
ANNUAL REPORT 2020

Dignity plc Annual Report & Accounts

Responsible and resilient
through challenging and
changing times

DIGNITY
PLC

Who we are

We are one of the UK's major funeral related service providers and the only publicly listed company in the UK operating in the funeral sector. The Group's main activities are **funeral services, crematoria** and **pre-arranged funeral plans**.

Our aim is to be at the forefront of the sector in terms of quality, transparency, standards, choice and value-for-money.

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Transparent reporting

We aim to report in a transparent and integrated way to clearly reflect how we operate. Within this year's report we have also sought to address the additional requirements arising from Section 172 of the Companies Act 2006 and the 2018 UK Corporate Governance Code.

This Annual Report & Accounts contains forward-looking statements with respect to the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives.

At a glance

Strategic report

A caring and responsible business

What we are here for and our role

We are a caring and responsible business. At its heart is a core social purpose to help people at one of the most difficult times in their lives.

It is through the ongoing dedication of our people, our commitment to responsible business practice, and by making a meaningful contribution to society, that we will ensure we fulfil both our purpose and our potential.

A core **social purpose**



vital **frontline role**

As one of the funeral industry leaders, we have played our part during the evolving and unprecedented COVID-19 pandemic. We have worked closely with the Government and wider funeral sector to ensure that we deliver the services that are needed.

By managing our business proactively, we have been able to respond, prioritise and adapt with pace and agility to these extraordinary circumstances – for our clients, colleagues and those who use our facilities.



At a glance continued

Strategic report

A strong, resilient and sustainable business

Our distinctive qualities and strengths

Our Services

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.

Dignity Funerals provides the bereaved with access to our national network of funeral directors, where families can arrange a service personal to their needs.

Simplicity Cremations offers less traditional, lower cost direct cremation options and smaller, family-led services, whilst benefiting from Dignity's high standards of care and a national infrastructure of mortuaries and crematoria.

80,300 (2019: 69,400)

Number of funerals conducted during 2020.

795 (2019: 820)

Number of funeral locations we operate in the UK.

4,900 (2019: 2,700)

Of the 80,300 funerals conducted 4,900 relate to Simplicity and branch direct cremation based services delivered in 2020.

Crematoria

The Crematorium and Memorial Group ('CMG') is the largest single independent operator of crematoria in Britain with a significant portfolio of well-established and state-of-the-art facilities that meet the needs of the local communities we serve.

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

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

74,500 (2019: 64,800)

Number of cremations conducted during 2020.

46 (2019: 46)

Number of crematoria we operate in England and Scotland.

Pre-arranged funerals

We are one of the UK's largest providers of pre-arranged funerals.

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.

558,000 (2019: 523,000)

Number of active pre-arranged funerals as at 25 December 2020.

Our Strengths

- Leading the way for quality of client care, facilities and standards.
- Strong brands and compelling client propositions, offering greater choice and flexibility.
- Leading position in the pre-arranged funeral market.
- Focused on delivering excellent client service, and positive engagement and experience.
- Unique in our service capabilities as a funeral director, a crematoria operator and as a pre-arranged funeral plan provider.
- The only provider with a national network of funeral locations and crematoria.
- Leading position in the direct cremation market.
- An experienced team and Operating Board.
- Committed to delivering a progressive, innovative and increasingly more digital-led service for clients.

Our People, Culture and Values

Professionalism, resilience, respect and compassion has been vital in the face of the unprecedented challenges and change during 2020. We have sought to ensure that our people and the bereaved families we serve across the UK have been protected and supported during this time.

Our colleagues across the business have worked flexibly and determinedly to deliver services to the highest standards and with the care and commitment they always do.



Generating sustainable financial and non-financial value

Our Stakeholders and Sustainability

Engaging with a range of stakeholders informs our decision-making, builds trust and is key to delivering our strategy in the long-term.

Our stakeholders include our clients, both our Pre-Need Funeral Plan holders and the Trustees of the related Funeral Plan Trusts, communities, colleagues, investors, suppliers, pensioners and trustees of our pension funds, and policymakers. For our business to succeed we need to maintain strong relationships and open engagement with them all.

We must dedicate time to understand their individual needs, expectations and aspirations, as meeting or exceeding them is an essential part of the way we create and deliver sustainable value.

Sustainability is about the actions we take to fulfil our purpose and our potential. We remain committed to driving a sustainable business that is both socially and environmentally responsible and commercially successful.

Summary 2020 Challenge and Opportunity

Our business and people have truly been tested by the challenging events of 2020. Our response has demonstrated the strength and resilience of our business, the dedication of our people in whichever role they play, and ultimately reaffirmed our commitment to our core social purpose.

We have an opportunity to reposition the business along with a clear sustainable growth plan:

- The final outcome and conclusions of the CMA investigation is now determined;
- Our preparations for regulation of the funeral plan market by the FCA are progressing;
- Our root and branch review is scheduled to conclude in the second quarter of 2021; and
- We are long-term advocates of improving standards, quality, transparency, and providing greater choice in the funeral sector.

We are determined to grow both funeral and cremation market share on a sustainable organic basis whilst safeguarding our future success for the benefit of all our stakeholders.

Summary Group Financial Performance 2020

Underlying revenue⁽¹⁾

£314.1m

(2019: £301.3m)

Operating profit

£15.9m

(2019: £44.8m)

Underlying operating profit

£55.7m

(2019: £63.3m)

Dividends paid in the period

£nil

(2019: 15.74p)

Basic (loss)/earnings per share

(51.0)p

(2019 restated: 61.2p)⁽²⁾

Underlying earnings per share

46.6p

(2019: 60.6p)

Number of active pre-arranged funerals

558,000

(2019: 523,000)

Cash generated from operations

£62.7m

(2019: £64.6m)

Underlying cash generated from operations

£76.4m

(2019: £71.8m)

(1) Total underlying revenue was £314.1 million (2019: £301.3 million). On a statutory basis the Group recognised Funeral services revenue of £274.8 million (2019: £262.1 million) and Crematoria revenue of £82.7 million (2019: £76.8 million). Pre-arranged funeral plans are not a separate division in statutory terms.

(2) Prior year basic earnings per share has been restated due to a prior year adjustment in relation to taxation. See page 96 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 application of IFRS 15 and adoption of IFRS 16, all 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 156 to 161.

Executive Chairman's review

Strategic report



Whilst COVID-19 featured heavily in our day-to-day activities into the first quarter of 2021, we did not lose sight of the numerous project work-streams initiated in the last year, aimed at affording the Board the time and collateral necessary to allow the business to self-heal, without recourse to dilutive funding initiatives.

Maintaining our resilience and focus through change

Clive Whiley, Executive Chairman | In a unique and challenging year, it is the dedication of our staff that has enabled continued delivery of our services, supported by a refreshed strategy and management team.

Overview

The year under review represents my first full year as Chairman and proved to be a unique and challenging period due to the conjunction of events surrounding the COVID-19 pandemic, ongoing regulatory considerations and the Transformation Plan. However, first and foremost the Board is grateful for the constant dedication of our staff, whichever role they perform in the business, as they continue to respond appropriately to people losing loved ones at a time when their ability to grieve and to gain closure remains adversely impacted by the pandemic.

Our people are fundamental to both the Group's success and sustainability and I would like to thank them for their significant contribution, resilience and commitment to service during what has been an exceptional time for society, bereaved families, our people and our business.

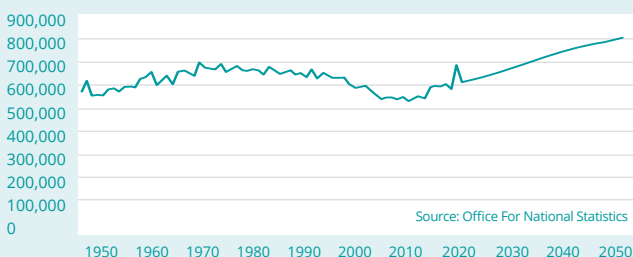
Strategic challenges

Of the triple challenges highlighted, **COVID-19** directly contributed to a total UK 2020 annual death-toll of 663,000, an increase of 14 per cent over 2019, representing the highest total UK deaths since 1918, which witnessed the end of WW1 and the Spanish Flu pandemic. Moreover, the year-on-year impact swung from an increase of one per cent in Q1, to plus 47 per cent in Q2, minus two per cent in Q3 and back to plus eight per cent in Q4 with the concomitant stress on our funeral and crematoria operations: notwithstanding the fact that we deliberately maintain a degree of structural overcapacity with, for example, over 20 per cent of private sector mortuary capacity.

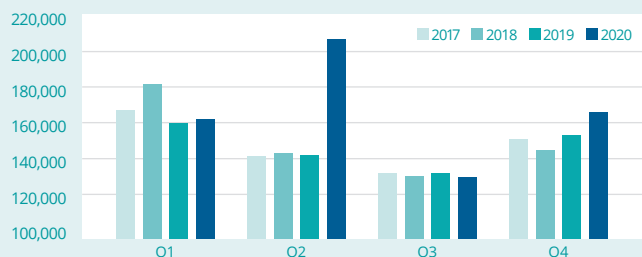
At the peak of the pandemic the crisis led to a constricted service offering, in the interests of the welfare of our staff and clients, alongside higher PPE and temporary staff expenditure which translated into underlying operating profit falling by 12 per cent to £55.7 million and underlying average revenue per funeral of £2,522 (2019: £2,930). Government guidance continues to restrict the attendance at funerals with limits for all venues, remaining at 30 in England, 20 in Scotland and 25 in Northern Ireland. In Wales as many attendees as the venue can hold whilst respecting social distance and COVID-19 Safe protocol is currently allowed.

Deaths in Great Britain

Latest figures from the ONS indicated COVID-19 deaths in Great Britain (where coronavirus (COVID-19) was mentioned on the death certificate) at 87,500 in 2020.



Number of deaths



We also had to contend with the ongoing CMA market investigation, launched in March 2019, which reached an early conclusion with the publication of the Final Decision Report issued on 18 December 2020 (detailed on pages 12 and 13). We engaged openly and collaboratively with the CMA throughout the investigation and look forward to working with the regulator and the Government to ensure the package of remedies work for consumers and are implemented effectively across the market.

In fact, Dignity has been working to raise awareness regarding issues of transparency and consistency in quality of care across the funerals sector for a number of years and we are determined to represent a flagship within the industry for quality and governance. In addition, we welcome the decision to introduce statutory regulation to pre-arranged funeral plans and are working with the FCA as it accelerates the development of its future approach (see page 10).

However, it is the shortcomings exposed by the root and branch review, arguably self-inflicted by torpid strategic direction over the last decade, as exacerbated by the extreme volatility in volume created by the pandemic, that exposed the business most during the year. The Transformation Plan, launched with great fanfare and at considerable expense in 2018, in my opinion introduced too narrow a focus upon one element of the Group, without considering the capacity to grow the business organically across its full bandwidth. In short, that was tantamount to admitting defeat as a Group that had elected for many years to utilise the majority of its capital investment buying its way out of deteriorating funeral market share (2001: 491 funeral locations and 11.8 per cent funeral market share; 2019: 820 funeral locations and 11.7 per cent funeral market share). At best that consolidated the heritage of strong family businesses and staff that perform well to this day, at worst business integration ceased at legal completion: leading to Dignity essentially becoming the industry retirement plan for independent funeral directors.

Fortunately, over the same period our cremation market share has grown by 70 per cent (2001: 21 crematoria and 6.5 per cent cremation market share; 2019: 46 crematoria and 11.1 per cent cremation market share) benefiting from a best-in-class capital development programme, including nine new build crematoria coming on stream as a result.

Transformation Plan

The Transformation Plan, which was paused indefinitely on 3 April 2020 with the onset of the pandemic, was expected to cost £50 million over a three year period to deliver mid-range EBITDA benefits of approximately £10 million per annum. The root and branch review, initiated upon my appointment, identified benefits of £8 million in 2020 alone, alongside preserving cash spending on transformation of in excess of £30 million, simply from better housekeeping. Furthermore Project 20:20, which is the final component of the root and branch review, will now shoulder the burden of effecting appropriate changes to staff working practices within our funeral division. This project is designed to determine the optimal scope, size and logistics of our care centre and branch network, having due regard to both the extensive learnings from the Transformation Plan alongside output from the pricing, product and other trial propositions in train.

Strategic update

Future Strategic Direction

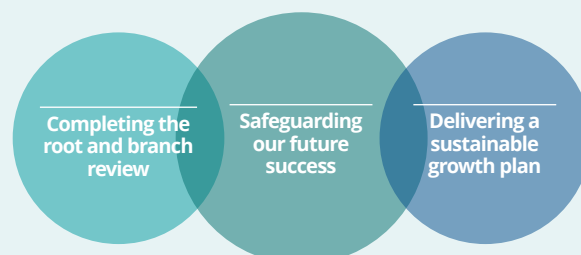
Whilst COVID-19 obviously featured heavily in our day-to-day activities into the first quarter of 2021, we have not lost sight of the numerous project work-streams initiated in the last year, aimed at affording the Board the time and collateral necessary to allow the business to self-heal, without recourse to dilutive funding initiatives. In that context:

- The root and branch review is scheduled to conclude in the second quarter of 2021;
- The refocusing of the investment management strategy for the pre-need Trusts successfully validated the combined trust assets at a level of some £1 billion alongside implementing a more defensive risk profile and significantly reduced annual fees;
- A record 558,000 people have pre-arranged their funerals with Dignity, a ten year CAGR of 10 per cent and we continue to strive to set the industry standard;

The consultation paper on the proposed FCA approach to regulation of funeral plans was published on 2 March and, if enacted as published, would have a profound impact on the industry. This is notwithstanding the core strength of our Funeral Plan Trusts, with assets at a level of some £1 billion and our ability to perform the at need funeral commitment from within our own funeral division. Accordingly, we are in the process of reviewing the possible ramifications for our longer-term instalment funeral plan sales and the anticipated higher cancellations thereon and will report on that in due course;

- We commissioned an independent valuation report for our standalone crematoria operations, which retain the benefit of several active planning consents as well as the marginal capacity to perform a materially higher volume, as both a datum from which to determine future capital structure and a defence in the event of an unwelcome approach for the Group; and
- The ongoing success of Simplicity Cremations, launched as a challenger brand in December 2016, which delivered a record of 4,300 direct cremation based services in 2020 (an increase of 106 per cent) has reinforced our determination to ultimately become the sector leader.

As detailed above, I am satisfied that the Board now has a very clear understanding of our strategic objectives, with an overarching desire to significantly grow both funeral and cremation market share over the next five years on a sustainable organic basis: whilst preserving our core values built around quality, providing excellent client service and high standards of care.



Executive Chairman's review continued

Strategic report

Board changes

As noted, the onset of the pandemic forced us to accelerate the root and branch review, alongside pausing the Transformation Plan in order to preserve cash resources, ahead of anticipated volatility in funeral and cremation volumes over both 2020 and 2021, also heralded wholesale change at board level, where:

- On 11 March 2020 Dean Moore joined the Group as a Non-Executive Director, succeeding as Chair of the Audit Committee on 11 June 2020 before becoming Interim Chief Financial Officer on 14 December 2020;
- On 3 April 2020 we agreed with Mike McCollum, who had been a significant influence behind the Group for over twenty years, that the approaching strategic crossroads represented an appropriate time for him to hand over as Chief Executive Officer and I agreed to step up to the role of Executive Chairman;
- On 3 April Jane Ashcroft, who had completed her contractual term as a Non-Executive Director, stepped down from the Board;
- David Blackwood, who served as Senior Independent Director and as Interim Non-Executive Chairman prior to my appointment on 26 September 2019 and Chair of the Audit Committee thereafter, did not seek re-election at the AGM held on 11 June 2020;
- Gillian Kent, who has strong digital transformation experience, joined the Board on 11 June 2020 as an independent Non-Executive Director and as Chair of the Remuneration Committee;
- On 14 December, we reached an agreement with both Steve Whittern, Finance Director and Richard Portman, Corporate Services Director, to step down from the Board, which they both did in December;
- Andrew Judd, Director of the Group's funeral operations and a member of the Operating Board, joined the Board as an additional Executive Director with effect from 14 December 2020; and
- Paul Humphreys joined the Board on 23 February 2021, as an independent Non-Executive Director and as Chair of the Audit Committee.

We are currently engaged in seeking a new Chief Financial Officer and we will continue our search for an appropriate candidate for the role of Chief Executive Officer, coterminous with the outcome of the root and branch review. Following these proposed appointments, we believe that we will have a plc Board that is appropriate for a company of our size, nature and circumstances. Furthermore, we now have a cohort of Non-Executive Directors with deeply embedded and relevant skills who are directly contributing to the change process and interface cohesively with the Operating Board.

As we approach the end of this period of major change our management needs and requirements have evolved as we become singularly focused upon our future strategic direction. Accordingly, we have also refreshed the majority of our Operating Board including identifying a strong candidate for the role of Chief Operating Officer and welcoming several new additions to our Senior Leadership Team: bringing renewed diversity alongside relevant skills and expertise.

Finally, we are fortunate to have a workforce that demonstrates a professionalism, pride and empathy in their work and we are placing a renewed focus upon long-term staff wellbeing, in addition to the advanced PPE and vaccination programmes specific to the pandemic, as we seek to enhance the cohesion between the Board and the workplace.

Dividend Policy

The Company has not paid a dividend since June 2019 and the Directors do not expect to pay dividends until the business has returned to a sustainable and stable financial footing, notwithstanding the fact that the Group retains significant cash resources and remains cash generative. The Directors understand the importance of optimising total shareholder return, as well as the need to maintain a balance between different groups of stakeholders, and it is the Directors' intention to return to paying a dividend as soon as they believe it is financially prudent for the Group to do so.

Summary outlook

Unfortunately, notwithstanding the significant progress the business has made since my appointment, our largest shareholder Phoenix Asset Management Partners, with whom we believed we were having a constructive dialogue in relation to the future strategy of the business, has chosen this moment to seek to assert what would, in effect, be executive control at Board level.

Whilst, in my view, the Group is now sufficiently robust to sustain this wholly avoidable and unnecessary challenge, it is nonetheless an unwelcome distraction as we remain dedicated to dealing with the ongoing fallout from the pandemic. To minimise disruption, the independent directors have been charged with taking the necessary steps to convene the required general meeting of shareholders and they will share their views on the resolutions to be considered at that time. It will then be for shareholders to decide on the merits of the Phoenix proposal.

Our response to COVID-19 and how we have considered stakeholders during this time

- Our commitment to our core social purpose and to being a responsible business is central to the way in which we operate. This has been the governing principle behind our response to the COVID-19 pandemic. The Board has continued to monitor its responsibilities to its stakeholder groups. Good engagement has been crucial in understanding the views of our stakeholders in order to make informed decisions during this period of unprecedented challenge.
- Throughout this Annual Report, we provide examples of how we: take into account the likely consequences of long-term decisions; build relationships with stakeholders; understand the importance of delivering for our clients; engaging with our employees; the impact of our operations on society, the communities we serve and the environment we depend on; and attribute importance to behaving as a responsible business. Details of how the Board has complied with Section 172 and how we engage with stakeholders can be found on pages 42 and 43.

Accountability

A strong and experienced Operating Board

We have identified clear priorities to be delivered through the Group going forward, all driven by our refreshed strategy. The Board has taken the opportunity to consider the most effective management structure to lead and deliver this strategy, with a refined Operating Board, consisting of the following members:

- Clive Whiley**
Executive Chairman
- Dean Moore**
Interim Chief Financial Officer
- Andrew Judd**
Executive Director of Funeral Operations
- Steve Gant**
Crematoria Director
- Paul Toghill**
Director of Pre Arrangement
- Mark Hull**
Marketing Director
- Alan Lathbury**
Business Development Director

Dean Moore, Interim Chief Financial Officer

In light of the management and Board changes, Dean Moore, who joined the Group as a Non-Executive Director in March 2020, was appointed as Interim Chief Financial Officer in December. In his interim CFO role, Dean is focused on working with the Operating Board to safeguard the future success of the business – delivering both value for shareholders, and a sustainable growth plan.



We remain determined to grow both funeral and cremation market share and safeguard our future success for the benefit of all our stakeholders.

Clive Whiley, Executive Chairman

The following pages outline the Operating Board's perspectives and approach.

- Full biographies for the Operating Board can be found on page 52.
- Details of the Financial review can be found on pages 22 to 26.

Operating Board perspective

Ensuring the client is at the heart of every decision we make is in our DNA and crucial to the delivery of our strategy, our operational and commercial focus.

Our client-led approach builds on our purpose and distinctive qualities and strengths. It positions us well to respond to the changing market environment and the opportunities this presents.



Executive Chairman's review continued

Strategic report



The strength of our people during the year has been nothing short of inspirational. They remained accountable in their roles as critical workers and continued to take the greatest care.

Rising to the challenge

Dignity works in a unique industry and succeeds by helping people through difficult times with respect, openness and care. Our operational colleagues are integral to this success, representing one of the most important interfaces in the business – our service to clients.

We endeavour to make a positive difference to an essential societal need, but 2020, and specifically limitations caused by the COVID-19 pandemic, have tested our collective resolve like never before.

The strength of our people during the year has been nothing short of inspirational. They remained accountable in their roles as critical workers and continued to take the greatest care, perhaps not with the public visibility or acclaim that other frontline responders had, but always with a level of professionalism and sensitivity that clients appreciated.

Together we arranged and delivered more funerals for our clients than at any other time in our history, even when our operational capacity was under strain.

Financial summary 2020	H1 £m	H2 £m	FY £m
Underlying operating profit – 2019	30.5	25.8	56.3
Impact of: Number of deaths	20.3	3.3	23.6
Market share	4.4	0.1	4.5
Average revenues	(19.0)	(11.3)	(30.3)
Net cost base changes	(2.5)	(1.6)	(4.1)
Underlying operating profit – 2020	33.7	16.3	50.0

See Operating Review for further details.

A strong and caring business with a core social purpose

Andrew Judd, Executive Director of Funeral Operations | We are honoured to serve our communities, continually providing vital services with expertise and compassion.

We implemented significant changes to our working practices and provided enhanced personal protective equipment to help ensure everyone's safety in all situations and environments. Teams used their skills to navigate complex and frequently changing guidelines on caring for the deceased, some of which varied across the four devolved nations where we offer our services.

Above all, we put clients first in extremely demanding circumstances. Funerals should always be deeply personal occasions, which is why colleagues worked tirelessly to ensure the preferences and individual wishes of families still found space for expression, even amidst the restrictions required to stay COVID-secure.

Constantly adapting

While often borne out of necessity, our experiences this year have highlighted alternative ways of doing things that have the potential to enhance our proposition going forward.

By embracing digital technology, we can interact with our clients at a distance, if that makes them feel more comfortable, as well as in person. It enables funeral services to be shared with family members and friends who are unable to attend and helps us plan for future opportunities to honour and remember those who have died.

I have already referred to the strain the pandemic placed on us operationally, but it also made clear the importance of safeguarding the mental health of our people. We are actively promoting a safe working environment where anyone can voice concerns or anxieties and access help.

As attention turns to the year ahead, we know the challenges presented by COVID-19 will remain for some time yet. Experience is on our side and I am confident that same resilient attitude of our people will come to the fore again.

Our scope, however, must be wider than COVID-19. We need to constantly adapt to changing consumer preferences and respond appropriately to issues raised by the CMA through its market investigation.

This focus on client needs resonates firmly with us and is absolutely the right thing to do and is reflected in my recent appointment to the Group Board.



I pride myself on having first-hand experience of arranging and conducting funerals built across a lifelong career in an industry I am hugely passionate about. It is these insights I will bring wholeheartedly into our discussions and ultimately our decision-making.



Supporting our people and bereaved families through the pandemic

Impact of COVID-19 on funerals

Arranging and conducting funerals that are memorable and dignified is what we do, but the pandemic has placed restrictions on how we can deliver these services.

With limited numbers of mourners able to attend a burial or cremation, we have adapted the way we work to offer an alternative approach we call our *Timeless Funeral*.

This involves an intimate funeral for close family members now, who can still say goodbye in a meaningful, respectful and safe way.

Then, once restrictions are fully eased, we can arrange a suitable memorial or celebration of life service at a later date, more in line with the client's original expectations, as well as the wishes of the deceased.





The CMG has worked tirelessly to create an environment where bereaved families can safely say a respectful goodbye to their loved ones.

Adapting to change

2020 was an extraordinary year. I am very proud of how The Crematorium and Memorial Group (‘CMG’) responded to challenges that none of us had previously faced in our careers. Our commitment to remaining operational has been evident and we continued to provide a vital service throughout the pandemic.

CMG has been active in encouraging a consistent, sector wide response to the pandemic by local authorities, private crematorium operators, industry bodies and the funeral directors that use our facilities. We have met weekly with central government to offer our expertise and regularly shared information about our service capabilities with Local Resilience Forums.

Due to the pandemic, we have needed to be flexible and make significant changes to the way we operate. This has included the provision of additional service slots during weekdays or weekends. As just one example of our continuity planning, approximately

Operating safely

From supplies of PPE, to detailed operational guidance and the installation of protective screens, we have provided colleagues with the equipment and knowledge they need to provide essential services in a COVID-safe way.

Easing the burden

Our Stay Well campaign has promoted wellbeing and positive mental health. All colleagues have access to our Employee Assistance Programme so they can confidentially seek professional support at any time.

Committed to remaining operational and keeping people safe

Steve Gant, Crematoria Director | A long-standing advocate of high standards in the industry; continued investment and development.

60 colleagues were upskilled, and each crematorium partnered with a neighbouring CMG facility to provide greater flexibility of resources.

Restrictions to funerals, such as the number of attendees or the closure and re-opening of cemeteries, crematoria grounds and offices to visitors, has presented the challenge of keeping the public informed about the services we were able to provide within these guidelines.

We also witnessed an increased demand for unattended direct cremations. We adapted to meet this challenge whilst continuing to provide facilities for those that wanted a more traditional cremation service.

Protecting our community and our colleagues

The safety of our visitors and colleagues is one of my greatest priorities. To help reduce transmission of COVID-19 and ensure that social distancing guidelines were followed, we have invested in PPE, perspex screens in our public offices and created one-way systems at all our crematoria. We have also ensured there is enough time between services to thoroughly sanitise our facilities.

Maximising our investment in technology

In recent years, we have invested in audio visual equipment at the majority of our crematoria which this year has proven to be a timely and invaluable addition to the services we offer. We can provide personalised tributes to the person that died, but also record or webcast the funeral for those that cannot attend the service.

During the first half of the year our installation programme was accelerated at the remaining sites.

Clear and accessible advice

Stay at home instructions shifted client focus away from locations and more towards our digital information channels. Dignity’s funeral and crematoria websites were regularly updated with comprehensive advice on planning and attending a service in line with changing COVID restrictions. We also shared insight and responded to general queries via our social media platforms.

Leading the sector in this way was instrumental in assisting as many mourners as possible to participate in the funeral during lockdown.

Enhancing our locations

As a long-standing advocate of high standards, we continually invest in our crematoria to ensure we have modern facilities that meet the changing needs of local communities or to react to operational needs.

While we continue our long-term programme of investment and refurbishment, we sometimes need to respond quickly to incidents outside of our control. During the year, Haltemprice and Randall’s Park crematoria respectively suffered damage from fire and flooding. We took the opportunity to not only refurbish these crematoria, but also to modernise them in line with our other flagship facilities.

Looking forward

I am confident about the future of CMG and our ability to serve both funeral directors and the bereaved in our local communities.

We will continue to respond to the challenges of the pandemic but will also endeavour to future proof our facilities and install the latest technology, so we set a high bar for the crematoria sector in terms of standards and choice.

Financial summary 2020	H1 £m	H2 £m	FY £m
Underlying operating profit – 2019	20.8	17.6	38.4
Impact of:			
Number of deaths	7.4	0.4	7.8
Market share	0.9	0.1	1.0
Average revenues	(4.3)	1.4	(2.9)
Cost base changes	(1.1)	(0.4)	(1.5)
Underlying operating profit – 2020	23.7	19.1	42.8

See Operating Review for further details.

Executive Chairman's review continued

Strategic report



As one of the UK's leading providers of pre-arranged funerals, Dignity is a long-term advocate for stronger market controls. We welcome the decision to introduce statutory regulation and are working closely with the FCA as it develops its future approach.

Market context

In an unprecedented year, Dignity's funeral planning business has demonstrated its resilience and an ability to deliver a strong market performance, despite the distraction and disruption of external factors.

Whilst COVID-19 has taken its toll on the wider societal and economic environment, we have continued to provide clients exemplary levels of service, adapting and being flexible in the environment in which we have been operating. This client-focused adaptability is a trait we pride ourselves on, this year seeing both growth in our core funeral plan offering as well as in our direct cremation funeral plan model. Our position of strength in being both a funeral director and funeral plan provider allows us to continue to offer clients both a competitive price point and a market-leading, feature rich product proposition.

Preparing for effective regulation of the funeral plan market

Paul Toghil, Director of Pre Arrangement | Statutory regulation presents a significant opportunity to create a market that consistently delivers the best outcomes for all consumers.

We have also continued to grow our business through our corporate partners, including testing different distribution models and some innovative products shaped around specific client needs. We launched a number of new partnerships in 2020, which has given us the opportunity to grow our volumes further. In addition, 2021 will see us launch a number of initiatives to grow and develop our funeral director and direct distribution models.

In addition to funeral plans we continue to work alongside a number of large UK insurers to provide funeral propositions which bolt on to their whole of life assurance products.

Regulation and the funeral plan market

In March 2020, HM Treasury announced that prepaid funeral plans would be subject to regulation by the Financial Conduct Authority ('FCA'). This decision followed several years of campaigning by Dignity. We believe regulation will prevent the small number of unscrupulous firms undermining what is otherwise a responsible industry. On 2 March 2021 the FCA published their consultation paper with their proposed approach to regulation.

If the FCA rules are enacted in the way they are currently drafted they will have a profound impact on both the wider industry and Dignity. We welcome the opportunity to work closely with the FCA over the coming months to ensure the rules provide the much needed consumer protection, but also supporting the FCA in their understanding

of the potential unintended consequences a commission ban would have in removing quality distributors that provide a valuable customer service from the market as well as those that are undermining the industry. We have also taken a decision to reduce our instalment terms on the majority of our plans from 25 to 10 years with effect from May. We will be reviewing alternative low-cost product options in the coming months.

Committed to a move towards a better market

Ahead of statutory regulation, we have been working diligently to ensure the FCA readiness of our business. We are already an organisation that has market-leading, feature rich products, competitively priced with high service standards. The majority of our team already have regulated backgrounds, as do many of our corporate partners, such as those in the building society and insurance space.

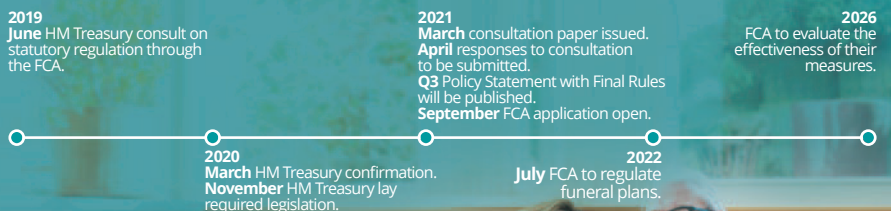
Despite any impact the current drafting may have on our volumes as a result of a commission ban, we remain confident that Dignity is in a strong market position, and that we will be able to deliver products and a service that will meet and exceed the regulatory standards set to be established across the market.

Helping consumers make informed decisions

Providing consumers with high standards and value:

- ✔ **Value** – we offer some of the most comprehensive plans on the market, underpinned by our cremation disbursement guarantee.
- ✔ **Choice** – we deliver a wide range of choice, flexibility and price options.
- ✔ **Trust** – we provide funeral plans consumers can trust and know that their money is secure.
- ✔ **Quality** – we are committed to high-quality service standards and improving outcomes for consumers.

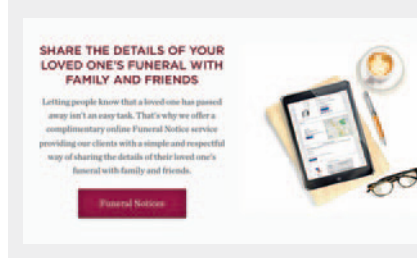
Regulation timeline



Planning ahead for peace of mind

1,089,000
Pre-arranged funerals

We have already helped more than 1,089,000 customers plan for their funerals in advance, of which 558,000 remain outstanding.



Funeral Notices

We offer a complementary online Funeral Notice service providing our clients with a simple and respectful way of sharing the details of their loved one's funeral online with family and friends.

- 23,750 clients published a Funeral Notice in 2020.
- Over 4.2 million views of a Funeral Notice.
- Handled over £2.5 million in donations to clients' chosen charities through Funeral Notices.



We are committed to ensuring clients achieve positive outcomes through all their interactions with us, evolving to meet their changing needs and expectations and providing greater choice and flexibility.

Compelling propositions, positive client experience and engagement

Mark Hull, Marketing Director | Providing greater choice and flexibility is an important part of Dignity's broader offering to clients, enabling them to engage with us in a manner that suits them; to choose a service that works best for them, whilst we continue to take the greatest care of our clients. It is central to our reputation and relationships and key to our ability to create value and grow market share.

A leading digital offer

Like many businesses today, our client journey now typically begins online. In 2010, only nine per cent of our Dignity Funeral clients found our details through the internet, last year it was over half. For Simplicity Cremations with no physical branches, every single Simplicity client will have started online.

Therefore, it is essential that we make it easy for potential clients to find us online then provide meaningful help and advice when they reach our websites. Our websites provide comprehensive guidance from subject matter experts on everything to do with funerals or funeral plans. Each branch also has a micro-site containing localised information about that business and its products and services, including pricing.

We have achieved a lot in the past three years – our combined website traffic has grown from just over 1 million hits in 2017 to 5.13 million in 2020. Our digital channels are continuing to generate increasing volumes of calls into our branches, enquiries to our Simplicity call centre and sales of Funeral Plans. We have been awarded the Feefo Platinum Trusted Service Award for both Simplicity and Dignity in 2020 and we passed 10,000 online reviews for our local businesses with an average rating of 4.89 out of 5.

Providing digital solutions during the pandemic

The pandemic has increased our clients' digital interaction with us. Our websites provide the latest information and help clients understand what type of funeral is still possible within the Government restrictions – both through our funeral business and at our crematoria. We adapted our processes and products, including distanced arrangements being made using digital

information packs and we've enabled more people to view funeral services through streaming.

Providing greater choice and flexibility

The pricing of funerals is complex and requires testing to ensure that it's easy for the bereaved to understand exactly what they are paying for. The pace of change and evolution in the funeral market has accelerated significantly with increased demand for personalised funerals, products such as direct cremation and woodland burials; and specialist needs in areas of the UK where traditions, strength of religious beliefs and the demographic make-up are all changing.

During 2020, we constantly trialled different products and prices and we haven't been afraid to try alternatives that benefit both the business and clients. Over 250 branches currently have comprehensive price lists online, with the remainder to be updated by Summer 2021.

An award-winning team

I am very proud of the team I lead and our continued progress in creating a leading marketing function that attracts and retains exceptional marketing talent. In support of this, I am delighted that our work for Dignity and Simplicity has been recognised in 2020 with accolades at both the Marketing Society Brave Awards and the Chartered Institute of Marketing Excellence Awards.

42.5 per cent increase in call volumes

Our website continues to provide an increasing volume of calls into our local businesses, with 228,673 trackable calls in 2020 (+42.5 per cent year-over-year).

Creating a clear brand identity

We continue to develop the identities of the Group and its component businesses. In the past, funeral directors had little need for marketing, however, in an increasingly competitive sector, with demand for a wider range of products, it's imperative to differentiate ourselves from other providers.

The way we market our business has changed a great deal in the past three years, but there remains a lot to do. To continue to create value and grow market share we use a blend of national and local marketing, utilise the latest tools and techniques and ultimately make the decision for the client to use us an easy one.



5.13 million

We have achieved a lot in the past three years – our combined website traffic has grown from just over 1 million in 2017 to 5.13 million in 2020.

The role of technology during the COVID-19 pandemic

We adapted our processes and products, including distanced arrangements being made using digital information packs and we've enabled more people to view funeral services through streaming.

Digital trends

As digital adoption trends evolve we continue to invest in technology and expertise to ensure we can make it easy for people to find us online and that their digital experience is supportive and useful.

3.9 million

Visitors to our Dignity website

During 2020, we received 3.9 million visitors to www.dignityfunerals.co.uk.

Executive Chairman's review continued

Strategic report



Dignity has engaged openly, and constructively with the CMA since the market investigation into the supply of services by funeral directors at the point of need and the supply of crematoria services was announced in 2018 and strongly supports the opportunity to improve standards within the sector.

Market Context & CMA Investigation | Perspective

Market Drivers

Societal

- The way people arrange a funeral is changing – moving away from tradition and becoming increasingly digital and personalised.

Competition

- To ensure the sector remains competitive, it must evolve and modernise services in a way that better meets client priorities and expectations.

Regulation

- Dignity has been leading the call for regulation and higher standards in the funeral sector.

Impact of COVID-19

The whole of the UK has been affected by COVID-19 and this has had an unparalleled impact on the number of deaths registered in 2020. Latest figures from the ONS indicated COVID-19 deaths in Great Britain (where coronavirus (COVID-19) was mentioned on the death certificate) at 87,500 in 2020.



Responding to the CMA in a changing and competitive market

Alan Lathbury, Business Development Director | The funeral sector remains fiercely competitive and continues to evolve notwithstanding the impact of COVID-19. The CMA's investigation into the sector provides a significant opportunity to align standards and protect consumers.

The UK funeral market

The UK funeral market is becoming more dynamic – it is more digital than ever before, and more driven by the evolving client needs. However, in 2020 the operation of the funeral industry was largely determined by the necessary Government restrictions put in place to reduce COVID-19 transmission rates. The long-term effects of these precautions and the impact on consumer behaviour will emerge as the restrictions are lifted.

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 clients to exercise the choice that exists, especially through greater pricing transparency. The CMA process has proposed measures to help address this across the market.

Deaths in Great Britain

In 2020 initial total estimated deaths in Great Britain for 52 weeks was 663,000, 14 per cent higher than the 52 weeks in 2019. 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 six years have seen deaths above that level. The ONS (2019 based projections) expects long-term increases in the number of deaths, but these projections have been impacted as a result of COVID-19.

CMA Market Investigation

Overview

In November 2018 the CMA announced its investigation into the funeral and crematoria industry. This came 20 years after the last study of the sector by the former competition regulator (Monopolies and Mergers Commission) and followed several months of market engagement. The CMA sought to 'review how well the market works and whether consumers are getting a good deal.'

What followed was two years of engagement with providers in the sector, including Dignity, as well as wider calls for evidence from third sector organisations (such as bereavement charities and consumer groups).

The CMA has concluded that consumers find it intrinsically challenging to purchase a funeral and can be hindered by lack of easily accessible and comparable information, an inability to observe the quality of care provided, and by barriers to entry and local concentration in crematoria services.

Dignity's participation and response

During the investigation we have responded to the formal CMA process, whilst also offering sector expertise through our engagement with the regulator. Our input has included:

- Over 11 responses to CMA "Requests For Information" (RFI).
- Supply of thousands of historical e-mail correspondence.
- Direct engagement via eight face-to-face or virtual meetings with the CMA team.

As part of our contributions and evidence to the regulatory process, we hosted visits with both CMA panel members and its wider executive team. This offered a platform for Dignity to showcase its market-leading services, for both front and back of house facilities.

Key considerations we've communicated to the CMA include:

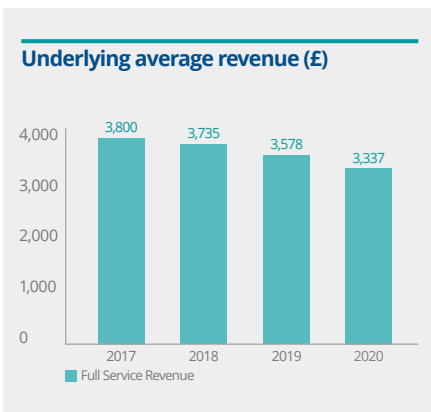
- Ensuring that service elements of the funeral process were fully understood and assessed, alongside other key aspects, such as price and transparency.
- Strongly recommending that any regulation must be independent, consumer-focused, and implemented



for all funeral and crematoria services providers to ensure a consistent level of consumer standards across the market.

- Highlighting the capital investment made by Dignity to continually deliver high service standards, including provision of mortuary capacity, development of our employees, and investment in technology.

It is clear from the financial data 2018 to 2020 that both funeral mix and average funeral revenues have been affected by structural changes in the market and the COVID-19 pandemic. We have worked with the CMA to ensure that the increased level of competition and increased engagement of consumers through online activity will not be restricted or limited by the proposed future remedies.



Recommendation for new inspection and registration scheme to improve the quality of funeral directors' back-of-house standards. This covers collection and transport, care, storage and preparation of the deceased. This will potentially be funded through a levy or license fee imposed on funeral directors.

It will be important for Dignity to continue to work closely with the CMA and Government on the implementation and structuring of regulation, including any appointed regulator, building on the platform already being developed by the Funeral Service Consumer Standards Review ('FSCSR'). Accordingly, we have strengthened our Senior Leadership Team with the appointment of a Head of Governance reporting directly to the Chairman.

Commercial remedies that build on and improve recent industry progress to help consumers fully engage with the economic aspects of choosing a funeral provider.

The key elements of this are:

- A Price List that adheres to a specified CMA template.
- Provision of business information to clients.
- Prohibition of certain types of commercial arrangements.

The statutory deadline for the implementation of the remedies is 17 June 2021. We already comply with many of the remedies and expect to meet this deadline.

After this date, Dignity and others in the industry will be required to share information with the CMA. This reporting and future engagement with Dignity and the wider sector, will enable the regulator to ensure its remedies are being applied correctly, and to understand if the actions are effective in supporting the bereaved.

We are a long-term advocate of improving standards, quality, transparency and providing greater choice in the funeral sector.

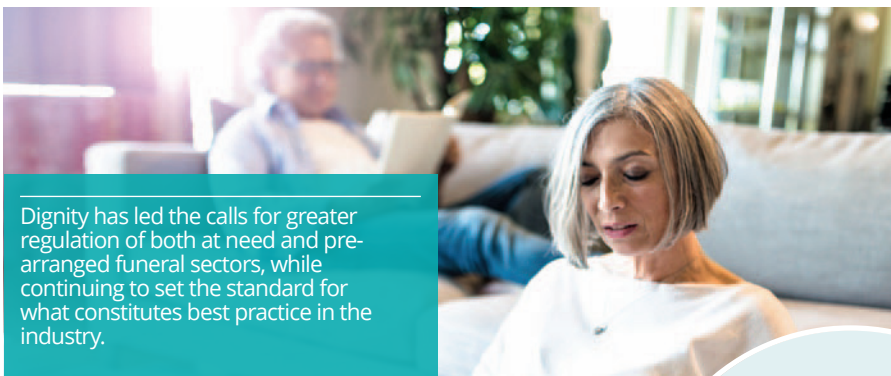
CMA Market Investigation summary

As one of the UK's major funeral related service providers, Dignity has welcomed and worked with the CMA at each stage of the investigation process. We support the conclusions, which focus on measures to support consumer choice and transparency. We also welcome the CMA's recommendation to Government for quality and standards regulation in the UK.

During the next phase of the regulatory process, which includes a public consultation on the outlined 'commercial remedies', we look forward to further engagement with the CMA to ensure the best long-term outcome for our clients and the bereaved.

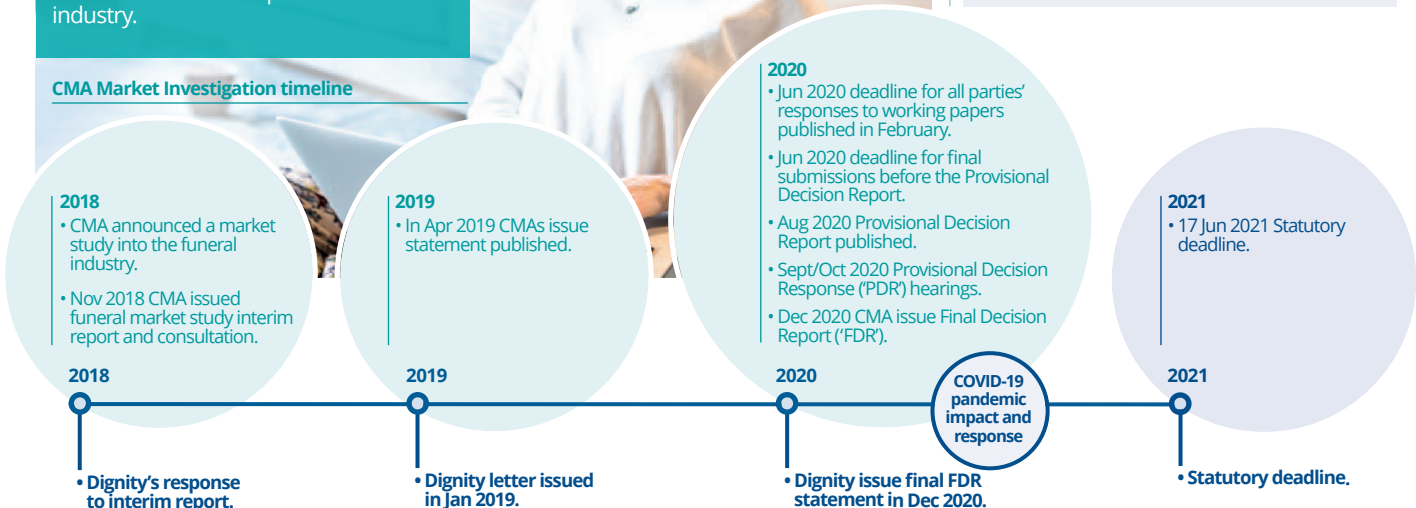
We firmly believe that for the proposed remedies to be truly effective for consumers, they must be applied across all funeral directors and crematoria. This is vital to ensure that all consumers of funeral services are equally protected.

Overall, we are confident that the remedies will help the sector meet the evolving demands of its clients' and continue to improve consumer choice and propositions in the market.



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

CMA Market Investigation timeline



Executive Chairman's review continued

Strategic report



We are committed to increasing choice for clients, and ensuring that there is a wide range of options available at different price points. 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.

Clive Whiley, Executive Chairman

A leading position in the direct cremation market

Direct cremation is a significant, growing and evolving proposition in the funeral industry that impacts every area of our business; as a funeral director, as a crematorium operator, and as a pre-arranged funeral provider.

An alternative choice

We know that consumer demand for alternative and lower priced funerals is rising. There is a need to cater for those clients that are seeking to save costs, but also those that want more control over funeral arrangements.

Awareness of direct cremation as an option has grown to 52 per cent, with 42 per cent who would consider using this service (source: *SunLife Cost of Dying report 2020*). Yet in 2019 direct cremations only made up 2.4 per cent of all funerals in the UK.

2020 has seen direct cremation grow significantly, in part due to COVID-19. Through both Simplicity Cremations and in the CMG, we have seen direct cremation volumes almost double compared to 2019. It made up 16 per cent of CMG's cremation volumes in 2020 alone. The impact of the Government's restrictions placed on funerals has unsurprisingly forced people to think differently about the type of service they would want for themselves or their family members. We expect this societal shift to continue.

Amidst a greater focus on funeral costs and a shift away from tradition, direct cremation presents a compelling proposition for the bereaved. By removing the ceremony or service, direct cremations are much less expensive, with prices starting from around £1,000.

It is also very much an active choice for an increasingly secular, less traditional segment of consumers. We have found that many families choose an unattended direct cremation, whilst holding a more personalised attended service at an alternative venue. Also, and particularly relevant under the restrictions during the pandemic, some people are choosing to hold a celebration of life or memorial service at a completely different time and date to the cremation itself.

Unique in our service capabilities

We are uniquely positioned as a business in being able to offer direct cremation at all levels through our national infrastructure; either in the care we provide as a funeral director, as a crematorium operator, or by facilitating the service through our dedicated direct cremation brand (Simplicity Cremations). We also offer consumers pre-arranged plan options for this type of funeral – a product that is growing in popularity.

We deliver direct cremations through our network of 46 crematoria, which provide allocated slots that can be utilised by our own direct cremation business, but also by non-Dignity funeral directors and agreements with other providers.

Years of experience and operational efficiencies delivered through Dignity's funeral directors and facilities across the UK underpins the high-quality care provided through Simplicity Cremations, a capability that the majority of direct cremation providers simply do not have.

Future growth

Online continues to be our key route to market and consumers have responded well to our innovative Simplicity Cremations TV and radio advertising campaign. However, it is important to keep exploring how we can reach all of those consumers that are seeking an alternative solution for a funeral or cremation service.

In addition to Simplicity direct cremations, we have begun trials offering direct cremation as a service through several of our funeral locations, and we are set to roll this out across more of Dignity's network in the next year.

By rethinking how a funeral service is both marketed and delivered, the Company has already made a significant step forward in giving clients greater choice and flexibility when it comes to arranging a funeral. Direct cremation is presenting signs of rapid growth and we will continue to seek ways to expand our market-leading position in this space.

Simplicity Cremations: A leading provider of direct cremation services in the UK

In December 2016 we launched our own direct cremation business, **Simplicity Cremations**, as a response to the increased competition, changing consumer behaviour, and growing calls for alternative and lower cost funerals.

It is one of the UK's first predominantly online cremation offers, at one of the most competitive price points. Arrangements are made over the phone with a team of experts and there is no requirement to visit a physical branch.

Under the **Simplicity Cremations** brand, families have access to affordable direct cremation options and smaller, family-led services.

The services provide all the practical and essential elements of a funeral without the obligation to pay for a ceremony or other features of a traditional service they may not want.

This is supported by the years of experience and uncompromised quality of care delivered by Dignity funeral directors and national facilities.

52%

Awareness of direct cremation as an option has grown to 52 per cent.

106%

Simplicity Cremations performed 4,300 direct cremation based services in 2020, an increase of 106 per cent over the prior period.



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 financial and non-financial KPIs used to monitor the performance of the business against its strategy for many years. These KPIs have continued to remain relevant during this period. Financial KPIs are measured by reference to underlying operating performance and are therefore unaffected by the accounting policy changes made in either period.

How we measure performance

- We monitor our performance by measuring and tracking KPIs that we believe are important to our longer-term success.
- The Group uses both financial and non-financial KPIs to manage the business and ensure the Group's strategy and objectives are being delivered.
- 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.

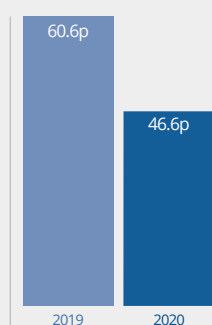
Our KPIs are aligned with our strategic objectives

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



Financial KPIs

Underlying earnings per share (pence) **46.6p**



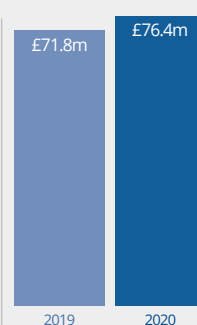
Definition

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

Developments in 2020

The reduction follows the decrease in underlying operating profit explained below.

Underlying cash generated from operations (£m) **£76.4m**



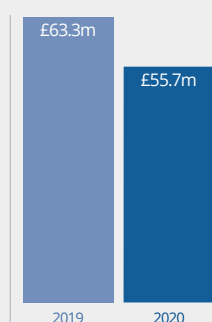
Definition

This is the statutory cash generated from operations excluding non-underlying items and the impact of consolidating the Trusts, IFRS 15 and IFRS 16.

Developments in 2020

The Group continues to convert operating profit into cash efficiently.

Underlying operating profit (£m) **£55.7m**



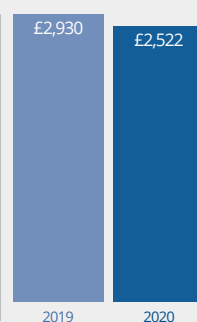
Definition

This is the statutory operating profit of the Group excluding non-underlying items and the impact of consolidating the Trusts, IFRS 15 and IFRS 16.

Developments in 2020

Underlying operating profit declined year-on-year, despite higher deaths. This is primarily due to lower average revenue due to the pandemic.

Average revenue per funeral (£) **£2,522**



Definition

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

Developments in 2020

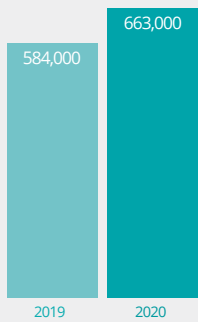
Restrictions in client choices due to COVID-19 have adversely impacted average revenue as clients opted for simpler funerals.

Key performance indicators continued

Strategic report

Non-financial KPIs

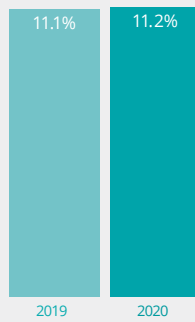
Total estimated number of deaths in Britain (number) **663,000**



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

Developments in 2020
Deaths were materially higher than originally anticipated due to the pandemic.

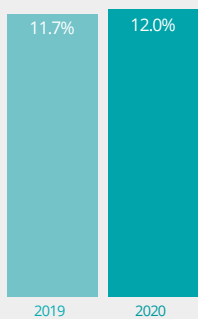
Cremation market share (per cent) **11.2%**



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

Developments in 2020
Market share is broadly stable.

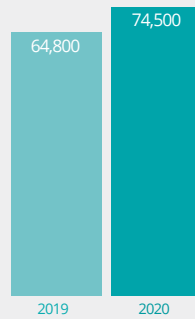
Funeral market share excluding Northern Ireland (per cent) **12.0%**



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 2020
Market share has improved slightly.

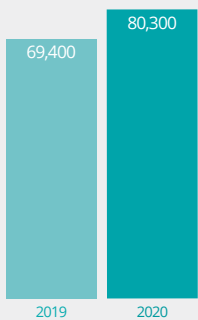
Number of cremations performed (number) **74,500**



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

Developments in 2020
Changes are a consequence of the total number of deaths and the Group's market share.

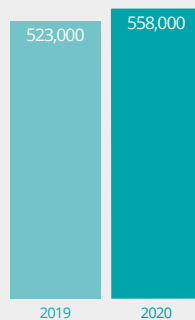
Number of funerals performed (number) **80,300**



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

Developments in 2020
Changes are a consequence of the total number of deaths and the Group's market share.

Active pre-arranged funerals (number) **558,000**



Definition
This is the number of pre-arranged funerals (both trust funeral plans and insurance backed) where the Group has an obligation to provide a funeral in the future.

Developments in 2020
This increase reflects continued sales activity (both trust funeral plans and insurance backed) offset by the crystallisation of plans sold in previous periods.

Our aim is to be at the forefront of the sector in terms of quality, transparency, standards, choice and value-for-money.

Non-financial KPIs continued

Delivering excellent client service

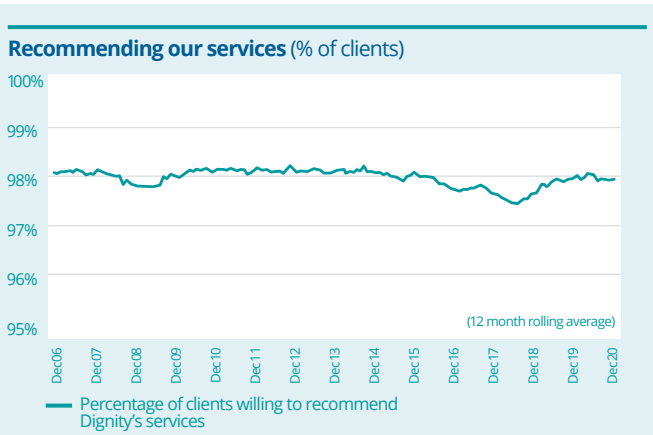
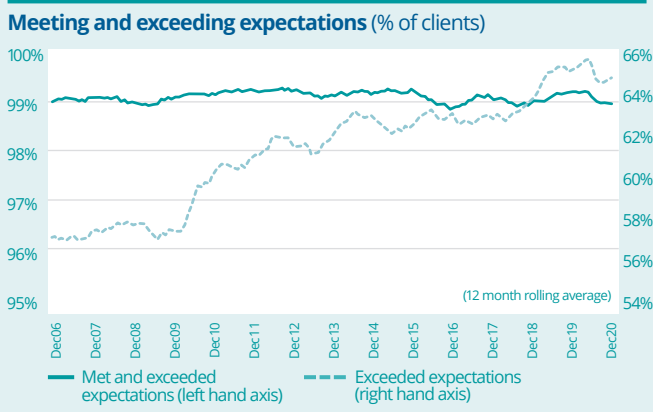
With a focus on delivering the highest levels of excellent client service and standards of care, our client surveys enable us to track and improve the provision of our services. This includes feedback on how we share information with clients and how we guide families through the arrangement process.

Client perception on quality and value-for-money

Although many things are changing within the industry, it is still the case that recommendation and previous experience are key to maintaining our reputation as a quality and standards leader. We therefore must ensure our clients are consistently receiving the best levels of client care and value-for-money, irrespective of the type of service we have performed for them. Our survey data helps us understand this.

Digital engagement

As digital adoption trends evolve, we continue to invest in technology and expertise to ensure we can make it easy for people to find us online. We continue to develop our digital communication channels which enhances customer engagement and offers an additional channel to hear from our clients. Our combined website traffic has grown from just over 1 million in 2017 to 5.13 million in 2020.



Maintaining 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 2020



Reputation and recommendation

98.9% (2019: 99.2%)

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

97.9% (2019: 98.0%)

97.9 per cent of respondents would recommend us.

High standards of facilities and fleet

99.7% (2019: 99.8%)

99.7 per cent thought our premises were clean and tidy.

99.2% (2019: 99.7%)

99.2 per cent thought our vehicles were clean and comfortable.

Quality of service and care

99.9% (2019: 99.9%)

99.9 per cent thought our staff were respectful.

99.6% (2019: 99.7%)

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

99.1% (2019: 99.1%)

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

In the detail

98.9% (2019: 99.2%)

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

99.2% (2019: 99.0%)

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

98.0% (2019: 98.3%)

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

Operating review

Strategic report

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



During the year we had to significantly change our working practices to ensure the safety of our colleagues and clients while at the same time delivering the appropriate service levels during the pandemic.

Andrew Judd
Executive Director of Funeral Operations



Funeral services

795

Number of funeral locations we operate in the UK.

80,300

Number of funerals conducted during 2020.

Performance in 2020

Group operating profit share (before central overheads)
28% (2019: 60%)

Group underlying operating profit share (before central overheads)
54% (2019: 59%)

Underlying revenue⁽¹⁾
£202.6m
(2019: £203.3m)

Operating profit
£17.5m
(2019: £54.7m)

Underlying operating profit
£50.0m
(2019: £56.3m)

Funeral mix and underlying average revenue (FY 2020 Actual)

Average underlying revenue⁽¹⁾(£)



■ Full service 3,337 (2019: 3,578)
■ Simple and Limited Service 1,941 (2019: 2,047)
■ Pre-need 1,911 (2019: 1,846)
■ Other (including Simplicity) 940 (2019: 770)

Volume mix (%)



■ Full service 39 (2019: 52)
■ Simple and Limited Service 25 (2019: 14)
■ Pre-need 28 (2019: 27)
■ Other (including Simplicity) 8 (2019: 7)

Underlying weighted average revenue⁽¹⁾(£)



■ Underlying weighted average revenue 2,397 (2019: 2,699)
■ Average ancillary revenue 125 (2019: 231)

⁽¹⁾ Total underlying revenue was £202.6 million (2019: £203.3 million). On a statutory basis the Group recognised Funeral services revenue of £274.8 million (2019: £262.1 million). See note 3 for further details.

Financial summary 2020

	H1 £m	H2 £m	FY £m
Underlying operating profit - 2019	30.5	25.8	56.3
Impact of:			
Number of deaths	20.3	3.3	23.6
Market share	4.4	0.1	4.5
Average revenues	(19.0)	(11.3)	(30.3)
Net cost base changes	(2.5)	(1.6)	(4.1)
Underlying operating profit - 2020	33.7	16.3	50.0

Items totalling £32.5 million (2019: credit £1.6 million) excluded from underlying operating profit resulted in statutory operating profit of £17.5 million (2019: £54.7 million). These items are discussed in the Financial review but relate to non-underlying items and the impact of consolidating the Trusts, applying IFRS 15 and adopting IFRS 16.

Overview

As at 25 December 2020, we operated from a network of 795 (2019: 820) funeral locations. This network covers the UK and trades under locally established names.

Performance

We conducted 80,300 funerals (2019: 69,400) during the period under review, more than at any stage in our history despite operational constraints resulting from COVID-19.

Underlying operating profit was £50.0 million (2019: £56.3 million), down by 13 per cent due to the impacts of COVID-19, this can be explained by the financial summary table on page 18.

Progress and Developments

Market share

Approximately one per cent of all funerals were conducted in Northern Ireland. Excluding Northern Ireland, these funerals represented approximately 12.0 per cent (2019: 11.7 per cent) of total estimated deaths in Britain. Whilst funerals divided by estimated deaths is a reasonable measure of our market share, the Group does not have a complete national presence and consequently, this calculation can only ever be an estimate.

Year-on-year growth in market share is primarily attributable to growth in Simplicity 0.3 per cent and pre-arranged funeral plans 0.1 per cent. Market share of full, simple and limited funerals was slightly below the prior year.

On a comparable basis, excluding any funerals from locations not contributing to the whole of 2019 and 2020, market share was 11.9 per cent, compared to 11.6 per cent in 2019. This builds on the improvement made in 2019 where comparable market share grew by 0.2 per cent, both 2020 and 2019 are a significant improvement on the dramatic market share declines witnessed in 2016 and 2018, however, further trials are necessary to complete the Group's understanding of the changing relationship between price and market share.

Funeral mix and Average revenue

As demonstrated in the table, the year-on-year decline in the underlying average revenue is primarily due to the COVID-19 pandemic. Q2 was particularly impacted due to the Group temporarily withdrawing the provision of limousines in the interests of the welfare of its staff and clients. Other choices such as church services also stopped being possible during this time.

Funeral mix and average revenue		Q1	Q2	H1	Q3	Q4	H2	FY
Funeral type		2020	2020	2020	2020	2020	2020	2020
		Actual	Actual	Actual	Actual	Actual	Actual	Actual
Underlying average revenue (£)	Full service	3,521	3,080	3,341	3,308	3,351	3,332	3,337
	Simple and Limited service	1,972	1,953	1,956	1,897	1,937	1,917	1,941
	Pre-need	1,894	1,869	1,880	1,921	1,979	1,953	1,911
	Other (including Simplicity)	888	992	987	811	927	937	940
Volume mix (%)	Full service	50	26	37	40	43	42	39
	Simple and Limited service	14	37	26	25	21	22	25
	Pre-need	29	28	28	27	28	28	28
	Other (including Simplicity)	7	9	9	8	8	8	8
Underlying weighted average (£)		2,648	2,136	2,360	2,381	2,476	2,443	2,397
Ancillary revenue (£)		175	49	101	174	169	161	125
Underlying average revenue (£)		2,823	2,185	2,461	2,555	2,645	2,604	2,522
Full service volume as a percentage of full, simple and limited (%)		78	41	59	62	67	66	61

Funeral mix and average revenue		FY	Q1	Q2	H1	Q3	Q4	H2	FY
Funeral type		2018	2019	2019	2019	2019	2019	2019	2019
		Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
Underlying average revenue (£)	Full service	3,735	3,542	3,585	3,558	3,608	3,613	3,605	3,578
	Simple and Limited service	2,350	2,159	2,000	2,089	2,000	1,995	1,996	2,047
	Pre-need	1,705	1,826	1,789	1,806	1,879	1,899	1,890	1,846
	Other (including Simplicity)	570	773	734	756	772	780	774	770
Volume mix (%)	Full service	48	52	53	52	52	52	52	52
	Simple and Limited service	19	14	13	14	14	13	13	14
	Pre-need	27	27	28	28	27	28	28	27
	Other (including Simplicity)	6	7	6	6	7	7	7	7
Underlying weighted average (£)		2,734	2,691	2,705	2,694	2,717	2,724	2,717	2,699
Ancillary revenue (£)		239	213	233	225	227	214	224	231
Underlying average revenue (£)		2,973	2,904	2,938	2,919	2,944	2,938	2,941	2,930
Full service volume as a percentage of full, simple and limited (%)		72	79	80	79	79	80	80	79

Following the installation of perspex dividing screens and the re-opening of places of worship (albeit restricted on number of mourners), the Group's average revenue started to improve during Q3. Q4 witnessed a full service average that was higher than Q2 and Q3 at £3,351 with 43 per cent of all funerals being full service and the ratio of full service to full, simple and limited increasing to 68 per cent. This resulted in the underlying average revenue for Q4 being £2,645 compared to £2,555 in the third quarter of 2020. Client choices and therefore average revenue are still likely to vary more by region in the coming months depending on national and then potential local restrictions in place.

Investment

Investment in the Group's locations and fleet have continued. In 2020, £4.9 million was invested in maintenance capital expenditure. Expenditure was lower in 2019 and 2020 than in previous years as the Group is focusing on priorities around the root and branch review following the suspension of the Transformation Plan in 2020. The Group anticipates higher spend in 2021.

There was one branch opening and 26 closures in the year. These closures represent funeral locations where leases have naturally come to an end and have not been renewed and also include nine freehold closures.

Strategic Focus and Outlook

The Group is focusing on its root and branch review which will be completed in the second quarter of 2021. We continue to develop and trial different service offerings and propositions and will continue to work with the regulator and Government to ensure the package of remedies recommended by the CMA work for customers.

Operating review continued

Strategic report

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



The Crematorium and Memorial Group ('CMG') is the largest single independent 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. Our extensive, peaceful grounds allow clients to remember their loved ones in a very personal way.

Steve Gant
Crematoria Director



Crematoria

46

Number crematoria we operate in England and Scotland.

74,500

Number of cremations conducted during 2020.

Performance in 2020

Group operating profit share (before central overheads)
72% (2019: 40%)

Group underlying operating profit share (before central overheads)
46% (2019: 41%)

Underlying revenue⁽¹⁾
£82.7m
(2019: £76.8m)

Operating profit
£45.2m
(2019: £37.2m)

Underlying operating profit
£42.8m
(2019: £38.4m)

⁽¹⁾There is no difference between underlying revenue and statutory revenue for the Crematoria division.

Overview

The Group remains the largest single independent operator of crematoria in Britain, operating 46 (2019: 46) crematoria as at 25 December 2020.

The greatest challenge of 2020 was undoubtedly ensuring safety and continuity of service through an ever changing landscape forced upon us by the aggressive growth of COVID-19, leading to excess deaths and the unmitigated rate at which the Government had to review and change the guidelines for businesses. For CMG this meant creating a safe environment for visitors and staff.

Performance

The Group performed 74,500 cremations (2019: 64,800) in the period, representing 11.2 per cent (2019: 11.1 per cent) of total estimated deaths in Britain.

Underlying operating profit was £42.8 million (2019: £38.4 million), an increase of 11 per cent. This increase in profitability is driven by the number of deaths partially offset by lower average revenues from the increased use of direct cremation and lower memorial revenue, as explained below:

Financial summary 2020	H1 £m	H2 £m	FY £m
Underlying operating profit - 2019	20.8	17.6	38.4
Impact of:			
Number of deaths	7.4	0.4	7.8
Market share	0.9	0.1	1.0
Average revenues	(4.3)	1.4	(2.9)
Cost base changes	(1.1)	(0.4)	(1.5)
Underlying operating profit - 2020	23.7	19.1	42.8

Sales of memorials and other items have been adversely impacted primarily by COVID-19 and an increasing trend in not collecting ashes resulting in total memorial revenue being £16.7 million (2019: £17.8 million) six per cent lower than the prior year despite cremation volumes being 15 per cent higher. In addition to reduced memorial sales, the average cremation revenue has reduced by three per cent to £885 (2019: £911) due to the increase in direct cremation related services.

All offices were officially closed in line with Government guidance. We promptly made offices safe for staff and visitors with the use of personal screens and limiting to an appointment-only basis for visitors. Our memorial offices reopened

in July, having been closed for three months and were inundated with clients who understandably needed closure through creating final resting places for their loved one's ashes, as well as the arrangement of memorials. Nonetheless, memorial sales and other items were six per cent lower than the previous period.

Non-underlying costs of £0.2 million (2019: £1.2 million) and IFRS 16 credit of £2.6 million (2019: nil) are excluded from underlying operating profit resulting in statutory operating profit of £45.2 million (2019: £37.2 million).

Progress and Developments

The Group has invested £2.7 million maintaining and improving its locations in the period.

The Group now has planning permission for four new crematoria. The total capital commitment for these four projects is expected to be approximately £30 million, with £6.7 million of this amount having already been invested. Each of the locations with planning permission will take five to seven years to reach maturity, performing 800 to 1,000 cremations per year.

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

Strategic Focus and Outlook

Crematoria remains a stable and cash generative aspect of the Group's operations. However, we have embarked on a total restructure of CMG which is still in progress. We have introduced smaller cluster areas to encompass a more collaborative team ethic and an increase in the training and staff development across all disciplines. The overall achievement will be to create a more dedicated and focused CMG team which will facilitate further cost savings through a more streamlined and efficient organisation.



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



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

Paul Toghil
Director of Pre Arrangement



Pre-arranged funeral plans

558,000

Number of active plans as at 25 December 2020.

Performance in 2020

Underlying revenue⁽¹⁾

£28.8m

(2019: £21.2m)

Underlying operating profit

£nil

(2019: £nil)

⁽¹⁾ Pre-arranged funeral plans are not a separate division in statutory terms, as a result statutory revenue is £nil (2019: £nil). Please see note 3 for further details.

Underlying Performance

The Group continues to have a strong market presence in pre-arranged funeral plans and insurance policies charged to it for the provision of a funeral. The plans represent potential future incremental business for the funeral division, providing high-levels of certainty of cash flows as existing plans mature.

The Trading Group claims a marketing allowance from the trust that covers the costs incurred in the selling of Funeral Plans. As a result, the pre-arrangement division does not contribute any profit at the time of sale therefore underlying operating profit was £nil in both periods.

Approximately 60,000 (2019: 58,000) new plan sales were made and the number of active pre-arranged plans (including insurance backed arrangements) increased to 558,000 (2019: 523,000). All plan sales are stated net of cancellations. Over the last 12 months the cancellation rate has increased which primarily relates to the increase in the mix of long-term instalment plan sales which have a higher cancellation rate. The majority of commissions are clawed back from distribution partners on cancellation in the first two years (the majority of expected cancellations take place in this period).

Of the sales in the period 30,000 plans were trust based funeral plans (2019: 26,000). In addition, 30,000 (2019: 32,000) plans were linked to life assurance plans with third parties. 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.

Historically, as with all the Group's divisions, pre-arranged funeral plans underlying profits broadly reflect the cash generated by that activity. This position has started to shift as more long-term instalment plans are written, where marketing costs are incurred when a plan is sold, but, marketing recoveries are claimed from the trust in line with instalment payments. This shift has changed the profile of the early years cashflow position.

Progress and Developments

Dignity remains 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 2020, the Trusts had average assets per plan of £3,400 (2019: £3,300) in respect of 319,000 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 25 September 2020) showed them to have a surplus of £4 million (27 September 2019: surplus £17 million),

based on prudent assumptions by the Trust's actuary. 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.

The pre-arrangement Trustees are actively reviewing the investment strategy of the Trusts, focused on providing the Trading Group with greater certainty over amounts to be paid when funerals are performed in a rolling five year period. The retention of cash or high-grade bonds to cover these liabilities, together with implementing an overall investment strategy with lower aggregate fund management and execution costs will provide more certainty. These changes to the investment strategy are imminent and will materially reduce the overall costs of managing the Trusts' investments, enhancing the capacity for future revenue growth.

The Trusts have assets, including cash, under the management of the Trustees of £988.7 million (2019: £963.0 million) with investments split as follows:

	Example investment types	Target (%)
Defensive investments	Index linked gilts and corporate bonds	18
Illiquid investments	Private investments	16
Core growth investments	Equities	38
Growth fixed income and alternative investments	Emerging market debt/diversified growth	22
Liquid investments	Open-ended investment funds	6

The current allocation is subject to annual review by the Trustees with support from their investment advisers. See Financial review for additional discussion of Trust balances.

Strategic Focus and Outlook

The Group remains optimistic on its ability to continue to be a market leader in pre-arranged funerals.

The Group welcomes FCA regulation of the sector and is planning for regulation to be effective by the middle of 2022. The Group will continue to engage with relevant parties as appropriate whilst maintaining focus on selling high-quality, competitive products to clients.

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

Financial review

Strategic report



Our performance in 2020 was impacted by COVID-19. As a result, underlying operating profit decreased by 12 per cent to £55.7 million and underlying average revenue per funeral reduced from £2,930 to £2,522, reflecting the impact of a switch to more simple funerals, partly due to our restricted ability to provide full service requirements, during the COVID-19 pandemic.

Our market share increased on funeral services and there was a strong market share performance by our crematoria business. Our Transformation Plan was paused indefinitely during the year in order to focus on the impacts of the pandemic. This will not be resumed.

Cash generation remained strong in the year and will enable us to continue to invest in our strategic objectives in the future.

Revenue

£357.5m

(2019: £338.9m)

Underlying revenue

£314.1m

(2019: £301.3m)

Operating profit

£15.9m

(2019: £44.8m)

Underlying operating profit

£55.7m

(2019: £63.3m)

Cash generated from operations

£62.7m

(2019: £64.6m)

Underlying cash generated from operations

£76.4m

(2019: £71.8m)

We consider these underlying results to be robust, despite the pandemic

Dean Moore, Interim Chief Financial Officer

Three quarters of our financial year has been impacted by the COVID-19 pandemic. Despite this we consider these underlying results to be robust having increased our operating cash generation year-on-year, and remained profitable, albeit at a reduced level. With the exception of business rate relief, we have chosen not to take advantage of the various Government schemes brought in to support business during the pandemic.

These results have been prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Statutory operating profit was £15.9 million (2019: £44.8 million), a decrease of £28.9 million. Gross margin increased £3.0 million with a strong performance in the crematoria division and a higher contribution from delivery of an increased number of pre-need funerals, whereas the additional at-need funerals delivered were more than offset by reductions in average revenues. Administrative expenses were £31.9 million higher, largely driven by an increased impairment charge of £37.2 million on goodwill and trade names compared to last year and after incurring additional central overheads of £5.7 million in part to help manage the business through the pandemic. This was partially offset by a reduction in other non-underlying items, primarily in respect of £7.4 million less spent on the Transformation Plan which has been abrogated. See table on page 23 for further details on the impacts to statutory and underlying operating profit.

The total impairment of £44.0 million has been charged in the period (2019: £6.8 million), of which £15.3 million (2019: £6.8 million) relates to trade names and £28.7 million (2019: nil) to goodwill. The impairment has arisen primarily due to the reduced average revenues and mix that has impacted the funeral services division over the last 12 months.

The Group's net finance costs of £35.5 million (2019: income £5.3 million), a £40.8 million movement primarily due to the lower increase in fair value movements of the financial assets held by the Trusts of £38.2 million. In 2019, the Group had a further £6.0 million of non-underlying items relating to the impairment of its investment in an associated undertaking. The above has resulted in losses before tax for the Group of £19.6 million (2019 profit: £44.1 million).

The Board believes that whilst statutory reporting measures provide financial performance of the Group under GAAP, alternative performance measures as used in the day-to-day management of the business are necessary to enable users of the financial statements to fully understand the trading performance and financial position of the business and allow for greater comparability across periods.

Financial highlights

The Group's financial performance is summarised below:

	52 week period ended 25 Dec 2020	52 week period ended 27 Dec 2019 restated ^(a)	Increase/ (decrease) %
	£m	£m	
Underlying revenue ^(a) (£million)	314.1	301.3	4
Underlying operating profit ^(a) (£million)	55.7	63.3	(12)
Underlying profit before tax ^(a) (£million)	30.7	37.7	(19)
Underlying earnings per share ^(a) (pence)	46.6	60.6	(23)
Underlying cash generated from operations ^(a) (£million)	76.4	71.8	6
Revenue (£million)	357.5	338.9	5
Operating profit (£million)	15.9	44.8	(65)
(Loss)/profit before tax (£million)	(19.6)	44.1	
Basic (loss)/earnings per share (pence)	(51.0)	61.2	
Cash generated from operations (£million)	62.7	64.6	(3)
Dividends paid in the period:			
Final dividend (pence)	-	15.74	

^(a) Further details of alternative performance measures can be found on pages 156 to 161.

^(b) See prior year adjustment note on page 96.

Alternative performance measures

The alternative performance measures are stated before non-underlying items and the effect of consolidation of the Trusts, applying IFRS 15 and adopting IFRS 16 as defined on page 156. These items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day-to-day management of the business and allow for greater comparability across periods.

Detailed information on non-underlying items including a reconciliation of statutory revenue to underlying revenue is set out on pages 108 and 156 to 160.

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

	52 week period ended 25 Dec 2020 £m	52 week period ended 27 Dec 2019 £m
Operating profit for the period as reported	15.9	44.8
Add the effects of:		
Acquisition related amortisation	4.6	4.8
External transaction costs in respect of completed and aborted transactions	0.8	0.9
Profit on sale of fixed assets	(0.2)	(1.0)
Transformation Plan costs ^(a)	4.7	12.1
Directors severance pay	1.6	-
Operating and competition review costs	2.9	3.5
Trade name impairment	15.3	6.8
Goodwill impairment	28.7	-
Impact of Trust consolidation and IFRS 15	(14.0)	(8.6)
Impact of IFRS 16	(4.6)	-
Underlying operating profit^(b)	55.7	63.3
Underlying net finance costs	(25.0)	(25.6)
Underlying profit before tax^(b)	30.7	37.7
Tax charge on underlying profit before tax	(7.4)	(7.4)
Underlying profit after tax^(b)	23.3	30.3
Weighted average number of Ordinary Shares in issue during the period (million)	50.0	50.0
Underlying EPS (pence) ^(b)	46.6	60.6
Decrease in underlying EPS (per cent)	23	29

^(a) The £4.7 million costs incurred in 2020 reflects expenditure up to the point of the Transformation Plan being abrogated.

^(b) Further details of alternative performance measures can be found on pages 156 to 161.

Earnings per share

Statutory loss after tax was £25.5 million (2019 restated: £30.6 million). Basic loss per share were (51.0) pence per share (2019 restated earnings: 61.2 pence per share). Underlying profit after tax was £23.3 million (2019: £30.3 million), giving underlying earnings per share of 46.6 pence per share (2019: 60.6 pence per share), a reduction of 23 per cent.

Items excluded from underlying operating profit

Amortisation of acquisition related intangibles

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

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.

Profit on sale of fixed assets

Profits or losses arising from the sale of fixed assets (net of any insurance proceeds received) are excluded as they are unconnected with the trading performance in the period.

Transformation Plan costs

Cost incurred in relation to the Group's now abrogated Transformation Plan has resulted in significant, directly attributable non-recurring costs.

Directors severance pay

Following the departure of Mike McCollum, Steve Whittern and Richard Portman in 2020, severance packages have been agreed and paid and are considered to be a non-recurring cost.

Operating and competition review costs

The Group has incurred costs with external advisers to support the Group's response to the CMA's funerals market investigation and HM Treasury's consultation on the funeral plan sector. Costs were also incurred in 2020 with external advisers to support its operational review.

Trade name impairment

The Group assessed the carrying value of its trade names. In light of the lower level of profitability and lower anticipated average revenue per funeral, an impairment of £15.3 million (2019: £6.8 million) has been recognised.

Goodwill impairment

The Group assessed the carrying value of its goodwill. In light of the lower level of profitability and lower anticipated average revenue per funeral, an impairment of £28.7 million (2019: £nil million) has been recognised.

Trust consolidation/IFRS 15

In the prior period the Group changed its accounting policy to consolidate the Trusts and to implement 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.

Financial review continued

Strategic report

IFRS 16

As detailed elsewhere in this report, the Group has adopted IFRS 16 in the period. 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. The impact of IFRS 16 has been reversed in arriving at the APM for 2020 only. This is due to the modified retrospective adoption of the standard, meaning the 2019 comparatives have not been restated and therefore are not comparable.

Capital expenditure

Capital expenditure on property, plant and equipment and intangible assets was £11.1 million (2019: £18.3 million).

This is analysed as:	25 Dec 2020 £m	27 Dec 2019 £m
Maintenance capital expenditure:		
Funeral services	5.0	5.4
Crematoria	2.7	3.3
Other	1.4	1.1
Total maintenance capital expenditure ^(a)	9.1	9.8
Branch relocations	0.5	1.1
Transformation capital expenditure	0.2	1.7
Satellite locations	-	0.3
Development of new crematoria and cemeteries	1.3	5.4
Total property, plant and equipment	11.1	18.3
Partly funded by:		
Disposal proceeds – vehicles	-	(0.2)
Disposal proceeds – properties ^(b)	(1.1)	(1.9)
Net capital expenditure	10.0	16.2

^(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.

Cash flow and cash balances for the Trading Group

Underlying cash generated from operations was £76.4 million (2019: £71.8 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 of the Trading Group at the end of the period were £73.6 million (2019: £57.9 million). Further details and analysis of the Group's cash balances are included in note 17 to the consolidated financial statements.

Pensions

The balance sheet shows a deficit of £36.6 million before deferred tax (2019: deficit of £26.0 million). The scheme currently represents an annual cash obligation of £2.2 million. The triennial valuation was performed in April 2020, the outcome of which is awaiting and will determine future annual cash obligations for the Group from 2021 onwards.

Taxation

The Group's effective tax rate on underlying profits in the period was 24.1 per cent (2019: 19.5 per cent). The current period underlying effective tax rate is higher than originally anticipated due to the effects of prior year items with a tax impact totalling £0.6 million.

In 2021, the Group expects its underlying effective tax rate to be approximately two to three per cent above the headline rate of corporation tax. This translates to an underlying effective rate of between 21.0 per cent and 22.0 per cent.

The Group's effective tax rate on losses is 30.0 per cent (2019: 30.6 per cent) which is higher than the underlying effective tax rate primarily due to the £4.3 million corporate interest restriction disallowance and £3.5 million arising on the goodwill and trade name impairments partially offset by the £1.1 million rate change credit.

Prior year restatement

A prior year restatement has been made to the magnitude of £4.3 million to correct the 2019 taxation charge and corresponding corporation tax liability. This follows the finalisation of the Group's detailed corporate interest restriction return and an increase to the Group's interest disallowance as a result of the inclusion of the fair value movements on the Trusts debt investments. Further details of the prior year restatement are set out in note 1 to the financial statements.

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	25 December 2034	25 December 2049
Coupon	3.5456%	4.6956%
Rating by Fitch	A-	BB+
Rating by Standard & Poor's	A-	B+

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.

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 25 December 2020 was 1.99 times (2019: 2.13 times). The Group therefore had EBITDA headroom of approximately £16 million against its financial covenants at the end of December. 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 consolidation of the Trusts or the application of IFRS 15 and IFRS 16 described elsewhere, as the Group was able to elect to disregard those changes when making the calculations.

During the period, certain trade and assets previously held outside of the Securitisation Group were sold to the Securitisation Group increasing future EBITDA.

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

	25 Dec 2020 £m
EBITDA per covenant calculation – Securitisation Group	67.6
Add: EBITDA of entities outside Securitisation Group	9.8
Less: Non-cash items ^(a)	(1.9)
Underlying operating profit before depreciation and amortisation – Group	75.5
Underlying depreciation and amortisation	(19.8)
Non-underlying items	(58.4)
Impact of Trust consolidation and IFRS 15	14.0
Impact of IFRS 16	4.6
Operating profit	15.9

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

In addition, in order for the Group to transfer excess cash from the Securitisation Group to Dignity plc, it must achieve both a higher EBITDA to total debt service ratio of 1.85 times and achieve a Free Cash Flow to total debt service (a defined term in the securitisation documentation) of at least 1.4 times. This latter ratio at December was 1.57 times (December 2019: 1.65 times). These combined requirements are known as the Restricted Payment Condition ('RPC') which have been met in 2020. Failure to pass the RPC would not be a covenant breach and would not cause an acceleration of any debt repayments. Any cash not permitted to be transferred whilst the RPC is not achieved will be available to be transferred at a later date once the RPC requirement is achieved.

On 31 July 2020, Standard & Poor's lowered their rating of the Group's Class B Secured Notes from BB- to B+. This change of rating has no impact on the day-to-day operations of the Secured Notes.

Revolving Credit Facility

The Group has the benefit of a £10 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 £0.1 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 Trading Group has underlying net debt of £480.6 million (2019: £506.2 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 £822.7 million, (Class A Notes: £226.0 million; Class B Notes: £596.7 million) (2019: £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 £24.1 million (2019: £24.4 million).

Other ongoing underlying finance costs incurred in the period amounted to £1.0 million (2019: £1.4 million), covering the unwinding of discounts on the Group's provisions and other financial liabilities.

Interest receivable on bank deposits was £0.1 million (2019: £0.2 million).

The Group also incurred £4.7 million (2019: £nil) lease liability interest, under IFRS 16, giving a total statutory net finance cost of £29.7 million (2019: £25.6 million).

Shareholders' deficit

Consolidating the Trusts and applying 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.

On consolidation of the Trusts, all funds received from the plan members are deferred until recognised on satisfaction of a funeral obligation or when a plan is cancelled and refunded (subject to an administrative fee). These deferred funds increase under IFRS 15 by a material non-cash significant financing charge (see note 1 for accounting policy). The assets of the Trusts, initially representing the same funds received from plan members less an amount paid to the Trading Group to cover marketing costs, are invested by the Trusts and are subject to market movements. Over time, investments are also realised to fund funeral payments or refund obligations. The net impact of the above gives rise to a significant reduction in the net asset value of the Group to a position where the Group has reported a net deficit of £174.0 million (2019: £141.5 million). Whilst this position appropriately reflects the application of IFRS 15 to the underlying contract with the plan member, based on the current cost of delivery of a funeral service, delivery of pre-need funerals is expected to result in the future recognition of profits under IFRS, which, over time, the Directors consider would more than eliminate the deficit noted above.

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.

The Trusts

At the balance sheet date, the Trusts had £967.1 million (2019: £947.5 million) of financial assets and £21.6 million (2019: £15.5 million) of cash, which was recognised in the consolidated balance sheet. This has resulted in average net Trust assets per plan increasing three per cent to £3,400 (2019: £3,300). The movement in financial assets is primarily attributable to remeasurement gains recognised in the consolidated income statement of £41.3 million (2019: £79.5 million), reflecting changes in asset values and net disposals of financial assets of £18.7 million (2019 net purchases: £9.5 million).

Aggregated contract liabilities totalled £1,317.5 million (2019: £1,304.6 million) with the primary movements being sales of new plans of £82.0 million (2019: £91.2 million), increases due to significant financing of £53.1 million (2019: £54.1 million) and releases due to death or cancellation totalling £122.2 million (2019: £96.8 million).

Financial review continued

Strategic report

The impact of IFRS 16 – Leases

In 2020, the Group has adopted the new accounting standard IFRS 16, Leases. This standard requires the Group to recognise an asset and liability on its balance sheet for operating leases that were previously held off balance sheet. As approximately half of the Group's funeral properties and some of its crematoria are leased, this has had a material impact to the Group's statutory results. The Group has recognised an initial asset of £101.7 million and an initial liability of £93.6 million. Under the transition approach being followed comparative results for the prior period are not restated.

At the period end the Group held a right-of-use asset of £95.2 million and a corresponding lease liability of £88.5 million. Furthermore, in the period, operating lease costs of £12.1 million were replaced by a depreciation charge of £9.2 million, finance cost of £4.7 million and a release of accruals and prepayments of £1.7 million.

As with the Trust consolidation and the impact of IFRS 15, the adoption of IFRS 16 does not impact the Group's securitisation covenants, as the Securitisation Group has exercised its ability to disregard the impact of the new standard to maintain consistency of measurement.

For more information see note 35.

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 £37.1 million (2019: £31.4 million). As anticipated, this reflects continued investment in digital activities and central capabilities. The table below summarises the key movements:

	H1 £m	H2 £m	FY £m
Central overheads – 2019	14.6	16.8	31.4
Impact of: Digital activities	1.0	0.9	1.9
Salaries	2.7	1.5	4.2
Other	0.1	(1.0)	(0.9)
IT support fees	–	0.5	0.5
Central overheads – 2020	18.4	18.7	37.1

The increase in salaries includes increases of £1.6 million relating to staff incentive bonuses, £0.6 million for option scheme charges and £0.6 million temporary staff costs primarily to increase the cover in the call centre during the pandemic.

Non-underlying items of £9.8 million (2019: £15.7 million) and IFRS 16 credit of £0.1 million (2019: nil) are excluded from underlying costs resulting in total central costs of £46.8 million (2019: £47.1 million).

In addition to the above costs, maintenance capital expenditure of £1.4 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.

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.

Identifying risk

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.

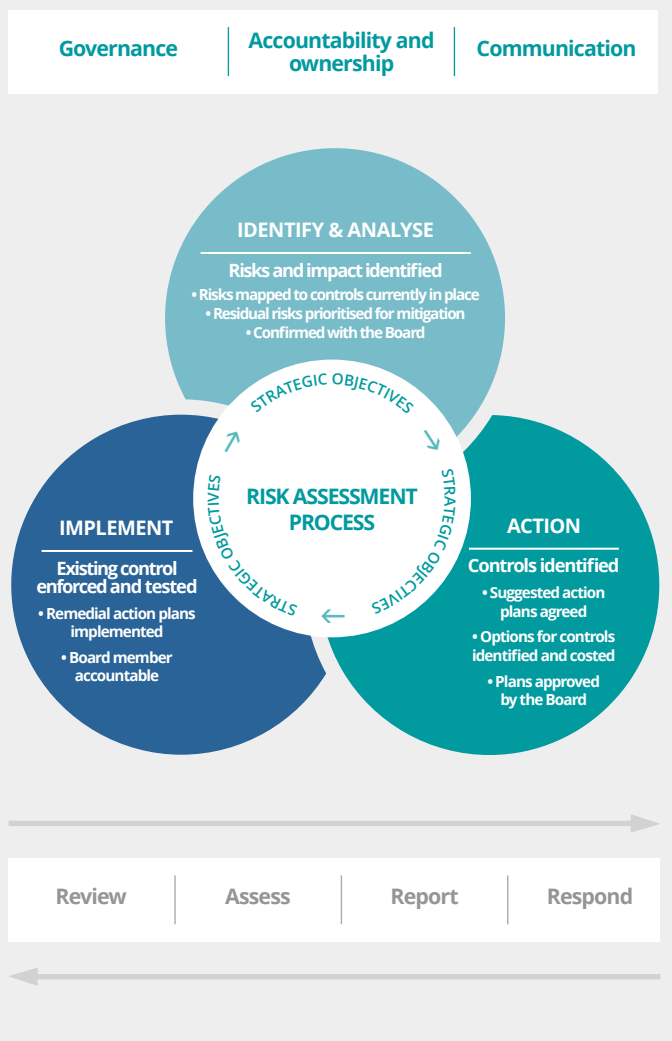
Review and internal audit

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 key controls, procedures and policies are understood and operated effectively 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



Principal risks and uncertainties continued

Strategic report

Links

-  See Executive Chairman's review [p.4 to p.14](#)
-  See KPIs: [p.15 to p.17](#)
-  See Governance: [p.44 to p.83](#)

Risk status summary

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

Pre-arranged funeral plans

In November 2020, the Financial Conduct Authority ('FCA') issued a statement welcoming the Government's laying of legislation setting out a timetable for bringing the regulation of pre-need funeral plans within the remit of the FCA, expecting to take responsibility for the regulation of the sector in Summer 2022.

On 2 March 2021, the FCA released their consultation on funeral plans and their proposed approach to funeral plans. Dignity will be engaging constructively through the consultation process which closes on 13 April with final regulations expected to be published in Q3 2021.

In order to carry out regulated funeral plan activities, firms must be authorised by the FCA. Continuing with regulated activity without authorisation will be a criminal offence.

Dignity believes that this regulation is necessary and welcomes its planned introduction.

COVID-19 has created new risks relating both to our ability to deliver our services in the context of restrictions imposed by the pandemic and the health and safety implications for our colleagues. The potential risks are assessed regularly in light of the developing guidance and commentary from HM Government.

The Group has business continuity and pandemic plans that are invoked, reviewed and adapted as necessary.

Accordingly, the ability to maintain average revenue is influenced by changes in the competitive landscape and the continued impact of COVID-19.

Competition and Market Authority's Market Investigation:

Change in risk

The CMA's Final Decision Report into the supply of services by funeral directors at the point of need and the supply of crematoria services was published on 18 December 2020 such that the risk of unexpected findings has now reduced. The Group supports the CMA's conclusions which focus on measures to support consumer choice and transparency and welcomes the recommendations to Government for quality and standards regulation in the UK.

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 movements in the death rate
- Nationwide adverse publicity
- Fall in average revenue per funeral or cremation resulting from market changes
- 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
- Direct cremations
- Cyber risk
- COVID-19 response related risks

Financial risk management

- Financial Covenant under the Secured Notes

Emerging risks

As part of the July 2018 update to the UK Corporate Governance Code, Listed companies are required to identify the procedures they have in place to identify emerging risks faced by the business and an explanation of how these are managed or mitigated. This year we have conducted a formal exercise to identify and assess emerging risks facing the business and these are outlined on page 32.


Emerging risk and horizon scanning are integrated as part of regular risk discussions and we will continue to embed this further going forward.

The principal risks we have identified

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

In the tables on pages 29 to 32 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
-  New emerging risk

Operational risk management

Risk description and impact	Mitigating activities and commentary	Change
<p>Significant movements in the death rate There is a risk that the number of deaths in any year significantly reduces or increases. This would have a direct result on the financial and operational performance of both the funeral and crematoria divisions.</p> <p>2020 has seen unprecedented times with COVID-19 impacting all our lives. This has impacted our operations, our staff and resourcing.</p>	<p>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.</p> <p>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.</p> <p>The number of deaths in 2020 was 663,000 which was 14 per cent above the prior year and significantly higher than originally anticipated before the onset of the pandemic. It is currently unknown over what time frame the death rate will normalise. Our planning will continue to be based on the long-term expectations as provided by the Office of National Statistics.</p> <p>Operationally, we have spent time understanding lessons from the dramatic increase in deaths due to COVID-19 to ensure we continue to respond professionally and safely. A key part has been staffing: absence levels peaked at circa 16 per cent compared to normal levels of one or two per cent. Where required, this was and continues to be managed through a national provider of temporary resource. In the Crematoria and Memorial Group, staff have been upskilled and cross trained to provide cover as required.</p> <p> See Executive Chairman's review: p.4 to p.14</p>	
<p>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.</p> <p>The risk is increased as the Dignity brand is marketed more widely.</p>	<p>This risk is addressed by the strategic decision to support development of strong national brands via the Group's websites, TV and radio advertising and increased awareness of the Group and its services and by the Corporate Communications team monitoring and responding, where required, to media statements, articles and interviews.</p> <p>In addition, the Group maintains a strong system of internal control to ensure the business is managed in line with its strategic objectives.</p> <p> See The Client Survey performance: p.17</p>	
<p>Fall in average revenue per funeral or cremation resulting from market changes 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 revenue per funeral or cremations at the current level.</p>	<p>The Group's strategic review has resulted 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.</p> <p>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.</p> <p>This risk has increased due to COVID-19 as the Group has experienced lower average revenues than originally expected: these are anticipated to return to the levels previously experienced although the period of time needed for this to occur is currently unknown. Awareness of simple funerals and Simplicity Cremations has increased during the pandemic.</p> <p> See Operating review: p.18 to p.21</p>	
<p>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.</p>	<p>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 seek 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.</p> <p>For crematoria operations this is mitigated by the Group's experience and ability in managing the development of new crematoria.</p> <p>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.</p> <p> See Operating review: p.18 to p.21</p>	
<p>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.</p>	<p>In such situations, Dignity would seek to follow the population shift by rebalancing the funeral location network together with meeting the developing cultural requirements.</p> <p> See Operating review: p.18 to p.21</p>	





Principal risks and uncertainties continued

Strategic report

Operational risk management (continued)

Risk description and impact	Mitigating activities and commentary	Change
<p>Competition</p> <p>The UK funeral services, crematoria and pre-need markets are currently fragmented.</p> <p>There could be further consolidation or increased competition in the industry, whether in the form of intensified price competition, service competition, over capacity facilitated by the internet or otherwise, which could lead to an erosion of the Group's market share, average revenues or an increase in costs and consequently a reduction in its profitability.</p> <p>Failure to replenish or increase the bank of pre-arranged funeral plans could affect market share of the funeral division in the longer-term.</p> <p>Competition continues to intensify, with additional funeral directors opening at varying price points, alongside an increase in the popularity of direct cremations.</p>	<p>The purpose of our root and branch review is to position the Group for all eventualities whether driven by the rapidly changing competitive environment in which we operate, the changes resulting from the CMA's measures to support consumer choice and transparency and recommendations to Government for quality and standards regulation in the UK or in response to the COVID-19 pandemic.</p> <p>The funeral service model will be adapted to better suit evolving client needs and to improve efficiency. We provide clients 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.</p> <p>We continue to develop a new tiered funeral pricing proposition, that will provide greater flexibility to meet individual client needs.</p> <p>By unbundling our prices and services to provide our clients 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.</p> <p>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 are leveraging scale advantages in the digital age. We will continue 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.</p> <p>Through better allocation of our resources, the resultant efficiencies will allow us to reduce the number of funeral locations and their associated cost. Support functions are being centralised where appropriate to ensure a cost effective and consistent high standard of service.</p> <p>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.</p> <p>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.</p> <p> See Executive Chairman's review: p.4 to p.14</p>	<p></p>
<p>Regulation of pre-arranged funeral plans</p> <p>FCA Regulation may result in changes to processes, systems, pricing, funding, capital requirements and terms and conditions of plans.</p> <p>Regulation could affect the Group's opportunity to sell pre-arranged funeral plans in the future or could result in the Trading Group not being able to draw down the current level of marketing allowances.</p> <p>One immediate risk highlighted by the consultation paper is the proposed removal of commissions from the Industry, this would have a significant impact on our ability to distribute through Affinity Partners.</p>	<p>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.</p> <p>We are engaging with the FCA through the consultations process to highlight the potential unintended consequences of the proposed ban on commissions. We have diversified distribution through Partner and Direct channels, as well as a strong market presence in the Whole of Life Funeral Benefit market. If this change is enacted it will effect the whole industry, whilst we will experience a material drop in volumes, Dignity will be in a strong market position as a vertically integrated provider to grow alternative channels that remain open post FCA regulation.</p> <p>Regulation of the pre-need industry by the FCA is now confirmed for Summer 2022. We believe that regulation is necessary and welcome its planned introduction.</p> <p> See Executive Chairman's review: p.4 to p.14</p>	<p></p>
<p>Regulation of the funeral industry</p> <p>Regulation could result in increased compliance costs for the industry as a whole or other unforeseen consequences including capping of funeral and cremation prices.</p>	<p>The Group already operates at a high standard, compared to the majority of our competitors, using facilities appropriate for the dignified care of the deceased.</p>	<p></p>

Operational risk management (continued)

Risk description and impact	Mitigating activities and commentary	Change
<p>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.</p>	<p>There is considerable regulation around insurance companies which is designed, amongst other things, to ensure that the insurance companies meet their obligations. The Trusts hold assets with the objective of achieving returns slightly in excess of inflation.</p> <p>Volatility has continued to be seen in global markets since the year end. After a reduction in market values in the first quarter, the actuarial valuation in September 2020 showed both the NFT and Age UK trusts as showing a surplus.</p> <p>Changes in the Trust investment strategy have been agreed and are in the process of being implemented.</p> <p> See note 30.</p>	<p></p>
<p>Direct cremations Growth in the direct cremation market could reduce average revenue in the funeral business and adversely affect the volume mix and average revenue in the crematoria business.</p>	<p>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.</p> <p>Simplicity Cremations is being promoted via a strong online presence together with TV advertising. Other media advertising is also planned.</p> <p> See Executive Chairman's review: p.4 to p.14</p>	<p></p>
<p>Cyber risk Our business is at risk of financial loss, disruption or damage to the reputation of an organisation resulting from the failure of its information technology systems. This could materialise in a variety of ways including deliberate and unauthorised breaches of security to gain access to information systems.</p>	<p>The Group has, in recent years, invested significantly in this area with the objective of both upgrading all aspects of our systems and our internal resources and also using external consultants to perform regular external and internal penetration tests, using the results to drive a continuous improvement programme.</p> <p>The chance of an organisation falling victim to a cyber-attack is growing. Threats are more pervasive and sophisticated than ever.</p> <p>However, in addition to maintaining appropriate levels of Cyber Insurance we continue our investment in fit for purpose security controls, processes, and technology to allow us to maintain pace with the current threat landscape whilst proactively monitoring for breaches and improving internal understanding and communication of initial risks, mitigations and residual risks.</p> <p> See Executive Chairman's review: p.4 to p.14</p>	<p></p>
<p>COVID-19 response related risks COVID-19 has created new risks relating to our ability to deliver our services in the context of restrictions imposed by the pandemic and was added to the risk register as part of the 2020 Interim Report.</p> <p>The potential risks of COVID-19 to the Group are assessed regularly in light of guidance and commentary from HM Government. Primary risks include:</p> <ul style="list-style-type: none"> (i) a lack of availability of staff in operations due to illness, self-isolation or Government policy including Test and Trace which may result in a material number of colleagues needing to self-isolate at the same time impairing our ability to provide services; (ii) the need to keep staff safe in the COVID-19 crisis; (iii) a loss of profit due to the cost of our response plans, or HM Government intervention causes profit or cash concerns; and (iv) mortuary capacity and/or supply of consumables is exhausted. <p>If continuing long-term, COVID-19 and related social distancing measures may result in lower revenues.</p>	<p>In addition to our business continuity and pandemic planning, the risk is mitigated by illness tracking, the use of agency staff and staff redeployment.</p> <p>The Group has issued Operational Guidance and a PPE policy, secured an increased supply of PPE and emphasised HM Government policy such as social distancing.</p> <p>We have modelled forward- looking scenarios considering volumes, changes to service and revenue and Government intervention.</p> <p>We have contingency plans and an escalating route for operations and central offices to redeploy resources from other teams and locations.</p> <p>We have established central planning of capacity, put new capacity in place, leveraged Local Resilience Forums and super-mortuary facilities.</p> <p>In addition, the Group recognises the toll that the pandemic has taken on colleagues. Issues include mental health, isolation and matters arising from working from home. The Group provides the Employee Assistance Programme to all staff which provides access to anonymous, independent counselling services and advice to help manage any personal wellbeing concerns and provide additional emotional, physical, and financial support.</p> <p>We are also investing in the training and accreditation of a number of colleagues in mental health first aid.</p> <p> See Executive Chairman's review: p.4 to p.14</p>	<p></p>

Principal risks and uncertainties continued




Strategic report

Financial risk management

Risk description and impact	Mitigating activities and commentary	Change
<p>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.</p> <p>In addition, the Group is required to achieve a more stringent ratio of 1.85 times for the same test in order to be permitted to transfer excess cash from the Securitisation Group to Dignity plc.</p>	<p>The nature of the Group's debt means that the denominator is now fixed unless further Secured Notes are issued in the future. This means that the covenant headroom will change proportionately with changes in EBITDA generated by the securitised subgroup.</p> <p>Current trading continues to support the Group's financial obligations, however lower reported profitability increases the risk of breaching covenants.</p> <p>To act as a mitigation against this risk, in 2020 the Group completed an internal restructure of its trading assets which increases covenant headroom.</p> <p> See Financial review: p.22 to p.26</p>	

Emerging risks

The Group continues to scan for emerging risks through the processes noted above. The key areas where additional risk is appearing, all of which are extensions of risk already identified above, are as follows:

Risk description and impact	Mitigating activities and commentary	Change
<p>COVID-19 response related risks COVID-19 has resulted in a risk relating both to our ability to deliver our services due to restrictions imposed and the health and safety implications for our colleagues.</p>	<p>The Group has business continuity and pandemic plans that are invoked and reviewed as necessary. In addition, and to manage staff absences, we have used a national provider of temporary resource.</p>	New 
<p>Regulation of pre-arranged funeral plans The FCA published its consultation paper – Funeral Plans: Proposed approach to regulation on 2 March 2021. The market will be required to adhere to the final post consultation regulations with effect from July 2022.</p>	<p>This emerging risk is mitigated by the high standards of selling and administration of pre-arranged funeral plans operated by the Group, we have been preparing for regulation for the last 12 months.</p> <p>Dignity as a vertically integrated provider will still be in a strong market position with continuing distribution through our funeral locations and the direct to consumer marketing model in existence today.</p> <p>However, if the current proposed ban on commissions were to be enacted, it would have a material effect on volumes for the market and Dignity.</p> <p>Changes imposed by the FCA will apply to the industry as a whole.</p>	New 
<p>Cyber risk Our business like all others is at risk of financial loss, disruption or damage to the reputation of an organisation resulting from the failure of its information technology systems. This could materialise in a variety of ways including deliberate and unauthorised breaches of security to gain access to information systems. The chance of an organisation falling victim to a cyber-attack is growing. Threats are more pervasive and sophisticated than ever.</p>	<p>We continue our investment in fit for purpose security controls, processes, and technology to allow us to maintain pace with the current threat landscape whilst proactively monitoring for breaches and improving internal understanding and communication of initial risks, mitigations and residual risks.</p>	New 

Viability statement

In accordance with Provision 4.31 of the UK Corporate Governance Code, the Board has assessed the Group's viability taking into account its current position, the Board's assessment of its business prospects, and its principal and emerging risks.

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 2023.

Consistent with the prior period, three years has been selected as the appropriate period of review for the following reasons:

- This period aligns with our current medium-term strategic plan and forecasting; and
- Performance is significantly impacted by deaths which are increasingly difficult to forecast beyond 2023 due to the uncertainty the COVID-19 pandemic has had on the medium-term death forecast.

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, totalling approximately £34 million per annum (see Going Concern review for further details on the related covenants which are tested quarterly). In making this statement the Directors have fully considered the principal and emerging risks facing the Group and have stress tested the impact of a combination of these risks with severe but reasonable scenarios, and the effectiveness of any mitigating actions. These scenarios were then reviewed in the context of the Group's ability to generate funds to meet those obligations and comply with the debt service cover ratio ('DSCR') covenant.

The scenarios build on the sensitised base case used for the Going Concern review which assumes that the impact the COVID-19 pandemic has had on the Group continues for the remainder of 2021 with recovery expected from the beginning of 2022. The scenarios have then specifically considered the following:

- the possibility of 60,000 lower deaths in 2023 compared to the current ONS forecast caused by the excess level of deaths seen recently due to COVID-19;
- no recovery to the current 70:30 mix and average revenue;
- a worsening of the mix to 65:35 and the average revenue impact;
- a 50bp reduction to market share in 2021 and beyond;
- £100 reduction in cremation average revenue; and
- various combinations of the above.

The Group has also 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 and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and how they are managed, as explained in this Strategic Report (pages 27 to 32).

Notwithstanding the above, the Directors confirm that they have a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due over the period to December 2023. It is recognised that future assessments are subject to a level of uncertainty and, therefore, future outcomes cannot be predicted with certainty.

Non-financial information statement

Strategic report

Our objective is not only to provide and enhance the reputation of our Group but also to promote and embed and build the culture of caring, 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	<p>We are truly a people business because we help people at an extremely difficult time in their lives. Meeting their needs means that our employees must be caring, thoughtful and truly engaged with those they serve, which they are. 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. In this COVID-19 pandemic, we have had many staff who have isolated from their families in order to continue their jobs and serve their communities.</p> <p>We believe that the quality of our people is a strong enabler of business growth. We value our people as they are a great asset. We support them by recognising and rewarding performance and long service plays a key part in this.</p> <p>We aim to provide a safe working environment, encourage personal development, responsibility and respect, and attract a diverse and inclusive workforce.</p>	<ul style="list-style-type: none"> • Executive Chairman's Review – page 4 • Corporate and social responsibility – page 38 • Directors' Report – page 82 • Code of Conduct⁽¹⁾ • Equality and Diversity Policy Statement⁽¹⁾ • Health and Safety Policy • Our CSR commitments⁽¹⁾
Environment	<p>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.</p>	<ul style="list-style-type: none"> • Corporate and social responsibility – page 40 • Our CSR commitments⁽¹⁾
Waste disposal	<p>Dignity produces waste that is hazardous. Specifically, these are – items such as gloves used for handling the deceased, PPE, 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.</p>	<ul style="list-style-type: none"> • Corporate and social responsibility – page 40 • Safe Handling and Use of Substances Policy • Waste Disposal Mission Statement
Crematoria emissions	<p>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.</p> <p>Air Pollution Control is a risk for all crematoria. The Group'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.</p>	<ul style="list-style-type: none"> • Corporate and social responsibility – pages 40 and 41 • Our CSR commitments⁽¹⁾
Ethical Sourcing	<p>There is a risk that Dignity could use a supplier that manufactures or purchases goods that are made using slave, forced or child labour.</p> <p>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 audit of ethical production and processes undertaken in conjunction with the owners of those factories. An E-Learning Module addressing the Modern Slavery Act is required to be completed by colleagues.</p>	<ul style="list-style-type: none"> • Modern Slavery Act Statement⁽¹⁾ • E-Learning Module • Our CSR commitments⁽¹⁾
Human Rights	<p>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.</p>	<ul style="list-style-type: none"> • Modern Slavery Act Statement⁽¹⁾ • Our CSR commitments⁽¹⁾
Anti-corruption and anti-bribery	<p>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.</p>	<ul style="list-style-type: none"> • 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	<p>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. Each year, an Annual Compliance Declaration is completed by each member of the Executive and Senior Leadership Teams for the individual to confirm compliance with all applicable rules, regulations and policies.</p>	<ul style="list-style-type: none"> • For our strategy and business model, relationships and services, see the Executive Chairman's Review pages 4 to 14 • Our non-financial key performance indicators are shown on page 16 • For our principal risks and uncertainties and how they are mitigated, see page 27

⁽¹⁾ These can be found on the Group's website www.dignityplc.co.uk.

Corporate and social responsibility report

A responsible, sustainable and inclusive business



We are a caring and responsible business and at its heart is a core social purpose to help people at one of the most difficult times in their lives; for today, tomorrow and future generations.

This purpose connects us with our clients and communities, inspires our people and reinforces our commitment to society. It is critical to the long-term success of our organisation.

We provide a vital service to those in need and we do so in a sustainable manner that is both socially and environmentally aware, as well as commercially successful for the benefit of all our stakeholders.

Reaffirming our commitment to our core social purpose

Our business and people have truly been tested by the challenging events of 2020. Our response has clearly demonstrated the strength and resilience of our business, the dedication of our people in whichever role they play and ultimately reaffirmed our commitment to our core social purpose.

Our culture and commitment to our stakeholders

Commitment to doing business the right way is in the DNA of the Dignity Group. We are the only publicly listed company in the UK operating in the funeral sector and as such have a responsibility as a good corporate citizen. As one of the leading providers of funeral services in the UK, we seek to earn the trust of our clients, society and our wider stakeholders by acting with integrity and a deep sense of responsibility at all times. We look to build relationships with all our stakeholders based on openness and continuing dialogue.

Our stakeholders include:

- **Clients**
- **Communities**
- **Employees**
- **Investors**
- **Policymakers**

Why it is important to us

Good and authentic CSR enhances business reputation. It can help to raise awareness among consumers, increase brand recognition and drive greater levels of engagement and satisfaction with stakeholders. We also see benefits specifically among our own people, who feel a strong sense of pride working for a demonstrably responsible company and become great ambassadors for it within their own networks. This shows the importance of not only embedding responsible practices throughout the business but sharing our ambitions and achievements too.

Our core social purpose drives our approach



We will continue to be a responsible and inclusive business – in how we operate and behave, serve our clients and society, respect our people and the environment.

Our long-term approach to sustainability enables us to demonstrate, measure and improve our performance in those areas where we can make the greatest impact and deliver the most significant value.

Throughout this section we outline our commitments and summarise our actions in 2020:

- Delivering for our clients.
- A meaningful and positive impact in our communities.
- Our people, culture and values.
- Safeguarding the environment.
- Responsible business practice.

Corporate and social responsibility report continued

Strategic report

Serving our clients with care and compassion

Our commitments

- We exist to serve our clients;
- We earn their trust by focusing on their needs and delivering excellent service;
- We put ourselves at the heart of local communities; and
- We are determined to make a real difference to the people we interact with every day.



Dignity supports and guides clients at every step of the funeral arrangements, while always treating their loved ones with the greatest care and professionalism.

Creating safe spaces

We understand how difficult it can be to lose a loved one, especially in such challenging times. Government guidance has resulted in changes to how we work, but it does not compromise our ability to arrange dignified funerals where our clients can properly say goodbye.

We are taking care to ensure clients feel completely safe with us. Our funeral homes are COVID-secure for those who still wish to visit us during the arrangement process, with rigorous hygiene routines in place, including everywhere we care for the deceased. Before every funeral, we carefully clean and prepare our limousines. Thanks to the installation of perspex partitions, these vehicles provide a safe environment for transporting families to a service.

A gift to treasure

Personal touches always make a funeral more meaningful. At the height of the pandemic, a team of colleagues in Lancashire decided to crochet rainbows in their spare time, placing one on each coffin while the deceased was in their care.

After the funeral, the rainbows were offered to family members as a gift. Not only does the rainbow itself serve a symbol of peace and hope, recipients were especially grateful to have a keepsake that had been with their loved one throughout their final journey.

Care that continues long after the funeral

Many of our locations have a longstanding tradition of organising memorial services during the festive season, providing recently bereaved families with an opportunity to commemorate those they have lost. COVID-19 restrictions meant such face-to-face gatherings were not possible last Christmas, yet that did not stop our colleagues showing clients how much they care.

They made use of digital technology to webcast services for families to watch at home, sending out orders of service and encouraging them to light a candle of remembrance. Where live streaming could not be supported, many services were pre-recorded and made available for secure playback through our local webpages.

Stars shine bright

Our crematoria proudly came together to honour the deceased and create poignant visible tributes at all 46 sites. Families were invited to dedicate a star shaped Christmas tree tag to a loved one and the displays were completed with specially-commissioned plaques bearing the words: in dedication to all those who have shown strength in 2020. There was a charitable element to the initiative too. Colleagues at each crematorium selected a local cause and made a £500 donation, plus any additional contributions families wished to offer.

Care and compassion are second nature to us whenever a death occurs, but Christmas can be a particularly difficult time for those coping with grief. Just reaching out to clients and offering them our support and best wishes can make a real difference.

Delivering excellent client service

Client service and experience is at the heart of everything we do and it is the central element that connects all our people regardless of their role.

We closely monitor the results of our client surveys which are conducted by our Funeral services division. This is one of our current measures 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 where we can improve and add value.

Meeting and exceeding expectations

98.9%

In 2020, 98.9 per cent (2019: 99.2 per cent) of respondents said we met or exceeded expectations.

Social | Clients & Community



Playing our part in local communities and having a positive social impact

Putting others first

Our colleagues pride themselves on being active in their communities, regularly helping out with special events, communal celebrations and getting behind locally-focused charities. This past year has, of course, been decidedly different because of measures imposed to limit the spread of COVID-19. However, the enthusiasm and willingness of our people to put others first and make meaningful contributions remains as strong as ever.

For some, it has been about fundraising, swapping mass participation events for virtual challenges in support of vital causes including life limited children, mental health, heart disease, homelessness, animal welfare, food banks and the air ambulance service.

Others have made use of their prominent locations on local high streets to recognise key calendar events and create striking window displays – rainbows offering thanks to the nation’s keyworkers and poppies for Remembrance Sunday to name but a few.

Music to their ears

At a point when lockdown restrictions were beginning to ease, teams in the North East took to the road with Dignity’s Charity Organ.

They visited several care homes in the region, using the Victorian-style fairground organ to play musical recitals which residents and staff could enjoy from the safety of their rooms and communal areas. A small gesture, but a welcome distraction for those having to shield and stay separated from their families.



Helping to transform lives

Our nominated charity

Dignity is delighted to announce a new three year partnership with Teenage Cancer Trust and colleagues across the country will be working together to find fun and creative ways to raise money for young people who are facing the toughest of times.

Teenage Cancer Trust is the only UK charity dedicated to providing specialist nursing care for patients aged 13-24 who have cancer. Their support puts young people in the best possible place, physically, mentally and emotionally, for their cancer treatment and beyond.

Giving back to society

We want to play our part in driving positive outcomes for society and we know that through our actions and by making a meaningful contribution in the local communities we live and work in that we fulfil this objective.



Teenage Cancer Trust relies on the generosity and goodwill of others to fund its expert nurses, support teams and 28 hospital units.



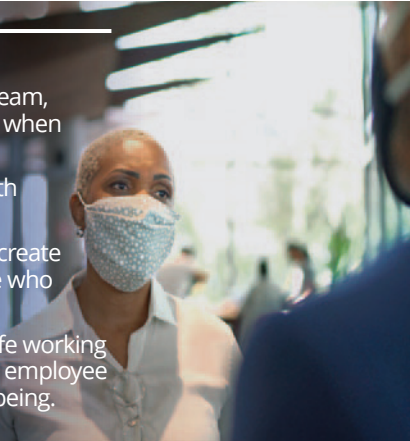
Corporate and social responsibility report continued

Strategic report

Creating an open culture and safe and inclusive workplace

Our commitments

- We are all part of one team, performing at our best when we work together;
- We treat each other with patience and kindness;
- We nurture talent and create opportunities for those who want to develop; and
- We aim to provide a safe working environment; ensuring employee health, safety and wellbeing.



Out of the most testing of circumstances has come an exemplary response from our people. They help each other in order to help families in need, creating standards of care we can all be immensely proud of.

A different approach

In a year like no other, there has been a fundamental shift in how many of our colleagues perform their roles. They have adapted quickly to working from home wherever possible, embracing digital technology to stay in daily contact with their team members and make key processes paper-free.

When new challenges emerged, such as the need for some individuals to shield, or the closure of schools, we remained fair and flexible in our approach to help alleviate the strain. The willingness of colleagues to step in and assist, for example by working in different locations or taking on additional responsibilities, also deserves recognition and praise.

Looking after each other

We care deeply about the welfare of our people. Their desire to look after our clients is what sets us apart, but equally that must not come at the expense of their own health and wellbeing.

While we have supported those unable to take their full allocation of annual leave by carrying over unused days for a period of up to two years, everyone is still being encouraged to regularly take time out and recharge.

Workplace safety, culture and behaviours

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.

Dignity's Health and Safety team provides support services to our branches, crematoria, manufacturing site and head office locations. Alongside Health and Safety training, we are also investing in the training and accreditation of a number of colleagues in mental health first aid.

Stay safe and stay well

Working safely

Frontline colleagues have a consistent supply of the personal protective equipment they need to carry out their roles in safety. We publish detailed operational guidance which remains under constant review to reflect any changes in COVID-related safety measures and recommended conduct across each of the four devolved nations.

Do not struggle alone

Throughout the pandemic we have sought to discuss openly the importance of looking after our mental health. We regularly share information, tips and videos through our internal news channels, covering topics such as stress management, isolation, healthy eating, exercise and sleep. Managers are advised on how to recognise the signs that someone in their team might be struggling to cope.

All colleagues have 24/7 access to a confidential Employee Assistance Programme that is available online and over the telephone. We also promote wider industry schemes including Our Frontline for critical workers and emotional wellbeing support via the National Association of Funeral Directors.



Reduction in reportable accidents

24%

Since 2009 the number of accidents has reduced by 24 per cent.



Long service

28%

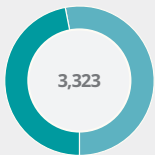
28 per cent of our people have worked at Dignity for more than 10 years.



Our values and behaviours encapsulate who we are, support our purpose and help us to preserve a strong and positive culture.

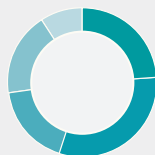
Employees and service

Total employees/ratio (% & number)



Male: 47% (1,574 employees)
Female: 53% (1,749 employees)

Employee service (% & number)



Less than 1 year: 24% (800 employees)
1–4 years: 31% (1,018 employees)
5–9 years: 18% (587 employees)
10–19 years: 18% (606 employees)
Over 20 years: 9% (312 employees)

Employee diversity

Senior managers (% & number)



Male: 81% (25 employees)
Female: 19% (6 employees)

Senior and middle managers (% & number)



Male: 64% (118 employees)
Female: 36% (66 employees)

Building and promoting an inclusive and diverse workplace culture

Dignity is dedicated to building a workforce which is representative of the communities we serve in all aspects of diversity, and encouraging a culture that celebrates difference. Our inclusion and diversity policies seek to demonstrate our commitment to providing an inclusive, equal and fair working environment.

Strengthening our teams

Living up to our promise of taking the greatest care relies on us recruiting well and having the best people performing the right roles. We have focused this year on reviewing how we recruit, identifying areas where we can simplify internal processes, ease the administrative burden on our hiring managers and reduce the time required to get from application to offer. This is proving particularly beneficial for filling essential operational vacancies during the pandemic while demand for our services remains high.

Providing opportunities for existing colleagues

We have taken steps to improve our promotion of internal vacancies, making them more accessible for colleagues who are eager to progress in their careers. Having such a breadth of talent at Dignity means we need to ensure new vacancies get maximum visibility, since the ideal candidate for a role can often come from within the business.

This has been achieved through the introduction of a new vacancies portal, which supports online applications as well as having searchable job listings. The next phase of the project will be to improve the recruitment experience for external applicants so the process is more straightforward and offers greater levels of insight into our culture and values.

Driving employee engagement

Keeping everyone informed

Our business has always communicated regularly with colleagues and that need is stronger than ever now with less face-to-face contact taking place while many of us continue to work remotely. Existing internal news channels were repurposed at the start of the pandemic so related updates could be shared promptly.

We established a communal online space specifically for our managers so it became easier to cascade key information and share ideas for best practice. We are also adding elements to make our main news area more interactive, a recent example being the Good Deed Feed where colleagues can upload personalised messages of thanks for great work or acts of kindness.

The Dignity Employee Forum was established to provide the opportunity for 17 elected employee representatives from all corners of the Group to represent colleagues. The Forum provides: a structured voice for colleagues and facilitates two-way communication between employees, management and the Board, supports a caring and open culture where employees can make their voices heard.



Empowering people with future skills

Enter the Learning Zone

Our learning and development function has been quick to respond to changing working practices, adapting traditional classroom-based programmes to make them suitable for delivery via digital platforms such as Teams. This was shortly followed by the introduction of our Learning Zone, a secure internet site dedicated to personal development.

The Learning Zone features a wide range of self-study modules to help build key business and workplace skills and guide people towards wider responsibilities such as managing others. Feedback has been extremely positive and we have engaged with regular site users to help create new modules based on real everyday needs.



Corporate and social responsibility report continued

Strategic report

Safeguarding the environment

Our commitments

- Be environmentally responsible to help maintain the quality of the communities in which we work;
- Understand the potentially negative contributions of our actions to the environment and optimise how we manage them; and
- Engage and inform our colleagues, promoting good practices across all job roles.



We recognise our environmental responsibilities and are working hard to lessen the impact of our operations by reducing carbon emissions, energy consumption and using resources more efficiently.

Identifying areas for improvement

Our business 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.

Under regulations set by the Department for Environment, Food and Rural Affairs, 50 per cent of the cremations that take place in the UK must be subject to mercury abatement. Our crematoria achieved a level of 56 per cent during 2020, having carried out a total of 74,500 cremations across all 46 of our sites.

An additional area of focus is looking at ways of proactively reducing carbon in our gas consumption, either by purchasing biogas as an environmentally friendly, renewable energy source, or buying carbon credits which would then help to finance carbon reduction projects both at home and abroad.

Managing our environmental impact

Watching our waste

It has been more than 12 months since we began working with Veolia to handle our general and mixed recyclable waste. During 2020 we diverted 99.98 per cent of our waste from landfill and this will reach 100 per cent in 2021 when we successfully implement a diversion solution for one remaining business location. A proportion of the total waste handled by Veolia is used for energy production, in our case enough to power 99 homes with electricity for a whole year.

Making the right choices

Thanks to a new partnership with the consultancy Inspired Energy, we are getting greater insight into energy usage across our property portfolio. One objective is to ensure we are buying energy at the best prices, but by managing data from our smart meters and energy bills we can also look for opportunities to make savings and reduce or offset carbon emissions.

Responsible and sustainable supply chains

Meeting increased demand

Dignity's coffin manufacturing facility is the backbone of our business, enabling us to provide a complete and seamless service to our clients. We utilise raw materials that originate from well-managed and sustainable sources; in fact 98 per cent of the coffins we produce are made with timber certified by the Forest Stewardship Council.

Demand for coffins increased dramatically in 2020, particularly in the early stages of the pandemic after the country entered its first national lockdown. The factory has been vital in our response to COVID-19, producing around 2,000 coffins a week at its peak and a total of 75,000 by the end of the year, which is 20 per cent more than in 2019.

Cutting edge technology helps make the manufacturing process efficient and scalable, as clearly demonstrated over recent months. But it is the expertise and craftsmanship within the team that ensures the end product always meets the high standards our clients expect.



100%

All of the electricity supplied to us across England, Wales and Scotland comes from 100% renewable sources.

98%

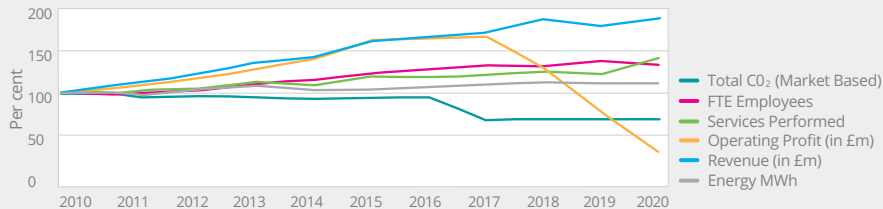
98 per cent of the coffins we produce are made with timber certified by the Forest Stewardship Council.



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

1%

1% reduction in our carbon emissions during the period.



Environmental performance

Greenhouse gas emissions reporting for 2020

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:

	2020	2019	2018	2017	2016
Scope 1	15,710	15,844	16,028	15,535	15,616
Scope 2	53	59	174	423	7,106
Total	15,763	15,903	16,202	15,958	22,722
Per FTE Employee	5.3	5.2	5.3	4.8	8.0

Our energy consumption figures over the same periods are:

	2020	2019	2018	2017	2016
MWh	94,175	94,067	95,147	92,121	91,413

Methodology

Our greenhouse gas emissions have been calculated on a per fulltime 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 market based on the Scope 2 calculation method together with the latest emission factors from recognised public sources, principally Defra. In addition, Dignity's carbon emissions disclosure has been undertaken in accordance with the Companies Act 2006.

Acting with integrity through strong governance

Trust, Transparency and Accountability



We are committed to the highest standards of governance as an essential constituent of the way we operate and behave based on trust, transparency and accountability.

Doing the right thing

We believe that operating sustainably and responsibly is fundamental to creating long-term value. Our objective is not only to strengthen the reputation of our company, 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.

Business integrity

A number of procedures and policies are in place to further ensure responsible practice is embedded in the way we do business.

Dignity Code of Conduct

Our Code of Conduct underpins the behaviours of everyone engaged by us when conducting business on our behalf. It is a statement of how we maintain good corporate citizenship in relation to all those who have an interest in our reputation.

Anti-Bribery & Corruption

We insist on honesty, integrity and fairness in all aspects of our business and expect the highest standards of professionalism and ethical conduct. We will not engage in bribery or corruption in any form and have a zero tolerance approach to breach.

Equality & Diversity

There shall be no discrimination or less favourable treatment of people in respect of age, race, religion or belief, gender, sex, sexual orientation, pregnancy, disability or marital status. We engage, promote and train our colleagues on the basis of their capabilities, qualifications and experience, without discrimination.

Modern Slavery Act

We are committed to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains or in any part of our business.

Supplier Code of Conduct

We rely on our suppliers to provide important services that help us care for our clients and expect them to support and promote our core values of professionalism, compassion and respect.

Section 172 Statement

Strategic report

Stakeholder engagement and decision-making

An open and collaborative approach to stakeholder engagement

Engaging and building trust with the broad range of stakeholders that interact with, or are impacted by, our business is key to delivering our strategy and ensuring our success over the long-term.

Section 172(1) Reporting

The revised UK Corporate Governance Code ('2018 Code') was published in July 2018 and applies to accounting periods beginning on or after 1 January 2019. The Companies (Miscellaneous Reporting) Regulations 2018 ('2018 MRR') require directors to explain how they considered the interests of key stakeholders and the broader matters set out in Section 172(1) (A) to (F) of the Companies Act 2006 ('s172') when performing their duty to promote the success of the Company under s172. This includes considering the interest of other stakeholders which will have an impact on the long-term success of the Company.

This s172 Statement, which is reported for the first time, reviews the principal decisions made by the Board of Directors and how the Directors have engaged with stakeholders.

Our approach

In line with the reporting requirements, we have evolved our stakeholder engagement section to describe our stakeholders and how the matters set out in s172 have been considered in Board discussions and decision-making.

As a Board, we acknowledge our duty to make the best decisions we can but also to make sure that we communicate well and lead by example. In the 2020 financial period, the Board of Directors consider they have acted in good faith, in a way most likely to promote the success of the Group for the benefits of its stakeholders as a whole.

Our stakeholders

Amongst Dignity's stakeholders are:

- Our clients who are at the heart of what we do. We are here to help them at one of the most difficult times of their lives. Listening to our clients and understanding their needs drives what we do as a business.
- Both our Pre-Need Funeral Plan holders and the Trustees of the related Funeral Plan Trusts. Our commitment is quality, security and peace of mind.
- Communities and the environment in which we operate. We take our role as a responsible corporate citizen extremely seriously and recognise that our broader role in society goes beyond creating value. We will continue to be a responsible and sustainable business to meet our social responsibilities.
- Our colleagues who are fundamental to the operation of our business and for the delivery of outstanding client service. Their loyalty, compassion and commitment are essential to our business.
- Our investors, our shareholders and bondholders, for whom we aim to provide sustainable long-term value.
- Our suppliers. Dignity annually spends about £200 million acquiring goods and services to support our business needs and delivering services to our clients. We engage with all those in our supply chain to comply with our values.
- Both our pensioners and the Trustees of our pension funds who are reliant on good management and governance to facilitate our continued success.
- We engage with Government and regulatory bodies, such as the Financial Conduct Authority and the Competition and Markets Authority, that both enact policies required of a public company and that affect the funeral industry.

Our commitment to our stakeholders

Commitment to doing business the right way is in the DNA of the Dignity Group. We are the only publicly listed company in the UK operating in the funeral sector, and as such have a responsibility to fulfil our role as a good corporate citizen. This means listening to our stakeholders and understanding what is important to them.

As a sector leader, we must look beyond our own business performance, and consider societal and economic factors in our wider environment. It is essential, of course, that we deliver value to our shareholders. But it is also important that we provide quality and value to our clients and make a positive contribution to society. As a funeral company, we are involved in a fundamental and timeless human ritual and we never lose sight of the responsibility this places on us. As a result, stakeholder interests are critical to the decisions we make.

Colleagues

We employ 3,323 people who we rely on to provide our services in a caring, thoughtful and truly engaged way with the people and communities we serve.

Employee priorities:

- Ensuring their health, safety and wellbeing;
- A culture of fairness, respect and valuing;
- Opportunities to develop professionally; and
- Attractive and fair rewards and benefits.

How we engage with colleagues:

- The Dignity Employee Forum was established to provide the opportunity for 17 elected employee representatives from all corners of the Group to represent colleagues and discuss business-related issues. The Forum provides:
 - a structured voice for colleagues ensuring information and feedback is provided to facilitate two-way communication between employees, management and the Board of Directors; and
 - supports a caring and open culture where employees can make their voice heard.

Information is shared on topics such as financial performance, remuneration policy, strategy and vision.

Clients

Dignity monitors closely the results of client surveys in order to focus on areas in which we can improve our service and add value for our clients. Satisfied clients are essential for a sustainable and successful business.

In 2020, we received 30,900 responses to our surveys from clients who used our services. The results continue to demonstrate the outstanding service provided by colleagues. 98.9 per cent of respondents said we met or exceeded their expectations and 97.9 per cent of respondents said they would recommend us.

Community initiatives

Helping people at one of the most difficult times in their lives is Dignity's core social purpose. Contributing to the communities we serve benefits both local people and Dignity as a business.

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

Our priorities are:

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

These priorities enhance our reputation, sustain longevity and contribute to local communities.

For details of the Group's charity activity and community initiatives, please see the Corporate and social responsibility report on page 37.

Decision-making and considering the long-term interests of stakeholders

We recognise the importance of engaging with stakeholders to inform our strategy and Board decision-making. Relevant stakeholder interests are taken into account by the Board when it takes decisions. In making its decisions, the Board considers the outcomes of relevant stakeholder engagement, as well as the need to maintain a reputation for high-standards of business conduct, the need to act fairly and the long-term consequences of its decisions.

We believe that principal decisions are both those that are material to the Group and/or those that are significant to any of our key stakeholder Groups.

The following principal decisions and activities demonstrate how the Board has assessed and addressed different stakeholder interests in making decisions that support the implementation of the Group's long-term strategy.

1.

Strategic review

The combination of price competition and changing consumer requirements has necessitated a review of our business model to ensure our funeral and crematoria services remain focused on delivering high-standards while enabling Dignity to adapt and lead in a changing marketplace.

- Pricing and Brand – this is where we seek to grow market share through implementing a more client centric service model, a more flexible pricing structure and building our national brands.
- Our Operating Model – where we invest in and simplify the operating model to include an enhanced network structure that is lower cost and provides better service and product range than the competition.
- Streamline central support and invest in technology to centralise and automate administrative processes together with a simplified, focused management structure.

The Board's vision is to lead the funeral sector in terms of quality, standards and value-for-money. Our root and branch review will reposition Dignity as a more coherent, cohesive and technology enabled business geared to meet the changing needs of our clients with an enhanced and very competitive range of services and price options.

2.

Dividends

Although the Group has significant cash resources and continues to be cash generative, in order to maintain maximum flexibility and liquidity, the Board concluded that it was prudent to continue with the temporary cessation of 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.

3.

Response to COVID-19

The employees of this organisation have responded to the pandemic with tireless effort to support both each other and our clients during testing times and to provide some closure for the bereaved. Their professionalism, flexibility and commitment have been crucial to providing respectful, high-quality care to the deceased and their families notwithstanding the daily obstacles presented by the pandemic: whether it be high levels of colleague absence, sourcing PPE or managing the pressure on mortuary space.

Our frontline colleagues have been ably supported by our head office staff who have embraced and adapted to new ways of working.

4.

Corporate development

The Board has suspended the acquisition of small funeral businesses as it is inconsistent with the Group's strategy and plans for the future. The Group therefore does not anticipate acquiring any further funeral locations in the foreseeable future.

Should opportunities of larger, more established businesses become available, the Group will consider these on a case by case basis.

5.

Covenant levels

Whilst financial performance in 2020 means that the Group has comfortably achieved the required covenant levels, it remained prudent to plan for lower volumes in 2021 and 2022. As a consequence, in July 2020, the Group completed an internal restructure of its trading assets which serves to further increase covenant headroom.



The principles underpinning s172 are not something that are only considered at Board level, they are part of our culture and are embedded in all that we do as a responsible business.

Governance

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Chairman's introduction to governance

Governance

Dear Shareholder,

I am pleased to be able to present on behalf of the Board the Group's Corporate Governance Report for 2020. 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, the Board of Directors, how it is applied and how it guides our decision-making.

We are reporting for the first time in line with the UK Corporate Governance Code July 2018 (the 'Code'). Following what has been a challenging year for the Group both in terms of the impact of COVID-19 and the extent of changes to the Board, there are a number of areas where the Group are either currently or have been for part of the year unable to comply with the Code which are explained later in this report. These matters of non-compliance are temporary and the Board's continued objective remains to manage the Group for the benefit of all stakeholders for which the application of good corporate governance is essential and ultimately to comply with the Code in all respects.

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

I would encourage you to participate in our Annual General Meeting on 23 June 2021 and take the opportunity to meet the Board. We will take formal questions at that meeting.

Clive Whiley, Chairman
17 March 2021

Transparent reporting

The Group has a clear purpose, and integral to delivering it is being a socially responsible company which demonstrates strong ethical behaviour within a framework of transparent and robust governance.

Section 172 Statement

In line with the new reporting requirements of the 2018 UK Corporate Governance Code, we have evolved our stakeholder engagement and included a section to describe how our stakeholders and the matters set out in Section 172 of the Companies Act 2006, have been considered in Board discussions and decision-making. The Board actively engages with our clients, shareholders, employees and wider stakeholder Groups when making decisions, and considers the impact of Group activities on the community, environment and its reputation.

Principles of the UK Corporate Governance Code 2018

The Principles set out in the UK Corporate Governance Code 2018 (the 'Code') emphasise the value of good corporate governance for long-term sustainable success. Whilst we are reporting a number of areas where we have not been able to comply with specific Code provisions, we do not consider this extends to any of the Principles set out within the Code. Our response to the Principles which fall under the headings below is set out on pages 48 and 49.

- Section 1: Board leadership and Company purpose.
- Section 2: Division of responsibilities.
- Section 3: Composition, succession and evaluation.
- Section 4: Audit, risk and internal control.
- Section 5: Remuneration.

Compliance with the UK Corporate Governance Code

In the 2020 reporting period, Dignity plc was subject to the Code issued by the Financial Reporting Council (available at frc.org.uk) for the first time. 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. Other than as detailed in the paragraphs below, Dignity has complied with the provisions of the Code throughout the period ended 25 December 2020. Since the period end to the date of this report, we have appointed a further independent Non-Executive Director which has improved our compliance across a number of Code provisions.

As stakeholders will appreciate, 2020 was a difficult and challenging year for all of us. Those of us in the funeral sector had to react, organise and scale-up to continue to ensure that both our colleagues and the bereaved families we serve across the UK have been protected and supported during this time.

As previously reported, I became the independent Chairman of the Board in September 2019 temporarily becoming Executive Chairman on 3 April 2020 following the departure of our former Chief Executive, Mike McCollum.

There has been further reorganisation at Board level which has and continues to be managed for the long-term benefit of stakeholders.

Chairman's introduction to governance continued

Governance

Board Changes

In 2020, the following Board changes occurred:

- **March:** Dean Moore appointed as an independent Non-Executive Director.
- **April:** Clive Whiley (formerly independent Non-Executive Chairman) became Executive Chairman following the departure of our former Chief Executive, Mike McCollum.
- Jane Ashcroft (independent Non-Executive Director) stepped down.
- **June:** Gillian Kent (independent Non-Executive Director) was appointed, and David Blackwood (independent Non-Executive Director and Senior Independent Director) retired.
- **December:** Richard Portman and Steve Whittern (both Executive Directors) stepped down. Andrew Judd, Director of Funeral Operations, was appointed to the Board as an Executive Director. Dean Moore was appointed Interim Chief Financial Officer.
- **Since year-end:** Paul Humphreys, has been appointed as an independent Non-Executive Director.

As a result, the Company has been unable to comply with the following Code Provisions during the periods noted:

- 9. in respect of the separation of the roles of chair and chief executive (non-compliant from April 2020).
- 11. in respect of the proportion of the Board, excluding the Chairman, who are considered to be independent. (non-compliant from April 2020 to February 2021).
- 12. in respect of the appointment of a Senior Independent Director. (non-compliant from June 2020).
- 17, 24 and 32. in respect of the composition of the Board's key committees (non-compliant from December 2020, until February 2021).

The Company is also continuing to work to ensure that the processes adopted by the Company achieve full compliance in the areas of workforce engagement and assessing and monitoring the culture within the organisation.

At the current time and, in addition to the Executive Chairman, the Board comprises two Executive and three Non-Executive Directors, two of whom, Gillian Kent and Paul Humphreys are independent. James Wilson is a Non-Executive Director but, as a partner in Phoenix Asset Management Partners, is not independent.

The Company is in the process of searching for appropriate candidates for the role of Chief Executive and Chief Financial Officer which will enable, Clive Whiley and Dean Moore to relinquish their executive roles. Following these appointments, the Board will comprise three Executive Directors and, excluding the Chairman, four Non-Executive Directors, three of whom are independent.

The direct and indirect consequences of changing roles during the year has demanded additional time commitment to Dignity from a number of Board members. Whilst the Executive Chairman, Interim Chief Financial Officer and our Independent Non-Executive Directors have various roles with other companies, we have ensured that at all times each individual Board member has the capacity to perform their roles on the Dignity Board.

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 of 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.
- Analysts' reports.

Directors' Report

The Directors present their report for Dignity plc for the period ending 25 December 2020.

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 Chairs 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.

Workforce engagement

We rely on our colleagues to provide our services in a caring, thoughtful and truly engaged way with the clients and communities we serve. We believe that the quality of our people is a strong enabler of business growth and is central to delivering our purpose, vision, goals and our strategy.

The Board seeks to maintain good channels of communication with all its employees and in accordance with the Code, the Board has reviewed the mechanisms that it uses to engage with its workforce. 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.

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, amongst many things, news, blogs and opinion polls.

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.

The Employee Forum provides a key opportunity for the Board to assess and monitor the culture of the business and we will be working to enhance this during the coming year.

We consider that the mechanisms noted above represent an effective mechanism for the Board to engage with the workforce, however due to the importance of our workforce to the business the Board will continue to review the situation and consider if incremental benefits can be obtained through the appointment of a designated non-executive director to lead in this area.

Our HR department has expanded to include a team of eight regional and one head office Business Partners. The role is very much a consultative one, so the Partners provide guidance in areas such as recruitment, learning and development and improving business results.

Across the organisation, the Board has looked carefully at people support. 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.

The Board resolved to and successfully established an 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 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 and ideas, helping to ensure that the business decisions we make are fully-informed with insight from all major stakeholders.

Promoting an inclusive and diverse workforce

Dignity is dedicated to building a workforce which is representative of the communities we serve, in all aspects of diversity.

Our inclusion and diversity policies seek to demonstrate our commitment to providing an inclusive, equal and fair working environment by:

- driving inclusion and promoting equal opportunities for all;
- ensuring our workforce, whether part-time, full-time or temporary, is treated fairly and with respect;
- eliminating discrimination; and
- ensuring that selection for employment, promotion, training, development, benefit and reward is based on merit and in line with relevant legislation.

Board leadership, purpose, values and culture

Our purpose is to help people at one of the most difficult times in their lives and to create a responsible business that focuses on meeting the needs of our clients and delivering long-term success and value for all our stakeholders.

As a business, serving clients is at the heart of everything we do. Our values underpin our purpose and are recognised across the Group as the basis of our culture.

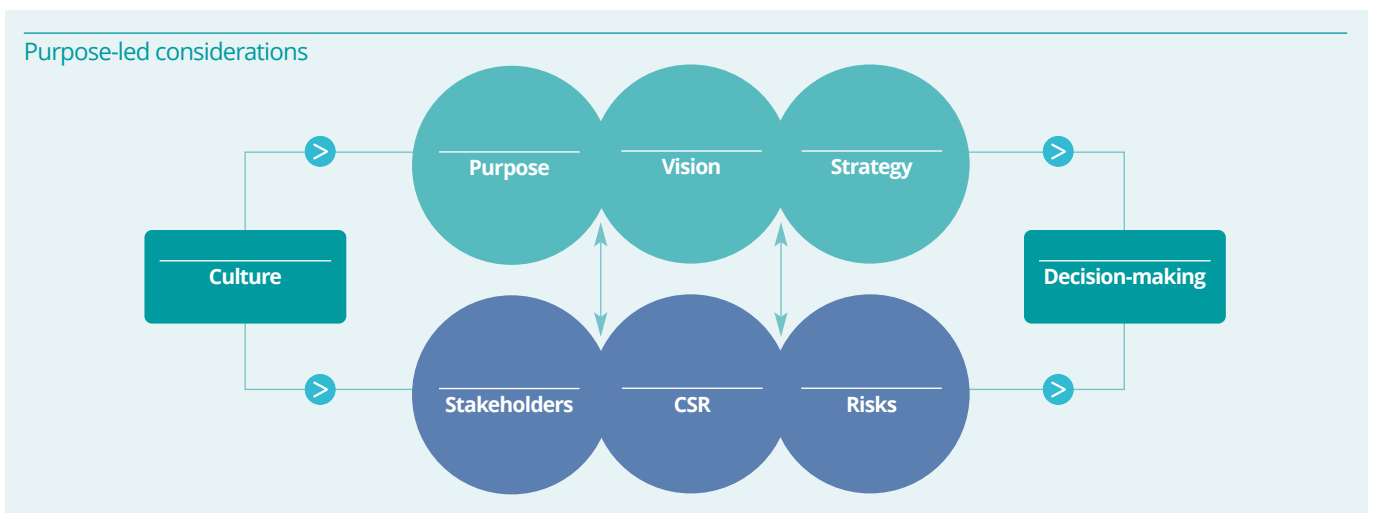
The Board sets the strategy for the Group to align with our purpose. Our values and leadership behaviours are a vital part of our culture to ensure that through our conduct and decision-making we do the right thing for the business and our stakeholders.

The Board has overall responsibility for establishing the Company's purpose, values and strategy to deliver the long-term sustainable success of the Company and generate value for all our stakeholders.

Ensuring effective decision-making

The parameters within which decisions are taken across the Group are ultimately directed by our core purpose, which is designed to drive alignment between why it exists, what it aims to achieve in the future, who it exists for, and how it generates sustainable financial and non-financial value for its key stakeholders. This is discussed further throughout the Strategic Report.

The Board-agreed matters of purpose, vision and strategy are not developed in isolation and are influenced by stakeholder views, our sustainable business goals and our risk environment. In turn, it is the combination of all of these matters that set the context and expectations in relation to decision-making outcomes, attitudes and behaviours, forming the baseline for management accountability; and in combination with values, contribute to the overall cultural tone across the Group.



Chairman's introduction to governance continued

Governance

How we comply with the 2018 UK Corporate Governance Code

Throughout the year, the Board has applied the Principles and complied with the majority of the Provisions of the 2018 UK Corporate Governance Code as set out below:

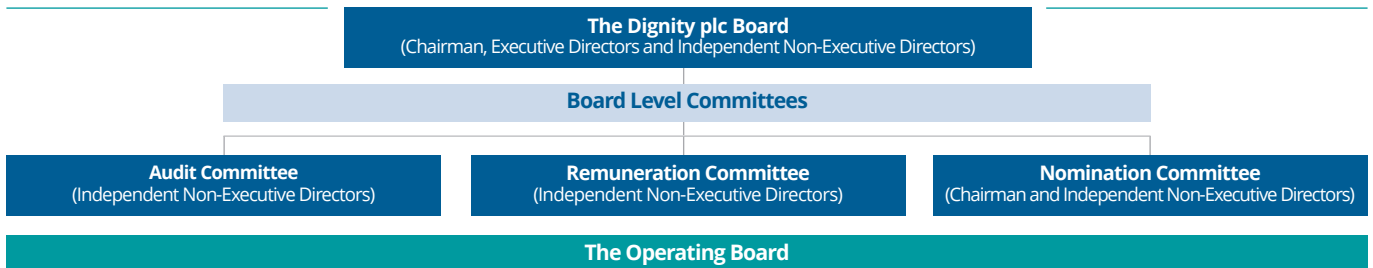
Principle	How we apply the Principles	Further information
1. Board leadership and company purpose		
<p>A. The Board's role</p> <p>A successful company is led by an effective and entrepreneurial Board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.</p>	<p>The Board is collectively responsible for the long-term success of the Company, including its relationships and engagement with all shareholders, and operates via a formal schedule of matters reserved for its decision.</p>	<p>See the Governance structure on page 50 for further information and details of the responsibilities of the Board.</p>
<p>B. Setting purpose, values and strategy</p> <p>The Board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.</p>	<p>The schedule of matters reserved for the Board provide that the Board is responsible for the overall leadership of the Group and setting its values and standards and for approving the Group's strategic aims and objectives.</p> <p>In addition, the establishment of the Employee Forum is a key element in the Board's oversight of culture. Our Code of Conduct also defines the behaviours we expect of our people and the ethical standards to which we adhere.</p>	<p>See the Executive Chairman's review for further information.</p>
<p>C. Risk management</p> <p>The Board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.</p>	<p>The Group has mature risk management and governance processes in place to identify, report and manage risk. The Audit Committee is provided with a twice yearly review of the principal risks, including emerging risks, together with updates from Internal Audit on matters for review.</p>	<p>See pages 45 to 50 for further information on the Governance structure and pages 27 to 32 for our Principal and Emerging risks.</p>
<p>D. Stakeholder engagement</p> <p>In order for the company to meet its responsibilities to shareholders and stakeholders, the Board should ensure effective engagement with, and encourage participation from, these parties.</p>	<p>The Board reviews and oversees relationships with the business's key stakeholders. At each meeting, the Board, inter alia, receives (i) a report on the performance and operational issues of each business division (ii) an update from the Chairman on investor relations, (iii) supplier management and (iv) in 2020, an update on matters relating to the CMAs market investigation and the FCA's activities in respect of pre-need regulation. The Board committees also address such matters as the performance development framework and whistleblowing. Workforce engagement is achieved as described on page 39.</p>	<p>See the Governance section on pages 45 to 50 for further details and workforce engagement pages 38 and 39.</p>
<p>E. Workforce policies</p> <p>The Board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.</p>	<p>The Board firmly believes that good ethics and good business combine to produce the best results in the long-term. We take our responsibility and reputation as a good corporate citizen very seriously and we are committed to ethical business practices which reflect and enhance our core values of quality, integrity, courtesy and respect. Our Code of Conduct sets out our policy on the standards to be followed to promote legal, honest, ethical and safe business practices. There are Group policies that define our approach to managing health, safety, environmental and social matters affecting our employees. In addition, there is also an independent and anonymous whistleblowing procedure allowing any employee to confidentially raise any concerns.</p>	<p>See our website at www.dignityplc.co.uk.</p>
2. Division of responsibilities		
<p>F. Chair leadership</p> <p>The Chair leads the Board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.</p>	<p>The Chairman, in conjunction with the Company Secretary, ensures that quality information is provided to the Board in advance of each Board meeting. The performance of the Chairman is monitored through the annual Board evaluation process and through separate meetings of the Non-Executive Directors without the Chairman present.</p>	<p>See our Governance section on page 50 for further information.</p> <p>Full Code compliance impacted by Board roles and composition.</p>
<p>G. Balance of the Board</p> <p>The Board should include an appropriate combination of executive and non-executive (and in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the Board's decision-making. There should be a clear division of responsibilities between the leadership of the Board and the executive leadership of the company's business.</p>	<p>The Board currently comprises the Executive Chairman and the Interim Chief Financial Officer (both of whom were independent on appointment), the Executive Director of Funeral Operations, two independent Non-Executive Directors and a Non-Executive Director who, as a representative of the Company's major shareholder, is not independent.</p> <p>When a new Chief Executive is appointed, the roles of the Chairman and Chief Executive will, once again, be separate with distinct accountabilities as set out in their role profiles. The Chief Executive will be responsible for the day-to-day leadership and management of the business through defined delegated authority limits. The Non-Executive Directors provide an independent view on the running of our business, governance and boardroom best practice. They oversee and constructively challenge management in its implementation of strategy and performance of the Group.</p>	<p>See the Governance structure and how the Board functions on pages 53 and 54 for further information.</p> <p>Full Code compliance impacted by Board roles and composition.</p>
<p>H. NED's role and time commitment</p> <p>Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.</p>	<p>The annual Board evaluation process assesses the performance and effectiveness of Directors and their commitment to meet their board responsibilities. In addition, prior to taking up a Non-Executive Director position, the Board considers whether the Non-Executive Director has sufficient time to devote to their role with the Group and in light of any changes to a Non-Executive Director's external commitments during the year. At the Nomination Committee meeting in December 2020, each of the Non-Executive Directors confirmed that they were able to devote sufficient time to their role as a Director of Dignity plc. This confirmation is sought annually.</p>	
<p>I. The Company Secretary</p> <p>The Board, supported by the Company Secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.</p>	<p>All Directors have access to the advice and services of the Company Secretary.</p> <p>The Company Secretary ensures that the Board receive papers of a high-quality in a timely manner. He advises the Board on all governance matters, including compliance with the Code. He works with the Chairman and Committee Chairs to ensure that the right matters are escalated to the Board and Committees at the appropriate time and that sufficient time is devoted to strategic matters. He arranges Directors' induction and Board evaluation exercises and supports succession planning and recruitment of new Non-Executive Directors.</p>	

Principle	How we apply the Principles	Further information
3. Composition, succession and evaluation		
J. Board appointments Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for Board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	There are regular succession reviews at the Nomination Committee, the Operating Board and at business level. In 2021, a key priority is for the Nomination Committee to have more direct interaction with employees which can be more valuable in building understanding of talent issues than consideration of metrics. To achieve this a programme for individuals to present/contribute at meetings of the Board/Committees, where appropriate, is being developed.	
K. Skills, experience and knowledge The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed.	The Nomination Committee reviews the balance, composition and structure of the Board, as well as the length of service of each Board member and where considered appropriate recommends the re-appointment of the Non-Executive Director and any extensions to their term.	
L. Board evaluations Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	In line with the requirement of the Code, the Board conducts an annual evaluation of the performance of the Board and Committees and each Director. The last evaluation was conducted prior to the Board changes announced in December 2020. These evaluations are externally facilitated annually.	See the Board appraisal on page 54 and the Committee Reports.
4. Audit, risk and internal control		
M. Financial reporting integrity The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	The Board delegates detailed oversight of the Group's system of internal controls to the Audit Committee, to ensure the integrity of the Group's full year and half year results and the Annual Report and Accounts. The Audit Committee ensured it complies with this requirement as detailed on pages 58 to 61. On the recommendation of the Audit Committee, the Board reviewed and approved the 2020 half year and full year results and the 2020 Annual Report. In addition, the Board evaluation process confirmed that the Group's system of internal controls had operated effectively during the year.	See our Governance section on page 55 for further information. See the Audit Committee report on pages 58 to 61.
N. Fair, balanced and understandable assessment The Board should present a fair, balanced and understandable assessment of the company's position and prospects.	As described in the Audit Committee Report on page 59, the Audit Committee reviewed the 2020 Annual Report and Accounts in March 2021 and was satisfied that it presents a fair, balanced and understandable assessment of the Group's position and prospects. The Audit Committee reported its findings to the Board.	Please see the Financial review section on pages 22 to 26 for further information.
O. Risk management and internal control framework The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	The Audit Committee monitors the Group's risk management and internal control systems on behalf of the Board. The Committee reviews the Group's principal risks and recommends any changes to risk appetite to the Board. The Group Risk Register is reviewed twice yearly by the Audit Committee.	Please see the section on Principal risks and uncertainties on pages 27 to 32.
5. Remuneration		
P. Supporting strategy and long-term sustainable success Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.	The Remuneration Committee reviews and proposes the Group's remuneration policy to the Board for approval and the Directors' remuneration report is put to an advisory vote at the AGM, in line with statutory requirements. In accordance with section 439A of the Companies Act 2006, a new three year Remuneration Policy will be put to a binding vote at the 2022 AGM.	Please see the Remuneration Committee report on pages 63 to 80.
Q. Remuneration Policy A formal and transparent procedure for developing policy on Executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	In accordance with its terms of reference, the Remuneration Committee reviewed the current Remuneration Policy (2019 to 2021) and confirmed that it remains fit for purpose. A new three year Remuneration Policy will be put to a binding vote at the 2022 AGM. The remuneration of Non-Executive Directors is a matter for the Board. No Director, committee attendee, Executive, senior manager or other person can be involved in any discussion or decision as to their own remuneration.	The Remuneration Policy can be found on pages 65 to 68 within the Remuneration report. The terms of reference for the Remuneration Committee can be found on our website at www.dignityplc.co.uk .
R. Independence of remuneration outcome decisions Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	The Committee takes advice from an external consultant and ensures that remuneration for Board and senior management is suitably structured so as to attract, retain and motivate Executives, and to link reward to corporate and individual performance and all relevant internal and external factors.	

Governance structure

Governance

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



The Board

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

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

The role of the Executive Chairman in 2020

Following the departure in April 2020 of our former Chief Executive, Mike McCollum, Clive Whiley took on temporarily, the role of Executive Chairman. In this role, Clive has the responsibilities of both Chairman and Chief Executive. The Company is searching for a new Chief Executive and, on appointment, Clive will return to the position of independent Non-Executive Chairman.

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 Chairman. The Board Committee Reports are on pages 58 to 80.

The Chief Executive and Executive Directors

The Chief Executive and Executive Directors together with the Operating Board 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.

Commentary on the Board in 2020

As detailed on page 6 the structure of the Board is currently going through a period of change. As a result, the Company has not been compliant throughout the year with the following Code Provisions:

- 9. The roles of chair and chief executive should not be exercised by the same individual.
- 11. Which requires at least half of the Board excluding the chair, to be directors considered by the board to be independent.
- 12. The board should appoint one of the independent directors to be the senior independent director.
- 17. The Nomination Committee should comprise a majority of independent non-executive directors.
- 24. The Audit Committee should comprise independent non-executive directors.
- 32. The Remuneration Committee should comprise independent non-executive directors.

The objective is to return to compliance with the relevant requirements of the current UK Corporate Governance Code.

At the current time and, in addition to the Executive Chairman, the Board comprises two Executive and three Non-Executive Directors, two of whom, Gillian Kent and Paul Humphreys are independent. James Wilson is a Non-Executive Director but, as a partner in Phoenix Asset Management Partners, is not independent.

The Operating Board

The Operating Board currently consists of the following Executive Directors and Senior Managers:

- Executive Chairman: Clive Whiley;
- Executive Director of Funeral Operations: Andrew Judd;
- Interim Chief Financial Officer: Dean Moore;
- Crematoria Director: Steve Gant;
- Marketing Director: Mark Hull;
- Business Development Director: Alan Lathbury; and
- Director of Pre Arrangement: Paul Toghill.

The Operating Board is responsible for determining and setting the detailed day-to-day tasks required to implement the strategy set by the Board.

Board of Directors

The Board is collectively responsible for the success of the Group.



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
Executive Chairman

Board composition, balance and tenure

The Board comprises five Directors and the Executive Chairman. There are currently two independent Non-Executive Directors and two Executive Directors. James Wilson is a Non-Executive Director but, as a partner in Phoenix Asset Management Partners, is not independent.

Executive and Non-Executive Directors



■ Executive Directors: 3
■ Non-Executive Directors: 3
■ Executive Chairman: 1

Non-Executive Tenure



■ 0-3 years: 3

Key to Committee membership

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

Links

- See Audit Committee report: [p.58 to p.61](#)
- See Nomination Committee report: [p.62](#)
- See Report on Directors' remuneration: [p.63 to p.80](#)

Clive Whiley N
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, China Venture Capital Management Limited, First China Venture Capital Limited and Y-LEE Limited.

Dean Moore A N R
Interim Chief Financial Officer
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, who was an independent Non-Executive Director before stepping into the role of Interim Chief Financial Officer, remains a member of the three Board Committees, as the fees he receives, whilst increased, remain fixed and he does not participate in any incentive plans.

Andrew Judd
Executive Director of Funeral Operations
Appointed to the Board: 2020

Background and experience:

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 national 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 the British Institute of Funeral Directors and various positions within the National Association of Funeral Directors most recently Past President of the Western Counties Area Federation and Committee for Professional Standards. In 2018 Andrew was the driving force behind the establishment of the Funeral Service Consumer Standards Review (FSCSR) creating for the first time in the sector an independently-chaired project that brings together the skills and knowledge of industry experts and key stakeholders with a view to improving quality, standards and outcomes for funeral service consumers.

Gillian Kent A N R
Independent Non-Executive Director
Appointed to the Board: 2020

Background and experience:

Gillian has had a broad executive career including being Chief Executive of real estate portal, Propertyfinder, until its acquisition by Zoopla, and 15 years with Microsoft including three years as Managing Director of MSN UK.

Gillian holds non-executive director roles at Mothercare plc where she is Chair of the Remuneration Committee, SIG plc, NAHL Group plc, Ascential Plc, and at three private companies, Howsy Limited (formerly No Agent Technologies Limited), Theo Topco Limited (which trades as Key Group) and Portswigger Limited. Formerly she was a non-executive director at Pendragon Plc and Coull Limited.

Gillian is Chair of the Remuneration Committee and also serves on the Audit and Nomination Committees.

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.

Paul Humphreys A N R
Independent Non-Executive Director
Appointed to the Board: 2021

Background and experience:

Paul is Chair of the Audit Committee and a member of the Remuneration and Nomination Committees.

He has had a broad executive career spanning both quoted and unquoted companies, including having been Group Finance Director of Care UK for more than 12 years, including eight years whilst listed on the International Stock Exchange.

Paul currently holds advisory roles at a small number of unlisted companies.

Tim George
Company Secretary

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

The Board records its thanks to Mike McCollum, Jane Ashcroft, David Blackwood, Richard Portman and Steve Whittern all of whom stood down from the Board in 2020. Each made an outstanding contribution to the Dignity Group collectively over a substantial number of years.

Operating Board

Governance

The Operating Board consists of the Executive Directors and Senior Managers.

The role of the Operating Board

The Operating Board is responsible for determining and setting the detailed day-to-day tasks required to implement the strategy set by the Board.

The Senior Leadership Team

The Senior Leadership Team are the Senior Managers across all areas of the business. They are responsible for the day-to-day running of the business and report to the Operating Board.



The depth of experience, knowledge and complementary skills in our Operating Board and Senior Leadership Team, strengthens our ability to deliver on our strategic objectives and vision.

Clive Whiley
Executive Chairman

Clive Whiley
Executive Chairman

Full biography on page 51

Andrew Judd
Executive Director of Funeral Operations

Full biography on page 51

Dean Moore
Interim Chief Financial Officer

Full biography on page 51

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, and the Scottish Government Working Group consulting on the revision and update of the Cremation Acts. He holds a Post Graduate Executive Diploma in Strategic Leadership from the Warwick Business School.

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.

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.

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 the Diploma in Interactive and Direct Marketing.

Directors' statement on corporate governance

How the Board Functions

The Group is controlled through the Board of Directors that meets regularly throughout the year. The structure of the Board, together with explanations of responsibilities, is shown on page 50. 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 Operating Board (see page 52) 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 five Directors and the Executive Chairman. During the period the total number of directors who served was ten. Mike McCollum, former Chief Executive, retired from the Board on 3 April 2020 as did Jane Ashcroft, former independent Non-Executive Director. David Blackwood, former Senior Independent Director retired from the Board on 11 June 2020 and Gillian Kent was appointed as an independent Non-Executive Director and Chair of the Remuneration Committee on the same date. Richard Portman and Steve Whittern stood down from the Board on 14 December 2020. Subsequent to the period end, on 23 February 2021 Paul Humphreys was appointed to the Board as an independent Non-Executive Director.

There are currently two independent Non-Executive Directors, a Non-Executive Director who is not independent, and three Executive Directors, including the Executive Chairman.

The Board considers that three Executive Directors, supported by the wider Operating Board, details of which are on page 52, are sufficient to manage a Group of this size, complexity and organisational structure.

Biographical details for the serving Non-Executive Directors appear on page 51. 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 up to 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.

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.

Gillian Kent and Paul Humphreys are independent of management as defined by the Code.

Clive Whiley was appointed Executive Chairman of the Company when Mike McCollum stood down from the Board on 3 April 2020 and Dean Moore became Interim Chief Financial Officer on 14 December 2020 following Steve Whittern's departure. These interim positions mean that Clive Whiley and Dean Moore do not currently qualify as independent as defined in the July 2018 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 £90 million.

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

In accordance with the Code, all Directors will submit themselves for election or re-election as appropriate at the 2021 Annual General Meeting.

Directors' statement on corporate governance continued

Governance

Board Appraisal

In accordance with the requirements of the Code, a formal evaluation of the Board, its Committees, the Chair and individual directors was undertaken in 2020. The evaluation was undertaken prior to Richard Portman and Steve Whittern standing down. The evaluation was conducted by Lintstock a corporate advisory firm, entirely independent of the Group. This evaluation is undertaken annually by Lintstock and will continue annually. This meets the requirements of the Code.

The evaluation was managed by way of the issue of detailed online questionnaires to all Directors. This was followed by a detailed review by Lintstock and the Board of the responses and the identification of any actions arising.

Specific matters reviewed by the Board were:

- Response of the organisation to COVID-19;
- Board composition;
- Stakeholder oversight;
- Strategic oversight;
- Board dynamics;
- Board support;
- Focus of meetings;
- 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 are responsible for the performance evaluation of the Chairman taking into 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	9	3	4	4
Jane Ashcroft	2	1	2	–
David Blackwood	4	1	2	3
Mike McCollum	2	1 ⁽ⁱⁱⁱ⁾	2 ⁽ⁱⁱⁱ⁾	1 ⁽ⁱⁱⁱ⁾
Richard Portman	8	2 ⁽ⁱⁱⁱ⁾	–	1 ⁽ⁱⁱⁱ⁾
Clive Whiley	9	3 ⁽ⁱⁱⁱ⁾	5 ⁽ⁱⁱⁱ⁾	4
Steve Whittern	8	2 ⁽ⁱⁱⁱ⁾	–	1 ⁽ⁱⁱⁱ⁾
James Wilson	8	2 ⁽ⁱⁱⁱ⁾	1 ⁽ⁱⁱⁱ⁾	4
Dean Moore	7 ^(iv)	3	4	3
Gillian Kent	4 ^(iv)	2	3	1
Andrew Judd ^(iv)	–	–	–	–

(i) Only scheduled Board meetings, of which there were nine in the period, have been included in the attendance analysis. A further seven meetings were held to consider announcements, documents or the issue of shares pursuant to share 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) Dean Moore was appointed to the Board on 11 March 2020, Gillian Kent on 11 June 2020 and Andrew Judd on 14 December 2020.

The Board had nine full Board meetings spread broadly equally across the year. The Board considers that nine 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 2020 without the Executive Directors present. The Non-Executive Directors also met during 2020 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 Corporate Governance Report was signed and approved for the Annual Report and Accounts 2020.

The Executive Directors and the wider 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. Please also see the Audit Committee Report on pages 58 to 61.

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 management and Internal Audit regarding any 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 the 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, Anti-Tax Evasion and Anti-Money Laundering;
- Internal Audit – The Group has a dedicated Internal Audit team, which reports to the Interim Chief Financial Officer, Executive Chairman and the Audit Committee. The latter reviews and approves the annual work plan of the Internal Audit function which tests the design and operating effectiveness of key controls across the business. Any significant weaknesses are reported to management and the Audit Committee on a timely basis. It also 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 2020 (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 Chair of the Audit Committee during 2020 and the Audit Committee members in December 2020;

- 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

Governance

- Risk assessment – The Executive Directors and the Operating Board 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 27 to 32 of the Annual Report. These risks have also been formally considered when the Directors prepared their Viability Statement on page 33 of this Annual Report in accordance with provision 31 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 18 to 21.

Relationship with Shareholders

The Group recognises the importance of good communication with shareholders.

Regular contact with institutional investors, fund managers and analysts is undertaken by the Executive Chairman and the Interim Chief Financial Officer 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. The Non-Executive Directors are also available to meet separately with shareholders if necessary, to discuss any issues that they may have. The Executive 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 Operating Board. All shareholders are free to attend and put questions to any Director and the Chair of each of the Board Committees at the AGM on 23 June 2021. 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 Operating Board after the meeting has concluded subject to social distancing measures.

On 11 June 2020, the Company announced that at the Annual General Meeting held earlier that day 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 11 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 58 to 61 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 a vote withheld 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.dignityplc.co.uk, as soon as practicable after the conclusion of the AGM.

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

The Group is happy to arrange visits to its funeral locations and crematoria, if requested by a shareholder, 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 which covers a number of matters including induction, learning and development.

For further details on Employee diversity, see page 39 of the Corporate and social responsibility report.

Substantial shareholdings

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

Holder	As at 5 March 2021		As at 25 December 2020	
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
Phoenix Asset Management Partners Limited	14,718,468	29.42	14,718,468	29.42
Granular Capital Limited	5,022,587	10.04	5,022,587	10.24
Artemis Investment Management LLP	4,955,451	9.91	4,955,451	9.91
John Stewart Jakes	3,669,612	7.34	3,669,612	7.34
Indian Creek B.V.	2,508,194	5.01	2,508,194	5.01
Klarus Capital Limited	2,497,569	4.99	2,497,569	4.99
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	1,841,495	3.68	1,841,495	3.68

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

By order of the Board

Tim George
Company Secretary

17 March 2021

Audit Committee report

Governance

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.

Dear Shareholder,

On behalf of the Board, I am pleased to present my first report as the Chair of the Audit Committee (the 'Committee') since my appointment to the Board and this Committee on 23 February 2021.

I am a chartered accountant with extensive public company experience having been Group Finance Director of Care UK for more than 12 years and having spent almost ten years as Group Finance Director at McLeod Russel Holdings Plc. I also have a first class degree in Economics and Accounting from the University of Leeds.

In order properly to brief myself following my appointment, I held a number of calls with the Interim Chief Financial Officer, the Group Financial Controller, key members of the Operating Board and other senior management as well as with senior audit personnel from EY. In addition, I have read previous financial reports and Audit Committee documents and discussed any issues arising from these in the calls referred to above. I then chaired the Audit Committee meeting on 5 March 2021 to consider all relevant matters as described herein.

Membership and Process

The following Directors served on the Audit Committee during 2020: Dean Moore, Gillian Kent, David Blackwood and Jane Ashcroft. Gillian is an independent Non-Executive Director, as Dean was until his appointment as Interim Chief Financial Officer on 14 December 2020. Gillian was appointed to the Committee on 11 June 2020. Jane and David were independent Non-Executive Directors but stood down as Directors on 3 April and 11 June 2020 respectively.

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

The Committee met three times during 2020; in March prior to the release of the 2019 Preliminary Announcement; in July prior to the release of the 2020 Interim Announcement in August and again in December 2020 immediately prior to the end of the financial period. The attendance records of the members are shown on page 54. All Committee members were present at all meetings. The external auditors, EY, the Executive Chairman, the former Chief Executive, the former Finance Director, the former Corporate Services Director, the Head of Internal Audit, the Financial Controller and James Wilson, Non-Executive Director, have all attended meetings by invitation.

The Committee holds a private session with the audit team from our external auditors, EY, without management present at least once a year. In addition, as Chair of the Audit Committee, Dean had a discussion with the Lead Partner on two 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 (retired 11 June 2020)	2015	Previously CFO of Synthomer plc, Chartered Accountant and Fellow of the Association of Corporate Treasurers.
Jane Ashcroft (retired 3 April 2020)	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.
Dean Moore	2020	Currently Chairman of the Audit Committees at Cineworld plc and Volex plc.
Gillian Kent	2020	Previously Managing Director of MSN UK. Non-executive director roles at Mothercare plc where Gillian is Chair of the Remuneration Committee, SIG plc, NAHL Group plc, Ascential Plc, and at three private companies.
Paul Humphreys	2021	A broad executive career spanning both quoted and unquoted companies, including having been Group Financial Director at Care UK. Currently holds advisory roles at a small number of unlisted companies.

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 and other stakeholders 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 and stakeholders 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.dignityplc.co.uk.

Activities in the period

The key activities of the Committee during the period and up to the date of this report were:

- Review and agreement of the 2020 Internal Audit Plan and budget;
 - 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;
 - 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 33;
 - A six-monthly review of the Group's Principal Risks and recommendation of adoption by the Board. This is part of an 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 27 to 33 of this Annual Report;
 - 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;
 - An assessment of the effectiveness of the external auditors;
 - A comprehensive review of the 2019 and 2020 Annual Report and Accounts and the 2020 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 made to the London Stock Exchange; and
 - The formal review of the going concern assumptions adopted in the preparation of the 2019 and 2020 financial statements.
- Areas that have been discussed and considered by the Committee to be appropriate in relation to the 2020 Annual Report and Accounts are:
- **Impairment** – the Committee considered the results and disclosures 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 the impact of COVID-19, increased consumer price awareness and competition, digitalisation and the conclusions of the CMA's Final Decision Report following the market investigation;
 - **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;
 - **Leases** – the Committee considered the disclosure provided in respect of the impact of IFRS 16 'Leases' on accounting. See note 1 to the financial statements for further details;
 - **Taxation including Corporate Interest Restriction ('CIR')** – in light of the impact on the Group and the resultant need to record a prior period adjustment, the Committee considered the consequences of consolidating the Trusts on the application of the CIR rules and the associated charge to corporation tax in both the current and prior period, considering advice received from the Group's tax advisers;
 - **Pre-need Trust accounting** – valuation of Level-3 Trust assets – the Committee considered the basis of valuation of private (illiquid) investment funds which are classified as Level-3 assets for the purpose of fair value disclosures, including the adequacy of the disclosures made in the Financial Statements;
 - **Risk** – the Committee performed a comprehensive review of the principal risks and uncertainties disclosed in the 2020 Annual Report based on the changing and competitive environment in which the Group operates;
 - **Corporate Governance** – the Committee reviewed the Statement on Corporate Governance and the adequacy of the explanation set out in respect of those provisions with which the Company is currently not compliant;
 - **Section 172 Statement** – as the first time of reporting, this was reviewed by the Committee;
 - **Alternative Performance Measures ('APMs')** – as the Group's APMs are stated after adjustment for non-underlying items and to reverse the impact of consolidating the Trusts and applying IFRS 15 and adopting IFRS 16, the Committee considered the nature and quantum of the adjustments made in arriving at the APMs. The Committee also considered the disclosures provided with respect to the reconciliation of APMs to ensure they considered these to be clear to a user of the Financial Statements;
 - **Going Concern and Viability** – the Committee performed an assessment and ratification of the Going Concern and Viability Statements, including giving due consideration to severe but plausible downside risks; and
 - **Annual Report and Accounts are fair, balanced and understandable** – having been given sufficient time to consider the Annual Report and Accounts, the Committee considered the narrative and numerical disclosures within the Annual Report and Accounts to assess whether the disclosures made gave appropriate levels of emphasis to both favourable and unfavourable aspects of the Group's performance, covering all aspects of the Group, in a manner which was clearly understandable. As a result of this review, the Committee made a recommendation to the Board that it could make the statement that the Annual Report and Accounts were fair, balanced and understandable.

Audit Committee report continued

Governance

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 Interim Chief Financial Officer, Dean Moore. The Committee also retains responsibility for the appointment and removal of the external auditors, who are currently EY.

The Audit Committee, on an annual basis, formally considers the performance and independence of the external auditors. The formal annual review was completed in the first quarter of 2021. This review took the form of a detailed questionnaire that was sent to all Committee members and attendees at the Committee meetings. 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 2020 and a resolution to re-appoint them as external auditors will be tabled at the AGM on 23 June 2021.

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

Policy on non-audit fees

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

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

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

In the period, EY undertook non-audit work on behalf of the Group including a review of the Interim Report for 2020, a financial covenants compliance certificate and certifications required as part of the Group's membership renewal of the Funeral Planning Authority. Total fees of £59,000 were charged for non-audit services. The EY fee for audit services was £631,000.

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 2020.

Audit partner and firm 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 2020.

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. The Committee confirmed compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, having last carried out a competitive tender for audit services in 2014 which resulted in EY being appointed for the December 2014 period end. In line with the statutory requirements, the position of Group auditor will be re-tendered in advance of the 2024 period end.

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 Interim Chief Financial Officer, Executive Chairman 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 2020 (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 the Head of 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 the Chair 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

We have a policy and procedure by which employees of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or any other matter. 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 54. Specific matters reviewed by the Committee were:

- Time management;
- Committee processes and support;
- Quality of information received;
- Support, training and induction;
- The relationship with the Interim Chief Financial Officer, the former 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;
- The effectiveness of the Committee in reviewing the work of both External and Internal Audit; and
- Priorities for change.

Issues arising from the evaluation are reviewed and addressed.

I will be available to answer any questions about the work of the Committee at the AGM on 23 June 2021.

This Audit Committee report was reviewed and approved by the Board on 17 March 2021.

Paul Humphreys
Chair of the Audit Committee

17 March 2021

Nomination Committee report

Governance

The Committee has overseen the appointment of both a new Chair of the Audit Committee and of the Remuneration Committee. The Committee continues to ensure we have and will have the right blend of skills and experience on the Board to deliver our strategy.

Dear Shareholder,

On behalf of the Board, it is my pleasure to present the 2020 Nomination Committee report as both Chairman of the Company and the Nomination Committee.

During 2020, the membership of the Nomination Committee (the 'Committee') comprised Jane Ashcroft and David Blackwood both of whom stood down in the year (Jane in April and David in June) and James Wilson, Dean Moore and Gillian Kent.

Dean Moore was appointed to the Board and this Committee on 11 March 2020 and, similarly, Gillian Kent on 11 June 2020.

On 23 February 2021, Paul Humphreys was appointed an independent Non-Executive Director and now serves on this Committee.

Currently, Gillian and Paul are the independent Non-Executive Directors serving on the Committee although both Dean and I were independent on appointment to the Board. The Company Secretary is Secretary to the Committee.

Currently, the Committee is looking to appoint a Chief Executive coterminous with the outcome of the strategic review. We have also commenced a search for a Chief Financial Officer. The objective is to maintain an appropriate balance of independent Non-Executive Directors and suitable representation for the Board committees including throughout the period where Dean Moore is Interim Chief Financial Officer.

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 2020 were overseeing the appointment of Dean Moore to succeed David Blackwood as Chair of the Audit Committee and Gillian Kent as Chair of the Remuneration Committee. The Committee also reviewed the monitoring and oversight of succession planning processes together with ongoing succession planning and talent mapping within the Group, identifying individuals and any development requirements necessary to ensure effective succession.

Succession planning, development and leadership requirements will continue to be reviewed in 2021.

The Committee is committed to embedding inclusion and diversity throughout the Group. The Company provides a balanced, supportive, caring 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.

The members of the Committee's attendance record is set out on page 54. 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 up to two year terms which may then be renewed up to a maximum of nine years service in accordance with the independence guidelines in the 2018 UK Corporate Governance Code.

Tenure	Length of tenure at 25 December 2020 (years)						
	1	2	3	4	5	6	7
Name							
David Blackwood (retired 11 June 2020)							
Jane Ashcroft (retired 3 April 2020)							
James Wilson							
Clive Whiley							
Dean Moore							
Gillian Kent							

At 25 December 2020, Dean Moore had been on the Board for nine months and Gillian Kent six months.

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

The Committee is committed to ensuring inclusion and diversity at Board and all levels throughout the Group. Employee diversity of those in senior and middle management roles is shown on page 39.

We acknowledge that we have much to do to fulfil our diversity ambitions and it will take time: we will work towards making progress on this matter.

Following Jane Ashcroft's retirement from the Board, Gillian Kent is currently the only woman on a Board of six Directors (17 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 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 54. Specific matters reviewed by the Committee were:

- The process by which Board appointments are made;
- Performance in reviewing the composition of the Board;
- Any aspect of plans for Executive and Non-Executive succession which give cause for concern; and
- How the Committee can improve its performance over the coming year.

Issues arising from the evaluation are reviewed and addressed.

Finally, all Directors offer themselves for election or re-election at the AGM on 23 June 2021 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 17 March 2021.

Clive Whiley
Chair of the Nomination Committee

17 March 2021

Report on Directors' remuneration

for the 52 week period ended 25 December 2020

Dear Shareholder,

On behalf of the Board, I am pleased to present this Directors' Remuneration Report for the period ended 25 December 2020, my first since being appointed Chair on 11 June 2020. This has been a period of significant change for the business and Board and I am grateful for the support I have received from my Board colleagues through what has been a challenging period for the business and its employees.

We have needed to act with great care and sensitivity during the year, to apply the remuneration policy to reflect the very significant impact on all stakeholders in the business caused by the COVID-19 pandemic, and at the same time to ensure that we could move swiftly to refresh the Executive leadership team and accelerate the business transformation necessary to position us for the long-term.

We believe that our current remuneration policy has enabled us to pay our senior executives appropriately and as we enter the third and final year of the current three year policy period, the Committee is comfortable that it still supports the long-term business strategy. Accordingly, we are proposing no changes to the policy for FY2021.

Board changes

On 3 April 2020 the Board agreed with the Chief Executive, Mike McCollum, that he should step down from the Board with immediate effect.

Mike McCollum was paid 12 months' salary, benefits and pension in lieu of notice in line with his contractual entitlements and treated as a 'good leaver' for the purpose of the 2020 annual bonus plan and for outstanding LTIP awards, which enabled a pro rata payment under both plans, dependent on the achievement of the performance conditions.

Clive Whiley, who was appointed Non-Executive Chairman on 19 September 2019, agreed to step up temporarily to the role of Executive Chairman and his fee increased from £175,000 to £475,000 for the duration of the temporary role. We are currently in a process to find a new Chief Executive Officer.

On 14 December we announced that we had reached an agreement with Steve Whittern, our Finance Director, and Richard Portman, our Corporate Services Director, to step down from the Board and they stepped down from the business with immediate effect in the case of Steve Whittern and on 31 December in the case of Richard Portman. Both executives were paid 12 months' salary, benefits and pension in lieu of notice in line with their contractual entitlements and treated as a 'good leavers' for the purpose of the 2020 annual bonus plan and for outstanding LTIP awards, which enabled a pro rata payment under both plans, dependent on the achievement of the performance conditions. The Committee used discretion to pay the bonus to Richard Portman and Steve Whittern in cash rather than 20 per cent deferred in shares.

Dean Moore, who was appointed to the Board as a Non-Executive Director on 11 March 2020, has become Interim Chief Financial Officer and is receiving a fee of £316,200 for the role, whilst the Company identifies a suitable candidate for the permanent role.

Andrew Judd, previously director of the Group's funeral operations, joined the Board as an additional Executive Director with immediate effect. His package comprises a salary of £200,000, pension contribution of 4 per cent (in line with the rate for the majority of the workforce), bonus opportunity of 100 per cent of salary and an LTIP award for FY21 of 100 per cent of base salary.

Finally, I would like to welcome Paul Humphreys to the Board and this Committee.

Activities in the period

The key activities of the Committee during the period up to the date of this report were:

- Reviewing base salaries for Executive Directors and senior management;
- Approving the fee of the Executive Chairman and Interim CFO;
- Approving the 2020 bonus outturn for Executive Directors and senior management;
- Setting the 2021 bonus targets for the Executive Director;
- Approving awards and setting performance measures under the Company's share plan;
- Assessment of the 2018 to 2020 Long-Term Incentive Plan performance;
- Application of the remuneration policy in 2020 and 2021;
- Alignment of Executive Director pension contribution rates to the wider workforce;
- Reviewing Executive Director share ownership levels;
- Reviewing trends in market practice and investor guidelines;
- Reviewing the Gender Pay Gap and plans for diversity and inclusion;
- Reviewing the Company Performance Management framework; and
- Approving the 2020 Directors' Remuneration Report.

Performance in 2020 and annual bonus and 2018-20 LTIP outcome

The 2020 annual bonus was measured 70 per cent against stretching underlying operating profit targets, our key short-term financial performance indicator. Underlying operating profit in 2020 was £55.7 million (before the Committee used discretion to reduce management bonuses and make the staff award, detailed below), which was within the target range and would have generated a bonus of 41.8 per cent out of the 70 per cent for 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. The 10 per cent element based on the Transformation Plan was not achieved, as this was paused in order to conduct the strategic review. Our Funeral Market Share of 11.98 per cent and our Customer Recommendation score of 90.8 per cent exceeded the top end of the target ranges of 11.72 per cent and 90.8 per cent respectively and so each 10 per cent element based on Funeral Market Share and Customer Recommendation were achieved in full. On this basis the

Report on Directors' remuneration continued

for the 52 week period ended 25 December 2020

Governance

formula driven bonus indicated a pay out of 49.3 per cent of the maximum. However, the Committee considered this bonus outturn in light of higher than average death rate in 2020 caused by the impact of the pandemic, as well as the extremely challenging operating environment that all of our employees faced during the year and used its discretion to determine that the bonus level for Executive Directors and other senior executives should be scaled back significantly. In considering the appropriate bonus level for Executive Directors and the rest of the management population, the Committee determined that the scale back should be based on delivering the same bonus level (as a percentage of maximum bonus) for the entire management population, equivalent to 18 per cent of their maximum bonus opportunity. In addition to ensuring that the outturn was consistent with the employee experience, the Committee also noted that, with the exception of business rates relief, the Company had not benefitted from any direct Government financial support and had not needed to use the Coronavirus Job Retention Scheme.

This significant saving generated by scaling back the potential bonus pay-out to the senior managers and executives in the business, has been used to contribute towards an additional £500 bonus to all staff and £150 to casual staff in recognition of their outstanding performance and commitment to the Company and the public over the year.

The LTIP award granted in 2018 was subject to performance against an absolute TSR target to be achieved at the end of 2020. Dignity's TSR performance over this period failed to achieve the minimum threshold and so this award will lapse with no shares vesting.

The Committee considers that, having used discretion to scale back the 2020 annual bonus pay-out, there has been an appropriate link between reward and performance, taking into account external factors and internal relativities between the pay levels of executives and employees.

Furthermore, the Committee confirms that targets for annual bonus and outstanding LTIP awards have not been adjusted in light of COVID-19 related factors.

FY20 LTIP award

As described in last year's report, we delayed the grant of the 2020 LTIP award as it was very difficult to set accurate long-term financial performance conditions until the findings of the CMA report were published. Subsequently there was a further delay due to the impact of the COVID-19 pandemic on the business and the realignment of the business strategy. The Committee approved the LTIP award levels, performance measures and the weightings in September and finalised the targets in December.

There is a very clear priority in our business strategy to grow our Funeral Market Share, following several years of decline. Accordingly, for this award the Committee determined that there should be a clear focus on growing our Funeral Market Share and so 50 per cent of the award is based on this measure, providing a direct line of sight for our senior management team to this cornerstone in the business strategy. However, recognising the importance of ensuring that our profit margin remains in line with our business plan at the same time as

achieving growth in Market Share, this measure will be subject to a performance underpin which requires the Remuneration Committee to be satisfied that our underlying profitability is in line with our business plan over the performance period. The other 50 per cent of the award is based on the Company's relative Total Shareholder Return compared to the Companies in the FTSE SmallCap Index. This provides a good balance between the financial strategic measure (underpinned by profitability) and the overriding objective of delivering a superior level of shareholder return.

The LTIP award was granted at a 100 per cent of salary level, reduced from the policy level of 150 per cent of salary in light of the current relatively low share price.

How we will apply the new policy in 2021

The Executive Chairman and Interim Chief Financial Officer will receive a fee of £475,000 and £316,200 respectively and will not participate in the annual bonus plan or LTIP.

The Executive Director of Funeral Operations will receive a salary of £200,000, and will participate in the annual bonus plan, with a maximum opportunity of 100 per cent of salary. 70 per cent of the bonus will be based on a mix of stretching underlying operating profit targets and 30 per cent based on market share measures which underpin our strategy as set out on page 5. We will move from underlying EBIT to underlying EBITDA this year, as this will provide a cleaner measure of profitability as we transform the business in line with the strategic review.

In relation to the FY21 LTIP award, having considered the performance measures carefully for the delayed FY20 award, the same Market Share and Relative TSR performance measures will again apply, with updated performance targets. The Committee will consider carefully the grant level in light of the prevailing share price at the time of grant, but intends to apply a grant level of 100 per cent of base salary for the award to the Executive Director of Funeral Operations, which is a reduction from the usual policy level of 150 per cent of base salary. Recognising the short period of time that has elapsed since the delayed FY20 grant, the ongoing uncertainty relating to the pandemic and that the rolling three year business plan is due to be completed in the Summer, the Committee has determined that the Market Share targets to be achieved in FY23 should be set later in the year (within six months of the grant). This short delay will enable the Committee to pitch the appropriate level of stretch in the target range more accurately.

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.

Gillian Kent
Chair of the Remuneration Committee

17 March 2021

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 66 and 67 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 70.

Report on Directors' remuneration continued

for the 52 week period ended 25 December 2020

Governance

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
Base salary	<p>Essential to recruit and retain executives of a high calibre.</p> <p>Reflects an individual's experience, role and performance.</p> <p>To provide a fair fixed level of pay commensurate for the role, ensuring no over reliance on variable pay.</p>	<p>Salaries are paid monthly. They are normally reviewed annually and fixed for 12 months commencing 1 January.</p> <p>In deciding appropriate levels, the Committee takes into account:</p> <ul style="list-style-type: none"> 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. 	<p>There is no prescribed maximum.</p> <p>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.</p>	<p>The Committee reviews the salaries of Executive Directors each year taking due account of all the factors described in how the salary policy operates.</p>
Benefits	<p>To provide competitive benefits to help recruit and retain executives and to ensure the well-being of the executives.</p>	<p>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.</p> <p>Relocation or other related expenses may be offered, as required.</p> <p>Executive Directors are also eligible to participate in the all-employee HMRC approved share schemes on the same basis as other employees.</p> <p>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.</p>	<p>There is no prescribed maximum as costs may vary in accordance with market conditions.</p> <p>Relocation expenses must be reasonable and necessary.</p> <p>HMRC tax-approved limits will apply to all employee share schemes.</p>	<p>Not applicable.</p>
Pension	<p>To provide retirement benefits in line with the overall Company policy.</p>	<p>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.</p> <p>The Company may contribute to selected individuals' personal pension schemes or is able to make salary supplements in lieu of pension contributions.</p>	<p>The accrual rate under the defined benefit scheme was one eightieth of final salary for every completed year of service.</p> <p>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.</p> <p>The Committee will provide a pension provision for new Executive Directors' in line with that of the workforce.</p>	<p>Not applicable.</p>
Annual bonus	<p>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.</p>	<p>20 per cent of any annual bonus earned will be deferred in shares, with the remainder being payable in cash.</p> <p>Deferred shares vest after two years subject to continued employment but no further performance targets. The vesting period continues post cessation of employment.</p> <p>A dividend equivalent provision allows the Committee to pay an additional amount equal to the value of the dividends that would have been payable on the vested 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.</p> <p>Bonus payments, including deferred bonus awards, are subject to recovery and withholding provisions as set out in note 1.</p>	<p>135 per cent of salary for the Chief Executive and 125 per cent of salary for the other Directors.</p>	<p>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.</p> <ul style="list-style-type: none"> 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. <p>The Committee may adjust the bonus that is payable if it considers the formulaic outcome is not representative of the underlying performance of the Company, investor experience or employee reward outcome.</p> <p>See note 2 for additional detail.</p>

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
Long-Term Incentive Plan	<p>Incentivises selected employees and Executive Directors to achieve successful execution of business strategy over the longer-term.</p> <p>Provides long-term retention.</p> <p>Aligns the interests of the Executives and shareholders through the requirement to build up a substantial shareholding.</p>	<p>Awards are normally granted annually in the form of nil cost options or conditional share awards.</p> <p>Participation and individual award levels will be reviewed annually (subject to the individual limit) taking into account matters such as market practice, overall remuneration, the performance of the Group and the Executive being granted the award.</p> <p>Awards normally vest after three years subject to the achievement of stretching performance conditions and continued employment.</p> <p>Following vesting, the net of tax vested shares must be retained for two years. The post vesting holding period continues post cessation of employment.</p> <p>Awards are subject to recovery and withholding provisions as set out in note 1.</p> <p>A dividend equivalent provision allows the Committee to pay an additional amount equal to the value of the dividends that would have been payable on the vested shares over the vesting period (normally in shares but may be in cash in exceptional circumstances) and may assume the reinvestment of dividends on a cumulative basis.</p>	150 per cent of salary.	<p>Awards under the LTIP vest subject to the satisfaction of challenging performance targets set at the time of award.</p> <p>25 per cent of the award vests for threshold performance.</p> <p>Performance periods will normally start from the beginning of the financial year in which the award is made.</p> <p>The Committee may scale back the LTIP vesting amount if it considers the formulaic outcome is not representative of the underlying performance of the Company, investor experience or employee reward outcome.</p> <p>See note 2 for additional detail.</p>
Non-Executive Chairman and Directors' fees	To attract and retain a high-quality Chairman and experienced Non-Executive Directors.	<p>The Board determines the fees of the Non-Executive Directors. They are based upon recommendations from the Chairman and Chief Executive (or, in the case of the Chairman, based on recommendations from the Remuneration Committee and the Chief Executive).</p> <p>Both the Chairman and the Non-Executive Directors are paid annual fees and do not participate in any incentive plans or receive pension or other benefits. James Wilson has elected not to receive a fee.</p> <p>The Chairman receives a single fee covering all his duties. The Non-Executive Directors receive a basic fee and additional fees payable for chairing the Audit and Remuneration Committees and for performing the Senior Independent Director role. Supplemental fees may be paid for additional responsibilities and activities and additional fees for chairing new board committees or for other additional roles requiring additional time commitment.</p> <p>The Chairman and Non-Executive Directors shall be entitled to have reimbursed all expenses that they reasonably incur in the performance of their duties, including those expenses that have been deemed to be taxable benefits by HMRC. This includes any personal tax that may become due.</p> <p>The level of fees of the Non-Executive Directors reflects the time commitment and responsibility of their respective roles. Their fees are reviewed from time to time against broadly similar UK listed companies and companies of a similar size.</p> <p>In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment of the Non-Executive Chairman and Directors.</p>	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.	<p>Executive Directors are required to build and maintain a holding of shares to the value of at least 200 per cent of base salary. We will value shareholdings using the value of beneficially owned shares plus the net of tax value of deferred bonus shares and vested but unexercised LTIP awards. The calculation of the shareholding level will be based on the average price for the last month of the financial year and the salary at the end of the financial year.</p> <p>Until the guideline is met, the executive is required to retain 50 per cent of shares acquired under the Company's share plans (after allowing for tax and national insurance liabilities).</p> <p>In addition, a shareholding requirement of 50 per cent of the 200 per cent of salary in-service requirement (i.e. 100 per cent of salary) is required to be held for one year post cessation of employment applying to share awards granted from 2020.</p>	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.

Report on Directors' remuneration continued

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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 67):

- 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.

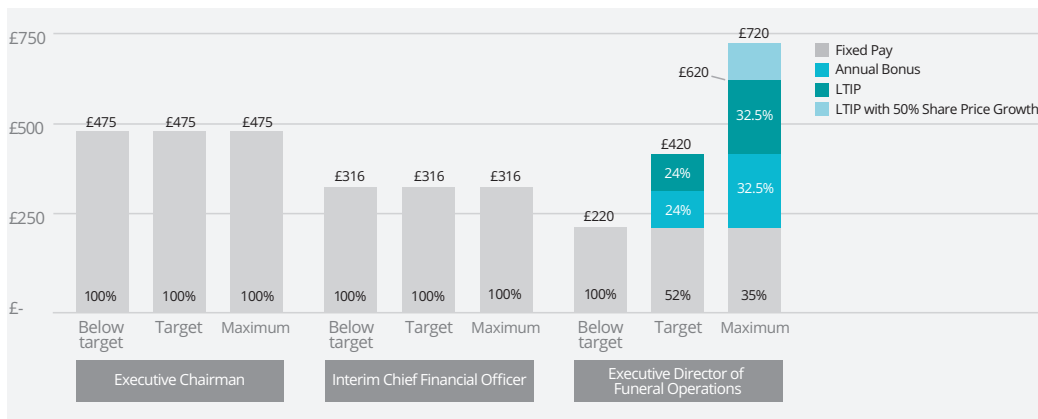
Legacy arrangements

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 2021 vary under three performance scenarios: minimum, target and maximum.

Remuneration (£000s)



Notes

- Below target comprises fixed pay, which comprises 2021 basic salary, the value of benefits in 2020 and a four per cent 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, assumes full bonus payment of 100 per cent of salary and full LTIP vesting of 100 per cent of salary. 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.

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.

Report on Directors' remuneration continued

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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. This policy does not apply to the Executive Chairman and Interim Chief Financial Officer.

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 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 Chair's Annual Statement) will be put to an advisory shareholder vote at the 2021 AGM. The information below includes how we intend to operate our policy in 2021 and the pay outcomes in respect of the 2020 financial year. The information from the single total remuneration figures for Directors on page 72 to the end of the section on loss of office payments on page 78 has been audited. The remainder is unaudited.

Implementation of Remuneration Policy in 2021

Salaries

The Committee has determined that the Executive Directors will not receive a base salary/fee increase for 2021. Therefore, the salaries as at 1 January 2021 are:

	2021 £	2020 £	Increase %
Clive Whiley (Executive Chairman)	475,000	475,000 ^(a)	–
Dean Moore (Interim Chief Financial Officer)	316,200	316,200 ^(b)	–
Andrew Judd (Executive Director of Funeral Operations)	200,000	200,000 ^(c)	–

^(a) Since being appointed Executive Chairmen on 3 April 2020.

^(b) Since being appointed Interim Chief Financial Officer on 14 December 2020.

^(c) Since being appointed Executive Director of Funeral Operations on 14 December 2020.

Non-Executive Directors' fees

The current fee levels for Non-Executive Directors, are as detailed below. There is no increase in fee levels for 2021:

	2021 £	2020 £	Increase %
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	–

Pension and Benefits

Andrew Judd will receive a salary supplement in lieu of pension of four per cent of 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 100 per cent of salary for the Executive Director of Funeral Operations. The Executive Chairman and Interim Chief Financial Officer (both temporary appointments) will not participate in the annual bonus plan.

70 per cent of the bonus will be based on a mix of stretching underlying operating profit targets and 30 per cent on a strategic objective in relation to Project 20:20 (see page 5 of the Executive Chairman's review). Underlying EBITDA will provide a measure of underlying profitability and the Project 20:20 objective will support our business in accordance with the strategic review.

For the underlying EBITDA element, 20 per cent of the maximum will become payable for achieving a threshold level of performance, rising incrementally so that 50 per cent of the maximum will be payable for achieving a target level of performance and there will be a full pay out for significant over-achievement of target.

The strategic element will be based on a stretching target range in relation to Project 20:20 under which we aim to grow our market share significantly to 20 per cent by 2025.

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 EBITDA 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

The Executive Director of Funeral Operations will receive an LTIP award at 100 per cent of base salary.

The awards will be based 50 per cent on Funeral Market Share with a requirement to achieve an improved level of Market Share. Recognising the short period of time that has elapsed since the delayed FY20 grant, the ongoing uncertainty relating to the pandemic and that the rolling three year business plan is due to be completed in the Summer, the Committee has determined that the Market Share targets to be achieved in FY23 should be set later in the year (within six months of the grant). This short delay will enable the Committee to pitch the appropriate level of stretch in the target range more accurately. As with the FY20 grant, there will again be an underpinning performance condition whereby the Committee must be satisfied that our underlying profitability must be in line with the business plan over the performance period. The remaining 50 per cent will be based on the Company's Total Shareholder Return compared to the FTSE SmallCap Index of companies (excluding Investment Trusts) over the three year period to 31 December 2023. In each case 25 per cent of each element of the award will vest for threshold performance.

The Market Share performance conditions will be published later in the corporate governance section of the website and disclosed fully in the next Annual Report.

We are conscious that our Market Share performance measure will be a performance condition in both the FY21 annual bonus and the Long-Term Incentive Plan awards. We believe that this overlap is appropriate this year as we aim to kick-start our growth towards the achievement of this critical strategic objective.

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

Report on Directors' remuneration continued

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Total remuneration payable to Directors in 2020

		Fixed Pay				Pay for Performance				Total remuneration £000
		Salary/fee £000	Benefits ^(a) £000	Pension £000	Total fixed pay £000	Annual bonus £000	LTIP £000	Total variable pay £000		
Executive Directors										
Clive Whiley	2020	400	-	-	400	-	-	-	400	
	2019	46	-	-	46	-	-	-	46	
Andrew Judd ^(k)	2020	190	12	8	210	26	-	26	236	
	2019	-	-	-	-	-	-	-	-	
Mike McCollum ^(b)	2020	171	10	26	207	31	-	31	238	
	2019	512	20	77	609	124	-	124	733	
Richard Portman ^(d)	2020	248	19	37	304	56	-	56	360	
	2019	248	18	37	303	56	-	56	359	
Steve Whittern ^(c)	2020	316	20	47	383	71	-	71	454	
	2019	316	20	47	383	71	-	71	454	
Dean Moore ^(h)	2020	5	-	-	5	-	-	-	5	
	2019	-	-	-	-	-	-	-	-	
Non-Executive Directors										
Dean Moore ^(h)	2020	59	-	-	59	-	-	-	59	
	2019	-	-	-	-	-	-	-	-	
Gillian Kent ⁽ⁱ⁾	2020	30	-	-	30	-	-	-	30	
	2019	-	-	-	-	-	-	-	-	
Jane Ashcroft ^(g)	2020	12	-	-	12	-	-	-	12	
	2019	47	-	-	47	-	-	-	47	
David Blackwood ^(f)	2020	27	-	-	27	-	-	-	27	
	2019	110	-	-	110	-	-	-	110	
James Wilson ^(j)	2020	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
	2019	n/a	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) Mike McCollum stepped down from the Board on 3 April and remuneration is up to that date. In addition to remuneration receivable for services as a Director, contractual amounts were payable in relation to his Settlement Agreement. Further details of the breakdown are on page 77.

^(c) Steve Whittern stepped down from the Board on 14 December and remuneration is up to that date. In addition to remuneration receivable for services as a Director, contractual amounts were payable in relation to his Settlement Agreement. Further details of the breakdown are on page 77.

^(d) Richard Portman stepped down from the Board on 14 December and remuneration is up to that date. In addition to remuneration receivable for services as a Director, contractual amounts were payable in relation to his Settlement Agreement. Further details of the breakdown are on pages 77 and 78.

^(e) Clive Whiley was appointed to the Board as Non-Executive Chairman on 26 September 2019. The fee for 2020 is the Non-Executive Chairman's fee to 3 April 2020 and the Executive Chairman's fee for the remainder of the year.

^(f) David Blackwood stepped down from the Board at the AGM on 11 June 2020.

^(g) Jane Ashcroft stepped down from the Board on 3 April 2020 and the fee represents the pro rata payment to that date of the base Non-Executive Director fee.

^(h) Dean Moore was appointed to the Board on 11 March 2020 and the remuneration payable represents his standard Non-Executive Director fees from that time to 14 December and then an enhanced fee for 15 December to 31 December for his role as Interim Chief Financial Officer.

⁽ⁱ⁾ Gillian Kent was appointed to the Board on 11 June 2020 and the fee is the pro rata payment of the base Non-Executive Director fee and the supplement for chairing the Remuneration Committee.

^(j) James Wilson has elected not to receive a Non-Executive Director's fee.

^(k) Andrew Judd was appointed to the Board on 14 December 2020. £190,000 was his 2020 full year salary.

Determination of 2020 annual bonus

The 2020 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 %	Threshold (for which 20% of maximum payable) £m	Stretch (for which 100% of maximum payable) £m	2020 actual (before additional bonus payment to staff) £m	Bonus payable (out of maximum) %
Underlying operating profit	70	55.2	67.2	58.5	29.3
Strategic measures	30			Two thirds	20
Total overall bonus before Committee discretion to scale back					49.3
Total overall bonus after Committee discretion to scale back					18.0

The level of EBIT that would have been used to determine Executive bonuses in line with the formula set at the start of the year was £58.5 million, before the Committee used discretion to reduce executive bonuses significantly, which contributed towards the staff award, the net effect of which reduced declared profit to £55.7 million.

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

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 2020 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 11.62 per cent, at which point 20 per cent of this element of the bonus would be payable, and 11.72 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 11.98 per cent (up from 11.7 in 2019) the maximum threshold was exceeded.

Outcome

10 per cent out of 10 per cent achieved.

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 2020 financial year who confirmed that they would definitely recommend Dignity.

The target range required the Customer Recommendation to be equivalent to the average of 2017-19, at which point 20 per cent of this element of the bonus would be payable, and 90.8 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 90.8 per cent, resulting in the maximum target being achieved. This was recognised as being an excellent result in very challenging market and operating conditions.

Outcome

10 per cent out of 10 per cent achieved.

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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 2020 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

The Board paused the Transformation Plan in light of the Strategic Review so this measure was not achieved.

Outcome

Nil per cent out of 10 per cent.

The Committee was comfortable that the improvements in Funeral Market Share and the excellent Customer Recommendation result were notable achievements in a challenging year and important building blocks to future shareholder value and that progress on each measure merited a bonus payment.

Summary of performance achievement and bonus payments

The formula driven bonus indicated a pay out of 49.3 per cent of the maximum. However, the Committee reviewed this bonus outturn in light of higher than average death rate in 2020 caused by the impact of the pandemic, as well as the extremely challenging operating environment that all of our employees faced during the year and used its discretion to determine that the bonus level for Executive Directors and other senior executives should be scaled back significantly. In considering the appropriate bonus level for Executive Directors and the rest of the management population, the Committee determined that the scale back should be based on delivering the same bonus level (as a percentage of bonus opportunity) for the entire management population, equivalent to 18 per cent of the bonus opportunity.

This significant saving generated by scaling back the potential bonus pay-out to the senior managers and executives in the business, has been used to pay an additional £500 bonus to all full-time staff and £150 to casual staff in recognition of their outstanding performance and commitment to the Company and the public over the year.

Director	Bonus maximum (% of base salary)	Pay-out (% of maximum) before Committee discretion	Pay-out (% of maximum) after Committee discretion	Bonus outcome after use of Committee discretion £000
Mike McCollum	135	49.3	18	31
Richard Portman	125	49.3	18	56
Steve Whittern	125	49.3	18	71
Andrew Judd	100	49.3	18	26

Mike McCollum's annual bonus was scaled back pro rata to the period of service in 2020 to 1 May 2020.

Normally 20 per cent of any bonus earned is deferred in shares, for 2 years and this will apply for Mike McCollum's 2020 bonus. However, for Richard Portman and Steve Whittern the Committee has used discretion to determine that the annual bonus will be payable 100 per cent in cash.

Determination of LTIP awards with performance periods ending in the year

The LTIP awards made in 2018 were subject to a range of absolute share price performance targets (to be reduced by the value of dividends paid over the performance period) and subject to a financial performance underpin. These awards lapsed in full, as shown below:

	Share price target (closing 3 month average for FY20 year end)	% vesting
	less than 1550p	–
	1550p	25
	1,950p or higher	100
	594.32p closing average 3 month share price plus 40.12p of dividends paid	–

Director	2018 LTIP award number of shares	Vesting level	Award value £000
Mike McCollum	31,253	–	–
Richard Portman	15,150	–	–
Steve Whittern	19,320	–	–

LTIP awards granted in the year

The terms of the LTIP award granted to the Executive Director of Funeral Operations on 22 December 2020 were as follows:

Executive	Number of LTIP awards	Face/maximum value of awards at grant date*£	% of award vesting at threshold	Performance period
Andrew Judd	31,509	178,971	25	01.01.20 – 31.12.22

* Based on a share price on the date of grant on 22 December 2020 of 568 pence.

50 per cent of the 2020 award will vest subject to a range of relative total shareholder return performance against the companies comprising the FTSE SmallCap Index (excluding investment trusts) over the performance period commencing 1 January 2020. The vesting of this award is dependent on the following:

	TSR relative to FTSE SmallCap companies Performance required	% vesting
Below threshold	Below median	–
Threshold	Median	25
Stretch or above	Upper quartile or above	100

The remaining 50 per cent of the award will be based on our Funeral Market Share in the final year of the performance period, 2022.

	Funeral market share performance required in 2022	Growth above 2019 baseline of 11.7%	% vesting
Below threshold	Below 12.5%		–
Threshold	12.5%	6.83%	25
Stretch or above	15 or above	28.2%	100

The Funeral Market Share measure is based on growth from the level of our Market Share in 2019 of 11.7 per cent and recognises that this follows several years of decline. The Funeral Market Share measure will be subject to a performance underpin which requires the Remuneration Committee to be satisfied that our underlying profitability is in line with our business plan over the performance period.

The Market Share will be calculated using the average of the 12 monthly Market Share figures for 2022 and independently verifiable using ONS external market figures. The Committee is satisfied that the target range is sufficiently stretching, particularly as this requires growth following several years of decline and the fact that the starting period for the average is based on monthly figures over the final year, and not just the final month or few months of the year (which would give longer to achieve the target, but would not be independently verifiable).

The award will vest on the third anniversary of grant. 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 25 December 2020

Governance

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 27.12.19	Granted during year	Lapsed during year	Vested and exercised during year	As at 25.12.20	Earliest date shares can be acquired	Latest date shares can be acquired
Andrew Judd	16.03.17 ⁽ⁱ⁾	2,455	1,000	–	1,000	–	–	16.03.20	16.03.27
	23.03.18 ⁽ⁱⁱ⁾	890	7,486	–	–	–	7,486	23.03.21	23.03.28
	13.06.19 ⁽ⁱⁱⁱ⁾	633.5	22,494	–	–	–	22,494	13.06.22	13.06.29
	22.12.20 ^(iv)	584	–	31,509	–	–	31,509	22.12.23	22.12.30
Mike McCollum	16.03.17 ⁽ⁱ⁾	2,455	31,253	–	31,253	–	–	16.03.20	16.03.27
	23.03.18 ⁽ⁱⁱ⁾	890	31,253	–	7,814	–	23,439	23.03.21	23.03.28
	13.06.19 ⁽ⁱⁱⁱ⁾	633.5	80,741	–	47,099	–	33,642	13.06.22	13.06.29
Richard Portman	16.03.17 ⁽ⁱ⁾	2,455	15,150	–	15,150	–	–	16.03.20	16.03.27
	23.03.18 ⁽ⁱⁱ⁾	890	15,150	–	–	–	15,150	23.03.21	23.03.28
	13.06.19 ⁽ⁱⁱⁱ⁾	633.5	39,139	–	–	–	39,139	13.06.22	13.06.29
Steve Whittern	16.03.17 ⁽ⁱ⁾	2,455	19,320	–	19,320	–	–	16.03.20	16.03.27
	23.03.18 ⁽ⁱⁱ⁾	890	19,320	–	–	–	19,320	23.03.21	23.03.28
	13.06.19 ⁽ⁱⁱⁱ⁾	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 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.
- (ii) 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 2019 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 2019 pricing announcement.
- (iii) 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.
- (iv) Subject to TSR and Funeral Market Share performance conditions as set out on page 75 of this report.
- (v) Awards lapsed in respect of the awards granted to Mike McCollum in 2018 and 2019 relate to the scaling back of the awards pro rata for the service period.

The aggregate gain on the exercise of Long-Term Incentive Plan options by the continuing Directors in the period was £nil (2019: £nil).

Directors' interest in shares

The interests of the Directors (including those of their connected persons) in the share capital of Dignity plc at 25 December 2020 are set out below:

	Number of Ordinary Shares							
	At 25 December 2020 (or date of cessation of employment if earlier)							
	At 27 December 2019 Legally owned	At 25 December 2020 Legally owned (or date of cessation of employment if earlier)	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⁾
Andrew Judd	n/a	3,460	–	1,245	54,003	–	£28,340	14
Mike McCollum	126,845	126,845	–	13,129	111,994	17,437	£984,007	192
Richard Portman	50,000	50,000	–	5,158	39,139	8,431	£393,494	159
Steve Whittern	38,076	88,076	–	6,582	49,913	10,763	£669,113	211
Clive Whiley ⁽²⁾	3,000	25,000	–	–	–	–	–	–
David Blackwood	7,154	n/a	–	–	–	–	–	–
Jane Ashcroft	1,917	n/a	–	–	–	–	–	–
Dean Moore	n/a	–	–	–	–	–	–	–
Gillian Kent	n/a	–	–	–	–	–	–	–
James Wilson	1,000	1,000	–	–	–	–	–	–

- (1) Based on the average share price of the last financial month of the year of 687.9 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) Clive Whiley has a beneficial interest via Zodiac Executive Pension Scheme, of which he is the sole beneficiary, in 25,000 Dignity plc shares.

There has been no change in the interests set out above between 25 December 2020 and 17 March 2021.

Shareholding guideline

The current shareholding guideline for the Executive Directors was not met and, accordingly, the Executive Directors 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

On 3 April 2020 the Company agreed with Mike McCollum that he should step down from the Board with immediate effect. He continued to be paid base salary, benefits and pension until 30 April and in accordance with Mike McCollum's service contract, the following payments have been or will be made:

- 12 monthly payments of £50,560 covering 12 months' base salary, pension and benefits from 1 May 2020.
- The Remuneration Committee has used discretion to allow Life assurance and private medical insurance to continue for 12 months from 1 May 2020.
- The Remuneration Committee has determined that good leaver treatment should apply to the 2020 annual bonus for, which was based on the original performance conditions, pro rata to 1 April 2020. 20 per cent of any annual bonus will be deferred in shares for two years. This bonus is noted above in the table of Directors' Remuneration.
- 2020 Deferred Bonus Plan awards granted in respect of the 2019 and 2020 annual bonus will vest at the normal time together with any dividend equivalent payments.
- Outstanding Long-Term Incentive Plan awards granted in March 2018 and June 2019 over 23,439 and 33,642 shares respectively will be capable of vesting at the normal vesting date after three years, together with any dividend equivalent payments, subject to the achievement of the performance conditions and in each case will be scaled back pro rata for the proportion of the performance period that has elapsed to 1 April 2020. The 2 year post vest holding period will continue to apply to all vested awards.
- Other vested but unexercised LTIP and deferred annual bonus awards, which are structured as nil cost options, may also be exercised.
- A severance payment of £85,000 gross was paid to settle any potential claim for unfair dismissal, £30,000 paid immediately and the balance at £4,583 per month for the subsequent 12 months.
- Clawback and malus provisions will continue after cessation of employment.

On 14 December 2020 the Company announced that it had agreed with Steve Whittern that he should resign and he ceased employment on 31 December 2020. In accordance with Steve Whittern's service contract and agreed terms, the following payments have been or will be made:

- Continued payment of current base salary, benefits and pension from 15 December until 31 December 2020 (the date upon which employment terminated). This is included in the table of Directors' remuneration in this report.
- A payment in lieu of notice for the 12 month period from 1 January 2021 of £381,630 (representing base salary, car allowance, pension and life assurance premium).
- A severance payment as compensation for loss of office of £30,000 (taking into account length of service, base salary and mitigation obligations).
- Private medical insurance will continue until 31 December 2021 or until the date upon which full time employment with another employer is taken up.
- The Remuneration Committee has determined that good leaver treatment should apply to the 2020 annual bonus, which was based on the original performance conditions. The Committee has used discretion to pay the bonus exclusively in cash.
- Outstanding Long-Term Incentive Plan awards granted in March 2018 and June 2019 over 19,320 and 49,913 shares respectively will be capable of vesting at the normal vesting date after three years, together with any dividend equivalent payments, subject to the achievement of the performance conditions and in each case will be scaled back pro rata for the proportion of the performance period that has elapsed to 31 December 2020. The two year post vest holding period will continue to apply to all awards.
- Other vested but unexercised LTIP and deferred annual bonus awards, which are structured as nominal cost options, may also be exercised.
- Clawback and malus provisions will continue after cessation of employment.

On 14 December 2020 the Company also announced that it had agreed with Richard Portman that he should resign and he ceased employment on 31 December 2020. In accordance with Richard Portman's service contract and terms agreed, the following payments have been or will be made:

- Continued payment of current base salary, benefits and pension from 15 December until 31 December 2020 (the date upon which employment terminated). This is included in the table of Directors' remuneration in this report.
- A payment in lieu of notice for the 12 month period from 1 January 2021 of £303,140 (representing base salary, car allowance, pension and life assurance premium).
- A severance payment as compensation for loss of office of £30,000 (taking into account length of service, base salary and mitigation obligations).
- Private medical insurance to continue until 31 December 2021 or until the date upon which full time employment with another employer is taken up.
- The Remuneration Committee has determined that good leaver treatment should apply to the 2020 annual bonus, which was based on the original performance conditions. The Committee has used discretion to pay the bonus exclusively in cash.

Report on Directors' remuneration continued

for the 52 week period ended 25 December 2020

Governance

- Outstanding Long-Term Incentive Plan awards granted in March 2018 and June 2019 over 15,150 and 39,139 shares respectively will be capable of vesting at the normal vesting date after three years, together with any dividend equivalent payments, subject to the achievement of the performance conditions and in each case will be scaled back pro rata for the proportion of the performance period that has elapsed to 31 December 2020. The two year post vest holding period will continue to apply to all vested awards.
- Other vested but unexercised LTIP and deferred annual bonus awards, which are structured as nominal cost options, may also be exercised.
- Clawback and malus provisions will continue after cessation of employment.

Other than the amounts disclosed above, there are no other remuneration payments or payments for loss of office for these or any other Directors.

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 2020 financial year compared with the prior year:

	2020 £m	2019 £m	Change %
Dividends	–	7.9	(100)
Employee remuneration costs	116.4	107.4	8.4

Percentage change in Directors' pay

The table below shows the percentage change between 2019 and 2020 in the value of salary, benefits and annual bonus for each Director compared to that of the average employee on a full-time equivalent basis.

	% change in salary/ fees	2019 vs 2020 % change in taxable benefits	% change in bonus
Chairman	–	–	–
CEO	–	(50)	(75)
Chief Financial Officer	–	–	–
Director of Corporate Services	–	5	–
David Blackwood	n/a	n/a	n/a
Jane Ashcroft	n/a	n/a	n/a
Dean Moore	n/a	n/a	n/a
Gillian Kent	n/a	n/a	n/a
All employees	2	–	–

The Executive Director of Funeral Operations is not included in the table above as he was appointed a Director on 14 December 2020.

CEO pay ratios

The Committee has decided to use Option A in the relevant regulations to calculate the Chief Executive Officer pay ratio.

This methodology was selected as the Committee believes this provides a more accurate and consistent calculation based on the information available at this time. The Committee will monitor investor guidance and evolving best practice which may move in favour of using Option A to calculate the ratios and will review its approach next year (restating any prior year figures, as appropriate).

The following table sets out the CEO pay ratio at the median, 25th and 75th percentile.

Financial year	Method	25th percentile pay ratio	Median	75th percentile pay ratio
2020	Option A	33.45:1	18.19:1	22.54:1

The three employees used for comparison for 2020 are shown below:

	Employees salary (£)	Total remuneration (£)
Q 25 pay	17,380	17,965
Q 50 pay	21,190	21,325
Q 75 pay	26,337	26,662

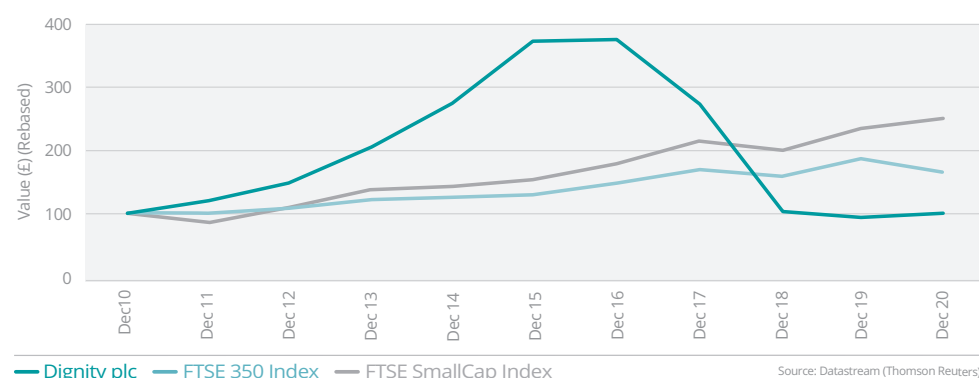
The pay ratios have been calculated in accordance with Option A. This methodology was selected as the Committee believes this provides the most accurate calculation. The full-time equivalent remuneration for FY20 was calculated for employees of Dignity as at 31 December 2020. Employees that joined the Company prior to this date have been grossed up to full time equivalent pay and any employee that left the Company prior to this date has been excluded. Part time employees have been grossed up to full time equivalents based on full time equivalent hours for the role. Total pay for employees includes salary, casual pay, allowances and variable pay.

The reward policies and practices for our employees, which the Remuneration Committee reviews, are appropriately cascaded from the Executive Directors' remuneration policy and furthermore the Committee continues to monitor Group policies and practices to ensure they are appropriate, fair and aligned and support the culture of the business. Therefore, the Remuneration Committee is satisfied the median pay ratio is consistent with the Company's pay, reward and progression policies for all employees.

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 25 December 2020, of £100 invested in Dignity plc on 25 December 2010, compared with the value of £100 invested in the FTSE 350 Index and FTSE SmallCap Index on the same date.

The table below shows the total remuneration figure for the CEO over the same ten year period.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 Mike McCollum*	2020 Clive Whiley*
CEO single total figure of remuneration (£000)	917	2,081	2,217	2,426	2,440	2,372	966	1,010	733	238	400
Annual bonus pay-out relative to maximum (%)	100	100	100	100	100	100	-	58	18	18	n/a
LTIP vesting (%)	-	100	100	100	100	100	50	-	-	-	n/a

*This represents the pro rata total remuneration for Mike McCollum to 3 April 2020 and Clive Whiley for the remainder of 2020 in his role as Executive Chairman.

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
Andrew Judd	14 December 2020	6 months
Clive Whiley	26 September 2019	3 months
Gillian Kent	11 June 2020	3 months
James Wilson	1 May 2019	3 months
Dean Moore	11 March 2020	3 months

Non-Executive Directors will normally serve for two terms of three years which may be extended to three terms.

Report on Directors' remuneration continued

for the 52 week period ended 25 December 2020

Governance

External directorships

Clive Whiley is Chair of Mothercare plc, China Venture Capital Management Limited, First China Venture Capital Limited and Y-LEE Limited. The fees earned are retained. Dean Moore is a Non-Executive Director of Cineworld plc and Volex plc and retains the fees for these appointments. Andrew Judd does not hold any external directorships.

Membership of the Remuneration Committee

The Remuneration Committee currently comprises two independent Non-Executive Directors, Gillian Kent and Paul Humphreys who was appointed on 23 February, and Dean Moore, who was an independent NED before stepping into the role of Interim Chief Financial Officer and who remains independent in the view of the Board as he still receives a fixed fee and does not participate in any incentive plans. During 2020, the Committee was chaired by David Blackwood until the 2020 AGM and then Gillian Kent from the date of her appointment on 11 June 2020. Jane Ashcroft was a member of the Committee until she stepped down from the Board on 3 April 2020.

The Remuneration Committee members have no personal financial interest 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 2019 and the application of the remuneration policy for 2020. During the year the Committee considered the termination of employment arrangements for the departing Executive Directors and the remuneration package for the Executive Director of Funeral Operations, who was promoted to the Board on 14 December.

The Committee receives advice from several sources, namely:

- The Chairman, Chief Executive and Finance 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 Chair 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 2020, total fees charged in the period by Korn Ferry in relation to advice to the Committee were £31,079.25 + VAT (2019: £74,751 + VAT) and were charged on a time spent basis.

Statement of shareholder voting at the AGM (Unaudited)

Votes cast by proxy at the Annual General Meeting held on 11 June 2020 in respect of the Remuneration Report and at the AGM on 13 June 2019 in respect of the binding three year policy vote, are as shown below:

2020 AGM	Remuneration Report	
	Total number of votes	Percentage of votes cast
For	29,207,486	96.72
Against	991,481	3.28
Total votes cast	30,198,967	100
Abstentions	139,408	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

Gillian Kent

Chair of the Remuneration Committee

17 March 2021

Directors' report

for the 52 week period ended 25 December 2020

The Directors present their report and the audited consolidated financial statements for Dignity plc and its subsidiaries for the 52 week period ended 25 December 2020.

The company registration number of Dignity plc is 04569346.

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 adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs and in respect of the parent company financial statements, is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and company financial position and financial performance;
- In respect of the Group financial statements state, whether accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No. 1606/2002 as it applied in the European Union have been followed and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the Group financial statements;
- In respect of the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in Parent Company financial statements respectively; and
- Prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company and/or the Group will not continue in business.

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 page 51 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 adopted pursuant to Regulation (EC) No. 1606/2002 as it applied in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, 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 43 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 adopted pursuant to Regulation (EC) No. 1606/2002 as it applied in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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.

Directors' report continued

for the 52 week period ended 25 December 2020

Governance

Principal risks and uncertainties

Operational, financial and emerging risks are considered on pages 29 to 32.

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, 8,089 Ordinary Shares of 12 48/143 pence each were issued to satisfy share incentives which became exercisable in the period.

The issued share capital of Dignity plc at 25 December 2020 consisted of 50,020,483 Ordinary Shares of 12 48/143 pence each. All the Ordinary Shares carry the same rights and obligations. There are no other class or type of share in issue.

A special resolution passed at the last AGM on 11 June 2020 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 23 June 2021. 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 92. The Group's loss before tax amounted to £19.6 million (2019: Profit of £44.1 million).

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.

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, and management briefings. This is discussed in more detail in the Corporate and social responsibility report on pages 35 to 41.

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.dignityplc.co.uk during 2020 in accordance with the Equality Act 2010 (Gender Pay Gap) Regulations 2018.

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 76 to 79.

In accordance with the July 2018 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 23 June 2021.

During the period, the Company maintained liability insurance for its Directors and Officers to a value of £90 million. The Directors of each of the Company's subsidiaries have the benefit of an indemnity provision in the Company's Articles of Association. The indemnity provision, which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006, was in force throughout the period and is currently in force.

Health and Safety policy

The Group's operations are designed at all times in such a way as to ensure, so far as reasonably practicable, the health, safety and welfare of all of our employees and all other persons who may attend our premises. This is discussed in the Corporate and social responsibility report on page 38.

Corporate Social Responsibility

Maintaining the quality of the environment in which we all live is an important concern for the Group. This is discussed in the Corporate and social responsibility report on page 40 alongside other social and ethical considerations.

Going concern

In order to assess the appropriateness of the application of the going concern principle in this Annual Report, the Directors have considered the principal risks and uncertainties and financial position of the Dignity Group.

The Group has carried out a detailed going concern analysis and considered the ongoing impact of the COVID-19 pandemic, on these financial statements. Full details of this analysis are set out in Note 1 to the financial statements.

Following consideration of the base case forecasts, and the range of downside stress test scenarios, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for a period through to 31 March 2022. The Directors formally considered this matter at the Board meeting held on 5 March 2021. For these reasons, they continue to adopt the going concern basis for preparing the Annual Report.

Post balance sheet events

Regulation and the funeral plan market

HM Treasury had previously announced that prepaid funeral plans would be subject to regulation by the Financial Conduct Authority ('FCA'). On 2 March 2021, the FCA published their consultation paper with their proposed approach to regulation.

If the FCA rules are enacted in the way they are currently drafted they will have a profound impact on both the wider industry and Dignity. We welcome the opportunity to work closely with the FCA over the coming months to ensure the rules provide the much needed consumer protection, but also supporting the FCA in their understanding of the potential unintended consequences on the industry as a result of the current drafting.

Tax rate change

In the budget on 3 March 2021 by HM Government, legislation to increase the main rate of corporation tax from 19 per cent to 25 per cent from 1 April 2023 was announced. This will be reflected in the Group's financial results once substantively enacted.

Requisition Notice

On 11 March 2021, Dignity plc received a requisition notice pursuant to section 303(1) of the Companies Act 2006 requiring that the Board convenes a general meeting of shareholders for the purposes of considering and, if thought fit, approving resolutions to remove the existing Executive Chairman, Clive Whiley as a Director and appoint Gary Channon as an Executive Director. The Requisition Notice was delivered by Phoenix UK Fund Limited, the Company's largest shareholder.

The Phoenix UK Fund is managed by Phoenix Asset Management Partners and Mr Channon is the founder and chief investment officer of Phoenix Asset Management Partners.

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 53 to 57, which is incorporated by reference.

Strategic Report

The Strategic Report on pages 1 to 43 has been approved by the Board.

By order of the Board

Tim George
Company Secretary

17 March 2021

Independent auditors' report to the members of Dignity plc

for the 52 week period ended 25 December 2020

Financial statements

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 25 December 2020 and of the group's profit for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Dignity plc (the 'parent company') and its subsidiaries (the 'group') for the 52 week period ended 25 December 2020 which comprise:

Group	Parent company
<ul style="list-style-type: none"> • Consolidated balance sheet as at 25 December 2020 • Consolidated income statement for the 52 week period ended 25 December 2020 • Consolidated statement of comprehensive income for the 52 week period ended 25 December 2020 • Consolidated statement of changes in equity for the 52 week period ended 25 December 2020 • Consolidated statement of cash flows for the 52 week period ended 25 December 2020 • Related notes 1 to 35 to the financial statements, including a summary of significant accounting policies 	<ul style="list-style-type: none"> • Balance sheet as at 25 December 2020 • Statement of changes in equity for the 52 week period ended 25 December 2020 • Statement of cash flows for the 52 week period ended 25 December 2020 • 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 their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards to the group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

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. We are independent of the group 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 going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- Understanding and walking through management's process for and controls related to assessing going concern including discussion with management to ensure all key factors were taken into account.
- Read and considered the directors' going concern assessment covering the period through to 31 March 2022, including their assessment of the risks and impact of COVID-19, to understand the key assumptions upon which it was based and testing the model integrity for clerical accuracy.

- As described in Notes 1 and 18 to the financial statements the company has in issue Class A Notes with an outstanding principal of £185,784,000 and Class B Notes with an outstanding principal of £356,402,000 that are listed on the Irish Stock Exchange. The terms and conditions for these notes is covered by an Issuer/Borrower Loan Agreement ('IBLA'). We inspected the debt service cash requirement ('DSCR') definition as per the IBLA to confirm the basis of the covenant calculation.
- Tested compliance with the EBITDA:DSCR covenant in the financial reporting period as follows:
 - Recalculated the EBITDA for the Securitisation Group and assessed whether it has been correctly calculated in accordance with the definition of EBITDA provided in the IBLA;
 - Agreed the DSCR to the underlying audited interest and principal repayment schedules; and
 - Recalculated the EBITDA:DSCR ratio to confirm the company is compliant with this ratio during the period and at the period end date.
- Tested the forecast compliance with the EBITDA:DSCR covenant ratio as follows:
 - Agreed the DSCR to the interest and principal repayment schedules;
 - Obtained management's forecast through 31 March 2022 which was formed using the 2021 budget as a basis and the 2022 plan, which was presented to and approved by the Board, having given due consideration to changes in financial performance in respect of expected number of deaths, market share and funeral mix (between lower cost 'simple' and higher cost 'full' service funerals);
 - Tested the underlying assumptions and data upon which the budget and forecast were based to ensure their reasonableness, by;
 - assessing the accuracy of management's historical budgeting (pre COVID-19);
 - comparing forecast deaths to independent information from the Office for National Statistics ('ONS');
 - assessing cost saving initiatives against management plans, considering both the timing and quantum of achievability; and
 - assessing current trading performance by inspecting the January 2021 period end management accounts and additional financial information available for February 2021 in addition to making inquiries of management to identify any issues with current trading, average incomes, funeral mix, debtor recoverability and availability of coffin stock;
 - Obtained the sensitivity testing performed in the director's going concern assessment. We checked the calculations for accuracy and evaluated the underlying assumptions related to average price, market share and death rate by comparison to the trend in actual deaths, funeral numbers performed and revenues achieved since the COVID-19 outbreak and, where relevant, statistics published by the ONS;
 - Performed additional stress testing to model the impact of further severe, but plausible scenarios to assess their impact upon the EBITDA:DSCR covenant ratio;
 - Performed a reverse stress test to evaluate the level of downturn in performance that would result in a breach of the EBITDA:DSCR covenant; and
 - For mitigations modelled we assessed whether management had the ability to affect these in the time period involved.
- Whilst not forecast in any scenario, we understood the implications of a breach of the EBITDA:DSCR covenant ratio as follows:
 - Reviewed the directors' assessment of the implication of a breach of the covenant ratio and evaluated this assessment in the context of the terms of the IBLA; and
 - Assessed the completeness and accuracy of the explanation provided in note 1 to the financial statements describing the impact of a breach of the covenant ratio.
- Assessed the liquidity of the group, including both its current cash resources and the availability of further facilities, should they be required, in order to meet the debt service payments falling due over a period through to 31 March 2022.
- Inquired of management as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern and compared their response to forecast market conditions by the ONS, the profile of payments and covenant requirements of the IBLA and other information that could impact the funeral and crematoria sectors, notably the Competition and Markets Authority report issued in December 2020.
- Assessed the going concern disclosures in the financial statements to ensure they are in accordance with the revised ISA UK 570 going concern auditing standard.

Independent auditors' report to the members of Dignity plc continued

for the 52 week period ended 25 December 2020

Financial statements

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern from when the financial statements are authorised for issue through 31 March 2022.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	<ul style="list-style-type: none"> We performed an audit on the consolidated financial records of the group to the materiality and performance materiality described below.
Key audit matters	<p>Group</p> <ul style="list-style-type: none"> Revenue recognition – risk of management override. Carrying value of goodwill, other intangible assets, property, plant and equipment and right-of-use assets. Accounting for pre-need Trusts level 3 (illiquid) investments. <p>Company</p> <ul style="list-style-type: none"> Carrying value of subsidiary investments.
Materiality	<ul style="list-style-type: none"> Overall group materiality of £1.2 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
<p>Revenue recognition – risk of management override (Revenue 2020: £357.5 million, 2019: £338.9 million)</p> <p>Given investor focus on the Group's underlying revenue (2020: £314.1 million, 2019: £301.3 million) we consider there to be a risk in relation to the manipulation by group management of the amount of revenue recorded. Management reward and incentive schemes based on achieving profit targets may also place pressure on management to manipulate revenue recognition.</p> <p>Therefore, there is a risk that central management may override controls to intentionally misstate revenue transactions through inappropriate manual journal entries, including those arising from consolidation of the Trusts.</p> <p>Refer to the Accounting policies, Note 1 and Note 3 of the Consolidated Financial Statements and the Audit Committee report (pages 58 to 61).</p>	<ul style="list-style-type: none"> • 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 91% 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. 	<p>We have not identified any evidence of management override through inappropriate journal entries in respect of the amount of revenue recorded in the period.</p>
<p>Carrying value of goodwill, other intangible assets, property, plant and equipment and right-of-use assets (2020: £660.5 million, 2019: £624.4 million), net of a £44.0 million impairment of funeral segment goodwill and trade names (2019: £6.8 million impairment of trade names)</p> <p>The group has a significant value of goodwill, other intangible assets, including trade names, property plant and equipment and right-of-use assets recognised on the balance sheet.</p> <p>As outlined in the strategic report the group has faced a challenging year arising from continued changes in the funeral market and an increased number of simple (rather than full service) funerals due to COVID-19 which has lowered average incomes.</p> <p>Despite the increased volumes, the group has experienced an overall decline in underlying operating profit from £63.3 million in 2019 to £55.7 million in 2020.</p> <p>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.</p> <p>Judgement is required in forecasting the future cash flows of each CGU, determination of the long-term growth rates applied to these cash flows, together with the rate at which they are discounted.</p> <p>Refer to the Accounting policies, note 1, and note 9 of the Consolidated Financial Statements and the Audit Committee report (pages 58 to 61).</p>	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> – analysing the historical accuracy of budgets (pre COVID-19) 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; – reconciling the forecast used in the CGU impairment models for 2021 and beyond to the scenario analysis prepared for use elsewhere in the group, e.g., the going concern review; and – challenging whether the forecast growth rates have been appropriately adjusted to reflect the group's strategy and the changes experienced in the funeral market, together with comparing them to observable market data. • We performed sensitivities on the group's forecasts by incorporating reasonable possible changes in key assumptions including EBITDA growth rates and the discount rate and assessed the decline in headroom/change in impairment; • Where CGUs were not impaired, 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; and • We audited the disclosures in note 9 against the requirements of IAS 36 <i>Impairment of Assets</i>. 	<p>We consider the group's conclusions in respect of impairment of intangible and tangible assets are appropriate, and that the £28.7 million impairment of funeral segment goodwill and £15.3 million impairment of trade names are fairly stated.</p> <p>The impairment disclosures are in accordance with IAS 36.</p>

Independent auditors' report to the members of Dignity plc continued

for the 52 week period ended 25 December 2020

Financial statements

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Valuation of pre-need Trusts level 3 (illiquid) investments (2020: £49.9 million out of total Trust financial assets of £967.1 million, 2019: £40.1 million out of £947.5 million)</p> <p>Certain assets held by the pre-need Trusts require a level of estimation in assessing their valuation, specifically the private (illiquid) investment fund which are classed as Level 3 assets.</p> <p>The valuation of these assets is dependent on unobservable market inputs. Given there is no active market price for this investment, nor are the audited financial statements at December 2020 for the private (illiquid) investment fund available, and given the current volatility in the capital markets, there is a risk that the investment value recorded is inappropriate.</p> <p>Refer to the Accounting policies, note 1, and note 14 of the Consolidated Financial Statements and the Audit Committee report (pages 58 to 61).</p>	<ul style="list-style-type: none"> • We understood the group policy in relation to financial assets held by the Trusts, obtained the breakdown of investments and performed the following procedures: <p>Existence</p> <ul style="list-style-type: none"> • For the investments held at the 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 the fund manager. <p>Valuation</p> <ul style="list-style-type: none"> • 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 2020 with a bridging letter to 31 December 2020. 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 independently built an expectation of the valuation as at 25 December 2020 having considered the fund monthly management accounts (directly obtained from the fund manager) for December 2020 and the level of investment units held by the Trusts as obtained directly from the asset custodian. • Our assessment involved independently calculating an expectation of the price at 25 December 2020, derived using an appropriate publicly available benchmark (considering the nature and geography of the investments in the fund) and by performing a variance analysis between the December 2017, 2018 and 2019 management accounts with audited financial statements of the funds for the same years. We then compared this expectation with the actual price at 25 December 2020, as confirmed by the fund manager. • We reviewed the financial instruments and fair value disclosures in the group's financial statements and assessed whether they met the requirements of IFRS 7 and IFRS 13. 	<p>The carrying value of the Level 3 Trust assets is fairly stated.</p> <p>The related disclosures are in accordance with IFRS except for the omission of certain IFRS 13 disclosures related to valuation sensitivity as this information was not available to management (as explained in note 23).</p>
<p>Carrying value of subsidiary investments (2020: £151.3 million, 2019: £149.9 million)</p> <p>The parent company holds investments in subsidiaries with a significant carrying value.</p> <p>As at 25 December 2020, the market capitalisation of Dignity plc was lower than the net assets of the company, this is an indicator of impairment.</p> <p>Further, as explained above, the group has faced a challenging year arising from continued changes in the funeral market, COVID-19 driven increase in funeral volume which has been countered by the delivery of more simple as opposed to full price funerals, thereby reducing underlying profitability.</p> <p>Therefore, there is a risk that the subsidiaries may not achieve the anticipated business performance to support their respective carrying values.</p> <p>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.</p> <p>Refer to the Accounting policies, note C1 and Note C2 of the Parent Company Financial Statements and the Audit Committee report (pages 58 to 61).</p>	<ul style="list-style-type: none"> • 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, other intangible assets and property, plant and equipment impairment assessment (see analysis above) for net debt, pensions and cashflows and assets associated with the Trusts; • We tested the mathematical integrity of the calculation performed; • 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, other intangible assets and property, plant and equipment impairment assessment purposes, we vouched each of the adjustments made to amounts recorded elsewhere in the financial statements or underlying accounting records; and • We audited the related disclosures with reference to the requirements of IAS 36. 	<p>Based on our procedures, we have not identified any impairment in the carrying value of investments.</p> <p>With minimal headroom, the carrying value is sensitive to reasonable possible changes in key assumptions.</p>

In the prior period, our auditor's report included a key audit matter in relation to the re-assessment of judgement regarding the extent of the group's power over the two principal pre-need trusts, being Trust for Age UK Plans ('Age UK') and National Funeral Trust ('NFT'), together the 'Trusts' resulting in consolidation and significant additional complexity to the financial statements. In the current period, we updated our identified risk, removing the reassessment of judgement resulting in consolidation of Trusts and the evaluation of the Trust liabilities on initial consolidation, but keeping unchanged the risk around the complexity of pre-need Trusts level 3 (illiquid) investment as shown above.

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 £1.2 million (2019: £1.5 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)) (2019: 4.6% calculated on the same basis).

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 £4.6 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 £8.2 million achieved by the group as a result of the consolidation of the pre-need Trusts. 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 pre-need trusts is consistent with how management prepare their underlying results and communicate financial performance to investors.

Starting basis	<ul style="list-style-type: none"> Loss before tax as reported in the financial statements – £19.6 million
Adjustments	<ul style="list-style-type: none"> Adjustment for non-underlying items (excluding acquisition related amortisation of £4.6 million) – £53.8 million Exclude the profit impact of consolidation of the Trusts – £(8.2) million
Materiality	<ul style="list-style-type: none"> Underlying profit before tax – £26.1 million Materiality calculated at 4.6% – £1.2 million

We determined materiality for our audit of the standalone parent company financial statements to be £4.7 million (2019: £4.6 million), which is 1% (2019: 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's overall control environment, our judgement was that performance materiality was retained at 50% (2019: 50%) of our materiality, being £0.6 million (2019: £0.8 million).

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 (2019: £0.1 million), which is set at 5% of materiality (to the nearest £0.1 million), 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 83 and 156 to 164, including the Strategic Report set out on pages 1 to 43, Governance set out on pages 44 to 83 and Other Information set out on pages 156 to 164, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Independent auditors' report to the members of Dignity plc continued

for the 52 week period ended 25 December 2020

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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.

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 course of 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 themselves. 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.

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 period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In 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.

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 82;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 33;
- Directors' statement on fair, balanced and understandable set out on page 81;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 82;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 55 and 56; and
- The section describing the work of the audit committee set out on pages 58 to 61.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 81, 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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- 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 2018) 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 programmes 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 programmes 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 material misstatements arising from fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. 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

- Following the recommendation from the audit committee, we were appointed by the company on 13 June 2020 to audit the financial statements for the 52 weeks ended 25 December 2020 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is seven years, covering the periods ending 26 December 2014 to 25 December 2020.
- 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
17 March 2021

Notes:

1. The maintenance and integrity of the Dignity plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

for the 52 week period ended 25 December 2020

Financial statements

	Note	52 week period ended 25 December 2020 £m	52 week period ended 27 December 2019 restated £m
Revenue	3	357.5	338.9
Cost of sales		(177.3)	(161.7)
Gross profit		180.2	177.2
Administrative expenses		(164.3)	(132.4)
Operating profit	3	15.9	44.8
Finance costs	4	(29.8)	(25.8)
Finance income	4	0.1	0.2
Share of loss and impairment in respect of associated undertakings	12	-	(6.0)
Deferred revenue significant financing	4	(53.1)	(54.1)
Remeasurement of financial assets held by the Trusts and related income	4	47.3	85.0
(Loss)/profit before tax	5	(19.6)	44.1
Taxation	6	(5.9)	(13.5)
(Loss)/profit for the period attributable to equity shareholders	3	(25.5)	30.6
(Loss)/earnings per share for profit attributable to equity shareholders			
- Basic (pence)	8	(51.0)p	61.2p
- Diluted (pence)	8	(51.0)p	61.2p

Prior year comparatives have been restated due to a prior year adjustment in relation to taxation. See page 96 for further details.

The results for the 52 week period to 25 December 2020 reflect the impact of adopting IFRS 16, Leases. Comparatives in respect of the 2019 reporting periods have not been restated in this respect as permitted under the specific transition provisions of the standard. See note 35 for 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 25 December 2020

	Note	52 week period ended 25 December 2020 £m	52 week period ended 27 December 2019 restated £m
(Loss)/profit for the period		(25.5)	30.6
Items that will not be reclassified to profit or loss			
Remeasurement loss on retirement benefit obligations	29	(11.7)	(1.8)
Tax credit on remeasurement on retirement benefit obligations	6	2.2	0.3
Restatement of deferred tax for the change in UK tax rate	6	0.5	-
Other comprehensive loss		(9.0)	(1.5)
Comprehensive (loss)/income for the period		(34.5)	29.1
Attributable to:			
Equity shareholders of the parent		(34.5)	29.1

Prior year comparatives have been restated due to a prior year adjustment in relation to taxation. See page 96 for further details.

The results for the 52 week period to 25 December 2020 reflect the impact of adopting IFRS 16, Leases. Comparatives in respect of the 2019 reporting periods have not been restated in this respect as permitted under the specific transition provisions of the standard. See note 35 for details.

Consolidated balance sheet

as at 25 December 2020

	Note	25 December 2020 £m	27 December 2019 restated £m
Assets			
Non-current assets			
Goodwill	9	203.9	232.6
Intangible assets	9	120.5	140.5
Property, plant and equipment	10	240.9	251.3
Right-of-use asset	11	95.2	–
Financial and other assets	13	10.7	18.2
Financial assets held by the Trusts	14	967.1	947.5
Deferred commissions	20	101.3	96.8
Deferred tax asset	22	20.3	14.0
		1,759.9	1,700.9
Current assets			
Inventories	15	9.0	7.9
Trade and other receivables	16	30.0	32.4
Deferred commissions	20	7.6	7.3
Cash and cash equivalents – Trading Group		73.6	57.9
Cash and cash equivalents – held by the Trusts		21.6	15.5
Cash and cash equivalents	17	95.2	73.4
		141.8	121.0
Total assets		1,901.7	1,821.9
Liabilities			
Current liabilities			
Financial liabilities	18	15.1	9.6
Trade and other payables	19	68.7	61.6
Lease liabilities	18	7.3	–
Current tax liabilities		8.7	6.0
Contract liabilities	20	95.5	95.5
Provisions for liabilities	21	2.4	2.0
		197.7	174.7
Non-current liabilities			
Financial liabilities	18	526.6	542.3
Other non-current liabilities	19	2.1	2.0
Lease liabilities	18	81.2	–
Contract liabilities	20	1,222.0	1,209.1
Provisions for liabilities	21	9.5	9.3
Retirement benefit obligation	29	36.6	26.0
		1,878.0	1,788.7
Total liabilities		2,075.7	1,963.4
Shareholders' deficit			
Ordinary share capital	24	6.2	6.2
Share premium account		12.7	12.5
Capital redemption reserve		141.7	141.7
Other reserves		(3.0)	(4.0)
Retained earnings		(331.6)	(297.9)
Total deficit		(174.0)	(141.5)
Total deficit and liabilities		1,901.7	1,821.9

Prior year comparatives have been restated due to a prior year adjustment in relation to taxation. See page 96 for further details.

The balance sheet as at 25 December 2020 reflects the impact of adopting IFRS 16, Leases. Comparatives in respect of the 2019 reporting periods have not been restated in this respect as permitted under the specific transition provisions of the standard. See note 35 for details.

The alternative performance measures included within the Group's consolidated financial statements present information on a comparable basis.

The financial statements on pages 92 to 143 were approved by the Board of Directors on 17 March 2021 and were signed on its behalf by:

Consolidated statement of changes in equity

for the 52 week period ended 25 December 2020

Financial statements

	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 28 December 2018	6.2	12.4	141.7	(5.1)	(319.1)	(163.9)
Profit for the 52 weeks ended 27 December 2019 – as originally presented	-	-	-	-	34.9	34.9
Impact of corporate interest restriction disallowance – prior year adjustment	-	-	-	-	(4.3)	(4.3)
Remeasurement loss on retirement benefit obligations	-	-	-	-	(1.8)	(1.8)
Tax on retirement benefit obligations	-	-	-	-	0.3	0.3
Total comprehensive income – restated	-	-	-	-	29.1	29.1
Effects of employee share options	-	-	-	1.1	-	1.1
Tax on employee share options	-	-	-	0.1	-	0.1
Proceeds from share issue ⁽¹⁾	-	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 – restated	6.2	12.5	141.7	(4.0)	(297.9)	(141.5)
Adjustment on initial application of IFRS 16 on 28 December 2019 (note 35)	-	-	-	-	0.8	0.8
Loss for the 52 weeks ended 25 December 2020	-	-	-	-	(25.5)	(25.5)
Remeasurement loss on retirement benefit obligations	-	-	-	-	(11.7)	(11.7)
Tax on retirement benefit obligations	-	-	-	-	2.2	2.2
Restatement of deferred tax for the change in UK tax rate	-	-	-	-	0.5	0.5
Total comprehensive loss	-	-	-	-	(33.7)	(33.7)
Effects of employee share options	-	-	-	1.2	-	1.2
Proceeds from share issue ⁽²⁾	-	0.2	-	-	-	0.2
Gift to Employee Benefit Trust	-	-	-	(0.2)	-	(0.2)
Shareholders' equity as at 25 December 2020	6.2	12.7	141.7	(3.0)	(331.6)	(174.0)

(1) Relating to issue of 3,455 shares under 2016 DAB scheme.

(2) Relating to issue of 7,745 shares under 2017 DAB scheme and 344 issued under the 2019 SAYE scheme.

Prior year comparatives have been restated due to a prior year adjustment in relation to taxation. See page 96 for further details.

The results for the 52 week period to 25 December 2020 reflect the impact of adopting IFRS 16, Leases. Comparatives in respect of the 2019 reporting periods have not been restated in this respect as permitted under the specific transition provisions of the standard. See note 35 for 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, £22,263,112 B Shares that were issued on 12 August 2013 and redeemed for cash on 20 August 2013 and £20,154,070 B Shares that were issued and redeemed for cash in November 2014.

Other reserves

Other reserves includes movements relating to the Group's SAYE and LTIP schemes and associated deferred tax, together with a £12.3 million merger reserve.

Consolidated statement of cash flows

for the 52 week period ended 25 December 2020

	Note	52 week period ended 25 December 2020 £m	52 week period ended 27 December 2019 £m
Cash flows from operating activities			
Cash generated from operations	27	62.7	64.6
Finance income received		0.1	0.3
Finance costs paid		(24.5)	(25.0)
Transfer from restricted bank accounts for finance costs		12.1	12.3
Payments to restricted bank accounts for finance costs	17	(12.0)	(12.1)
Total payments in respect of finance costs		(24.4)	(24.8)
Tax paid		(6.9)	(7.9)
Net cash generated from operating activities		31.5	32.2
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1.1	2.1
Maintenance capital expenditure ⁽¹⁾		(9.1)	(9.8)
Branch relocations		(0.5)	(1.1)
Transformation capital expenditure		(0.2)	(1.7)
Satellite locations		-	(0.3)
Development of new crematoria and cemeteries		(1.3)	(5.4)
Purchase of property, plant and equipment and intangible assets		(11.1)	(18.3)
Purchase of financial assets (by the Trusts)	14	(778.1)	(736.1)
Disposals of financial assets (by the Trusts)	14	796.8	726.6
Realised return on financial assets		3.8	3.6
Net cash used in investing activities		12.5	(22.1)
Cash flows from financing activities			
Payments due under Secured Notes		(9.6)	(9.3)
Transfer from restricted bank accounts for repayment of borrowings		4.8	4.6
Payments to restricted bank accounts for repayment of borrowings	17	(4.9)	(4.8)
Total payments in respect of borrowings		(9.7)	(9.5)
Principal and interest elements of lease payments		(12.5)	-
Dividends paid to shareholders on Ordinary Shares	7	-	(7.9)
Net cash used in financing activities		(22.2)	(17.4)
Net increase/(decrease) in cash and cash equivalents		21.8	(7.3)
Cash and cash equivalents at the beginning of the period		56.5	63.8
Cash and cash equivalents at the end of the period	17	78.3	56.5
Restricted cash	17	16.9	16.9
Cash and cash equivalents at the end of the period as reported in the consolidated balance sheet	17	95.2	73.4

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

Notes to the financial statements

for the 52 week period ended 25 December 2020

Financial statements

1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of preparation

European law requires that the Group's consolidated financial statements for the 52 week period ended 25 December 2020 are prepared in accordance with all applicable International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applied in the European Union. These financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

In the current period, the Group's consolidated financial statements have been prepared for the 52 week period ended 25 December 2020. For the comparative period, the Group's consolidated financial statements have been prepared for the 52 week period ended 27 December 2019.

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 Annual Reports prior to 2019.

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.

Prior year restatement

Following the finalisation of the Group's 2019 corporation tax returns for its subsidiary undertakings and the corresponding detailed Group corporate interest restriction return it became apparent that the interaction of the consolidation of the Trusts and the application of the complex tax provisions relating to the level of interest deductibility within the Group had been understated and consequently the 2019 financial statements were misstated. Due to an increased amount of disallowed interest expense arising predominately from the inclusion of realised and unrealised fair value movements on the bond investments within the Trust consolidation a prior year adjustment has been booked due to the magnitude of the disallowance. The Group has therefore restated its consolidated financial statements for 2019. There is no impact on any further previous accounting periods. The restatement increases the tax charge by £4.3 million with a corresponding increase in the Group's current tax liabilities by £4.3 million. Accordingly, retained earnings as at 27 December 2019 have reduced by £4.3 million and statutory EPS has also been restated to 61.2p. A deferred tax asset cannot be recognised in this respect as it is not considered probable that the Group will be able to access the disallowed interest amounts under the corporate interest restriction rules in the foreseeable future.

Going concern

The key factors which impact the Group's financial performance are death rate, market share, mix and average revenue per funeral. As this Annual Report describes, during the COVID-19 pandemic, whilst the death rate in the UK has sadly increased and the Group's market share remained broadly stable, both the average revenue received per funeral and the revenue received for memorial sales has declined. Whilst not back to pre-pandemic levels, following the adaptation of limousines and application of other protective measures for our colleagues and customers, the take up of full service funerals compared to simple funerals has increased to approximately 68:32 in the fourth quarter compared to 54:46 in the second quarter. This has resulted in the recovery of average revenues through 2020 to close the year (and start 2021) at approximately 94 per cent of those achieved prior to the start of COVID-19. The Group has also taken prudent action to manage costs, where appropriate, to protect its position in terms of ensuring sufficient headroom on both profitability and liquidity measures.

1 Accounting policies (continued)

Going concern (continued)

The impact on 2021 revenue and profitability will depend in part on various factors outside of the Group's control, such as the number of deaths in the UK and the length of time social distancing measures continue to be in place.

The financial performance of the Group and the Securitisation Group has been forecast and those forecasts have been subjected to a number of sensitivities. These forecasts reflect an assessment of current and future market conditions and their impact on the future profitability of the Group and the Securitised Group. The forecasts reflect recovery at the beginning of 2022.

When considering the going concern assumption, the Directors of the Group have reviewed the principal risks within the environment in which it operates and have prepared relevant sensitised scenarios, these include:

- Prolonged period of social distancing restrictions which may serve to keep the mix and average revenue per funeral lower for a sustained period; and
- A significant reduction in the number of deaths.

In all base scenarios modelled, the Group is forecast to have sufficient liquidity and meet its debt service cover ratio ('DSCR') in the period assessed through to 31 March 2022.

To provide further consideration of going concern, the Directors also considered what would happen in an ongoing scenario of reduced profitability significantly below management's forecasts, such as a significant reduction in the market share or average revenues (the year to date analysis through February 2021 does not indicate the likelihood of such a scenario). In such a scenario, the Securitised Group may not meet its DSCR covenant requirements before the consideration of additional mitigating activities such as reducing controllable spend. Under the terms of the Securitised Group's borrowings, the Securitised Group is required to maintain a DSCR of at least 1.5 times (see note 26), measured on a rolling 12 month basis every quarter. However, a breach of the covenant does not give rise to an immediate requirement to repay the associated borrowings. Rather, such a breach results in a requirement for the bond trustees to appoint a financial adviser who will review the financial and operational circumstances of the Securitised Group prior to making recommendations as to how the breach can be resolved. Notwithstanding this, given the current cash on hand and facilities available to it, the Securitised Group (as supported by the Company) would have sufficient liquid resources to make all required debt service payments for a period through to 31 March 2022.

Having considered all the above the Directors remain confident in the long-term future prospects for the Group and its ability to continue as a going concern for the foreseeable future and for a period through to 31 March 2022 and therefore continue to adopt the going concern basis in preparing the Annual Report.

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 application of IFRS 15 and adoption of IFRS 16, all 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 pages 23 and 24 and alternative performance measures on pages 156 and 157 for further information.

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.

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.

Notes to the financial statements continued

for the 52 week period ended 25 December 2020

Financial statements

1 Accounting policies (continued)

Revenue

At-need funerals and cremations

Revenue from funeral operations related to at-need funerals comprises the amount recoverable from clients 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 clients (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 if a single payer or on each individual instalment received. 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 for the duration of each plan at inception and is based on the estimated incremental borrowing rate of the Group at the time of each cash flow.

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.

As the only directly attributable costs in respect of the marketing of the pre-arranged funeral plans are commission payments, these 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 outside of a clawback period).

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 trusts to the Group.

1 Accounting policies (continued)

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.

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.

Notes to the financial statements continued

for the 52 week period ended 25 December 2020

Financial statements

1 Accounting policies (continued)

Intangible assets – software

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring into use the specific software.

An internally generated intangible asset arising from the Group's development of computer systems (including websites) is recognised if, and only if, the costs are directly associated with the production of identifiable and unique software products, controlled by the Group and it is probable that future economic benefits will flow to the Group.

Costs recognised as assets are amortised over their estimated useful lives (three to eight years) using the straight line method.

Intangible assets – use of third party brand name

The Group has a marketing agreement with Age UK Enterprises Limited, giving rights to market pre-arranged funeral plans under the Age UK brand. The value of this right has been recognised as a separate intangible asset.

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

Intangible assets – other

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.

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.

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.

1 Accounting policies (continued)

Property, plant and equipment held under leases (accounting policy applied pre 28 December 2019)

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.

Right-of-use assets and lease liabilities (accounting policy applied from 28 December 2019)

At inception of a contract the Group assesses whether the contract is or contains a lease. A lease is present where the contract conveys, over a period of time, the right to control the use of an identified asset in exchange for consideration.

Where a lease is identified the Group recognises a right-of-use asset and a corresponding lease liability, except for short-term leases (defined as leases with a lease term of 12 months or less), leases of low-value assets (defined as leases with rentals below £1,000 per annum) and leases with contingent rentals.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease and comprise the initial measurement of the corresponding lease liability and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use asset is presented as a separate line in the consolidated balance sheet.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment under IAS 36.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The lease liability is presented as a separate line in the consolidated balance sheet, split between current and non-current liabilities.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (defined as leases with a lease term of 12 months or less). It also applies the lease of low-value assets recognition exemption to leases that are considered of low-value (defined as leases with rentals below £1,000 per annum). Lease payments on short-term leases and leases of low-value assets are recognised as operating expense on a straight-line basis over the lease term.

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.

Notes to the financial statements continued

for the 52 week period ended 25 December 2020

Financial statements

1 Accounting policies (continued)

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. The cost of PPE inventory is calculated using average costing.

Taxation

The tax charge for the period includes the charge for tax currently payable and deferred tax. The current tax charge represents the estimated amount due that arises from the operations of the Group in the period and after making adjustments to estimates in respect of prior years.

Deferred tax is recognised in respect of all differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, except where the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax assets and liabilities are offset to generate a net asset or liability if the conditions of IAS 12 are met.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the deductible temporary difference can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted, by the balance sheet date.

Pensions

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

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

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

Changes in the present value of the defined benefit obligation resulting from plan amendments, curtailments or one off adjustments such as GMP equalisation are recognised immediately in the consolidated income statement as a past service cost.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation.

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 (2019: 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.

1 Accounting policies (continued)

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.

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 ('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 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

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.

Notes to the financial statements continued

for the 52 week period ended 25 December 2020

Financial statements

1 Accounting policies (continued)

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').

IFRS 10 is 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. The Group concluded as part of its 2019 period end 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 reached a judgement, the basis of which is summarised below, that it does have control as defined by IFRS 10 and therefore those pre-arranged funeral plan trusts where it has the ability to appoint and remove trustees are now consolidated.

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

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.

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

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

Analysis

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').

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.

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.

1 Accounting policies (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. 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 2019 and 2020, 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.

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.

IFRS 16 Incremental Borrowing Rate ('IBRs')

On transition to IFRS 16 the Group's IBR has been applied to the lease liabilities that were in scope as at 28 December 2019. The weighted average IBR applied was 4.9 per cent, with a minimum rate of 3.6 per cent and a maximum rate of 6.8 per cent. These rates have been based on corporate bond yields to maturity reflecting the Group's indicative credit rating. In order to assess the Group's IBR's we have considered yield curves at 28 December 2019 for similarly rated listed corporate bonds for durations aligned with the adjusted unexpired lease durations.

Standards, amendments and interpretations effective in 2020

The Group has applied IFRS 16, Leases for the first time in the preparation of the Group's consolidated financial statements. A description of the nature and effect of transition to this standard are presented in note 35.

Comparatives in respect of the 2019 reporting periods have not been restated as permitted under the specific transition provisions of the standard.

Notes to the financial statements continued

for the 52 week period ended 25 December 2020

Financial statements

1 Accounting policies (continued)

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 2021 or later periods but which the Group has not early adopted:

IFRS 17, Insurance Contracts. The standard is expected to be effective 1 January 2023 and will therefore impact on the Group's 2024 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 relation to its pre-need funeral plans.

IAS 1, Presentation of financial statements. The amendment to the standard is expected to be effective 1 January 2023 and will therefore impact on the Group's 2024 Annual Report. The amendment to the standard is to specify the requirements for classifying liabilities as current or non-current. This is not expected to have a material impact on the Group.

All other new accounting standards and interpretations that have been published are not effective for 25 December 2020 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 Trading 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 2021 then the Group would receive no interest income due to the rates all currently being below one per cent. If interest rates were to increase by one per cent at the beginning of 2021 then the Group would receive £0.1 million additional interest on an annualised basis for each £10.0 million held.

The Trusts also hold significant cash balances which are also subject to interest rate fluctuations, as well as holding equity and bond investments which see fluctuations due to market conditions. 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 above 1.5 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 25 December 2020 the actual ratio was 1.99 times (2019: 2.13 times).

2 Financial risk management (continued)

Capital risk management

The Group's objective under managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and repay holders of Secured Notes. It also aims to reduce its cost of capital by maintaining an optimal capital structure. The Group's capital comprises equity and net debt as set out in note 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 B+ respectively by Fitch and Standard & Poor's.

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 (which includes the Executive Chairman). For statutory purposes the Group has two reporting segments, funeral services and crematoria, as under IFRS 15 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:

- Funerals arranged and funded by the client 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 Group's crematoria and cemeteries.

Pre-arranged funeral plans represent the sale of funerals in advance to clients wishing to make their own funeral arrangements and the marketing and administration costs associated with making such sales.

Substantially all Trading Group revenue is derived from, and substantially all of the Trading 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, applying IFRS 15 and adopting IFRS 16 as defined on pages 156 and 157.

Reconciliations to statutory amounts

Non-underlying items represent certain non-recurring or non-trading transactions. See alternative performance measures on pages 156 and 157 for further details.

Other adjustments reflect the impact of consolidating the Trusts and subsequent impact on corporate interest restriction disallowances, applying IFRS 15 and the adoption of IFRS 16 in the current period. It also includes the impact of the deferred tax rate change on the Trust and IFRS 15 balances. 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. See alternative performance measures on pages 159 and 160 for a full reconciliation.

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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 25 December 2020	Underlying revenue £m	Other adjustments ⁽¹⁾ £m	Revenue £m
Funeral services	202.6	72.2	274.8
Crematoria	82.7	-	82.7
Pre-arranged funeral plans	28.8	(28.8)	-
Group	314.1	43.4	357.5

(1) See alternative performance measures on page 159 for a reconciliation of other adjustments.

Within funeral services revenue £113.2 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 applying 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. Furthermore, for the period ended 25 December 2020 'other adjustments' to operating profit also includes the impact of adopting IFRS 16, with operating lease rentals being replaced with depreciation, finance costs and a release of accruals and prepayments.

52 week period ended 25 December 2020	Underlying operating profit/(loss) before depreciation and amortisation £m	Underlying depreciation and amortisation £m	Underlying operating profit/(loss) £m	Non-underlying items ⁽¹⁾ £m	Other adjustments ⁽¹⁾ £m	Operating profit/(loss) £m
Funeral services	62.1	(12.1)	50.0	(48.3)	15.8	17.5
Crematoria	48.7	(5.9)	42.8	(0.2)	2.6	45.2
Pre-arranged funeral plans	-	-	-	(0.1)	0.1	-
Central overheads	(35.3)	(1.8)	(37.1)	(9.8)	0.1	(46.8)
Group	75.5	(19.8)	55.7	(58.4)	18.6	15.9
Finance costs			(25.1)		(4.7)	(29.8)
Finance income			0.1		-	0.1
Deferred revenue significant financing					(53.1)	(53.1)
Remeasurement of financial assets held by the Trusts and related income					47.3	47.3
(Loss)/profit before tax			30.7	(58.4)	8.1	(19.6)
Taxation – continuing activities			(7.4)	6.1	(5.7)	(7.0)
Taxation – rate change			-	(3.6)	4.7	1.1
Taxation – total			(7.4)	2.5	(1.0)	(5.9)
Underlying earnings for the period			23.3			
Non-underlying items				(55.9)		
Other adjustments					7.1	
Loss after taxation						(25.5)
(Loss)/earnings per share for profit attributable to equity shareholders						
- Basic (pence)			46.6p			(51.0)p
- Diluted (pence)						(51.0)p

(1) See alternative performance measures on page 159 for a reconciliation of non-underlying items and other adjustments.

3 Revenue and segmental analysis (continued)

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) See alternative performance measures on page 160 for a reconciliation of other adjustments.

Within funeral services revenue £91.7 million relates to deferred revenue arising on the completion of performance obligations under pre-need Trust plans.

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 ⁽¹⁾ £m	Other adjustments ⁽¹⁾ restated £m	Operating profit/(loss) restated £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	(11.0)	(13.5)
Underlying earnings for the period			30.3			
Non-underlying items				(28.2)		
Other adjustments					28.5	
Profit after taxation						30.6
Earnings per share for profit attributable to equity shareholders						
– Basic (pence)			60.6p			61.2p
– Diluted (pence)						61.2p

(1) See alternative performance measures on page 160 for a reconciliation of non-underlying items and other adjustments.

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4 Net finance costs

	52 week period ended 25 December 2020 £m	52 week period ended 27 December 2019 £m
Finance costs		
Secured Notes	23.4	23.7
Other loans	1.1	1.3
Net finance cost on retirement benefit obligations (note 29)	0.5	0.7
Unwinding of discounts	0.1	0.1
Underlying finance costs	25.1	25.8
Finance cost on IFRS 16 lease liability	4.7	-
Finance costs	29.8	25.8
Finance income		
Bank deposits	(0.1)	(0.2)
Finance income	(0.1)	(0.2)
Deferred revenue significant financing (note 20)	53.1	54.1
Remeasurement of financial assets held by the Trusts and related income		
Realised investment income	(6.0)	(5.5)
Changes in fair value of financial assets held by the Trusts (note 14)	(41.3)	(79.5)
Remeasurement of financial assets held by the Trusts and related income	(47.3)	(85.0)
Underlying net finance costs		
Underlying finance costs	25.1	25.8
Finance income	(0.1)	(0.2)
Underlying net finance costs	25.0	25.6

5 Profit before tax

	52 week period ended 25 December 2020 £m	52 week period ended 27 December 2019 £m
Analysis by nature		
The following items have been included in arriving at profit before tax:		
Staff costs (note 28)	116.4	107.4
Cost of inventories recognised as an expense (included in cost of sales)	17.4	17.3
Depreciation of property, plant and equipment – owned assets (note 10)	19.6	19.1
Depreciation of right-of-use asset (note 11) ⁽¹⁾	9.2	–
Amortisation of intangible assets (included in administrative expenses) (note 9)	4.9	5.0
Expense related to practical expedients applied under IFRS 16 (note 11)	0.2	–
Operating lease rentals – property	–	15.0
Business rates relief	(4.1)	–
Inventory provisions (note 15)	1.3	–
Trade receivables impairment (included in administrative expenses) (note 23(c))	1.9	1.1
Transformation Plan costs ⁽¹⁾	4.7	12.1
Directors severance pay	1.6	–
External transaction costs (included in administrative expenses) ⁽¹⁾	0.8	0.9
Operational review and competition review costs ⁽¹⁾	2.9	3.5
Trade name impairment (note 9) ⁽¹⁾	15.3	6.8
Goodwill impairment (note 9) ⁽¹⁾	28.7	–
Share of loss of associated undertakings ⁽¹⁾	–	0.6
Impairment of investments in associated undertakings ⁽¹⁾	–	5.4
Profit on sale of fixed assets ⁽¹⁾	(0.2)	(1.0)
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	0.3	0.4
Fees payable to the Company's auditors and its associates for other services:		
– The audit of Company's subsidiaries	0.3	0.2
– Tax advisory services	–	–
– Other advisory services	–	–
	0.6	0.6

(1) Items are excluded in arriving at underlying performance measures. Please see the alternative performance measures on pages 156 and 157 for further details.

During 2020, the Group paid £59,000 (2019: £65,000) 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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6 Taxation

	52 week period ended 25 December 2020	52 week period ended 27 December 2019 restated
	£m	£m
Analysis of charge in the period		
Current tax – current period	9.4	9.1
Adjustments for prior period	0.1	0.1
Total corporation tax	9.5	9.2
Deferred tax – current period	(2.9)	4.9
Adjustments for prior period	0.4	(0.6)
Restatement of deferred tax for the change in UK tax rate	(1.1)	–
Total deferred tax	(3.6)	4.3
Taxation	5.9	13.5

	52 week period ended 25 December 2020	52 week period ended 27 December 2019
	£m	£m
Tax on items credited to other comprehensive income or equity		
Deferred tax credit on remeasurement losses on retirement benefit obligations	(2.2)	(0.3)
Deferred tax credit relating to maturity of option schemes	–	(0.1)
Restatement of deferred tax for the change in UK tax rate	(0.5)	–
Total deferred tax credited to other comprehensive income or equity	(2.7)	(0.4)

The taxation charge in the period is higher (2019: higher) than the standard rate of corporation tax in the UK of 19.0 per cent (2019: 19.0 per cent). The differences are explained below:

	52 week period ended 25 December 2020	52 week period ended 27 December 2019 restated
	£m	£m
(Loss)/profit before taxation	(19.6)	44.1
(Loss)/profit before taxation multiplied by the standard rate of corporation tax in the UK of 19.0% (2019: 19.0%)	(3.7)	8.4
Effects of:		
Adjustments in respect of prior period	0.5	(0.5)
Corporate interest restriction disallowance	4.3	4.3
Restatement of deferred tax for the change in UK tax rate	(1.1)	–
Expenses not deductible for tax purposes	5.9	1.3
Total taxation charge	5.9	13.5

Under IFRS the tax rate is higher (2019: higher) than the standard UK tax rate of 19.0 per cent (2019: 19.0 per cent) principally due to the non-deductible expenses, prior period adjustments and corporate interest restriction disallowance (2019: non-deductible expenses, prior period adjustments and corporate interest restriction disallowance). See Financial Review for further details. The Group's effective tax rate on underlying profits in the period was 24.1 per cent (2019: 19.5 per cent). The current period underlying effective tax rate is higher due to the effects of permanent disallowables and adjustments in respect of the prior period with a tax impact totalling £1.5 million (2019: £0.2 million). The Group expects its future underlying effective tax rate to be approximately two to three per cent above the headline rate of corporation tax. This translates to an underlying effective rate for 2021 and thereafter of between 21.0 per cent and 22.0 per cent. The Group does not have any provisions for uncertain tax positions.

In the budget announced in March 2020, the legislation to reduce the main rate of corporation tax to 17 per cent was cancelled and the main rate of corporate tax will remain at 19 per cent from 1 April 2020 and 1 April 2021. The change was substantively enacted at the balance sheet date and is therefore recognised in these financial statements. As a result, the Group recognised a non-underlying taxation credit of £1.1 million through its income statement and a credit of £0.5 million through other comprehensive income to reflect the one off increase in the period of the Group's deferred tax position.

Following the budget announced on 3 March 2021, the legislation to increase the main rate of corporation tax from 19 per cent to 25 per cent from 1 April 2023 was not substantively enacted at the balance sheet date and so has not been reflected in the deferred tax balances as at 25 December 2020. Each percentage increase in the corporation tax rate would increase deferred tax balances by £1.1 million.

7 Dividends

	52 week period ended 25 December 2020 £m	52 week period ended 27 December 2019 £m
Final dividend paid: nil per Ordinary Share (2019: 15.74p)	-	7.9
Interim dividend paid: nil per Ordinary Share (2019: nil)	-	-
Dividend on Ordinary Shares	-	7.9

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 2020 (2019: nil).

The final dividend in 2019 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 £nil million, nil pence per share (2019: £7.9 million, 15.74 pence per share). No final dividend was declared in respect of 2019 totalling £nil million (2019: final dividend in respect of 2018 was 15.74 pence per share totalling £7.9 million). The Group is not proposing any dividend for the period ended 25 December 2020.

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. As the impact of these shares is anti-dilutive for the 52 week period ended 25 December 2020, no adjustment has been made in respect of arriving at diluted earnings per share measures for that period (2019: no adjustment).

The Group's underlying measures of profitability exclude non-underlying items, the effects of IFRS 15, consolidation of the Trusts and the adoption of IFRS 16 as set out on pages 156 and 157. 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.

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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 25 December 2020			
Underlying profit after taxation and EPS	23.3	50.0	46.6
Add: Non-underlying items (net of taxation credit of £2.5 million)	(55.9)		
Add: Other adjustments (net of taxation charge of £1.0 million) ⁽¹⁾	7.1		
Loss attributable to shareholders – Basic EPS	(25.5)	50.0	(51.0)
Loss attributable to shareholders – Diluted EPS	(25.5)	50.0	(51.0)
52 week period ended 27 December 2019 – restated⁽²⁾			
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 £11.0 million) ⁽¹⁾	28.5		
Profit attributable to shareholders – Basic EPS	30.6	50.0	61.2
Profit attributable to shareholders – Diluted EPS	30.6	50.0	61.2

(1) See note 3 for further details.

(2) Prior year comparatives have been restated due to a prior year adjustment in relation to taxation. See page 96 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- complete agreements £m	Sub-total £m	Goodwill £m	Total £m
Cost								
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
Additions	–	–	–	0.2	–	0.2	–	0.2
At 25 December 2020	150.4	3.2	4.7	2.7	0.2	161.2	232.6	393.8
Accumulated amortisation and impairment								
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)
Amortisation charge	(4.1)	(0.2)	(0.4)	(0.2)	–	(4.9)	–	(4.9)
Impairment	(15.3)	–	–	–	–	(15.3)	(28.7)	(44.0)
At 25 December 2020	(35.8)	(2.0)	(1.8)	(0.9)	(0.2)	(40.7)	(28.7)	(69.4)
Net book amount at 25 December 2020	114.6	1.2	2.9	1.8	–	120.5	203.9	324.4
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

(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.

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:

	25 December 2020 £m	27 December 2019 £m
Funeral services	148.1	176.8
Crematoria	55.8	55.8
	203.9	232.6

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. The value-in-use calculations for the 2020 model include the approved annual budget for 2021 and a forecast for 2022. Cash flows for all segments beyond the initial 24 month period (2019: 12 month period) are extrapolated using a growth rate of 2.25 per cent (2019: 2.25 per cent), being an estimate of long-term growth rates for impairment review purposes only, which reflects the expectations of long-term inflation and death rates. The cash flows for each segment are discounted at a pre-tax rate of 10.3 per cent (2019: 12.0 per cent).

Goodwill assessment

The impairment calculation indicated no impairment in the crematoria division with headroom under the current assumptions used of £99.1 million (2019: £102.9 million). The discount rate would need to increase to 14.1 per cent (2019: increase to 25.8 per cent) or the long-term growth rate would need to fall to minus 1.4 per cent (2019: minus 2.8 per cent) for the impairment test to result in £nil headroom for this segment. The likelihood of such movements in the discount rate and growth rate is deemed unlikely based on current market conditions.

The impairment calculation has also been performed on the funeral services division and an impairment of £28.7 million (2019: £nil) has been recognised within administrative expenses in the Income statement.

If the value-in-use calculations for the funeral services division used a discount rate of 11.3 per cent instead of 10.3 per cent, then the impairment would increase by £40.6 million to £69.3 million. The discount rate would have to reduce to 9.7 per cent to result in no goodwill impairment.

If the value-in-use calculation for the funeral services division used a growth rate of 1.75 per cent instead of 2.25 per cent, then the impairment would increase by £20.3 million to £49.0 million. The growth rate would have to increase to 2.82 per cent to result in no goodwill impairment.

If the value-in-use calculations for the funeral services division used a year one cash flow assumption of £3.0 million less than that forecast, then the impairment would increase by £43.9 million to £72.6 million.

Trade name assessment

In addition to the Group's annual goodwill impairment test, given the changes in the funeral market and a decrease (2019: 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 intangible 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 £15.3 million (2019: £6.8 million) arose and has been provided accordingly. This is due to lower levels of profitability and lower anticipated average revenue per funeral.

The trade name impairment and the subsequent reduction in net book value has been reflected within the above goodwill impairment calculations to reflect the lower asset base.

If the value-in-use calculations used a discount rate of 11.3 per cent instead of 10.3 per cent, then the impairment would increase by £1.8 million to £17.1 million. If the value-in-use calculations used a growth rate of 1.75 per cent instead of 2.25 per cent, then the impairment would increase by £0.9 million to £16.2 million. If the value-in-use calculations used an initial cash flow assumption of £3.0 million less than that forecast, then the impairment would increase by £2.3 million to £17.6 million.

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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 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
Transferred to right-of-use asset (note 35)	-	(0.7)	-	-	-	(0.7)
Additions	0.7	0.6	3.2	0.1	6.1	10.7
Disposals	(0.8)	(0.7)	(0.3)	(1.3)	-	(3.1)
Reclassification	1.2	1.7	1.5	-	(4.4)	-
At 25 December 2020	183.1	65.1	62.7	78.6	5.5	395.0
Accumulated depreciation						
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)
Transferred to right-of-use asset (note 35)	-	0.2	-	-	-	0.2
Depreciation charge	(5.3)	(3.8)	(4.9)	(5.6)	-	(19.6)
Disposals	0.1	0.5	0.3	1.2	-	2.1
At 25 December 2020	(42.5)	(25.1)	(38.3)	(48.2)	-	(154.1)
Net book amount at 25 December 2020	140.6	40.0	24.4	30.4	5.5	240.9
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

Depreciation expense of £9.1 million (2019: £8.5 million) is included within cost of sales and £10.5 million (2019: £10.6 million) is included within administrative expenses.

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.

The Group had capital expenditure authorised by the Board and contracted for at the balance sheet date of £9.6 million (2019: £7.9 million) in respect of property, plant and equipment and intangible assets.

11 Leases

The Group has applied IFRS 16 for the first time within the current period. Comparatives in respect of the 2019 reporting period have not been restated as permitted under the specific transition provisions of the standard. See note 35 for more details on the transition methodology applied.

Right-of-use asset

	Total £m
At 28 December 2019	101.7
Additions	1.4
Depreciation charge	(9.2)
Impact of changes in lease payments	1.3
At 25 December 2020	95.2

All right-of-use assets are related to leasehold properties.

Lease liability

	Total £m
At 28 December 2019	93.6
Additions	1.4
Impact of changes in lease payments	1.3
Interest expense	4.7
Payments	(12.5)
At 25 December 2020	88.5
Current	7.3
Non-current	81.2

See note 23 (e) for maturity analysis of lease liabilities.

The following are the amounts recognised in the consolidated income statement:

	£m
Depreciation expense of the right-of-use asset	9.2
Interest expense on lease liabilities	4.7
Expense related to practical expedients applied	0.2
Total amount recognised in the consolidated income statement	14.1

In addition, £1.4 million has been recognised in the consolidated income statement in respect of contingent rentals and other charges on leases.

The Group had total cash outflows for leases classified under IFRS 16 of £12.5 million. The Group also had non-cash additions to right-of-use assets and lease liabilities of £1.4 million.

Sublease payments received in the period amount to £0.3 million (2019: £0.3 million). Total future sublease payments receivable relating to leases amount to £0.3 million (2019: £0.4 million).

Obligations under IAS 17 leases:

	25 December 2020 £m	27 December 2019 £m
Obligations under finance leases and hire purchase payable:		
Within one year	-	-
Between one and two years	-	-
Between two and five years	-	0.2
After five years	-	0.4
	-	0.6

The IAS 17 leases and hire purchase liabilities are secured on the related assets.

These liabilities are included in the IFRS 16 lease liability above in 2020.

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12 Investments in associated undertakings

In August 2018 and December 2018, the Group increased its investment in Funeral Zone Limited ('Funeral Zone'). At 27 December 2019 and 25 December 2020 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 having an appointed board member who represents 25 per cent of the Board of Directors and therefore has the power to participate in the financial and operating policy decisions. The Group also hold a call option over a further 44.4 per cent of shares. These potential voting rights are not currently taken into consideration when assessing control as the call option is not considered to be substantive in nature at this time, due to the exercise price of the option. The option is considered to have a £nil fair value at 25 December 2020 for the same reason.

In the prior period the Group performed a review to assess whether there was objective evidence that the carrying value of the investment was 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 fully provided against its investment. At 25 December 2020, the company continues to make losses and the investment is still fully provided against.

13 Financial and other assets

	Note	25 December 2020 £m	27 December 2019 £m
Non-current			
Prepayments	(a)	7.2	7.2
Reclassification of prepayments to right-of-use asset on transition of IFRS 16		(7.2)	-
Prepayments		-	7.2
Deferred insurance commissions	(b)	10.7	11.0
		10.7	18.2

(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. The balance has been reclassified into right-of-use asset on transition to IFRS 16. See note 35.

(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.

14 Financial assets – held by the Trusts

	25 December 2020 £m	27 December 2019 £m
Financial assets – held by the Trusts	967.1	947.5

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 2021 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	38
Growth fixed income and alternative investments	Emerging market debt/ diversified growth	22
Liquid investments	Open-ended investment funds	6

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.

14 Financial assets – held by the Trusts (continued)

Analysis of the movements in financial assets held by the Trusts:

	25 December 2020 £m	27 December 2019 £m
Fair value at the start of the period	947.5	862.4
Remeasurement recognised in the consolidated income statement	41.3	79.5
Investment income	2.2	1.9
Purchases	778.1	736.1
Disposals	(796.8)	(726.6)
Investment administrative expenses deducted at source	(5.2)	(5.8)
Fair value at the end of the period	967.1	947.5

Interest and dividend income received is included within remeasurements recognised in the consolidated income statement.

15 Inventories

	25 December 2020 £m	27 December 2019 £m
Materials	0.6	0.5
Finished goods	8.4	7.4
	9.0	7.9

During the period a £1.3 million (2019: nil) provision has been charged to the consolidated income statement relating to obsolete PPE.

16 Trade and other receivables

	25 December 2020 £m	27 December 2019 £m
Trade receivables: Trusts	10.0	11.4
Trade receivables: at-need	21.3	21.8
Less: provision for impairment (note 23(c))	(7.2)	(6.7)
Net trade receivables	24.1	26.5
Prepayments and accrued income	3.2	4.2
Other receivables	2.7	1.7
	30.0	32.4

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.

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17 Cash and cash equivalents

	Note	25 December 2020 £m	27 December 2019 £m
Trading Group		56.7	41.0
Trusts	(a)	21.6	15.5
Operating cash as reported in the consolidated statement of cash flows as cash and cash equivalents		78.3	56.5
Amounts set aside for debt service payments	(b)	16.9	16.9
Cash and cash equivalents as reported in the balance sheet		95.2	73.4

(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 2020. Of this amount, £12.0 million (2019: £12.1 million) is shown within the Statement of Cash Flows as 'Payments to restricted bank accounts for finance costs' and £4.9 million (2019: £4.8 million) is shown within 'Financing activities' as 'Payments to restricted bank accounts for repayment of borrowings'.

18 Financial liabilities

	Note	25 December 2020 £m	27 December 2019 £m
Current			
Secured A Notes	(a)	15.1	9.6
Lease liabilities	(c)	7.3	–
	(b)	22.4	9.6
Non-current			
Secured Notes	(a)	526.6	541.7
Lease liabilities	(c)	81.2	–
Finance lease obligations	(c)	–	0.6
		607.8	542.3

(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 25 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 25 December 2020, £0.2 million (2019: £0.2 million) and £0.3 million (2019: £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).

18 Financial liabilities (continued)

The amortisation profile of the Secured Notes is as follows:

Secured A Notes

	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 £m	2029 £m	2030 £m
June	5.1	5.2	5.4	5.6	5.8	6.0	6.2	6.4	6.7	6.9
December	5.1	5.3	5.5	5.7	5.9	6.1	6.4	6.6	6.8	7.1
Total	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	89.5
December	7.3	7.6	7.8	8.1	91.3
Total	14.5	15.0	15.5	16.0	180.8

Secured B Notes

	2035 £m	2036 £m	2037 £m	2038 £m	2039 £m	2040 £m	2041 £m	2042 £m	2043 £m	2044 £m	2045 £m
June	8.4	8.7	9.1	9.6	10.0	10.5	11.0	11.5	12.1	12.6	13.2
December	8.5	9.0	9.4	9.8	10.3	10.8	11.3	11.8	12.3	12.9	13.5
Total	16.9	17.7	18.5	19.4	20.3	21.3	22.3	23.3	24.4	25.5	26.7

	2046 £m	2047 £m	2048 £m	2049 £m	Total £m
June	13.8	14.5	15.2	15.9	176.1
December	14.2	14.8	15.5	16.2	180.3
Total	28.0	29.3	30.7	32.1	356.4

(b) Current financial liabilities

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

(c) Lease liabilities

See note 11 for more details on the Group's lease liabilities under IFRS 16.

See note 23 (e) for maturity analysis of the Group's lease liabilities.

(d) Changes in liabilities arising from financing activities

	27 December 2019 £m	IFRS 16 transition £m	Cash flow £m	Other £m ⁽²⁾	25 December 2020 £m
Current					
Secured Notes	9.6	-	(9.6)	15.1	15.1
Lease liabilities ⁽¹⁾	-	5.9	(12.5)	13.9	7.3
Non-current					
Secured Notes	541.7	-	-	(15.1)	526.6
Lease liabilities ⁽¹⁾	0.6	87.1	-	(6.5)	81.2
Total liabilities from financing activities	551.9	93.0	(22.1)	7.4	630.2

(1) See note 11 for more information on the Group's lease liabilities under IFRS 16.

(2) Other includes reclassification from non-current to current, unwinding of discounts and movement in the lease portfolio in the period.

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18 Financial liabilities (continued)

	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 liabilities	0.6	-	-	0.6
Total liabilities from financing activities	561.2	(9.3)	-	551.9

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.

19 Trade and other payables

	25 December 2020 £m	27 December 2019 £m
Current		
Trade payables	5.5	7.5
Tax and social security	3.2	2.8
Other current liabilities	2.9	2.3
Accruals	52.3	44.9
Deferred income relating to at-need deposits	4.8	4.1
	68.7	61.6
Non-current		
Other non-current liabilities	1.6	1.4
Deferred income relating to at-need deposits	0.4	0.5
Deferred consideration for acquisitions	0.1	0.1
	2.1	2.0

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.

20 Deferred commissions and contract liabilities

Deferred commissions

	25 December 2020 £m	27 December 2019 £m
Deferred commissions – current	7.6	7.3
Deferred commissions – non-current	101.3	96.8

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 £7.8 million (2019: £6.4 million) has been amortised to the consolidated income statement within administrative expenses.

Contract liabilities

	Note	25 December 2020 £m	27 December 2019 £m
Current			
Contract liabilities – deferred revenue	(a)	94.4	94.4
Contract liabilities – refund liability	(b)	1.1	1.1
		95.5	95.5
Non-current			
Contract liabilities – deferred revenue	(a)	1,208.1	1,194.6
Contract liabilities – refund liability	(b)	13.9	14.5
		1,222.0	1,209.1

20 Deferred commissions and contract liabilities (continued)

Movement in total contract liabilities

	25 December 2020 £m	27 December 2019 £m
Balance at the beginning of the year	1,304.6	1,256.1
Sale of new Trust plans	82.0	91.2
Increase due to significant financing	53.1	54.1
Recognition of revenue following delivery or cancellation of a Trust plan	(122.2)	(96.8)
Balance at the end of the year	1,317.5	1,304.6

(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.

21 Provisions for liabilities

	Dilapidations (a) £m	Onerous contracts (b) £m	Total £m
At beginning of period	11.2	0.1	11.3
Charged to income statement	1.7	–	1.7
Released to income statement	(0.7)	–	(0.7)
Utilised in period	(0.4)	–	(0.4)
Amortisation of discount	0.1	–	0.1
Reclassification to lease liabilities on transition of IFRS 16	–	(0.1)	(0.1)
At end of period	11.9	–	11.9

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

	25 December 2020 £m	27 December 2019 £m
Current	2.4	2.0
Non-current	9.5	9.3
	11.9	11.3

(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, £2.4 million (2019: £2.0 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 2030.

(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 is no longer required on the transition to IFRS 16.

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22 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19 per cent (2019: 17 per cent).

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

	25 December 2020 £m	27 December 2019 £m
At beginning of period	(14.0)	(17.9)
(Credited)/charged to income statement (note 6)	(2.5)	4.3
Taken to other comprehensive income (note 6)	(2.2)	(0.3)
Restatement of deferred tax for the change in UK tax rate	(1.6)	–
Taken to equity (note 6)	–	(0.1)
At end of period	(20.3)	(14.0)

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	11.8	17.1	183.9	2.7	215.5
(Credited)/charged to income statement (note 6)	(2.1)	(2.1)	5.7	0.3	1.8
Restatement of deferred tax for the change in UK tax rate taken to the income statement (note 6)	1.4	2.0	21.6	0.3	25.3
At end of period	11.1	17.0	211.2	3.3	242.6

Deferred tax assets

	Pensions £m	Contract liabilities £m	Other £m	Total £m
At beginning of period	(4.5)	(224.3)	(0.7)	(229.5)
Charged/(credited) to income statement (note 6)	0.2	(4.3)	(0.2)	(4.3)
Restatement of deferred tax for the change in UK tax rate taken to the income statement (note 6)	–	(26.3)	(0.1)	(26.4)
Restatement of deferred tax for the change in UK tax rate taken to other comprehensive income	(0.5)	–	–	(0.5)
Taken to other comprehensive income/to equity	(2.2)	–	–	(2.2)
At end of period	(7.0)	(254.9)	(1.0)	(262.9)

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 25 December 2020 was £20.3 million (2019: £14.0 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.

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.

No deferred tax asset has been recognised in relation to £8.6 million (2019: £4.3 million) disallowed interest expense calculated in the annual corporate interest restriction returns due to insufficient evidence to support recognition.

22 Deferred tax (continued)

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

	52 week period ended 25 December 2020 £m	52 week period ended 27 December 2019 £m
Deferred tax credit on remeasurement losses on retirement benefit obligations	(2.2)	(0.3)
Restatement of deferred tax for the change in UK tax rate	(0.5)	–
Total credited to other comprehensive income	(2.7)	(0.3)
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

	25 December 2020 £m	27 December 2019 £m
Financial assets at fair value through consolidated income statement		
Defensive investments – Index linked gilts and corporate bonds	174.3	170.3
Core growth investments – Equities	262.9	268.5
Growth fixed income and alternative investments – Property funds and emerging market debt	417.0	468.6
Liquid investments – Open-ended investment funds	63.0	–
Illiquid investments – Private investments	49.9	40.1
Total financial assets at fair value	967.1	947.5

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.

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23 Financial instruments (continued)

The following table provides the fair value measurement hierarchy of the Trusts' financial assets.

	Fair value measurement using			
	Total £m	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
25 December 2020				
Defensive investments – Index linked gilts and corporate bonds	174.3	–	174.3	–
Core growth investments – Equities	262.9	–	262.9	–
Growth fixed income and alternative investments – Property funds and emerging market debt	417.0	–	401.4	15.6
Liquid investments – Open-ended investment funds	63.0	–	63.0	–
Illiquid investments – Private investments	49.9	–	–	49.9

During the period £64.6 million was transferred out of level 3 into level 2. There were no transfers to/from level 1 during 2020.

	Fair value measurement using			
	Total £m	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
27 December 2019				
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

There were no transfers between level 1, level 2 or level 3 during 2019.

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 & liquid 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:

	25 December 2020 £m	27 December 2019 £m
Fair value at the start of the period	239.4	252.7
Remeasurement recognised in the consolidated income statement	(2.9)	8.3
Purchases	–	11.3
Sales	(168.9)	(30.3)
Investment administrative expenses	(2.1)	(2.6)
Fair value at the end of the period	65.5	239.4

23 Financial instruments (continued)

At 25 December 2020, the Trust financial assets (all level 2 or 3, fair value of £967.1 million (2019: £947.5 million)) are exposed to market sensitivity and changes in valuation over time due to factors including currency, interest rate 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 five per cent movement in the fair value of these assets would result in a £48.4 million (2019: £47.4 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 £96.7 million (2019: £94.8 million).

(b) Fair value of current and non-current financial liabilities

	25 December 2020			27 December 2019		
	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	185.8	185.6	199.2	195.5	195.3	209.7
Secured B Notes – 4.6956% maturing 31 December 2049	356.4	356.0	289.2	356.4	356.0	290.0
Total	542.2	541.6	488.4	551.9	551.3	499.7

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 lease payables of £88.5 million (2019: £0.6 million), which represent the present value of future minimum lease payments. At 25 December 2020 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 25 December 2020, £10.2 million of the individual gross at-need trade receivables (2019: £10.7 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 25 December 2020, was £7.2 million (2019: £6.7 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:

	25 December 2020 £m	27 December 2019 £m
One to six months	3.6	5.0
Over six months	6.6	5.7
	10.2	10.7

The amount of gross at-need trade receivables past due that were not impaired was not significant.

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.

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23 Financial instruments (continued)

Movements on the Group's loss allowance for trade receivables are as follows:

	25 December 2020 £m	27 December 2019 £m
At beginning of period	(6.7)	(6.9)
Charged to income statement	(1.9)	(1.1)
Utilised in period	1.4	1.3
At end of period	(7.2)	(6.7)

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. £10.0 million (2019: £11.4 million) is excluded from the analysis as it relates to trade receivables held by the Trust.

25 December 2020	Days past due					Total
	Current	30-60 days	61-90 days	91-180 days	>181 days	
Expected credit loss rate	4.3%	10.1%	24.5%	41.5%	88.3%	
Estimated total gross carrying amount at default	11.1	1.5	0.8	1.4	6.5	21.3
Expected credit loss	0.5	0.1	0.2	0.6	5.8	7.2

27 December 2019	Days past due					Total
	Current	30-60 days	61-90 days	91-180 days	>181 days	
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

(d) Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 25 December 2020, all of which were at floating interest rates, in respect of which all conditions precedent had been met at that date:

	25 December 2020 £m	27 December 2019 £m
Expiring within one year	10.0	5.0
Expiring between one and two years	-	-
Expiring in more than two years	55.0	105.0
	65.0	110.0

£55.0 million (2019: £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 (2019: £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.

Following the sale of various trading assets held outside the Securitisation Group into the Securitisation Group in July 2020, the Group's revolving credit facility ('RCF') was reduced by £40.0 million to £10.0 million (2019: £50.0 million). The RCF is provided by the Royal Bank of Scotland, which is secured against the remaining 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.

In 2019, the remaining £5.0 million facility was extended for a further 12 months and expired in October 2020 and has not been renewed. These facilities incurred commitment fees at market rates.

23 Financial instruments (continued)

(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.

	25 December 2020					Total £m
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	
Cash liabilities						
Secured Notes (gross)	15.1	10.6	10.9	23.0	482.6	542.2
Interest payable on Secured Notes	34.7	22.7	22.3	43.5	316.9	440.1
Lease liabilities	11.9	11.0	10.4	19.2	93.7	146.2
Debt repayments	61.7	44.3	43.6	85.7	893.2	1,128.5
Other financial liabilities	68.4	0.4	0.3	0.5	0.7	70.3
	130.1	44.7	43.9	86.2	893.9	1,198.8
Refund liability	1.1	1.1	1.1	2.2	9.5	15.0
Total liabilities	131.2	45.8	45.0	88.4	903.4	1,213.8

	27 December 2019 – restated					Total £m
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	
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	61.4	0.4	0.5	0.6	0.2	63.1
	94.6	50.2	33.8	67.2	835.4	1,081.2
Refund liability	1.1	1.1	1.1	2.2	10.1	15.6
Total liabilities	95.7	51.3	34.9	69.4	845.5	1,096.8

Other financial liabilities due in less than one year as at 27 December 2019 has been reduced by £2.7 million to reflect the elimination on consolidation of balances between the Trading Group and the Trusts which was omitted in error in establishing the amount disclosed in the prior period financial statements. Consequently, the above table has been restated.

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.

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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.

	25 December 2020					Total £m
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	
Non-cash liabilities						
Issue costs on Secured Notes	-	-	-	-	0.6	0.6
	-	-	-	-	0.6	0.6

	27 December 2019					Total £m
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	
Non-cash liabilities						
Issue costs on Secured Notes	-	-	-	-	0.6	0.6
	-	-	-	-	0.6	0.6

24 Ordinary share capital

	25 December 2020 £m	27 December 2019 £m
Allotted and fully paid Equity shares		
50,020,483 (2019: 50,012,394) Ordinary Shares of 12 48/143 pence (2019: 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 7,745 shares issued under the 2017 DABS 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 2018, 2019 and 2020.

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	2020 Number	2019 Number	2018 Number
2019 – SAYE	383.52	1 December 2022 to 31 May 2023	435,664	498,164	n/a
2018 – LTIP	-	16 March 2020 to 16 March 2027	120,523	146,157	146,157
2019 – LTIP	-	23 March 2021 to 23 March 2028	270,904	388,719	n/a
2020 – LTIP	-	12 June 2022 to 12 June 2029	264,271	n/a	n/a

25 Share-based payments

In respect of share-based payments, total charges to the income statement were £1.4 million (2019: £0.8 million). The Group has both LTIP and SAYE schemes, both of which are equity based settled.

LTIP Schemes

The LTIP Scheme was introduced after the flotation of the Group in 2004. Under the LTIP Scheme, the remuneration committee can grant options over shares in the Company to employees of the Group. Awards under the LTIP Scheme are generally reserved for the Executive Directors, the Operating Board Directors and senior management. The Company has made annual grants since April 2004. Options granted under the LTIP Scheme will normally become exercisable on the third anniversary of the date of grant, subject to the conditions described on page 75. For the 2019 and 2020 schemes the vested shares must be retained for two years by the Executive Directors and the Operating Board Directors. Exercise of an option is subject to continued employment unless an individual ceases to be an employee by reason of death, illness, redundancy or other similar circumstances.

Options were valued using the Monte Carlo option pricing model. Performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	22 December 2020	13 June 2019	23 March 2018
Share price at grant date	£6.03	£6.33	£8.90
Exercise price	–	–	–
Number of employees	36	39	37
Shares under option	264,271⁽¹⁾	388,719	146,157
Vesting period (years)	3	3	3
Expected volatility	60.2%	45.3%	29%
Option life (years)	10	10	10
Expected life (years)	3	3	3
Risk free rate	0.11%	0.78%	1.03%
Expected dividends expressed as a dividend yield	0%	3.3%	1.4%
Possibility of ceasing employment before vesting	0%	0%	0%
Fair value per option	£4.63	£3.85	£1.22

(1) 50 per cent of these options relate to total shareholder return with the remaining relating to market share price.

The expected volatility is calculated by reference to historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

Reconciliation of LTIP awards:

Award grant date	Outstanding as at 27.12.19	Granted during the period	Lapsed during the period	Forfeited during the period	Vested and exercised during the period	Outstanding as at 25.12.20
(i) 16.03.17	133,942	–	(133,942)	–	–	–
(ii) 23.03.18	146,157	–	–	(25,634)	–	120,523
(iii) 13.06.19	388,719	–	–	(117,815)	–	270,904
(iv) 22.12.20	–	264,271	–	–	–	264,271

The options under the 2018, 2019 and 2020 LTIP Schemes have not yet vested.

During the period nil options under the 2017 scheme were exercised.

The charge to the income statement in the period in respect of the LTIP Schemes was £1.0 million (2019: £0.6 million), all of which are equity based settled.

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25 Share-based payments (continued)

SAYE Scheme

One Inland Revenue approved SAYE Scheme was in place during the period. Options were valued using the Black-Scholes option pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	2019 Scheme 10 October 2019
Share price at grant date	£5.33
Exercise price	£3.83
Number of employees	901
Shares under option	506,837
Vesting period (years)	3
Expected volatility	47.0%
Option life (years)	3.5
Expected life (years)	3
Risk free rate	0.70%
Expected dividends expressed as a dividend yield	0%
Possibility of failing to save	20%
Fair value per option	£2.40

During the period 61,542 options (2019: 8,673 options) under the 2019 SAYE Scheme were forfeited and 958 options (2019: nil options) were exercised with a weighted average share price of £3.71.

The charge to the income statement in the period in respect of the SAYE Schemes was £0.4 million (2019: £0.2 million) all of which are equity based settled.

The expected volatility is calculated by reference to historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The options under the 2019 SAYE Scheme have not yet vested.

26 Net debt

	25 December 2020 £m	27 December 2019 £m
Net amounts owing on Secured Notes per financial statements	(541.7)	(551.3)
Add: unamortised issue costs (note 18(a))	(0.5)	(0.6)
Gross amounts owing	(542.2)	(551.9)
Accrued interest on Secured Notes	(12.0)	(12.2)
Cash and cash equivalents – Trading Group (note 17)	73.6	57.9
Net debt	(480.6)	(506.2)

Net debt is an alternative performance measure calculated as shown in the table. Net debt excludes any liabilities recognised in accordance with IFRS 16.

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 25 December 2020, the actual ratio was 1.99 times (2019: 2.13 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 25 December 2020 £m	52 week period ended 27 December 2019 restated £m
Net (loss)/profit for the period ⁽¹⁾	(25.5)	30.6
Adjustments for:		
Taxation ⁽¹⁾	5.9	13.5
Finance costs ⁽²⁾	76.8	74.2
Profit on sale of fixed assets	(0.1)	(1.0)
Depreciation charges on property, plant and equipment	19.6	19.1
Depreciation charges on right-of-use asset	9.2	–
Amortisation of intangibles	4.9	5.0
Movement in inventories	(1.1)	0.6
Movement in trade receivables	2.4	(1.5)
Movement in trade payables	(2.0)	(0.8)
Movement in contract liabilities	(40.2)	(5.6)
Fair value movement on Trust assets ⁽²⁾	(41.3)	(79.5)
Net pension charges less contributions	(1.6)	(1.7)
Trade name impairment (note 9)	15.3	6.8
Goodwill impairment (note 9)	28.7	–
Share of loss and impairment in respect of associated undertakings	–	6.0
Changes in other working capital (excluding acquisitions)	5.1	(7.7)
Trust investment administrative expenses deducted at source ⁽³⁾	5.2	5.8
Employee share option charges (note 25)	1.4	0.8
Cash flows from operating activities	62.7	64.6

(1) Restatement reflects the corporate interest restriction disallowance treated as a prior year adjustment. See note 1 for further details.

(2) Restatement reflects the separation of fair value movements on trust assets out of net finance costs/(income) to provide more accurate presentation in line with the consolidated income statement.

(3) Restatement reflects the separation of Trust investment administrative expenses deducted at sources out of changes in other working capital to provide more accurate presentation of working capital.

Other non-cash transactions

Non-cash charges comprise of amortisation of deferred debt issue costs, as discussed in note 18(a).

Notes to the financial statements continued

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28 Employees and Directors

	52 week period ended 25 December 2020 £m	52 week period ended 27 December 2019 £m
Wages and salaries	101.9	94.1
Social security costs	9.0	8.5
Other pension costs (note 29)	4.2	4.0
Share option charges (note 25)	1.3	0.8
	116.4	107.4

For the period ended 25 December 2020, key management are considered to be the Board of Directors plus the members of the Operating Board. For the period ended 27 December 2019, key management were considered to be the Board of Directors only. Total key management remuneration in the period was £3.0 million (2019: £2.2 million), including £0.2 million (2019: £0.3 million) relating to pensions and £0.4 million (2019: £0.3 million) related to share based payments. The monthly average number of people, including Directors, employed by the Group during the period was as follows:

	2020 Number	2019 Number restated
Management and administration	286	286
Funeral services staff	2,475	2,548
Crematoria staff	406	420
Pre-arranged funeral plan staff	176	160
	3,343	3,414

Directors' emoluments

Details of Directors' emoluments are disclosed in the Report on Directors' Remuneration on pages 70 to 80 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:

	2020 £m	2019 £m
Defined contribution schemes	3.6	3.5

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 2018 and subsequent reviews were completed at 6 April 2019 and 6 April 2020. This latest view has been updated to 25 December 2020 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 2020 were £0.1 million (2019: £0.1 million of contributions). In addition special contributions of £2.1 million (2019: £2.1 million) have been paid to make total contributions for the year of £2.2 million (2019: £2.2 million).

29 Pension commitments (continued)

The principal actuarial assumptions at the balance sheet date were:

Assumptions	2020 %	2019 %
Discount rate	1.35	1.95
Rate of increase in salaries	2.20	2.20
Pensions increase assumption: RPI capped at 5% p.a.	3.10	3.10
Pensions increase assumption: RPI capped at 2 1/2% p.a.	2.20	2.20
RPI price inflation assumption	3.20	3.20
CPI price inflation assumption – Pre February 2030	2.20	2.20
CPI price inflation assumption – Post January 2030	3.20	2.20

The demographic assumptions used include rates for mortality which, for example, lead to an average projected life expectancy of 22.0 (2019: 19.8) years for male members and 24.3 (2019: 25.1) years for female members currently aged 65 and of 22.9 (2019: 20.7) years from age 65 for male members and 25.4 (2019: 26.3) 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:

	2020 £m	2019 £m
Fair value of plan assets	121.6	114.5
Present value of funded obligations	(158.2)	(140.5)
Net obligation recognised in the balance sheet	(36.6)	(26.0)

Analysis of amount charged to income statement in respect of defined benefit schemes

	2020 £m	2019 £m
Current service cost included within cost of sales (staff costs)	0.1	0.1
Administration expenses paid by the scheme	0.4	0.4
Interest costs less interest income included within net finance cost	0.5	0.7

Analysis of fair value of plan assets

	2020		2019	
	£m	%	£m	%
Equity and diversified growth funds	62.0	51.0	60.6	52.9
Debt	56.8	46.7	53.4	46.6
Cash	2.8	2.3	0.5	0.5
Fair value of plan assets	121.6	100.0	114.5	100.0

At 25 December 2020 and 27 December 2019 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.

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29 Pension commitments (continued)

Changes in the present value of the defined benefit obligation are as follows:

	2020 £m	2019 £m
Present value of obligation at beginning of period	(140.5)	(128.7)
Current service cost	(0.1)	(0.1)
Interest cost	(2.7)	(3.5)
Benefits paid	4.8	5.2
Remeasurement losses – financial	(17.4)	(16.6)
Remeasurement (losses)/gains – demographics	(1.9)	2.5
Remeasurement (losses)/gains – experience	(0.4)	0.7
Present value of obligation at end of period	(158.2)	(140.5)

Changes in the fair value of plan assets are as follows:

	2020 £m	2019 £m
Fair value of plan assets at beginning of period	114.5	103.5
Interest income on plan assets	2.2	2.8
Contributions by Group	2.2	2.2
Benefits paid	(4.8)	(5.2)
Administration expenses paid by the scheme ^(a)	(0.7)	(0.6)
Remeasurement gains/(losses)	8.2	11.8
Fair value of plan assets at end of period	121.6	114.5

(a) Administration expenses paid by the scheme includes £0.2 million charged (2019: £0.2 million charged) to other comprehensive income.

Analysis of the movement in the balance sheet obligation

	2020 £m	2019 £m
At beginning of period	(26.0)	(25.2)
Total expense as above charged to the income statement	(1.1)	(1.2)
Remeasurement losses and administration expenses charged to other comprehensive income	(11.7)	(1.8)
Contributions by Group	2.2	2.2
At end of period	(36.6)	(26.0)

The actual return on plan assets was £10.5 million (2019: £14.7 million).

Change in assumptions

	Liabilities £m	Assets £m	Deficit £m	(Increase)/ decrease in deficit £m
No change	(158.2)	121.6	(36.6)	–
0.25% rise in discount rate	(151.3)	121.6	(29.7)	6.9
0.25% fall in discount rate	(165.4)	121.6	(43.8)	(7.2)
0.25% rise in inflation	(163.0)	121.6	(41.4)	(4.8)
0.25% fall in inflation	(153.6)	121.6	(32.0)	4.6

The above sensitivity analysis has been determined by applying the results of a fully accurate sensitivity analysis as at 6 April 2020 to the value placed on the Scheme liabilities as at 25 December 2020, 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 2020.

Analysis of present value of scheme liabilities

	2020	2019
Active members ^(a)	33%	33%
Deferred pensioners	27%	26%
Current pensioners	40%	41%
Average duration of liabilities	18 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. 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 latest full valuation is being undertaken as at 6 April 2020.

The Group currently commits deficit contributions of £1,700,000 per annum. Based on the results of the 2017 actuarial valuation, this rate of contributions was projected to eliminate the deficit disclosed by that valuation by 31 March 2024. The initial results of the valuation as at 6 April 2020, suggest this level of contributions will need to be significantly increased.

The employees of the LGPS Section currently contribute to the Plan in line with the rates set out in the Plan Rules and the Employer contributes £45,720 per annum 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:

	2020 £m	2019 £m
Assets held by investment managers	121.0	114.0
Balance of the Trustees' bank account	0.6	0.5
Total	121.6	114.5

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 the 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.

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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 £16.9 million (2019: £17.5 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 because the Group does not include future receivable amounts in the consolidated balance sheet.

The Trustees have advised that the latest actuarial valuations of the Trusts were performed as at 25 September 2020 (2019: 27 September) using assumptions determined by the Trustees. Actuarial liabilities in respect of the Trusts have increased to £995 million as at 25 September 2020 (2019: £987 million). The corresponding market value of the assets of the Trusts was £999 million (2019: £1,004 million) as at the same date. Consequently the actuarial valuations recorded a total surplus of £4 million at 25 September 2020 (2019: surplus of £17 million). The Group considers these to be prudent assumptions.

Active members and assets per plan

	25 December 2020 Number	27 December 2019 Number
Supported by:		
The Trusts	319,000	311,000
The Small Trusts	46,000	48,000
Insurance Plans	193,000	164,000
	558,000	523,000

The Trusts have approximately £3,400 (2019: £3,300) per active plan. On average the Trading Group received approximately £3,000 (2019: £2,900) 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.

(c) 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 £0.9 million (2019: £1.1 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 have 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 have granted the Security Trustee with full title guarantee, a first legal mortgage over each of its rights, title and interest from time to time in properties situated in England and Wales;
- Dignity Funerals Limited has granted the Security Trustee with full title guarantee(iii), a first legal mortgage over its rights, title and interest from time to time in properties situated in Northern Ireland;
- Dignity Finance PLC has granted BNY Mellon Corporate Trustee Services Limited (in its capacity as Note Trustee) with full title guarantee, an assignment by way of security of its benefit in each Issuer Transaction Document (other than the Trust Documents), the Security Trust Deed and each Obligor Security Document and charges by way of first fixed charge the benefit of its accounts; and
- Dignity Funerals Limited has, in respect of any Scottish property which is capable of being so charged, granted 'standard securities' in favour of the Security Trustee^(iv).

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

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

(iii) This mortgage is governed by the laws of Northern Ireland.

(iv) The standard securities are governed by Scots Law.

At 25 December 2020, the amount outstanding in relation to these borrowings was £542.2 million (2019: £551.9 million).

Notes to the financial statements continued

for the 52 week period ended 25 December 2020

Financial statements

31 Contingent liabilities (continued)

(b) £10,000,000 Revolving Credit Facility

As a consequence of the legal structure of the £10 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

Regulation and the funeral plan market

HM Treasury had previously announced that prepaid funeral plans would be subject to regulation by the Financial Conduct Authority ('FCA'). On 2 March 2021, the FCA published their consultation paper with their proposed approach to regulation.

If the FCA rules are enacted in the way they are currently drafted they will have a profound impact on both the wider industry and Dignity. We welcome the opportunity to work closely with the FCA over the coming months to ensure the rules provide the much needed consumer protection, but also supporting the FCA in their understanding of the potential unintended consequences on the industry as a result of the current drafting.

Tax rate change

In the budget on 3 March 2021 by HM Government, legislation to increase the main rate of corporation tax from 19 per cent to 25 per cent from 1 April 2023 was announced. This will be reflected in the Group's financial results once substantively enacted.

Requisition Notice

On 11 March 2021, Dignity plc received a requisition notice pursuant to section 303(1) of the Companies Act 2006 requiring that the Board convenes a general meeting of shareholders for the purposes of considering and, if thought fit, approving resolutions to remove the existing Executive Chairman, Clive Whiley as a Director and appoint Gary Channon as an Executive Director. The Requisition Notice was delivered by Phoenix UK Fund Limited, the Company's largest shareholder.

The Phoenix UK Fund is managed by Phoenix Asset Management Partners and Mr Channon is the founder and chief investment officer of Phoenix Asset Management Partners.

35 Adoption of IFRS 16 – Right-of-use assets and lease liabilities

Background

The Group has adopted the requirements of IFRS 16, Leases, for the first time within this Annual Report. The adoption of the standard has had 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 began on 29 December 2018 the Group has adopted IFRS 16 retrospectively for its 2020 reporting period beginning on 28 December 2019. Comparatives for the 2019 reporting period have not been restated as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules have therefore been recognised in the opening balance sheet on 28 December 2019.

Approximately 50 per cent of the Group's properties are on lease terms that were previously accounted for as an operating lease under the principles of IAS 17, Leases. The minimum undiscounted lease commitment on these leases as disclosed in the 2019 Annual Report was approximately £228 million at the end of 2019.

35 Adoption of IFRS 16 – Right-of-use assets and lease liabilities (continued)

On adoption of IFRS 16, the Group has recognised lease liabilities in relation to leases which had previously been classified as 'operating leases'. These liabilities are 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 for a borrowing of similar duration. The weighted average lessee's IBR applied to the lease liabilities on 28 December 2019 was 4.9 per cent, with a minimum rate of 3.6 per cent and a maximum rate of 6.8 per cent.

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 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 is then 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 reference points.

On adoption of IFRS 16, the Group has recognised 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 are 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 have been transferred into the right-of-use asset.

The right-of-use asset has been depreciated on a straight-line basis over the life of the lease. Interest has been 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.

Transition

In order to establish 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 has resulted in the recognition of right-of-use assets of £101.7 million, with corresponding lease liabilities of £93.6 million.

For the period ending 25 December 2020, operating profit increased by £4.6 million and profit before tax decreased by £0.1 million as the pre-IFRS 16 rental charge was replaced by depreciation, interest charge and a release of accruals and prepayments. The Group's 2020 current tax charge is unaffected. Furthermore, there will be no impact on profit before tax or the Group's current tax charge (assuming consistent rates of tax) over the life of the lease portfolio.

At 25 December 2020 the Group held a right-of-use asset of £95.2 million and a corresponding lease liability of £88.5 million. Furthermore, operating costs of £12.1 million were replaced by a depreciation charge of £9.2 million, a release of accruals and prepayments of £1.7 million and a finance cost of £4.7 million. See note 11 for further details.

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. The presentation of the cash flow statement will also change as operating cashflows will include adjustments for depreciation and finance costs, tax paid will decrease/increase (no impact over the life of the lease portfolio) and principal and interest costs will be included under financing activities.

Due to the modified retrospective transition method being applied there has been no deferred tax implications on transition as the right-of-use asset equals the lease liability being recognised, with the exception of a £0.9 million difference relating to prepaid and accrued lease payments and £7.2 million representing amounts paid to acquire the long leasehold interest in land at certain of the Group's properties. In addition, £0.8 million has been credited to equity on transition, which represents rent reviews not contractually concluded as at 28 December 2019. This £0.8 million credit to reserves is a restatement from the balances reported in the 2020 Interim Report following a more detailed review of the contractual rent reviews.

Notes to the financial statements continued

for the 52 week period ended 25 December 2020

Financial statements

35 Adoption of IFRS 16 – Right-of-use assets and lease liabilities (continued)

Transition roll

Below is a reconciliation from previously disclosed operating lease commitments to lease liability on transition:

	£m
Operating lease commitments disclosed as at 27 December 2019	227.9
Less: non-IFRS 16 leases and practical expedients	(69.2)
IFRS 16 qualifying leases – undiscounted	158.7
Group's weighted average incremental borrowing rate at the date of application ⁽¹⁾	4.9%
Lease liabilities recognised as at 27 December 2019	92.9
Add: finance leases already held under IAS 17	0.6
Add: onerous leases held as provisions	0.1
Lease liability recognised as at 28 December 2019	93.6
Of which:	
Current lease liability	5.9
Non-current lease liability	87.7

(1) This weighted average rate is based on various lease terms ranging from 1 – 999 years.

The change in accounting policy affected the following items in the balance sheet on 28 December 2019:

	27 Dec 2019 £m	Impact of IFRS 16 £m	28 Dec 2019 £m
Property, plant and equipment (finance leases previously held under IAS 17)	0.5	(0.5)	–
Prepayments (previously held in financial and other assets) ⁽¹⁾	7.2	(7.2)	–
Right-of-use of assets	–	101.7	101.7
Total non-current assets	7.7	94.0	101.7
Current lease liability	–	5.9	5.9
Non-current lease liability	0.6	87.1	87.7
Total lease liability	0.6	93.0	93.6

(1) Prepayments represent amounts paid to acquire the long leasehold interest in land at certain of the Group's properties. These were not included within the right-of-use asset transition balance as reported in the 2020 Interim Report. They have now been included as, on further review, this is considered necessary to comply with IFRS 16.

35 Adoption of IFRS 16 – Right-of-use assets and lease liabilities (continued)

Practical expedients applied

In applying IFRS 16 for the first time, the Group has applied 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.

Dignity plc Company balance sheet

As at 25 December 2020

Financial statements

	Note	25 December 2020 £m	27 December 2019 £m
Fixed assets			
Investments	C2	151.3	149.9
Current assets			
Trade and other receivables	C3	285.7	295.3
Cash		48.9	29.8
Total current assets		334.6	325.1
Creditors: amounts falling due within one year	C4	(14.2)	(15.0)
Net current assets		320.4	310.1
Total assets less current liabilities		471.7	460.0
Net assets			
Capital and reserves			
Called up share capital	C5	6.2	6.2
Share premium account		12.7	12.5
Capital redemption reserve		141.7	141.7
Other reserves		4.8	3.7
Retained earnings		306.3	295.9
Total equity		471.7	460.0

The Company has taken advantage of the exemption permitted by section 408 of the Companies Act 2006 not to publish its individual profit and loss account and related notes. The Company made a profit attributable to the equity shareholders of £10.4 million in the period (2019: loss of £12.6 million).

The financial statements on pages 144 to 153 were approved by the Board of Directors on 17 March 2021 and were signed on its behalf by:

C P Whiley, Executive Chairman

D R Moore, Interim Chief Financial Officer

Dignity plc Company statement of changes in equity

for the 52 week period ended 25 December 2020

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total £m
Shareholders' equity as at 28 December 2018	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
Profit for the period	-	-	-	-	10.4	10.4
Effects of employee share options	-	-	-	1.3	-	1.3
Proceeds from share issue	-	0.2	-	-	-	0.2
Gift to Employee Benefit Trust	-	-	-	(0.2)	-	(0.2)
Total transactions with owners, recognised directly in equity	-	0.2	-	1.1	-	1.3
Shareholders' equity as at 25 December 2020	6.2	12.7	141.7	4.8	306.3	471.7

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 25 December 2020

Financial statements

C1 Principal accounting policies

Basis of preparation

The financial statements of the Company for the period ended 25 December 2020 were authorised for issue by the Board of Directors and the balance sheet was signed on the Board's behalf by Mr C P Whiley and Mr D R Moore. 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 25 December 2020. For the comparative period, the Company's financial statements have been prepared for the 52 week period ended 27 December 2019.

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.

C1 Principal accounting policies (continued)

New standards, amendments and IFRIC interpretations

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 25 December 2020, 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 estimates, assumptions and judgements in certain circumstances that affect reported amounts. The key judgements affecting the financial statements are detailed below:

Investments in subsidiary undertakings impairment assessment

Performing the annual impairment assessment for investments in subsidiary undertakings requires the use of estimates including those in respect of future cash flows, growth rates and an appropriate discount rate as set out in note 9 to the Group's consolidated financial statements. The assessment is also sensitive to movements in the fair value of the financial assets held within the Trusts and the fair value of the Group's external debt, as set out in note 23 to the Group's consolidated financial statements. The current impairment test indicates minimal headroom such that a change in value-in-use arising as a result of change in assumptions, or adverse market change in the fair value of the Trust investments or Group debt, would give rise to an impairment charge of a similar amount.

Fixed asset investments

Fixed asset investments are stated at historical cost, less any provision for impairment.

Impairment of fixed assets

The carrying values of fixed assets are reviewed for impairment in periods where events or changes in circumstances indicate that the carrying value may not be recoverable or at the end of the first full financial year following the recognition. Any impairment in the value of fixed assets below depreciated historical cost is charged to the income statement within operating profit. A reversal of an impairment loss is recognised in the income statement to the extent that the original loss was recognised.

Employee share schemes

The Company operates two employee share schemes: The Save As You Earn Scheme ('SAYE') and Long-Term Incentive Plan Scheme ('LTIP').

The Company applies IFRS 2 in respect of share option schemes resulting in the charge for such schemes being recognised in a subsidiary of the Company. The Company's financial statements reflect the cost of the scheme as an increase in the cost of investment in the subsidiary with the corresponding credit included within other reserves.

Employee share trust

The assets of the employee share trust are held by a separate limited company, of which the Directors consider that Dignity plc has de facto control. In accordance with IFRS, Accounting for ESOP Trusts and the substance of the transaction, the trust's assets and liabilities are recognised in the Company's balance sheet.

Dividends

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

Financial instruments

Borrowings

All borrowings 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.

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.

Notes to the Dignity plc financial statements continued

for the 52 week period ended 25 December 2020

Financial statements

C1 Principal accounting policies (continued)

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.

C2 Investments in subsidiary undertakings

Cost and net book amount

	£m
At beginning of period	149.9
Additions in respect of share-based payments	1.4
At end of period	151.3

Additions in the period reflect the effect of capital contributions to subsidiaries as a result of share-based payment schemes operated in those companies 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 consider that the carrying value of the investments is supported by their underlying net assets and value-in-use. This assessment is sensitive to assumptions in relation to value-in-use, as set out in note 9 to the Group's consolidated financial statements, to movements in the fair value of the financial assets held within the Trusts and the fair value of the Group's external debt, as set out in note 23 to the Group's consolidated financial statements. The current impairment test indicates minimal headroom such that a change in value-in-use arising as a result of change in assumptions, or adverse market change in the fair value of the Trust investments or Group debt, would give rise to an impairment charge of a similar amount.

C3 Trade and other receivables: amounts falling due within one year

	25 December 2020 £m	27 December 2019 £m
Amounts owed by group undertakings	285.5	295.3
Corporation tax	0.2	-
	285.7	295.3

An ECL of £0.3 million is held against amounts owed by group undertakings. There has been no movement in the ECL during the period.

C4 Creditors: amounts falling due within one year

	25 December 2020 £m	27 December 2019 £m
Amounts owed to subsidiary undertakings	12.4	12.4
Accruals	1.8	1.9
Corporation tax	-	0.7
	14.2	15.0

C5 Called up share capital and reserves

	25 December 2020 £m	27 December 2019 £m
Allotted and fully paid Equity shares		
50,020,483 (2019: 50,012,394) Ordinary Shares of 12 48/143p (2019: 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 25 December 2020 £m	52 week period ended 27 December 2019 £m
Final dividend paid: Nil per Ordinary Share (2019: 15.74p)	-	7.9
Interim dividend paid: Nil per Ordinary Share (2019: nil)	-	-
Dividend on Ordinary Shares	-	7.9

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 2020 (2019: nil).

The final dividend in 2019 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 £nil million, nil pence per share (2019: £7.9 million, 15.74 pence per share). No final dividend was declared in respect of 2019 totalling £nil million (2019: final dividend in respect of 2018 was 15.74 pence per share totalling £7.9 million). The Group is not proposing any dividend for the period ended 25 December 2020.

C7 Staff costs

Directors' remuneration

Details of the Directors' emoluments are included in pages 70 to 80. They received no emoluments in respect of their services to the Company (2019: nil).

C8 Related party transactions

There are no related party transactions for either period requiring disclosure.

Notes to the Dignity plc financial statements continued

for the 52 week period ended 25 December 2020

Financial statements

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
Valedictum Limited	Non-trading company

C9 Subsidiary undertakings (continued)

Dormant companies

A & N Duckworth Limited	Cooksey & Son Limited	F L Mildred & Sons (Funeral Directors) Limited
A Ashton & Sons Limited	Cooksley & Son Limited	F. Kneeshaw & Sons (Funeral Directors) Limited
A Bennett & Sons Limited	Coombes & Sons (Bovey Tracey) Limited	F.E.J. Green & Sons Limited
A F Townsend (Funeral Directors) Limited	Counties Crematorium Limited	F.G.Pymm (Funeral Directors) Limited
A Hazel & Sons Limited	Coyne Brothers Limited	F.Harrison & Son (Funeral Directors) Limited
A Shepherd & Sons Limited	Cumbernauld Funeral Services Ltd*	F. J. Gibb Limited
A T Genders Limited	Cyril H. Lovegrove Limited	F.M. & J. Wait & Co Limited
A V Band Limited	D J Thomas (Funeral Directors) Limited	F. Jennings & Sons Limited
A. & G. Huteson Ltd	D. J. Evans Forse & Co Limited	F.Smith & Son (Staines) Limited
A Haxby & Sons (Filey) Limited	D. Walsh & Son Limited	Family Funeral Services Limited
Abbey Funeral Service Limited	Daly & Company Limited	Farebrother Funeral Services Limited
Adela Funeral Homes Limited	David B Hendry Limited	Fisher & Townsend (Funeral Directors) Limited
Aberdeen Funeral Directors Limited*	David Silvey & Son Limited	Flowers By Design Limited
Anglian Funeral Service Limited	Davis McMullan Funeral Directors Limited	Ford Ennals Funeral Services Limited
Armitage (Funeral Directors) Limited	Derriman & Haynes Funeral Services Limited	Forethought Limited
Arthur Denyer Limited	Dewi Reynolds & Sons Limited	Francis Chappel & Sons Limited
Arthur G Whitehead (Westminster) Limited	Dignity (2009) Limited	Frank Stephenson & Son (Funeral Directors) Limited
Ashton & Ebbutt Limited	Dignity Caring Funeral Services Limited	Frederick W Chitty & Co Limited
Ashton Ebbutt Holdings Limited	Dignity Funerals No.2 Limited	Fredk. W.Paine Limited
Ashton Memorials Limited	Dignity Funerals No.4 Limited	Funeral Arrangements Online Limited
Ashtons (Brighton) Limited	Dignity In Destiny Limited	Funeral Debt Collection Limited
Associated Funeral Services Limited	Dignity Legal Services Limited	Funeral Services London Limited
Astley Funerals Limited	Dignity Manufacturing Limited	
Arthur J. Nash Limited	Dillistone Funeral Service Limited	G & L Evans Ltd
	Docklands Funeral Services Limited	G. M. Charlesworth & Son Limited
B & B Funeral Directors Limited	Dottridge Brothers Limited	G.F. Cook (Funerals) Limited
B. Bernard & Sons Limited	Downer & White Limited	G.F.Hunt (Bath) Limited
Baguley Bros. Limited	Downs Crematorium Limited	G.Gamble & Son Limited
Banks Funeral Service Limited	Dowsett & Jenkins Limited	G.Smith (Wooburn) Limited
Bayley Brothers Hereford Limited	Dundee Crematorium Limited*	George Hall & Son Funeral Directors Limited
Birmingham Crematorium (1973) Limited	Dunning (Undertaking) Limited	George S. Munn & Company, Limited*
Boyce Anderson Motors Limited**	Dyson Richards Limited	George Stanton (1935) Limited
Bracher Brothers Limited		Binns & Gutteridge Limited
Brighton Stonemasons Limited	E Hurton & Son Limited	Gornalls Funeral Services Limited
Broadwater Limousines Limited	E M Lander Limited	Graeme Buckle Funeral Services Limited
	E Seymour & Son Limited	Graham Sullivan Funeral Directors Limited
C Powell Funeral Service Limited	E. Brigham Funeral Directors Limited	Grave Design Limited
Caledonian Funeral Services Limited*	E.F.Edwards Limited	Great Southern Group Limited
Carrwood Funeral Supplies Limited	E.Finch & Sons Limited	Grimmett & Timms Limited
Castle Court Funeral & Limousine Services Limited	Earl Of Plymouth Limited	
Chichester Crematorium Limited	Eden Park Estate Limited	
Chosen Heritage (Scotland) Limited*	Edmund & Lewis Limited	
Chosen Heritage Limited	Edward Lewis Wicks & Sons Limited	
Chosen Heritage Services Limited	Ely Funeral Service Limited	
Clegg Humphreys Limited	Exeter & Devon Crematorium Limited	

Notes to the Dignity plc financial statements continued

for the 52 week period ended 25 December 2020

Financial statements

C9 Subsidiary undertakings (continued)

Dormant companies (continued)

H & G Wilde Funeral Directors Limited	John Bardgett & Sons Limited	N A Medd Limited
H A Harrold & Son Limited	John G Ashton & Co (Funeral Directors) Limited	National Funeral Trust Limited
H Eaton & Sons Holdings Limited	Johnson Funeral Supplies Limited	Newport & Telford Funeral Service Ltd
H.Eaton & Sons Limited	Johnson-Sears Limited	Newport Hire (I.W.) Limited
H J Dawson Limited	Jonathan Harvey Limited	Newsome's Funeral Service (Royston) Limited
H J Phillips & Son (Funeral Directors) Limited	Jonathan Walker Funeral Directors Limited	Nicholls Memorials Limited
H Johnson & Sons Limited	Joseph Swift (Funeral Director) Limited	Norfolk Crematorium Limited
H Leslie Humphreys Limited	Joseph Tomlinson & Sons Limited	Northampton Crematorium Limited
H Tonkin Limited	Joslin Memorials (1974) Limited	Norwich Crematorium Holdings Limited
H. J. Whalley & Sons Limited	K.Y. Green Limited	Norwich Crematorium Limited
H. Towell Ltd	Kellaways (Funeral Service) Limited	Nubian Funeral Directors Limited
H.Copeland & Son Limited	Ken Gregory & Sons Limited	Oxford Crematorium Limited
H.Dorricott & J.Bent Limited*	Kent Funeral Supplies Limited	Patrick Stonemasons Limited
H.G.Brown & Sanders Limited	Kenyon Air Transportation Limited	Personal Choice Funeral Plan Limited
H.Hill Funeral Service Limited	Kenyon Emergency Services Limited	Peter Johnson Funerals Ltd.
H.R.H. Holdings Limited	Kenyon Repatriation Limited	PFG Hodgson Kenyon (Services) Limited
Hambrook & Johns Limited	Kenyon Securities Limited	PFG Hodgson Kenyon (UK) Limited
Hanningtons (Funeral Directors) Limited	Kenyons Funeral Directors Limited	PFG Hodgson Kenyon Limited
Hardacres Funeral Directors Limited	Kirkwoods (Funeral Directors) Limited**	Philip Ford & Son (Funeral Directors) Limited
Harry Williams & Sons (Cambridge) Limited	L Fulcher Limited	Phillips Funeral Plans Limited
Heighton & Son Limited	L J Clegg Limited	Phillips Funeral Services Limited
Hemley Funeral Service Limited	Lambeth & Brixton Community Funeral Services Limited	Phillips Holdings (Hertfordshire) Limited
Henry Naylor (Funeral Directors) Limited	Lambeth Funeral Services Limited	Phillips Supplies Limited
Henry Paul Limited	Lea Valley Funeral Services Limited	Piccioni (Masonry) Limited
Henry Smith (Wandsworth) Limited	Leeds Limousines Limited	Plantsbrook Group Limited
Highfield Funeral Service Limited	Leehope Services Limited	Plantsbrook Limited
Hindu Funeral Service Limited	London Necropolis Company Limited	Preston Ireland Bowker Limited
Hodgson Holdings (Scotland) Limited	Longhurst (Undertakers) Limited	Priestley & Cockett Limited
Hodgson Holdings Limited	Lowden Wells Limited	R Butler & Sons Limited
Holdfast (Funerals) Limited**	MacIntosh & Steven Limited*	R C Holden & Son Limited
Howard Jenkins (Edge Hill) Limited	Mahony & Ward Limited	R Garner Son & Wood Limited
Hunters Funeral Directors Limited	Malcolm J Presland Limited	R.Davies & Son Limited
Ian Clarke Funeral Service Limited	Mannerings Limited	R.S. Johnson & Sons Limited
Ingall Services Limited	Mason Funeral Service Limited	R.S.Scott (Funerals) Limited
Inverclyde Funeral Directors Limited*	Mathias's of Putney Limited	Ravenhill Funeral Services Limited**
Invicta Memorials Limited	Maxwell Bros. Limited	Remembrance Limited
J H Kenyon Limited	Meadow Pool Limited	Robemanor Limited
J H Raven Limited	Mews & Yeatmans Limited	Robert Nicholls Funeral Directors Limited
J Hylton & Sons Limited	Mid Sussex Funeral Services Limited	Roberts & Brain Limited
J Kynaston Limited	Middleton & Wood (1919) Limited	Romney Marsh Funeral Services Limited
J Steadman & Sons Limited	Monumental Masons Limited	Rosspark Limited
J.W.Tate & Son (Holdings) Limited	Moodys Funeral Directors Limited	
J.W.Tate & Son Limited	Moray Crematorium Holdings Limited*	
Jack Lee & Sons Limited	Moray Crematorium Limited*	
James Allen & Son (Disley) Limited	Morecambe & Heysham Funeral Service Limited	
James Crook Limited		
John & William Shering Limited		

C9 Subsidiary undertakings (continued)

Dormant companies (continued)

S A Bates & Sons Limited	Thompsons (Busbys) Limited
S Wellens & Sons Limited	Thompsons (Funeral Furnishers) Limited
Softway Limited	Thompsons (Maguires) Limited
Salenew Limited	Thompsons (Rimmers) Limited
Sanders Goodale & Co.Limited	Tovey & Morris Limited
SCI Pre Arrangement Limited	U.F.D. Limited
Seaford Funeral Service Limited	UK Funerals Limited
Seddons of Southport Limited	UKF Limited
Selim Smith & Co. Limited	Valedictum Holdings Limited
Serenity Limited	Valedictum Group Limited
Sevenoaks District Crematorium Limited	Valedictus Limited**
Shankill Funeral Services Limited**	Valedictus Holdings Limited**
Silver Lady Funeral Service Limited	Valedictus Group Limited**
Simplicity Funerals Limited	W G Dixon Limited
Simpsons (Undertakers Requisites) Limited	W G Rathbone Funeral Directors Limited
Spotland Bridge Funeral Services Limited	W H Scott & Son Limited
Stanway & Garnett Funeral Service Limited	W S Bond Limited
Swift & Mildred Limited	W S Harrison & Son Limited
T & R O'Brien Limited*	W Thorp & Sons (Leigh-on-Sea) Limited
T H Fenton Limited	W.E.Turner (Funeral Furnishers) Limited
T S Annison & Sons Limited	W.Garstin & Sons Limited
T. S. Horlock & Son Limited	Walkers Funeral Directors Limited
T.H.Sanders & Higgs Limited	Walmsley Hammond (Rayleigh) Limited
T.H.Sanders & Sons Limited	Warburton Funerals Limited
TJ Brown & Sons Limited	Wetton Funeral Services Limited
T.J.Davies & Sons (Funeral Directors) Limited	White Lady Funerals Limited
Taylor's Funerals (Wirral) Limited	Whyte Funeral Services Limited*
The Crematorium Company Limited	William Pearce & Son Limited
The Dignity Plan Limited	Wilmshurst & Dickson Limited
The East Riding Crematorium Company Limited	WM. Jordan & Son (Funeral Directors) Limited*
The Haltemprice Crematorium Limited	Woodfield Park Funeral Home Limited
The Lawrence Funeral Service Limited	Wrekin Funeral Service Limited
The Leverton Funeral Service (Dartford) Limited	Yew Holdings 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	

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)

Financial statements

Summarised consolidated income statement

	2020 £m	2019 restated £m	2018 £m	2017 ^(d) £m	2016 ^(d) £m
Underlying revenue					
Funeral services	202.6	203.3	214.9	221.8	217.8
Crematoria	82.7	76.8	78.0	74.0	67.5
Pre-arranged funeral plans	28.8	21.2	22.7	28.2	28.3
	314.1	301.3	315.6	324.0	313.6
Underlying operating profit					
Funeral services	50.0	56.3	62.2	79.5	79.0
Crematoria	42.8	38.4	40.3	40.0	37.6
Pre-arranged funeral plans	-	-	2.8	8.0	8.5
Central overheads	(37.1)	(31.4)	(25.1)	(22.9)	(23.4)
	55.7	63.3	80.2	104.6	101.7
Underlying finance costs	(25.1)	(25.8)	(26.0)	(26.9)	(26.9)
Underlying finance income	0.1	0.2	0.2	0.1	0.4
Underlying profit before tax	30.7	37.7	54.4	77.8	75.2
Underlying taxation	(7.4)	(7.4)	(11.5)	(13.8)	(15.8)
Underlying profit after tax	23.3	30.3	42.9	64.0	59.4
Underlying earnings per share (pence)	46.6p	60.6p	85.8p	128.3p	119.8p
Revenue	357.5	338.9	353.7	324.0	313.6
Operating profit	15.9	44.8	75.9	98.0	97.7
Profit/(loss) after tax	(25.5)	30.6	(17.0)	57.8	57.2
Basic earnings/(loss) per share (pence)	(51.0)p	61.2p	(34.0)p	115.8p	115.3p

Key performance indicators

	2020	2019	2018	2017	2016
Total estimated number of deaths in Britain (number)	663,000	584,000	599,000	590,000	590,000
Number of funerals performed (number)	80,300	69,400	72,300	68,800	70,700
Funeral market share ^(b) (per cent)	12.0%	11.7%	11.9%	11.5%	11.8%
Number of cremations performed (number)	74,500	64,800	65,200	63,400	59,500
Cremation market share (per cent)	11.2%	11.1%	10.9%	10.7%	10.1%
Active pre-arranged funerals (number)	558,000	523,000	486,000	450,000	404,000
Underlying cash generated from operations (£million)	76.4	71.8	101.9	115.4	121.1

Net debt

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Net amounts owing on Secured Notes per financial statements	(541.7)	(551.3)	(560.6)	(565.1)	(573.9)
Add: unamortised issue costs	(0.5)	(0.6)	(0.6)	(0.6)	(0.7)
Gross amounts owing	(542.2)	(551.9)	(561.2)	(565.7)	(574.6)
Net amounts owing on Crematoria Acquisition Facility per financial statements	-	-	-	-	(15.7)
Add: unamortised issue costs on Crematoria Acquisition Facility	-	-	-	-	(0.1)
Gross amounts owing	(542.2)	(551.9)	(561.2)	(565.7)	(590.4)
Accrued interest on Secured Notes	(12.0)	(12.2)	(12.3)	(0.3)	(0.3)
Accrued interest on Crematoria Acquisition Facility and Revolving Credit Facility	-	-	(0.2)	(0.2)	(0.1)
Cash and cash equivalents – Trading Group	73.6	57.9	66.9	49.3	67.1
Net debt	(480.6)	(506.2)	(506.8)	(516.9)	(523.7)

Summarised consolidated balance sheet

	2020 £m	2019 restated £m	2018 £m	2017 £m	2016 ^(d) £m
Non-current assets					
Goodwill and intangible assets	324.4	373.1	384.9	385.5	358.1
Property, plant and equipment	240.9	251.3	254.1	248.0	235.4
Right-of-use asset	95.2	-	-	-	-
Investments in associated undertakings	-	-	6.0	-	-
Financial and other assets	10.7	18.2	15.7	14.3	11.3
Financial assets – held by the Trusts	967.1	947.5	862.4	865.6	-
Deferred commissions	101.3	96.8	94.5	92.4	-
Deferred tax asset	20.3	14.0	17.9	6.8	-
	1,759.9	1,700.9	1,635.5	1,612.6	604.8
Current assets					
Cash and cash equivalents – Trading Group	73.6	57.9	66.9	49.3	67.1
Cash and cash equivalents – held by the Trusts	21.6	15.5	13.8	21.8	-
Cash and cash equivalents	95.2	73.4	80.7	71.1	67.1
Other current assets	46.6	47.6	46.9	49.6	43.1
	141.8	121.0	127.6	120.7	110.2
Total assets	1,901.7	1,821.9	1,763.1	1,733.3	715.0
Current liabilities					
Financial liabilities	15.1	9.6	9.3	4.5	8.8
Contract liabilities	95.5	95.5	91.5	88.3	-
Lease liabilities	7.3	-	-	-	-
Other current liabilities	79.8	69.6	73.0	62.8	66.3
	197.7	174.7	173.8	155.6	75.1
Non-current liabilities					
Financial liabilities	526.6	542.3	551.9	561.2	581.5
Contract liabilities	1,222.0	1,209.1	1,164.6	1,117.3	-
Lease liabilities	81.2	-	-	-	-
Other non-current liabilities	48.2	37.3	36.7	34.2	61.9
	1,878.0	1,788.7	1,753.2	1,712.7	643.4
Total liabilities	2,075.7	1,963.4	1,927.0	1,868.3	718.5
Total deficit	(174.0)	(141.5)	(163.9)	(135.0)	(3.5)
Total deficit and liabilities	1,901.7	1,821.9	1,763.1	1,733.3	715.0

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 consolidation of the Trusts.

(d) 2016 has not been restated for the impact of IFRS 15 or the consolidation of the Trusts.

Alternative performance measures

Other information

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, the corporate interest restriction disallowance arising as a result of consolidating the Trusts, the changes which relate to the application of IFRS 15 and adoption of IFRS 16. In addition, the deferred tax rate change in 2020 arising on the deferred tax balances on consolidating the Trusts and application of IFRS 15 have also been included. All of the above 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.

IFRS 16 has been included within the alternative performance measures for 2020 only. This is due to the modified retrospective adoption of the standard, meaning the 2019 comparatives have not been restated and therefore are not comparable.

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 application of IFRS 15 and the adoption of IFRS 16 and 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 (net of any insurance proceeds received);
- Transformation Plan costs (see below);
- Directors severance pay;
- operating and competition review costs;
- trade name impairments;
- goodwill impairments; and
- the taxation impact of the above items together with the impact of taxation rate changes.

Non-underlying items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day-to-day management of the Group and allow for greater comparability across periods.

Non-GAAP measures (continued)*Transformation Plan costs*

Cost incurred in relation to the Group's now abrogated Transformation Plan has resulted in significant, directly attributable non-recurring costs and these amounts are excluded from the Group's underlying profit measures and treated as a non-underlying item.

These costs 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.

	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Central overheads £m	Group £m
52 week period ended 25 December 2020					
Non-trading					
Amortisation of acquisition related intangibles	4.1	0.4	0.1	-	4.6
External transaction costs in respect of completed and aborted transactions	0.2	-	-	0.6	0.8
Profit on sale of fixed assets	-	(0.2)	-	-	(0.2)
Non-recurring					
Transformation Plan costs	-	-	-	4.7	4.7
Directors severance pay	-	-	-	1.6	1.6
Operating and competition review costs	-	-	-	2.9	2.9
Trade name impairment	15.3	-	-	-	15.3
Goodwill impairment	28.7	-	-	-	28.7
	48.3	0.2	0.1	9.8	58.4
Taxation					(6.1)
Taxation – rate change					3.6
					55.9
52 week period ended 27 December 2019					
Non-trading					
Amortisation of acquisition related intangibles	4.2	0.5	0.1	-	4.8
External transaction costs in respect of completed and aborted transactions	-	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

Alternative performance measures continued

Other information

Non-GAAP measures (continued)

(c) Other adjustments reconciliation

Other adjustments enable a user of the financial statements to assess the financial performance of the Trading Group as it was historically reported prior to the consolidation of the Trusts and the impact of recent accounting standards, IFRS 15, Revenue from Contracts with Customers and IFRS 16, Leases. This mirrors the financial reporting provided to management on a monthly basis to monitor the performance of the underlying Trading Group.

Adjustments to the Group's consolidated financial statements are made to reflect the following:

- Deferred revenue recognised on the delivery of a funeral is replaced with the payment received by the Trading Group from the Trust at the same time. Pre-need segment income, in the form of upfront payments received by the Trading Group from the Trusts in support of marketing are recognised when received at inception of a funeral plan rather than being deferred as part of the aforementioned deferred revenue.
- Payments made by the Trusts on cancellation are no longer recognised.
- Unlike disbursements on at-need funerals, disbursements on pre-need funerals under IFRS 15 are recognised on a principal basis within both revenue and cost of sales, but for consistency in the alternative performance measure both are reduced as these items are not included in either measure. Similarly, pre-need funerals delivered by subcontracted funeral directors, which form part of deferred income, are excluded within the alternative performance measure with a corresponding adjustment to cost of sales.
- Commissions payable on securing new Trust plans are recognised at the inception of the plan rather than being deferred and recognised at the time the funeral service is delivered.
- Rentals payable under operating leases now capitalised under IFRS 16 are recognised in operating costs, replacing the right-of-use asset depreciation charge on the IFRS 16 right-of-use asset. The finance cost associated with the same lease arrangements is removed from finance costs.
- The amounts recorded in respect of the remeasurement of assets held in the Trust is removed as is the significant financing component that only arises when deferred revenue is recognised on consolidation of the Trusts.
- The taxation impact of the above adjustments, including the impact of changes in the rate of deferred tax associated with the items noted above are removed. In addition, as described in note 1 the consolidation of the Trusts has given rise to a significant reduction in the level of interest on which the Group is able to obtain a corporation tax deduction. The impact of this is included in arriving at other adjustments.

Non-GAAP measures (continued)**(c) Other adjustments reconciliation (continued)****52 week period ended 25 December 2020**

	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Central overheads £m	Group £m
Revenue					
<i>Trust consolidation:</i>					
Release of deferred revenue on death or cancellation	122.2	-	-	-	122.2
Removal of payments received from the Trusts on death	(59.8)	-	-	-	(59.8)
Payments on cancellation	(8.8)	-	-	-	(8.8)
Derecognise pre-need segment income	-	-	(28.8)	-	(28.8)
<i>IFRS 15:</i>					
Recognition of disbursement element of pre-need plans	18.6	-	-	-	18.6
Revenue – Total other adjustments	72.2	-	(28.8)	-	43.4
Cost of sales					
<i>IFRS 15:</i>					
Amounts paid on subcontracted funerals	(8.8)	-	-	-	(8.8)
Recognition of disbursement element of pre-need plans	(18.6)	-	-	-	(18.6)
Administrative expenses					
<i>Trust consolidation:</i>					
Recognition of the Trust costs	(6.9)	-	-	-	(6.9)
Transfer of pre-need costs into funeral segment	(28.9)	-	28.9	-	-
<i>IFRS 15:</i>					
Net release of deferred costs in respect of commissions	4.9	-	-	-	4.9
<i>IFRS 16:</i>					
Elimination of operating lease rentals	9.2	2.6	-	0.3	12.1
Elimination of operating lease prepayments and accruals	0.4	1.2	-	0.1	1.7
Depreciation of right-of-use asset	(7.7)	(1.2)	-	(0.3)	(9.2)
Operating profit – Total other adjustments	15.8	2.6	0.1	0.1	18.6
Finance income/(costs)					
<i>Trust consolidation:</i>					
Deferred revenue significant financing					(53.1)
Remeasurement of financial assets held by the Trusts and related income					47.3
<i>IFRS 16:</i>					
Recognition of finance costs					(4.7)
Finance costs – Total other adjustments					(10.5)
Taxation:					
<i>Trust consolidation:</i>					
Taxation impact on above adjustments					(0.5)
Corporate interest restriction disallowance					(4.3)
Deferred tax rate change					6.8
<i>IFRS 15:</i>					
Taxation impact on above adjustments					(0.9)
Deferred tax rate change					(2.1)
<i>IFRS 16:</i>					
Taxation impact on above adjustments					-
Taxation – Total other adjustments					(1.0)
Profit after taxation – Total other adjustments					7.1

Alternative performance measures continued

Other information

Non-GAAP measures (continued)

(c) Other adjustments reconciliation (continued)

52 week period ended 27 December 2019	Funeral services £m	Pre-arranged funeral plans £m	Group £m
Revenue			
<i>Trust consolidation:</i>			
Release of deferred revenue on death or cancellation	96.8	–	96.8
Removal of payments received from the Trusts on death	(49.4)	–	(49.4)
Payments on cancellation	(4.5)	–	(4.5)
Derecognise pre-need segment income	–	(21.2)	(21.2)
<i>IFRS 15:</i>			
Recognition of disbursement element of pre-need plans	15.9	–	15.9
Revenue – Total other adjustments	58.8	(21.2)	37.6
Cost of sales			
<i>IFRS 15:</i>			
Amounts paid on subcontracted funerals	(9.0)	–	(9.0)
Recognition of disbursement element of pre-need plans	(15.9)	–	(15.9)
Administrative expenses			
<i>Trust consolidation:</i>			
Recognition of the Trust costs	(6.6)	–	(6.6)
Transfer of pre-need costs into funeral segment	(21.4)	21.4	–
<i>IFRS 15:</i>			
Net release of deferred costs in respect of commissions	2.5	–	2.5
Operating profit – Total other adjustments	8.4	0.2	8.6
Finance income/(costs)			
<i>Trust consolidation:</i>			
Deferred revenue significant financing			(54.1)
Remeasurement of financial assets held by the Trusts and related income			85.0
Finance income – Total other adjustments			30.9
Taxation:			
<i>Trust consolidation:</i>			
Taxation impact on above adjustments			(6.3)
Corporate interest restriction disallowance – prior year adjustment			(4.3)
<i>IFRS 15:</i>			
Taxation impact on above adjustments			(0.4)
Taxation – Total other adjustments			(11.0)
Profit after taxation – Total other adjustments			28.5

Non-GAAP measures (continued)**(d) Non-underlying cash flow items**

	25 December 2020 £m	27 December 2019 £m
Cash flows from operating activities	62.7	64.6
Cash flows of other adjustments	16.3	(7.6)
Cash flows from operating activities – Trading Group	79.0	57.0
Other adjustments – IFRS 16	(12.5)	–
External transaction costs	0.8	0.8
Directors severance pay	0.7	–
Transformation Plan costs	5.4	11.2
Operating and competition review costs	3.0	2.8
Underlying cash generated from operations	76.4	71.8

(e) Funeral market share

Comparable funeral market share excludes any volumes from locations not contributing for the whole of 2019 and 2020 to date and therefore excludes 12 locations closed and one location opened in 2019 and a further 26 locations closed and one location opened in 2020.

(f) 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

Other 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, EQ. 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

The Company makes documents and information available to shareholders by electronic means and via our website. The Company's website is www.dignityplc.co.uk.

Making documents and information available electronically:

- Enables the Company to reduce printing and postage costs;
- Allows faster access to information; and
- Reduces the amount of resource consumed and lessens the impact on the environment of printing and mailing.

The Company provides hard copy documentation to those shareholders who have requested this and is, of course, happy to provide hard copies to any shareholder upon request.

Electronic communications

The Company encourages shareholders to elect to receive notification of the availability of Company documentation by means of an email.

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 need your Shareholder Reference Number, which is shown on your share certificate or dividend tax voucher.

Choosing e-mail notification will result in you joining the EQ 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.dignityplc.co.uk.

Unsolicited approaches to shareholders

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money. The Financial Conduct Authority ('FCA') has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200 million lost in the UK each year.

PROTECT YOURSELF

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

1. Get the name of the person and organisation contacting you.
2. Check the FCA Register at <http://www.fca.gov.uk/register> to ensure they are authorised.
3. Use the details on the FCA Register to contact the firm.
4. Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
5. Search the FCA's list of unauthorised firms and individuals to avoid doing business with.
6. If it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme ('FSCS') if things go wrong.

Annual General Meeting

The Company's Annual General Meeting will be held on 23 June 2021 at 11:00am at the offices of 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 this time, 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

Registered Office:

Dignity plc
4 King Edwards Court
King Edwards Square
Sutton Coldfield
West Midlands B73 6AP

Tel: +44 (0) 121 354 1557
E-mail: enquiries@dignityuk.co.uk

 www.dignityplc.co.uk

Company Secretary:

Tim George FCIS

Registered Number:

04569346

Registrars:

EQ
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Tel: +44 (0) 371 384 2674

 www.shareview.co.uk

Auditors:

Ernst & Young LLP
No.1 Colmore Square
Birmingham B4 6HQ

Joint Brokers:

finnCap
One Bartholomew Close
London EC1A 7BL

Investec
A division of Investec Bank plc
30 Gresham Street
London EC2V 7QP

Principal Bankers:

Royal Bank of Scotland plc
West Midlands Corporate Office
2 St Philips Place
Birmingham B3 2RB

Legal Advisers:

DLA Piper UK LLP
Victoria Square House
Victoria Square
Birmingham B2 4DL

Financial calendar

Other information

23 June 2021	• Annual General Meeting
25 June 2021	• 2021 financial half year end
28 July 2021	• Announcement of 2021 interim results
31 December 2021	• 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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Dignity plc
4 King Edwards Court
King Edwards Square
Sutton Coldfield
West Midlands B73 6AP

www.dignityplc.co.uk