For immediate release **14 March 2018**

Dignity plc

Preliminary results for the 52 week period ended 29 December 2017

Dignity plc (Dignity or the Group), the UK's only listed provider of funeral related services, announces its preliminary results for the 52 week period ended 29 December 2017.

Financial highlights

	52 week Period ended 29 December 2017	53 week Period ended 30 December 2016	Increase / (decrease) per cent
Revenue (£million)	**324.0**	313.6	3
Underlying operating profit[(a)] (£million)	**104.6**	101.7	3
Underlying profit before tax[(a)] (£million)	**77.8**	75.2	3
Underlying earnings per share[(b)] (pence)	**128.3**	119.8	7
Cash generated from operations[(c)] (£million)	**115.4**	121.1	(5)
Operating profit (£million)	**98.0**	97.7	-
Profit before tax (£million)	**71.2**	71.2	-
Basic earnings per share (pence)	**115.8**	115.3	-
Interim dividend paid in the period[(d)] (pence)	**8.64**	7.85	10
Final dividend proposed in respect of the period[(e)] (pence)	**15.74**	15.74	-
Number of deaths	**590,000**	590,000	-

Non-GAAP measures

The Board believes that whilst statutory reporting measures provide a useful indication of the financial performance of the Group, additional insight is gained by excluding certain non-recurring or non-trading transactions. These measures are defined as follows:

(a) Underlying profit is calculated as profit excluding profit (or loss) on sale of fixed assets, acquisition related amortisation and external transaction costs.

(b) Underlying earnings per share is calculated as profit on ordinary activities after taxation, before profit (or loss) on sale of fixed assets, acquisition related amortisation, external transaction costs and exceptional taxation items (all net of tax), divided by the weighted average number of Ordinary Shares in issue in the period.

(c) Cash generated from operations excludes external transaction costs.

The Group's underlying measures of profitability exclude profit (or loss) on sale of fixed assets, external transaction costs, amortisation of acquisition related intangibles and exceptional items in respect of taxation. These items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day to day management of the business and allow for greater comparability across periods.

In 2017, following the commencement of amortisation of acquired intangible trade names and other crematoria related acquired intangibles, acquisition related amortisation of £1.8 million (2016: £nil) has also been excluded in determining underlying profitability measures. Acquisition related amortisation is defined as being the amortisation arising in respect of trade names, use of third party brand names and other crematoria related acquired intangibles.

Other notes

(d) Interim dividend represents the interim dividend that was declared and paid in the period out of earnings generated in the same period.

(e) The 2017 final dividend is the proposed dividend expected to be approved at the annual general meeting on 7 June 2018. The 2016 final dividend is the dividend approved for payment by shareholders at the annual general meeting on 8 June 2017.

Key points

- Financial performance in line with market expectations;
- Deaths flat at 590,000 (2016: 590,000);
- Focus remains on customer service, which continues to be high, with 98 per cent of clients saying they would recommend us;
- Portfolio expanded through acquisition of 24 funeral locations and one small crematorium in the period;
- Total acquisition activity investment of £28.3 million (net of cash acquired); and
- Another good year of pre-arranged funeral plan sales, with active pre-arranged funeral plans increasing to 450,000 (2016: 404,000), helped by trust and insurance based sales.

Update on 2018 initiatives

Following our announcement on 19 January that we were reducing some of our funeral prices and holding others in response to changing market conditions, we have engaged L.E.K. Consulting ('L.E.K.') to work with us in developing our plan for the funeral business. We will be focusing on three fronts:

(1) Understanding the relationship between price, service and volume to develop a broader proposition for customers across a number of market segments;

(2) Developing a more streamlined network operating model that can consistently deliver these propositions at a lower cost; and

(3) Developing a modern, efficient, central operating model to support the reconfigured network.

Initial analysis of the mix of funerals in the first seven weeks since the price of the simple funeral was reduced indicates that a step change in simple funerals conducted has occurred, as expected, albeit at this stage at a run rate of approximately 15 per cent of all funerals and therefore below the 20 per cent assumed in the January trading update. However, it is too early to conclude on whether the mix has now stabilised.

In addition, the Group is actively developing other trials of price and service combinations that will launch during the second quarter of 2018. These trials will be large enough to give the Group significant data to analyse and comment on in August when it releases its interim results and updates the market on the operational review conducted with L.E.K. Any early indications from these trials will be detailed in the Group's first quarter trading update due for release on 14 May 2018. Given their potential to be commercially sensitive, no further detail on these trials will be provided at this time.

L.E.K. have collated detailed information from the Group's various information sources, which is being analysed and reviewed. They are making good progress in helping us to evaluate our revenue, network and central models.

Work has continued to develop the Group's digital strategy. As at January 2018, our funeral website had the highest domain authority of any funeral related website in the UK and work continues in the development and optimisation of both our corporate and individual location's web presence. Alongside continued investment in 'pay per click' advertising, this combination of activities should help the increasing number of people using the internet as their reference source, find our new lower prices and the help and support they need from us. Allied to this, we have developed new systems to help our staff deal with online and telephone price enquiries more efficiently and professionally. This investment, combined with a broader range of services and price points will enable us to be more competitive.

Our Simplicity Cremation business is operating at a run rate of approximately 1,000 cremations per year. We have launched the Simplicity pre-arranged funeral plan and the imminent extension of this service to include the ability to attend one of our crematoria should help this business continue to grow.

Our crematoria business continues to perform well and provides a robust underpinning to the Group's financial performance. Of the three new crematoria currently under construction, the first should open in the second quarter of 2018. The cash flow generated by this division helps to give the Group the flexibility to take the aggressive action required on our funeral business whilst still having significant headroom and the resources necessary to service our debt and investment obligations.

Our pre-arranged business continues to add to the number of active plan holders, which currently stands at 450,000. The purpose of this business is to deliver future funerals and a steady stream of cash flows for the

Group. We expect 30 per cent of all our funerals in 2018 to come from these arrangements and received an average of £1,650 per funeral in 2017.

Outlook for 2018 and beyond

The business model for the Group's funeral business is changing as the Board focuses on protecting market share by introducing new service offerings and price points. As indicated in January, the Board believes that whilst the combination of action being taken will lead to substantially lower profits in 2018, it should create a new platform to allow many years of further stable growth.

The Office for National Statistics anticipates approximately 580,000 deaths in 2018, a small decrease of 10,000 on the actual deaths in 2017. However, the number of deaths in the first two months of 2018 are approximately seven per cent higher than the prior year.

Mike McCollum, Chief Executive of Dignity plc commented:

"We are the only business with a national network of funeral and crematoria locations, giving us a unique position in the evolving funeral market. Following the trading update in January 2018, we have now begun a new chapter for Dignity and for the funeral business in particular. It does not change our focus on excellent client service, which remains core to how we operate. We will also continue to demonstrate industry leadership by seeking the regulated market that will be good for clients and society and which plays to our strengths as a compliant and well managed business."

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Notes

UK presentation
An analysts' briefing will be held at 9:00 am this morning at the offices of Buchanan, 107 Cheapside, London, EC2V 6DN. A live audio webcast and conference call facility will be available.

Webcast	http://vm.buchanan.uk.com/2018/dignity140318/registration.htm
Conference call	UK Toll: 02034281542 UK Toll Free: 08082370040 Participant PIN code: 93272365# URL for international dial in numbers: http://events.arkadin.com/ev/docs/FEL_Events_International_Access_List.pdf

The webcast link and conference call will be listen only. A webcast replay facility will be available after the analyst meeting via the same link.

US conference call
There will be a separate conference call for US analysts and investors at 10:00 am EST (2:00 pm GMT).

Conference call	US Toll: 1 718 873 9077 US Toll Free: 1866 928 7517 Participant PIN code: 10616275#

Dignity's preliminary results and corporate presentation are available at https://www.dignityfunerals.co.uk/corporate/investors/. Replays of the UK presentation and the US conference call will be available on the investor relations pages of Dignity's website.

For further information, please contact dignity@buchanan.uk.com.

From the Chairman

Overview

2017 was another successful year. Our client service results demonstrated that we continued to deliver for our clients at one of the most difficult times in their lives and we met financial expectations.

However, our financial success was achieved against the backdrop of a rapidly changing and increasingly competitive market and accelerating erosion of our market share. It is clear that the pace of change and the fierceness of competition, particularly for our funeral business, will continue to increase. For this reason, the Board took decisive action in January 2018 to change our pricing strategy and market positioning in order to protect market share and recalibrate the Group for future growth.

This new pricing strategy is to protect market share by offering a range of new price points and services to our clients while preserving our unrivalled levels of service. We have therefore significantly reduced the price of some funerals and frozen the price of others as part of this evolving pricing strategy. As we have also stated clearly this action will have a substantial impact on profits in 2018 and the new relationship between volumes and margins will take time to become clear.

The combination of new price points and industry-leading service levels means that we can now position ourselves as the best value service provider in the market. Delivering excellent client service remains a key strategic priority. Our strong investment over the years means that we are well positioned to provide the best quality service at each price point and market segment we choose to compete in. At the same time, the Group has embarked on a rigorous review to ensure that our funeral operations are organised to run more efficiently and effectively in the light of this change of pricing strategy and market positioning.

In meeting the challenges ahead, we will continue to build on the strong strategic initiatives we developed in 2017, in particular, our digital marketing and brand strategies. There are significant opportunities to lead the industry in digital marketing and to leverage the Group's scale to develop national recognition online to complement our existing physical national network. Dignity will also continue to lead calls for greater regulation of the funeral sector while continuing to set the standard for what constitutes best practice in the industry.

Dividends

The Board is proposing to maintain the final dividend at 15.74 pence per Ordinary Share bringing the total dividend for the year to 24.38 pence, an increase of three per cent on the previous year. If shareholders approve this payment at the Annual General Meeting ('AGM') on 7 June 2018, then it will be paid on 29 June 2018 to members on the register at close of business on 18 May 2018.

Board change

In March 2017, Mary McNamara was appointed to the Board as an independent Non-Executive Director and has been Chair of the Remuneration Committee since the beginning of 2018. In June 2017 we announced that our long-serving Operations Director, Andrew Davies would retire in April 2018. He stepped down from the Board in January 2018. His successor was appointed from within the Company and will not be a Main Board appointment. On behalf of our shareholders and my Board colleagues I want to thank Andrew for his magnificent service to the Group and wish him a long and happy retirement.

Alan McWalter retired in January 2018 having completed nine years as an independent Non-Executive Director. In order to maintain a balanced Board he will not be replaced as Andrew Davies' replacement will not be a Main Board Director. Alan has provided wise counsel to the Board during his time as a director. Whilst Alan is stepping down as a director, given the challenges facing our funeral business and his industry knowledge, I am delighted that he has agreed to remain as a consultant to the Board until the end of July 2018.

Directors' remuneration

The Group's 2017 financial performance was sufficiently strong to justify an award to Executive Directors of 95 per cent of the maximum amount possible of their annual bonus opportunity. However, in light of the significant reduction in financial expectations for 2018 following the trading update in January 2018, the current Executive Directors have decided to voluntarily waive their entitlement in full.

In addition, no Board member will receive an increase in basic salary or fees in 2018.

Our people and culture

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. I want to thank all Dignity staff for the continued care and commitment they show their clients, demonstrating what I like to think of as '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. Thank you once again for making this company what it is and for your continued support in meeting the challenges that the Group faces.

Outlook for 2018 and beyond
The business model for the Group's funeral business is changing as the Board focuses on protecting market share by introducing new service offerings and price points. As indicated in January, the Board believes that whilst the combination of action being taken will lead to substantially lower profits in 2018, it should create a new platform to allow many years of further stable growth.

The Office for National Statistics anticipates approximately 580,000 deaths in 2018, a small decrease of 10,000 on the actual deaths in 2017. However, the number of deaths in the first two months of 2018 are approximately seven per cent higher than the prior year.

Committed to the highest standards of governance
Good governance is the basis on which we as a business can build an environment of trust, transparency and accountability. It also differentiates us from many competitors in what is still, regrettably, an unregulated industry. As such it provides assurance and confidence to our clients and fosters long-term investment, financial stability and business integrity. As a Board we are therefore committed to maintaining our high standards of corporate governance and ensuring there is a high level of cultural integrity embedded within the way we operate.

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

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

Peter Hindley
Chairman
14 March 2018

Chief Executive's Overview

Overview

2017 was a successful year with good performances from our crematoria and pre-need businesses. However, while our funeral business continued to set the standard at the premium end of the market, having commented on an acceleration in market share decline in our 2016 Annual Report, market share continued to decline at an accelerated rate in 2017 reflecting further increases in competition. As a consequence, the Board has taken decisive action to change the Group's pricing strategy and market positioning in our funeral business.

Underlying operating profit increased three per cent to £104.6 million (2016: £101.7 million), with each operating division trading in line with the Board's expectations. Alongside this, we continued to invest to support the existing network, acquire well reputed businesses and develop new crematoria.

Change of pricing strategy and market positioning

As the Chairman has set out in his statement, the Board took decisive action in January 2018 to protect market share in our funeral business and reposition the Group for future growth.

In addition to the pricing changes already implemented, we will test a range of new price points and services to our clients while preserving our unrivalled levels of service. Delivering excellent client service remains a key strategic priority and means that we can offer the best quality service at each price point and market segment in which we choose to operate. We are now positioning ourselves as the best value service provider in the market, leveraging the strong investment in the funeral business that we have made over the years. In addition to these changes, we have also embarked on a rigorous review to ensure that our funeral operations are organised to run more efficiently and effectively.

Having delivered the market's financial expectations for 2017 our results for 2018 are less certain as we gauge client response to various pricing scenarios while maintaining our high levels of professional service and care. This has meant rebasing expectations for 2018. The key challenge for 2018 is to find the optimum relationship between price, service and demand for our funeral business going forward.

The changing market

Over the last 18 months we have consistently drawn attention to the increasingly competitive environment in which we operate. The internet is beginning to change the nature of competition as the funeral industry enters the digital age. Clients are increasingly price-conscious and in an over-supplied industry, are shopping around more. This continues to have an increasing impact on the Group's market share, with a significant reduction in the average number of funerals per location noted since 2015. The average reduction in the number of funerals per location per one thousand deaths between 2004 and 2014 was 3.6 per cent. This accelerated to 6.8 per cent per year between 2015 and 2017. We have assumed that this will continue into 2018, and the revised pricing strategy and promotional activity is aimed at reducing the rate of decline as the year progresses.

New pricing strategy

This increasingly competitive market was the background against which the decision to change our pricing strategy and market positioning was made in early 2018. In 2017, approximately 60 per cent of our funerals were traditional full-service funerals, seven per cent were simple funerals and approximately 27 per cent had been pre-arranged. The remainder of the Group's volumes were contract and other low value funerals. Reflecting the trend towards lower cost funerals we immediately reduced the price of the Group's simple funeral by an average of approximately 25 per cent and froze the price of our traditional funerals in the majority of our locations.

As a result of reducing the simple funeral price and other initiatives to be progressively tested during the year, it is likely that this changing mix of funeral services will continue. The Group currently anticipates that as a result of changes to its pricing strategy, simple funerals may represent approximately 20 per cent of all funerals performed in 2018. However, this is clearly an estimate and the precise mix will emerge during the year.

It should also be noted that ours is an evolving pricing strategy and other price and service level options are being actively considered as we review client response. We have also extended the services available from our online business, Simplicity Cremations. In all cases, we aim to provide the best quality and value in each segment. The high quality of our offering, more competitively priced, is how we will differentiate ourselves, locally and nationally.

Delivering these changes effectively will require tools and training for our staff and this work is in progress. In order to promote the new prices and the business more generally, the Group expects to spend an additional £2 million in 2018 and in subsequent years compared to 2017 on digital and other promotional activities, building on the work started in 2017. This additional cost is expected to reoccur and is likely to increase in future years.

Opportunities

In a fragmented and increasingly online marketplace we have a significant opportunity to leverage our existing physical national funeral and crematorium networks and create a powerful national digital presence in both our traditional premium service market and other emerging market segments. The first example of this was Simplicity Cremations, launched in November 2016 and currently averaging a run rate of 1,000 direct cremations per year.

We also continue to view selective acquisitions of well-established funeral businesses as an appropriate use of capital despite the changing market. We will also continue to develop our network of crematoria.

Investment and development momentum

Our future development builds on strong, Group-wide fundamentals, reflected in our track record of good operating performance, continued excellent client service results and the further acquisition of established funeral businesses. A core strength of the management team is its ability to spot quality acquisitions and integrate them effectively within the business. During the year the Group has acquired 24 funeral locations and one crematorium for an aggregate investment of £28.3 million and has opened 14 satellite locations.

Leadership and standards

We have continued to call for regulation in the industry, commissioning and launching a ground-breaking report into the pre-paid market. We have further industry-leading initiatives in the pipeline.

We believe the funeral industry will benefit significantly from proper regulation to ensure that clients are not misled into accepting below-par service and standards. We pride ourselves in providing industry-leading standards. It is a thread which has run through our business from the beginning and we are determined to maintain this focus while augmenting our products and improving our channels to market. Reaching our desired goals, operational and financial, will require our staying focused on excellent service and we are committed to ensuring that this is the case.

Alongside this, it is increasingly important to us that all stakeholders, including policymakers and those outside the industry, understand what we stand for and why our goal of achieving a properly regulated industry is important. We welcome fair scrutiny of the industry and our business.

Delivering excellent client service in an evolving digital age and increasingly competitive funeral sector

We have long been known for our high quality of service and every year we have reported on exceptionally high levels of client satisfaction. We are determined this will not change. This total commitment to quality of service and client satisfaction will now be applied to a wider range of products and price points. Our aim is to be recognised as the company that provides the best value funeral service, regardless of how simple or traditional.

Adjusting pricing is relatively straightforward, but the greater challenge is building the infrastructure and developing the staff necessary to provide excellent service. We believe this is where the years of investment in our facilities and staff training will pay dividends, for us as a company, but also for our clients. It means we can offer them unrivalled service at each product and service level they choose and at a price that is competitive. This is the repositioned Dignity.

Market overview

The UK funeral market is getting more complex. The internet is beginning to play an increasing role and consumer behaviour is beginning to change. After years of declining deaths and a significant rise in the number of funeral directors, although deaths are now projected to increase in the coming years, there are around 30 per cent fewer deaths per funeral director in the UK compared to 25 years ago. Clients are becoming more price-sensitive and are shopping around more.

The Group monitors and responds to the environment it operates in, seeking to understand the implications for the short, medium and long-term. Outlined below are some basic facts about the marketplace as it currently stands. Further on I describe in more detail the key drivers in the marketplace and what we are doing to address these challenges.

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 290 crematoria in the UK, with circa 66 per cent owned by local authorities. It is estimated that three quarters of all funerals result in a cremation with the remainder being burials.

In 2017, the initial publication of recorded total estimated deaths in Britain for 52 weeks was 590,000, the same number as the 53 weeks in 2016. Some of the Group's key performance indicators rely on the total number of estimated deaths for each period and this information is obtained from the Office for National Statistics ('ONS'). Although annual deaths have declined significantly since the early 1990s from 640,000 to a low of 539,000 in 2011, the last five years have seen deaths above that level. The ONS expects long-term increases in the number of deaths, reaching approximately 700,000 per year by 2040. Deaths have been elevated in the last few years. Whether this marks the start of this longer-term trend or a temporary anomaly is too early to conclude.

Understanding the evolving trends and dynamics that are shaping the funeral sector

Connecting digitally

According to ONS' recent analysis, 90 per cent of households have access to the internet, 78 per cent of consumers have accessed it 'on the go' via a device and 75 per cent of those aged 55 to 64 now buy online. Given this, it is not surprising that there is now significant use of the internet to fill the knowledge gap around funerals. Data from Google indicates over 5.2 million searches in 2017 compared to 4.6 million in 2016 for funeral related advice and information. The most popular searches were for advice when someone dies and what is involved with arranging a funeral with searches for local funeral directors also very high. Significantly, the providers of this advice online are more frequently consumer websites, media sites and comparison websites rather than funeral directors. Consumers also now expect to be able to check or compare funeral prices online. We also believe more people are shopping around, talking to more than one funeral director before making the arrangements.

Increasing competition

Whilst our single biggest source of business remains previous experience and word of mouth, there is an ongoing decline of this traditional source of business in the face of competition from an increasing trend towards pre-arranged funerals and other competitors.

Changing client demands

It is clear that direct cremations represent a small, but increasing proportion of all funerals. Sun Life's 2017 Cost of Dying report also describes how, within their surveyed population, nine per cent (compared to seven per cent the year before) of funerals last year were eco, environmental or woodland funerals. They also report 31 per cent of funerals being described by funeral directors as a "celebration of life funeral", and note a significant increase in these types of service on the previous year. They should be interpreted as a direction of travel for consumer behaviour rather than precise metrics about the entire market.

Price and affordability

The increased media and political interest in the rising cost of funerals in the last few years has affected the marketplace. Consequently, price and affordability are rightly becoming increasingly important factors for a growing number of clients. Combined with the internet which allows them to shop around, prices are coming under growing pressure. Clients want a funeral company that can provide a range of pricing options while guaranteeing a high quality and value-for-money service.

Leveraging our brand and rolling out our digital strategy

The brand

With a growing emphasis on price there is a risk that the industry becomes commoditised, with consumers initially choosing on price and assuming that all funeral providers are the same. In such a market an ability to leverage a strong brand becomes crucial.

In addition, our marketplace is fragmented and increasingly online. This provides a challenge, but also a significant opportunity to leverage our scale and create a powerful brand. In the pre-digital world, the strength of our local trusted businesses, trading on reputation and high-quality service gave us a pre-eminent position. In the digital age there is a compelling requirement, and opportunity, to leverage and build a national brand and add that to the mix, supporting and enhancing our strong local market positions. The first step has been to create a new brand style and to begin to develop brand awareness online. This work is a strategic priority for the Group.

New products and service levels

The brand will be supported by a growing suite of products, product refinements and price points. We are working on and trialling new propositions for cremations and simple funerals, as well as developing our pre-need packages. We are also reviewing the advantages of launching into other segments under different sub-brands, including a mid-market offering. We have already launched our affordable cremation service, Simplicity, and subsequently offered three new packages and prices.

Strengthening the competitiveness of our funeral locations

The combination of a strong national brand and a range of product and price offerings to clients will strengthen the competitiveness of our branches. However, more can and will be done at a local level as part of a rigorous review to ensure our operations are organised to run more efficiently and effectively.

Simplicity Cremations

Simplicity 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 wishing to have a simple cremation. We have recently added a pre-need option and will also be providing the option in future to attend one of our 45 crematoria for a committal service.

The internet is changing the nature of competition as the funeral industry enters the digital age. The Group is well placed to respond and lead as it is the only operator with a national network of funeral locations and crematoria

Good progress

We want to ensure that when individuals are searching online for a funeral director, we are well presented and are at the top of the list. We have made good progress so far on this front.

We have set up websites for over 800 of our funeral directors and started to strengthen the online presence and authority of our main site. As at January 2018, it had the highest domain authority on websites of any provider.

The Group has also launched a new service for clients that makes it easier for them to notify family members through email, social media and the internet of funeral arrangements. This service also allows families to order flowers and make donations online. We are piloting a number of other client-supporting initiatives and services. If successful this will be followed by national roll outs. We are also planning the second phase of developments for our funeral director websites and are developing industry-leading content to support all funeral-related guidance topics.

In truth, the industry has been one of the last to embrace the digital and online revolution. There is much catching up to do but also major opportunities for those leading players who get it right. We are absolutely determined to succeed and are making the investment in terms of technology and people to ensure that we do. In today's digitally enabled and data rich world it is essential that we equip our people with the latest technology and tools to support their activities and the services we provide to our clients.

Leading the call for regulation and higher standards

While increasing competition often leads to higher standards, in an unregulated industry this is far less certain and the funeral industry is a case in point. In addition, in the case of a service industry, the quality of service being provided is not known in advance. Consequently, the importance of reputation and, just as crucially, the need for regulation is paramount.

We regret very much that the provision of funeral services is not regulated and have continued to lead calls for this to change. Dignity would welcome regulation of the funeral industry which set out minimum standards for core activities such as the care of the deceased, minimum standards of facilities and also operating procedures in crematoria.

We therefore continue to support legislative changes by the Scottish Government enacted in 2016. This provides it with the powers to regulate the funeral industry. Dignity welcomes this progress and anticipates making further contributions to the discussion on the service standards required within the regulations.

Dignity also welcomed changes to the Funeral Planning Authority ('FPA'), which acts as a self-regulatory body for the sale of pre-arranged funeral plans. The changes removed provider representation from the Board of the FPA and made them independent of those selling plans. Registration with the FPA and compliance with its requirements will help to provide further comfort to clients as to the quality of the plan they are buying. For our part, in 2017 we commissioned and published research into the pre-paid funeral market, asking whether this market was working well for consumers. We are continuing to engage with HM Treasury and the FCA on the topic of regulation.

With regard to crematoria, these are subject to environmental regulations in accordance with "The Secretary of States Guidance Notes for Crematoria- PG5/2(12)", with emission levels being monitored by Environmental Health Officers in England and Wales and Scottish Environment Protection Agency in Scotland. The abatement of mercury emissions has improved the environmental position with Dignity abating more than the current legislative requirements.

Thought leadership from Dignity

The pre-paid funeral market

Working with a respected and independent partner, Fairer Finance, we commissioned a well-received report which asked whether this market was working well for consumers.

Ground-breaking research into cremations

We wish to provide our clients with the best possible service, one which fully meets or exceeds their needs. To do this we need to properly understand them and this requires research. At present we are exploring issues around cremations through two research projects.

The first is a study on the impact of direct cremation funerals on grief, working with bereavement specialists and leading academics from home and abroad. The aim is to produce guidance for consumers and the industry on the decisions to be made at the point of determining a cremation, and their potential impact.

The second project looks at what consumers most value from a cremation service. With this insight we will be able to ensure that our cremation services are giving clients what they really want and value, as well as providing useful insights for the industry as a whole.

An already fragmented market is becoming more complicated. The internet is beginning to play an increasing role and consumer behaviour is beginning to change. After years of declining deaths and a significant rise in the number of funeral directors, although deaths are now projected to increase, we estimate that there are around 30 per cent fewer deaths per funeral director in the UK compared to 25 years ago. Clients are becoming more price-sensitive and are shopping around more.

We have been alert to the challenges facing the Group in this changing and increasingly competitive environment. At the beginning of 2018 we judged that decisive action was needed to address the challenges we faced. We have taken that action and our focus this year is on delivering our new pricing and product strategy.

At the same time we will continue to demonstrate industry leadership to seek the regulated market that will be good for clients and society which plays to our strengths as a well-managed business with high levels of client satisfaction.

Operating Review

FUNERAL SERVICES

Performance

As at 29 December 2017, the Group operated a network of 826 (2016: 792) funeral locations throughout the United Kingdom, generally trading under local established names.

During the period, the Group conducted 68,800 funerals compared to 70,700 in 2016.

Approximately one per cent of all funerals were conducted in Northern Ireland. Excluding Northern Ireland, these funerals represent approximately 11.5 per cent (2016: 11.8 per cent) of total estimated deaths in Britain. Whilst funerals divided by estimated deaths is a reasonable measure of our market share, the Group does not have a complete national presence and consequently, this calculation can only ever be an estimate.

Underlying operating profit was £79.5 million (2016: £79.0 million), broadly flat on the previous year.

This financial performance reflects the lower number of funerals performed, offset by some increases in average income and acquisition activity. As described in the trading announcement in January 2018, market share was lower than expected. The average reduction in the number of funerals per location per one thousand deaths between 2004 and 2014 was 3.6 per cent. This accelerated to 6.8 per cent per year between 2015 and 2017.

Progress and Developments

Investment in the core portfolio

Significant cash resources continue to be used to maintain the Group's locations and fleet. In 2017, £12.7 million was invested in maintenance capital expenditure.

Funeral location portfolio

The Group acquired 24 funeral locations for a total investment of £26.3 million. These acquisitions performed in line with expectations. £1.1 million was also invested in our satellite location programme, with 14 opening in the period. Four locations were closed, principally where it was considered commercially appropriate not to renew leases.

Outlook
The business model for the funeral business is changing as the Board focuses on protecting market share by introducing new service offerings and price points. The new relationship between volumes and prices will take longer to become clear and we expect to provide further updates on these estimates when we release our first quarter trading update in May 2018. A further update will be provided in August with the Group's interim results, which is also expected to provide an update on the Group's operating model.

The Group anticipates continuing to acquire well-established funeral businesses. The opening of further satellite locations will be dependent on the Group's assessment of the likely impact of the changes to funeral pricing and products.

CREMATORIA

Performance
The Group remains the largest single operator of crematoria in Britain, operating 45 (2016: 44) crematoria as at 29 December 2017. The Group performed 63,400 cremations (2016: 59,500) in the period, representing 10.7 per cent (2016: 10.1 per cent) of total estimated deaths in Britain.

Underlying operating profit was £40.0 million (2016: £37.6 million), an increase of 6.3 per cent.

This operating performance is driven by increasing average revenues per cremation, which has been assisted by the increase in the number of cremations performed in the year. Recently acquired crematoria have also assisted operating profit growth.

Sales of memorials and other items have been stable, equating to approximately £270 per cremation compared to £273 in the previous period. More recently acquired locations have a lower average memorial sale than our more established locations.

Progress and Developments
The Group has also invested £4.6 million maintaining its locations in the period.

The Group has three new crematoria under construction, with one due to open in 2018 and the other two in 2019. The total capital commitment for these locations is expected to be approximately £13 million to £14 million. Each of the locations with planning permission will take five to seven years to reach maturity, performing 800 to 1,000 cremations per year. £3.5 million of capital expenditure has been incurred in the year on these projects.

The Group's remaining two planning applications have not been successful. The Group is planning on appealing one of these applications.

Outlook
We remain confident about the future of our crematoria business. We aim to build on the success of our affordable Simplicity cremation service and will consider further innovations over the year.

PRE-ARRANGED FUNERAL PLANS

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

Underlying operating performance in the period has been solid, with operating profit of £8.0 million (2016: £8.5 million). The year on year reduction in profitability reflects the incremental costs incurred on the Group's digital and other promotional activities.

In overall terms, approximately 69,000 (2016: 49,000) new plan sales were made and the number of active pre-arranged funeral plans increased to 450,000 (2016: 404,000) as at 29 December 2017.

Of these amounts, 35,000 (2016: 20,000) of the sales represent plans linked to life assurance plans with third parties rather than trust based plan sales and 102,000 (2016: 68,000) active insurance plans are in place at 29 December 2017. Not all of these insurance backed plans include an obligation to provide a guaranteed funeral and we anticipate the cancellation experience to be significantly higher than is witnessed on trust based sales.

Whilst the contribution to this year's operating profit from the marketing activity is reported at the time of sale, it is important to recognise that the sales made represent significant potential future revenues for the funeral division. These amounts will be recognised as and when the funerals are performed. As with all the Group's divisions, pre-arranged funeral plan profits broadly reflect the cash generated by that activity.

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

The Group has continued to work hard at developing its portfolio of affinity partners and has formed a number of new partnerships in the period with organisations in the retail and financial services arena with further trials expected in 2018.

The financial position of the independent trusts holding members' monies is crucial, given the Group ultimately guarantees the promises made to members. At the end of 2017, the Trusts held approximately £940 million of assets in respect of 306,000 trust based funeral plans. Average assets per plan are greater than the amount currently received for performing a funeral.

The latest actuarial valuations of the pre-arranged funeral plan trusts (at 29 September 2017) showed them to have a surplus of £27.3 million, based on prudent assumptions. If the discount rate used had equalled the long-term investment target of the trust funds of inflation plus two per cent, then the trusts would have reported aggregate surpluses of approximately £160 million.

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

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

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

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

The Group intends to continue to sell as many plans as is commercially possible and economically sensible and anticipates a significant proportion to continue to be insurance plans rather than being trust based sales.

CENTRAL OVERHEADS

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

Developments
Costs in the period were £22.9 million (2016: £23.4 million), a reduction of 2.1 per cent.

Investment in central overheads continues in order to respond to the activities of the Group. Incentive costs, including LTIP costs and cash bonuses, have reduced from £8.3 million to £5.2 million. This reflects current expectations of such costs given the January trading update. Excluding these bonus costs, central overheads represent 5.4 per cent (2016: 4.8 per cent) of revenues.

Maintenance capital expenditure of £2.9 million has been incurred on central projects predominantly relating to IT that will help the business as a whole operate more efficiently. This includes £1.2 million incurred to complete the update of the Group's accounting software described last year and the implementation of a new HR system.

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

Mike McCollum
Chief Executive
14 March 2018

Financial Review

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

Financial highlights
The Group's financial performance is summarised below:

	52 week period ended 29 December 2017	53 week period ended 30 December 2016	Increase/ (decrease) %
Revenue (£ million)	**324.0**	313.6	3
Underlying operating profit[(a)] (£ million)	**104.6**	101.7	3
Underlying profit before tax[(a)] (£ million)	**77.8**	75.2	3
Underlying earnings per share[(a)] (pence)	**128.3**	119.8	7
Cash generated from operations [(b)] (£ million)	**115.4**	121.1	(5)
Operating profit (£ million)	**98.0**	97.7	-
Profit before tax (£ million)	**71.2**	71.2	-
Basic earnings per share (pence)	**115.8**	115.3	-
Dividends paid in the period:			
Interim dividend (pence)	**8.64**	7.85	10
Final dividend (pence)	**15.74**	14.31	10

(a) Underlying amounts exclude profit on sale of fixed assets, external transaction costs, amortisation of acquisition related intangibles, net of tax where appropriate and exceptional items in respect of taxation.
(b) Cash generated from operations excludes external transaction costs.

The Board has proposed a dividend of 15.74 pence per Ordinary Share as a final distribution of profits relating to 2017 to be paid on 29 June 2018, subject to shareholder approval.

Change in accounting estimates – Amortisation of intangibles
During the period, the Group reconsidered the indefinite life assumed for its trade names. Given the increasingly price competitive market and its impact on the business, the Group has concluded that an indefinite life is no longer appropriate. The estimate was updated in 2017 to a useful life of 35 years, applicable from 1 October 2017.

Exceptional items and underlying reporting measures
The Group's underlying measures of profitability exclude profit (or loss) on sale of fixed assets, external transaction costs, amortisation of acquisition related intangibles and exceptional items in respect of taxation. These items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day to day management of the business and allow for greater comparability across periods.

In 2017, following the commencement of amortisation of acquired intangible trade names and other crematoria related acquired intangibles, acquisition related amortisation of £1.8 million (2016: £nil) has also been excluded in determining underlying profitability measures. Acquisition related amortisation is defined as being the amortisation arising in respect of trade names, use of third party brand names and other crematoria related acquired intangible.

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

	52 week period ended 29 December 2017 £m	53 week period ended 30 December 2016 £m
Operating profit for the period as reported	**98.0**	97.7
Add / (deduct) the effects of:		
Profit/(loss) on sale of fixed assets	**0.1**	(0.1)
External transaction costs in respect of completed and aborted transactions	**4.7**	4.1
Acquisition related amortisation	**1.8**	-
Underlying operating profit	**104.6**	101.7
Net finance costs	**(26.8)**	(26.5)
Underlying profit before tax	**77.8**	75.2
Tax charge on underlying profit before tax[(c)]	**(13.8)**	(15.8)
Underlying profit after tax	**64.0**	59.4
Weighted average number of Ordinary Shares in issue during the period (million)	**49.9**	49.6
Underlying EPS (pence)	**128.3p**	119.8p
Increase in Underlying EPS (per cent)	**7%**	4%

(c) Excludes tax on acquisition related amortisation, external transaction costs and exceptional tax credits of £0.4 million (2016: £1.8 million).

Earnings per share
The Group's statutory profit after tax was £57.8 million (2016: £57.2 million). Basic earnings per share were 115.8 pence per share (2016: 115.3 pence per share). The Group's measures of underlying performance exclude the effect (after tax) of the profit (or loss) on sale of fixed assets, amortisation of acquisition related intangibles, external transaction costs and exceptional items in respect of taxation. Consequently, underlying profit after tax was £64.0 million (2016: £59.4 million), giving underlying earnings per share of 128.3 pence per share (2016: 119.8 pence per share), an increase of 7 per cent.

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

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

In 2017, external transaction costs also include £2.1 million in respect of external advisers' fees for a significant potential acquisition and £1.2 million for other development opportunities that were aborted.

Capital expenditure
Capital expenditure on property, plant and equipment and intangible assets was £27.0 million (2016: £22.8 million).

This is analysed as:

	29 December 2017 £m	30 December 2016 £m
Maintenance capital expenditure:		
Funeral services	**12.7**	13.6
Crematoria	**4.6**	3.7
Other	**2.9**	2.3
Total maintenance capital expenditure[(a)]	**20.2**	19.6
Branch relocations	**2.2**	1.6
Satellite locations	**1.1**	0.8
Development of new crematoria and cemeteries	**3.5**	0.8
Total property, plant and equipment	**27.0**	22.8
Partly funded by:		
Disposal proceeds	**(0.6)**	(1.0)
Net capital expenditure	**26.4**	21.8

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

The Group will continue to invest in the maintenance of its existing portfolio of vehicles and funeral and crematoria locations. This is expected to result in similar capital expenditure to 2017.

Cash flow and cash balances
Cash generated from operations was £115.4 million (2016: £121.1 million) stated before external transaction costs of £2.9 million (2016: £3.9 million). The reduction year on year despite an increase in operating profit reflects timing differences of working capital items year on year. The longer-term expectation of profits converting efficiently to cash is unchanged.

As a result of the strong year, the Group was able to fund all of its corporate activity from its cash reserves, spending £28.3 million (net of cash acquired and excluding external transaction costs) on the acquisition of 24 funeral locations and one crematorium and balancing payments in respect of prior year acquisitions. Cash balances at the end of the period were £49.3 million (2016: £67.1 million). In its planning, the Group sets aside approximately £23.0 million for future corporation tax and dividend payments expected to be spent in 2018.

Further details and analysis of the Group's cash balances are included in note 6.

Pensions
The balance sheet shows a deficit of £24.0 million before deferred tax (2016: deficit of £25.9 million). The Group concluded a consultation with employees in February 2017. Following this consultation, the Group decided to close its defined benefit pension scheme to any further accrual. Affected employees will instead be able to contribute between four and 10 per cent of salary into a defined contribution scheme, which will be matched by the Group.

The Group is currently in discussion with the Trustees of the Group's defined benefit pension scheme with a view to agreeing the April 2017 triennial valuation and consequential schedule of contributions required to address the deficit. This will be finalised by the statutory deadline of 5 July 2018 and the Group will report on the agreed position as part of its interim results.

Taxation
The Group's effective tax rate on underlying profits in the period was 17.7 per cent (2016: 21.0 per cent) excluding the exceptional rate change in the prior period.

The current period effective tax rate is lower due to prior year taxation items of £2.0 million which are not expected to recur.

In 2018, the Group expects its effective tax rate to be approximately one per cent above the headline rate of corporation tax. This translates to an effective rate of 20.0 per cent.

The Group's net cash tax payments were £11.9 million (2016: £10.6 million) in the period.

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

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

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

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

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

Given the duration of the Secured Notes, this structure is capable of being used to periodically issue further Secured Notes when deemed appropriate and subject to market conditions. Given the trading update in January 2018, the Group does not have any plans for such an issue in the immediate future and does not need to take any remedial action in respect of the Secured Notes in issue.

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 29 December 2017 was 3.24 times (2016: 3.37 times).

Rating Agency updates
Following the trading update in January 2018, both rating agencies issued public affirmations of the ratings applicable to the Secured Notes. However, in the case of Fitch, they revised their outlook to negative from stable and S&P placed the Group's Class B Notes on credit watch negative. This has no impact on the financial covenant or any other obligation of the Secured Notes from a Group perspective.

Revolving Credit Facility
As described in the Group's 2017 interim results, the Group's £15.8 million Crematoria Acquisition Facility and undrawn Funeral Acquisition Facility were replaced with a £50 million Revolving Credit Facility ('RCF'), provided by the Royal Bank of Scotland, which is secured against certain trade and assets held by legal entities outside of the Group's securitisation structure.

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

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

Net debt
The Group's net debt is analysed as:

	29 December 2017 £m	**30 December 2016 £m**
Net amounts owing on Secured Notes	**(565.1)**	(573.9)
Add: unamortised issue costs	**(0.6)**	(0.7)
Gross amounts owing on Secured Notes	**(565.7)**	(574.6)
Net amounts owing on Crematoria Acquisition Facility	**-**	(15.7)
Add: unamortised issue costs on Crematoria Acquisition Facility	**-**	(0.1)
Gross amounts owing	**(565.7)**	(590.4)
Accrued interest on Secured Notes	**(0.3)**	(0.3)
Accrued interest on Crematoria Acquisition Facility and Revolving Credit Facility	**(0.2)**	(0.1)
Cash and cash equivalents	**49.3**	67.1
Net debt	**(516.9)**	(523.7)

The Group's gross debt outstanding was £565.7 million (2016: £590.4 million). Net debt was £516.9 million (2016: £523.7 million).

The market value of the Secured Notes at the balance sheet date was £686.5 million (2016: £678.0 million).

Whilst the Group has no plans to do so, should it wish to repay all amounts due under the Secured Notes, the cost to do so at the year end would have been approximately £764 million.

Net finance costs
The Group's underlying finance costs substantially consist of the interest on the Secured Notes and ancillary instruments. The net finance cost in the period relating to these instruments was £25.1 million (2016: £25.4 million).

Finance costs of £0.4 million (2016: £0.6 million) were incurred in respect of the Crematoria Acquisition Facility.

Other ongoing finance costs incurred in the period amounted to £1.4 million (2016: £0.9 million), including the unwinding of discounts on the Group's provisions and other financial liabilities.

Interest receivable on bank deposits was £0.1 million (2016: £0.4 million).

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

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

Any forward-looking statements made in this Preliminary Announcement 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 above. 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 Preliminary Announcement 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.

Steve Whittern
Finance Director
14 March 2018

Our key performance indicators

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

KPI	KPI definitions	52 week period ended 29 December 2017	53 week period ended 30 December 2016	Developments in 2017
Total estimated number of deaths in Britain (number)	This is as reported by the Office for National Statistics.	**590,000**	590,000	Deaths were higher than anticipated in the period. ONS expectations are for lower deaths in 2018.
Funeral market share excluding Northern Ireland (per cent)	This is the number of funerals performed by the Group in Britain divided by the total estimated number of deaths in Britain.	**11.5%**	11.8%	The reduction in market share is more than anticipated.
Number of funerals performed (number)	This is the number of funerals performed according to our operational data.	**68,800**	70,700	Changes are a consequence of the total number of deaths and the Group's market share.
Crematoria market share (per cent)	This is the number of cremations performed by the Group divided by the total estimated number of deaths in Britain.	**10.7%**	10.1%	Market share has increased, principally reflecting the effect of recent acquisitions.
Number of cremations performed (number)	This is the number of cremations performed according to our operational data.	**63,400**	59,500	Changes are a consequence of the total number of deaths and the Group's market share.
Active pre-arranged funeral plans (number)	This is the number of pre-arranged funeral plans where the Group has an obligation to provide a funeral in the future.	**450,000**	404,000	This increase reflects continued sales activity offset by the crystallisation of plans sold in previous periods.
Underlying earnings per share (pence)	This is underlying profit after tax divided by the weighted average number of Ordinary Shares in issue in the period.	**128.3p**	119.8p	This growth follows the increase in underlying operating profit, assisted by a one-off reduction in the effective tax rate.
Underlying operating profit (£ million)	This is the statutory operating profit of the Group excluding profit (or loss) on sale of fixed assets, external transaction costs and amortisation of acquisition related intangibles.	**£104.6m**	£101.7m	Good growth driven by higher than expected deaths as well as acquisition activity, offset by lower market share than anticipated.
Cash generated from operations (£ million)	This is the statutory cash generated from operations excluding external transaction costs and (in 2013 and 2014) exceptional pension contributions.	**£115.4m**	£121.1m	The Group continues to convert operating profit into cash efficiently.

The Dignity Client Survey 2017
We strive to maintain and improve client satisfaction across our business. Our funeral service survey results continue to demonstrate this commitment.

Reputation and recommendation
99.0% (2016: 98.8%)
99.0 per cent of respondents said that we met or exceeded their expectations.

97.7% (2016: 97.7%)
97.7 per cent of respondents would recommend us.

Quality of service and care
99.9% (2016: 99.9%)
99.9 per cent thought our staff were respectful.

99.7% (2016: 99.7%)
99.7 per cent thought our staff listened to their needs and wishes.

99.1% (2016: 99.1%)
99.1 per cent agreed that our staff were compassionate and caring.

High Standards of facilities and fleet
99.8% (2016: 99.8%)
99.8 per cent thought our premises were clean and tidy.

99.8% (2016: 99.8%)
99.8 per cent thought our vehicles were clean and comfortable.

In the detail
99.3% (2016: 99.2%)
99.3 per cent of clients agreed that our staff had fully explained what would happen before and during the funeral.

99.0% (2016: 99.1%)
99.0 per cent said that the funeral service took place on time.

98.0% (2016: 98.5%)
98.0 per cent said that the final invoice matched the estimate provided.

Consolidated income statement
for the 52 week period ended 29 December 2017

	Note	**52 week period ended 29 December 2017 £m**	53 week period ended 30 December 2016 £m
Revenue	1	**324.0**	313.6
Cost of sales		**(130.6)**	(128.1)
Gross profit	1	**193.4**	185.5
Administrative expenses		**(95.4)**	(87.8)
Operating profit		**98.0**	97.7
Analysed as:			
Underlying operating profit	1	**104.6**	101.7
(Loss)/profit on sale of fixed assets		**(0.1)**	0.1
External transaction costs in respect of completed and aborted transactions		**(4.7)**	(4.1)
Acquisition related amortisation		**(1.8)**	-
Operating profit		**98.0**	97.7
Finance costs	2	**(26.9)**	(26.9)
Finance income	2	**0.1**	0.4
Profit before tax	1	**71.2**	71.2
Taxation – before exceptional items		**(13.4)**	(15.8)
Taxation – exceptional		**-**	1.8
Taxation	3	**(13.4)**	(14.0)
Profit for the period attributable to equity shareholders		**57.8**	57.2
Earnings per share for profit attributable to equity shareholders			
– Basic (pence)	4	**115.8p**	115.3p
– Diluted (pence)	4	**115.6p**	114.6p

Consolidated statement of comprehensive income
for the 52 week period ended 29 December 2017

	Note	**52 week period ended 29 December 2017 £m**	53 week period ended 30 December 2016 £m
Profit for the period		**57.8**	57.2
Items that will not be reclassified to profit or loss			
Remeasurement gain/(loss) on retirement benefit obligations	9	**3.2**	(12.5)
Tax (charge)/credit on remeasurement on retirement benefit obligations		**(0.5)**	2.3
Restatement of deferred tax for the change in UK tax rate		**-**	(0.3)
Other comprehensive income/(loss)		**2.7**	(10.5)
Comprehensive income for the period		**60.5**	46.7
Attributable to:			
Equity shareholders of the parent		**60.5**	46.7

Consolidated balance sheet
as at 29 December 2017

	Note	29 December 2017 £m	30 December 2016 £m
Assets			
Non-current assets			
Goodwill		**226.1**	215.9
Intangible assets		**159.4**	142.2
Property, plant and equipment		**248.0**	235.4
Financial and other assets		**14.3**	11.3
		647.8	604.8
Current assets			
Inventories		**7.3**	6.1
Trade and other receivables		**38.3**	37.0
Cash and cash equivalents	6	**49.3**	67.1
		94.9	110.2
Total assets		**742.7**	715.0
Liabilities			
Current liabilities			
Financial liabilities		**4.5**	8.8
Trade and other payables		**57.8**	59.3
Current tax liabilities		**6.2**	5.4
Provisions for liabilities		**1.5**	1.6
		70.0	75.1
Non-current liabilities			
Financial liabilities		**561.2**	581.5
Deferred tax liabilities		**30.3**	25.7
Other non-current liabilities		**2.3**	2.8
Provisions for liabilities		**8.5**	7.5
Retirement benefit obligation	9	**24.0**	25.9
		626.3	643.4
Total liabilities		**696.3**	718.5
Shareholders' equity			
Ordinary share capital		**6.2**	6.1
Share premium account		**11.1**	8.5
Capital redemption reserve		**141.7**	141.7
Other reserves		**(4.6)**	(3.5)
Retained earnings		**(108.0)**	(156.3)
Total equity		**46.4**	(3.5)
Total equity and liabilities		**742.7**	715.0

Consolidated statement of changes in equity
for the 52 week period ended 29 December 2017

	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 25 December 2015	6.1	4.8	141.7	(4.5)	(192.0)	(43.9)
Profit for the 53 weeks ended 30 December 2016	-	-	-	-	57.2	57.2
Remeasurement loss on defined benefit obligations	-	-	-	-	(12.5)	(12.5)
Tax on pensions	-	-	-	-	2.3	2.3
Restatement of deferred tax for the change in UK tax rate	-	-	-	-	(0.3)	(0.3)
Total comprehensive income	-	-	-	-	46.7	46.7
Effects of employee share options	-	-	-	3.0	-	3.0
Tax on employee share options	-	-	-	0.2	-	0.2
Proceeds from share issue(1)	-	3.7	-	-	-	3.7
Gift to Employee Benefit Trust	-	-	-	(2.2)	-	(2.2)
Dividends (note 5)	-	-	-	-	(11.0)	(11.0)
Shareholders' equity as at 30 December 2016	6.1	8.5	141.7	(3.5)	(156.3)	(3.5)
Profit for the 52 weeks ended 29 December 2017	-	-	-	-	57.8	**57.8**
Remeasurement gain on retirement benefit options	-	-	-	-	3.2	**3.2**
Tax on pensions	-	-	-	-	(0.5)	**(0.5)**
Total comprehensive income	-	-	-	-	60.5	**60.5**
Effects of employee share options	-	-	-	1.3	-	**1.3**
Tax on employee share options	-	-	-	0.1	-	**0.1**
Proceeds from share issue(2)	0.1	2.6	-	-	-	**2.7**
Gift to Employee Benefit Trust	-	-	-	(2.5)	-	**(2.5)**
Dividends (note 5)	-	-	-	-	(12.2)	**(12.2)**
Shareholders' equity as at 29 December 2017	**6.2**	**11.1**	**141.7**	**(4.6)**	**(108.0)**	**46.4**

(1) Relating to issue of 213,851 shares under 2013 LTIP scheme and 104,008 shares under 2013 SAYE scheme.
(2) Relating to issue of 184,672 shares under 2014 LTIP scheme and 9,079 shares under 2013 SAYE scheme.

The above amounts relate to transactions with owners of the Company except for the items reported within total comprehensive income.

Capital redemption reserve
The capital redemption reserve represents £80,002,465 B Shares that were issued on 2 August 2006 and redeemed for cash on the same day, £19,274,610 B Shares that were issued on 10 October 2010 and redeemed for cash on 11 October 2010, and £22,263,112 B Shares that were issued on 12 August 2013 and redeemed for cash on 20 August 2013 and £20,154,070 B Shares that were issued and redeemed for cash in November 2014.

Other reserves
Other reserves includes movements relating to the Group's SAYE and LTIP schemes and associated tax, together with a £12.3 million merger reserve.

Consolidated statement of cash flows
for the 52 week period ended 29 December 2017

	Note	**52 week period ended 29 December 2017 £m**	53 week period ended 30 December 2016 £m
Cash flows from operating activities			
Cash generated from operations before external transaction costs	8	**115.4**	121.1
External transaction costs paid in respect of acquisitions and aborted transactions		**(2.9)**	(3.9)
Cash generated from operations		**112.5**	117.2
Finance income received		**0.1**	0.5
Finance costs paid		**(25.7)**	(38.5)
Transfer from restricted bank accounts for finance costs		**0.3**	12.8
Payments to restricted bank accounts for finance costs	6	**(0.3)**	(0.3)
Total payments in respect of finance costs		**(25.7)**	(26.0)
Tax paid		**(11.9)**	(10.6)
Net cash generated from operating activities		**75.0**	81.1
Cash flows from investing activities			
Investment in financial asset		**(1.0)**	-
Acquisition of subsidiaries and businesses (net of cash acquired)		**(28.3)**	(56.3)
Proceeds from sale of property, plant and equipment		**0.6**	1.0
Maintenance capital expenditure(1)		**(20.2)**	(19.6)
Branch relocations		**(2.2)**	(1.6)
Satellite locations		**(1.1)**	(0.8)
Development of new crematoria and cemeteries		**(3.5)**	(0.8)
Purchase of property, plant and equipment and intangible assets		**(27.0)**	(22.8)
Net cash used in investing activities		**(55.7)**	(78.1)
Cash flows from financing activities			
Issue costs in respect of debt facility		**(0.4)**	(0.1)
Proceeds from share issue		**0.1**	1.5
Repayment of Crematoria Acquisition Facility		**(15.8)**	-
Payments due under Secured Notes		**(8.8)**	(12.6)
Transfer from restricted bank accounts for repayment of Secured Notes		**-**	4.1
Total payments in respect of borrowings		**(24.6)**	(8.5)
Dividends paid to shareholders on Ordinary Shares	5	**(12.2)**	(11.0)
Net cash used in financing activities		**(37.1)**	(18.1)
Net decrease in cash and cash equivalents		**(17.8)**	(15.1)
Cash and cash equivalents at the beginning of the period		**66.8**	81.9
Cash and cash equivalents at the end of the period		**49.0**	66.8
Restricted cash		**0.3**	0.3
Cash and cash equivalents at the end of the period as reported in the consolidated balance sheet	6	**49.3**	67.1

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

1 Revenue and segmental analysis

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker of the Group has been identified as the four Executive Directors. The Group has three reporting segments, funeral services, crematoria and pre-arranged funeral plans. The Group also reports central overheads, which comprise unallocated central expenses.

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

Crematoria services relate to cremation services and the sale of memorials and burial plots at the Dignity operated crematoria and cemeteries.

Pre-arranged funeral plans represent the sale of funerals in advance to customers wishing to make their own funeral arrangements and the marketing and administration costs associated with making such sales.

Substantially all Group revenue is derived from, and substantially all of the Group's net assets and liabilities are located in, the United Kingdom and Channel Islands and relates to services provided. Overseas transactions are not material.

Underlying operating profit is stated before profit or loss on sale of fixed assets, external transaction costs, amortisation of acquisition related intangibles and exceptional items in respect of taxation (collectively 'Non-underlying items'). Underlying operating profit is included as it is felt that adjusting operating profit for these items provides a useful indication of the Group's performance. Underlying measures are those used in the day to day management of the business.

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

52 week period ended 29 December 2017

	Revenue £m	Underlying operating profit/ (loss) before depreciation and amortisation £m	Depreciation and amortisation of software £m	Underlying operating profit/ (loss) £m	Non-underlying items £m	Operating profit/(loss) £m
Funeral services	**221.8**	**91.7**	**(12.2)**	**79.5**	**(2.5)**	**77.0**
Crematoria	**74.0**	**43.9**	**(3.9)**	**40.0**	**(1.8)**	**38.2**
Pre-arranged funeral plans	**28.2**	**8.0**	**-**	**8.0**	**(0.2)**	**7.8**
Central overheads	**-**	**(21.9)**	**(1.0)**	**(22.9)**	**(2.1)**	**(25.0)**
Group	**324.0**	**121.7**	**(17.1)**	**104.6**	**(6.6)**	**98.0**
Finance costs				**(26.9)**	**-**	**(26.9)**
Finance income				**0.1**	**-**	**0.1**
Profit before tax				**77.8**	**(6.6)**	**71.2**
Taxation				**(13.8)**	**0.4**	**(13.4)**
Underlying earnings for the period				**64.0**		
Total other items					**(6.2)**	
Profit after taxation						**57.8**
Earnings per share for profit attributable to equity shareholders						
- Basic (pence)				**128.3p**		**115.8p**
- Diluted (pence)						**115.6p**

53 week period ended 30 December 2016

	Revenue £m	Underlying operating profit/ (loss) before depreciation and amortisation £m	Depreciation and amortisation £m	Underlying operating profit/ (loss) £m	Non-underlying items £m	Operating profit/(loss) £m
Funeral services	217.8	90.6	(11.6)	79.0	(0.9)	78.1
Crematoria – existing	65.1	40.0	(3.4)	36.6	0.1	36.7
Crematoria – acquisitions	2.4	1.1	(0.1)	1.0	(3.0)	(2.0)
Crematoria	67.5	41.1	(3.5)	37.6	(2.9)	34.7
Pre-arranged funeral plans	28.3	8.7	(0.2)	8.5	-	8.5
Central overheads	-	(22.6)	(0.8)	(23.4)	(0.2)	(23.6)
Group	313.6	117.8	(16.1)	101.7	(4.0)	97.7
Finance costs				(26.9)	-	(26.9)
Finance income				0.4	-	0.4
Profit before tax				75.2	(4.0)	71.2
Taxation – continuing activities				(15.8)	-	(15.8)
Taxation – exceptional				-	1.8	1.8
Taxation				(15.8)	1.8	(14.0)
Underlying earnings for the period				59.4		
Total other items					(2.2)	
Profit after taxation						57.2
Earnings per share for profit attributable to equity shareholders						
-Basic (pence)				119.8p		115.3p
-Diluted (pence)						114.6p

2 Net finance costs

	52 week period ended 29 December 2017 £m	53 week period ended 30 December 2016 £m
Finance costs		
Secured Notes	**24.4**	24.7
Amortisation of issue costs	**0.1**	-
Crematoria Acquisition Facility	**0.4**	0.6
Other loans	**1.3**	1.0
Net finance cost on retirement benefit obligations	**0.6**	0.4
Unwinding of discounts	**0.1**	0.2
Finance costs	**26.9**	**26.9**
Finance income		
Bank deposits	**(0.1)**	(0.4)
Finance income	**(0.1)**	(0.4)
Net finance costs	**26.8**	26.5

3 Taxation

Analysis of charge in the period	**52 week period ended 29 December 2017 £m**	53 week period ended 30 December 2016 £m
Current tax – current period	**13.3**	11.0
Adjustments for prior period	**(0.7)**	0.1
Total corporation tax	**12.6**	11.1
Deferred tax – current period	**2.1**	4.9
Adjustments for prior period	**(1.3)**	(0.2)
Restatement of deferred tax for the change in UK tax rate	**-**	(1.8)
Total deferred tax	**0.8**	2.9
Taxation	**13.4**	14.0

4 Earnings per share

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

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

The Group has two classes of potentially dilutive Ordinary Shares being those share options granted to employees under the Group's SAYE Scheme and the contingently issuable shares under the Group's LTIP Schemes. At the balance sheet date, the performance criteria for the vesting of the awards under the LTIP Schemes are assessed, as required by IAS 33, and to the extent that the performance criteria have been met those contingently issuable shares are included within the diluted EPS calculations.

The Group's underlying measures of profitability exclude profit (or loss) on sale of fixed assets, external transaction costs, amortisation of acquisition related intangibles and exceptional items in respect of taxation. These items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day to day management of the business and allow for greater comparability across periods.

Accordingly, the Board believes that earnings per share calculated by reference to this underlying profit after taxation is also a useful indicator of financial performance.

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 29 December 2017			
Underlying profit after taxation and EPS	**64.0**	**49.9**	**128.3**
Add: Exceptional items, loss on sale of fixed assets, external transaction costs and amortisation of acquisition related intangibles (net of taxation of £0.4 million)	**(6.2)**		
Profit attributable to shareholders – Basic EPS	**57.8**	**49.9**	**115.8**
Profit attributable to shareholders – Diluted EPS	**57.8**	**50.0**	**115.6**
53 week period ended 30 December 2016			
Underlying profit after taxation and EPS	59.4	49.6	119.8
Add: Exceptional items, loss on sale of fixed assets and external transaction costs (net of taxation of £nil million)	(2.2)		
Profit attributable to shareholders – Basic EPS	57.2	49.6	115.3
Profit attributable to shareholders – Diluted EPS	57.2	49.9	114.6

5 Dividends

	52 week period ended 29 December 2017 £m	53 week period ended 30 December 2016 £m
Final dividend paid: 15.74p per Ordinary Share (2016: 14.31p)	**7.9**	7.1
Interim dividend paid: 8.64p per Ordinary Share (2016: 7.85p)	**4.3**	3.9
Dividend on Ordinary Shares	**12.2**	11.0

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

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

Consequently, total dividends recognised in the period were £12.2 million, 24.38 pence per share (2016: £11.0 million, 22.16 pence per share).

A final dividend of 15.74 pence per share, in respect of 2017, has been proposed by the Board. Based on the number of shares in issue at the date of signing this report the total final dividend payment is approximately £7.9 million. This will be paid on 29 June 2018 provided that approval is gained from shareholders at the Annual General Meeting on 7 June 2018 and will be paid to shareholders on the register at close of business on 18 May 2018.

6 Cash and cash equivalents

	29 December 2017 £m	30 December 2016 £m
Operating cash as reported in the consolidated statement of cash flows as cash and cash equivalents	**49.0**	66.8
Amounts set aside for debt service payments	**0.3**	0.3
Cash and cash equivalents as reported in the balance sheet	**49.3**	67.1

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 and for no other purpose. Consequently, this amount did not meet the definition of cash and cash equivalents in IAS 7, Statement of Cash Flows. This amount was used to pay these respective parties on 3 January 2018. Of this amount, £0.3 million (2016: £0.3 million) is shown within the Statement of Cash Flows as 'Payments to restricted bank accounts for finance costs' and £nil million (2016: £nil million) is shown within 'Financing activities' as 'Payments to restricted bank accounts for repayment of borrowings'.

7 Net debt

	29 December 2017 £m	30 December 2016 £m
Net amounts owing on Secured Notes per financial statements	**(565.1)**	(573.9)
Add: unamortised issue costs	**(0.6)**	(0.7)
Gross amounts owing on Secured Notes	**(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	**(565.7)**	(590.4)
Accrued interest on Secured Notes	**(0.3)**	(0.3)
Accrued interest on Crematoria Acquisition Facility and Revolving Credit Facility	**(0.2)**	(0.1)
Cash and cash equivalents (note 6)	**49.3**	67.1
Net debt	**(516.9)**	(523.7)

In addition to the above, the consolidated balance sheet also includes finance lease obligations which totalled £0.6 million (2016: £0.7 million). These amounts do not represent sources of funding for the Group and are therefore excluded from the calculation of net debt.

The Group's primary financial covenant in respect of the Secured Notes requires EBITDA to total debt service ('EBITDA DSCR'), in the securitisation group, to be at least 1.5 times. At 29 December 2017, the actual ratio was 3.24 times (2016: 3.37 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.

8 Reconciliation of cash generated from operations

	52 week period ended 29 December 2017 £m	53 week period ended 30 December 2016 £m
Net profit for the period	**57.8**	57.2
Adjustments for:		
Taxation	**13.4**	14.0
Net finance costs	**26.8**	26.5
Loss/(profit) on disposal of fixed assets	**0.1**	(0.1)
Depreciation charges	**17.0**	15.9
Amortisation of intangibles	**1.9**	0.2
Movement in inventories	**(1.2)**	0.4
Movement in trade receivables	**(0.1)**	(0.6)
Movement in trade payables	**0.9**	1.3
External transaction costs	**4.7**	4.1
Changes in other working capital (excluding acquisitions)	**(7.1)**	(1.4)
Employee share option charges	**1.2**	3.6
Cash generated from operations before external transaction costs	**115.4**	121.1

9 Analysis of the movement in the retirement benefit obligation

	2017 £m	2016 £m
At beginning of period	**(25.9)**	(12.5)
Total expense as above charged to the income statement	**(1.6)**	(2.3)
Remeasurement gains/ (losses) and administration expenses credited/(charged) to other comprehensive income	**3.2**	(12.5)
Contributions by Group	**0.3**	1.4
At end of period	**(24.0)**	(25.9)

10 Basis of preparation

European law requires that the Group’s consolidated financial statements for the 52 week period ended 29 December 2017 are prepared in accordance with all applicable International Financial Reporting Standards (‘IFRSs’), as adopted by the European Union. These financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee (‘IFRIC’) interpretations (as issued by the International Accounting Standards Board) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In the current period, the Group’s consolidated financial statements have been prepared for the 52 week period ended 29 December 2017. For the comparative period, the Group’s consolidated financial statements have been prepared for the 53 week period ended 30 December 2016.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 29 December 2017 or 30 December 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the registrar of companies, and those for 2017 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2016 and 2017.

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

The Group’s consolidated financial statements are prepared on a going concern basis and have been prepared under the historical cost convention.

The principal accounting policies adopted in the preparation of these financial statements have been consistently applied to all periods presented with the exception of intangible assets – trade names. During the period, the Group reconsidered the indefinite life assumed for its trade names. Given the increasingly price competitive market and its impact on the business, the Group has concluded that an indefinite life is no longer appropriate. The estimate was updated in 2017 to a useful life of 35 years, applicable from 1 October 2017. This resulted in an amortisation charge of £1.1 million in the period.

11 Securitisation

In accordance with the terms of the Secured Notes issued October 2014, Dignity (2002) Limited (the holding company of those companies subject to the securitisation) has today issued reports to the Rating Agencies (Fitch Ratings and Standard & Poor's), the Security Trustee and the holders of the Secured Notes issued in connection with the securitisation, confirming compliance with the covenants established under the securitisation.

Copies of these reports are available at **www.dignityfuneralsplc.co.uk**.

12 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.

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

Whilst the Group's structured approach to risk management continues, given the changes in the market and the fact that we will be testing a number of pricing and services initiatives during the year, the risk appetite of the Group has increased.

Our approach to risk management

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

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

Responsibilities and actions

The Board

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

Risk process

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

Risk assessment

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

Identify

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

Assess

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

Mitigating activities

Mitigants are identified against each risk where possible.

Review and internal audit

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

Risk governance

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

Risk status summary and new risks

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

Increasing and emerging risk trends

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

Consumers are becoming more price conscious and prepared to shop around. This is driven to a considerable extent by the internet which is changing the way that they seek information and make decisions on funeral-related matters. The impact of the Group's digital and online presence on its risks therefore needs to be considered.

As a result of the changes in the competitive landscape, the Group has recognised that its exposure to a number of its principal risks has increased.

Cyber risk

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

Regulation

The increased focus on the whole sector may increase the likelihood of regulation of funerals in the UK as a whole and not just in Scotland. In addition, this could lead to regulation of the funeral plan sector with the Funeral Planning Authorities being re-constituted to be more of a regulatory body. Whilst the Group believes that this would be beneficial, there still remains a risk that regulation could be imposed that may result in a significant cost burden to the Group.

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.

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 below we provide a summary of each risk, a description of the potential impact and a summary of mitigating actions.

Operational risk management

Risk description and impact	Mitigating activities	2017 Commentary	Change
Significant reduction in the death rate There is a risk that the number of deaths in any year significantly reduces. This would have a direct result on the financial performance of both the funeral and crematoria divisions.	The profile of deaths has historically followed a similar profile to that predicted by the ONS, giving the Group the ability to plan its business accordingly. The risk is mitigated by the geographical spread of locations, the ability to control costs and the ability to acquire funerals.	The number of deaths in 2017 was higher than expected.	No change
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 that division and the Group as a whole.	This risk is addressed by ensuring appropriate policies and procedures are in place, which are designed to ensure excellent client service and careful selection of reputable partners.	There have been no such events in the period.	No change
Ability to increase average revenues per funeral or cremation Operating profit growth is in part attributable to increases in the average revenue per funeral or cremation. There can be no guarantee that future average revenues per funeral or cremation will be maintained or increased.	The Group believes that its focus on excellent client service helps to mitigate this risk. However, the Group took decisive action to reduce its funeral pricing in January 2018, which will be supported by an improved online presence.	Average revenues increased in line with the Board's expectations but will be lower in 2018.	Increased
Significant reduction in market share It is possible that other 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 or crematoria operations. This would have a direct result on the financial performance of those divisions.	The Group believes that this risk is mitigated for funeral operations by reputation and recommendation being a key driver to the choice of funeral director being used. In addition the Group's actions in January 2018 on pricing and promotion seek to protect the Group's funeral market share. For crematoria operations this is mitigated by difficulties associated with building new crematoria.	Market share was lower than the Board's expectations.	Increased
Demographic shifts in population There can be no assurance that demographic shifts in population will not lead to a reduced demand for funeral services in areas where Dignity operates.	In such situations, Dignity would seek to follow the population shift. This is mitigated by the geographical spread of locations coupled with the ability to acquire funeral locations in areas of higher demand.	There have been no material changes, with satellites being opened and businesses acquired in appropriate areas.	No change

Operational risk management (continued

Risk description and impact	Mitigating activities	2017 Commentary	Change
Competition The UK funeral services market and crematoria market is currently very fragmented. There can be no assurance that there will not be further consolidation in the industry or that increased competition in the industry, whether in the form of intensified price competition, service competition, over capacity or otherwise, would not lead to an erosion of the Group's market share, average revenues or costs and consequently a reduction in its profitability. The retention of affinity partners who sell the Group's pre-arranged funeral plans is essential to the long-term development of the pre-arranged funeral plan division. The loss of an affinity partner could lead to a reduction in the amount of profit recognised in that division at the time of sale. Failure to replenish or increase the bank of pre-arranged funeral plans could affect market share of the funeral division in the longer-term.	Established local reputation continues to be important in attracting clients, although this is declining. In addition the Group is enhancing and developing its digital presence. There are barriers to entry in the crematoria market due to the need to obtain planning approval for new crematoria and the cost of developing new crematoria. There are a number of potential affinity partners who could replace existing ones or add to existing relationships.	We have commented on the increasingly competitive environment across our business.	Increased
Taxes There can be no assurance that changes will not be made to UK taxes, such as VAT. VAT is not currently chargeable on the majority of the Group's services. The introduction of such a tax could therefore significantly increase the cost to clients of the Group's services.	There are currently specific exemptions under European legislation for the UK on the VAT treatment of funerals. Any change would apply to the industry as a whole and not just the Group.	No significant changes noted in the period.	No change
Regulation of pre-arranged funeral plans Pre-arranged funeral plans are not a regulated product, but are subject to a specific financial services exemption. Changes to the basis of any regulation could affect the Group's opportunity to sell pre-arranged funeral plans in the future or could result in the Group not being able to draw down the current level of marketing allowances, which would have a direct impact on the profitability of the Pre-arranged funeral plan division.	Any changes would apply to the industry as a whole and not just the Group. This risk is also mitigated through the high standards of selling and administration of pre-arranged funeral plans operated by the Group.	No significant changes noted in the period.	No change
Regulation of the funeral industry During the period, the Scottish Government recruited an Inspector of Funerals. Dignity welcomes this progress. Regulation could result in increased compliance costs for the industry as a whole or other unforeseen consequences.	The Group already operates at a very high standard, using facilities appropriate for the dignified care of the deceased.	We continue to seek regulation of our markets.	No change

Operational risk management (continued)

Risk description and impact	Mitigating activities	2017 Commentary	Change
Changes in the funding of the pre-arranged funeral plan business 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 than expected and thus generate lower profits.	There is considerable regulation around insurance companies which is designed, amongst other things, to ensure that the insurance companies meet their obligations. The Trusts hold assets with the objective of achieving returns slightly in excess of inflation.	The latest actuarial valuation of the pre-arranged funeral plan Trusts demonstrates an actuarial surplus. This is supported by robust average assets per plan.	No change

Financial risk management

Risk description and impact	Mitigating activities	2016 Commentary	Change
Financial Covenant under the Secured Notes The Group's Secured Notes requires EBITDA to total debt service to be above 1.5 times. If this financial covenant (which is applicable to the securitised subgroup of Dignity) is not achieved, then this may lead to an Event of Default under the terms of the Secured Notes, which could result in the Security Trustee taking control of the securitisation group on behalf of the Secured Noteholders. In addition, the Group is required to achieve a more stringent ratio of 1.85 times for the same test in order to be permitted to transfer excess cash from the securitisation group to Dignity plc. If this stricter test is not achieved, then the Group's ability to pay dividends would be impacted.	The nature of the Group's debt means that the denominator is now fixed unless further Secured Notes are issued in the future. This means that the covenant headroom will change proportionately with changes in EBITDA generated by the securitised subgroup.	No significant changes noted in the period. However, following the trading update and price changes in January 2018, covenant headroom in 2018 will be reduced.	Increased

13 Pre-arranged funeral plans

(a) Contingent liabilities and commitments

Dignity Pre-arrangement Limited, Dignity Securities Limited and Advance Planning Limited are fellow members of the Dignity Group in the United Kingdom. These companies have sold pre-arranged funeral plans to their clients in the past. All monies from these sales are held and controlled by three independent Trusts, being the National Funeral Trust, the Dignity Limited Trust Fund and the Trust for Age UK Funeral Plans respectively (the 'Principal Trusts'). Further details of the transactions can be found in the financial statements of these companies, which are available from 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

The Group has given commitments to these clients to perform their funeral. The agreed amounts payable to either the Group or to third party funeral directors will be paid out of the funds held in the Trusts. The majority of the Trustees of each of the pre-arranged funeral plan trusts are unconnected to the Group, as required by current UK legislation. The investment strategy is set, implemented and monitored by the Trustees.

It is the view of the Directors that none of the commitments given to these clients, which are explained further below, are onerous to the Group. However ultimately, the Group is obligated to perform these funerals in exchange for the assets of the Trust, whatever they may be.

Similar commitments have arisen following acquisitions of businesses, since 2013, which have sold pre-arranged funeral plans through similar trust based structures (the 'Recent Trusts'). Only the National Funeral Trust and the Trust for Age UK Funeral Plans receive funds relating to the sale of new plans (the 'Active Trusts').

(b) Pre-arranged funeral plan trust assets

As noted above, the Group has given commitments to perform the funerals covered by the pre-arranged plans, regardless of whether or not the Trusts have available assets to fund the funeral. The Group, therefore, has a potential exposure in the form of a reduced fee should the Trusts investment strategy, over which it has no control, fail to deliver an appropriate return or result in a fall in underlying asset values, or if the cost of delivery for a funeral increases at rates in excess of investment returns.

The Trustees have informed the Group that they continue to take independent advice regarding the Trust's investment strategy. As a result, it is anticipated that the investment allocation by class will develop further during 2018 and beyond, gradually resulting in a portfolio in the following profile:

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

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

The Trustees have advised that the market value of the assets of the pre-arranged funeral plan trusts were approximately £940 million at 29 December 2017 (2016: £863.9 million) in respect of 306,000 (2016: 299,000) active pre-arranged funeral plans. 102,000 (2016: 68,000) of the remaining active pre-arranged funeral plans related to those backed by Insurance Plans, as described in note 1 to the Annual Report, with the balance of 42,000 (2016: 37,000) being plans arising from acquisitions.

The Trustees of the Principal Trusts are required to have the Trusts' liabilities actuarially valued once a year (once every three years in the case of the Recent Trusts). This actuarial valuation is of liabilities of the Trusts to secure funerals through Dignity and other third party funeral directors and does not, in respect of those funerals delivered by the Group represent the cost of delivery of the funeral. It is only in the event that there are insufficient funds within the Trusts to cover the cost of delivery to Dignity that the commitment would become onerous to Dignity as described in (a) above.

The Trustees have advised that the latest actuarial valuations of the Principal Trusts were performed as at 29 September 2017 (2016: 23 September 2016) using assumptions determined by the Trustees. Actuarial liabilities in respect of the pre-arranged funeral plan trusts have increased to £877.2 million as at 29 September 2017 (2016: £839.7 million). The corresponding market value of the assets of the pre-arranged funeral plan trusts was £904.5 million (2016: £831.5 million) as at the same date. Consequently the actuarial valuations recorded a total surplus of £27.3 million at 29 September 2017 (2016: deficit of £8.2 million). The Group considers these to be prudent assumptions. If the valuation had been performed using a discount rate equal to the long-term investment strategy target of the Trustees of inflation plus 2 per cent, then the valuations would have reported an aggregate surplus of approximately £160 million.

Nonetheless, the Trustees have advised that the Trusts hold assets of approximately £3,100 (2016: £2,900) per active plan at the balance sheet date. On average the Group received approximately £2,600 (2016: £2,500) in the period for the performance of each funeral (including amounts to cover disbursements such as crematoria fees, ministers' fees and doctors' fees).

The Trustees have advised that the Recent Trusts have approximately £17 million (2016: £19 million) of assets as at the balance sheet date and no material actuarial surplus or deficit.

Transactions with the Group

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

Transactions principally comprise:

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

Transactions also include:

- Receipts from the Trusts in respect of cancellations by existing members;
- Reimbursement by the Trusts of expenses paid by the Group on behalf of the respective Trusts; and
- The payment of realised surpluses generated by the Trust funds as and when the Trustees sanction such payments.

Transactions are summarised below:

	Transactions during the period		Amounts due to the Group at the period end	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Dignity Limited Trust Fund	**0.3**	0.3	**-**	-
National Funeral Trust	**49.0**	44.4	**8.2**	6.8
Trust for Age UK Funeral Plans	**35.0**	36.5	**3.9**	4.2
Recent Trusts	**3.7**	2.1	**-**	0.2
Total	**88.0**	83.3	**12.1**	11.2

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

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

	Transactions during the period	
	2017	2016
	£m	£m
Funeral services revenue	**45.6**	42.6
Pre-arranged funeral plans revenue	**26.7**	27.3

In addition to the transactions recognised within revenue in the table above, there were £15.7 million (2016: £13.4 million) of transactions between the Group and the Trusts which represented amounts paid to the Group to reimburse them for trust expenses, monies repaid to members on cancellation and monies paid to third parties for the performance of some funeral services; all of which have no impact on the income statement.