For immediate release **11 March 2020**

Dignity plc

Preliminary results for the 52 week period ended 27 December 2019

Dignity plc (Dignity, the Company or the Group), the UK's only listed provider of funeral related services, announces its preliminary results for the 52 week period ended 27 December 2019.

Financial highlights

	52 week period ended 27 December 2019	52 week period ended 28 December 2018 restated	Decrease per cent
Underlying revenue (£million)	**301.3**	315.6	5
Underlying operating profit (£million)	**63.3**	80.2	21
Underlying profit before tax (£million)	**37.7**	54.4	31
Underlying earnings per share (pence)	**60.6**	85.8	29
Underlying cash generated from operations (£million)	**71.8**	101.9	30
Revenue (£million)	**338.9**	353.7	4
Operating profit (£million)	**44.8**	75.9	41
Profit/ (loss) before tax (£million)	**44.1**	(18.0)	
Basic earnings/ (loss) per share (pence)	**69.8**	(34.0)	
Cash generated from operations (£million)	**64.6**	104.2	38
Interim dividend paid in the period (pence)	**-**	8.64	
Final dividend proposed in respect of the period (pence)	**-**	15.74	
Number of deaths	**584,000**	599,000	3

Prior year adjustments
The Group has changed its accounting policy in respect of certain pre-arranged funeral plan trusts and the adoption of IFRS 15. This has been applied retrospectively and therefore certain statutory amounts have been restated. See note 1 for further details.

Alternative performance measures (APMs)
The Board believes that whilst statutory reporting measures provide financial performance of the Group under GAAP, APMs are necessary to enable users of the financial statements to fully understand the trading performance and financial position of the business. The APMs provided are aligned with those used in the day-to-day management of the business and allow for greater comparability across periods. For this reason, the APMs provided exclude the impact of consolidating the Trusts and the changes which relate to the adoption of IFRS 15, both of which are considered to mask the underlying trading performance of the Group, as well as non-underlying items comprising certain non-recurring and non-trading transactions. Further detail may be found on pages 49 to 50.

Key points

- Operating performance consistent with market expectations
- Crematoria and pre-need divisions performing well
- Number of deaths lower than anticipated at the start of the year
- Changing competitive landscape has lowered average income per funeral as expected
- Further downward pressure on average income per funeral and cremation expected
- The CMA investigation could materially impact the industry and the Group
- Funeral market share showing positive response to changes in proposition
- Group welcomes proposed regulation of pre-arranged funeral plans
- Accounting policy changes impacting statutory results, but alternative performance measures unaffected
- The Group is adapting and pausing certain aspects of the Transformation Plan pending the outcome of the CMA investigation which will delay anticipated cost savings

Clive Whiley, Chairman of Dignity plc, commented:

"2019 witnessed a year of unprecedented change in the funeral industry. Whilst we were pleased with the progress we made and the financial performance we delivered in light of the competitive environment, we need to be cautious in the coming months until the CMA's conclusions are finalised.

Their report could materially impact the industry and the size and shape of our business. We are therefore for now, delaying key aspects of our Transformation Plan. However, the need to maintain the highest levels of customer service through modern, efficient ways of working remains."

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Notes
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://webcasting.buchanan.uk.com/broadcast/5e3c20db397af40afa52cbbb

Conference call (Listen only)
UK Toll: +44 3333000804
UK Toll Free: 08003589473
Participant PIN code: 84816367#
URL for international dial in numbers:
http://events.arkadin.com/ev/docs/NE_W2_TF_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.

Dignity's preliminary results and corporate presentation are available at https://www.dignityfunerals.co.uk/corporate/investors/.

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

Chairman's statement

Introduction and overview

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

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

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

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

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

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

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

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

Strategy

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

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

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

Pricing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our people, culture and values

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

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

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

Dividends

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

Looking ahead

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

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

Clive Whiley
Non-Executive Chairman
11 March 2020

Chief Executive's review

Overview and performance

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

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

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

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

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

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

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

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

Where we are now

The Transformation Plan is helping us to build a distinctive and powerful market offer. We are delivering a differentiated customer experience and we remain determined to meet stakeholder expectations. One of the key objectives of the Transformation Plan is to mobilise our funeral arrangers. We have concluded an initial branch pilot and the response from customers and staff has been very positive. We are confident that the significant work put into the design of the pilots is paying off.

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

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

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

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

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

Purpose and vision

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

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

People and culture

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

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

CMA investigation into the funeral industry

Introduction and overview

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

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

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

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

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

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

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

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

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

Next steps and timeline
The CMA has published a number of working papers as it gathers and analyses evidence. Dignity is responding to these papers where appropriate.

The papers are expected to form the basis of the Provisional Decision Report which is due to be released in April or May 2020. A period of consultation will follow, culminating in the release of the Final Report, which – according to the CMA's current published timetable – must be issued by 27 September 2020. The CMA may propose remedies or regulation to improve how the market works for consumers.

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

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

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

The funeral market is significantly changing

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

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

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

Deaths in Great Britain
In 2019 the initial publication of recorded total estimated deaths in Britain for 52 weeks was 584,000, two and a half per cent lower than the 52 weeks in 2018. Some of the Group's key performance indicators rely on the total number of estimated deaths for each period and this information is obtained from the Office for National Statistics (ONS). Although annual deaths have declined significantly since the early 1990s from 640,000 to a low of 539,000 in 2011, the last five years have seen deaths above that level. The ONS expects long- term increases in the number of deaths. These estimates were updated by ONS in October 2019, increasing expectations by approximately 20,000 per year. They anticipate approximately 600,000 deaths in 2020, increasing to approximately 740,000 in 2040.

We are progressing our Transformation Plan

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

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

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

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

Components of the Transformation Plan

1. Modernise the client proposition:

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

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

Simplicity Cremations - We're changing the way funerals are arranged
We offer families greater choice and flexibility in how they remember their loved ones – whilst we focus on providing the essential care and practical elements of the cremation.

Pilot networks - We are trialling and testing response to new technologies and different service propositions
The Group continues to trial various propositions at different price points. At its core is a move away from a packaged service offering to an unbundled approach, where customers can personalise their own requirements.

Initial launch and testing response to our new Dignity brand
In 2019, we began to introduce new signage on our locations, supported by new marketing literature using the new brand identity.

2. Invest in and simplify the operating model

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

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

Front of house - We are trialling mobile technology for client facing arrangers
We have launched trials of new ways of working and operational management in three pilot networks and we are mobilising our funeral managers to enable them to respond more proactively to clients' needs.

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

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

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

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

We have an IT strategy in place to support change
Technology is central to our transformation plans and selecting appropriate solutions for each task is critical to their success.

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

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

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

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

Playing a leading role in the funeral industry
A research report by Trajectory and Simplicity Cremations
As one of the leading funeral services providers in the UK, we are committed to increasing choice for consumers and ensuring there is a wide range of options available to them at different price points.

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

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

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

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

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

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

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

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

Operating Review

FUNERAL SERVICES

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

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

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

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

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

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

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

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

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

Funeral mix and average income

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

Funeral mix and average income

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

Investment

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

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

Outlook

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

CREMATORIA

Performance

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

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

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

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

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

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

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

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

PRE-ARRANGED FUNERAL PLANS

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

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

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

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

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

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

These amounts will be recognised as and when the funerals are performed. As with all the Group's divisions, pre-arranged funeral plan underlying profits broadly reflect the cash generated by that activity.

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

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

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

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

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

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

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

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

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

CENTRAL OVERHEADS

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

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

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

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

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

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

Mike McCollum
Chief Executive
11 March 2020

Financial Review

Introduction

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

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

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

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

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

Financial highlights

The Group's financial performance is summarised below:

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

(a) Further details of alternative performance measures can be found on pages 49 to 50.

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

Alternative performance measures

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

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

Detailed information on non-underlying items is set out on pages 49 and 50 and a reconciliation of statutory revenue to underlying revenue is detailed in note 2.

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

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

(a) Further details of alternative performance measures can be found on pages 49 to 50.

Earnings per share

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

Transformation Plan

Costs incurred in 2019

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

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

The overall cost and benefit of the Transformation Plan

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

Costs

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

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

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

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

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

Other items excluded from underlying operating profit

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

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

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

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

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

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

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

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

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

This is analysed as:

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

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

(b) Property disposals are the result of the Transformation Plan.

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

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

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

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

Cash balances at the end of the period were £57.9 million (2018: £66.9 million). Further details and analysis of the Group's cash balances are included in note 7.

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

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

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

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

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

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

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

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

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

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

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

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

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

Revolving Credit Facility

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

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

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

Net debt

The Group had net debt of £506.2 million (2018: £506.8 million) at the balance sheet date. See note 10 for further details.

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

Net finance costs

The Group's underlying finance costs substantially consist of the interest on the Secured Notes and ancillary instruments. The net finance cost in the period relating to these instruments was £24.4 million (2018: £24.8 million).

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

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

Shareholders' deficit

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

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

Trust balances

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

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

Accounting policy changes

As described elsewhere, the Group has changed its accounting policy in respect of the Trusts. As a consequence, the Group has also decided not to apply IFRS 15 on a modified retrospective approach, but rather to apply it fully retrospectively. The impact of these changes are detailed in note 18.

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

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

Steve Whittern
Finance Director
11 March 2020

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 27 December 2019	52 week period ended 28 December 2018	Developments in 2019
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.	**60.6p**	85.8p	The reduction follows the decrease in underlying operating profit
Underlying operating profit (£ m)	This is the statutory operating profit of the Group excluding non-underlying items and the impact of the change in pre-need trust accounting and IFRS 15.	**£63.3m**	£80.2m	Underlying operating profit declined year-on-year, primarily driven by lower deaths, lower average incomes and ongoing cost inflation.
Underlying cash generated from operations (£ m)	This is the statutory cash generated from operations excluding non-underlying items and the impact of the change in pre-need trust accounting and IFRS 15.	**£71.8m**	£101.9m	The Group continues to convert operating profit into cash efficiently, subject to timing differences and cash incurred in respect of commission payments.
Average income per funeral (£)	Net underlying funeral revenue divided by the number of funerals performed in the relevant period.	**£2,930**	£2,973	This reduction year-on- year is consistent with the Group's strategic price changes.
Total estimated number of deaths in Britain (number)	This is as reported by the Office for National Statistics.	**584,000**	599,000	Deaths were lower than originally anticipated at the beginning of the year.
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.	**11.7%**	11.9%	Whilst market share is lower than 2018, it continues to show a positive response from changes in proposition and pricing.
Number of funerals performed (number)	This is the number of funerals performed by the Group according to our operational data.	**69,400**	72,300	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.	**11.1%**	10.9%	Market share has increased, reflecting the effect of increases in the number of locations combined with an increase in the number of Simplicity and other direct cremations being performed.
Number of cremations performed (number)	This is the number of cremations performed according to our operational data.	**64,800**	65,200	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.	**523,000**	486,000	This increase reflects continued sales activity offset by the crystallisation of plans sold in previous periods.

Maintaining consistently high-quality and standards

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

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

The Dignity Client Survey 2019

Reputation and recommendation

99.2% (2018: 98.9%)
99.2 per cent of respondents said that we met or exceeded their expectations.

98.0% (2018: 97.7%)
98.0 per cent of respondents would recommend us.

Quality of service and care

99.9% (2018: 99.9%)
99.9 per cent thought our staff were respectful.

99.7% (2018: 99.6%)
99.7 per cent thought our staff listened to their needs and wishes.

99.1% (2018: 99.1%)
99.1 per cent agreed that our staff were compassionate and caring.

High standards of facilities and fleet

99.8% (2018: 99.8%)
99.8 per cent thought our premises were clean and tidy.

99.7% (2018: 99.7%)
99.7 per cent thought our vehicles were clean and comfortable.

In the detail

99.2% (2018: 99.2%)
99.2 per cent of clients agreed that our staff had fully explained what would happen before and during the funeral.

99.0% (2018: 99.1%)
99.0 per cent said that the funeral service took place on time.

98.3% (2018: 98.4%)
98.3 per cent said that the final invoice matched the estimate provided.

Consolidated income statement
for the 52 week period ended 27 December 2019

	Note	**52 week period ended 27 December 2019 £m**	52 week period ended 28 December 2018 restated £m
Revenue	2	**338.9**	353.7
Cost of sales		**(161.7)**	(158.9)
Gross profit		**177.2**	194.8
Administrative expenses		**(132.4)**	(118.9)
Operating profit	2	**44.8**	75.9
Finance costs	3	**(25.8)**	(26.0)
Finance income	3	**0.2**	0.2
Share of loss and impairment in respect of associated undertakings		**(6.0)**	-
Deferred revenue significant financing	3	**(54.1)**	(53.3)
Remeasurement of financial assets held by the Trusts and related income	3	**85.0**	(14.8)
Profit/(loss) before tax	2	**44.1**	(18.0)
Taxation	4	**(9.2)**	1.0
Profit/(loss) for the period attributable to equity shareholders	2	**34.9**	(17.0)
Earnings/(loss) per share for profit attributable to equity shareholders			
– Basic (pence)	6	**69.8p**	(34.0)p
– Diluted (pence)	6	**69.8p**	(34.0)p

Prior year comparatives have been restated due to the impact of the adoption of IFRS 15, Revenue from Contracts with Customers, in addition to the impact of the change in accounting policy in respect of the consolidation of the Trusts. See note 1 for further details.

The alternative performance measures included within the Preliminary Announcement present information on a comparable basis with that presented in prior periods.

Consolidated statement of comprehensive income
for the 52 week period ended 27 December 2019

	Note	**52 week period ended 27 December 2019 £m**	52 week period ended 28 December 2018 restated £m
Profit/(loss) for the period		**34.9**	(17.0)
Items that will not be reclassified to profit or loss			
Remeasurement loss on retirement benefit obligations	12	**(1.8)**	(0.6)
Tax credit on remeasurement on retirement benefit obligations		**0.3**	0.1
Other comprehensive loss		**(1.5)**	(0.5)
Comprehensive income/(loss) for the period		**33.4**	(17.5)
Attributable to:			
Equity shareholders of the parent		**33.4**	(17.5)

Prior year comparatives have been restated due to the impact of the adoption of IFRS 15, Revenue from Contracts with Customers, in addition to the impact of the change in accounting policy in respect of the consolidation of the Trusts. See note 1 for further details.

Consolidated balance sheet
as at 27 December 2019

	Note	27 December 2019 £m	28 December 2018 restated £m
Assets			
Non-current assets			
Goodwill		**232.6**	232.6
Intangible assets		**140.5**	152.3
Property, plant and equipment		**251.3**	254.1
Investments in associated undertakings		**-**	6.0
Financial and other assets		**18.2**	15.7
Financial assets held by the Trusts	8	**947.5**	862.4
Deferred commissions	9	**96.8**	94.5
Deferred tax asset		**14.0**	17.9
		1,700.9	1,635.5
Current assets			
Inventories		**7.9**	8.5
Trade and other receivables		**32.4**	31.3
Deferred commissions	9	**7.3**	7.1
Cash and cash equivalents – Trading Group		**57.9**	66.9
Cash and cash equivalents – held by the Trusts		**15.5**	13.8
Cash and cash equivalents	7	**73.4**	80.7
		121.0	127.6
Total assets		**1,821.9**	1,763.1
Liabilities			
Current liabilities			
Financial liabilities		**9.6**	9.3
Trade and other payables		**61.6**	66.8
Current tax liabilities		**1.7**	4.8
Contract liabilities	9	**95.5**	91.5
Provisions for liabilities		**2.0**	1.4
		170.4	173.8
Non-current liabilities			
Financial liabilities		**542.3**	551.9
Other non-current liabilities		**2.0**	2.1
Contract liabilities	9	**1,209.1**	1,164.6
Provisions for liabilities		**9.3**	9.4
Retirement benefit obligation	12	**26.0**	25.2
		1,788.7	1,753.2
Total liabilities		**1,959.1**	1,927.0
Shareholders' deficit			
Ordinary share capital		**6.2**	6.2
Share premium account		**12.5**	12.4
Capital redemption reserve		**141.7**	141.7
Other reserves		**(4.0)**	(5.1)
Retained earnings		**(293.6)**	(319.1)
Total deficit		**(137.2)**	(163.9)
Total deficit and liabilities		**1,821.9**	1,763.1

Prior year comparatives have been restated due to the impact of the adoption of IFRS 15, Revenue from Contracts with Customers, in addition to the impact of the change in accounting policy in respect of the consolidation of the Trusts. See note 1 for further details.

The alternative performance measures included within the Group's consolidated financial statements present information on a comparable basis.

Consolidated statement of changes in equity
for the 52 week period ended 27 December 2019

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Shareholders' equity as at 29 December 2017 - as originally presented	6.2	11.1	141.7	(4.6)	(108.0)	46.4
Adjustment on change in accounting policy and adoption of IFRS 15 (note 18)	-	-	-	-	(181.4)	(181.4)
Shareholders' equity as at 29 December 2017 - restated	6.2	11.1	141.7	(4.6)	(289.4)	(135.0)
Loss for the 52 weeks ended 28 December 2018 - restated	-	-	-	-	(17.0)	(17.0)
Remeasurement loss on defined benefit obligations	-	-	-	-	(0.6)	(0.6)
Tax on retirement benefit obligations	-	-	-	-	0.1	0.1
Total comprehensive loss - restated	-	-	-	-	(17.5)	(17.5)
Effects of employee share options	-	-	-	0.8	-	0.8
Proceeds from share issue(1)	-	1.3	-	-	-	1.3
Gift to Employee Benefit Trust	-	-	-	(1.3)	-	(1.3)
Dividends (note 5)	-	-	-	-	(12.2)	(12.2)
Shareholders' equity as at 28 December 2018 - restated	6.2	12.4	141.7	(5.1)	(319.1)	(163.9)
Profit for the 52 weeks ended 27 December 2019	-	-	-	-	34.9	34.9
Remeasurement loss on retirement benefit options	-	-	-	-	(1.8)	(1.8)
Tax on retirement benefit obligations	-	-	-	-	0.3	0.3
Total comprehensive income	-	-	-	-	33.4	**33.4**
Effects of employee share options	-	-	-	1.1	-	**1.1**
Tax on employee share options	-	-	-	0.1	-	**0.1**
Proceeds from share issue(2)	-	0.1	-	-	-	**0.1**
Gift to Employee Benefit Trust	-	-	-	(0.1)	-	**(0.1)**
Dividends (note 5)	-	-	-	-	(7.9)	**(7.9)**
Shareholders' equity as at 27 December 2019	**6.2**	**12.5**	**141.7**	**(4.0)**	**(293.6)**	**(137.2)**

(1) Relating to issue of 77,038 shares under 2015 LTIP scheme.
(2) Relating to issue of 3,455 shares under 2016 DAB scheme.

Prior year comparatives have been restated due to the impact of the adoption of IFRS 15, Revenue from Contracts with Customers, in addition to the impact of the change in accounting policy in respect of the consolidation of the Trusts. See note 1 for further details.

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

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

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

Consolidated statement of cash flows
for the 52 week period ended 27 December 2019

	Note	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 restated £m
Cash flows from operating activities			
Cash generated from operations		**64.6**	104.2
Finance income received		**0.3**	0.2
Finance costs paid		**(25.0)**	(13.1)
Transfer from restricted bank accounts for finance costs		**12.3**	0.3
Payments to restricted bank accounts for finance costs	7	**(12.1)**	(12.3)
Total payments in respect of finance costs		**(24.8)**	(25.1)
Tax paid		**(7.9)**	(11.6)
Net cash generated from operating activities		**32.2**	67.7
Cash flows from investing activities			
Investment in associated undertakings		**-**	(5.0)
Acquisition of subsidiaries and businesses (net of cash acquired)		**-**	(6.5)
Proceeds from sale of property, plant and equipment		**2.1**	0.4
Maintenance capital expenditure(1)		**(9.8)**	(16.1)
Branch relocations		**(1.1)**	(0.8)
Transformation capital expenditure		**(1.7)**	-
Satellite locations		**(0.3)**	(1.4)
Development of new crematoria and cemeteries		**(5.4)**	(6.7)
Purchase of property, plant and equipment and intangible assets		**(18.3)**	(25.0)
Purchase of financial assets (by the Trusts)	8	**(736.1)**	(625.5)
Disposals of financial assets (by the Trusts)	8	**726.6**	604.8
Realised return on financial assets		**3.6**	3.4
Net cash used in investing activities		**(22.1)**	(53.4)
Cash flows from financing activities			
Payments due under Secured Notes		**(9.3)**	(4.5)
Transfer from restricted bank accounts for repayment of borrowings		**4.6**	-
Payments to restricted bank accounts for repayment of borrowings	7	**(4.8)**	(4.6)
Total payments in respect of borrowings		**(9.5)**	(9.1)
Dividends paid to shareholders on Ordinary Shares	5	**(7.9)**	(12.2)
Net cash used in financing activities		**(17.4)**	(21.3)
Net decrease in cash and cash equivalents		**(7.3)**	(7.0)
Cash and cash equivalents at the beginning of the period		**63.8**	70.8
Cash and cash equivalents at the end of the period	7	**56.5**	63.8
Restricted cash	7	**16.9**	16.9
Cash and cash equivalents at the end of the period as reported in the consolidated balance sheet	7	**73.4**	80.7

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

Prior year comparatives have been restated due to the impact of the adoption of IFRS 15, Revenue from Contracts with Customers, in addition to the impact of the change in accounting policy in respect of the consolidation of the Trusts. See note 1 for further details.

1 Change in accounting policy

As explained further below, the Group has revisited the judgement regarding the extent of its control over the Trusts and as a result has revised its accounting policy to reflect the consolidation of the two principal pre-need trusts.

As a result of consolidating the Trusts, the Group has applied new accounting policies in respect of the recognition and measurement of the financial assets held by the Trusts and extended its revenue recognition policies to consider deferred revenue received from plan holders, refund liabilities and income received from plan holders under payment plans. The application of IFRS 15 to the Group as enlarged by the consolidation of the Trusts has also resulted in a change in the presentation of revenue and costs related to disbursements associated with pre-need plans and pre-need plans ultimately performed by non-Dignity funeral directors from an agent basis to a principal basis. This revision reflects the fact that, under IFRS 15, the Group controls the delivery of pre-need plans, including disbursements, and those plans where the funeral service is delivered by third parties.

Prior period comparatives have been restated to reflect the above change in accounting policy and the impact of IFRS 15. A reconciliation from the reported prior period comparatives has been provided in note 18 together with the third balance sheet required to be disclosed in support of the prior year adjustment.

Critical accounting judgement:

The Group markets and sells pre-arranged funeral plans, with monies received from selling funeral plans being held and invested by pre-arranged funeral plan trusts. These financial statements reflect the consolidation of the two principal pre-arranged funeral plan trusts being the Trust for Age UK Plans and the National Funeral Trust (together the 'Trusts'). The previous principle of non-consolidation, which was established many years ago, was reconsidered in 2015 following the introduction of IFRS 10 and is reconsidered annually to determine if there are any circumstances which would change the previous determination.

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

The decision as to whether to consolidate these trusts is a matter of significant judgement in respect of which the Group believes that informed individuals could reach alternative conclusions. Notably, during the period prior to the preparation of these financial statements, the Group has been in discussion with the Financial Reporting Council ('FRC'), regarding the matter and the extent to which the Group is able to affect its variable returns through power over the trustees, principally through its power to appoint and remove trustees.

The Group previously concluded that the legislative requirement for a majority of trustees to be unconnected with Dignity meant that Dignity did not, and could not, control the actions of the trustees. Combined with the judgement that ultimately Dignity's return from the Trusts was wholly dependent on the investment performance of the Trusts and that the investment strategy of the Trusts was set, implemented and monitored by the trustees, Dignity previously concluded that it did not have the power to affect the amounts of its returns, that it did not control the Trusts and therefore that the Trusts should not be consolidated.

Upon re-examination of the factors that influence that decision, following the latest discussions with the FRC, the Group has concluded as part of its current year consideration of the recurring judgement that more weight should be attributed to its ability to appoint and remove trustees and less to the legislative requirement for a majority of trustees to be unconnected with Dignity. As a result, the Group has reached a revised judgement, the basis of which is summarised below, that it does have control as defined by IFRS 10 and should consolidate those pre-arranged funeral plan trusts where it has the ability to appoint and remove trustees.

Therefore, the Group has made a change in accounting policy, which has been reflected in these financial statements as a prior period restatement, full details of which are given in note 18.

Whether to consolidate the Trusts or not remains a key judgement and the basis of this judgement reflected in these financial statements is summarised in the table below. The table relates solely to the two principal trusts which are consolidated and for the purpose of the table, 'Dignity' refers to the Group excluding the Trusts.

IFRS 10 consideration	Analysis
Power over the investee. Power arises when the investor has existing rights that give them the ability to direct the relevant activities of the investee, being those activities which influence the returns achieved by the investee.	Whilst Dignity has no voting rights over the Trusts or any rights to direct the activities of the Trusts, it does have the power to appoint and remove a majority of trustees. Whilst legislation requires the majority of trustees to be unconnected with Dignity this right does not prevent Dignity removing a majority of the trustees from office such that on balance it is considered that Dignity is able to control the actions of the Trustees who in turn control the investment decisions of the Trusts and negotiate with Dignity the marketing allowance paid to Dignity on behalf of the Trust. Also, Dignity controls the charge levied to the Trusts for the provision of funeral services ('funeral cover').
The investor is exposed, or has rights, to variable returns from its involvement with the investee.	Dignity receives an allowance for the marketing of the plans and for the performance of a funeral. From time to time Dignity may receive a surplus from the Trusts. The extent of the marketing allowance establishes the amount to be held in Trust on which investment returns can be made. Ultimately Dignity's return is wholly dependent on the amounts held for investment in the Trusts and the investment performance of the Trusts.
The investor has the ability to use its power over the investee to affect the amount of the investor's returns.	Dignity establishes the level of funeral cover and negotiates the level of marketing allowance with the Trustees on an annual basis. The investment strategy is set, implemented and monitored by the Trustees. Consequently, as Dignity is on balance considered to control the actions of the Trustees, Dignity has the power to affect the amount of its returns.

For other, smaller trusts from which Dignity receives funeral cover in the event that they deliver a funeral service, the judgement is that the Group has no power over the actions of the investee as Dignity does not have the ability to appoint or remove trustees. Further, as these trusts do not accept new plans and the level of funeral cover paid by these trusts is derived based on the value of trust assets and the number of remaining open funeral plans alone, Dignity has no wider ability to affect its variable returns from these trusts. Consequently, Dignity is unable to use its power to influence its variable returns, such that the Group is not considered to control these trusts and therefore these trusts are not consolidated.

The FRC has confirmed that the matter is now closed. The FRC's question was originally contained in a letter issued in respect of our 2017 Annual Report & Accounts. The FRC's role is to consider compliance with reporting standards and is not to verify the information provided to them. Therefore, given the scope and inherent limitations of their review, which does not benefit from any detailed knowledge of the Group, it would not be appropriate to infer any assurance from their review that our 2017 Annual Report and Accounts was correct in all material respects.

The revised accounting policy in relation to revenue recognition is as follows:

Revenue
At-need funerals and cremations
Revenue from funeral operations related to at-need funerals comprises the amount recoverable from customers for the provision of funerals, income from crematoria and other services, once those services have been performed or the goods supplied.

Income from memorial sales is recognised at the point of sale, to the extent that the goods have been supplied. Costs of maintaining memorials are recognised as incurred.

The Group pays certain disbursements (such as crematoria fees, burial plots, ministers' fees and doctors' fees) on behalf of its clients. These amounts are recovered as part of the invoicing process. However, these amounts are not included within net revenues as they are simply passed on to the customer (plan holder) at cost and not controlled by Dignity.

All amounts are exclusive of VAT.

Pre-arranged funeral plans
Trust for Age UK Plans and National Funeral Trust
The Group markets and sells pre-arranged funeral plans, with monies received from selling funeral plans being held, invested and controlled by the Trusts. The responsibility for the ultimate performance of funerals is allocated to funeral directors, who are selected by the beneficiary of the plan, some of whom are not owned by the Group. The sale of a pre-arranged plan is considered to have a single performance obligation, fulfilled by the delivery of the funeral service.

Amounts received from plan holders are deferred on the balance sheet within contract liabilities until the related funeral is performed or the plan cancelled. Where, based on historic experience, the Group expects that a proportion of plans will be cancelled, the deferral takes the form of a refund liability which, under the terms of the plan, is held based on the fixed amount received on inception of the plan. For the majority of plans where the service as per the funeral plan is expected to be performed, the deferred amount is subject to adjustment to reflect a significant financing component.

This significant financing component, which has been calculated based on the expected discount rate that would be reflected in a separate financing transaction between the Group and the plan holder at contract inception, is charged to the income statement as a finance cost each period until the performance obligation is satisfied. The discount rate applied is fixed at inception of each plan and is based on the estimated incremental borrowing rate of the Group at the time of each cash flow.

The amount deferred on the balance sheet includes amounts paid by the plan holder, which, in addition to the plan consideration includes amounts in respect of disbursements (such as crematoria fees, burial plots, ministers' fees and doctors' fees). When the service prescribed by the plan is delivered, revenue is recognised equal to the deferred revenue balance related to the specific plan. When a plan is cancelled, revenue is recognised equal to the deferred revenue balance related to the specific plan, less the fixed refund due to the plan holder.

All directly attributable costs in respect of the marketing of the pre-arranged funeral plans are held as deferred commissions in the consolidated balance sheet and recognised in the Group's consolidated income statement, within administration expenses, on the performance of a funeral (single performance obligation) or cancellation of the plan (if not refunded).

Contract liabilities and deferred commissions balances are split between current and non-current based on historical experience.

All costs in respect of the administration of the pre-arranged funeral plans are expensed in the Group's consolidated income statement as incurred, within the funeral services segment.

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

Other trust plans
Revenue in respect of funeral services subject to pre-need plan arrangements associated with the other trusts is recognised on delivery of the underlying service at the amount paid from the other trust to the Group.

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

Where a commission is paid to the insurers, these costs are carried as a prepayment and charged to the consolidated income statement as a funeral is performed.

Where a commission is payable only on delivery of the funeral no amounts are recorded until the funeral is performed.

In the event of the death of the policyholder, if the Group performs the funeral, it receives an agreed amount from the insurers which is recognised as revenue within the funeral services division. On occasions a third party will perform the funeral and the Group will pass on all monies received to that party and in this situation the Group is deemed to be acting as an agent and revenue is treated as pass through revenue and not grossed up within the consolidated income statement.

2 Revenue and segmental analysis
Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker of the Group has been identified as the three Executive Directors. For statutory purposes the Group now has two reporting segments, funeral services and crematoria. This follows the adoption of IFRS 15, as a result of which the Group has concluded that only a single performance obligation exists when a pre-arranged funeral plan is sold, being the performance of a funeral. The Group also reports central overheads, which comprise unallocated central expenses.

Revenue
Funeral services relate to two primary sources of revenue, reflecting the adoption of IFRS 15 and the Group's decision to change its accounting policy in respect of its pre-arranged funeral plan trusts:

Funerals arranged and funded by the customer at the time of need, in addition to ancillary items, such as memorials and floral tributes; and

Funerals arranged and funded by a pre-arranged Trust funeral plan, for which amounts recognised as revenue arise from the de-recognition of deferred revenue on completion of the related performance obligation.

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

Underlying revenue

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

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

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

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

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

Underlying revenue and underlying operating profit are stated before non-underlying items and the effect of consolidation of the Trusts and IFRS 15 as defined on page 49.

Reconciliations to statutory amounts

Non-underlying items represent certain non-recurring or non-trading transactions. See alternative performance measures on page 49 and 50 for further details.

Other adjustments reflect the impact of consolidating the Trusts and adopting IFRS 15. Underlying revenue substitutes revenue arising from the de-recognition of deferred revenue on completion of the related performance obligation, which includes the impact of significant financing as outlined in note 1, with the payments received from the Trusts on the death of a plan member, and recognises marketing allowances at the inception of a plan, net of an allowance for cancellations. Underlying revenue also excludes amounts relating to disbursements and external payments made when the performance of the plan funeral is delivered by third parties.

Disaggregated revenue

The disaggregated revenue and operating profit/(loss), by segment, is shown in the following tables.

52 week period ended 27 December 2019

	Underlying Revenue £m	Other adjustments (1) £m	Revenue £m
Funeral services	**203.3**	**58.8**	**262.1**
Crematoria	**76.8**	**-**	**76.8**
Pre-arranged funeral plans	**21.2**	**(21.2)**	**-**
Group	**301.3**	**37.6**	**338.9**

(1) Other adjustments relate to the consolidation of the Trusts.

Within funeral services revenue £91.7 million (2018: £92.5 million) relates to deferred revenue arising on the completion of performance obligations under pre-need trust plans.

In addition to the adjustments noted above relating to revenue, in arriving at underlying operating profit further 'other adjustments', reflecting the impact of consolidating the Trusts and adopting IFRS 15, have been recorded. This includes corresponding entries relating to the exclusion of disbursements and external payments made when the performance of the funeral is delivered by third parties, adjustments are also made to exclude the Trusts administration costs and to recognise commissions payable at the inception of a plan rather than on delivery of the funeral or cancellation.

52 week period ended 27 December 2019	Underlying operating profit/ (loss) before depreciation and amortisation £m	Underlying depreciation and amortisation £m	Underlying Operating profit/ (loss) £m	Non-underlying items £m	Other adjustments £m	Operating profit/(loss) £m
Funeral services	**68.6**	**(12.3)**	**56.3**	**(10.0)**	**8.4**	**54.7**
Crematoria	**43.6**	**(5.2)**	**38.4**	**(1.2)**	**-**	**37.2**
Pre-arranged funeral plans	**-**	**-**	**-**	**(0.2)**	**0.2**	**-**
Central overheads	**(29.6)**	**(1.8)**	**(31.4)**	**(15.7)**	**-**	**(47.1)**
Group	**82.6**	**(19.3)**	**63.3**	**(27.1)**	**8.6**	**44.8**
Finance costs			**(25.8)**			**(25.8)**
Finance income			**0.2**			**0.2**
Deferred revenue significant financing					**(54.1)**	**(54.1)**
Remeasurement of financial assets held by the Trusts and related income					**85.0**	**85.0**
Share of loss in associated undertakings				**(0.6)**		**(0.6)**
Impairment of investments in associated undertakings				**(5.4)**		**(5.4)**
Profit before tax			**37.7**	**(33.1)**	**39.5**	**44.1**
Taxation			**(7.4)**	**4.9**	**(6.7)**	**(9.2)**
Underlying earnings for the period			**30.3**			
Non-underlying items				**(28.2)**		
Other adjustments					**32.8**	
Profit after taxation						**34.9**
Earnings per share for profit attributable to equity shareholders						
- Basic (pence)			**60.6p**			**69.8p**
- Diluted (pence)						**69.8p**

52 week period ended 28 December 2018 - restated

	Underlying Revenue £m	Other adjustments [1] £m	Revenue £m
Funeral services	214.9	60.8	275.7
Crematoria	78.0	-	78.0
Pre-arranged funeral plans	22.7	(22.7)	-
Group	315.6	38.1	353.7

(1) Other adjustments relate to the consolidation of the Trusts.

52 week period ended 28 December 2018 - restated

	Underlying operating profit/ (loss) before depreciation and amortisation £m	Underlying depreciation and amortisation £m	Underlying Operating profit/ (loss) £m	Non-underlying items £m	Other adjustments £m	Operating profit/(loss) £m
Funeral services	75.0	(12.8)	62.2	(7.4)	12.2	67.0
Crematoria	44.9	(4.6)	40.3	(0.7)	-	39.6
Pre-arranged funeral plans	2.8	-	2.8	(0.2)	(2.6)	-
Central overheads	(23.5)	(1.6)	(25.1)	(5.6)	-	(30.7)
Group	99.2	(19.0)	80.2	(13.9)	9.6	75.9
Finance costs			(26.0)			(26.0)
Finance income			0.2			0.2
Deferred revenue significant financing					(53.3)	(53.3)
Remeasurement of financial assets held by the Trusts and related income					(14.8)	(14.8)
Profit/(loss) before tax			54.4	(13.9)	(58.5)	(18.0)
Taxation			(11.5)	2.5	10.0	1.0
Underlying earnings for the period			42.9			
Non-underlying items				(11.4)		
Accounting adjustments					(48.5)	
Loss after taxation						(17.0)
Earnings/(loss) per share for profit attributable to equity shareholders						
- Basic (pence)			85.8p			(34.0)p
- Diluted (pence)						(34.0)p

3 Net finance (income)/costs

	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 restated £m
Finance costs		
Secured Notes	**23.7**	24.1
Other loans	**1.3**	1.2
Net finance cost on retirement benefit obligations	**0.7**	0.6
Unwinding of discounts	**0.1**	0.1
Finance costs	**25.8**	26.0
Finance income		
Bank deposits	**(0.2)**	(0.2)
Finance income	**(0.2)**	(0.2)
Underlying net finance costs	**25.6**	25.8
Deferred revenue significant financing (note 9)	**54.1**	53.3
Realised investment income (note 8)	**(5.5)**	(9.2)
Changes in fair value of financial assets held by the Trusts (note 8)	**(79.5)**	24.0
Remeasurement of financial assets held by the Trusts and related income	**(85.0)**	14.8
Net finance (income)/costs	**(5.3)**	93.9

4 Taxation

Analysis of charge/(credit) in the period	**52 week period ended 27 December 2019 £m**	52 week period ended 28 December 2018 restated £m
Current tax – current period	**4.8**	9.6
Adjustments for prior period	**0.1**	0.3
Total corporation tax	**4.9**	9.9
Deferred tax – current period	**4.9**	(10.8)
Adjustments for prior period	**(0.6)**	(0.1)
Total deferred tax	**4.3**	(10.9)
Taxation	**9.2**	(1.0)

5 Dividends

	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 £m
Final dividend paid: 15.74p per Ordinary Share (2018: 15.74p)	**7.9**	7.9
Interim dividend paid: nil per Ordinary Share (2018: 8.64p)	**-**	4.3
Dividend on Ordinary Shares	**7.9**	12.2

The interim dividend represents the interim dividend that was approved and paid in the period out of earnings generated in the same period. No interim dividend was approved in 2019.

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

Consequently, total dividends recognised in the period were £7.9 million, 15.74 pence per share (2018: £12.2 million, 24.38 pence per share).

On 28 June 2019, the Group paid a final dividend, in respect of 2018, of 15.74 pence per share (2018: 15.74 pence per share) totalling £7.9 million (2018: £7.9 million). The Group is not proposing any dividend for the period ended 27 December 2019.

6 Earnings per share

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

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

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

The Group's underlying measures of profitability exclude non-underlying items, the effects of IFRS 15 and consolidation of the Trusts as set out on page 49. These items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day-to-day management of the business and allow for greater comparability across periods.

Accordingly, the Board believes that earnings per share calculated by reference to this underlying performance measure users of the financial statements to fully understand the trading performance and financial position of the Group.

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

	Earnings £m	Weighted average number of shares millions	Per share amount pence
52 week period ended 27 December 2019			
Underlying profit after taxation and EPS	**30.3**	**50.0**	**60.6**
Add: Non-underlying items (net of taxation credit of £4.9 million)	**(28.2)**		
Add: Other adjustments (net of taxation charge of £6.7 million) [(1)]	**32.8**		
Profit attributable to shareholders – Basic EPS	**34.9**	**50.0**	**69.8**
Profit attributable to shareholders – Diluted EPS	**34.9**	**50.0**	**69.8**
52 week period ended 28 December 2018 - restated			
Underlying profit after taxation and EPS	42.9	50.0	85.8
Add: Non-underlying items (net of taxation credit of £2.5 million)	(11.4)		
Add: Other adjustments (net of taxation credit of £10.0 million)[(1)]	(48.5)		
Loss attributable to shareholders – Basic EPS	(17.0)	50.0	(34.0)
Loss attributable to shareholders – Diluted EPS	(17.0)	50.0	(34.0)

(1) See note 2 for further details.

7 Cash and cash equivalents

	Note	27 December 2019 £m	28 December 2018 restated £m
Trading Group		**41.0**	50.0
Trusts	(a)	**15.5**	13.8
Operating cash as reported in the consolidated statement of cash flows as cash and cash equivalents		**56.5**	63.8
Amounts set aside for debt service payments	(b)	**16.9**	16.9
Cash and cash equivalents as reported in the balance sheet		**73.4**	80.7

(a) Trusts cash balances

All assets of the Trusts can, by definition, only be used for certain prescribed purposes such as, but not limited to, the payment for a funeral or a refund on cancellation of a plan. They cannot be used for day-to-day operational activities of the wider Trading Group and could not, for example, be used to fund a capital expenditure project. The cash is held in Trust bank accounts but is accessible without restriction and can be used within the Trusts for any allowable purpose, such as payment following the performance of a funeral. As Dignity is considered to control the activities of the Trusts, this cash balance meets the requirements to be included in cash and cash equivalents for the purposes of IAS 7.

(b) Amounts set aside for debt service payments

This amount was transferred to restricted bank accounts which could only be used for the payment of the interest and principal on the Secured Notes, the repayment of liabilities due on the Group's commitment fees due on its undrawn borrowing facilities and for no other purpose. Consequently, this amount did not meet the definition of cash and cash equivalents in IAS 7, Statement of Cash Flows. This amount was used to pay these respective parties on 31 December 2019. Of this amount, £12.1 million (2018: £12.3 million) is shown within the Statement of Cash Flows as 'Payments to restricted bank accounts for finance costs' and £4.8 million (2018: £4.6 million) is shown within 'Financing activities' as 'Payments to restricted bank accounts for repayment of borrowings'.

8 Financial assets – held by the Trusts

	27 December 2019 £m	28 December 2018 £m
Financial assets – held by the Trusts	**947.5**	862.4

The Trusts continue to take independent advice regarding the investment strategy. As a result, it is anticipated that the investment allocation by class will develop further during 2020 and beyond, gradually resulting in a portfolio in the following profile:

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

The investment strategies are expected to provide returns in excess of inflation in the longer-term but will, however, potentially result in greater volatility year-on-year in the reported value of the Group's assets. See Operating review for further details.

Analysis of the movements in financial assets held by the Trusts:

	27 December 2019 £m	28 December 2018 £m
Fair value at the start of the period	**862.4**	865.6
Remeasurement recognised in the consolidated income statement	**79.5**	(24.0)
Investment income	**1.9**	5.8
Purchases	**736.1**	625.5
Disposals	**(726.6)**	(604.8)
Investment administrative expenses deducted at source	**(5.8)**	(5.7)
Fair value at the end of the period	**947.5**	862.4

Interest and dividend income received is included within remeasurements recognised in the consolidated income statement.

9 Deferred commissions and contract liabilities
Deferred commissions

	27 December 2019 £m	28 December 2018 £m
Deferred commissions - current	**7.3**	7.1
Deferred commissions - non-current	**96.8**	94.5

Deferred commissions represent directly attributable costs in respect of the marketing of the pre-arranged funeral plans where the plan has yet to be used or cancelled. An amount of £6.4 million (2018: £6.3 million) has been amortised to the consolidated income statement within administrative expenses.

Contract liabilities

	Note	27 December 2019 £m	28 December 2018 £m
Current			
Contract liabilities – deferred revenue	(a)	**94.4**	90.4
Contract liabilities – refund liability	(b)	**1.1**	1.1
		95.5	91.5
Non-current			
Contract liabilities – deferred revenue	(a)	**1,194.6**	1,149.9
Contract liabilities – refund liability	(b)	**14.5**	14.7
		1,209.1	1,164.6

Movement in total contract liabilities

	27 December 2019 £m	28 December 2018 £m
Balance at the beginning of the year	**1,256.1**	1,205.6
Sale of new Trust plans	**91.2**	92.7
Increase due to significant financing	**54.1**	53.3
Recognition of revenue following delivery or cancellation of a Trust plan	**(96.8)**	(95.5)
Balance at the end of the year	**1,304.6**	1,256.1

(a) Contract liabilities – deferred revenue
Deferred revenue represents amounts received from pre-arranged funeral plan holders adjusted to reflect a significant financing component, and for which the Group has not completed its performance obligations at the balance sheet date. The balance is split between current and non-current based on historical experience to reflect the expected number of plans to be utilised within the next 12 months.

(b) Contract liabilities – refund liability
Refund liabilities represent amounts received from pre-arranged funeral plan holders for which it is expected that the respective plans will be cancelled based on historical experience. The balance is split between current and non-current based on historical experience to reflect the expected number of plans to be cancelled within the next 12 months.

10 Net debt

	27 December 2019 £m	28 December 2018 £m
Net amounts owing on Secured Notes per financial statements	**(551.3)**	(560.6)
Add: unamortised issue costs	**(0.6)**	(0.6)
Gross amounts owing	**(551.9)**	(561.2)
Accrued interest on Secured Notes	**(12.2)**	(12.3)
Accrued interest on Revolving Credit Facility	**-**	(0.2)
Cash and cash equivalents – Trading Group (note 7)	**57.9**	66.9
Net debt	**(506.2)**	(506.8)

Net debt is an alternative performance measure calculated as shown in the table.

In addition to the above, the consolidated balance sheet also includes finance lease obligations which totalled £0.6 million (2018: £0.6 million). These amounts do not represent sources of funding for the Group and are therefore excluded from the calculation of net debt.

The Group's primary financial covenant in respect of the Secured Notes requires EBITDA to total debt service ('EBITDA DSCR'), in the securitisation group, to be at least 1.5 times. At 27 December 2019, the actual ratio was 2.13 times (2018: 2.55 times).

These ratios are calculated for EBITDA and total debt service on a 12 month rolling basis and reported quarterly. In addition, both terms are specifically defined in the legal agreement relating to the Secured Notes. As such, they cannot be accurately calculated from the contents of this report.

11 Reconciliation of cash generated from operations

	52 week period ended 27 December 2019 £m	52 week period ended 28 December 2018 restated £m
Net profit/(loss) for the period	**34.9**	(17.0)
Adjustments for:		
Taxation	**9.2**	(1.0)
Net finance (income)/costs	**(5.3)**	93.9
(Profit)/loss on sale of fixed assets	**(1.0)**	0.3
Depreciation charges	**19.1**	18.7
Amortisation of intangibles	**5.0**	5.1
Movement in inventories	**0.6**	(1.2)
Movement in trade receivables	**(1.5)**	4.4
Movement in trade payables	**(0.8)**	0.6
Movement in contract liabilities	**(5.6)**	(2.8)
Net pension charges less contributions	**(1.7)**	-
Trade name impairment/write-off	**6.8**	1.1
Share of loss and impairment in respect of associated undertakings	**6.0**	-
Changes in other working capital (excluding acquisitions)	**(1.9)**	1.2
Employee share option charges	**0.8**	0.9
Cash flows from operating activities	**64.6**	104.2

12 Analysis of the movement in the retirement benefit obligation

	2019 £m	2018 £m
At beginning of period	**(25.2)**	(24.0)
Total expense charged to the income statement	**(1.2)**	(2.7)
Remeasurement losses and administration expenses charged to other comprehensive income	**(1.8)**	(0.6)
Contributions by Group	**2.2**	2.1
At end of period	**(26.0)**	(25.2)

13 Basis of preparation

European law requires that the Group's consolidated financial statements for the 52 week period ended 27 December 2019 are prepared in accordance with all applicable International Financial Reporting Standards ('IFRSs'), as adopted by the European Union. These financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee ('IFRIC') interpretations (as issued by the International Accounting Standards Board) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In the current period, the Group's consolidated financial statements have been prepared for the 52 week period ended 27 December 2019. For the comparative period, the Group's consolidated financial statements have been prepared for the 52 week period ended 28 December 2018.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 27 December 2019 or 28 December 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the registrar of companies, and those for 2019 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 2018 and 2019.

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 IFRS 9. See note 14 for details.

14 Standards, amendments and interpretations effective in 2019

The Group has applied IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial instruments for the first time in the preparation of the Group's consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

A description of the nature and effect of transition to this standard is presented in note 18.

IFRS 9, Financial Instruments – impact of adoption
Due to the nature of the Group's financial instruments there has been no material impact on the Group's consolidated financial statements on the adoption of IFRS 9.

Under IFRS 9 all financial assets and liabilities are measured at fair value on initial recognition, with the exception of certain trade receivables. Trade receivables that do not have a significant financing component are measured at their transaction price, being the invoice amount excluding sales tax. The Group has applied the practical expedient within the standard, as trade receivables (including at-need and pre-need) are expected to be settled in less than one year it can presume that all trade receivables do not contain a significant financing component. This represents a change in accounting policy. However, as the transaction price is not materially different to the fair value, this change in accounting policy has not had a material impact.

IFRS 9 subsequently measures financial assets and liabilities at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit and loss ('FVTPL'). As all assets and liabilities with the exception of trust financial assets were measured at amortised cost under IAS 39 there is no change in accounting policy on adoption of IFRS 9.

IFRS 9 establishes a new model for recognition and measurement of impairments for loans and receivables that are measured at amortised cost called the 'expected credit losses' model which replaces the IAS 39 incurred loss model. The Group has applied the expected credit loss model to its provisioning for at-need trade receivable balances using the simplified approach within the standard. This approach tracks trade receivable balances over an historic rolling 12 month period to create a provision matrix to be applied. This has not had a material impact and no transition adjustment has been recorded.

Trade receivables in respect on the Trusts represent plan instalments receivable from pre-need plan members to the extent that these are due at the balance sheet date but not yet received. No impairment provision is held against these receivables on the basis that a separate refund liability is recorded for expected plan cancellations. All amounts outstanding to be paid under a member's pre-need plan must be paid in full prior to the performance of the services under the plan.

Revised accounting policy under IFRS 9:

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

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

Financial assets
Financial assets are classified at initial recognition, and subsequently measured at, amortised cost, at fair value through other comprehensive income or fair value through profit and loss.

Initial Recognition & Measurement
The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

All investments held by the Trusts are held at fair value with movements reflected through profit and loss to ensure clarity for a user of the financial statements. This is because the Trusts objective of holding these investments is not to collect contractual cash flows or to sell financial assets but to focus on the fair value information to assess performance and make investment decisions.

All other financial assets (including trade receivables) are held at amortised cost as these assets give rise to cash flows that are solely payments of principal and, where applicable, interest on the principal amount and it is the Group's business model to collect the contractual cash flows.

The majority of the Group's trade receivables do not contain a significant financing component and are measured at the transaction price determined under IFRS 15.

Subsequent Measurement
Financial assets held at fair value through profit and loss are carried in the consolidated balance sheet at fair value with net changes in fair value recognised in the income statement.

Financial assets held at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition
A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risk and rewards of the asset but has transferred control of the asset.

Impairment
The Group recognises an allowance for expected credit losses ('ECLs') for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for identifiable forward-looking factors specific to the debtors and the economic environment.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and on demand deposits and amounts included in accounts restricted for specific uses. Cash and cash equivalents comprise cash in hand and on demand deposits and amounts included in accounts restricted for specific uses. Cash and cash equivalents have an original maturity of three months or less, are subject to insignificant changes in value and are readily convertible into known amounts.

Trade receivables – accounting policy applied on and before 28 December 2018
Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost. A provision for impairment is established based on historical experience. When a trade receivable is not collectable it is written-off against the allowance account. Subsequent recovery of amounts previously written-off are credited against administrative expenses in the income statement.

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

15 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.dignityfunerals.co.uk/corporate.**

16 Principal risks and uncertainties

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

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

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

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

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

Responsibilities and actions

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

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

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

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

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

Mitigating activities
Mitigating factors are identified against each risk where possible.

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

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

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

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

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

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

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

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

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

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

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

Operational risk management (continued)

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

Operational risk management (continued)

Risk description and impact	Mitigating activities and commentary	Change
Changes in the funding of the pre-arranged funeral plan business In the current regulatory environment, the Group has given commitments to pre-arranged funeral plan members to provide certain funeral services in the future. Funding for these plans is reliant on either insurance companies paying the amounts owed or the pre-arranged funeral plan Trusts having sufficient assets. If this is not the case then the Group may receive a lower amount per funeral.	There is considerable regulation around insurance companies which is designed, amongst other things, to ensure that the insurance companies meet their obligations. The Trusts hold assets with the objective of achieving returns slightly in excess of inflation. The latest actuarial valuation of the pre-arranged funeral plan Trusts demonstrates an actuarial surplus. This is supported by robust average assets per plan.	No change
Implementation of the Transformation Plan In 2018, Dignity conducted an operational review which resulted in the development of a Transformation Plan. The core components of the Transformation Plan are: • Modernise the client proposition; • Invest in and simplify the operating model; and • Streamline central support and invest in technology to centralise and automate administrative processes. A risk exists that the Plan is either not implemented correctly or proves to be materially disruptive to the funeral business with the possible result of cost escalation or failure to realise benefits.	This risk has been and will be mitigated by executive leadership in the business supported by the Transformation Director who reports to the Chief Executive. The Transformation Team has made substantial progress within a clearly defined and accountable project framework. Delivery in 2019 has been in line with expectations.	No change
Direct cremations Growth in the direct cremation market could reduce average income in the funeral business and adversely affect the volume mix and average income in the crematoria business.	The Group has addressed this with Simplicity Cremations which offers low-cost direct cremations without any initial funeral service that are both respectful and dignified. They are an affordable alternative to a full funeral or for those who wish to have a simple cremation. The Group also now offers a Simplicity pre-arranged funeral plan option. Simplicity Cremations is being promoted via a strong online presence together with TV advertising. Other media advertising is also planned.	No change
CMA investigation into the Funeral industry The CMA full market investigation into the funeral market examines whether the information provided by funeral directors on prices and services is clear enough for people to be able to choose the best option for them. It is also looking at how prices have changed over time and the factors that affect them. Cremation fees are being considered as part of the review. The initial CMA working papers indicate possible remedies including the introduction of a quality regulation regime, measures to promote greater information transparency, price controls and local authority procurement of funeral directors services. Pricing controls, if implemented, could have a significantly detrimental impact on the Group.	Dignity has engaged constructively with the CMA and strongly supports the opportunity to improve standards within the sector and meet the expectations of consumers. Dignity has pro-actively been making changes to its business for some time in response to changing customer demand and will continue to review its operations to ensure that the CMA's concerns are addressed. The Group is focused on enhancing the customer proposition, its service and pricing model and will continue to adapt to serve evolving client needs. Price is a factor when making a decision, but quality is also a vital component and ultimately ensures that consumers are happy with services provided. Whilst Dignity's Simplicity service is the lowest price, nationally available, attended funeral service, our research demonstrates that consumers consider the smooth running of the funeral and proper care of the deceased more than cost. Our business has been built with a focus on high-quality service delivery and we closely monitor the results of our client surveys to ensure we continue to maintain the highest levels of excellent client service and standards of care. However, until potential price caps are actually realised, it is impossible to quantify the impact or potential mitigation.	Increased

Financial risk management

Risk description and impact	Mitigating activities and commentary	Change
Financial Covenant under the Secured Notes The Group's Secured Notes requires EBITDA to total debt service to be above 1.5 times. If this financial covenant (which is applicable to the securitised subgroup of Dignity) is not achieved, then this may lead to an Event of Default under the terms of the Secured Notes, which could result in the Security Trustee taking control of the Securitisation Group on behalf of the Secured Note holders. In addition, the Group is required to achieve a more stringent ratio of 1.85 times for the same test in order to be permitted to transfer excess cash from the Securitisation Group to Dignity plc.	The nature of the Group's debt means that the denominator is now fixed unless further Secured Notes are issued in the future. This means that the covenant headroom will change proportionately with changes in EBITDA generated by the securitised subgroup. Current trading continues to support the Group's financial obligations, however lower reported profitability increases the risk of breaching covenants.	Increased

17 Pre-arranged funeral plans

(a) Commitments

The Trading Group has sold pre-arranged funeral plans to clients in the past, giving commitments to these clients to perform their funeral. All monies from the sale of these funeral plans are paid into and controlled by a number of trusts. These include the Trusts consolidated within the Group's financial statements in addition to a number of other trusts (the 'Small Trusts'). The Small Trusts are not consolidated in the Group's results as the Group does not control these trusts.

The Group is obligated to perform these funerals in exchange for the assets of the respective trusts, whatever they may be. It is the view of the Directors that none of the commitments given to these clients are onerous to the Group. However ultimately, the Group is obligated to perform these funerals in exchange for the assets of the respective trusts, whatever they may be.

The Small Trusts had approximately £17.5 million (2018: £18.0 million) of net assets as at the balance sheet date.

Only the Trusts consolidated within the Group's financial statements receive funds relating to the sale of new plans.

(b) Actuarial valuation

The Trustees of the Trusts are required to have the Trusts' liabilities actuarially valued once a year. This actuarial valuation is of liabilities of the Trusts to secure funerals through Dignity and other third party funeral directors and does not, in respect of those funerals delivered by the Group represent the cost of delivery of the funeral. Assets of the Trusts include instalment amounts due in the future from clients, as these amounts are payable on death and are therefore relevant to the actuarial valuation. However, this means that assets detailed in the actuarial valuations will not agree on a particular day to the assets recognised in the Group's consolidated balance sheet.

The Trustees have advised that the latest actuarial valuations of the Trusts were performed as at 27 September 2019 (2018: 28 September) using assumptions determined by the Trustees. Actuarial liabilities in respect of the Trusts have increased to £987 million as at 27 September 2019 (2018: £896 million). The corresponding market value of the assets of the Trusts was £1,004 million (2018: £930 million) as at the same date. Consequently the actuarial valuations recorded a total surplus of £17 million at 27 September 2019 (2018: surplus of £34 million). The Group considers these to be prudent assumptions. If the valuation had been performed using a discount rate equal to the long-term investment strategy target of the Trustees, then the valuations would have reported an aggregate surplus of approximately £156 million (2018: £160 million).

(c) Active members and assets per plan

	27 December 2019 Number	28 December 2018 Number
Supported by:		
The Trusts	**311,000**	306,000
The Small Trusts	**48,000**	46,000
Insurance Plans	**164,000**	134,000
	523,000	486,000

The Trusts have approximately £3,300 (2018: £3,000) per active plan. On average the Trading Group received approximately £2,900 (2018: £2,700) in the period for the performance of each funeral (including amounts to cover disbursements such as crematoria fees, ministers' fees and doctors' fees).

Insurance Plans are those plans for which the Group is the named beneficiary on life assurance products sold by third party insurance companies.

(d) Transactions with the Group

During the period, the Group entered into transactions with the Small Trusts. Amounts may only be paid out of the Trusts in accordance with the relevant Trust Deeds. Transactions (which were recognised as revenue in the funeral division) amounted to £1.1 million (2018: £0.9 million) in the period and principally comprised receipts from the Small Trusts in respect of funerals provided. No amounts were due to the Group on either balance sheet date.

18 Consolidation of the Trusts and adoption of IFRS 15

Change in accounting policy – Consolidation of the Trusts

As discussed in note 1, the Group previously concluded that the legislative requirement for a majority of trustees to be unconnected with Dignity meant that Dignity did not, and could not, control the actions of the trustees. Combined with the judgement that ultimately Dignity's return from the Trusts was wholly dependent on the investment performance of the Trusts and that the investment strategy of the Trusts was set, implemented and monitored by the trustees, Dignity previously concluded that it did not have the power to affect the amounts of its returns, that it did not control the Trusts and therefore that the Trusts should not be consolidated.

Upon re-examination of the factors that influence that decision, following the latest discussions with the FRC, the Group has concluded as part of its current year consideration of the recurring judgement that more weight should be attributed to its ability to appoint and remove trustees and less to the legislative requirement for a majority of trustees to be unconnected with Dignity. As a result, the Group has reached a revised judgement, the basis of which is summarised in note 1, that it does have control as defined by IFRS 10 and should consolidate those pre-arranged funeral plan trusts where it has the ability to appoint and remove trustees.

Therefore, the Group has made a change in accounting policy, which has been reflected in these financial statements as a prior period restatement.

Adoption of IFRS 15 – Revenue from Contracts with Customers

In addition, as disclosed in the Interim Report, the Group has adopted IFRS 15 during the period. In order to present financial information on a consistent basis, having consolidated the Trusts, the Group has revised its transition election under IFRS 15 to reflect the full retrospective adoption of that standard. The transition adjustments arising as a result of the adoption of IFRS 15 relate to the change to recognise the disbursement element of pre-need plans and the pre-need plan funeral services delivered by third party funeral directors on a principal basis. Furthermore, directly attributable costs associated with the inception of a pre-need plan, in the form of commissions payable either to employees or third parties, are now held as deferred commissions in the consolidated balance sheet up to the time the associated funeral is performed or cancelled. Once the funeral is performed the deferred commission costs are recognised in the consolidated income statement. Deferred commission balances are split between current and non-current based on historical experience.

Any other adjustments arising as a result of the consolidation of the Trusts would have been the same under IAS 18 as under IFRS 15.

Following the consolidation of the Trusts and on transition to IFRS 15 adjustments have been made to the consolidated balance sheet as at 28 December 2018 and 29 December 2017 and the consolidated income statement for the 52 week period to 28 December 2018.

The impact of consolidation on the balance sheet in both periods has been to recognise the assets and liabilities held by the Trusts, net of any adjustments to eliminate intra-group balances between the Trusts and the Trading Group. Contract liabilities in the form of deferred revenue have been recognised in respect of pre-need plans for which the Group has not completed its performance obligations by the period end. A refund liability has also been recognised for the proportion of plans not expected to be performed. In addition the Group has, in accordance with IFRS 15, recognised assets for deferred commissions for directly attributable marketing costs. Deferred tax has been provided, as necessary, on the adjustments recorded. Note 1 details the accounting polices in respect of these balances.

In respect of the income statement for the 52 week period to 28 December 2018 adjustments have been recorded to eliminate intra-group transactions between the Trusts and the Trading Group, primarily in respect of funeral payments and marketing allowance payments. Revenue is also adjusted for the deferred revenue balances on satisfaction of the related performance obligation. As outlined within note 1, an additional impact to revenue on consolidation of the Trusts is that the Group is considered to be principal in respect of all pre-need plans delivered. As a result, a corresponding adjustment to cost of sales has been recorded in respect of disbursements paid and for amounts paid to third parties when the performance of funerals have been sub-contracted in accordance with IFRS 15. A significant financing cost has been recognised on deferred revenue in accordance with the policy outlined in note 1. Deferred commissions have been amortised to the income statement in respect of plans which have been used or cancelled during the period. The administrative costs of the Trusts together with the remeasurement in the period of financial assets held by the Trusts and related income have also been recognised.

28 December 2018 consolidated balance sheet (selected lines only):

		Consolidation of the Trusts						IFRS 15		
	28 Dec 2018 as originally presented £m	Recognition of trust assets and liabilities £m	Recognition of contract liabilities – deferred revenue £m	De-recognition of cancellation provision £m	Recognition of contract liabilities – refund liability £m	Deferred tax impact £m	Consolidation adjustments £m	Recognition of deferred costs in respect of commissions £m	Deferred tax impact £m	**28 Dec 2018 restated £m**
Non-current assets										
Financial assets – held by the Trusts	-	862.4								**862.4**
Deferred commissions	-							94.5		**94.5**
Deferred tax asset	-					35.2			(17.3)	**17.9**
Current assets										
Trade and other receivables	32.9	10.3					(11.9)			**31.3**
Deferred commissions	-							7.1		**7.1**
Cash	66.9	13.8								**80.7**
Current liabilities										
Financial liabilities	9.3									**9.3**
Trade and other payables	68.9	12.3	(2.5)				(11.9)			**66.8**
Contract liabilities	-		90.4		1.1					**91.5**
Provisions for liabilities	1.7			(0.3)						**1.4**
Non-current liabilities										
Deferred tax liabilities	29.2					(29.2)				**-**
Contract liabilities	-		1,149.9		14.7					**1,164.6**
Provisions for liabilities	9.9			(0.5)						**9.4**
Retained earnings	(89.2)	874.2	(1,237.8)	0.8	(15.8)	64.4	-	101.6	(17.3)	**(319.1)**

28 December 2018 consolidated income statement (selected lines only):

		Consolidation of the Trusts							IFRS 15				
	28 Dec 2018 as originally presented	Release of deferred revenue on death or cancellation	Removal of payments received from the Trusts on death	Payments on cancellation	Derecognise pre-need segment income	Recognition of the Trust costs	Recognition of significant financing component on deferred revenue	Remeasurement of Trust assets and related income	Amounts paid on subcontracted funerals	Recognition of disbursement element of pre-need plans	Net release of deferred costs in respect of commissions	Tax credit	**28 Dec 2018 restated**
	£m	£m	£m	£m	£m	£m	£	£m	£	£m	£m	£m	**£m**
Revenue	315.6	95.5	(47.6)	(3.0)	(22.7)					15.9			**353.7**
Cost of sales	(135.0)								(8.0)	(15.9)			**(158.9)**
Gross profit	**180.6**	95.5	**(47.6)**	**(3.0)**	**(22.7)**				**(8.0)**	**-**			**194.8**
Administrative expenses	(114.3)					(6.8)					2.2		**(118.9)**
Operating profit	**66.3**	95.5	**(47.6)**	**(3.0)**	**(22.7)**	**(6.8)**			**(8.0)**	**-**	**2.2**		**75.9**
Finance costs	(26.0)												**(26.0)**
Finance income	0.2												**0.2**
Deferred revenue significant financing	-						(53.3)						**(53.3)**
Remeasurement of Trust assets and related income	-							(14.8)					**(14.8)**
Profit/(loss) before tax	**40.5**	**95.5**	**(47.6)**	**(3.0)**	**(22.7)**	**(6.8)**	**(53.3)**	**(14.8)**	**(8.0)**	**-**	**2.2**		**(18.0)**
Taxation	(9.0)											10.0	**1.0**
Profit/(loss) for the period attributable to equity shareholders	**31.5**	**95.5**	**(47.6)**	**(3.0)**	**(22.7)**	**(6.8)**	**(53.3)**	**(14.8)**	**(8.0)**	**-**	**2.2**	**10.0**	**(17.0)**

29 December 2017 consolidated balance sheet:

		Consolidation of the Trusts						IFRS 15		
	29 Dec 2017 As originally presented £m	Recognition of trust assets and liabilities £m	Recognition of contract liabilities – deferred revenue £m	De-recognition of cancellation provision £m	Recognition of contract liabilities – refund liability £m	Deferred tax impact £m	Consolidation adjustments £m	Recognition of deferred costs in respect of commissions £m	Deferred tax impact £m	**29 Dec 2017 restated £m**
Assets										
Non-current assets										
Goodwill	226.1									226.1
Intangible assets	159.4									159.4
Property, plant and equipment	248.0									248.0
Financial assets	14.3									14.3
Financial assets – held by the Trusts	-	865.6								865.6
Deferred commissions	-							92.4		92.4
Deferred tax asset	-					23.7			(16.9)	6.8
	647.8									**1,612.6**
Current assets										
Inventories	7.3									7.3
Trade and other receivables	38.3	9.1					(12.1)			35.3
Deferred commissions	-							7.0		7.0
Cash	49.3	21.8								71.1
	94.9									**120.7**
Total assets	**742.7**									**1,733.3**
Liabilities										
Current liabilities										
Financial liabilities	4.5									4.5
Trade and other payables	57.8	12.6	(2.9)				(12.1)			55.4
Current tax liabilities	6.2									6.2
Contract liabilities	-		87.1		1.2					88.3
Provisions for liabilities	1.5			(0.3)						1.2
	70.0									**155.6**
Non-current liabilities										
Financial liabilities	561.2									561.2
Deferred tax liabilities	30.3					(30.3)				-
Other non-current liabilities	2.3									2.3
Contract liabilities	-		1,101.8		15.5					1,117.3
Provisions for liabilities	8.5			(0.6)						7.9
Retirement benefit obligation	24.0									24.0
	626.3									**1,712.7**
Total liabilities	**696.3**									**1,868.3**
Shareholders' equity/(deficit)										
Ordinary share capital	6.2									**6.2**
Share premium account	11.1									**11.1**
Capital redemption reserve	141.7									**141.7**
Other reserves	(4.6)									**(4.6)**
Retained earnings	(108.0)	883.9	(1,186.0)	0.9	(16.7)	54.0	-	99.4	(16.9)	**(289.4)**
Total equity/(deficit)	**46.4**									**(135.0)**
	742.7									**1,733.3**

19 Post balance sheet events

Subsequent to the year end, there has been a general downturn in financial markets which will have impacted the value of the financial assets held by the Trusts. This impact will change daily and has not been quantified at the time of this Preliminary Announcement. Given the diversified portfolio of assets held, which includes other investments such as property, the impact across the whole portfolio of assets held cannot be readily estimated. See note 17 for the most recent actuarial position of the Trust based on long-term growth assumptions.

Non-GAAP measures

(a) Alternative performance measures

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

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

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

Calculation of underlying reporting measures

Underlying revenue and profit measures (including divisional measures) are calculated as revenue and/or profit before non-underlying items and other adjustments.

Underlying net finance costs are calculated before the impact of consolidating the Trusts. See note 3.

Underlying earnings per share is calculated as profit after taxation, before non-underlying items and other adjustments (both net of tax), divided by the weighted average number of Ordinary Shares in issue in the period.

Underlying cash generated from operations excludes non-underlying items and other adjustments on a cash paid basis.

(b) Non-underlying items

The Group's underlying measures of profitability exclude:

- amortisation of acquisition related intangibles;
- external transaction costs;
- profit or loss on sale of fixed assets;
- Transformation Plan costs (see below);
- operating and competition review costs;
- one-off costs in respect of the defined benefit pension obligations;
- trade name write-off and impairments;
- Group's share of profit or loss and impairment of associated undertakings; and
- the taxation impact of the above items together with the impact of taxation rate changes.

Non-underlying items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day-to-day management of the Group and allow for greater comparability across periods.

Transformation Plan costs

Given the on-going transformation of the Group's business will result in significant, directly attributable non-recurring costs over the period of the Transformation Plan, these amounts are excluded from the Group's underlying profit measures and treated as a non-underlying item.

These costs will include, but are not limited to:

- external advisers' fees;
- directly attributable internal costs, including staff costs wholly related to the Transformation (such as the Transformation Director and project management office);
- costs relating to any property openings, closures or relocations;
- rebranding costs;
- speculative marketing costs; and
- redundancy costs.

52 week period ended 27 December 2019	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Central overheads £m	Group £m
Non-trading					
Amortisation of acquisition related intangibles	**4.2**	**0.5**	**0.1**	**-**	**4.8**
External transaction costs	**-**	**0.7**	**0.1**	**0.1**	**0.9**
Profit on sale of fixed assets	**(1.0)**	**-**	**-**	**-**	**(1.0)**
Non-recurring					
Transformation Plan costs	**-**	**-**	**-**	**12.1**	**12.1**
Operating and competition review costs	**-**	**-**	**-**	**3.5**	**3.5**
Trade name impairment	**6.8**	**-**	**-**	**-**	**6.8**
	10.0	**1.2**	**0.2**	**15.7**	**27.1**
Group's share of loss of associated undertakings					**0.6**
Impairment of investments in associated undertakings					**5.4**
Taxation					**(4.9)**
					28.2

52 week period ended 28 December 2018					
Non-trading					
Amortisation of acquisition related intangibles	4.4	0.4	0.1	-	4.9
External transaction costs	0.6	-	-	0.2	0.8
Loss on sale of fixed assets	0.3	-	-	-	0.3
Non-recurring					
Transformation Plan costs	-	-	-	2.7	2.7
Operating and competition review costs	-	-	-	2.7	2.7
GMP past service cost	1.0	0.3	0.1	-	1.4
Trade name write-off	1.1	-	-	-	1.1
	7.4	0.7	0.2	5.6	13.9
Taxation					(2.5)
					11.4

(c) Non-underlying cash flow items

	27 December 2019 £m	28 December 2018 £m
Cash flows from operating activities	**64.6**	104.2
Cash flows of other adjustments	**(7.6)**	(9.3)
Cash flows from operating activities – Trading Group	**57.0**	94.9
External transaction costs	**0.8**	1.7
Transformation Plan costs	**11.2**	2.6
Operating and competition review costs	**2.8**	2.7
Underlying cash generated from operations	**71.8**	101.9

(d) Funeral market share

Comparable funeral market share excludes any volumes from locations not contributing for the whole of 2018 and 2019 to date and therefore excludes eight locations closed and 13 locations opened in 2018 and a further 12 locations closed and one location opened in 2019.

(e) Average assets per plan

Average assets per plan are calculated as the net assets of the Trusts divided by the number of active plans in the Trusts. Net assets in this calculation will not equal amounts in the consolidated balance sheet of the Group, as it includes instalment amounts due in future that become payable immediately on death.

Forward-looking statements

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

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

Any forward-looking statements made in this 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.