limited
H A Harrold & Son Limited
H Eaton & Sons Holdings Limited
H.Eaton & Sons Limited
H J Dawson Limited
H J Phillips & Son (Funeral Directors) Limited
H Johnson & Sons Limited
H Leslie Humphreys Limited
H Tonkin Limited
H. J. Whalley & Sons Limited
H. Towell Ltd
H.Copeland & Son Limited
H.Dorricott & J.Bent Limited*
H.G.Brown & Sanders Limited
H.Hill Funeral Service Limited
H.R.H. Holdings Limited
Hambrook & Johns Limited
Hanningtons (Funeral Directors) Limited
Hardacres Funeral Directors Limited
Harry Williams & Sons (Cambridge) Limited
Heighton & Son Limited
Hemley Funeral Service Limited
Henry Naylor (Funeral Directors) Limited
Henry Paul Limited
Henry Smith (Wandsworth) Limited
Highfield Funeral Service Limited
Hindu Funeral Service Limited
Hodgson Holdings (Scotland) Limited
Hodgson Holdings Limited
Holdfast (Funerals) Limited**
Howard Jenkins (Edge Hill) Limited
Hunters Funeral Directors Limited

Ian Clarke Funeral Service Limited
Ingall Services Limited
Inverclyde Funeral Directors Limited*
Invicta Memorials Limited

J H Kenyon Limited
J H Raven Limited
J Hylton & Sons Limited
J Kynaston Limited
J Steadman & Sons Limited
J.W.Tate & Son (Holdings) Limited
J.W.Tate & Son Limited
Jack Lee & Sons Limited
James Allen & Son (Disley) Limited
James Crook Limited
John & William Shering Limited
John Bardgett & Sons Limited
John G Ashton & Co (Funeral Directors) Limited
Johnson Funeral Supplies Limited
Johnson-Sears Limited
Jonathan Harvey Limited
Jonathan Walker Funeral Directors Limited
Joseph Swift (Funeral Director) Limited
Joseph Tomlinson & Sons Limited
Joslin Memorials (1974) Limited

K.Y. Green Limited
Kellaways (Funeral Service) Limited
Ken Gregory & Sons Limited
Kent Funeral Supplies Limited
Kenyon Air Transportation Limited
Kenyon Emergency Services Limited
Kenyon Repatriation Limited
Kenyon Securities Limited
Kenyons Funeral Directors Limited
Kirkwoods (Funeral Directors) Limited**

L Fulcher Limited
L J Clegg Limited
Lambeth & Brixton Community Funeral Services Limited
Lambeth Funeral Services Limited
Lea Valley Funeral Services Limited
Leeds Limousines Limited
Leehope Services Limited
London Necropolis Company Limited
Longhurst (Undertakers) Limited
Lowden Wells Limited

MacIntosh & Steven Limited*
Mahony & Ward Limited
Malcolm J Presland Limited
Mannerings Limited
Mason Funeral Service Limited
Mathias's of Putney Limited
Maxwell Bros. Limited
Meadow Pool Limited
Mews & Yeatmans Limited
Mid Sussex Funeral Services Limited
Middleton & Wood (1919) Limited
Monumental Masons Limited
Moodys Funeral Directors Limited
Moray Crematorium Holdings Limited*
Moray Crematorium Limited*
Morecambe & Heysham Funeral Service Limited

N A Medd Limited
National Funeral Trust Limited
Newco (Crematoria) Limited
Newport Hire (I.W.) Limited
Newsome's Funeral Service (Royston) Limited
Nicholls Memorials Limited
Norfolk Crematorium Limited
Northampton Crematorium Limited
Norwich Crematorium Holdings Limited
Norwich Crematorium Limited
Nubian Funeral Directors Limited

Oxford Crematorium Limited

Patrick Stonemasons Limited
Personal Choice Funeral Plan Limited
Peter Johnson Funerals Ltd.
PFG Hodgson Kenyon (Services) Limited
PFG Hodgson Kenyon (UK) Limited
PFG Hodgson Kenyon Limited
Philip Ford & Son (Funeral Directors) Limited
Phillips Funeral Plans Limited
Phillips Funeral Services Limited
Phillips Holdings (Hertfordshire) Limited
Phillips Supplies Limited
Piccioni (Masonry) Limited
Plantsbrook Group Limited
Plantsbrook Limited
Preston Ireland Bowker Limited
Priestley & Cockett Limited

R Butler & Sons Limited
R C Holden & Son Limited
R Garner Son & Wood Limited
R.Davies & Son Limited
R.S. Johnson & Sons Limited
R.S.Scott (Funerals) Limited
Ravenhill Funeral Services Limited**
Remembrance Limited
Robemanor Limited
Robert Nicholls Funeral Directors Limited
Roberts & Brain Limited
Romney Marsh Funeral Services Limited
Rosspark Limited

Notes to the Dignity plc financial statements continued

for the 52 week period ended 27 December 2019

C9 Subsidiary undertakings (continued)

Dormant companies (continued)

S A Bates & Sons Limited
S Wellens & Sons Limited
Saftway Limited
Salenew Limited
Sanders Goodale & Co.Limited
SCI Pre Arrangement Limited
Seaford Funeral Service Limited
Seddons of Southport Limited
Selim Smith & Co. Limited
Serenity Limited
Sevenoaks District Crematorium Limited
Shankill Funeral Services Limited**
Silver Lady Funeral Service Limited
Simplicity Funerals Limited
Simpsons (Undertakers Requisites) Limited
Spotland Bridge Funeral Services Limited
Stanway & Garnett Funeral Service Limited
Swift & Mildred Limited

T & R O'Brien Limited*
T H Fenton Limited
T S Annison & Sons Limited
T. S. Horlock & Son Limited
T.H.Sanders & Higgs Limited
T.H.Sanders & Sons Limited
T J Brown & Sons Limited
T.J.Davies & Sons (Funeral Directors) Limited
Taylors Funerals (Wirral) Limited
The Crematorium Company Limited
The Dignity Plan Limited
The East Riding Crematorium Company Limited
The Haltemprice Crematorium Limited
The Lawrence Funeral Service Limited
The Leverton Funeral Service (Dartford) Limited
The South London & Southern Counties Cremation Society Limited
The South London Crematorium Co Limited
The Titford Funeral Service Limited
Thomas Brothers (Wellington and Taunton) Limited
Thompsons (Busbys) Limited
Thompsons (Funeral Furnishers) Limited
Thompsons (Maguires) Limited
Thompsons (Rimmers) Limited
Tovey & Morris Limited

U.F.D. Limited
UK Funerals Limited
UKF Limited

Valedictum Group Limited
Valedictum Holdings Limited
Valedictus Group Limited
Valedictus Holdings Limited
Valedictus Limited

W G Dixon Limited
W G Rathbone Funeral Directors Limited
W H Scott & Son Limited
W S Bond Limited
W S Harrison & Son Limited
W Thorp & Sons (Leigh-on-Sea) Limited
W.E.Turner (Funeral Furnishers) Limited
W.Garstin & Sons Limited
Walkers Funeral Directors Limited
Walmsley Hammond (Rayleigh) Limited
Warburton Funerals Limited
Wetton Funeral Services Limited
White Lady Funerals Limited
Whyte Funeral Services Limited*
William Pearce & Son Limited
Wilmshurst & Dickson Limited
WM. Jordan & Son (Funeral Directors) Limited*
Woodfield Park Funeral Home Limited
Wrekin Funeral Service Limited

Yew Holdings Limited

Registered office

* The registered office for these subsidiaries is 280 Kinfauns Drive, Glasgow, G15 7AR
** The registered office for these subsidiaries is 14 Scotch Quarter, Carrickfergus, County Antrim, BT38 7DP
*** The registered office for this subsidiary is 59 Kensington Place, St Heller, JE2 3PA, Jersey

All other subsidiary undertakings are registered at 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

Other information

All of the subsidiaries are incorporated in the United Kingdom except for Pitcher & Le Quesne Limited which is incorporated in Jersey. All subsidiaries are controlled by the Group.

All of the above shareholdings are held indirectly, with the exception of Dignity (2004) Limited, Dignity (2008) Limited, Dignity (2011) Limited and Dignity Holdings No.3 Limited.

Dignity plc owns, either directly or indirectly, 100 per cent of the equity interest of all the subsidiaries.

Financial record[a]

Summarised consolidated income statement

	2019 £m	2018 restated £m	2017[c] £m	2016[d] £m	2015[d] £m
Underlying revenue					
Funeral services	203.3	214.9	221.8	217.8	212.6
Crematoria	76.8	78.0	74.0	67.5	63.1
Pre-arranged funeral plans	21.2	22.7	28.2	28.3	29.6
	301.3	315.6	324.0	313.6	305.3
Underlying operating profit					
Funeral services	56.3	62.2	79.5	79.0	76.8
Crematoria	38.4	40.3	40.0	37.6	34.6
Pre-arranged funeral plans	–	2.8	8.0	8.5	7.8
Central overheads	(31.4)	(25.1)	(22.9)	(23.4)	(20.5)
	63.3	80.2	104.6	101.7	98.7
Underlying finance costs	(25.8)	(26.0)	(26.9)	(26.9)	(27.0)
Underlying finance income	0.2	0.2	0.1	0.4	0.5
Underlying profit before tax	37.7	54.4	77.8	75.2	72.2
Underlying taxation	(7.4)	(11.5)	(13.8)	(15.8)	(15.5)
Underlying profit after tax	30.3	42.9	64.0	59.4	56.7
Underlying earnings per share (pence)	60.6p	85.8p	128.3p	119.8p	114.8p
Revenue	338.9	353.7	324.0	313.6	305.3
Operating profit	44.8	75.9	98.0	97.7	95.5
Profit/(loss) after tax	34.9	(17.0)	57.8	57.2	56.9
Basic earnings/(loss) per share (pence)	69.8p	(34.0)p	115.8p	115.3p	115.2p

Key performance indicators

	2019	2018	2017	2016	2015
Total estimated number of deaths in Britain (number)	584,000	599,000	590,000	590,000	588,000
Number of funerals performed (number)	69,400	72,300	68,800	70,700	73,500
Funeral market share[b] (per cent)	11.7%	11.9%	11.5%	11.8%	12.3%
Number of cremations performed (number)	64,800	65,200	63,400	59,500	57,700
Crematoria market share (per cent)	11.1%	10.9%	10.7%	10.1%	9.8%
Active pre-arranged funeral plans (number)	523,000	486,000	450,000	404,000	374,000
Underlying cash generated from operations (£million)	71.8	101.9	115.4	121.1	125.2

Net debt

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Net amounts owing on Secured Notes per financial statements	(551.3)	(560.6)	(565.1)	(573.9)	(586.5)
Add: unamortised issue costs	(0.6)	(0.6)	(0.6)	(0.7)	(0.7)
Gross amounts owing	(551.9)	(561.2)	(565.7)	(574.6)	(587.2)
Net amounts owing on Crematoria Acquisition Facility per financial statements	–	–	–	(15.7)	(15.7)
Add: unamortised issue costs on Crematoria Acquisition Facility	–	–	–	(0.1)	(0.1)
Gross amounts owing	(551.9)	(561.2)	(565.7)	(590.4)	(603.0)
Accrued interest on Secured Notes	(12.2)	(12.3)	(0.3)	(0.3)	(12.8)
Accrued interest on Crematoria Acquisition Facility and Revolving Credit Facility	–	(0.2)	(0.2)	(0.1)	(0.1)
Cash and cash equivalents – Trading Group	57.9	66.9	49.3	67.1	98.8
Net debt	(506.2)	(506.8)	(516.9)	(523.7)	(517.1)

Financial record[(a)] continued

Summarised consolidated balance sheet

	2019 £m	2018 restated £m	2017 restated £m	2016[(d)] £m	2015[(d)] £m
Non-current assets					
Goodwill and intangible assets	**373.1**	384.9	385.5	358.1	328.2
Property, plant and equipment	**251.3**	254.1	248.0	235.4	200.6
Investments in associated undertakings	**–**	6.0	–	–	–
Financial and other assets	**18.2**	15.7	14.3	11.3	10.3
Financial assets – held by the Trusts	**947.5**	862.4	865.6	–	–
Deferred commissions	**96.8**	94.5	92.4	–	–
Deferred tax asset	**14.0**	17.9	6.8	–	–
	1,700.9	1,635.5	1,612.6	604.8	539.1
Current assets					
Cash and cash equivalents – Trading Group	**57.9**	66.9	49.3	67.1	98.8
Cash and cash equivalents – held by the Trusts	**15.5**	13.8	21.8	–	–
Cash and cash equivalents	**73.4**	80.7	71.1	67.1	98.8
Other current assets	**47.6**	46.9	49.6	43.1	38.3
	121.0	127.6	120.7	110.2	137.1
Total assets	**1,821.9**	1,763.1	1,733.3	715.0	676.2
Current liabilities					
Financial liabilities	**9.6**	9.3	4.5	8.8	8.3
Contract liabilities	**95.5**	91.5	88.3	–	–
Other current liabilities	**65.3**	73.0	62.8	66.3	74.4
	170.4	173.8	155.6	75.1	82.7
Non-current liabilities					
Financial liabilities	**542.3**	551.9	561.2	581.5	594.6
Contract liabilities	**1,209.1**	1,164.6	1,117.3	–	–
Other non-current liabilities	**37.3**	36.7	34.2	61.9	42.8
	1,788.7	1,753.2	1,712.7	643.4	637.4
Total liabilities	**1,959.1**	1,927.0	1,868.3	718.5	720.1
Total deficit	**(137.2)**	(163.9)	(135.0)	(3.5)	(43.9)
Total deficit and liabilities	**1,821.9**	1,763.1	1,733.3	715.0	676.2

NOTES

(a) This information has been extracted from the current and previous Annual Reports and accordingly does not constitute audited information.

(b) Market share excluding funerals performed in Northern Ireland.

(c) 2017 income statement has not been restated for the impact of IFRS 15 or the change in accounting policy in respect of the Trusts.

(d) 2015 and 2016 have not been restated for the impact of IFRS 15 or the change in accounting policy in respect of the Trusts.

Alternative performance measures

Non-GAAP measures

(a) Alternative performance measures
The Board believes that whilst statutory reporting measures provide financial performance of the Group under GAAP, alternative performance measures are necessary to enable users of the financial statements to fully understand the trading performance and financial position of the business.

The alternative performance measures provided are aligned with those used in the day-to-day management of the business and allow for greater comparability across periods.

For this reason, the alternative performance measures provided exclude the impact of consolidating the Trusts and the changes which relate to the adoption of IFRS 15 (together referred to as 'other adjustments'), both of which are considered to mask the underlying trading performance of the Group, as well as non-underlying items comprising certain non-recurring and non-trading transactions.

Calculation of underlying reporting measures
Underlying revenue and profit measures (including divisional measures) are calculated as revenue and/or profit before non-underlying items and other adjustments.

Underlying net finance costs are calculated before the impact of consolidating the Trusts. See note 4.

Underlying earnings per share is calculated as profit after taxation, before non-underlying items and other adjustments (both net of tax), divided by the weighted average number of Ordinary Shares in issue in the period.

Underlying cash generated from operations excludes non-underlying items and other adjustments on a cash paid basis.

(b) Non-underlying items
The Group's underlying measures of profitability exclude:

- amortisation of acquisition related intangibles;
- external transaction costs;
- profit or loss on sale of fixed assets;
- Transformation Plan costs (see below);
- operating and competition review costs;
- one-off costs in respect of the defined benefit pension obligations;
- trade name write-off and impairments;
- Group's share of profit or loss and impairment of associated undertakings; and
- the taxation impact of the above items together with the impact of taxation rate changes.

Non-underlying items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day-to-day management of the Group and allow for greater comparability across periods.

Transformation Plan costs
Given the on-going transformation of the Group's business will result in significant, directly attributable non-recurring costs over the period of the Transformation Plan, these amounts are excluded from the Group's underlying profit measures and treated as a non-underlying item.

These costs will include, but are not limited to:

- external advisers' fees;
- directly attributable internal costs, including staff costs wholly related to the Transformation (such as the Transformation Director and project management office);
- costs relating to any property openings, closures or relocations;
- rebranding costs;
- speculative marketing costs; and
- redundancy costs.

Alternative performance measures continued

Non-GAAP measures (continued)

52 week period ended 27 December 2019	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Central overheads £m	Group £m
Non-trading					
Amortisation of acquisition related intangibles	**4.2**	**0.5**	**0.1**	**–**	**4.8**
External transaction costs	**–**	**0.7**	**0.1**	**0.1**	**0.9**
Profit on sale of fixed assets	**(1.0)**	**–**	**–**	**–**	**(1.0)**
Non-recurring					
Transformation Plan costs	**–**	**–**	**–**	**12.1**	**12.1**
Operating and competition review costs	**–**	**–**	**–**	**3.5**	**3.5**
Trade name impairment	**6.8**	**–**	**–**	**–**	**6.8**
	10.0	**1.2**	**0.2**	**15.7**	**27.1**
Group's share of loss of associated undertakings					**0.6**
Impairment of investments in associated undertakings					**5.4**
Taxation					**(4.9)**
					28.2

52 week period ended 28 December 2018	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Central overheads £m	Group £m
Non-trading					
Amortisation of acquisition related intangibles	4.4	0.4	0.1	–	4.9
External transaction costs	0.6	–	–	0.2	0.8
Loss on sale of fixed assets	0.3	–	–	–	0.3
Non-recurring					
Transformation Plan costs	–	–	–	2.7	2.7
Operating and competition review costs	–	–	–	2.7	2.7
GMP past service cost	1.0	0.3	0.1	–	1.4
Trade name write-off	1.1	–	–	–	1.1
	7.4	0.7	0.2	5.6	13.9
Taxation					(2.5)
					11.4

(c) Non-underlying cash flow items

	27 December 2019 £m	28 December 2018 £m
Cash flows from operating activities	**64.6**	104.2
Cash flows of other adjustments	**(7.6)**	(9.3)
Cash flows from operating activities – Trading Group	**57.0**	94.9
External transaction costs	**0.8**	1.7
Transformation Plan costs	**11.2**	2.6
Operating and competition review costs	**2.8**	2.7
Underlying cash generated from operations	**71.8**	101.9

(d) Funeral market share

Comparable funeral market share excludes any volumes from locations not contributing for the whole of 2018 and 2019 to date and therefore excludes eight locations closed and 13 locations opened in 2018 and a further 12 locations closed and one location opened in 2019.

(e) Average assets per plan

Average assets per plan are calculated as the net assets of the Trusts divided by the number of active plans in the Trusts. Net assets in this calculation will not equal amounts in the consolidated balance sheet of the Group, as it includes instalment amounts due in future that become payable immediately on death.

Shareholder information

General enquiries may be addressed to the Company Secretary, Tim George, at the Company's registered office.

General information

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in England and Wales.

Company Registrars

Enquiries concerning shareholdings, change of address or other particulars, should be directed in the first instance to the Company's Registrars, Equiniti. They also provide a range of online shareholder information services at www.shareview.co.uk where shareholders can check their holdings and find practical help on transferring shares and updating personal details. Alternatively they can be contacted by telephone on 0371 384 2674 (textphone for shareholders with hearing difficulties 0371 384 2255) if calling from within the UK, or +44 (0) 121 415 7047 if calling from outside the UK.

Shareholder communications

Shareholders who have not elected to receive paper copies are sent a notification whenever shareholder documents are published to advise them how to access the documents via the Group website at www.dignityfunerals.co.uk/corporate. Shareholders may also choose to receive this notification via e-mail with a link to the relevant page on the website. This approach enables the Company to reduce printing and distribution costs and its impact on the environment. Shareholder documents are only sent in paper format to shareholders who have elected to receive documents in this way.

Shareholders who wish to receive e-mail notification should register online at www.shareview.co.uk click on 'Open a Portfolio Account' under the 'Portfolio' section. You will require your Shareholder Reference Number, which is given on your share certificate or dividend tax voucher. Choosing e-mail notification will result in you joining the Equiniti Shareview Service in accordance with its terms and conditions.

Share price information

The latest Dignity plc share price can be obtained via the Company's investor website www.dignityfunerals.co.uk/corporate.

Unsolicited mail

The Company is obliged by law to make its share register available upon request to the public and to other organisations which may use it as a mailing list resulting in shareholders receiving unsolicited mail. Shareholders wishing to limit the receipt of such mail should register to do so with the Mailing Preference Service at www.mpsonline.org.uk.

Annual General Meeting

The Company's Annual General Meeting will be held on 11 June 2020 at 11:00am at DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham, West Midlands, B2 4DL.

Dividends

Although the Group has significant cash resources at hand and continues to be cash generative, in order to maintain maximum flexibility and liquidity during the transformation, the Board has concluded that it is prudent to temporarily cease dividend payments. The Group has an established track record of returning cash to shareholders at appropriate times over many years and once the current uncertain competitive environment becomes clearer, it anticipates resuming dividend payments or returning excess cash to shareholders.

Contact details and advisers

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Company Secretary:
Tim George FCIS

Registered Number:
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Birmingham B4 6HQ

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Investec
A division of Investec Bank plc
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London EC2V 7QP

Principal Bankers:
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West Midlands Corporate Office
2 St Philips Place
Birmingham B3 2RB

Legal Advisers:
DLA Piper UK LLP
Victoria Square House
Victoria Square
Birmingham B2 4DL

Financial calendar

11 June 2020	• Annual General Meeting
26 June 2020	• 2020 financial half year end
29 July 2020	• Announcement of 2020 interim results
25 December 2020	• Financial period end

Forward-looking statements

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

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

Any forward-looking statements made in this Annual Report or the Dignity plc investor website, or made subsequently, which are attributable to the Company or any other member of the Group, or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to in this statement. Each forward-looking statement speaks only as of the date it is made. Except as required by its legal or statutory obligations, the Company does not intend to update any forward-looking statements.

Nothing in this Annual Report or on the Dignity plc investor website should be construed as a profit forecast or an invitation to deal in the securities of the Company.

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