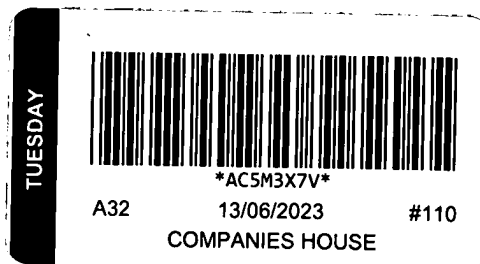


Registered number: 00041598

Dignity Funerals Limited
Annual report and financial statements
for the period ended 30 December 2022



Dignity Funerals Limited
Annual report and financial statements
for the period ended 30 December 2022

	Page
Directors and advisors	1
Strategic report for the period ended 30 December 2022	2
Directors' report for the period ended 30 December 2022	5
Independent auditor's report to the members of Dignity Funerals Limited.....	8
Income statement for the period ended 30 December 2022.....	13
Statement of comprehensive income for the period ended 30 December 2022.....	14
Balance sheet as at 30 December 2022	15
Statement of changes in equity for the period ended 30 December 2022.....	16
Notes to the financial statements for the period ended 30 December 2022.....	17

Dignity Funerals Limited

Directors and advisors

Directors

G Castagno

K Davidson

K T Thomson (appointed 16 March 2022)

A Eames (appointed 10 November 2022)

G Channon (resigned 16 November 2022)

Registered office

4 King Edwards Court

King Edwards Square

Sutton Coldfield

West Midlands

B73 6AP

Registered number

00041598

Independent auditors

Ernst & Young LLP

No. 1 Colmore Square

Birmingham

B4 6HQ

Principal bankers

Royal Bank of Scotland plc

West Midlands Corporate Office

2 St Philips Place

Birmingham

B3 2RB

Dignity Funerals Limited

Strategic report for the period ended 30 December 2022

The Directors present their strategic report for Dignity Funerals Limited ('the Company') for the 52 week period ended 30 December 2022. The Company is a subsidiary of Dignity plc and a member of the Dignity plc group ('the Dignity Group'). The comparative period is the 53 week period ended 31 December 2021.

Business review and future development

The principal activity of the Company is the provision of funeral services, including funeral directing and crematoria operations. The Directors do not currently anticipate any changes in the nature of the Company's principal activities.

The loss for the period was £197,613,000 (2021: £34,145,000 profit). The results for the period are set out in the Income statement on page 13.

In 2022, the Company has assessed the carrying value of its goodwill and other non-current assets due to slower market share growth combined with more direct branch cremations rather than attended funerals being performed than originally anticipated. The slower market share growth is a result of the new strategy taking longer to implement partly due to staff shortages encountered during 2022. The Company has filled a high percentage of vacancies over the last few months and has also increased salaries within operations to become more competitive in the market, but focus remains on filling the remaining vacancies. The resulting impact on recoverable value has been taken into account in our assessment of the carrying value of goodwill and other non-current assets. Whilst the Company expects further long-term market share growth from its new strategy, the accounting standard (IAS 36) for impairment assessments does not allow forecasts to be used where assumptions cannot be evidenced or have not yet been implemented (e.g. cost savings). As a result, whilst the Company is committed to delivering its market share growth ambitions, given the infancy of the strategic plan implementation and the available evidence to demonstrate this growth as at the period ended 30 December 2022 when the impairment assessment is made, the full extent of potential longer-term gains is not reflected in the impairment modelling.

The performance of this impairment assessment at cost centre level indicated an impairment within the funeral services segment of:

- £160,545,000 (December 2021: £nil) in relation to goodwill;
- £19,839,000 (December 2021: £1,232,000) in relation to trade names;
- £17,488,000 (December 2021: £nil) in relation to right of use assets; and
- £19,164,000 (December 2021: £nil) in relation to property, plant and equipment.

In addition, a further trade name write-off of £603,000 (2021: £2,027,000) has been charged in the period following the withdrawal of certain trade names from use. See note 10 for further details.

Consent solicitation with bondholders

The directors of Dignity plc have continued to work on a long-term solution to improve the Dignity Group's capital structure and on 7 September 2022 a consent solicitation was launched by Dignity Finance PLC, a fellow Dignity Group subsidiary. This obtained certain consents from Noteholders for a potential transaction involving the realisation of value from selected crematoria assets within the Dignity Group, with the expected proceeds of such a transaction being applied in a partial redemption of the Class A Notes, as required by the current documentation. The necessary quorum was achieved on 29 September 2022 (with 99.92 per cent of the aggregate principal amount of the Notes for the time being outstanding being represented and the Extraordinary Resolution being passed with 94.42 per cent of the votes being cast in favour) and the consents referred to above apply for 12 month period to 29 September 2023. Should the transaction complete, an outcome the Dignity plc board is fully targeting on achieving within the 12 months allowed, there are amendments to the documents that will allow further equity cures, with restrictions, to be made going forward should they be required. This can be used to supplement any EBITDA shortfall as at 31 December 2023.

As part of the proposed agreement with Noteholders, Dignity will be required to inject a minimum of £70.0 million into the Securitisation Group companies to partially repay at full make-whole (compensating Noteholders for the present value of future cash flows discounted at Gilts +50 basis points) some of the Class A Notes outstanding in consideration for assets leaving the Securitisation Group. This will result in a deleveraging of the Group and a positive impact on the underlying financial ratios and covenant calculations, i.e., a reduction of the DSCR from c.£51 million to c.£45.3 million in 2023. If the transaction takes longer to complete and is completed in Q3 2023 there will be no

Dignity Funerals Limited

Strategic report

for the period ended 30 December 2022 (continued)

Consent solicitation with bondholders (continued)

positive impact in 2023 as the first possible date for repayment will be 29 December 2023. It would have a full year impact of £11.7 million on the DSCR covenant calculations, i.e., a reduction of the DSCR from c.£51 million to c.£39.3 million in 2024. Funds for this injection are expected to be realised from a capital transaction relating to the sale of certain crematoria assets but the agreement with bondholders does not limit where the funds come from.

Financial Conduct Authority ('FCA') Regulation

From 29 July 2022, all funeral plan providers in the UK were regulated by the FCA. The statutory oversight follows several years of campaigns, Government called for evidence, and formal consultation with the funeral industry.

The regulations set out by the FCA are designed to make products work better for consumers, to create competition, and enable a stable marketplace. It means that companies wanting to continue to sell or carry out funeral plans need to be authorised by the FCA and conform to their rules, or risk committing a criminal offence.

Dignity Funerals Limited achieved full authorisation to market funeral plans in July 2022 and launched a new unique Dignity funeral plan product, which it began selling in August 2022, which enables customers to design and customise their funerals down to the finest personal details. Circa 4,000 plans have been sold up to 30 December 2022 and all client monies are paid directly into a newly established trust called The UK Funerals (2022) Trust.

The assets of the Trust are independent to the Company and are not incorporated into these financial statements as the Company is not required to prepare consolidated accounts. The Company will account for the Trust as an investment with nil consideration and treat any surpluses from the Trust as dividend as and when received.

On the 17 October 2022, the Company signed a deed of novation with fellow group companies (Dignity Pre Arrangement Limited, Advance Planning Limited and Dignity Securities Limited) such that the Company will act as FCA funeral plan provider in respect of active plans within The National Funeral Trust, the Trust for Age UK Funeral Plans and the Dignity Limited Trust going forward and shall be responsible for the delivery of the regulated funeral plan contracts. All customers have been informed of the change of administrator, which has no impact on their plan coverage.

In addition, as part of the FCA requirements, the Company is required to ensure all active funeral plans are backed by a pre-need arrangement held in an appropriate trust. As a result of prior acquisitions, the Company had committed to perform 1,600 funerals for which there are no formal pre-need arrangements in place. In order to comply with the FCA regulations and to ensure the customers of these plans are receiving the best possible outcome, the Company has transferred £3.6 million into the National Funeral Trust, reflecting the cost of purchasing a funeral plan with appropriate cover at today's prices. This has been taken to the Income statement as an expense in the period. The Company does not anticipate any further cash being transferred to any of the pre-need Trust in relation to these informal arrangements.

The Directors of Dignity plc have managed the Dignity Group's operations on a divisional basis. For this reason, the Company's directors have been using group key performance indicators for the Company. The development, performance and position of Dignity plc, which includes the Company, is discussed within the Strategic report of the Dignity Group's 2022 Annual Report and Accounts which does not form part of this report, but which details on a Dignity Group basis, by division, key performance indicators around market share and customer satisfaction in addition to financial indicators around profitability and cash generation.

Following FCA regulation on 29 July 2022, the Company has established an Audit & Risk Committee which assesses, quantifies and reports on the mitigation of the Company's risks through controls and Key Performance & Key Risk Indicators to satisfy the Company's legal, FCA regulatory obligations as well as key customer outcome measures.

Dignity Funerals Limited

Strategic report for the period ended 30 December 2022 (continued)

Post balance sheet events

See note 26 for details on post balance sheet events.

Risks

The principal risks and uncertainties of the Dignity Group, which include those of the Company, are discussed within the Principal risks and uncertainties within the Strategic report of the Dignity Group's 2022 Annual Report and Accounts which does not form part of this report. Following the appointment of Giovanni (John) Castagno and Kartina Tahir Thomson a separate risk committee was formed from March 2022 and therefore the principal risks and uncertainties of the Company have also been considered by the Company's Directors. As of December 2022, Dignity Funerals Ltd has identified its own set of Principal Risks for the regulated identity. These risks follow the same risk management framework as Dignity plc and are categorised as Financial Risks, Strategic Risks, Customer & Conduct Risks, Legal & Regulatory Risks, Operational Risks and Reputational Risks. The Key Performance and Key Risk Indicators will be continued to be reviewed, quantified and mitigated during 2023.

Section 172 statement

The directors are aware of their duty under s172(1) of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its stakeholders as a whole, and in doing so, to have a regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly towards all stakeholders of the Company.

The directors of the Company consider that they have had regard in material respects to the factors set out above. This statement explains how the Board complies with its obligations under s172(1) of the Companies Act 2006.

The Company is a UK subsidiary of Dignity plc, a company quoted on the London Stock Exchange. The Dignity plc board determines the strategic objectives and policies of the Dignity Group to best support the delivery of long-term value, providing overall strategic direction within an appropriate framework of controls, delegated authority, and rewards. The Company follows Group policies and procedures, including those relating to standards of business conduct, employees, customers, suppliers, the environment, the communities in which we operate, and other stakeholders such as regulatory bodies and non-government organisations. Stakeholder engagement takes place at a Group level and the Company looks to Group initiatives for guidance and takes them into account in its decision making. More detail can be found on pages 26 and 27 and pages 90 and 91 in Dignity plc's 2022 Annual Report and Accounts which does not form part of this report.

The Company delegates authority for day-to-day management to the Dignity Group senior leadership team, who set, approve and oversee the execution of the Company's activities. Board meetings are held ad-hoc, where the directors consider Company business, such as appointment of directors, approval of accounts, approval of dividends, guarantees and other strategic decisions relating to business operations. In considering items of business the Company makes autonomous decisions on each item's own merits, after due consideration of the long-term success of the Company, Section 172 factors, where relevant, and the stakeholders impacted.

The Strategic report has been approved by the Board.

By order of the board



A Eames
Director

25 May 2023

Dignity Funerals Limited

Directors' report for the period ended 30 December 2022

The Directors present their report with the audited financial statements of Dignity Funerals Limited ('the Company') for the 52 week period ended 30 December 2022.

Locations outside the UK

One subsidiary within the Group is registered in Jersey and operates within the Channel Islands.

Going concern

The Company is a trading entity within the Dignity plc group ('Dignity Group') and is one of a number of entities within that group which are part of a Securitisation Group established in connection with the Dignity Group's only loan borrowings, which are the A Notes and B Notes held by a fellow subsidiary. In order to assess the appropriateness of the application of the going concern principle in these financial statements the Directors have considered the principal risks and uncertainties and financial position of both the Company, the Securitisation Group and of the Dignity Group as a whole, reflecting how the Company is managed. The day-to-day liquidity requirements of the Company are sourced either from within the Company or, where necessary, from the continued support of certain other entities within the Dignity Group or Castelnau Group Limited, one of the new ultimate shareholders of the Dignity Group, such support having been confirmed in writing as available for a period at least through 30 June 2024.

The Company has carried out a detailed going concern analysis and full details of this analysis are set out in note 2 to the financial statements.

Further information in respect of the Directors' assessment of the ability of the Dignity Group to continue as a going concern in addition to information in respect of the longer term viability of the Dignity Group is presented within the Dignity Group's 2022 Annual Report and Accounts which does not form part of this report.

Having considered the base case forecasts, and the range of downside stress test scenarios, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period through to 30 June 2024. The base case forecasts have been subjected to a number of sensitivities. The base case forecasts reflect an assessment of current and future market conditions and their impact on the future profitability of the Dignity Group and the Company.

The Directors have also considered events beyond the assessment period. The Directors formally considered this matter at the Board meeting held on 27 April 2023. The Directors, whilst acknowledging there is a material uncertainty with respect to covenant compliance and the implications thereof, continue to adopt the going concern basis for preparing the annual Report and financial statements.

The directors who served during the period and up to the date of signing the financial statements were:

G Castagno
G Channon (resigned 16 November 2022)
K Davidson
K T Thomson (appointed 16 March 2022)
A Eames (appointed 10 November 2022)

Directors' indemnities

During the period, the Dignity Group maintained liability insurance for its Directors and Officers. The Directors of this company have the benefit of an indemnity provision in the Dignity Group's Articles of Association. The indemnity provision, which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006, was in force throughout the period and is currently in force.

Employment policies

During the period, the Dignity Group has maintained its obligations to effectively communicate and involve employees in its affairs. Methods of communication used include an Employee Forum, an in-house magazine, team talks, regular bulletins both national and regional and management briefings. Employment policies are designed to provide equal

Dignity Funerals Limited

Directors' report for the period ended 30 December 2022 (continued)

Employment policies (continued)

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

Corporate governance

The Company is committed to high standards of corporate governance. As a subsidiary of Dignity plc, the principles of the UK Corporate Governance Code are adhered to as appropriate by Dignity Funerals Limited. In 2022, the Company reviewed its corporate governance arrangements. The Board comprises of non-executive and executive directors and operates under a schedule of matters reserved for the Board. The schedule of reserved matters include authority to make decisions in relation to all FCA regulated activities, including product strategy. In addition, the Dignity Group operates a suite of governance and risk management policies, procedures and training programmes which apply to subsidiary companies in the Dignity Group.

Carbon reporting

Disclosures relating to energy and carbon emissions as required by The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (SI 2018/1155) are included within the Environmental, Social and Governance ('ESG') section on pages 32 to 46 within the Dignity Group's 2022 Annual Report and Accounts.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether applicable United Kingdom Accounting Standards including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible

Dignity Funerals Limited

Directors' report

for the period ended 30 December 2022 (continued)

Statement of directors' responsibilities (continued)

for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Under applicable law and regulations, the directors are also responsible for preparing a strategic report and directors' report, that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Statement of disclosure of information to auditors

The Directors confirm that as far as each Director is aware there is no relevant audit information of which the Company's auditor are unaware. The Directors further confirm each of them have taken all steps that they ought to have done as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

Independent auditors

A resolution to reappoint Ernst & Young LLP as auditors to the Company will be proposed at the annual general meeting.

Other matters

As permitted by legislation, some of the matters required to be included in the Directors' report have instead been included in the Strategic report, as the Directors considers them to be of strategic importance. Specifically, these relate to likely future developments and subsequent events to the Company.

The Directors' report has been approved by the Board.

By order of the board



A Eames
Director
25 May 2023

Dignity Funerals Limited

Independent auditor's report to the members of Dignity Funerals Limited

Opinion

We have audited the financial statements of Dignity Funerals Limited for the 52 week period ended 30 December 2022 which comprise the Income statement, the Balance sheet, the Statement of comprehensive income, the Statement of changes in equity and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice). In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 December 2022 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

Dignity Funerals Limited is part of a securitised group headed by D2002 Limited (the 'Securitised Group') which is ultimately owned by Dignity plc (the 'group'). The results of the Securitised Group, notably the EBITDA and net debt, are principal factors in evaluation of the testing of the related covenants. The day-to-day liquidity requirements of Dignity Funerals Limited are sourced either from within the company or, where necessary, from the continued support of certain other entities within the group or Castelnau Group Limited, one of the new ultimate shareholders of the Dignity Group, such support having been confirmed in writing as available through to 30 June 2024. Given these factors, the going concern assessment is focused on the ability of the group to continue as a going concern and the ongoing compliance with the Securitised Group's covenants.

We draw attention to note 2 in the financial statements, which indicates that a plausible downturn in the group's financial performance could result in a breach of the debt service covenant ratio ('DSCR') on its securitised debt (being the Class A and Class B loan notes, together the 'Loan Notes'), which if unremedied, would be considered an event of default under the Issuer/Borrower Loan Agreement ('IBLA') resulting in the Loan Notes becoming repayable on an accelerated basis and could be repayable immediately at the request of the noteholders. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- Understanding and walking through management's process for and controls related to assessing going concern including discussion with management to assess whether the key factors were taken into account.
- Read and considered the directors' going concern assessment covering the period through to 30 June 2024, including their assessment of market risks and potential changes to consumer preferences, to understand the key assumptions upon which it was based.
- Tested the model integrity on which the going concern assessment was based for clerical accuracy.

Dignity Funerals Limited

Independent auditor's report to the members of Dignity Funerals Limited (continued)

Material uncertainty related to going concern (continued)

- Inspected the debt service cash requirement and earnings before interest, tax, depreciation and amortisation ('EBITDA') definition as per the IBLA to confirm the basis of the DSCR calculation, which is a minimum of 1.5x the annual debt service payments (c.£51 million), tested each quarter (March, June, September and December) on a last 12 months basis.
- Inspected the documentation in relation to the modification to the DSCR terms under the IBLA, approved by bondholders on 11 March 2022, for the period to 31 March 2023, and confirmed this included the permissibility of Dignity plc to contribute liquidity into the Securitised Group in order to remediate any EBITDA shortfall below the contracted DSCR position and that any such liquidity contributed can be included in the last 12 months calculation in future quarters until it no longer is included in the lookback 12 months period (last period of inclusion of an equity cure is for the 12 months to 31 December 2023, as supported by a legal opinion which we have reviewed). Further, we confirmed that management's going concern assessment accurately reflected the impact of the modification of the DSCR terms. We understood the reasons for obtaining the waiver and the impact on the going concern assessment.
- Tested compliance with the EBITDA:DSCR covenant in the financial reporting period as follows:
 - Recalculated the EBITDA for the Securitisation Group and assessed whether it has been correctly calculated in accordance with the definition of EBITDA provided in the IBLA;
 - Agreed the DSCR to the underlying interest and principal repayment schedules that had been subjected to audit procedures; and
 - Recalculated the EBITDA:DSCR ratio to confirm the group is compliant with this ratio during the period and at the period end date.
- Tested the forecast compliance with the EBITDA: DSCR covenant ratio as follows:
 - Agreed the DSCR to the interest and principal repayment schedules;
 - Obtained management's forecast through 30 June 2024 which was prepared using the 2023 budget as a basis and the 2024 plan, which was presented to and approved by the Board, having given due consideration to changes in financial performance in respect of expected number of deaths, market share, average revenues and cost inflation;
 - Tested the underlying assumptions and data upon which the budget and forecast were based to ensure their reasonableness, by:
 - assessing the accuracy of management's historical budgeting by comparing budgeted to actual results and understanding the reasons for any significant variances;
 - comparing forecast deaths to independent information from the Office for National Statistics ('ONS');
 - assessing cost saving initiatives against management plans, considering the achievability of both the timing and quantum;
 - assessing current trading performance by inspecting the January, February and March 2023 period end management accounts and further financial information available for April 2023 in addition to making inquiries of management to identify any impacts to current trading, average incomes, funeral mix and debtor recoverability;
 - Obtained the sensitivity analysis performed in the director's going concern assessment. We checked the calculations for accuracy and evaluated the underlying assumptions related to average price, market share and death rate by comparison to the trend in actual deaths, funeral numbers performed and revenues achieved since the COVID-19 outbreak and, where relevant, statistics published by the ONS;
 - Performed additional stress testing to model the impact of further severe, but plausible scenarios to assess their impact upon the EBITDA:DSCR covenant ratio;
 - Performed a reverse stress test to evaluate the level of downturn in performance that would result in a breach of the EBITDA:DSCR covenant and evaluated the plausibility of this scenario; and
 - For mitigations modelled we assessed whether management had the ability to affect these in the time period involve.

Dignity Funerals Limited

Independent auditor's report to the members of Dignity Funerals Limited (continued)

Material uncertainty related to going concern (continued)

- Assessed the forecast liquidity of the Dignity group in order to meet its liabilities as they fall due including the debt service payments falling due over a period through to 30 June 2024 by:
 - Confirming its current cash resources to bank statements;
 - Assessing the reasonableness of the budgeted assumption on converting EBITDA to cash by comparing against the group's historical conversion performance;
 - Considering the availability of the IBLA and the loan facility from Phoenix UK Fund Ltd ('PUKF') through the going concern period and assessing the impact to the availability of these facilities of the proposed takeover should it occur, including inspecting the external legal advice on no change of control impact to the IBLA and inspecting the related waiver obtained in respect of the PUKF loan;
 - Performed a reverse stress test to evaluate the level of downturn in performance that would result in liquidity being exhausted and evaluated whether the likelihood of such a scenario was remote; and
 - For mitigations modelled we assessed whether management had the ability to affect these in the time period involved.
- Reviewed documentation in respect of the proposed takeover offer made on 14 February 2023 (subsequently completed on 25 May 2023) by YELLOW (SPC) BIDCO Limited (a newly formed company controlled by a consortium comprised of joint offerors SPWOne V Limited, Castelnau Group Limited and Phoenix Asset Management Partners Limited) and considered the implications on going concern.
- Inspected the external legal opinion that concluded that a change of control would not result in the Dignity group's long-term debt falling due immediately under the IBLA.
- Inspected the external legal opinion that concluded that the existence of a material uncertainty as outlined in note 2 to the financial statements was not an event of default under the terms of the IBLA.
- Inquired of management as to their knowledge of any other events or conditions beyond the period of their assessment that may cast significant doubt on the Company's ability to continue as a going concern and compared their response to forecast market conditions by the ONS, the profile of payments and covenant requirements of the IBLA and other information that could impact the funeral and crematoria sectors, notably the regulation of pre-need sector by Financial Conduct Authority.
- Reviewed the letters of support provided by other group companies and Castelnau Group Limited to Dignity Funerals Limited, noting they were willing and able to provide support, as needed, for the period through 30 June 2024, and through the procedures above, assessed whether they were in a position to offer that support.
- Assessed the going concern disclosures in the financial statements to ensure they are in accordance with relevant standards.

The group is forecast to be profitable and generate positive cashflows in the going concern period. Under the stress case the DSCR covenant falls below 1.5x which would be a breach of the debt service covenant ratio. This gives rise to the material uncertainty described above.

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

Dignity Funerals Limited

Independent auditor's report to the members of Dignity Funerals Limited (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 6 and 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Dignity Funerals Limited

Independent auditor's report to the members of Dignity Funerals Limited (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101 and the Companies Act 2006) and the relevant tax compliance regulations in the UK.
- We understood how Dignity Funerals Limited is complying with those frameworks by making enquiries of management, internal audit and those charged with governance to understand how the company, as part of the wider Dignity plc group, maintains and communicates its policies and procedures in these areas. We understood any controls put in place by management to reduce the opportunities for fraudulent transactions and those responsible for legal and compliance procedures.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management, internal audit and those charged with governance to understand where it considered there was susceptibility to fraud. We understood the programmes and controls that the company, as part of the wider Dignity plc group, has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, in respect of management override, including in relation to recognition of revenue, we performed audit procedures to address the identified fraud risk. These procedures included testing manual journals to revenue, journals posted by key management personnel including directors of the company and journals indicating large or unusual transactions. We have considered the nature of these transactions and for those that we did not consider to be in the normal course of the business and are not of a trivial value we obtained evidence to support the validity of the transactions. Our procedures were designed to provide reasonable assurance that the financial statements were free from material misstatement.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on journals posted by the key management personnel including directors of the company and journals indicating large or unusual transaction based on our understanding of the business and enquiries of management and internal audit.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Adrian Roberts (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
25 May 2023

Dignity Funerals Limited

Income statement for the period ended 30 December 2022

		52 week period ended 30 December 2022	53 week period ended 31 December 2021 restated
	Note	£'000	£'000
Turnover	5	252,823	281,618
Cost of sales		(155,586)	(147,374)
Gross profit		97,237	134,244
Administrative expenses		(308,563)	(85,496)
Trade receivables impairment		(1,966)	(2,140)
Other operating income		997	2,563
Operating (loss)/profit		(212,295)	49,171
Interest receivable and similar income	8	49	2
Interest payable and similar charges	8	(5,752)	(6,239)
Net interest payable and similar charges	8	(5,703)	(6,237)
(Loss)/profit before taxation	7	(217,998)	42,934
Tax on (loss)/profit	9	20,385	(8,789)
(Loss)/profit for the financial period		(197,613)	34,145

The results have been derived wholly from continuing activities.

Prior year comparatives have been restated for the 53 week period ended 31 December 2021 due to a presentation change in relation to trade receivables impairment. See note 2 for further details.

Dignity Funerals Limited

Statement of comprehensive income for the period ended 30 December 2022

		52 week period ended 30 December 2022	53 week period ended 31 December 2021
	Note	£'000	£'000
(Loss)/profit for the financial period		(197,613)	34,145
Items that will not be reclassified to profit or loss			
Actuarial gain on pension scheme	21	5,300	15,642
Movement on deferred tax relating to pensions actuarial gains		(1,325)	(3,910)
Tax on pension contributions		(160)	(193)
Restatement of deferred tax for the change in UK tax rate		-	1,900
Other comprehensive income		3,815	13,439
Total comprehensive (loss)/ income for the financial period		(193,798)	47,584

Dignity Funerals Limited

Balance sheet as at 30 December 2022

		30 December 2022	31 December 2021
	Note	£'000	£'000
Fixed assets			
Intangible assets	10	28,251	210,254
Tangible assets	11	201,258	212,596
Right-of-use asset	12	79,940	101,736
Deferred tax	19	1,126	-
Investments	13	4,163	4,163
		314,738	528,749
Current assets			
Stocks	14	7,844	8,584
Debtors (including £8,048,000 (2021: £8,379,000) amounts falling due after more than one year)	15	162,340	162,959
Cash at bank and in hand		3,484	4,531
		173,668	176,074
Creditors: amounts falling due within one year	16	(150,246)	(142,285)
Net current assets		23,422	33,789
Total assets less current liabilities		338,160	562,538
Creditors: amounts falling due after more than one year	17	(91,221)	(95,991)
Provisions for liabilities	18	(11,546)	(28,788)
Pension liability	21	(10,767)	(19,722)
Net assets		224,626	418,037
Capital and reserves			
Called up share capital	20	577	577
Special reserve		334,157	333,770
Other reserves		15,356	11,541
Profit and loss reserve		(125,464)	72,149
Total shareholders' funds		224,626	418,037

The financial statements on pages 13 to 65 were approved by the board on 25 May 2023 and signed on its behalf by:



A Eames
Director
Dignity Funerals Limited

Registered number: 00041598

Dignity Funerals Limited

Statement of changes in equity for the period ended 30 December 2022

	Called up share capital	Special reserves	Other reserves	Profit and loss reserve	Total
	£'000	£'000	£'000	£'000	£'000
Balance as at 25 December 2020	577	37,290	(1,898)	38,004	73,973
Profit for the financial period	-	-	-	34,145	34,145
Other comprehensive (expense)/income for the year:					
Actuarial gain on pension scheme (note 21)	-	-	15,642	-	15,642
Movement on deferred tax relating to pensions	-	-	(3,910)	-	(3,910)
Tax on pension contributions	-	-	(193)	-	(193)
Restatement of deferred tax for the change in UK tax rate	-	-	1,900	-	1,900
Total comprehensive income for the year	-	-	13,439	-	13,439
Corporate interest restriction payments	-	12,941	-	-	12,941
Effect of employee share options	-	827	-	-	827
Tax credit relating to share option scheme	-	(34)	-	-	(34)
Restatement of deferred tax for the change in UK tax rate	-	3	-	-	3
Capital contribution in respect of loan waiver with parent	-	282,743	-	-	282,743
Total transactions with owners, recognised directly in equity	-	296,480	-	-	296,480
Balance as at 31 December 2021	577	333,770	11,541	72,149	418,037
Loss for the financial period	-	-	-	(197,613)	(197,613)
Other comprehensive (expense)/income for the year:					
Actuarial gain on pension scheme (note 21)	-	-	5,300	-	5,300
Movement on deferred tax relating to pensions	-	-	(1,325)	-	(1,325)
Tax on pension contributions	-	-	(160)	-	(160)
Total comprehensive income for the year	-	-	3,815	-	3,815
Effect of employee share options	-	506	-	-	506
Tax credit relating to share option scheme	-	(119)	-	-	(119)
Total transactions with owners, recognised directly in equity	-	387	-	-	387
Balance as at 30 December 2022	577	334,157	15,356	(125,464)	224,626

Special reserves includes movements relating to the Company's SAYE and LTIP schemes and associated tax, waiver of amounts due to Birkbeck Securities Limited in 2021 of £282,473,000 and Corporate interest restriction payments made by Dignity plc on behalf of the Company. Other reserves includes movements relating to pension.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022

1 General information

The principal activity of the company is the provision of funeral services, including funeral directing and crematoria operations.

The company is a private company incorporated and domiciled in the United Kingdom. Its registered address is 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP. The financial statements of the Company for the period ended 30 December 2022 were authorised for issue by the board of directors and the balance sheet was signed on the board's behalf by Mrs A Eames.

2 Accounting policies

Basis of preparation

The financial statements of the Company have been prepared in accordance with the Companies Act 2006, as applicable to companies using Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) (applicable accounting standards), except in relation to goodwill. Under IFRS 3 'Business Combinations', goodwill is not amortised, but is reviewed for impairment on an annual basis. This is a departure from the requirements of the Companies Act 2006, which requires goodwill to be amortised over its useful economic life. However, the departure is necessary in order to comply with the requirements of IFRS 3. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. Prior to adopting FRS 101, the Company amortised goodwill over a period of 20 years. If this was to continue loss for the period would have increased by £10,068,000 (2021: profit reduced by £10,099,000).

The financial statements have been prepared on a going concern basis under the historical cost convention. The principal accounting policies are set out below and have been applied consistently throughout the period.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pound (£'000) except where otherwise indicated.

The financial statements contain information about the Company as an individual undertaking and do not contain consolidated financial information as the parent of a group. The reason for this is that the Company is a wholly owned subsidiary of Dignity (2002) Limited and Dignity plc and is included in those company's consolidated financial statements. Consequently the Company by virtue of section 400 of the Companies Act 2006 is exempt from the preparation of its own consolidated financial statements.

Prior year restatements

The amount charged to the income statement for impairment of trade receivables during the period to 31 December 2021 was £2,140,000 which was presented within administrative expenses (as explained in note 7 to the 2021 financial statements). Following the change in presentation of Dignity plc's 2022 Annual Report and Accounts, specifically with regard to the charge for impairment being separately presented in the consolidated income statement, the Company re-examined the materiality of the charge on the results for the period. As a result, the Company concluded that it was appropriate to present the impairment expense separately on the face of the income statement.

Consequently, the impairment expense for the 53 week period ended 31 December 2021 has been separately presented in the income statement resulting in a reduction of administrative expenses for the same amount. There is no impact on the Company's operating profit, statutory profit after taxation or earnings per share for the prior period.

The adjustment has had no impact on opening reserves for the 53 week period ended 31 December 2021. Accordingly, no third balance sheet as at 26 December 2020 was required to be presented.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

2 Accounting policies (continued)

Going concern

The Company is the principal operating company within the Dignity plc group ('Dignity Group') and is one of a number of entities within that group which are part of a Securitisation Group established in connection with the Dignity Group's only loan borrowings. The ability of the Dignity Group to meet its obligations under the A Notes and B Notes is entirely dependent on the ability of members of the Securitisation Group to meet their obligations under loan agreements between those entities within the Securitisation Group. The day-to-day liquidity requirements of the Company are sourced either from within the Company or, where necessary, from the continued support of certain other entities within the Dignity Group or Castelnau Group Limited, one of the new ultimate shareholders of the Dignity Group, such support having been confirmed in writing as available for a period at least through 30 June 2024. In order to assess the ability of the Company to continue as a going concern the Directors of the Company have obtained the assessment performed by the Directors of Dignity plc and therefore considered the ability of the Dignity Group to continue as a going concern and to provide financial support to the Company as required. The Directors of the Company have also obtained the latest financial information from Castelnau Group Limited to consider their ability to provide financial support to the Company and Group as required.

The financial performance of the Dignity Group and the Securitisation Group has been forecast for a period through 30 June 2024 (the 'going concern period') and those forecasts ('base case') have been subjected to a number of sensitivities. The base case forecasts reflect an assessment of current and future market conditions and their impact on the future profitability and liquidity of the Dignity Group and the Securitised Group.

The key factors which impact the Dignity Group's financial performance are death rate, market share, funeral mix (Attended Funeral vs Unattended Funeral), average revenue per funeral and inflation.

The performance of the Dignity Group against the planned strategy in H1 2022 was behind that originally anticipated as it was taking longer to restructure funeral operations and the Dignity Group had challenges with staff shortages; and as such forecasts were adjusted to allow for a slower growth in market share whilst the new strategy is fully embedded and vacancies for key roles are filled. These challenges have continued to impact H2 2022 and as a result have resulted in lower covenant headroom than previously forecast for the going concern period. However, in those areas of the business where we have done the most to introduce the elements of our new strategy, we are continuing to see encouraging results of the market share growth we are seeking.

The base case assumes death rates are approximately one percent higher in 2023 compared to 2022 and in line with ONS figures for 2024, funeral market share growth of one per cent in 2023 (phased through the year, being 12.4 per cent for 2023 compared to 11.9 per cent in 2022), with funeral mix remaining at the current rates and an uplift in average revenues reflecting an October 2022 price adjustment and having considered the expected impact of inflation on the Dignity Group's cost base.

Debt and liquidity

As at 30 December 2022, the Dignity Group had cash (excluding cash in the Trusts) of £7.7 million. Its operations are also funded by Class A Notes with an outstanding principal of £160.1 million (matures 2034) and Class B Notes with an outstanding principal of £356.4 million (matures 2049) (together, the 'Loan Notes') that are listed on the Irish Stock Exchange. The terms and conditions for these Loan Notes are covered by an Issuer/Borrower Loan Agreement ('IBLA').

Dignity plc has a £50 million loan facility (the 'Loan Facility') that was signed on 6 December 2022 and is available to be draw down in full or in instalments until 5 December 2023 and carries a seven per cent rate of interest. The Loan Facility is with Phoenix UK Fund Ltd which is a related party, it has no restrictive covenants, no minimum solvency covenants and no charges over any assets and therefore no negative impact on the Dignity Group's existing capital structure.

The directors of Dignity plc have approved four drawdowns on the Loan Facility, £5.0 million on 2 March 2023, £10.0 million on 30 March 2023 (both of which have been received), a further £15.0 million on 24 April 2023 (which is expected to be received on 25 May 2023) and the final £20 million on 17 May 2023 (which is expected to be received on 18 June 2023).

Under the base case, the Dignity Group is forecast to have sufficient liquidity to meet its liabilities as they fall due in the period assessed through to 30 June 2024. This is having given due consideration to the amount of the cash on hand

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

2 Accounting policies (continued)

Going concern (continued)

(including the drawdown of the Loan Facility), the planned investments in capital and the expected conversion of trading profitability into cash at historic levels.

Covenant test

As part of the conditions of the Loan Notes, the Securitisation Group is required to comply with an EBITDA: Debt Service Charge Ratio ('DSCR') covenant, tested quarterly on a last 12 month ('LTM') basis. At each point of testing, EBITDA must exceed c.£51 million (i.e., 1.5x the annual debt service cost of £34 million).

The Securitisation Group did not meet this covenant at 1 July 2022, 30 September 2022, 30 December 2022 and 31 March 2023, being £2.8 million, £8.6 million, £18.6 million and £14.6 million respectively below the LTM DSCR requirement. However, under the terms of a waiver agreed with the bondholders on 11 March 2022, this was not a breach as the Dignity Group was able to make an equity cure, contributing cash which counts as EBITDA and therefore makes good this shortfall. To provide additional headroom in the forecasts (the equity cure and any additional cash transferred counts in the covenant calculation for the prospective 12 months), Dignity plc paid an amount of £34.3 million (being the £18.6 million required for an equity cure and an additional cash transfer of £15.7 million) into the Securitised Group in 2022.

The waiver and ability to equity cure currently applies to the covenant up to and including 31 March 2023 and the Dignity Group has the option of contributing an uncapped amount of cash in order to provide headroom against the covenant prospectively. Any cash contributed in Q1 2023 can be included in the covenant test point at each successive quarterly test up to and including 31 December 2023. Based on the Dignity Group's base case forecast, an amount of £13.5 million has been transferred as an equity cure in March 2023 from Dignity plc. This is to give the Dignity Group flexibility whilst it continues to focus on embedding the new strategy, which is expected to generate growth in its funeral market share and profits.

Stress test

When considering the going concern assumption, the Directors of the Dignity plc have reviewed the principal risks within the environment in which it operates and have prepared relevant sensitised scenarios giving a reduction to the base case, these include:

- Deaths being 10,000 less than forecast (noting 2023 deaths are forecast to be one per cent higher than 2022 deaths);
- No funeral market share growth in 2023 or 2024 (noting FY22 comparable market share growth is 0.2 per cent);
- Average revenue per funeral being £45 lower;
- The proportion of Unattended Funerals being one per cent higher (compared to the FY23 forecast of nine per cent); and
- Additional inflation costs of five per cent above those modelled (with no cost mitigation activity).

This downside scenario modelling confirmed that there is a plausible scenario in which the Dignity Group would not meet its DSCR covenant in the going concern period, specifically the risk of not meeting the covenant at 31 March 2024 and 30 June 2024 after the expiry of the equity cure in the LTM DSCR calculation.

In a severe but plausible downside scenario (having taken into account all of the above sensitivities in tandem and applying further downside risk), and having taken into account controllable mitigations such as delaying marketing spend, there is a risk that the DSCR covenant might be breached as at 31 December 2023.

The downside scenario modelling also confirmed that, after forecasting to use £45.0 million of the Loan Facility, the Dignity Group has sufficient liquidity. The Dignity Group considered whether there were any plausible circumstances that could exhaust liquidity. In the severe but plausible downside scenario, having given due consideration to controllable mitigations, for example reducing discretionary capital expenditure and marketing spend and the option to obtain further liquidity from certain other entities within the Dignity Group or Castelnau Group Limited, one of the new ultimate shareholders of the Dignity Group, such support having been confirmed in writing as available for a period at least through 30 June 2024, there were no plausible scenarios in which the Dignity Group would not have sufficient liquidity in the going concern period.

Based on a review of its cost base as part of the forecasting, the Dignity Group has identified cost saving opportunities that could provide additional liquidity and EBITDA headroom if needed. These central overhead savings are within

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

2 Accounting policies (continued)

Going concern (continued)

the Dignity Group's control but are not planned, nor anticipated to be required. Some controllable mitigating factors do not have an immediate impact so there is still a risk of breaching the DSCR covenant at 31 December 2023, 31 March 2024 and 30 June 2024, which has resulted in a material uncertainty (see Conclusion below).

Impact should there be a breach of the DSCR covenant

However, any breach of the covenant does not give rise to an immediate requirement to repay the associated Loan Notes. Rather, such a breach results in a requirement for the noteholder trustees to appoint a financial adviser who will review the financial and operational circumstances of the Securitised Group prior to making recommendations as to how the breach can be resolved considering whether the Securitised Group is likely to be able to remedy such a breach. If the financial adviser considers that the Securitised Group is likely to be able to remedy such a breach this will be done by the placing of cash collateral in an amount which, if it had been placed for the relevant period in respect of which the covenant was breached, would have generated interest sufficient (if added to EBITDA for the relevant period) to have ensured that the covenant was not breached. The interest rate on which the cash collateral would accrue interest to add to the EBITDA calculation would be measured at the rate that is earned on such cash collateral as at the date it was placed (e.g., a deposit rate quoted by a bank). If the Dignity Group is unable to remedy such a breach the Loan Notes would be repayable on an accelerated basis and could be repayable immediately at the request of the noteholders.

The Directors of Dignity plc have obtained independent legal advice to confirm that there are no consequences of the material uncertainty conclusion over going concern under the terms of the IBLA.

Period beyond the going concern period

The Dignity Group has also considered the period beyond 30 June 2024 to assess if there are any significant risks that exist that would otherwise impact the going concern assumption. As the current equity cure does not benefit the DSCR covenant reporting after 31 December 2023 as the last 12 months cash contributions will have expired, the base forecast covenant headroom is reduced at that point.

To provide further headroom and reduce the risk of a covenant breach, the Dignity Group has continued to work on a long-term solution to improve the Group's capital structure. On 7 September 2022 a consent solicitation with c.61 per cent support from its Class A noteholders was launched. The voting concluded on 29 September 2022 and the consents were approved, with 94.42 per cent of votes cast in favour. As a result of this, consents from noteholders have been gained to permit a potential transaction involving the realisation of value from selected crematoria assets (the trading performance for which is included within the Securitisation Group), with the proceeds of such a transaction being applied in a partial redemption of the Class A Notes. These consents apply for a 12 month period to 29 September 2023.

Dignity plc will be required to inject a minimum of £70 million into the Securitisation Group to partially repay some of the Class A Notes outstanding in consideration for trade and assets leaving the Securitisation Group. If the transaction completes by 30 June 2023 and £70 million is the net realisation, then upon repayment of debt at this level, this will result in a deleveraging of the Dignity Group and a positive impact of £6.1 million on the DSCR covenant calculations, i.e., a reduction of the DSCR from c.£51 million to c.£44.9 million for 31 March 2024. If the transaction takes longer to complete and is completed between 30 June 2023 and 30 September 2023 there would be no positive impact in March 2024 as the first possible date for repayment will be 29 December 2023. It would have a full year impact of £10.2 million on the DSCR covenant calculations, i.e., a reduction of the DSCR from c.£51 million to c.£41 million in 2024.

In addition, upon completion of the proposed transaction within the timeframe permitted by the noteholder consent, there are amendments to the documents that will allow further equity cures, with restrictions, to be made going forward should they be required. If the transaction completes before 30 June 2023, this can be used to supplement any EBITDA shortfall at 31 December 2023 and 31 March 2024.

The Directors of Dignity plc are targeting a realisation of value from selected crematoria assets in order to deleverage the Dignity Group and reduce the DSCR requirement as explained above.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

2 Accounting policies (continued)

Going concern (continued)

Takeover and delisting of the Group

In February 2023, the board recommended that Dignity shareholders accept the cash offer for Dignity made by BidCo, a newly formed company controlled by a consortium comprised of joint offerors SPWOne V Limited, Castelnau Group Limited and Phoenix Asset Management Partners Limited (collectively hereafter the 'Bidco consortium').

For the takeover to be effective, the Acceptance Condition (as defined in the offer document) had to be satisfied (i.e., holders of Dignity shares representing the requisite percentage of Dignity shares to which the Offer relates need to submit valid acceptances of the Offer in respect of those Dignity shares). The Offer was also conditional upon, among other things, satisfaction of the FCA Change in Control Condition (as defined in the offer document).

Through review of the offer document published by Bidco and having regard to the discussions of the Dignity Group with the Bidco consortium, the Directors of the Company are confident of the continuation of the Group's strategy to invest in its estate and target market share growth following the takeover.

The Directors of Dignity plc have also considered the impact of the takeover on its financing agreements and pre-need Trusts and have concluded that a change of control does not impact on the terms of the IBLA or the deeds of the pre-need Trusts. The takeover, on completion, would constitute a "change of control" for the purposes of the £50 million Loan Facility. However, a waiver has been granted by Phoenix UK Fund Ltd (as lender) that allows the Group to draw funds under the Loan Facility even in the event of a takeover of the Group by the Bidco consortium.

On 5 April 2023, the Offer obtained regulatory approval from the Financial Conduct Authority. On 19 April 2023, the Offer became unconditional and the consortium obtained control of the Dignity Group. On 21 April 2023, the consortium had acquired or agreed to acquire 75.09% of Dignity plc shares and Dignity plc subsequently announced that the notice period for the cancellation of listing and trading of its shares has now commenced. Furthermore, on 4 May 2023, the consortium received acceptances representing 95.67% of Dignity plc shares and the consortium has now exercised its rights to acquire compulsorily the remaining Dignity plc shares. On 25 May 2023, the cancellation of listing was completed.

This change in control and cancellation of listing and trading of shares has no impact on the Securitised Debt.

Conclusion

Having considered all the above, the Directors of the Company remain confident in the long-term future prospects for the Dignity Group and its ability to continue as a going concern and its ability to continue to provide support to the Company, however, there are plausible downside scenarios that could result in a breach of the DSCR covenant in the period through to 30 June 2024, which if failed to be remedied to the satisfaction of the financial adviser operating on behalf of the noteholders, would be considered an event of default under the IBLA resulting in the Loan Notes becoming repayable on an accelerated basis and could be repayable immediately at the request of the noteholders.

The events or conditions described above indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

These financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Company was unable to continue as a going concern.

The Directors, whilst acknowledging there is a material uncertainty, continue to adopt the going concern basis in preparing the financial statements.

Exemptions

As permitted by FRS 101 the following exemptions from the requirements of International Financial Reporting Standards ("IFRS") have been applied in the preparation of these financial statements:

- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 'Business combinations'.
- IFRS 7, 'Financial Instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows);

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

2 Accounting policies (continued)

Exemptions (continued)

- 16 (statement of compliance with all IFRS),
- 38A (requirement for minimum of two primary statements, including cash flow statements);
- 38B-D (additional comparative information);
- 111 (cash flow statement information); and
- 134-136 (capital management disclosures).
- Paragraph 38 of IAS 1 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, plant and equipment; and
 - paragraph 118(e) of IAS 38 Intangible assets .
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets'.
- The requirements of the second sentence of paragraph 110 and from paragraphs 113(a) to 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15, 'Revenue from Contracts with Customers'.
- IFRS 13, Fair value disclosures.
- Paragraphs 45(b), 46-52 of IFRS 2 'Share based payments'.

The Company is eligible to apply the above exemptions as it is included in the consolidated financial statements of Dignity (2002) Limited and Dignity plc who both prepare financial statements under IFRS and include the above disclosures.

The consolidated financial statements of Dignity (2002) Limited and Dignity plc are available from 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

New standards, amendments and IFRIC interpretations

There are no new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the period ended 30 December 2022, which have had a material impact on the Company.

Turnover

Turnover from funeral operations comprises the amount recoverable from customers for the provision of funerals, income from crematoria and other services, to the extent that those services have been performed or the goods supplied.

Turnover include amounts receivable from the pre-arranged funeral plan trusts for funerals performed by the Company for pre-arranged funeral plan members.

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

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

All amounts are exclusive of VAT.

Repairs and renewals

All repairs and renewals are charged to the Income statement, unless they represent an enhancement to the original asset.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

2 Accounting policies (continued)

Intangible assets – goodwill

Goodwill, which represents the excess of the fair value of the consideration paid for subsidiaries and other businesses over the fair values of the net assets acquired and liabilities assumed, is capitalised and stated at historical cost less provisions for impairment.

Goodwill is not amortised but is subject to an annual impairment review.

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

Intangible assets – trade names

Intangible trade names are recognised as assets at the estimated fair value of the consideration paid to acquire them and are carried at historical cost less amortisation and provisions for impairment. When acquired as part of a business combination the fair value is calculated by reference to the estimated incremental cash flows expected to arise by virtue of the trade name being well-established.

Amortisation is provided from the date of acquisition so as to write-off the asset on a straight line basis over the term of its useful life. The useful life for trade names is 35 years.

Intangible assets – software

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring into use the specific software.

An internally generated intangible asset arising from the Company's development of computer systems (including websites) is recognised if, and only if, the costs are directly associated with the production of identifiable and unique software products, controlled by the Company and it is probable that future economic benefits will flow to the Company.

Costs recognised as assets are amortised over their estimated useful lives (three to eight years) using the straight line method.

Tangible assets and depreciation

Assets are recorded in the balance sheet at cost less accumulated depreciation and any recognised impairment loss. Cost includes, where appropriate, directly attributable costs incurred in bringing each asset to its present location and condition.

Depreciation is charged so as to write-off the cost of assets to their residual value (excluding freehold land and assets in the course of construction), over their expected useful lives using the straight line method. The bases and annual depreciation rates in use for the various classes of assets are as follows:

Freehold and long leasehold buildings	2% - 10%
Short leasehold premises	Over term of lease
Motor vehicles	7% - 20% on cost
Computers	20% on cost
Other plant and equipment	5% - 33% on cost
Fixtures and fittings	15% on cost

Freehold land is not depreciated on the basis that it has an indefinite life. Where the historical cost of land and buildings cannot be split, the directors have estimated that the historical cost attributable to land is one third of the original cost of acquiring the land and buildings. This estimate is regularly reviewed.

Major renovations of the Company's trading premises and cremator re-linings are depreciated over the remaining life of the related asset or to the estimated date of the next major renovation or cremator re-lining, whichever is sooner. Asset lives and residual values for each class of asset are reviewed annually and adjusted if appropriate at each balance sheet date.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

2 Accounting policies (continued)

Tangible assets and depreciation (continued)

Assets in the course of construction are shown as work in progress at a value equal to costs incurred to date. Once completed, they are reclassified and depreciated using the Company's depreciation policy above.

Borrowing costs

If the construction phase of property, plant or equipment extends over a long period, the interest incurred on borrowed capital up to the date of completion is capitalised as part of cost of construction as permitted by IAS 23 (Borrowing Costs).

Profit (or loss) on sale of fixed assets

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within profit (or loss) on sale of fixed assets in the Income statement.

Right-of-use assets and lease liabilities

At inception of a contract the Company assesses whether the contract is or contains a lease. A lease is present where the contract conveys, over a period of time, the right to control the use of an identified asset in exchange for consideration.

Where a lease is identified the Company recognises a right-of-use asset and a corresponding lease liability, except for short-term leases (defined as leases with a lease term of 12 months or less), leases of low-value assets (defined as leases with rentals below £1,000 per annum) and leases with contingent rentals that do not depend on an index or rate.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease and comprise the initial measurement of the corresponding lease liability and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use asset is presented as a separate line in the consolidated balance sheet.

Right-of-use assets are depreciated on a straight line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment under IAS 36.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (defined as leases with a lease term of 12 months or less). It also applies the lease of low-value assets recognition exemption to leases that are considered of low-value (defined as leases with rentals below £1,000 per annum). Lease payments on short-term leases and leases of low-value assets are recognised as operating expense on a straight line basis over the lease term.

Investments

Fixed asset investments are stated at historical cost, less any provision for impairment.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

2 Accounting policies (continued)

Business combinations under common control

Where the Company undertakes an acquisition of a fellow subsidiary within the Dignity Group, the Company has made the accounting policy choice to apply the predecessor accounting method. Under this method all assets and liabilities are transferred at book value and the transfer is accounted for from the date control passes. Any difference between the consideration and the book value of the assets and liabilities transferred is taken to equity.

Impairment of assets

The carrying values of intangible assets and intangible assets are reviewed for impairment in periods where events or changes in circumstances indicate that the carrying value may not be recoverable. Assets that have an indefinite useful life (e.g. goodwill) which are not subject to amortisation are tested annually for impairment.

Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. For goodwill this is considered at a business segment level as that is the level at which the return on assets acquired is monitored. For other non-current assets this is considered at a cost centre level, which includes a number of branches as this is the lowest level at which independent cashflows can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future discounted cash flows of the cash-generating unit are estimated, based on latest management forecasts for the following three years and cash flows beyond the initial 36 month period are extrapolated to 2040 using the growth in the Office for National Statistics ("ONS") death rate. Beyond 2040 an annual growth rate is applied in subsequent years. These cash flows are discounted at rates that management estimates to be the risk affected average cost of capital for the particular segment and compared to the carrying value of the relevant asset. Any impairment in the value of an asset below its carrying value is charged to the income statement within operating profit. A reversal of an impairment loss is recognised in the income statement to the extent that the original loss was recognised, net of the amortisation or depreciation that would have been charged. Any impairment loss recognised for goodwill will not be reversed.

Stocks

Stocks, which comprise funeral supplies and monumental masonry, are stated at the lower of cost and net realisable value. Cost includes all directly attributable costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred in completion and sale. The cost of PPE stock is calculated using average costing.

Pension costs

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

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligation. The net interest arising on applying the opening discount rate to the plan assets and defined benefit obligations is recognised in the Income statement as a net finance charge or income.

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

Remeasurement gains and losses includes the return on plan assets excluding amounts included within net interest in the consolidated income statement. Past and current service costs are recognised in the Income statement.

Changes in the present value of the defined benefit obligation resulting from plan amendments, curtailments or one-off adjustments such as Guaranteed Minimum Pension equalisation are recognised immediately in the Income statement as a past service cost.

Under the pension scheme Trust Deed & Rules, the Group has a right to surplus. The Group has taken a judgement that the 25 per cent tax that would be payable by the scheme on a refund of surplus is in the nature of an income tax. Accordingly, the Group has determined that any surplus or notional surplus (arising following payment of the minimum funding requirement) would be fully recoverable.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

2 Accounting policies (continued)

Insurance plans

The Company is the named beneficiary on a number of life assurance products sold by third party insurance companies, in consideration for which the Company 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 income statement as a funeral is performed. A provision for impairment is also made to cover future expected cancellations and is assessed at each period end.

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

Where a commission is payable in the future, before the delivery of the funeral, a discounted liability is recognised on the balance sheet. To the extent a funeral is expected to be delivered a corresponding asset is recognised.

In the event of the death of the policyholder, if the Company 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 Company will pass on all monies received to that party and in this situation the Company is deemed to be acting as an agent and revenue is treated as pass through revenue and not grossed up within the income statement.

Taxation

The tax charge for the period includes the charge for tax currently payable and deferred tax. The current tax charge represents the estimated amount due that arises from the operations of the Dignity Group in the period and after making adjustments to estimates in respect of prior periods. Tax is recognised in the income statement, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax is recognised in respect of all differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, except where the temporary difference arises from goodwill (taxable temporary differences only,) or from the initial recognition (other than in a business combination) of other assets and liabilities that affects neither the taxable profit nor the accounting profit. Deferred tax assets and liabilities are offset to generate a net asset or liability if the conditions of IAS 12 are met.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the deductible temporary differences can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted, by the balance sheet date.

Intercompany receivables

Initial recognition and measurement

Financial assets are classified at initial recognition, and are subsequently measured, at amortised cost as the Company's financial assets give rise to cash flows that are solely payments of principal and, where applicable, interest on the principal amount and it is the Company's business model to collect the contractual cash flows.

Impairment

The Company recognises an allowance for expected credit losses (ECL's) for all receivables held at amortised cost. ECL's are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

ECL's are for credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL's are provided on the basis of loss given default multiplied by the probability of default for credit losses that result from default events that are possible within the next 12 months (a 12 month ECL).

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

2 Accounting policies (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation.

Provisions (other than deferred tax) are discounted where the present value of the provision is materially different to the undiscounted value. The unwinding of discounts is included within finance costs.

Dividends

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

Share-based payments

The Dignity Group issues equity settled share-based payments to certain employees. A fair value for the equity settled share awards is measured at the date of grant. Management measures the fair value using the valuation technique that they consider to be the most appropriate to value each class of award, which include Black-Scholes calculations and Monte Carlo simulations. The valuations take into account factors such as non-transferability, exercise restrictions and behavioural considerations.

SAYE schemes require service and non-vesting conditions to be met, the likelihood of which is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. When non-vesting conditions are not met during the vesting period, the fair value of the award is immediately expensed.

LTIP schemes are divided into two component parts, one requiring non-market conditions and one requiring market conditions to be met, in addition to a service condition. Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards. The fair value of shares subject to market conditions takes into account relative share performance against a comparator group of companies comprising the FTSE Small Cap Index.

The cumulative costs of all awards are subsequently reduced if the non-market performance and/or service condition is not met during the vesting period. Where awards include market conditions, the transactions are treated as vested irrespective of whether the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

An expense is recognised to spread the fair value of each award over the vesting period on a straight-line basis. The estimate of the level of vesting is reviewed at least annually, with any impact on the cumulative charge being recognised immediately. When the options are exercised the ultimate parent company issues new shares.

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 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 creditors

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

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

2 Accounting policies (continued)

Financial assets

Trade and other receivables (including intercompany receivables)

Initial Recognition and measurement

Financial assets are classified at initial recognition, and are subsequently measured, at amortised cost as the Company's financial assets give rise to cash flows that are solely payments of principal and, where applicable, interest on the principal amount and it is the Company's business model to collect the contractual cash flows.

Trade and other receivables that do not have a significant financing component are initially measured at their transaction price, being the invoice amount excluding sales tax. As trade and other receivables are expected to be settled within one year from inception it is presumed that all trade and other receivables do not contain a significant financing component.

Impairment

The Company recognises an allowance for expected credit losses (ECL's) for all receivables held at amortised cost. ECL's are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

ECL's are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12 month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECL's. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL's 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 at bank and in hand

Cash at bank and in hand includes demand deposits and amounts included in accounts restricted for specific uses.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received. Transaction costs are recognised as a deduction within equity.

New standards, amendments and IFRIC interpretations

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the period ended 30 December 2022, have had a material impact on the Company.

3 Critical accounting estimates and judgements

Critical accounting estimates and assumptions

The preparation of financial statements in accordance with FRS 101 requires management to make estimates, assumptions and judgements in certain circumstances that affect reported amounts. The most sensitive estimates affecting the financial statements are detailed below:

Pensions

The Company operates a defined benefit pension scheme that is accounted for using methods that rely on actuarial assumptions to estimate costs and liabilities for inclusion in the financial statements. These actuarial assumptions include discount rates, assumed rates of return, salary increases and mortality rates.

While management believes that the actuarial assumptions are appropriate, any significant changes to those used would affect the Balance Sheet and statement of comprehensive income. The Company considers that the most significant assumptions are the discount rate and the inflation rate. See note 21 for further details.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

3 Critical accounting estimates and judgements(continued)

Critical accounting estimates and assumptions

Funeral services goodwill impairment assessment

Performing the annual impairment assessment for goodwill requires an estimation of the value-in-use of the cash generating units to which the goodwill has been allocated. The value-in-use calculation requires the use of estimates including those in respect of future cash flows, growth rates and an appropriate discount rate. See note 10 for further details.

Other non-current assets impairment assessment

An impairment assessment has been required on the Group's other non-current assets, including trade name intangible assets, right-of-use asset and property, plant and equipment given the changes in the funeral market and lower levels of profitability. The value-in-use calculation also requires the use of other estimates, including those in respect of future cash flows, discount rate and growth rates. See note 10 for further details.

Impairment of intercompany receivables

For intercompany receivables, the Company recognises expected credit losses (ECL's) that result from default events that are possible within the next 12 months (a 12 month ECL) at each reporting date. Within the calculation a probability of default based on the credit rating of the external Secured Notes is used as the intercompany loan mirrors these instruments. Therefore, this estimate is sensitive to fluctuations in this rate. If the rate was to increase by 0.01 per cent the ECL provision would increase by £5,000 and if it was to decrease by 0.01 per cent the ECL provision would decrease by £5,000.

IFRS 16 incremental borrowing rate (IBR's)

On transition to IFRS 16 the Company's IBR has been applied to the lease liabilities that were in scope as at 28 December 2019. The weighted average IBR applied was 4.9 per cent, with a minimum rate of 3.6 per cent and a maximum rate of 6.8 per cent. These rates have been based on corporate bond yields to maturity reflecting the Company's indicative credit rating. In order to assess the Company's IBR's we have considered yield curves at 28 December 2019 for similarly rated listed corporate bonds for durations aligned with the adjusted unexpired lease durations.

This is not considered to be a critical accounting estimate post transition due to the small number of new leases entered into each reporting period and therefore the IBR does not create any material sensitivities.

Insurance plan cancellation rates

The key judgement used within the calculation of the deferred insurance plan assets and corresponding liabilities is the future expected cancellation rate per annum for the remaining life of active plans held. A current rate of 1.6 per cent is being used which is based on historical data of cancellation rates on similar insurance plans sold by third parties in the past for which the Company is the beneficiary. This estimate therefore is subject to sensitivity.

If this expected future rate of cancellation was to reduce/increase by 0.2 per cent to 1.4 per cent/1.8 per cent, respectively, the impairment charged in the current period of £265,000 would reduce/increase by £397,000. If this rate reduced/increased by 0.4 per cent to 1.2 per cent/2.0 per cent, respectively, the impairment charged in the current period of £265,000 would reduce/increase by £794,000.

4 Financial risk management

The Company finances its operations by a mixture of intercompany borrowings, bank borrowings and cash generated from operations. This approach seeks to minimise financing costs and generate optimum shareholder value through efficient leveraging of the Company's balance sheet, which is made possible by the stable and predictable cash-generative nature of the business.

It is not the Group's policy to actively trade in derivatives.

Market risk

Interest rate risk and other price risk

The Company has significant cash balances that are held by institutions with a long-term rating of at least BBB by Standard & Poor's and BBB- by Fitch. These balances earn interest by reference to the Bank of England base rate. If

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

4 Financial risk management (continued)

interest rates were to increase by one per cent at the beginning of 2023 then the Company would receive £100,000 additional interest on an annualised basis for each £10,000,000 held.

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

Credit risk

Trade receivables are the main source of credit risk to the Company. However, this risk is minimised as much as possible through well-established credit control procedures.

Liquidity risk

The Company manages its liquidity risk by maintaining sufficient cash reserves, committed undrawn borrowing facilities and regular monitoring and forecasting of cash balances. In addition, the Dignity Group is required under the terms of its secured borrowings to maintain a precisely defined EBITDA to total debt service ratio of at least 1.5 times in respect of the Securitisation Group, excluding the pre-need Trusts. This ratio was determined when raising the debt as being sufficient to ensure all borrowings could be repaid. During the temporary covenant waiver period that was approved by bondholders in March 2022, any cash transferred into the Securitisation Group during the waiver period (up to 31 March 2023) can be included within the EBITDA to debt service ratio for the following 12 months. A cash transfer of £34.1 million has been made into the Securitisation Group for the covenant measurement point up to and including 30 December 2022, resulting in a ratio of 1.96 times at 30 December 2022 (31 December 2021: 2.13 times). Excluding this cash transfer the ratio at 30 December 2022 was 0.95 times.

Capital risk management

The Company's objective under managing capital is to safeguard the Dignity Group's ability to continue as a going concern in order to provide returns for shareholders and to repay holders of Secured Notes which are held by Dignity Finance plc. In order to achieve these objectives, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

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

The Dignity Group has continued to work on a long-term solution to improve the Dignity Group's capital structure and on 7 September 2022 a consent solicitation was launched. This obtained certain consents from Noteholders for a potential transaction involving the realisation of value from selected crematoria assets, with the expected proceeds of such a transaction being applied in a partial redemption of the Class A Notes, as required by the current documentation. The necessary quorum was achieved on 29 September 2022 (with 99.92 per cent of the aggregate principal amount of the Notes for the time being outstanding being represented and with 94.42 per cent of the votes being cast in favour of the proposal) and the consent to the proposal applies for a 12 month period to 29 September 2023. Should the transaction, an outcome the Dignity plc Board is fully focused on achieving within the 12 months allowed, there are amendments to the documents that will allow further equity cures, with restrictions, to be made going forward should they be required.

As part of the proposed agreement with Noteholders, the Dignity Group will be required to inject a minimum of £70.0 million into the Securitisation Group companies to partially repay at full make-whole (compensating Noteholders for the present value of future cash flows discounted at Gilts +50 basis points) some of the Class A Notes outstanding in consideration for assets leaving the Securitisation Group. This will result in a deleveraging of the Group and a positive impact on the underlying financial ratios and covenant calculations. Funds for this injection are expected to be realised from a capital transaction relating to the sale of certain crematoria assets but the agreement with bondholders does not limit where the funds come from.

Climate risk

In preparing the financial statements the Company has considered the impact of climate change, taking into account the relevant disclosures in the Dignity plc 2022 Strategic Report, including those made in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures and the Dignity Group's pledge to be net-zero by 2038. The current forecast for capital expenditure needed to meet the net zero commitment over the period to 2038 are at an early stage and will be phased over a number of years depending on the available funds. The current

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

4 Financial risk management (continued)

strategy is to phase in electric vehicles of our funeral fleet, this will be performed as part of the normal fleet replacement programme. Furthermore, Crematoria upgrades are also planned to be part of the normal capital replacement regime. Therefore, there has been no material impact on expected useful economic lives and the impairment exercise considers replacement of property, plant and equipment, where maintaining the current capital base. Consequently, there has been no impact on the current period financial reporting judgements and estimates, including impairment and deferred tax asset unwinds. Furthermore, this is consistent with the assessment that climate change is not expected to have a significant impact on the Dignity Group's going concern assessment to 30 June 2024 nor the viability of the Dignity Group over the next three years. This will continue to be considered as the pathway is developed further.

5 Turnover, segmental and geographical information (continued)

	52 week period ended 30 December 2022	53 week period ended 31 December 2021
	£'000	£'000
Turnover		
Funeral services	173,718	199,217
Crematoria	79,105	82,401
	252,823	281,618

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 Group's crematoria and cemeteries.

Substantially all turnover is derived from the United Kingdom. Overseas transactions are not significant.

Further segmental information is provided by Dignity (2002) Limited, the parent company of the smallest group in which the financial statements of the Company are consolidated, and hence no other segmental information for the Company has been presented.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

6 Staff costs

(a) Employees

	52 week period ended 30 December 2022	53 week period ended 31 December 2021
	£'000	£'000
Analysis of staff costs (including directors' remuneration):		
Wages and salaries	99,157	97,270
Social security costs	10,149	8,267
Other pension costs	4,216	3,962
Share option charges (note 22)	426	799
	113,948	110,298

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

6 Staff costs (continued)

(a) Employees (continued)

The monthly average number of people (including directors) employed by the Company during the period was as follows:

	52 week period ended 30 December 2022	53 week period ended 31 December 2021
	Number	Number
Administration and managerial	354	365
Pre Need	96	111
Funeral and crematoria staff	3,085	2,840
Total	3,535	3,316

(b) Directors' remuneration

	52 week period ended 30 December 2022	53 week period ended 31 December 2021
	£'000	£'000
Aggregate emoluments	646	481
Directors' pension contributions to money purchase schemes	16	23
Highest paid director		
- Aggregate emoluments	396	196
- Directors' pension contributions to money purchase schemes	14	8

During the period, no directors (2021: no directors) exercised share options and no directors (2021: two directors) were awarded options on Ordinary Shares in the ultimate parent undertaking in respect of qualifying services.

One director is accruing retirement benefits under the Group's defined benefit scheme (2021: two directors). The accumulated total accrued pension at 30 December 2022 is £nil (2021: £nil) for the highest paid director. Two directors (2021: three directors) accrue retirement benefits under the defined contribution scheme.

Two directors (2021: two directors) have LTIP options.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

7 (Loss)/profit before taxation

The (loss)/profit before taxation is stated after charging/(crediting):

	52 week period ended 30 December 2022 £'000	53 week period ended 31 December 2021 £'000
Staff costs (note 6)	113,948	110,298
Depreciation of tangible fixed assets – owned assets (note 11)	19,722	19,236
Depreciation of right-of-use asset (note 12)	8,463	9,757
Amortisation of intangible assets (note 10)	1,515	1,637
Expense related to practical expedients applied under IFRS 16 (note 12)	455	539
Loss/(profit) on disposal of tangible fixed assets	61	(1,072)
External transaction costs	208	746
Stock provision (note 14)	(206)	(137)
Impairment of trade debtors	1,966	2,140
Trade name impairment (note 10)	19,839	1,232
Trade name write-off (note 10)	603	2,027
Goodwill impairment (note 10)	160,545	-
Tangible assets impairment (note 11)	19,164	-
Right-of-use asset impairment (note 12)	17,488	-
Stock recognised as an expense	19,854	18,826
Unfunded funeral plans	3,640	-
Services provided by the Company's auditor and its associates:		
Fees payable to the auditor for the audit of the company and other group companies financial statements	250	225
Operating lease rentals:		
- plant and machinery	113	139

During 2022, the Company received £274,000 (2021: £2,346,000) of business rates relief.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

8 Net interest payable and similar charges

	52 week period ended 30 December 2022 £'000	53 week period ended 31 December 2021 £'000
Interest payable and similar charges		
Unwinding of discount	-	51
Other loans	25	84
Finance cost on IFRS16 lease liability (note 12)	5,399	5,621
Pension scheme net interest cost (note 21)	328	483
Interest payable and similar charges	5,752	6,239
Interest receivable and similar income		
Bank and other interest	(16)	(2)
Unwinding of discount	(33)	-
Interest receivable and similar income	(49)	(2)
Net interest payable and similar charges	5,703	6,237

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

9 Tax on (loss)/profit

Analysis of (credit)/charge in the period

	52 week period ended 30 December 2022	53 week period ended 31 December 2021
	£'000	£'000
Current tax: current period	695	5,275
Adjustments in respect of previous periods	(498)	8
Total corporation tax	197	5,283
Deferred tax – current period	(21,219)	(1,337)
Adjustments in respect of previous periods	637	9
Restatement of deferred tax for the change in UK tax rate	-	4,834
Total deferred tax	(20,582)	3,506
Taxation	(20,385)	8,789

Tax on items charged to comprehensive income or equity

	52 week period ended 30 December 2022	53 week period ended 31 December 2021
	£'000	£'000
Deferred tax charge relating to pension scheme actuarial losses	1,325	3,910
Deferred tax charge on pension contributions	853	428
Current tax credit on pension contributions	(693)	(235)
Deferred tax charge relating to maturity of employee share options	119	34
Restatement of deferred tax for the change in UK tax rate	-	(1,903)
Total deferred tax charged to other comprehensive income or equity	1,604	2,234

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

9 Tax on (loss)/profit (continued)

Tax expense for the period is lower (2021: higher) than the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%). The differences are explained below:

	52 week period ended 30 December 2022	53 week period ended 31 December 2021
	£'000	£'000
(Loss)/profit before taxation	(217,998)	42,934
(Loss)/profit before taxation multiplied by standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	(41,420)	8,157
Effects of:		
Expenses not deductible for tax purposes	26,586	982
UK to UK transfer pricing	919	(1,619)
Restatement of deferred tax for the change in UK tax rate	(3,645)	4,834
Group relief claimed without charge	(2,964)	(3,582)
Adjustments in respect of previous periods	139	17
Total tax (credit)/charge for the period	(20,385)	8,789

In the March 2021 budget, legislation was announced that will increase the main rate of corporation tax from 19 per cent to 25 per cent from 1 April 2023. The change was substantively enacted at the balance sheet date and is therefore recognised in these financial statements. As a result, the Company recognised a taxation credit of £4,834,000 through the Income statement, a credit of £1,900,000 through other comprehensive income and a credit of £3,000 through equity to reflect the one-off increase in the prior period of the Company's deferred tax position within the 53 week period ended 31 December 2021. The credit of £3,645,000 for the period ended 30 December 2022 relates to recognition of losses at 25 per cent as this is the corporation tax rate at which they are expected to unwind.

Deferred tax at the balance sheet date has been measured using these enacted tax rates and reflected in these financial statements.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

10 Intangible assets

	Trade names	Software	Goodwill	Total
	£'000	£'000	£'000	£'000
Cost				
At beginning of the period	56,054	2,795	549,778	608,627
Additions	-	499	-	499
At end of the period	56,054	3,294	549,778	609,126
Accumulated amortisation and impairment				
At beginning of the period	16,761	1,298	380,314	398,373
Charge for the period	1,275	240	-	1,515
Trade name impairment	19,839	-	-	19,839
Goodwill impairment	-	-	160,545	160,545
Trade name write off	603	-	-	603
At end of the period	38,478	1,538	540,859	580,875
Net book amount				
At 30 December 2022	17,576	1,756	8,919	28,251
At 31 December 2021	39,293	1,497	169,464	210,254

Trade names arise on the acquisition of funeral businesses and their fair value is calculated by reference to the estimated incremental cash flows expected to arise by virtue of the trade name being well-established. There are no individually material trade names that amount to 6 per cent of the total net book value.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

10 Intangible assets (continued)

Impairment tests for non current assets

As described in note 2, goodwill is subject to an annual impairment test in accordance with IAS 36, 'Impairment of Assets'. Other non-current assets are also subject to an impairment test as at 30 December 2022 as in accordance with IAS 36, 'Impairment of Assets', there is an indication of impairment due to slower funeral market share growth, combined with more branch direct cremations rather than attended funerals being performed than originally anticipated in December 2021 and the subsequent short-term forecasts used for impairment testing at that time.

For the purpose of this impairment test goodwill is tested at a business segment level as this is the level at which the return on assets acquired, including goodwill, is monitored.

The segmental allocation of goodwill and the recoverable amount of the goodwill cash-generating unit ('CGU') is shown below:

	Book Value	Recoverable	Book Value	Recoverable
	30	amount	31	amount
	December	December	December	December
	2022	2022	2021	2021
	£000	£000	£000	£000
Funeral services	-	96,100	160,545	368,700
Crematoria	8,919	346,800	8,919	387,300
	8,919	442,900	169,464	756,000

The recoverable amount of each goodwill CGU is based on a value-in-use calculation. The impairment assessment then compares this value-in-use calculation to the carrying value of the CGU. Any impairment is then recognised in administrative expenses in the Income statement.

The value-in-use calculations use cash flow projections derived from the latest forecast. Key assumptions used to produce the forecast are the estimated UK death rates (based on forecast death rates supplied by the ONS), anticipated market share, average revenues driven by pricing and the product mix between attended funerals at £2,729 and unattended funerals at £1,048 and medium and long-term growth rates. The value-in-use calculations for the December 2022 model include the approved forecast for 2023, 2024 and 2025. The 2023 forecast assumes death rates are approximately one percent higher compared to the actual rate in 2022 and then revert back to announced ONS figures for 2024 and 2025. Market share growth assumptions reflect forecasted increases of 10 basis points in 2023 to 12.0 per cent and a further 20 basis points in both 2024 and 2025 giving market share of 12.2 per cent and 12.4 percent respectively compared with the closing market share as at 30 December 2022 of 11.9 per cent. This market share growth is supported by performance in areas of the business where the new strategy is embedded, which is forecast to continue as this is completed across the funeral segment. The market share is modelled to then stabilise at the projected 2025 year end market share position over the remaining forecast period. Average revenues and product mix are based on week eight 2023 year to date actual performance. Management have then assumed that future revenue increases will equal future cost inflation.

Cash flows for segments beyond the initial 36 month period (December 2021: 36 month period) are extrapolated to 2042 ('medium term growth rate') using the growth in the ONS death rate as this is deemed to be a reliable indicator of future growth for the Company. The medium-term growth rates range from 2.3 per cent to 11.7 per cent (December 2021: 2.25 per cent). Beyond 2042 ('long-term growth rate') a growth rate of 2.25 per cent (December 2021: 2.25 per cent) is used, being an estimate of long-term growth, which reflects the expectations of long-term inflation and death rates.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

10 Intangible assets (continued)

The ONS issued updated death rates in January 2022 and together with a further 14 months of death data they are deemed to be a reliable estimate of the longer-term future volumes. The cash flows for each segment are discounted at a pre-tax rate of 12.9 per cent (December 2021: 10.3 per cent).

Goodwill assessment

The impairment calculation indicated no impairment in the crematoria division with headroom under the current assumptions used of £189,100,000 (2021: £232,600,000). The discount rate would need to increase to 27.30 per cent (2021: increase to 24.03 per cent) or the long-term growth rate would need to fall to minus 26.30 per cent (2021: minus 23.3 per cent) for the impairment test to result in £nil headroom for this segment. The likelihood of such movements in the discount rate and growth rate is deemed unlikely based on current market conditions.

The impairment assessment of the funeral services division has resulted in an impairment of goodwill of £160,545,000 (2021: £nil), which has been recognised within administrative expenses in the Income statement. The forecasts used in the assessment reflect the slower than expected market share growth which is a result of the new strategy taking longer to implement largely due to staff shortages. The Company is currently suffering like many other businesses with a shortage of workforce and a difficulty in recruiting which is causing us to be unable to offer funerals in a timeframe soon enough for some families and hence some business has been lost to competitors. The forecasts also reflect the at-need product mix in funerals being more weighted to branch direct cremations (unattended funerals) than originally anticipated, with future assumptions aligned to actual year-to-date experience of attended 56 per cent and unattended 12 per cent of total funerals.

Whilst the Company expects further long-term market share growth from the new strategy, the accounting standard (IAS 36) for impairment assessments does not allow forecasts to be used where assumptions cannot be evidenced or have not yet been implemented (e.g. cost savings). As a result, whilst the Company is committed to delivering its market share growth ambitions, given the infancy of the strategic plan implementation and the available evidence to demonstrate this growth as at the period ended 30 December 2022 when the impairment assessment is made, the full extent of potential longer-term gains is not reflected in the impairment modelling.

Trade name, right-of-use and property, plant and equipment assessment

In addition to the Company's goodwill impairment test, given the changes in the funeral market noted above, an impairment test was performed in respect of the Company's other non-current assets in accordance with the requirements of IAS 36.

A value-in-use calculation has been performed against an individual CGU, which for the purposes of other non-current assets is deemed to be at a cost centre level, which includes a number of branches. This is the lowest level at which independent cash inflows can be identified due to the interdependency of various elements in relation to the care of the deceased, performance of a funeral or administration work, which can and are often carried out by any branch within a cost centre. This is also the lowest level at which costs are captured, for example all payroll costs for this collection of branches would be charged to the cost centre and not the individual branches due to the sharing of resources across the branches. Management have considered alternative judgements relating to the determination of CGU's, however the above is considered to be the most practicable and balanced. The CGU cash flows are based on the individual CGU projections for the next 12 months and include an allocation of central costs and then adjusted in years two and three onwards using the same assumptions as used within the goodwill impairment assessment described above. As goodwill is not allocated at a cost centre CGU level the impairment test for other non-current assets is performed before goodwill at a business segment level.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

10 Intangible assets (continued)

Identified impairments at a CGU level are pro-rated against non-current assets based on the net book value and include an allocation of central assets. The performance of this impairment assessment at cost centre level indicated an impairment within the funeral services segment of:

- £19,839,000 (December 2021: £1,232,000) in relation to trade names;
- £17,488,000 (December 2021: £nil) in relation to right-of-use assets; and
- £19,164,000 (December 2021: £nil) in relation to property, plant and equipment.

£679,600 (December 2021: £nil) has been recognised within cost of sales and £55,811,400 (December 2021: £1,232,000) recognised within administrative expenses in the Income statement.

The recoverable amount of all impaired CGUs within the funeral services division is £20,626,000 which is based on a value-in-use calculation. In line with IAS 36 an exercise has been performed on an asset-by-asset basis to ensure that no asset (or CGU) has been impaired below its value-in-use or fair value less cost of disposal. This exercise has included obtaining external market valuations which were principally available for freehold properties and vehicles and an assumption that additions to plant and equipment in the last 12 months is a proxy to fair value. In addition, an assessment has been performed on right-of-use assets to assess market rents and the ability to sub-let properties to determine a discounted cashflow. The recoverable amount for trade names in impaired CGU's is considered to be nil. These impairments and the subsequent reduction in net book value have been reflected within the above goodwill impairment calculations to reflect the lower asset base.

Goodwill and other non-current asset sensitivities

The impairment booked is based on management's best estimate of future performance; however, there is significant estimation uncertainty and judgement involved in determining future cash flows. The following table demonstrates the impact on the above impairment charges in the funeral services segment based on a number of reasonably possible sensitivities:

	Decrease/(increase) in impairment charge £'000
Sensitivity applied to trade names and other non-current assets	
Increase in discount rate of 1 per cent (to 13.9 per cent)	(970)
Increase in 2023 funeral services EBITDA and beyond of £3.0m	999
Decrease in 2023 funeral services EBITDA and beyond of £3.0m	(1,610)

(1) The sensitivities above are based on an assessment of value-in-use. In the event of further impairment, it is expected that a number of assets will have a measurable fair value less costs of disposal above the value-in-use of the assets, such that any additional impairment recognised is likely to be lower than demonstrated. However, such analysis cannot be reliably estimated until any additional impairment results as it is only then that an assessment can be made of the fair value less costs of disposal to ensure that the asset is written down to its appropriate carrying value (being the higher of value-in-use and fair value less costs of disposal).

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

11 Tangible assets

	Freehold land and buildings £'000	Leasehold buildings £'000	Plant, machinery, fixtures & fittings £'000	Motor vehicles £'000	Work in progress £'000	Total £'000
Cost						
At beginning of the period	181,211	57,132	68,073	78,490	5,977	390,883
Additions	3,015	1,103	4,724	4,259	15,676	28,777
Disposals	(260)	(210)	(1,215)	(2,318)	-	(4,003)
Transfers with other group companies	241	1,299	146	(85)	(2,637)	(1,036)
Reclassification	497	1,697	1,971	685	(4,850)	-
At end of the period	184,704	61,021	73,699	81,031	14,166	414,621
Accumulated depreciation						
At beginning of the period	51,946	29,133	44,395	52,813	-	178,287
Charge for the period	6,198	3,250	5,545	4,729	-	19,722
Disposals	(80)	(170)	(1,193)	(2,202)	-	(3,645)
Impairment	6,897	7,565	4,022	680	-	19,164
Reclassification	31	(168)	56	(84)	-	(165)
At end of the period	64,992	39,610	52,825	55,936	-	213,363
Net book amount						
At 30 December 2022	119,712	21,411	20,874	25,095	14,166	201,258
At 31 December 2021	129,265	27,999	23,678	25,677	5,977	212,596

Depreciation expense of £4,729,000 (2021: £4,907,000) is included within cost of sales and £14,993,000 (2021: £14,329,000) is included within administrative expenses. Details of any securities over assets are disclosed in note 23.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

11 Tangible assets (continued)

Leasehold property is further analysed as follows

	Long leasehold property £'000	Short leasehold property £'000	Total £'000
Cost			
At beginning of the period	20,814	36,318	57,132
Additions	82	1,021	1,103
Disposals	-	(210)	(210)
Transfers with other group companies	48	1,251	1,299
Reclassification	389	1,308	1,697
At end of the period	21,333	39,688	61,021
Accumulated depreciation			
At beginning of the period	7,716	21,417	29,133
Charge for the period	777	2,473	3,250
Disposals	-	(170)	(170)
Transfers with other group companies	280	2,311	2,591
Reclassification	10	(178)	(168)
At end of the period	8,783	25,853	34,636
Net book amount			
At 30 December 2022	12,550	13,835	26,385
At 31 December 2021	13,098	14,901	27,999
Capital commitments		2022	2021
		£'000	£'000
Capital expenditure authorised by the Board and contracted for		12,725	6,262

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

12 Leases

Right-of-use-asset	30 December 2022 £'000	31 December 2021 £'000
At beginning of period	101,736	108,593
Additions	2,815	2,421
Depreciation charge	(8,463)	(9,757)
Impairment	(17,488)	-
Impact of changes in lease payments	1,340	479
At end of period	79,940	101,736

See note 10 for further information on the impairment charge booked in the current period.

All right-of-use assets are related to leasehold properties.

Lease liability	30 December 2022 £'000	31 December 2021 £'000
At beginning of period	98,971	104,810
Additions	2,815	2,791
Impact of changes in lease payments	1,314	473
Interest expense	5,399	5,621
Payments	(13,370)	(14,724)
At end of period	95,129	98,971

	30 December 2022 £'000	31 December 2021 £'000
Current	7,323	7,313
Non-current	87,806	91,658

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

12 Leases (continued)

All right-of-use assets and lease liabilities are related to leasehold properties. Some lease contracts contain rent review periods, break clauses and options to extend, all of which are assessed and negotiated by the Group, taking into account any changes in business need, throughout the contract term. In accordance with IFRS 16, the Group has calculated the full lease term on the majority of its leases, beyond break, to represent the reasonably certain lease term within the total £95,235,000 of lease liabilities held on the balance sheet.

The following are the amounts recognised in the income statement:

	30 December 2022	31 December 2021
	£'000	£'000
Depreciation expense of the right-of-use asset	8,463	9,757
Interest expense on lease liabilities	5,399	5,621
Expense related to practical expedients applied	455	539
Impairment	17,488	-
Total amount recognised in the income statement	31,805	15,917

In addition, £1,183,000 (2021: £163,000) has been recognised in the consolidated income statement in respect of contingent rentals and other charges on leases.

The Company had total cash outflows for leases classified under IFRS 16 of £13,264,000 (2021: £14,724,000). The Company also had non-cash additions to right-of-use assets of £2,815,000 (2021: £2,421,000) and lease liabilities of £2,815,000 (2021: £2,421,000).

Sublease payments received in the period amount to £204,000 (2021: £254,000). Total future sublease payments receivable relating to leases amount to £112,000 (2021: £169,000).

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

13 Investments

	£'000
Cost	
At beginning and end of the period	76,114
Provisions	
At beginning and end of the period	71,951
Net book value	
At 31 December 2021 and 30 December 2022	4,163

During the period, an impairment review was completed and £nil (2021: £nil) was written off to the income statement.

Dignity Funerals Limited achieved full authorisation to market funeral plans in July 2022 and launched a new Dignity funeral plan product, which it began selling in August 2022. Circa 4,000 plans have been sold up to 30 December 2022 and all client monies are paid directly into a newly established trust called The UK Funerals (2022) Trust.

The assets of the Trust are independent to the Company and are not incorporated into these financial statements as the Company is not required to prepare consolidated accounts. The Company will account for the Trust as an investment with nil consideration and treat any surpluses from the Trust as dividend as and when received.

A full list of subsidiary undertakings is included in note 26.

14 Stocks

	30 December 2022 £'000	31 December 2021 £'000
Raw materials	623	656
Finished goods	7,221	7,928
	7,844	8,584

During the period a £206,000 (2021: £137,000 credited) provision has been credited to the income statement relating to obsolete PPE.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

15 Debtors

	30 December 2022 £'000	31 December 2021 £'000
Amounts falling due within one year		
Trade debtors	16,205	14,376
Amounts owed by group undertakings (b)	129,832	132,836
Corporation tax	3,431	1,920
Other debtors	1,706	1,090
Prepayments	3,118	4,358
	154,292	154,580
Amounts falling due after more than one year		
Deferred commissions (a)	8,048	8,379
	8,048	8,379

(a) Deferred commissions

The Company is the named beneficiary on a number of life assurance products sold by third party insurance companies, in consideration for which the Company 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.

(b) Amounts owed to group undertakings

An ECL provision of £1,054,000 (2021: £748,000) is held against all amounts owed by group undertakings.

The amounts owed by group undertakings are unsecured and non interest bearing.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

16 Creditors: amounts falling due within one year

	30 December 2022 £'000	31 December 2021 £'000
Trade creditors	11,062	9,269
Amounts owed to group undertakings	81,513	75,437
Lease liabilities	7,323	7,313
Insurance commissions payable	1,258	1,028
Social security and other taxes	2,814	2,775
Other creditors	219	243
Accruals	35,466	37,366
Deferred income	10,591	8,854
	150,246	142,285

The amounts owed to group undertakings are unsecured and non-interest bearing.

17 Creditors: amounts falling due after more than one year

	30 December 2022 £'000	31 December 2021 £'000
Lease liabilities	87,806	91,658
Insurance commissions payable	1,672	2,194
Deferred income	38	239
Other creditors	1,705	1,900
	<u>91,221</u>	<u>95,991</u>

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

18 Provisions for liabilities

	Onerous	Dilapidations	Total
	£'000	£'000	£'000
At beginning of the period	-	11,629	11,629
Charged to profit and loss account	261	(71)	190
Utilised in the period	(25)	(263)	(288)
Unwinding of discount	2	13	15
At end of the period	238	11,308	11,546
			£'000
Less than one year			2,468
Greater than one year			9,078
			11,546

Dilapidations

The provision for dilapidations covers the cost of repairs to leased premises occupied by the Company against which a dilapidations notification had been received, and properties where a dilapidation obligation exists but for which no notification has been received.

It is anticipated that the element of provision relating to dilapidation notices served £2,158,000 (2021: £2,122,000) will be utilised in the following financial period, and the element relating to dilapidation obligations where no notice has been served will be utilised over the terms of the relevant property leases, the majority of which is expected to be by 31 December 2031.

Onerous

The provision for onerous contracts is made to cover unavoidable costs of £238,000 (2021: £nil) associated with branches that are not expected to generate sufficient economic benefits.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

19 Deferred tax

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

	30 December 2022 £'000	31 December 2021 £'000
At beginning of period	17,159	11,184
Credited to income statement (note 9)	(21,219)	(1,337)
Adjustments in respect of prior periods	637	9
Taken to other comprehensive income (note 9)	2,178	4,338
Taken to equity (note 9)	119	34
Restatement of deferred tax for the change in UK tax rate	-	2,931
At end of the period	(1,126)	17,159

Elements of these deferred tax balances may be recoverable within one year. However, the directors consider that it is not possible to quantify the amount because of a significant level of uncertainty in the timing of events and have therefore classified the whole balance as due after more than one year. There is no unprovided deferred tax.

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

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

19 Deferred tax (continued)

Deferred tax liabilities	Accelerated tax depreciation £'000	Other £'000	Total £'000
At 25 December 2020	9,223	9,924	19,147
Charged / (credited) to income statement	73	(1,138)	(1,065)
Adjustments in respect of prior periods	(42)	-	(42)
Restatement of deferred tax for the change in UK tax rate	2,042	2,940	4,982
At 31 December 2021	11,296	11,726	23,022
Credited to income statement	(11,933)	(5,194)	(17,127)
Adjustments in respect of prior periods	637	-	637
At 30 December 2022	-	6,532	6,532

Deferred tax assets	Pensions £'000	Accelerated tax depreciation £'000	Losses £'000	Other £'000	Total £'000
At 25 December 2020	(6,954)	-	-	(1,009)	(7,963)
Credited to income statement (note 9)	(78)	-	-	(194)	(272)
Adjustments in respect of prior periods	-	-	-	51	51
Restatement of deferred tax for the change in UK tax rate – taken to income statement	-	-	-	(148)	(148)
Restatement of deferred tax for the change in UK tax rate – taken to equity	-	-	-	(3)	(3)
Restatement of deferred tax for the change in UK tax rate – taken to other comprehensive income	(1,900)	-	-	-	(1,900)
Taken to other comprehensive income	4,338	-	-	-	4,338
Taken to equity	-	-	-	34	34
At 31 December 2021	(4,594)	-	-	(1,269)	(5,863)
(Credited)/charged to income statement (note 9)	(209)	(38)	(4,372)	527	(4,092)
Taken to other comprehensive income	2,178	-	-	-	2,178
Taken to equity	-	-	-	119	119
At 30 December 2022	(2,625)	(38)	(4,372)	(623)	(7,658)

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

19 Deferred tax (continued)

All of the deferred tax assets were available for offset against the deferred tax liabilities and hence the net deferred tax asset at 30 December 2022 was £1,126,000 (2021: provision of £17,159,000). The Company has recognised a deferred tax asset as this is expected to unwind over the foreseeable future, as the Company is forecasting future profits. The net deferred tax provision has turned into an asset, during the year primarily due to a decrease in Trade names and accelerated tax depreciation due to impairment changes which have subsequently decreased the corresponding deferred tax liability. The Company has recognised a deferred tax asset of £4,372,000 in relation to losses as these are expected to be utilised in 2023, 2024 and 2025.

Other deferred tax liabilities include trade names and capital gains rolled over and deferred tax on software and leasehold land. Other deferred tax assets includes share option schemes, long service awards and finance leases.

20 Called up share capital

	30 December 2022 £'000	31 December 2021 £'000
Allotted and fully paid		
577,376,905 (2021: 577,376,905) Ordinary Shares of 0.1p each	577	577

Each Ordinary Share carries equal voting rights and there are no restrictions on any share.

21 Pension commitments

Defined contribution plans

The Dignity Group contributes to certain individuals' personal pension schemes. These contributions are accounted for as defined contribution schemes.

Auto enrolment

A defined contribution scheme is used to address the Group's obligations for auto enrolment. Both the employee and the Group contribute four percent of pensionable pay.

The pension costs for defined contribution schemes are as follows:

	30 December 2022 £'000	31 December 2021 £'000
Defined contribution schemes	3,880	3,470

Defined benefit plans

The Group operates a defined benefit scheme the Dignity Pension and Assurance Scheme. A full actuarial valuation is being undertaken as at 6 April 2020 with a subsequent Actuarial Report as at 6 April 2021 and 6 April 2022. This latest valuation has been updated to 30 December 2022 by a qualified independent Actuary.

After consultation with members of the defined benefit plan, the Group closed the scheme to new entrants on 1 October 2013 and employee contributions were increased to 10 per cent (from 7 per cent) of pensionable salaries, with the Group contributing the same amount (an increase from 9.2 per cent). The plan closed to future accrual on 28 February 2017, except for members of the LGPS sections who continue to accrue benefits. No curtailment charge arose on the scheme closure. Contributions for ongoing service paid by the employer for 2022 were £37,000 (2021: £46,000). In addition special contributions of £4,450,000 (2021: £2,207,000) have been paid to make total contributions for the year of £4,487,000 (2021: £2,253,000).

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

21 Pension commitments (continued)

Assumptions

The principal actuarial assumptions at the balance sheet were:

	30 December 2022	31 December 2021
Discount rate	4.70%	1.85%
Rate of increase in salaries: Pre 2030	2.25%	2.60%
Rate of increase in salaries: Post 2030	3.25%	2.60%
Pensions increase assumption: RPI capped at 5% p.a.	3.15%	3.45%
Pensions increase assumption: RPI capped at 2 1/2% p.a.	2.20%	2.30%
RPI price inflation assumption	3.25%	3.60%
CPI price inflation assumption - Pre February 2030	2.25%	2.60%
CPI price inflation assumption - Post January 2030	3.25%	3.60%

The demographic assumptions used include rates for mortality which, for example, lead to an average projected life expectancy of 22.0 (2021: 22.1) years for male members and 24.4 (2021: 24.4) years for female members currently aged 65 and of 22.9 (2021: 22.9) years from age 65 for male members and 25.5 (2021: 25.5) years from age 65 for female members currently aged 50.

Analysis of fair value of plan assets:

	Long-term rate of return expected at	Value at	Long-term rate of return expected at	Value at
	30 December 2022		31 December 2021	
	%	£'000	%	£'000
Debt	55.8	48,041	51.4	66,702
Equity and diversified growth funds	39.2	33,673	46.5	60,394
Cash	5.0	4,307	2.1	2,693
Fair value of plan assets		86,021		129,789

At 30 December 2022 and 31 December 2021 the Pension Trustees did not hold, on behalf of the scheme, any direct investments in the Dignity Group, nor did the Dignity Group occupy any property or other assets included with the fair value of scheme assets.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

21 Pension commitments (continued)

The amounts recognised in the balance sheet are determined as follows:

	30 December 2022 £'000	31 December 2021 £'000
Fair value of plan assets	86,021	129,789
Present value of funded obligations	(96,788)	(149,511)
Net obligation recognised in the balance sheet	(10,767)	(19,722)

Analysis of amount charged to income statement in respect of defined benefit schemes

	30 December 2022 £'000	31 December 2021 £'000
Current service cost included within cost of sales (staff costs)	54	85
Administration expenses paid by the scheme	450	450
Interest costs less interest income included within net finance cost	328	483

Changes in the present value of the defined benefit obligation are as follows:

	30 December 2022 £'000	31 December 2021 £'000
Present value of obligation at beginning of the period	(149,511)	(158,202)
Current service cost	(54)	(85)
Interest cost	(2,730)	(2,103)
Benefits paid	4,452	3,840
Contributions by participants	(8)	(8)
Remeasurement gains – financial	57,776	5,742
Remeasurement gains – demographic	226	251
Remeasurement (losses)/gains – experience	(6,939)	1,054
Present value of obligation at end of the period	(96,788)	(149,511)

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

21 Pension commitments (continued)

The fall in the value of plan liabilities is primarily due to the increase in the discount rate from 1.85 per cent to 4.70 per cent during the period. Furthermore, the fall in long-term inflation expectations has also driven a decrease.

Changes in the fair value of the schemes assets are as follows:

	30 December 2022	31 December 2021
	£'000	£'000
Fair value of plan assets at beginning of the period	129,789	121,603
Interest income on plan assets	2,402	1,620
Contributions by Company	4,487	2,253
Contributions by participants	8	8
Benefits paid	(4,452)	(3,840)
Administration expenses paid by the scheme ^(a)	(646)	(512)
Remeasurement (losses)/gains	(45,567)	8,657
Fair value of plan assets at end of the period	86,021	129,789

(a) Administrative expenses paid by the scheme includes £196,000 (2021: £62,000) charged to other comprehensive income.

The fall in the value of plan assets is due to the holding of Liability Driven Investments.

Analysis of the movement in the balance sheet obligation:

	30 December 2022	31 December 2021
	£'000	£'000
At beginning of period	(19,722)	(36,599)
Total expenses as above charged to the income statement	(832)	(1,018)
Remeasurement gains and administration expenses credited to other comprehensive income	5,300	15,642
Contributions by the Company	4,487	2,253
At the end of the period	(10,767)	(19,722)

The actual loss on scheme assets in the period was (£43,165,000) (2021: £10,277,000 return).

**Notes to the financial statements
for the period ended 30 December 2022 (continued)**

21 Pension commitments (continued)

Changes in assumptions

	Liabilities	Assets	Deficit	(Increase)/ decrease in deficit
	£'000	£'000	£'000	£'000
No change	(96,788)	86,021	(10,767)	-
0.25% rise in discount rate	(92,561)	86,021	(6,540)	4,227
0.25% fall in discount rate	(101,208)	86,021	(15,187)	(4,420)
0.25% rise in inflation	(99,698)	86,021	(13,677)	(2,910)
0.25% fall in inflation	(93,963)	86,021	(7,942)	2,825

The above sensitivity analysis has been determined by applying the results of a fully accurate sensitivity analysis as at 6 April 2020 to the value placed on the Scheme liabilities as at 30 December 2022, assuming that the proportionate impact of the change in assumptions would be the same. It is therefore approximate as it does not allow for the impact of plan experience since 6 April 2020.

Analysis of present value of scheme liabilities

	30 December 2022	31 December 2021
Active members (a)	26%	31%
Deferred pensioners	26%	28%
Current pensioners	48%	41%
Average duration of liabilities	15 years	18 years

(a) Active members are members of the Scheme who are still employed by the Group.

Scheme characteristic

The Group currently operates a defined benefits plan, the Dignity Pension & Assurance Scheme. The benefits provided by the plan are final salary defined benefits with the contributions paid by the Employer on a balance of cost basis. The plan is run by the Trustees of the plan who ensure that the plan is run in accordance with the Trust Deed & Rules and complies with legislation. The Trustees are required by law to fund the plan on prudent funding assumptions under the Trust Deed & Rules of the plan. The contributions payable by the Employer to fund the plan are set by the Trustees after consulting the Employer.

The assets of the plan are invested in managed funds with Mercer. The managed funds are diversified by fund and by investment strategy.

The plan closed to future accrual on 28 February 2017, except for members of the LGPS Sections who continue to accrue benefits.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

21 Pension commitments (continued)

Funding arrangements

The Trustees use Projected Unit funding method. The last full valuation was undertaken as at 6 April 2020, with subsequent Actuarial Reports as at 6 April 2021 and 6 April 2022.

With effect from 1 January 2022 the Company has been paying contributions of £4,000,000 per annum. Based on the results of the 2020 actuarial valuation, this rate of contributions is projected to eliminate the deficit disclosed by that valuation by 9 November 2026.

The employees of the LGPS Section currently contribute to the Plan in line with the rates set out in the Plan Rules. From 1 January 2022 the Employer will contribute £37,200 per annum in order to fund future service accrual.

The expenses of administering the Plan and levies required by the Pensions Protection Fund and the Pensions Regulator are currently met by the Scheme. The Group contributes an additional £450,000 per annum in order to fund these expenses.

Funding Risks

The assets quoted at 30 December 2022 are comprised as follows:

	£'000
Assets held by investment managers	85,491
Balance of the Trustees' bank account	530
Total	86,021

The following list is not exhaustive but covers the main risks for the plan. Some of the risks can be reduced by adjusting the funding strategy with help of the Trustees, for example investment matching risk. Other risks cannot easily be removed, for example longevity risk, and Employer must be aware of these risks and ask the Trustees to monitor them closely.

Investment return risk

If the assets underperform the returns assumed in setting the funding targets then additional contributions may be required at subsequent valuations.

Investment match risk

The plan invests significantly in equity type assets, whereas the solvency targets are closely related to the returns on bonds. If equity type assets have fallen in value relative to the matching asset of bonds, additional contributions may be required.

Longevity risk

If future improvements in longevity exceed the assumptions made for scheme funding then additional contributions may be required.

Legislative risk

The Government may introduce over riding legislation which leads to an increase in the value of Plan benefits.

Solvency risk

As the funding target is not a solvency target, and the investment strategy does not follow that required for a solvency target, the assets of the plan may not be sufficient to provide all members with the full value of their benefits on a plan wind-up.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

22 Share-based payments

In respect of share-based payments arrangements, total charges to the income statement were £426,000 (2021: £799,000). The Dignity Group has both LTIP and SAYE schemes, both of which are equity based settled.

LTIP Schemes

The LTIP Scheme was introduced after the flotation of the Dignity Group in 2004. Under the LTIP Scheme, the remuneration committee can grant options over shares in Dignity plc to employees of the Dignity Group. Awards under the LTIP Scheme are generally reserved for Executive Directors and senior management. The Company has made annual grants since April 2004. Options granted under the LTIP Scheme will normally become exercisable on the third anniversary of the date of grant, subject to certain conditions. For the 2020 and 2021 schemes the vested shares must be retained for two years. Exercise of an option is subject to continued employment unless an individual ceases to be an employee by reason of death, illness, redundancy or other similar circumstances.

Options were valued using the Monte Carlo option pricing model. Performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	17 December 2021	22 December 2020
Share price at grant date	£6.10	£6.03
Exercise price	-	-
Number of employees	1	36
Shares under option	39,659 ⁽¹⁾	264,271 ⁽¹⁾
Vesting period (years)	3	3
Expected volatility	59.2%	60.2%
Option life (years)	10	10
Expected life (years)	3	3
Risk free rate	0.51%	0.11%
Expected dividends expressed as a dividend yield	0%	0%
Possibility of ceasing employment before vesting	0%	0%
Fair value per option	£4.59	£4.63

⁽¹⁾ 50 per cent of these options relate to total shareholder return with the remaining relating to market share price.

The expected volatility is calculated by reference to historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

22 Share-based payments (continued)

Reconciliation of LTIP awards:

Award grant date	Outstanding as at 31.12.21	Granted during the period	Lapsed during the period	Forfeited during the period	Vested and exercised during the period	Outstanding as at 30.12.22
24.03.14	2,000	-	-	-	-	2,000
06.03.15	7,729	-	-	-	(3,979)	3,750
13.06.19	257,926	-	(257,926)	-	-	-
22.12.20	222,188	-	-	(31,749)	-	190,439
17.12.21	39,659	-	-	(23,135)	-	16,524

Award grant date	Outstanding as at 25.12.20	Granted during the period	Lapsed during the period	Forfeited during the period	Vested and exercised during the period	Outstanding as at 31.12.21
24.03.14	2,000	-	-	-	-	2,000
06.03.15	27,673	-	-	-	(19,944)	7,729
23.03.18	120,523	-	(120,523)	-	-	-
13.06.19	270,904	-	-	(12,978)	-	257,926
22.12.20	264,271	-	-	(42,083)	-	222,188
17.12.21	-	39,659	-	-	-	39,659

The options under the 2020 and 2021 LTIP Schemes have not yet vested.

The charge to the income statement in the period in respect of the LTIP Schemes was £102,000 (2021: £636,000), all of which are equity based settled.

SAYE Scheme

Two Inland Revenue approved SAYE Schemes were in place during the period. Options were valued using the Black-Scholes option pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	2022 scheme 1 December 2022	2019 scheme 10 October 2019
Share price at grant date	£3.70	£5.33
Exercise price	£2.87	£3.83
Number of employees	832	901
Shares under option	510,910	506,837
Vesting period (years)	3	3
Expected volatility	61.7%	47.0%
Option life (years)	3	3.5
Expected life (years)	3	3
Risk free rate	3.22%	0.70%
Expected dividends expressed as a dividend yield	0%	0%
Possibility of failing to save	20%	20%
Fair value per option	£1.89	£2.40

During the period 50,483 options (2021: 53,949 options) under the 2019 SAYE Scheme were forfeited or cancelled and 8,473 options (2021: 3,948 options) were exercised with a weighted average share price of £4.92 (2021: £6.48) at exercise. The number of share options outstanding at the end of the period is 318,811 (2021: 377,767).

The charge to the income statement in the period in respect of the SAYE Schemes was £345,000 (2021: £163,000) all of which are equity based settled.

The expected volatility is calculated by reference to historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The options under the 2019 SAYE Scheme vested on 1 December 2022.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

23 Contingent liabilities

On 17 October 2014, the Dignity Group issued £238,904,000 Class A Secured 3.5456% Notes due 2034 ('Secured Class A Notes') and £356,402,000 Class B Secured 4.6956% Notes due 2049 ('Secured Class B Notes' and together with the Secured Class A Notes, the 'Secured Notes').

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

- Dignity (2002) Limited, the Company's intermediate parent, and its wholly owned subsidiaries including the Company ('Dignity (2002) Group') have granted the Security Trustee fixed and floating charges over all the assets and undertakings of the Dignity (2002) Group;
- Dignity Funerals Limited and Derriman & Haynes Funeral Services Limited has granted the Security Trustee with full title guarantee, a first legal mortgage over each of its rights, title and interest from time to time in properties situated in England and Wales;
- Dignity Funerals Limited has granted the Security Trustee with full title guarantee⁽ⁱ⁾, a first legal mortgage over its rights, title and interest from time to time in properties situated in Northern Ireland;
- Dignity Funerals Limited has, in respect of any Scottish property which is capable of being so charged, granted 'standard securities' in favour of the Security Trustee⁽ⁱⁱ⁾.

(i) This mortgage is governed by the laws of Northern Ireland.

(ii) The standard securities are governed by Scots Law.

At 30 December 2022, the amount outstanding by the Dignity (2002) Group, in relation to these borrowings was £516,520,000 (2021: £527,058,000).

In the opinion of the directors, no liability is likely to crystallise in respect of these guarantees.

Other commitments

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

The Company has given commitments to certain of these clients to perform their funeral. The costs of the performance of these funerals will be paid out of the funds held in the Trusts.

It is the view of the directors that none of these commitments are onerous to the Company.

Disclosures of certain other aspects of the Trusts are contained within the consolidated financial statements of the ultimate parent company Dignity plc.

24 Ultimate parent undertaking and controlling party

The Company's ultimate holding company and controlling party at 30 December 2022 and 31 December 2021 was Dignity plc.

The parent company of the smallest group in which the financial statements of the Company are consolidated is Dignity (2002) Limited. Copies of the consolidated financial statements of Dignity (2002) Limited are available from 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP, the Company's Registered office.

The parent company of the largest group in which the financial statements of the Company are consolidated is Dignity plc. Copies of the consolidated financial statements of Dignity plc are available from 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

The Company's immediate parent undertaking at 30 December 2022 and 31 December 2021 was Birkbeck Securities Limited.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

25 Related Party Transactions

Gary Channon was a director of the Company until November 2022. He elected to receive no remuneration for this role, but in order to comply with the National Minimum Wage regulations, his service contract has required him to be paid £8,000 in 2022 which was donated to the Dignity Group's elected charity, the Teenage Cancer Trust (2021: £13,000). Gary received no other remuneration for his role as Director and no payment for loss of office. Since stepping down from the Board, Gary has been an advisor to the Dignity Group Board on certain key strategic programmes.

During the period, members of Phoenix Asset Management Partners Limited, a significant shareholder of Dignity plc, have held roles for which no remuneration was paid during the term of office to the individuals or Phoenix Asset Management Partners Limited.

Furthermore, Rawnet Limited, a company that is 100 per cent owned by Phoenix Asset Management Partners Limited, has provided marketing and web development services to the Group amounting to £1,124,000, of which £nil was outstanding as at 30 December 2022. Of the amounts incurred £625,000 has been charged to the consolidated income statement and £499,000 has been capitalised within intangible assets. Services provided are at arm's length.

Castelnau is also a member of the Phoenix Asset Management Partners Limited group and has provided marketing and IT consultancy services to the Group of £383,000, of which £154,000 was outstanding as at 30 December 2022.

There have been no other related party transactions in the current or previous period. Please see note 26 on post balance sheet events for related party transactions that the Group has been engaged with post period end.

26 Post Balance Sheet events

Recommended cash offer for Dignity plc

On 23 January 2023, the Board announced that it had reached agreement on the terms of a recommended cash offer for the Dignity business (the 'Offer'). The Offer was made by a consortium comprising SPWOne V Limited, Castelnau Group Limited and Phoenix Asset Management Partners Limited. On 14 February 2023, the offer document, which contains, amongst other things, the full terms and conditions of the Offer and the procedures for its acceptance, was published and posted to Dignity shareholders.

In summary, under the Offer:

- Dignity shareholders will be entitled to receive 550 pence in cash for each Dignity share (the 'Cash Offer');
- As an alternative to (or in combination with) the Cash Offer, eligible Dignity shareholders may elect to receive for each Dignity share 5.50 unlisted non-voting D shares in the capital of Valderrama (the indirect parent company of the consortium's Bidco) for each Dignity share (the 'Unlisted Share Alternative'); and
- As an alternative to (or in combination with) the Cash Offer and in addition to or instead of the Unlisted Share Alternative, eligible Dignity shareholders may elect to receive 7 1/3 listed voting Ordinary Shares in the capital of Castelnau for each Dignity share (the 'Listed Share Alternative' and, together with the Unlisted Share Alternative, the 'Alternative Offers').

Both the Unlisted Share Alternative and the Listed Share Alternative are subject to the "scale back" arrangements detailed in the offer document.

The Board was unanimous in recommending that Dignity shareholders accept the Cash Offer.

On 5 April 2023, the Offer obtained regulatory approval from the Financial Conduct Authority. On 19 April 2023, the Offer became unconditional and the consortium obtained control of the Dignity group. On 21 April 2023, the consortium had acquired or agreed to acquire 75.09% of Dignity plc shares and Dignity plc subsequently announced that the notice period for the cancellation of listing and trading of its shares has now commenced. On 4 May 2023, the consortium had received acceptances representing 95.67% of the Dignity Shares and has now exercised its rights to acquire compulsorily the remaining Dignity Shares. On 25 May 2023, the cancellation of listing was completed.

This change in control and cancellation of listing and trading of shares has no impact on the Securitised Debt.

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

26 Post Balance Sheet events (continued)

Executive share awards

On 12 April 2023, Dignity plc granted a performance share award of 62,384 shares under the 2022 LTIP scheme to Kate Davidson. This award was agreed previously but could not be made due to closed period dealing restrictions.

On 21 April 2023, 9,321 shares vested under the 2022 LTIP scheme and a further 11,933 shares vested under a previous LTIP scheme.

Standard and Poor global rating

On February 2023, S&P Global Ratings lowered its credit ratings on Dignity Finance plc's class A notes to 'BBB-(sf)' from 'A-(sf)' and class B notes to 'CCC+(sf)' from 'B+(sf)'. At the same time, S&P removed its ratings on both classes from CreditWatch negative.

Fitch Ratings downgrade of Class A and Class B Notes

On 17 March 2023, Fitch Ratings downgraded Dignity Finance plc's Class A notes to 'BBB' from 'A-' and class B notes to 'B' from 'BB+' and placed that company on Rating Watch Negative.

27 Subsidiary undertakings

Intermediate holding company		Shares held	Shares held
Company name		directly	indirectly
Dignity Funerals No.2 Limited		100%	-

Dormant		Shares held	Shares held
Company name		directly	indirectly
A. & G. Huteson Ltd		100%	-
A Bennett & Sons Limited		100%	-
A Hazel & Sons Limited		100%	-
A. Haxby & Sons (Filey) Limited		-	100%
Armitage (Funeral Directors) Limited		-	100%
B & B Funeral Directors Limited		-	100%
B. Bernard & Sons Limited		-	100%
Baguley Bros. Limited		100%	-
Banks Funeral Service Limited		100%	-
Bayley Brothers Hereford Limited		100%	-
Boyce Anderson Motors Limited **		-	100%
Bracher Brothers Limited		100%	-
Brighton Stonemasons Limited		-	100%
C Powell Funeral Service Limited *		100%	-
Castle Court Funeral & Limousine Services Limited		8%	92%
Chosen Heritage Limited		100%	-
Cooksley & Son Limited		100%	-
Cumbernauld Funeral Services Ltd		100%	-
D J Thomas (Funeral Directors) Limited		100%	-
Daly & Company Limited		-	100%
Davis McMullan Funeral Directors Limited		-	100%

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

27 Subsidiary undertakings (continued)

Dormant (continued)

Derriman & Haynes Funeral Services Limited	100%	-
Dignity Legal Services Limited	100%	-
Dignity (2009) Limited	100%	-
Docklands Funeral Services Limited	100%	-
Downs Crematorium Limited	100%	-
E Hurton & Son Limited	-	100%
E. Brigham Funeral Directors Limited	-	100%
Earl Of Plymouth Limited	-	100%
Ely Funeral Service Limited	100%	-
F. Kneeshaw & Sons (Funeral Directors) Limited	-	100%
F.E.J. Green & Sons Limited	100%	-
F. J. Gibb Limited	100%	-
Frank Stephenson & Son (Funeral Directors) Limited	-	100%
Funeral Debt Collection Limited	-	100%
G. M. Charlesworth & Son Limited	-	100%
G & L Evans Ltd	100%	-
George Hall & Son Funeral Directors Limited	-	100%
George S. Munn & Company, Limited *	100%	-
George Stanton (1935) Limited	-	100%
Gornalls Funeral Services Limited	100%	-
Graeme Buckle Funeral Services Limited	100%	-
Grimmett & Timms Limited	100%	-
H Eaton & Sons Holdings Limited	100%	-
H. Eaton & Sons Limited	-	100%
H & G Wilde Funeral Directors Limited	-	100%
H Johnson & Sons Limited	100%	-
H. J. Whalley & Sons Limited	-	100%
H. Towell Ltd	-	100%
H.R.H. Holdings Limited	100%	-
Hardacres Funeral Directors Limited	100%	-
Henry Naylor (Funeral Directors) Limited	-	100%
Henry Smith (Wandsworth) Limited	-	100%
Highfield Funeral Service Limited	-	100%
Hindu Funeral Service Limited	100%	-
Hunters Funeral Directors Limited	100%	-
Ian Clarke Funeral Service Limited	100%	-
Ingall Services Limited	100%	-
Inverclyde Funeral Directors Limited *	100%	-
J Hylton & Sons Limited	100%	-

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

27 Subsidiary undertakings (continued)

Dormant (continued)

J Kynaston Limited	100%	-
James Crook Limited	100%	-
John Bardgett & Sons Limited	100%	-
Jonathan Harvey Limited *	100%	-
Jonathan Walker Funeral Directors Limited	100%	-
Joseph Tomlinson & Sons Limited	100%	-
Ken Gregory & Sons Limited	-	100%
Kenyons Funeral Directors Limited	-	100%
Kirkwoods (Funeral Directors) Limited **	-	100%
Lea Valley Funeral Services Limited	100%	-
Lowden Wells Limited	100%	-
Malcolm J Presland Limited	-	100%
Mason Funeral Service Limited	100%	-
Middleton & Wood (1919) Limited	100%	-
Moray Crematorium Holdings Limited *	100%	-
Moray Crematorium Limited *	-	100%
N A Medd Limited	100%	-
Peter Johnson Funerals Ltd	100%	-
PFG Hodgson Kenyon Limited	100%	-
Philip Ford & Son (Funeral Directors) Limited	100%	-
Phillips Funeral Plans Limited	-	100%
Phillips Funeral Services Limited	-	100%
Phillips Holdings (Hertfordshire) Limited	100%	-
Phillips Supplies Limited	-	100%
Priestley & Cockett Limited	-	100%
R.S.Scott (Funerals) Limited	-	100%
Robemanor Limited	100%	-
Roberts & Brain Limited	100%	-
Rosspark Limited	100%	-
S Wellens & Sons Limited	-	100%
Salenew Limited	-	100%
Seddons of Southport Limited	100%	-
Silver Lady Funeral Service Limited	100%	-
Simpsons (Undertakers Requisites) Limited	-	100%
T. S. Horlock & Son Limited	-	100%
The East Riding Crematorium Company Limited	-	100%
The Haltemprice Crematorium Limited	-	100%
Thomas Brothers (Wellington and Taunton) Limited	-	100%
Thompsons (Busbys) Limited	-	100%

Dignity Funerals Limited

Notes to the financial statements for the period ended 30 December 2022 (continued)

27 Subsidiary undertakings (continued)

Dormant (continued)

Thompsons (Funeral Furnishers) Limited	100%	-
Thompsons (Maguires) Limited	-	100%
Thompsons (Rimmers) Limited	-	100%
W G Dixon Limited	80%	20%
Walker's Funeral Directors Limited	100%	-
Warburton Funerals Limited	-	100%
Wetton Funeral Services Limited	-	100%
Woodfield Park Funeral Home Limited	100%	-
Yew Holdings Limited	-	100%

Registered Office

* The registered office for these subsidiaries is 280 Kinfauns Drive, Glasgow, G15 7AR

** The registered office for these subsidiaries is McConnell's, 14 Scotch Quarter, Carrickfergus, County Antrim, BT38 7DP.

All other subsidiary undertakings are registered at 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

Other information

All of the subsidiaries are incorporated in the United Kingdom and are controlled by Dignity Funerals Limited.