

Registered number: 04349722

Dignity Holdings No. 2 Limited
Annual report and financial statements
for the period ended 30 December 2022



Dignity Holdings No. 2 Limited

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

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Dignity Holdings No. 2 Limited

Strategic report for the period ended 30 December 2022

The Directors present their Strategic report for Dignity Holdings No. 2 Limited ('the Company') for the 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 financial statements have been prepared for the 52 week period ended 30 December 2022. The financial statements for the comparative period have been prepared for the 53 week period ending 31 December 2021.

Business review and future developments

The loss for the period was £30,000 (2021: £72,000 loss) and is set out in the Income statement on page 8.

The Company operates as an intermediate holding company. The Company may receive income from its investments in the form of dividends and interest receivable on amounts due from Dignity Group companies, and may incur costs in the form of interest payable on amounts due to Dignity Group companies. The directors do not currently anticipate any change in the Company's activities.

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 company. 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 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. This can be used to supplement any EBITDA shortfall as at 31 December 2023.

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 to partially repay some of the Class A Notes outstanding in consideration for assets leaving the Securitisation Group. This will result in a deleveraging of the Dignity 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 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.

The Directors do not consider there are any key performance indicators in respect of the Company other than the financial information set out in Income statement, Statement of comprehensive income, Balance sheet and the Statement of changes in equity.

The Directors of Dignity plc manage the Dignity Group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of Dignity Holdings No. 2 Limited. The development, performance and position of the Dignity Group, which includes the Company, is discussed within the Strategic report of the Dignity Group's annual report which does not form part of this report.

Post balance sheet events

See note 11 for details on post balance sheet events.

Dignity Holdings No. 2 Limited

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

Risks

As an intermediate holding company, the key risks relate to impairment of the carrying value of investments or amounts due from group companies. All risks are managed by the directors of Dignity plc on a group basis. From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Dignity Group and are not managed separately. Accordingly, 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 annual report which does not form part of this report.

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.

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 Holdings No. 2 Limited

Directors' report for the period ended 30 December 2022

The Directors present their report with the audited financial statements of Dignity Holdings No. 2 Limited ('the Company') for the period ended 30 December 2022.

Going concern

The Company operates as part of the Dignity plc group ('Dignity 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 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 Company has carried out a diligent going concern analysis and full details of this analysis are set out in note 1 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.

Following consideration of the going concern analysis of the Dignity Group and its ability to continue to provide financial support to the Company, the Directors of the Company have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period at least through to 30 June 2024.

The Directors have also considered events beyond the assessment period. 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.

Dividend

No dividends were declared or paid by the Company in either the current or preceding period.

Directors

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

K Davidson (appointed 6 February 2022)

A Eames (appointed 10 November 2022)

G Channon (appointed 1 April 2022 / resigned 16 November 2022)

A Judd (resigned 1 April 2022)

A Lathbury (resigned 6 February 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.

Statement of directors' responsibilities

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

Dignity Holdings No. 2 Limited

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

Statement of directors' responsibilities (continued)

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 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.

Independent auditors

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

Statement of disclosure of information to auditors

As at the date this report was signed, so far as each director is aware, there is no relevant audit information of which the Company's auditor are unaware and each director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

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

Independent auditor's report to the members of Dignity Holdings No.2 Limited

Opinion

We have audited the financial statements of Dignity Holdings No.2 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 11, 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.

Material uncertainty related to going concern

Dignity Holdings No.2 Limited is ultimately owned by Dignity plc (the 'group'). The ability of Dignity Holdings No.2 Limited to meet its obligations is dependent on the ability of the other members of the group to meet their obligations under an external Issuer/Borrower Loan Agreement ('IBLA'). The day to day liquidity requirements of Dignity Holdings No.2 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 for the company is focused on the ability of the group to continue as a going concern.

We draw attention to note 1 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 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 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 1, these events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our opinion is not modified in respect of this matter.

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.

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.

Independent auditor's report to the members of Dignity Holdings No.2 Limited (continued)

Other information (continued)

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 period 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 3 and 4, 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.

Independent auditor's report to the members of Dignity Holdings No. 2 Limited (continued)

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

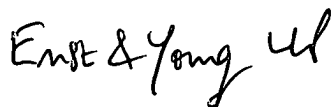
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not 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 Holdings No.2 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, we performed audit procedures to address the identified fraud risk. These procedures included, journals posted by the 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 do not consider to be in the normal course of business and are not of a trivial value we obtain 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 Holdings No. 2 Limited

Income statement for the period ended 30 December 2022

		52 week period ended 30 December 2022	53 week period ended 31 December 2021
	Note	£'000	£'000
Administration expense		(30)	(72)
Loss before taxation		(30)	(72)
Tax on loss	5	-	-
Loss for the financial period		(30)	(72)

The results have been derived wholly from continuing activities.

Statement of comprehensive income for the period ended 30 December 2022

There were no other items of comprehensive income such that there is no difference between the loss for the financial period and the total comprehensive income. Therefore no separate statement of comprehensive income has been presented.

Dignity Holdings No. 2 Limited

Balance sheet as at 30 December 2022

		30 December 2022	31 December 2021
	Note	£'000	£'000
Fixed assets			
Investments	6	1,500	1,500
Current assets			
Debtors	7	12,572	12,602
Net current assets		12,572	12,602
Total assets less current liabilities		14,072	14,102
Net assets		14,072	14,102
Capital and reserves			
Called up share capital	8	2,000	2,000
Profit and loss reserve		12,072	12,102
Total shareholders' funds		14,072	14,102

The financial statements on pages 8 to 21 were approved by the board of directors on 25 May 2023 and were signed on its behalf by:



A Eames
Director

Dignity Holdings No. 2 Limited

Registered number: 04349722

Dignity Holdings No. 2 Limited

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

	Called up share capital	Profit and loss reserve	Total shareholders' funds
	£'000	£'000	£'000
Shareholders' funds as at 25 December 2020	2,000	12,174	14,174
Loss for the financial period	-	(72)	(72)
Total comprehensive loss	-	(72)	(72)
Shareholders' funds as at 31 December 2021	2,000	12,102	14,102
Loss for the financial period	-	(30)	(30)
Total comprehensive loss	-	(30)	(30)
Shareholders' funds as at 30 December 2022	2,000	12,072	14,072

Dignity Holdings No. 2 Limited

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

1 Principal accounting policies

Basis of preparation

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. The Company is incorporated and domiciled in England and Wales. The Company's registered address is 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

The financial statements of the Company have been prepared in accordance with the Companies Act 2006, as applicable to companies using Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) (applicable accounting standards). 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 plc and is included in that 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.

Going concern

The Company operates as part of the Dignity plc group ('Dignity 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 Company's position in the Dignity Group structure is such that it sits outside of a sub-group of companies which form part of a Securitisation Group established in connection with the Dignity Group's only loan borrowings.

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.

Dignity Holdings No. 2 Limited

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

1 Principal accounting policies (continued)

Going concern (continued)

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 (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.

Dignity Holdings No. 2 Limited

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

1 Principal accounting policies (continued)

Going concern (continued)

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 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.

Dignity Holdings No. 2 Limited

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

1 Principal accounting policies (continued)

Going concern (continued)

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.

Takeover and delisting of the Group

In February 2023, the Dignity plc 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.

Dignity Holdings No. 2 Limited

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

1 Principal accounting policies (continued)

Going concern (continued)

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 following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 111 (cash flow statement information); and
 - 134-136 (capital management disclosures).
- Paragraph 38 of IAS 1 'Presentation of financial statements' comparative information requirements in respect of paragraph 79 (a) (iv) of IAS 1 'Presentation of financial statements'.
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- IFRS 13, 'Fair value disclosures'.

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

Dignity Holdings No. 2 Limited

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

1 Principal accounting policies (continued)

Exemptions (continued)

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

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.

Investments

Investments are stated at historical cost, less any provision for impairment.

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).

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 Company in the period and after making adjustments to estimates in respect of prior years. 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 temporary differences that have originated but not reversed at the balance sheet date, except that deferred tax assets are only recognised to the extent that they are regarded as more likely than not to be recoverable.

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. Deferred tax is measured on a non-discounted basis.

Dividends policy

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 in a general meeting.

Critical accounting estimates and assumptions

The preparation of the financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Dignity Holdings No. 2 Limited

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

1 Principal accounting policies (continued)

Impairment of intercompany receivables

For intercompany 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 Company 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.

Management has not made any other judgements, estimates or assumptions in preparing these financial statements that materially affects the application of policies or the reported amounts of assets, liabilities, income or expenses.

2 Turnover

The Company is an intermediate holding company and has no turnover in either period.

3 Operating loss

Auditor's remuneration is borne by a fellow subsidiary of the Dignity Group and is not allocated to individual entities.

4 Staff costs

Employees

There were no employees in either period.

A Eames, G Channon and K Davidson who served during the period were also directors of Dignity Funerals Limited and details of their remuneration are included in the financial statements of that company. The services provided to this Company are considered to represent an insignificant proportion of their time and as such the directors have received no remuneration in respect of their services to the Company in either period.

K Davidson, G Channon and A Judd were also directors of the ultimate parent company, Dignity plc and details of their remuneration are included in the financial statements of that company. The services provided to this Company were considered to represent an insignificant proportion of their time and as such the directors received no remuneration in respect of their services to the Company in either period.

Dignity Holdings No. 2 Limited

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

5 Tax on loss

Analysis of tax charge in the period

The tax charge in the period was £nil (2021: £nil).

There is no tax impact on other comprehensive income or equity in either period.

The tax charge for the period is higher (2021: higher) than the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%), as set out below:

	52 week period ended 30 December 2022 £'000	53 week period ended 31 December 2021 £'000
Loss before tax	(30)	(72)
Loss before tax multiplied by standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	(6)	(14)
Effects of:		
Expenses not deductible for tax purposes	6	14
UK to UK transfer pricing adjustment	(1)	(1)
Group relief surrendered without credit	1	1
Total tax charge for the period	-	-

UK to UK transfer pricing reflects the tax credit on fees in relation audit, preparation of statutory accounts and tax computations and company secretarial costs borne by Dignity Funerals Limited, a fellow group subsidiary.

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.

The Company has no recognised or unrecognised deferred tax (2021: £nil).

Dignity Holdings No. 2 Limited

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

6 Investments

			Total
			£'000
Cost and net book amount			
At the beginning and at the end of the period			1,500
The Company has investments in the following companies:			
	Activity	Number of shares at 30 December 2022	Percentage held
Dignity Holdings Limited	Intermediate holding company	1,500,000 Ordinary Shares at £1 each	100%
Dignity Mezzco Limited	Finance company	1,000 Ordinary Shares at £1 each	100%

The above subsidiaries are incorporated in the United Kingdom. The directors believe that the carrying value of the investments is supported by their underlying net assets. Of the above, only Dignity Holdings Limited is held directly.

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

7 Debtors

	30 December 2022	31 December 2021
	£'000	£'000
Amounts falling due within one year:		
Amounts owed by group undertakings	12,572	12,602

An ECL provision of £102,000 (2021: £72,000) is held against all amounts owed by group undertakings.

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

Dignity Holdings No. 2 Limited

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

8 Called up share capital

	30 December 2022 £'000	31 December 2021 £'000
Allotted and fully paid:		
2,000,000 (2021: 2,000,000) Ordinary Shares of £1 each	2,000	2,000

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

9 Ultimate holding company and controlling party

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

The parent company of the smallest and 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 Registered office.

The immediate parent company is Dignity (2004) Limited.

10 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:

- The Company granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings Limited.
- The Company has granted the Security Trustee, with full title guarantee a floating charge over the assets now or in the future owned by the Company (other than those assets validly and effectively charged by way of fixed security).

At 30 December 2022, the amounts 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.

Dignity Holdings No. 2 Limited

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

11 Post balance sheet events

Recommended cash offer for Dignity plc

On 23 January 2023, the Board of the Dignity plc 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 plc shareholders.

In summary, under the Offer:

- Dignity plc 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 plc 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 plc 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 of the Dignity Group were unanimous in recommending that Dignity plc 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.

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.