ANNUAL REPORT 2021

Dignity plc Annual Report & Accounts

DIGNITY
PLC

Who we are

DIGNITY'S VISION IS TO BE THE MOST TRUSTED, RESPECTED AND VALUED END-OF-LIFE SERVICE PROVIDER IN THE UK, AND THE MOST INSPIRATIONAL AND REWARDING EMPLOYER FOR THOSE WHO SERVE THIS GOAL.

At the heart of our organisation is a core purpose to help people say goodbye, to remember and to celebrate the life of those lost. We help people to plan ahead for their own funeral so that their wishes are clearly articulated, with peace of mind that the costs are covered rather than falling to loved ones.

The way that people mourn for their loved ones is changing, as is the type of funeral they want to pay tribute to their life. New competitors have emerged across different parts of the sector, particularly in the provision of at-need funeral services. Dignity's new strategy will help us to better serve the changing needs of the bereaved and provide support to a greater number of people.

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

About this Annual Report

This Annual Report & Accounts details our activities during 2021 and sets out our plan to deliver our strategic vision for the future.

2021 was a unique and challenging year for Dignity. Against the backdrop of the ongoing pandemic, we embarked upon an ambitious new strategy and began to change the culture of the business whilst implementing the changes required by the Competition and Markets Authority ('CMA') and simultaneously preparing for future regulation by the Financial Conduct Authority ('FCA').

Dignity is at the beginning of its journey to deliver on our new vision. We will use this report to set out our strategic priorities, how we are changing the organisational structure and culture, our vision for how we will be benchmarking our performance, and ultimately create value for shareholders and our wider stakeholders; our clients, colleagues and communities.

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Transparent reporting

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

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

CHAIRMAN'S STATEMENT

GIOVANNI ('JOHN') CASTAGNO, NON-EXECUTIVE CHAIRMAN

I joined Dignity in July 2021 at a pivotal time for the Group.

With the backdrop of the on-going COVID-19 pandemic, the Executive team, led by Gary, had embarked on an ambitious plan to grow the business by further improving our operating model to better serve the bereaved as well as implementing the changes required by the Competition and Markets Authority ('CMA') whilst simultaneously preparing for future Financial Conduct Authority ('FCA') regulations.

Our People

Our people responded splendidly to these challenges and on behalf of the Board, I would like to publicly thank all our colleagues and everyone in the sector for the way they have supported the bereaved. Our people are vital to Dignity's success and in the challenging circumstances created by COVID-19 they have demonstrated the utmost dedication and resilience by continuing to provide an excellent and respectful service. Whilst they may not have received, or sought, the public recognition that has been bestowed on other keyworkers, their quiet, selfless commitment has been admired by everyone that experiences their actions. This thanks extends across the entire funeral, crematoria and bereavement sector.

It is these colleagues who are at the centre of our new strategy as it is they who provide a caring and high-quality service to our clients and are at the heart of our communities each day. I am confident that by empowering and trusting our people, and providing them with the right tools and resources, the business can approach the future with great optimism.

Strategic overview

I would also like to thank Gary and his team for executing the first stage of our ambitious plan which has been to restructure our branch and crematoria network to better serve the bereaved. Notwithstanding the difficult trading environment of the pandemic, we have created 12 integrated trading regions, empowering all colleagues so that their expertise can be applied with greater focus and speed to the needs of those communities. The support departments based in Sutton Coldfield have also been reorganised and refocused, so they are better aligned to servicing the needs of our front-line colleagues. These changes lay the foundations of the vision to be a federation of respected local businesses supported by a strong national brand.

During this period, we have also complied with the changes introduced by the CMA and are preparing for regulation by the FCA having submitted our formal application to continue selling pre-need Funeral Plans. You will find further details about our approach to regulation, standards and compliance on page 16.

I believe that the new strategy, the cultural change being implemented by the Executive Committee and supported by the Board and the forthcoming regulatory framework will create opportunities for Dignity. The Principles developed and launched by the Executive Committee will underpin the cultural change being implemented and will further support the growth ambitions of the business. But this optimism for growth should be tempered by volatility expected in the medium-term mortality rates which are likely to be lower than those experienced during the pandemic and the historic five-year average rate.

The volatility expected in the mortality rate and the investment needed in executing the strategy will impact cash generation. It is therefore appropriate that the Board considers options available to review Dignity's current capital structure and to that end, we continue to make good progress.

The Board recognises the role of Environmental, Social and Governance ('ESG') in creating value for all stakeholders. This year we committed to a formal climate pledge, to be net-zero across the Group by 2038. We are committed to engaging with these issues and to transparency of actions and disclosure, you can read more in the Sustainability & ESG section of this report. Consequently, the Board will receive frequent reports from management on ESG matters.

Governance during a time of change

During this period of significant change, having appropriate corporate governance is of great importance. When I joined Dignity, I committed to strengthen governance and make the business Code compliant as well as introducing diversity to the Board.

To this end, I'm pleased to report that in addition to my appointment, we have secured the support of Graham Ferguson and Kartina Tahir Thomson as Independent Non-Executive Directors and chairs of the Audit, Remuneration and the newly constituted Risk Committee. I'm also delighted that Kate Davidson, who previously sat on the Executive Committee, joined the Board in January 2022 as Chief Operating Officer. I welcome Graham, Kartina and Kate to the Board and look forward to working closely with them.

We continue our search for a new Chief Financial Officer and hope to make an appointment soon. Once this appointment is made it is the intention for Dean Moore to regain his position as an Independent Chair of the Remuneration Committee. This will ensure a smooth hand over to the newly appointed Chief Financial Officer. This is subject to appropriate review and approval by the Board.

Gary Channon was appointed to Executive Chairman following a General Meeting in April 2021, and subsequently to Chief Executive at the time of my appointment. In line with Gary's undertakings at the time of the General Meeting at the appropriate time, the Board will seek to replace Gary as the Chief Executive, with a process for identifying Gary's replacement now under way. Again, ensuring a smooth transfer to new Chief Executive will be central to the Board's plans.

Dividend policy

Dignity has not paid a dividend since June 2019 and the Directors do not expect to do so until the business has returned to a more sustainable financial footing. We retain significant cash resources, continue to be cash generative and understand the importance of optimising total shareholder return whilst maintaining a balance between different stakeholders, and it is the Directors' intention to return to paying a dividend as soon as we believe it is financially prudent to do so.

AT A GLANCE 2021

What we do

WE ARE THE ONLY END-OF-LIFE PROVIDER IN THE UK THAT IS UNIQUELY POSITIONED TO PROVIDE ALL THE REQUIRED ELEMENTS OF A FUNERAL SERVICE:

- We offer a range of trusted Funeral Plans that give customers peace of mind by allowing them to arrange and pay for their funeral in advance.
- From our national network of 776 funeral branches we help families arrange funerals when someone has passed away, and care for their loved ones respectfully, compassionately, and to a high standard.
- We also operate 46 crematoria and 28 cemeteries, providing a place of peace and tranquillity where mourners can remember and say goodbye to loved ones, as well as a range of special and unique memorial options.

EST. 1812

46 CREMATORIA

74,800 CREMATIONS

581,000 ACTIVE PRE-ARRANGED PLANS

776 BRANCHES

£1.1bn ASSETS IN THE TRUSTS

79,200 FUNERALS

3,375 NUMBER OF EMPLOYEES

1,659 IN FLEET

91 SERVICE CHAPELS

CIRCA **5,400** MORTUARY CAPACITY

£312m UNDERLYING REVENUE (1)

(1) See our Performance and Financial Results for more details.

STRATEGIC REVIEW

GARY CHANNON, CHIEF EXECUTIVE

This is my first report to shareholders since being appointed in April 2021, and it is likely to be my last. I want to take this opportunity to set out what has been happening at Dignity over the past year and why; what happens next and how we are going to measure our progress against our objectives going forward.

The Plan

"We strive to be the most trusted, respected and valued end-of-life provider in the UK, and the most inspirational and rewarding employer for those who serve this goal."

Our vision is for Dignity to be a confederation of strong local businesses serving their communities backed up by the strength of a national organisation. We need to bring the benefits from that scale without the bureaucracy, costs and hierarchy that can go with it. We are liberating and empowering local businesses to serve their communities individually whilst being able to call upon and utilise the knowledge and resources of the wider Group. We seek to serve all end-of-life needs and are uniquely placed to do that.

Although complex, we believe this model will best succeed because it is based upon clients and their needs. Ultimately our service is delivered by our people, and they make the difference. There isn't a person who spends time around Dignity who isn't struck by the compassionate and empathetic nature of our colleagues.

We receive a lot of positive and thankful feedback about our service, and it almost always refers to the people. Therefore, the first thing we need to do is be a place where those drawn to and interested in our industry want to come to work, grow and thrive. We haven't been strong in this area and have enjoyed loyalty beyond what we probably deserved in the past because of the strength of the calling. We have set about redressing that but still have a way to go. We have raised pay levels as part of that process.

As we cultivate an environment that attracts and retains the best people, we empower them to deliver the service that meets the needs and aspirations of the families we serve. We have made significant changes in the past nine months to empower our client-facing colleagues, breaking down some of the barriers to change around trust and decision-making.

Our ongoing regional restructure takes that a step further by creating locally empowered businesses. That will be completed this year and when done will have completely inverted the organisation. We are giving our people the freedom to innovate and make decisions autonomously, to have ideas, and operate the businesses in a way that meets the needs and aspirations of our clients, colleagues and communities.

Once we have the best people and have empowered them, we need to give them the tools to deliver the best proposition in their communities. One element of the proposition is price. We had previously allowed our prices to rise above the market level, which is not the way to serve clients well and doesn't align with colleagues motivated to do the best for their clients. High prices were the single biggest factor causing the underlying business to lose share year after year (before acquisitions) and was leading to likely failure. We changed that in 2021 and have lowered prices substantially.

Our pricing philosophy now is to offer the best value-for-money and not have price be the reason for not choosing us. This is a big change for Dignity and the effect of lowering prices is to reduce how much we earn per funeral. However, our experience since we changed prices has been that the market share loss stops and then reverses, and so in time we expect that revenue loss to be more than compensated by volume growth, especially when combined with all the other elements of our strategy.

After people, empowerment and price, we come to our premises. We need to have the facilities to match our proposition and therefore have embarked on a much-needed programme of capital expenditure across the estate. This has begun but we have a long way to go considering the scale of our organisation with over 800 locations at the time of reporting.

Next, our products. In addition to delivering funeral and cremation services for families at the time of need, our other services include pre-arranged funeral plans. An important part of our end-of-life service proposition, in this area we are working on innovations, redesigns and new introductions to better serve the needs of our customers. We believe that the world of funeral plans is about to change dramatically for the better as it will fall under the FCA rules and regulations which apply from July 2022. It is a big undertaking to prepare for but holds significant potential for Dignity, as greater trust by consumers in the products from regulation and the withdrawal of unregulated competitors will give us an opportunity to grow the market and our business. As the original innovator in the funeral plan sector since 1985, and as the UK's largest end-of-life business we have a great opportunity in this new era.

We are uniquely placed as the only national operator carrying out funerals and cremations, whilst also manufacturing our own coffins at our facility in the North East and offering memorial services through our crematoria.

Vehicles are another important ingredient to having the best proposition. Whether clients are seeking to add a personal touch to the service with a motorcycle or campervan hearse or choosing a traditional hearse, vehicles form a key focal point for a funeral, and we used our vehicles 98,000 times in 2021. Along with our people and premises, vehicles are a key part of the overall impression families and attendees form of our funeral businesses on the day of a service. We have 1,659 vehicles in our fleet, yet we have underspent capital expenditure in our fleet by around £25 million in the past five years. We also do not organise our fleet in a way that gets best overall utilisation. We have started to increase the investment in the fleet, and we will introduce new ways of organising it to gain a benefit from our scale.

Strategic Element One

Element One of our strategy, as outlined above, is to have the Best Proposition and that comes from getting People, Empowerment, Price, Premises, Products & Vehicles right.

The most ambitious element of our strategy is to introduce, foster and embed a culture which will enable us to deliver that best proposition and keep adapting and learning as we do. After an internal process over six months, we crafted our Principles (see pages 10 and 11). They set out all the key attitudes, priorities, values and philosophies consistent with a culture that we think will make Dignity a special and successful organisation. They are written for ourselves, they are for colleagues, they are about who we are, how we conduct ourselves, and how we aspire to be but let me explain their purpose from a shareholder perspective.

We aim to be a learning organisation, in other words an organisation that is able to continuously learn from experience, including and especially by learning from our failures. Such a culture creates a safe environment for trying new ways of working, knowing that both success and failure contain lessons from which to grow. If we do this then the business will continuously adapt to the changing needs and aspirations of clients. With so many businesses empowered to do things their own way, if we achieve this culture then we will have a constant source of learning in variance, in other words different outcomes in different places. Good ideas can then be spread around the organisation as well as lessons learned from failure.

You will see that the Principles embed a strongly ethical culture that will build a strong long-term reputation which will attract clients, employees and benefit the owners of the business.

The specific Principle for shareholders is:

WE ARE GOOD STEWARDS OF OUR OWNER'S CAPITAL

Our goal is to create excellent long-term value for our shareholders. We will allocate capital wisely, organise ourselves prudently, spend money frugally and report openly and honestly.

The leading principle that will drive the focus of many of the decisions of the organisation is the focus on our clients, the families and communities we serve. If we apply that properly, and have it drive all that we do, we will be a formidable competitor.

Strategic Element Two

Element Two of our strategy is to have a strong Culture that focuses on Clients, creates a Learning Organisation and embeds good values.

If we have the Best Proposition ('Element One') then we make the task of acquiring new clients easier. There are many routes to conversion and the very best is the word-of-mouth repeat business from families who trust us. Approximately one in eight of all funerals were handled by one of our funeral directors, and if we include cremations in our crematoria then we were involved in approximately one in five of all funerals in the UK in 2021. Doing our very best for those clients is our best source of future business.

Increasingly many other routes are used to choose a funeral director and the internet now plays a large part in that. Having an effective digital strategy aligned with our local propositions is an essential part of our effort to grow our share of funerals and cremations in all areas. We have a number of changes coming in this area in 2022. To really get the benefits of these efforts you need the Best Proposition.

Funeral Plans are one of the most effective ways for us to acquire a potential future funeral and forms part of that acquisition strategy. We would like to engage our customers when they are still alive to deal with their end-of-life wishes and requirements. We believe that the very best way for anyone to share and capture their wishes for a funeral is to do so personally – enabling a truly personal and reflective funeral that meets their needs as well as those of their families.

Strategic Element Three

Element Three of our strategy is to have an effective Customer Acquisition Strategy aligned with our Best Proposition.

Dignity is an amalgamation of hundreds of businesses bought and combined over the past few decades. However, in the way that we were organised we had not achieved any benefits from scale, underlying central costs bloating from 7.5 per cent of underlying revenues in 2016 to 12.6 per cent of underlying revenues in 2021. We have been reorganising the group to make the centre smaller, more cost effective and more aligned with the new strategy. We made some painful decisions in January 2022 and lost some loyal and capable colleagues who had done nothing wrong. That was the most difficult step we have had to take so far. We attempted to do it in the least painful way for all concerned and to get it done quickly.

We need to show that there is a benefit to scale. There are excellent independent funeral directors thriving without the need for any national organisation behind them. If there isn't a benefit in being part of Dignity then we lose our raison d'être. We believe if done correctly that this should create advantage from factors like pooled sourcing, manufacturing, digital capabilities, property expertise, dealing with regulatory needs, shared learnings, shared resources, training and development, marketing expertise and recruitment. Most of these are identified and are in the early stages of being implemented for the new strategy.

Strategic Element Four

Element Four of our strategy is to be organised to gain the Benefits of Scale and Breadth.

Those are the key elements but there are other ingredients like Dignity Ventures, a new division that we set up in 2021 to back innovative businesses in the end-of-life space who might benefit from working with the Dignity organisation without becoming part of it, and in our property division we believe we have value and income potential within the property estate. At our coffin manufacturing facility in East Yorkshire, we believe we have the capability to grow our business outside of Dignity.

Business Model

We are confident that as the strategy works then the business should grow, increase its share of the market and through growth increase its competitiveness and profitability. An important feature of our business model is the operational leverage. Around two thirds of our cost of doing a funeral is fixed cost and so the marginal cost of every unit of growth is only one third of the overall cost. On our current numbers (taking total funeral overhead costs and dividing them by the funerals undertaken in 2021) it costs us £1,830 to deliver a funeral.

If we grow volumes by say, 20 per cent, then that cost would drop to £1,520 which we could use to be either more competitive or more profitable. The success of the strategy lies in its ability to create this virtuous circle of improvement, and these are the numbers we will focus on along with the underlying average revenue on funerals (£2,548 in 2021 versus £2,522 in 2020) and cremations (£887 in 2021 versus £885 in 2020).

The business model for us, whether it is for funerals or cremations, is quite simply a function of volume multiplied by the difference between the average revenue per funeral or cremation less the cost of carrying out funerals and cremations and the cost of acquiring clients. From that result you take off the central overhead. We will give you the building blocks of the business model so you can judge how we are getting on. (See below).

When it comes to funeral plans their contribution comes from any surplus that can be generated by holding the proceeds of plan sales in trust less the cost of acquiring plans and the ultimate cost of a funeral. In 2021 a strong return on the Trust assets of 9.1 per cent (£88.2 million on starting assets of £967.1 million) was generated but that came after a lower return last year of 4.0 per cent (£38.3 million on £947.5 million). It's a measure that must be judged over multiple years and our long-term goal is to exceed the rise in funeral cost inflation by three per cent per annum. See alternative performance measures on page 184 for how it's calculated.

The returns that the business makes need to be judged against the capital used to make them. To assist this we have developed a measure we call Cash Return on Core Capital ('CROCC'). In 2021 the CROCC fell to 9.7 per cent from 16.9 per cent in 2020. Returns that are not distributed are retained in the business and it is one of the key responsibilities of the Chief Executive to see that they are allocated wisely. See alternative performance measures on page 185 for how it's calculated and why we use it.

Capital Structure

The performance of the business is supported by the capital supplied by shareholders and bondholders. We have previously discussed our desire to operate a lower level of indebtedness. We currently owe £527.1 million on our bonds and have Trading Group cash of £55.9 million. In February, we sought and were granted in March a waiver on the application of the covenants on our bonds for 12 months. We took this prudent measure to mitigate the uncertainty and potential for a drop in the death rate following the pandemic.

It is still our intention to address the capital structure most likely by use of the crematoria portfolio but to do it in a way that does not change the integrated nature of the Group.

Outlook

The strategy as set out above is likely to lead to lower profits in the short-term as we see a full year effect of the lower prices we have been using since September. Costs have been rising as we have raised the pay of our lowest paid staff. Conversely, there will be a benefit coming through from a reduction in the central costs. The biggest factor affecting us is likely to be the death rate and there is a real risk that after COVID-19 passes the excess death effect of the past two years starts to reverse itself which it will do at some point.

The business is likely to use more cash than it generates as we are investing in our facilities to make up for past under investment and to roll out our new strategy and local branding programmes. Investment is also needed in technology to improve our productivity in many areas and the implementation of new procedures and controls associated with the impending FCA regime.

These financial headwinds are a predictable consequence of the strategy execution. We can fix competitiveness quickly but the benefits of that in terms of growth and greater productivity come after. We need to look through to the long-term value being created by turning Dignity from a business perpetually losing share in structural decline into a successful and growing business. The nature of our business model and its vertically integrated structure means that growth delivers and compounds value.

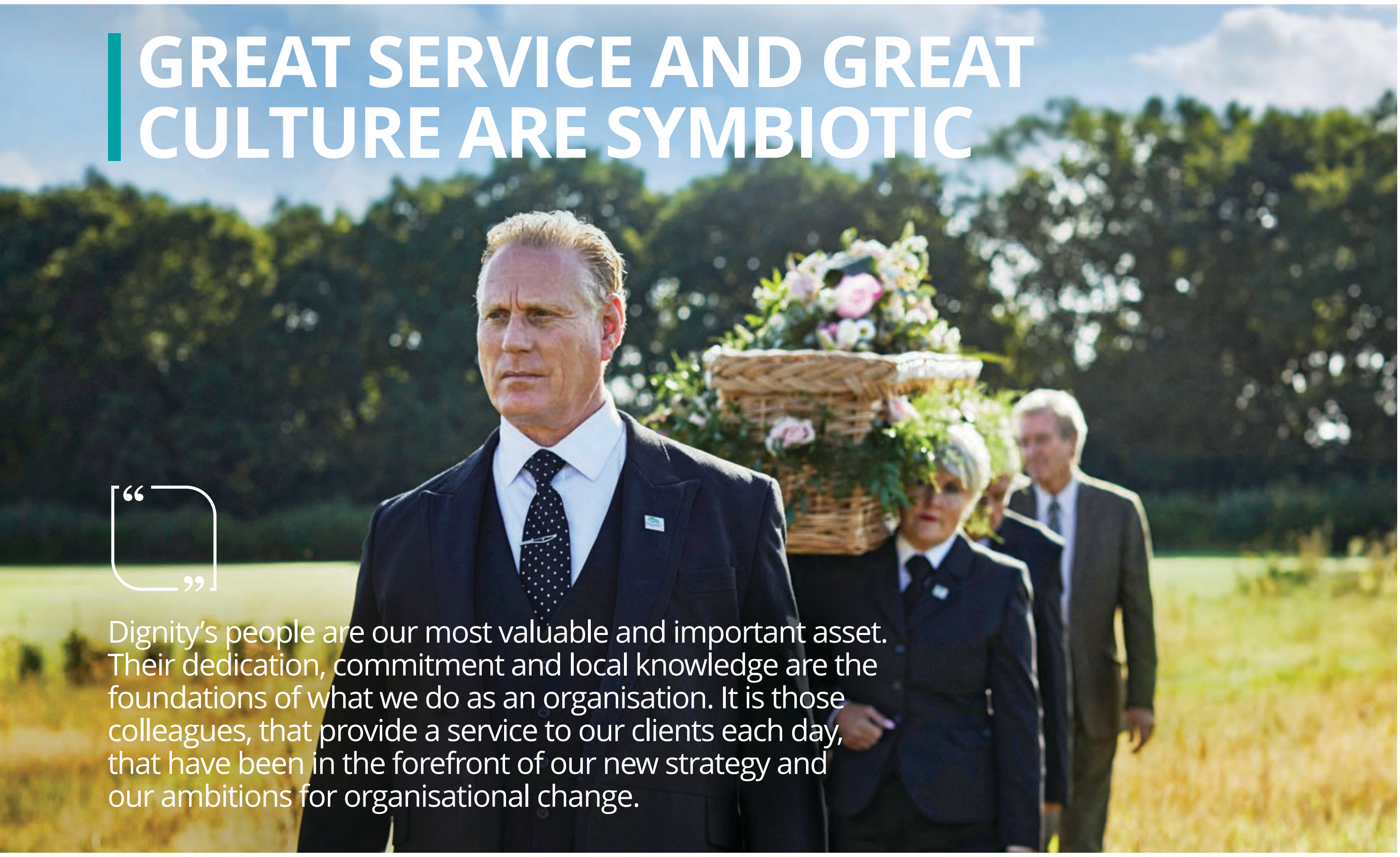
We still expect to do some form of transaction to ease the leverage in the capital structure and to align it with the long-term strategy.

We have a stream to cross at the bottom of the valley before we start our climb to higher ground.

Annual General Meeting ('AGM')

At last year's AGM we explained the rationale and underpinnings for the change of strategy and this year we intend to show you what has been achieved so far. 2021's accounts have been compiled in a way consistent with 2020 and at the 2022 AGM we want to share with you how we will be reporting to you from 2022 onwards. Like last year we will make a presentation on the strategy.

Last year we had to hold the meeting remotely but this year we expect to do it in person. If you are able to, please come. We will again do our best to answer all your questions candidly. We will also bring along colleagues from within the business who will give you a perspective from beyond the Board. You own shares in a very special company, come and learn more.



GREAT SERVICE AND GREAT CULTURE ARE SYMBIOTIC

"Dignity's people are our most valuable and important asset. Their dedication, commitment and local knowledge are the foundations of what we do as an organisation. It is those colleagues, that provide a service to our clients each day, that have been in the forefront of our new strategy and our ambitions for organisational change."

Organisations can succeed and fail based on the culture they nurture.

It runs deeper than how you treat colleagues. It means that each client or stakeholder that connects with your organisation experiences the benefit of that culture through the service, partnership or engagement received.

A good culture should reward all of those stakeholders:

- Clients receive a better service, and in turn we become more competitive.
- Morale amongst colleagues is high, helping to increase retention rates.
- Trust and empowerment ensures decisions are made quickly and decisively.
- Colleagues feel safe to try new things, to share ideas, and learn from each other.
- A reputation for making ethical decisions means third parties are proud to partner.
- A safe environment to test and learn results in people becoming more dynamic and entrepreneurial.
- Performance improves and businesses experience stability and growth.

Central to this is ensuring Dignity has a clear business vision and an understanding of our social purpose that people and culture can align to.

Last year we set a clear direction for Dignity's future. Our vision is to be the most trusted end-of-life service provider in the UK, but also the most inspirational and rewarding employer for those who work with us.

This is only achievable if we have truly empowered and trusted people that are well supported and given the right tools and resources by the business.

Dignity's people are our most valuable and important asset. Their dedication, commitment and local knowledge are the foundations of what we do as an organisation. It is those colleagues, that provide a service to our clients each day, that have been in the forefront of our new strategy and our ambitions for organisational change.

We are our community

We operate in a truly unique sector. The funeral profession remains one of a few timeless pillars in communities. It has existed for millennia and had a role in society for centuries.

You can see that heritage across the Dignity network today.

Not only do the services we deliver reach families across all generations at an immediate time of loss and need; we also care for those no longer with us and provide a place for people to remember loved ones for decades to come in our memorial grounds and cemeteries.

The people in our business that operate those locations are from and are embedded in their community more than many of the businesses on their respective High Street and are likely to have done so for periods spanning decades.

Our culture must nurture the unique position our teams find themselves in; channelling that knowledge, insight and relationships into the strategies that deliver high-quality services, improve choice and flexibility for clients, and grow market share locally.

Centuries of history and heritage in our communities

Our oldest funeral directors have been providing services for their local community on the south side of Glasgow since 1812.

J Rymer Funeral Service was originally founded in 1848 in York, and the branch moved to its current premises in 1967. Today it is managed by the sixth generation of the Rymer family, who is also a newly appointed Head of Region for the North East.

Similarly, Gordon Barber opened the doors to his first funeral home in the late 1960's, exchanging hands through four generations of family. His great granddaughter was recently appointed to Anglia's Head of Region.

East London Cemetery in Plaistow was laid out in 1872 to meet the increasing demand from the City and surrounding areas of East London. It is the oldest cemetery managed by Dignity.

Charles Paine opened his first funeral home in Station Road, New Malden, in 1884. Ten years later the business was passed on to his eldest son, Frederick W Paine, who opened further funeral homes over the next few years. 14 of these continue to serve their local communities in south west London as part of the Dignity network under a newly appointed Business Leader.

Birmingham Crematorium is the oldest crematorium operated by Dignity, and when it was opened in 1903, was one of only nine such facilities in the UK.

Inverting our business

Dignity plc, in its previous construct, grew its network of crematoria and funeral businesses by acquisition, but the challenge has been bringing its colleagues along on that journey.

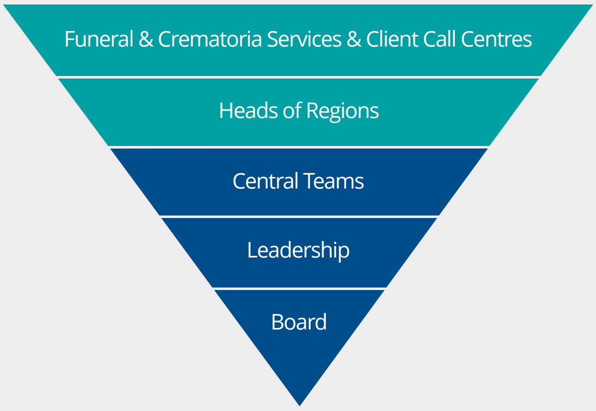
A review of how we are structured identified the need to deepen the connection between our Board, senior leadership, and those that are in operational roles to help breakdown some of the internal barriers.

Our teams already provide an excellent service to our clients, but a localised structure that delivers a community focussed service, improves decision-making, and taps into experience and knowledge at a business and community level, will deliver a better service.

We are therefore focussed on turning the business on its head, through better support, greater investment, and true empowerment of our people. This is delivered by:

- Providing more local autonomy and trust in our people and teams;
- Supporting them with the expertise and scale of our central support functions;
- Creating a culture of continuous improvement; and
- Facilitating investment where and when it's needed.

This means moving away from a more traditional organisational structure of hierarchy, management layers, and top-down decision-making. Decisions shouldn't be driven primarily by corporate goals, rather centred around improving the delivery of our services to clients and led by local teams. This is underpinned by professional expertise in our support functions and a framework that helps our local teams make the right decision for their clients.



In our new inverted structure, our Business Leaders and operational funeral and crematoria teams are the focus of how we allocate resource, how me make decisions, and how we adapt our services to meet the needs of communities. The Board, senior leadership and central support functions are there to serve our regional colleagues.

We will learn and grow

A true Learning Organisation is where people feel safe to fail, and eager to learn. It is where an organisation's structure is cleverly designed to tap into their peoples' commitment and experience, and where openness and collaboration flourish.

It is where colleagues can be flexible and are trusted to make decisions, and where the trying is celebrated as much as the successes. And it is where the organisational leaders model these attributes, and are fair, transparent and good mentors.

This is the culture and environment we are beginning to develop at Dignity.

The most important thing we can do for our long-term success is to consistently deliver exceptional client service, and the best route to this is through having happy and highly motivated staff.

We have taken significant steps forward in 2021 to achieve an inverted culture through an organisational review and restructure. However, we must ensure an effective framework is developed to help colleagues, leadership and stakeholders live and breathe our new culture and ways of working. Our new Guiding Principles will be that framework.

What have we done:

- Inverted pyramid so that decision-making is led by client needs not corporate goals.
- Delayered the business to enable quicker, more localised decision-making.
- Empowered colleagues to operate their business as if it were their own.
- Introduced our new Guiding Principles.
- Established a common purpose through our new vision.
- Made an investment in colleague development, including performance reviews, training ('Dignity Academy').
- Introduced the Real Living Wage.
- Improved and increased channels of communication to reach all colleagues, including new news bulletins, improved functionality of our internal news site and a new virtual Town Hall.

OUR GUIDING PRINCIPLES

By inverting the pyramid, we are putting trust in our frontline colleagues to make the right decisions for our business. Colleagues will have the freedom to innovate, try new ways of doing things and push our sector forward.

To empower our colleagues to seize this opportunity and make a success of it, we must foster a culture where it is safe to fail and learn from mistakes. We needed to create a framework giving our colleagues the tools to make decisions and innovate while knowing that it is the right thing to do for our families, suppliers, partners, local communities and fellow colleagues. This is why we have created Dignity's new Principles.

What are the Principles?

Our 12 Principles create a framework for our colleagues to live by. They are the foundations of everything we do. These are much more than just a mission statement or set of values, they are our moral compass and the essence of our culture.

Strategy is important in delivering business growth, but having the right culture is the catalyst to successful delivery. The Principles will play an important part in the inversion of our organisation and culture change by giving our colleagues guidance to base their decision-making on.

The Principles are not a prescriptive list of do's and don'ts. They are there to guide and inspire our colleagues to do the right things especially when it means not making the easy choice. Our colleagues are all working towards the same goals, but, by using the Principles, they can choose how best to get there based on their own demographics, experiences and relationships locally.

What do they mean for Dignity?

The Principles set out how we treat our clients, how we treat each other, and how we operate our business. They bring together our core beliefs enabling us to hire, develop and retain colleagues whose ethos matches our own and hold each other accountable for our actions.

We want to deliver the best results for our clients and embed ourselves in our local communities pushing forward our socially and environmentally friendly initiatives. We also want to work with suppliers whose core beliefs are aligned to ours. Taking the Principles into account when making decisions will ensure that as a company we achieve all of these things.

How did we develop the Principles?

We want our colleagues to feel proud to be aligned to our Principles so they have been developed by the people who know our business inside out and who interact with our clients every day – our people.

The Principles that we have created are human and authentic because they come from real people who care about our clients. They reflect Dignity as the unique, caring business we are now and the ambitious Dignity we strive to be.

Firstly, we reviewed our existing corporate values by hosting a series of workshops with client-facing and operational colleagues from across all areas of the business. Our focus groups enabled us to establish the relevance of previously held corporate values and their place in our new structure.

On top of this we also sought to establish what qualities would be desirable in a new hire to the business, what behaviours would help them to succeed in our organisation and how could we guide all colleagues to do better for our clients, colleagues and our sector.

We shared the insight from these focus groups with Dignity's Team Forum for feedback and then engaged the Senior Leadership Team to develop the structure of the Principles.

We wanted to ensure the Principles were properly defined, meaningful and useful for everyday decision-making so we asked our colleagues to consider different aspects of their job and experiences. They needed to be memorable, achievable and inspirational to truly empower our colleagues and give them the confidence to know they are doing the right thing.

How will they work in practice?

Colleagues should refer to the Principles every day when making decisions. They offer a guiding star for how we treat our clients, fellow colleagues, stakeholders and how Dignity behaves as a good corporate citizen.

They will empower colleagues locally, reduce bureaucracy and enable faster decision-making for a more responsive and efficient client service. We will be engaged in our local communities, forge positive relationships with our stakeholders and we will collaborate more efficiently in order to achieve our shared goals.

Outside of the cultural impact the Principles will help us deliver our business vision, helping us focus our investment, efforts and resources in protecting our business and finding different ways of working that will improve our business, our sector and the wider environment.

The Principles define the culture we aspire to, and by applying and embedding them we expect that they will eventually become the culture. By following the Principles and ensuring our actions are in the best interests of colleagues, clients, communities and the company then we can innovate, explore and be bold.

"Strategy is important in delivering business growth, but having the right culture is the catalyst to successful delivery. The Principles will play an important part in the inversion of our organisation and culture change by giving our colleagues guidance to base their decision-making on."

We serve families

We exist to serve our clients, families and communities for all of their end-of-life needs. We strive to understand and meet their needs, whilst acting with sensitivity and empathy. We are focused on delivering the highest quality service, with choice and flexibility for the best value-for-money.

We act with integrity

Integrity and openness underpin everything we do. Our colleagues are empowered to make ethical decisions based on good judgement, and we trust them to do the right thing for our clients. We communicate internally and externally with honesty candour. We treat others how we would wish to be treated if the roles were reversed.

We celebrate life

Whilst we deal with death, we have an immense appreciation for the beauty of life, and we care deeply for our clients and communities. We help the bereaved celebrate the memory of lost loved ones, and we support people in planning ahead so their families can focus on remembering.

We care for our community

Our colleagues are from the places in which they serve and work and take pride in knowing the communities around them. We are a federation of local businesses that aim to contribute to local life, from education and support on end-of-life matters, to community initiatives and charity work.

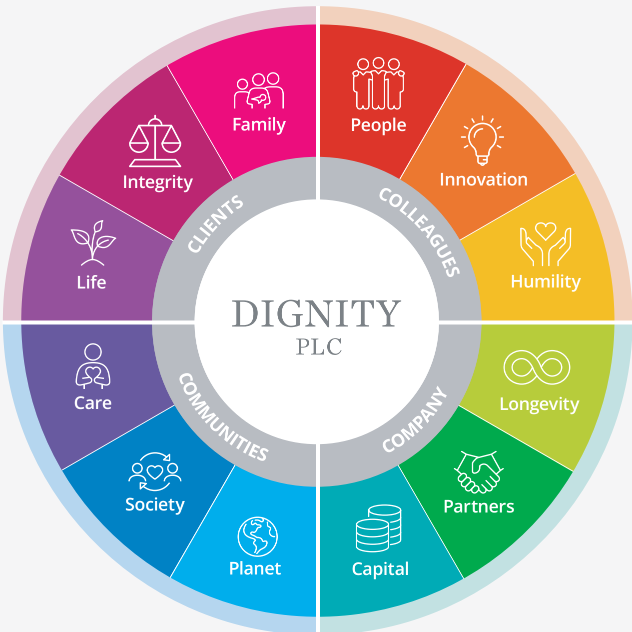
We aim to contribute to society

We take our duty and responsibility as one of the UKs largest end-of-life providers very seriously. We use our experience to lead, inform and educate. We aim to inspire others to raise standards and to innovate to meet changing consumer needs. We are fully committed to the development and enhancement of regulation in all aspects of our industry.

We respect our planet

We must do the right thing for our planet. That means prioritising sustainable practices and continuing to research, evaluate and minimise our impact on the environment. We aim to become the world's most sustainable end-of-life service provider.

"Our 12 Principles create a framework for our colleagues to live by. They are the foundations of everything we do. These are much more than just a mission statement or set of values, they are our moral compass and the essence of our culture."



We are only as good as our people

Great service comes from great people who are aligned to a single purpose. We work in teams, and just like a family, we care for and protect our people and those that we look after. We embrace our diversity, celebrate our differences, and help each other grow.

We innovate and we learn

As a learning organisation, we are curious and think outside of the box, always looking for new ways to delight our clients, improve our services and meet society's evolving needs. Our culture celebrates the trying and the failing, as much as the successes. We test, we pilot, we learn – starting with "yes", finishing with "what can we do better"?

We value humility

We consider humility to be an essential ingredient for good decision-making, great service and continuous improvement. It is this modesty and selflessness that lays at the heart of the actions we take each day for each other and our clients.

We think and act long-term

We aspire to build a great and enduring business that we are proud to be part of and that requires a long-term perspective. We organise ourselves to be able to act in that way. We set ourselves challenging targets and hold ourselves accountable to them.

We treat our partners and suppliers as family

We are focused on building long-term, collaborative relationships that centre on achieving shared goals. We are respectful to our partners, we honour contracts, and we treat them fairly.

We are good stewards of our owner's capital

Our goal is to create excellent long-term value for our shareholders. We will allocate capital wisely, organise ourselves prudently, spend money frugally and report openly and honestly.

ORGANISATION RESTRUCTURE & LOCAL EMPOWERMENT EXPLAINED

> Going forward, we work as one Dignity, harnessing the local insight and experience our front-line colleagues can provide to offer our clients a tailored, more seamless service.

We concluded in 2021 that the previous organisational structure would not give us the effective means of delivering our new strategy. Our focus is on inversion and to truly achieve this we need to put the power back in the hands of colleagues who are at the hearts of their local communities, serving our clients every day.

Going forward, we work as one Dignity, harnessing the local insight and experience our front-line colleagues can provide to offer our clients a tailored, more seamless service. They are free to innovate and operate their part of our business as if it was their own knowing that they have the support of the national framework Dignity as a group can provide.

The changes we are implementing puts the emphasis firmly on client care and quality of service and empowers colleagues at a local level.

It gives teams in each region more autonomy to make decisions that will create better businesses; ones that respond quickly to client needs and provide a comprehensive choice of great value end-of-life services.

The role of leadership is to tap into the knowledge, information and ideas that come from those colleagues closest to our clients and learn from it.

Regional structure and roles

Working with our regional teams, we carried out a review across the organisation to understand if the way we are split into divisions and regions still made sense at our size and scale. Following the first assessment it became clear that many resources and colleagues were spread too thinly, across too large an area to be able to really localise our service or empower teams. We also operated as separate funeral services, crematoria and pre-arranged funeral plan divisions, creating barriers to efficiency and collaboration.

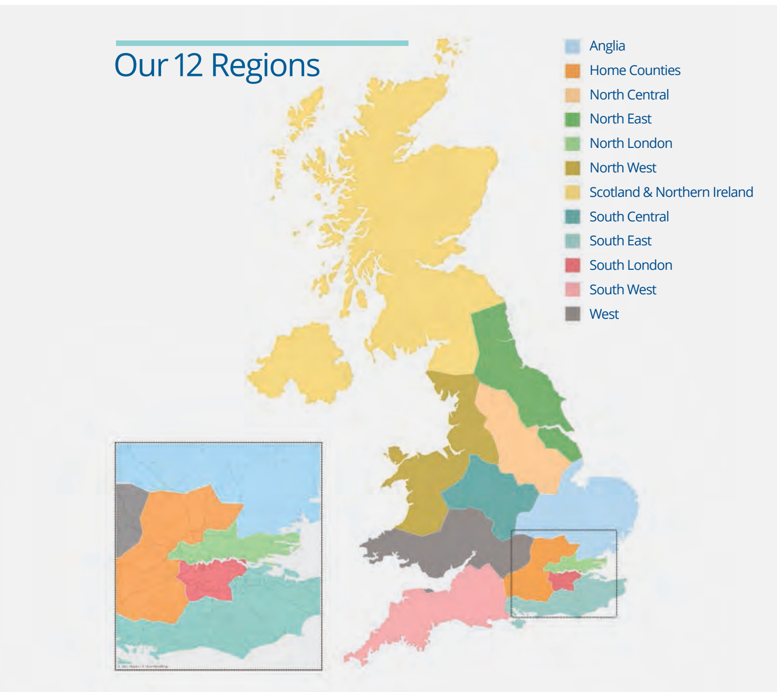
We needed to breakdown these internal barriers and operate as one company. Merging funeral services, crematoria and pre-arranged funeral plans into the same structure and creating 12 regions across our estate is a positive step towards sharing our knowledge and resources more effectively. The intention here is to encourage a deeper connection across our teams in a way that delivers a better service and greater operational efficiencies.

We are flattening our structure, removed all management layers and replaced them with two new roles into our regional structure – Heads of Region and Business Leaders. Colleagues working in the regions will drive their own strategies, led and facilitated by a newly appointed Head of Region and supported by a team of Business Leaders who specialise in either funerals or crematoria.

These roles have been created with the purpose of inversion in mind and we have carefully recruited candidates into these roles who understand the distinction between leadership and management, and who are prepared to support their colleagues to make decisions on a local level.

In order for Dignity to offer the best service in a competitive market, we have had to make significant changes to the way we operate. This new structure will maximise our strengths, while delivering more choice and better value for our clients.

Our focus now is on organic growth and investing in the brands which are performing and have the potential to grow.



Local Business & Brand Strategies

"Our ambition is to be the most trusted end-of-life service provider, and to do that we need to react appropriately to customer needs on a local level."

The new structure will empower colleagues to act like business owners. They will need to analyse, review and meet the needs of their clients, communities and stakeholders. To succeed, we cannot take a one-size-fits all approach, but we must look at our local demographics and provide a service unique to those communities.

The Heads of Regions are responsible for making a success of businesses in their respective region. Each Business Leader will be responsible for delivering their own community-focussed business strategy and performance.

We want these colleagues to feel empowered to run their locations as if it were their own business; to grow the reputation and goodwill, to provide excellent localised service to clients, and to deliver against the regional strategy and KPIs for performance and market share. Business Leaders will continue to have access to the expertise in our support functions such as Health and Safety, legal, property, compliance and communications to help them make the right decision for their clients.

We are moving to a matrix approach of working whilst central support functions still playing a significant role in the delivery of regional strategies.

Through our central support functions, Dignity has subject matter experts that the new regions can use to help enhance their businesses. They will have access to dedicated support from people, property, finance, health and safety, marketing, compliance and IT resources who will guide them in their respective fields.

ORGANISATION RESTRUCTURE & LOCAL EMPOWERMENT EXPLAINED CONTINUED

Piloting Our Approach

We have been operating two pilot regions since 1 December 2021. South Central and South London have been operating under the new structure with the aim of gathering key insight and examples of best practice before we roll the structure out to the rest of our network.

"Here, **Emily Skelton**, Head of Region for South London, and **Tony Molyneux**, Head of Region for South Central talk more about the pilots."

Emily: The pilot is going really well. We have had some challenges on the ground, which you would expect in a pilot, but the new structure means that we are working more cross functionally across funeral services, crematoria and overall service delivery.

Tony: The restructure has caused a domino effect. There are things that used to work in our old structure that are no longer logical or beneficial. We are finding new ways of working all the time, so it is taking a little while to find our feet, but it will make so much more sense in the long run.

Emily: It is going to take colleagues a little while to get their heads around it and feel like they have got the permission to think for themselves and not wait for instruction. It is a huge culture shift, and I can see that starting to come out in the Business Leaders within my team now.

We have promoted a lot of people from in house within my team and it is so rewarding to see them stepping up into their new roles. They are really pushing themselves and it is incredible.

Tony: It is hugely important to me that we promote from within, that our colleagues feel confident in their decision-making and are rewarded for their efforts.

The biggest piece of advice I have given my team is to hold the hand of the client all the way through the process. We are looking through the lens of the client and what is in their best interest and guiding them on every step of the journey.

Looking Towards the Future

"We have a lot of work to do when it comes to implementing our ambitious strategy and truly localising our service to clients and empowering our colleagues."

To illustrate what Dignity businesses could look like in the future, separate to our pilot regions, we are trialling a number of solutions in one small area to see just what is possible to achieve. We will test and learn from this trial, sharing our learnings to help identify what we can replicate, what hasn't worked, and where we need to explore further.

At the heart of everything is empowerment. Our ambition is to empower every colleague in the business to say 'yes' to our clients and we are focused on offering them the best-quality service at great value prices.

Every location will be different when it comes to making this a reality, but our experience in this single location has provided invaluable insight into what we need to do to roll this out across the group. There is a long way to go but we are already seeing positive results.

Rebranding

When we started work in our trial area, we had ten branches and four different brands. Our research showed us that we would be more likely to benefit from consolidating these and maximising our investment in a single strong brand.

After reviewing the four brands, we made a considered choice to move forward with two brands in the area. One brand being for a single, very high performing branch. The remaining branches have been consolidated under a single brand which we are investing in with new branding, fascia, a new website, local print advertising and radio adverts.

We have seen a strong initial impact from this local branding activity, and we are winning new business from the new website and print advertising within a month of them going live.

Empowering colleagues

The trial area has a Business Leader who oversees ten branches and a care centre which they run as their own business with the support of central functions. Weekly and monthly reporting is provided which makes them accountable for their business's performance and in turn the individuals running the ten branches.

The project in the area started in mid-2021 and since then members of the business have been involved in all major decisions including pricing, rebranding and marketing which gives them a sense of ownership of the business.

A major change in the area has been the introduction of pricing made at the business level which enables it to be suited to the local environment. The business has introduced a price offering with a low priced Unattended Service in the region and unlimited options to suit any price point upwards.

The local team has developed a new client offering which splits the funeral service and the cremation provision. Experiences during the pandemic (due to attendance restrictions and closure of venues) have brought to light the potential of separating the actual cremation or burial, from the celebration of life or memorial event. This offers a hugely compelling and personalised proposition for clients. Partnerships with 13 local venues (from country houses to social clubs) have also been established enabling the team to offer a truly tailored service at a significantly reduced price.

"The most important change that has proven to be a success in the trial area has been empowering colleagues to say 'yes'. Historically, colleagues have been restricted to what they can offer clients within the remits of packages available. By removing these restrictions and reducing the number of add-on charges, the local team now has flexibility to offer customers a tailored service to suit their individual needs."

Properties

As part of the rebranding exercise all branches in the trial area have been given new fascia and work is in progress to renovate the external and internal buildings to match the new branding. We want every branch to look well-presented, inviting and be a pleasant experience for customers to visit.

The branch estate has been reviewed with the intention to grow volume significantly in the future. To do this we have scored each branch on several factors:

- **Demographics** in the local area are an important driver of branch success;
- **Location** should be in an area with high footfall and easily accessible;
- **Suitability** for a use as a funeral director branch;
- **Utilisation** and whether the branch is operating at its full capacity;
- **Profitability**; and
- **Return on Invested Capital**.

Over time we will improve the scores of the branches by renovating, relocating and, should no other option be viable, closing branches. So far, we have closed one branch where the demographic of the location indicates that we are unlikely to see a good return on the cost of our investments. However, we are in the process of expanding capacity at another branch within the trial area and we are looking at options to relocate another two branches for increased capacity.

The branches in the trial area comprise a combination of leasehold and freehold properties so we have been reviewing the freehold properties to ascertain whether we are getting the best use from them. We are also pursuing other opportunities in this area to change use of some freeholds which will enable us to realise gains and move to locations which are more suitable for our purposes.

Growing capacity

We want to grow volumes in the trial area and have taken steps to grow capacity both within our existing infrastructure and with additional infrastructure.

Within existing infrastructure, we have improved the way the care centre works in conjunction with branches and where this has been done well, we have seen capacity double. The local team also had several contracts which were loss making and taking up capacity, these are being worked through and repriced or exited.

The best performing branch in the trial area is operating at capacity so we are investing in expanding the capacity of this branch by 50 per cent and the economics of incremental volume in a well performing branch are very good. We are looking at several other options to expand capacity of this branch and more broadly across the trial area.

Work for the future

The work done in the trial area so far has only scratched the surface and during the year ahead there are several projects which will advance this further. We will:

- **Build** out the marketing of the business and refine ways to measure performance;
- **Relocate** the Care Centre to give us more capacity to grow volumes. We also can realise gains from planning changes on freehold land here;
- **Align** compensation within the business to the performance of the business; and
- **Continue** to do all that we can to learn from our clients and provide the right service for their needs.

Early results

We are in the early stages of our trial however initial results are promising. We have used data and performance reviews to illuminate local performance. This is far more granular than before, with clear direction. Currently, volumes are approximately 20 per cent above the wider business and revenue is already at the level we saw prior to reducing our prices to become more competitive.

STANDARDS, REGULATION & COMPLIANCE

"We are proud of how we care for our clients and families and aim to continuously improve our approach to delivering high-quality services and standards."

Our mission is to drive forward positive change in the sector and become a true market leader with an unrivalled focus on quality, transparency and choice.

To achieve this, we recognise the importance of investing in our people, digital platforms, and facilities; as well as empowering our colleagues to make the right decisions that deliver a positive experience and outcome for our clients.

As part of our wider strategic and organisational review, we have considered how governance, compliance, and risk management is implemented across Dignity. This has identified an important opportunity to design our framework in a way that not only meets the expectations set by government but exceeds them, while also raising the benchmark for all funeral businesses and crematoria operators in our industry.

The Dignity Standard

Dignity's aim is to develop a suite of sector-leading policies and practices that will form our Standard Operating Procedures ('SOP'). This will be at the core of everything we do regarding our care for clients and deceased persons. It includes a review of our guidelines for security and identification, access to premises and mortuaries, care for the deceased and all other important policies for both observed and unobserved procedures.

Each procedure will require a brief and research into best practice across our business and the sector. The procedure will then be shaped and reviewed through the collaboration of colleagues and shared across the business. Due to the scale of what this will cover, we're seeking to launch the SOP in phases to ensure each element is given the right degree of focus and priority.

A steering group has been tasked with developing the guidelines and includes a cross-section of colleagues from funeral and crematoria operations, property, health and safety, and learning & development. We are also addressing vital health, safety and property compliance requirements, which has been given the full support for prioritisation and investment by the Board.

Delivering the Dignity Standard will be reliant upon our Heads of Region and Business Leaders who have been empowered to identify areas where we can improve our services and premises, with the ability to implement policy, invest, or procure a solution.

Long-term the Dignity Standard will be more than a policy or set of processes. It will become a kitemark for sector leading excellence.

Embracing and Preparing for Regulation

This year a significant programme of work has been implemented to deliver compliance with the CMA statutory requirements for the sector, whilst also navigating the authorisation process for the FCA forthcoming regulation of the pre-paid funeral plan market.

CMA implementation and compliance

The CMA launched a market investigation into the funeral sector in March 2019 and published their Final Decision Report in December 2020. It identified a need for change and set out a range of price transparency and service information requirements that all funeral directors are obliged to follow.

The remedies set out by the regulator include requirements for standardised price information for a core set of products offered by funeral and crematoria providers across the UK. Through a collaborative approach and the dedication of colleagues, we were committed to complying with the obligations, delivering this in advance of the CMA's statutory deadline in September 2021.

Furthermore, Dignity's new pricing strategy (set out on page 4), which seeks to deliver genuine value-for-money, complements the CMA's aims rather than have them imposed on us. We are proud to say we now offer some of the most competitively priced funeral services in the UK.

We will continue to constructively engage with the CMA, in addition to our commitment to ongoing compliance with the formal regulatory orders.

Regulation of quality and standards

The CMA also set out clear recommendations to the Government for quality and standards regulation, which has been under consideration by the Ministry of Justice.

Dignity has supported calls for stronger oversight of the standards delivered by the funeral and crematoria profession for some time, but we recognise there is still work to be done to ensure that we ourselves are delivering truly market leading best practice.

In 2018 we initiated and sponsored a cross-industry working group – the Funeral Service Consumer Standards Review – which focussed on improving how information about quality, pricing and choice is communicated with consumers, and the development of a Code of Practice for Funeral Directors.

The initiative was handed to an independent secretariat to maintain impartiality from any one funeral provider, and has resulted in the formation of the Independent Funeral Standards Organisation ('IFSO'). We strongly support the progress IFSO has made and look forward to working with the body should it transition into a government endorsed self-supervisory body for the sector.

More widely, we have also worked closely with the Scottish Government to develop its approach to regulation of the sector and provision of services, including the anticipated implementation of a new Code of Practice for Funeral Directors that will sit under a legal framework in Scotland.

"Through a collaborative approach and the dedication of colleagues, we were committed to complying with the obligations, delivering this in advance of the CMA's statutory deadline in September 2021."

STANDARDS, REGULATION & COMPLIANCE CONTINUED

FCA Regulation

The pre-paid funeral plan market is about to change. From 29 July 2022, all funeral plan providers in the UK will be regulated by the FCA. The statutory oversight follows several years of campaigns, Government calls for evidence, and formal consultation with the funeral industry. Dignity has welcomed the onset of regulation for the 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 once the regulations come into force, companies that want to continue to sell or carry out funeral plans will need to be authorised by the FCA and conform to their rules, or risk committing a criminal offence.

We have engaged with the FCA throughout its process and support the regulatory framework to be implemented across the market. We are pleased to confirm that Dignity submitted its formal application for authorisation at the end of 2021.

Regulation Timeline

2019
JUNE HM Treasury consult on statutory regulation through the FCA.

2020
MARCH HM Treasury confirmation.
NOVEMBER HM Treasury lay required legislation.

2021
MARCH consultation paper issued.
APRIL responses to consultation submitted.
Q3 Policy Statement with Final Rules published.
SEPTEMBER FCA application opened.

2022
JULY FCA to regulation of Funeral Plans begins.

2026
FCA to evaluate the effectiveness of their measures.

Regulation of Funeral Plans Explained

Q&A

Why is regulation of funeral plans being introduced?

In March 2020 HM Treasury announced that pre-paid funeral plans would be subject to regulation by the FCA. This decision followed several years of campaigning by Dignity, and we believe that regulation will prevent the small number of unscrupulous firms undermining what is otherwise an important market.

Funeral plans are valuable products that enable people to plan and pay for their funeral in advance. Around 170,000 are sold in the UK each year and for many people they are the best way to fund their funeral, helping them to prevent the cost falling onto their loved ones.

Research we commissioned, working alongside independent consumer organisation Fairer Finance, identified evidence of high-pressure sales tactics and other poor practices in the sector. Critically, because regulation in the funeral plan market has historically been voluntary, there has been a lack of consumer protection and no ombudsman service.

Consumers need to have the same protection buying a funeral plan as they do with other financial products and Dignity is proud to have supported the calls for this to happen.

What do the new rules mean?

In addition to firms being required to have formal FCA authorisation, a range of measures are being introduced to tackle evidence of poor practice and mis-selling, whilst introducing greater protections for consumers should a plan provider fail. The process is to ensure:

- Firms sell products which offer fair value, meet consumer needs and are sold fairly.
- Firms are well run, adhere to high conduct standards and have sufficient resources and risk transfer arrangements so they can deliver funeral services.
- Consumers have time and all the information they need to make better informed decisions when choosing between different products and whether a funeral plan is right for them at all.

How will consumers be protected?

To gain approval to operate in the regulated market, firms will be subject to rigorous assessment against the FCA's standards. If providers do not receive authorisation, they will no longer be able to offer their products to consumers. This will result in a more reputable and trusted product that better serves the need of those looking to arrange and pay for their funeral in advance.

FCA regulation will provide continuity for customers where their plan provider fails, by allowing their plan to be transferred to a new company on the same terms as the original contract. The rules will also ensure that consumers can receive compensation from their firm if a transfer to another provider is not possible.

The regulator will ban cold calling and set new standards on advertising to ensure funeral plans are marketed and sold fairly. They will also carry out thorough checks on providers to improve governance and to ensure the owners of the business reach the high standards required to operate in a financial services market.

Customers will have access to redress options, including FSCS and the Financial Ombudsman.

The FCA will also introduce other mechanisms to safeguard consumers, such as introduction of a guarantee to receive a full refund if a plan is cancelled within 30 days of purchase, or only pay a reasonable charge thereafter.

STANDARDS, REGULATION & COMPLIANCE CONTINUED

Q&A

Our new strategic vision seeks to maximise scale and breadth of Dignity as a group, with the FCA rules acting as a catalyst for us to consider how we sell our funeral plans direct and through our branch network. The benefit for the consumer being one trusted, respected and regulated funeral plan provider that will also deliver the funeral to the highest of standards at the point of need.

How has Dignity prepared for FCA regulation?

A significant programme of work has been underway to provide the comprehensive evidence and analysis required by the FCA for Dignity to seek authorisation. We are pleased to confirm this was submitted in December 2021.

Taking a collaborative approach across the entire Group, our programme has been managed by a team of project managers and specialists to ensure regulatory readiness.

FCA regulation impacts almost every corner of our business. The new policies and procedures we are developing will need to be adopted by Dignity colleagues and FCA training will be mandatory for those participating in the development, marketing and sale of funeral plans.

A new governance structure overseen by a dedicated Board has been introduced to address the FCA guidelines on responsibility and operations. Designed to increase focus on accountability and raise standards of professional behaviour, the Senior Managers & Certification Regime is one of the most significant aspects of regulation for the funeral plan sector. We are in the process of appointing suitable people to required positions, all of whom will go through the FCA's rigorous checks.

Our terms and conditions will all need to be compliant, and we are ensuring all plan paperwork is updated. We are creating a new online sales system for funeral plans and are training our people on how to use it. We are updating our websites and policies and processes. And we are taking the new regime as an opportunity to consider how we develop a new and exciting proposition for our clients.

What does FCA regulation mean for the sale of funeral plans through corporate partnerships?

The FCA has banned commission payments to intermediaries or corporate partners, such as those Dignity had with building societies. As a result, Dignity has begun to exit the majority of our partnerships and will have no commission-based relationships once FCA regulation begins.

Our new strategic vision seeks to maximise scale and breadth of Dignity as a group, with the FCA rules acting as a catalyst for us to consider how we sell our funeral plans direct and through our branch network. The benefit for the consumer being one trusted, respected and regulated funeral plan provider that will also deliver the funeral to the highest of standards at the point of need.

Does Dignity have an FCA compliant trust under the new rules?

Dignity funeral plans are backed by independent trusts that at 24 September 2021 held actuarial assets that are 136 per cent of the actuarial liabilities. This is well in excess of the 110 per cent minimum required in the new FCA rules. We are in the process of establishing a new trust designed for the FCA framework and it is our intention to merge the existing trusts into that one. The new trust being created will provide even greater protections for funeral plan customers because from 29 July they will be covered by the FCSC (Financial Services Compensation Scheme).

STAKEHOLDER ENGAGEMENT & DECISION-MAKING

SECTION 172(1) STATEMENT

Section 172(1) of the Companies Act 2006 imposes a general duty on every company director to act in a way that promotes the success of the Company for the benefit of shareholders as a whole. In so doing, the Company must have regard to wider expectations of responsible business behaviour, such as having due regard to the interests of, and actively engaging with, its employees; the need to engage and foster business relationships with suppliers, customers and others; the need to act fairly as between members of the Company; the likely consequences of any decision in the long-term; the desirability of maintaining a reputation for high standards of business conduct; and the impact of the Company's operations on the community and the wider environment.

The Directors continue to have regard to the interests of the Company's stakeholders, in accordance with s172 of the Companies Act. This statement explains how the Board complies with its obligations, reviews the principal decisions made by the Board and how the Directors have engaged with stakeholders.

Our approach to stakeholder engagement

The Board recognises the importance of our stakeholders' views and seek to do the right thing and deliver on our strategy in a way that benefits all of our stakeholders. Engaging with a range of stakeholders informs the Board's decision-making, builds trust and is key to delivering Dignity's strategy in the long-term. Underpinning our stakeholder management and engagement processes are our Guiding Principles, which define the principles and values that shape our culture.

Stakeholder engagement takes place both directly and indirectly. Shareholder engagement activities are overseen by the Board and are led by the Chief Executive and Interim Chief Financial Officer. The Dignity Team Forum has continued to meet regularly during the year, debating issues from business performance and operational initiatives, Board remuneration policy to future strategy and vision. Minutes of forum meetings are made available to members of the Board. Further information on the Forum's role and meetings can be found on pages 67 and 68.

In addition, Board visits to crematoria, funeral homes and branch sites are also arranged as part of a new Directors' induction and have continued throughout the year to provide the Directors with first-hand insight into our culture.

OUR STAKEHOLDERS

Stakeholder	Key priorities	How we engage
Our clients We exist to serve our clients, families, and communities for all of their end-of-life needs. We strive to understand and meet their needs, whilst acting with sensitivity and empathy.	• Customer service and satisfaction. • Choice and flexibility of products and services. • Value-for-money.	We engage and interact with our clients directly through our branches, telephone and online. We closely monitor the results of client surveys in order to focus on areas in which we can improve our service and add value for our clients. Satisfied clients are essential for a sustainable and successful business.
Our colleagues Great service comes from great people who are drawn to our purpose and care about the families we look after, as well as each other. We work in teams and act like a family. We embrace our diversity, celebrate our differences, and help each other grow.	• Employee engagement. • Empowerment in decision-making. • Health, safety and wellbeing. • Ethics, culture and transparency. • Access to learning and development opportunities. • Talent management. • Fair rewards and benefits. • Inclusion and diversity.	We engage with our employees and gather feedback through meetings, employee surveys, our internal magazine and newsletter, company wide emails, and The Dignity Team Forum. In June 2021, the Slack communication platform was introduced to encourage greater collaboration and communication amongst our colleagues.
Our communities and the environment Our colleagues are from the places in which they serve and work and take pride in knowing the communities around them. We are a federation of local businesses that aim to contribute to local life, from education and support on end-of-life matters, to community initiatives and charity work. We aim to become the world's most sustainable end-of-life service provider.	• Sustainability and climate resilience. • Carbon reduction plans. • Greener energy sources. • Recyclable waste. • Education and support on end-of-life matters. • Serving local communities.	We engage with local communities through helping out with special events, hosting open days, volunteering, communal celebrations and supporting locally focussed charities. Our colleagues continue to build strong links through engagement with local initiatives and fundraising for charities and support many events each year. We work pro-actively with local authorities and the community at large to progress environmental initiatives and ensure we operate in accordance with environmental legislation and best practice. For further information, please see: **p.26 to p.39.**

STAKEHOLDER ENGAGEMENT & DECISION-MAKING CONTINUED

OUR STAKEHOLDERS CONTINUED

Stakeholder	Key priorities	How we engage
Our partners and suppliers We are focussed on building long-term, collaborative relationships that are focussed on achieving shared goals.	• Innovation and technology. • Quality of service. • Sustainable materials and sourcing. • Collaborative relationships.	Our Supplier Management Policy sets out the processes that Dignity colleagues should follow when procuring and managing suppliers who provide Dignity with goods and services. We engage with our suppliers primarily through regular supplier management meetings and annual reviews to ensure that relationships are working well, and goods and services provided to Dignity are in accordance with the contract, Dignity's policies, and providing value-for-money.
Our investors and bondholders Our goal is to create excellent long-term value for our shareholders. We will allocate capital wisely, organise ourselves prudently, spend money frugally and report openly and honestly.	• Financial performance. • Business model and strategy. • Environmental, Social and Governance issues. • Inclusion and diversity. • Risk management. • Remuneration policies.	We engage with investors throughout the year via our regulatory reporting including the Annual Report and Accounts, our full year results, half year results, trading updates and our Annual General Meeting. The Group's principal source of long-term debt financing is the Secured A Notes and the Secured B Notes. We met with our bondholders in February 2022 to seek support for a temporary waiver of the Financial Covenant on a precautionary basis in relation to the Group's debt obligations under the Group's Secured Notes. For further information, please see: **p.56 and p.104.**
Regulators We are fully committed to the development and enhancement of regulation in all aspects of our industry.	• Consumer protection. • Risk management. • Governance. • Product service and delivery.	We have worked closely with the CMA and the FCA in implementing changes to our pricing and launching competitively priced products and preparing for regulation of the funeral industry. For further information, please see: **p.16 to p.20.**

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

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

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

ORGANISATIONAL RESTRUCTURE AND STRATEGY

Overview
During 2021, Dignity set a new vision and strategy to achieving growth through commercial competitiveness, empowering client-facing employees, investing in our infrastructure, introducing a co-operative structure, and making greater use of digitalisation and improved processes to ensure the business can operate more efficiently long-term. An organisational review and restructuring exercise commenced and that organises our businesses into smaller groups where autonomy is devolved, and each region has opportunity for decision-making and local developments.

Decision-making factors
The Board carefully considered the following factors:

- The competitive environment.
- Our Operating Model and opportunities to digitise and enhance services at local level.
- Capital structure and funding requirements.
- Regulatory requirements.

Stakeholder engagement
We reviewed the structure across the organisation to assess whether it remained appropriate in relation to the strategic goals for the company. The assessments identified that we needed to organise our business differently to provide a truly localised service and empower our teams. To deliver the restructure and introduce the new Head of Region and Business Leader roles, we have followed the required consultation process with those colleagues affected by the changes, as well as engaging our Dignity Team Forum members at the appropriate point.

The Board considered the interests of stakeholders, and believes that implementing these significant changes to our business model and structure will be beneficial to the following stakeholders for the following reasons:

- Clients and communities: it provides our clients and communities with greater choice of services and better value-for-money.
- Colleagues: it empowers our colleagues to make the right decisions that deliver a positive experience and outcome for our clients.
- Partners and suppliers: fosters better working relationships with our partners and suppliers and offers our clients a truly tailored service at a significantly reduced price.
- Investors: it supports sustainable future growth of our business and delivers enhanced long-term value to our investors.
- Regulators: it facilitates collaboration with regulators to deliver funerals to the highest of standards at the point of need.

Outcome

- A new regional structure was announced to investors in September 2021, merging funeral services, crematoria and pre-arranged funeral plans into the same structure and creating 12 regions across our estate.
- Greater focus on organic growth and investing in brands that are performing well and have potential to grow.
- Increased communication and engagement with our colleagues.
- Empower our colleagues working in the regions to drive their own strategies.
- Introduction of the Real Living Wage in September 2021.
- Control framework to include impending FCA regulations.

FCA REGULATION PREPAREDNESS AND PRICING REVIEW

Overview
The FCA opened its application window in September 2021 for funeral service providers who want to sell funeral plans. In addition, the CMA launched a market investigation into the funeral sector in March 2019 and published their Final Decision Report in December 2020 which set out a range of price transparency and service information requirements that all funeral directors are obliged to follow.

Stakeholder engagement
The Board carried out extensive stakeholder engagement including the establishment of a project team with appropriate steering and working groups in operation, allocated project resource and received regular updates on the project's progress.

The Board considered the following factors:

- Pricing strategies and how best to meet the needs of our clients and achieve the quality and standards required by the CMA.
- New policies and procedures to be developed to ensure Dignity colleagues can fulfil FCA requirements in developing, marketing and sale of funeral plans.
- The appropriate governance structure to ensure Dignity is able to comply with the new regulatory regime.

Constructive engagement took place with both the FCA and CMA and a major programme of work was overseen by the Board to ensure that Dignity has the right governance, processes, products and infrastructure to meet our regulatory requirements and provide a pricing strategy which seeks to deliver genuine value-for-money for our clients.

Outcome
- FCA Application was submitted successfully in December 2021.
- Launched competitively priced funeral products in September 2021 to truly lower the cost of dying for families.
- We ended our relationship with those third-party telephony partners who sold plans on our behalf and focussed on prioritising the sale of funeral plans through our branches.
- Designed new guidelines and standards around how we operate to increase focus on accountability and raise standards of professional behaviour.
- Created a new online sales system for funeral plans and provided training for our people on how to use it.

PROPERTY REVIEW, COMPLIANCE AND INVESTMENT

Overview
As part of the organisational review, the Board oversaw a significant programme of investment in our property portfolio focussing on providing high standards of care for our colleagues and the deceased.

Stakeholder engagement
The Executive Committee, with the support of a working group comprising of a cross-section of colleagues from funeral and crematoria operations, property, health and safety, and learning & development reviewed our approach to compliance and health and safety and established and prioritised remedial actions to be undertaken in the branches. The Board allocated project resource and received monthly updates from the Chief Operating Officer on the project's progress.

The Board considered the interests of stakeholders and in particular, our clients, colleagues and investors' interests. The Board believes that having well-presented and inviting premises is important in providing a positive and pleasant experience for our clients who visit our premises. Also, greater investment in our premises assures a safe work environment for our colleagues so that they may continue to provide high-quality services to our clients, and increased asset value of the property estate.

Outcome
- Recruitment of a Head of Property to strengthen the capability and resources of the Property team and manage the long-term development, investment and refurbishment of our property estate.
- Prioritisation of efforts around larger scale projects such as refurbishments of mortuary facilities, renovations and redecoration.
- Development of a framework for local colleagues to be empowered to take action on health and safety across the business, compliance and mortuary care of the deceased.
- Launch of new Standard Operating Procedures ('SOP') across the business, focussing heavily on health and safety, property compliance and the care of deceased and mortuary facilities.
- Enhanced management information reporting on property compliance by region.

CULTURE AND LAUNCH OF GUIDING PRINCIPLES

Overview
As part of the broader strategic review in 2021, the Board considered the Group's vision and Principles and how they define the principles and values that shape our culture, our ambitions for the future and our relationship with our stakeholders. Further information on how the Guiding Principles were developed can be found on pages 10 and 11.

Stakeholder engagement
The Board recognised the collaborative efforts of our client-facing and operational colleagues in developing the Guiding Principles and received monthly updates from the Chief Executive and Chief Operating Officer in relation to their progress.

The Board considered the interests of the following stakeholders in turn and what is important to each of them:

- Clients.
- Colleagues.
- Communities.
- Partners and suppliers.
- Shareholders.
- Regulators.

Outcome
- Successful launch of the Guiding Principles in early 2022.
- During 2022, the Board will continue to embed these Principles and apply them consistently in decision-making, which will benefit all of our stakeholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ('ESG')

Positive social impact

We deliver vital services to support people at one of the most difficult times of their lives and we do this in a manner that is both socially and environmentally aware.

The decisions we make will always be influenced by the needs of our stakeholders, including clients, colleagues, policymakers and investors.

However, there is also a commitment which underpins the Dignity Group – to do business ethically and without negatively impacting the environment, local communities or society as a whole.

It is a responsibility we take extremely seriously as we work towards our goal of becoming the UK's most trusted, respected and valued end-of-life provider.

Why it matters

Social and environmental factors are firmly integrated into our business operations and interactions with stakeholders. We take a long-term view in favour of seeking quick fixes so that our operational approach remains sustainable.

Being socially accountable matters to us because it matters to other people. It drives consumers to make choices when looking for a service provider; it affects investment decisions among shareholders; it helps attract and retain great talent who feel proud of who they work for.

"Positive actions will enhance business reputation, so it is important for us to not only embed responsible practices, but to share and sometimes even celebrate our achievements too."

Environment

Introduction

Dignity is the largest provider of end-of-life services in the UK, and we must face into the responsibility we have to set the bar high for best sustainable practices and operations in our industry.

The funeral and crematoria sector has an important role to play in minimising our impact on our environment as a provider of a key public service. There is an immediate need for significant action by the leaders in our sector to understand how we can both individually and collectively create a greener approach to the service we provide in communities.

We have considered the importance in taking a practical approach to setting a sustainability target, that secures our role in delivering the Government's target of net-zero.

Dignity's Climate-Pledge:

"We aim to be 'net-zero' across the Dignity network by 2038."

We know this is ambitious, but we are committed to leading the way and setting the standard in our sector. We can only achieve this through a strong organisational culture and excellent operations, that are underpinned by our new Guiding Principles. Dignity's commitment will be embedded at our core, with our new Principles including one specifically dedicated to protecting our environment and planet.

Our ambition covers the reduction of carbon emissions from all of our owned operations, from our funeral branches, crematoria, care centres, to our fleet and a view to mitigate our impact through our supply chain.

There must be transparent, measured, and achievable targets set by us that truly make a difference to our planet. We are therefore firstly seeking to deliver on quick and actionable changes where we can make a measurable impact on our environmental performance immediately, such as reducing waste generation across the group, a network-wide recycling programme and a policy on single-use materials. Greater analysis and examination into our operations, and how the sector can innovate, is needed to better understand our longer-term strategy and investment plan. We will begin this process in 2022, including a detailed climate scenarios analysis and interim target setting through academic and specialist guidance.

Analysis and strategy development

We are proud to support the introduction of formal climate disclosures mandated for listed firms, through the Taskforce on Climate-related Financial Disclosures ('TCFD'). Whilst Dignity is exempt from this requirement for 2021's reporting, we have elected to take a pragmatic step and complete a voluntary disclosure as we believe TCFD provides a strong framework for our climate pledge and strategy to develop. We will use the findings of this year's TCFD voluntary submission as the baseline of our Scope 1 and 2 reporting, and a platform to understand our Scope 3 emissions in more detail.

Taskforce on Climate-related Financial Disclosures ('TCFD') Report 2021 – Summary Report

Following the introduction of LR 9.8.6R, Dignity has assessed its current position regarding the TCFD recommendations, and that is summarised in this report. We intend to further embed the recommendations of the guidance in 2022, i.e., climate-related risk analysis using climate scenarios will be conducted to build on the physical and transition risks previously identified in the CDP disclosure. We will set interim targets to develop our pathway to net-zero by 2038.

At Dignity, we want to set the standard for sustainable business practice in our industry. This means taking action to mitigate our impact on climate change, being aware of how our business is at risk from a changing climate and being transparent about what we are doing in both of these areas. As such, we welcome the TCFD disclosure requirements as they provide a framework for reporting on climate-related risks and opportunities, covering governance, strategy, risk management and metrics & targets.

Our journey so far:

2010
- First CDP report submitted.
- Ongoing focus on reducing emissions.

2021
- Environmental and Sustainability Committee established.
- TCFD disclosure included in Annual Report.

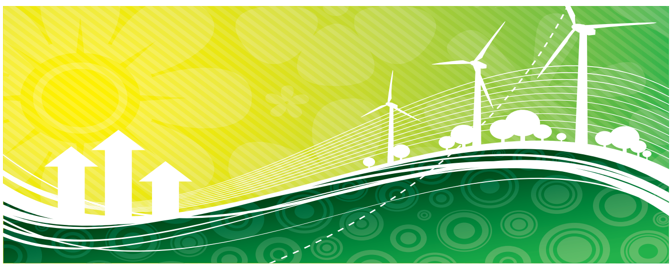
2022
- Board adopts net-zero pledge.
- Standalone TCFD report, climate scenarios analysis and interim target setting.

2038
- Net-zero target date.

Climate change and the funeral and crematoria sector

Climate change is causing long-term shifts in global weather patterns and average temperatures. Carbon emissions need to be reduced substantially in the coming decades to mitigate the impact. This means climate change poses both physical and transitional risks as we move to a low carbon economy.

The funeral and crematoria sector has a part to play in reducing our environmental impact. Furthermore, we see increasing customer demand for eco-friendly options when planning a funeral. These changes pose risks, challenges and opportunities. At Dignity, we are keen to minimise our impact and act as a leader for positive action in the sector.



Overview – Where do we stand with TCFD?

We support the TCFD recommendations because they provide transparency and a strong foundation for our roadmap to achieving net-zero emissions. It describes our present situation, communicates our expectations for the coming years, and, crucially, identifies where further work is needed to disclose against all TCFD recommendations next year.

We will produce a full, separate disclosure in 2022, including climate scenarios analysis to allow in-depth risk assessment. This is part of our ambition to lead the way in environmental sustainability for the funeral and crematoria sector.

Governance – Ensuring accountability and responsibility for climate-related risks

Our Board has overall responsibility for climate-related issues, including risk management. On a day-to-day basis, climate change is managed by the Chief Operating Officer as an operational issue.

The Audit Committee and the Risk Committee works on behalf of the Board to monitor the effectiveness of risk management and internal controls, including for climate-related risks. It performs comprehensive reviews of principal risks and uncertainties to the business and updates the Board on the risk register every six months.

In 2021, in response to the need for an environmental and social strategy and increasing stakeholder interest in sustainability matters, we established an Environmental and Sustainability Committee. One of its primary purposes is to define a three year Environmental and Sustainability Strategy for the Group. It consists of operational experts and central service colleagues from across the business, including members of the Senior Leadership Team. This ensures that sustainability is embedded throughout our organisation. It supports the Board by setting and monitoring environmental targets, scoping out and executing new initiatives and supporting employees on environmental matters.

> "The funeral and crematoria sector has a part to play in reducing our environmental impact. Furthermore, we see increasing customer demand for eco-friendly options when planning a funeral."

Strategy – Building climate resilience into our business strategy

Dignity aims to be net-zero by 2038, and this ambition is supported by our Board, who are passionate about reducing our organisations environmental impact across the Group. We are committed to developing a detailed sustainability strategy underpinned by Science-Based Targets. We want to be a leader in our sector, setting the bar for best practices in sustainability and being transparent in our progress towards our targets.

This year we have been assessing our current position. We have been collecting data on our carbon emissions and energy use and reporting to the CDP since 2010. Our core emissions reduced 27 per cent from 2014 to 2019, an achievement which saw us recognised in the FT/Statista's Top 200 for Europe's Climate Leaders in 2021. We are calculating our first full carbon balance sheet for 2021, which will include an assessment of our Scope 3 emissions. This goes beyond the legal minimum set by ESOS and SECR, which require only Scope 1 and 2 emissions. As up to 90 per cent of a company's emissions occur within the supply chain, this will give us a more robust understanding of how we can reduce our impact.

In recent years, we have introduced a number of measures to make our facilities more efficient and our products and services more environmentally sustainable. For example, 100 per cent of our electricity now comes from renewable sources, all new crematoria are fitted with NOx abatement measures, and we are rolling out reusable coffin covers.

In 2022, we will be laying the groundwork for a successful path to net-zero. This will include improving our data collection processes, particularly within our supply chain for Scope 3 emissions, and setting short, medium and long-term targets that will form our path to net-zero.

Our CDP disclosures have outlined some physical and transitional risks as the UK shifts to a low carbon economy. We have identified emerging regulations, changes in the market and extreme weather events as risks to our business and supply chain. Our next step in 2022 is to carry out a complete climate scenario analysis to understand these better and potentially identify further risks, quantify their likelihood and impacts, and determine mitigation actions.

Risk Management – Embedding climate risk into our risk management framework

The Group has a well-established risk management process, including a risk register which is reviewed by the Audit Committee every six months. New risks are identified through discussion with senior management. In 2022, we will collaborate with a third party to identify climate-related risks in our UK business operations and integrate them into our general risk management process.

We will examine how transitioning to a low carbon economy may entail extensive policy, legal, technology and market changes to address mitigation and adaptation requirements related to climate change. In addition, we will also explore how physical risks resulting from climate change can lead to financial implications for our operations. This will consider three potential future scenarios based on the degree of warming by 2100 (<2ºC, 2-3ºC and >3ºC) and the actions that would lead to that. It will use climate modelling for each region we conduct business from to look into various climate indicators and their interactions over the short, medium and long-term.

Through a series of engagement workshops, we will take a detailed look at mitigating climate-related financial impacts to support long-term business resilience. We will also consider further opportunities, such as increasing efficiency and developing green offerings for eco-conscious consumers. The results will be discussed in our 2022 TCFD report.

Metrics & Targets – What are we committing to?

Our ambition to be net-zero covers reducing Scope 1 and 2 emissions from all of our owned operations, from our funeral branches, crematoria, care centres to our fleet and a view to mitigating our impact through our supply chain.

In 2022 we aim to:

- Extend the categories covered in our Scope 3 assessment to provide a more comprehensive review of our emissions.
- Prepare our pathway to net-zero.
- Set net-zero targets and have them approved by the Science-Based Targets Initiative ('SBTi').

Our Scope 1 and 2 emissions are reported within the SECR report below.

Streamlined Energy and Carbon Reporting ('SECR')

The following figures show the consumption and associated emissions for this reporting year for our operations, with figures from the previous reporting period included for comparison.

Scope 1 consumption and emissions relate to direct combustion of natural gas, and fuels utilised for transportation operations, such as company vehicle fleets.

Scope 2 consumption and emissions relate to indirect emissions relating to the consumption of purchased electricity in day-to-day business operations.

Scope 3 consumption and emissions relate to emissions resulting from sources not directly owned by us. This relates to grey fleet (business travel undertaken in employee-owned vehicles) only.

Totals

The total consumption (MWh) figures for reportable energy supplies are as follows:

Utility and Scope	2021 Consumption (MWh)	2020 Consumption (MWh)
Grid-Supplied Electricity, Transportation, gaseous and other fuels (Scope 1 and 2)	99,270	94,175

The total emission (tCO_2e) figures for reportable energy supplies are as follows:

Utility and Scope	2021 Consumption (tCO_2e) (Market Based)	2020 Consumption (tCO_2e) (Market Based)
Grid-Supplied Electricity (Scope 2)	–	53
Transportation, gaseous and other fuels (Scope 1)	15,401	15,710
Total	15,401	15,763

Intensity Metric

An intensity metric of tCO_2e per FTE has been applied for our annual total emissions. The methodology of the intensity metric calculations are detailed in the appendix, and results of this analysis is as follows:

Intensity Metric	2021 Intensity Metric	2020 Intensity Metric
tCO_2e / FTE	5.0	5.3

Energy Efficiency Improvements

We are committed to year-on-year improvements in our operational energy efficiency. As such, a register of energy efficiency measures available to us has been compiled, with a view to implementing these measures in the next 5 years.

Measures ongoing and undertaken through 2021:

• Electric Vehicles
A project to investigate the installation of EV charge points at Crematory and Depot sites commenced during Q1, 2021. This will form part of the strategy to change upon replacement fleet and company vehicles from petrol / diesel to hybrid / electric.

• Scope 3 Emissions
During 2021 a full Scope 3 Inventory was undertaken to establish the key Scope 3 emissions sources across our business. From this we will be able to determine which emissions sources are material and within our reasonable operational control. This will enable us to set a Scope 3 target as part of a Science-Based Target commitment and include Scope 3 in future carbon footprint reporting.

• Burner Replacement
The manufacturing facility uses waste wood generated from our process which is burnt to produce heat for the site. The burners have been replaced providing a more efficient generation of heat.

• Upgrade to Lighting
A total of five locations have had an upgrade to lighting during 2021 in terms of installing both motion sensors and LED fittings within the properties.

- **Electricity Smart Meters**
There is a 92 per cent coverage of smart meters across our estate compared with an industry standard of 49 per cent. Smart meters will result in electricity invoices being accurate and allows us to target locations with high energy use.

- **Gas Smart Loggers**
There is a 94 per cent coverage of smart loggers across our estate compared with an industry standard of 33 per cent. Smart loggers will result in gas invoices being accurate and allows us to target locations with high energy use.

Measures prioritised for implementation in 2022:

All of the measures detailed above as undertaken during 2021 will form part of a continuous programme of replacements, upgrades and rollouts during 2022.

Additional Metric

An additional metric, number of cremations will be collected and reported on within the SECR 2022 submission. This additional metric (no. of cremations) is to benchmark and review performance of a specific element of high energy consuming equipment as we implement more advanced cremator technology.

Improved Cremator Technology

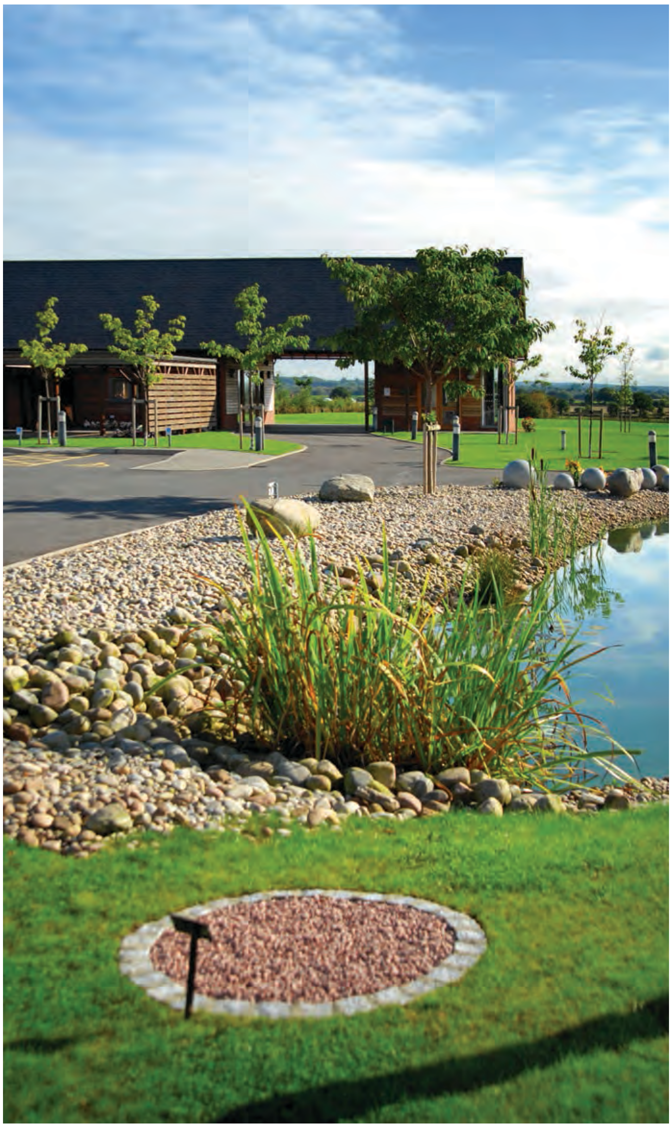
All new sites will benefit from a range of carbon emissions reduction projects tested over a number of years. These include the following:

- A modular space saving design which includes cremator and integrated filtration systems.
- Mercury abatement filtration plant which will meet Government directive of 50 per cent reduction of mercury emissions from crematoria.
- Advanced refractory lining materials reducing gas consumption significantly.
- Pilot valve gas burner firing controls and software which will give 20 per cent+ reduction in gas consumption.
- Super insulation coupled with pilot valve technology and advanced oxygen control features to reduce gas consumption further.

Reporting Methodology

Scope 1 and 2 consumption and CO_2e emission data has been calculated in line with the 2019 UK Government environmental reporting guidance. The following Emission Factor Databases consistent with the 2019 UK Government environmental reporting guidance have been used, utilising the current published kWh gross calorific value (CV) and kgCO_2e emissions factors relevant for reporting year 01/01/2021 – 31/12/2021:

- Database 2021, Version 1.0.
- Estimations undertaken to cover missing billing periods for properties directly invoiced to Dignity plc were calculated on a kWh/day pro rata basis at meter level. These estimations equated to 0.62 per cent of reported consumption.
- Intensity metrics have been calculated utilising the 2021 reportable figures for the following metrics, and tCO_2e for both individual sources and total emissions were then divided by this figure to determine the tCO_2e per metric.
- Full time equivalents ('FTE') at 31 December 2021 3,062 (2020: 2,974).



Clients

"We listen to feedback that could help improve our proposition or achieve better outcomes for bereaved families."

Alternative, affordable funerals

No two people are the same and so the more choice we can offer our clients when planning for or arranging a funeral, the more likely we are to fully satisfy their needs.

This is why we took the opportunity to extend the availability of direct cremation services to nearly all branches as part of our strategy.

Called the Unattended Funeral, it makes an ideal accompaniment to the established services we offer through Simplicity Cremations. One caters for clients who prefer face to face interaction with an arranger, while the other conveniently services people online and over the phone.

We are pleased to be increasing access to alternative types of funeral and having conducted extensive branch trials of direct cremation services earlier in the year, it is clearly something our clients appreciate.

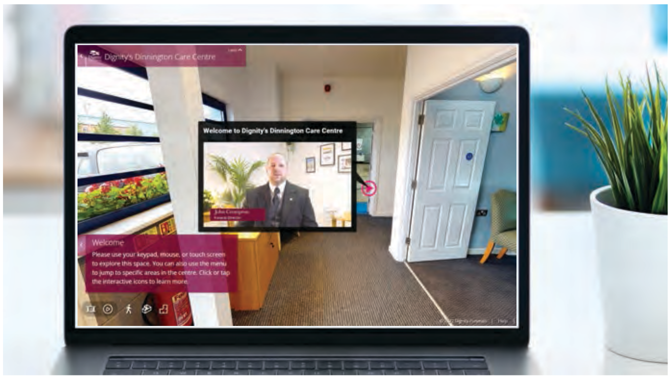
Easy to compare

For some, the Unattended Funeral appeals because of its fuss-free approach to arranging and conducting a funeral, while others favour the lower price point.

However, value-for-money also extends to our core at need services too. The Attended Funeral is competitively priced and highly flexible so families get exactly what they and their loved ones want.

Charges for all our additional services have also been reviewed to ensure they are reasonable and more representative of the actual costs involved.

In a post-CMA market, it is now easier for consumers to access pricing information and make comparisons between different providers. We welcome this approach and worked hard to achieve compliance across our network of funeral homes and crematoria in advance of the CMA's statutory deadline.



A better client experience

We listen to client feedback and suggestions from colleagues that could help improve our proposition or achieve better outcomes for bereaved families.

Even small changes make a notable difference, as we found when an idea to use quick response ('QR') codes on our order of service sheets was trialled locally and then made accessible to the rest of our funeral service arrangers.

The code provides mourners with an instant link to donate to a family's nominated charity via JustGiving. Previously they had to manually type in a long URL to reach the appropriate Funeral Notice.

Easy access means a person could make an online donation there and then, plus the printed codes look much neater on the page.

More recently, we looked at the online experience for those seeking more information on arranging a funeral via our website.

Under the banner of 'what to do when someone dies', users can now take a virtual tour of one of our care centres – mortuaries we operate to care for the deceased which are not attached to a branch.

This is important because clients often expect their loved one to rest at the funeral home itself, but in certain locations this is not possible therefore we utilise our high-quality care centres. Seeing the quality of our facilities first-hand offers reassurance and helps to dispel the myths about what happens to a person after death.

The three-dimensional walkthrough takes in the centre's reception, chapel of rest, garage, mortuary and embalming suite. There are video clips and interactive icons to provide additional insight.

Creating the best

We are partway through delivery of an extensive Property Compliance Programme as a solution to improving the quality of our premises and facilities across local communities.

It spans actions relating to health and safety, improving facilities for caring for the deceased, renovation and refurbishment work, and visual enhancements in client-facing areas.

In raising the overall standards of our premises, we can create great places to work and consistently present ourselves to clients in a way that matches the high-quality of our care, customer service and products.

Colleagues

"In a business which is all about affording respect and dignity to the deceased and their loved ones, we also have a responsibility to treat each other with care."

Reward and recognition

What we do can be tough. Sometimes physically demanding, frequently emotionally draining as we offer comfort and support to families in distress.

This is why we made a commitment during the year to review how colleagues are remunerated to ensure it is fair and competitive. We have started with those carrying out client-facing roles and gone on to introduce the Real Living Wage. Over time, we will work our way through the entire organisation.

We also want to recognise exemplary behaviours, hence the creation of a new awards scheme using the hundreds of entries posted on our internal Good Deeds news feed.

Colleagues voted for the most deserving winners across seven categories, with prizes given to each nominee. We also celebrate and tell the story of our many long serving colleagues, ranging up to 40 years with the company.

Showcasing a unique industry

Alongside the great people already working for Dignity, we need to continually attract new talent and give them compelling reasons to build a career in our industry.

Over the summer, we ran a national recruitment advertising campaign fronted by Sonika Saddi. Originally intent on becoming a Chartered Accountant, Sonika took on a part time role as a Funeral Service Arranger to help pay the bills while studying for her qualification.

She soon realised it was supporting the bereaved that provided true job satisfaction and opted for a full-time position with Dignity. Twenty years later, she is proud to hold the position of Funeral Director operating in Southall, West London.

Around the same time, we signed up to the Circle Back Initiative, an internationally recognised set of standards for the treatment of job applicants.

Under Circle Back, we pledge that every candidate who applies for a role with us will be responded to. In our responses, we also signpost the charity MIND as a source of help in case anyone is struggling to cope with the pressures of job hunting.

This was later followed by the introduction of Referral Reward Programme that provides colleagues with a thank you payment if they successfully introduce someone they know to fill a job vacancy.

Learning for all

To support professional development, we opened the doors this year to the Dignity Academy Portal, an online learning management system that is the main hub for all our learning activities.

Everyone has access, either through their work computer, personal device or one of more than 100 shared laptops placed in our branches and crematoria.

The portal does not replace traditional classroom learning, but it reduces our reliance on it and minimises the amount of time colleagues need to spend away from the business. Moreover, it promotes self-study for those who want to progress in their careers and gain new skills.

New content is added every month and we now run most of our mandatory learning for colleagues through the same system.

Specifically for colleagues in operational roles, we are currently enrolling around 70 candidates for a funeral apprenticeship programme with the opportunity to gain a recognised qualification as either a Funeral Team Member or a Funeral Director.

We have a specialist training partner in place, Connect2Care, and much of the learning will take place via the Dignity Academy Portal.

Hiring more inclusively; we ensure that all of our job descriptions and job adverts use gender neutral language and use accessible language. We've started to introduce more robust selection processes for leadership positions (Business Leaders). Assessment centres are a fairer process which complements our diversity and inclusion agenda by ensuring that people are selected on the basis of merit alone. With an assessment centre measurement evidence and evaluation is thorough and normalised against a broad curve of candidates and recorded.

Our new Transitioning at Work policy includes information on the legal context and protections that relate to transgender employees, as well as key considerations and responsibilities for employees and line managers. The policy offers practical guidance, clarification and education.

We also launched our wellbeing trial; this programme is looking at ways that three different roles; Wellbeing Ambassadors, Wellbeing Champions and Mental Health First Aiders can work together to support our colleagues maintain wellness and access the support that they need.

An inclusive culture isn't the work of leadership alone, a key focus for 2022 is to engage our colleagues in Dignity's Vision and Principles and enable them to bring their true selves to work.

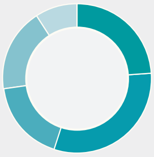
An inclusive culture

The introduction of Dignity's Principles have allowed to us place extra focus on diversity and inclusion at Dignity. Combined with our focus on culture, we are starting to unlock our ability to innovate, to be creative, to solve problems. Previous years saw us start this journey by educating managers on matters of Equality and Diversity. This year we've taken steps to embed actions into working practices to champion equity of experience for all of our colleagues. This is an ongoing journey that will impact all aspects of a colleagues' lifecycle with us and for those looking to work with us in the future.

"An inclusive culture isn't the work of leadership alone, a key focus for 2022 is to engage our colleagues in Dignity's Vision and Principles and enable them to bring their true selves to work."

Employees and service
At 31 December 2021

Employee service
(% & number)



- Less than 1 year: 19% (625 employees)
- 1–4 years: 31% (1,045 employees)
- 5–9 years: 21% (720 employees)
- 10–19 years: 19% (639 employees)
- Over 20 years: 10% (346 employees)

Employee diversity
At 31 December 2021

Total employees/ratio
(% & number)

- Male: 46% (1,824 employees)
- Female: 54% (1,551 employees)

Senior and middle managers[(1)]
(% & number)

- Male: 66% (99 employees)
- Female: 34% (51 employees)

Senior managers and Executive managers[(1)] (% & number)

- Male: 66% (27 employees)
- Female: 34% (14 employees)

Directors
(% & number)

- Male: 100% (5)
- Female: 0%

(1) In addition, one male employee was a director of subsidiary companies not included in these totals.

Safe in every sense

During the pandemic we have done everything reasonably practicable to ensure the health and safety of our colleagues and those that visit our premises. Ensuring the health, safety and welfare of our colleagues, our clients and our communities has been our utmost priority, but this has also enabled us to continue serving the bereaved by providing respectful and dignified funerals.

Our approach to health and safety included providing colleagues with the appropriate protective clothing; observing social distancing guidelines in our funeral branches and crematoria by introducing one-way systems and installing protective screens; regularly sanitising our premises and ensuring that guidelines on the number of attendees were understood and implemented. We also installed notices with advice to visitors about how to keep safe and minimise the spread of the virus.

COVID-19 has put health and safety in the spotlight like never before, but we felt it prudent to devote a month to raising awareness of the basics too.

In our 'Safety Starts with You' campaign, we covered fire safety, manual handling, hazard perception and accident reporting.

It was driven by our team of Regional Health and Safety Officers and included interactive elements as well as articles, videos and factsheets.

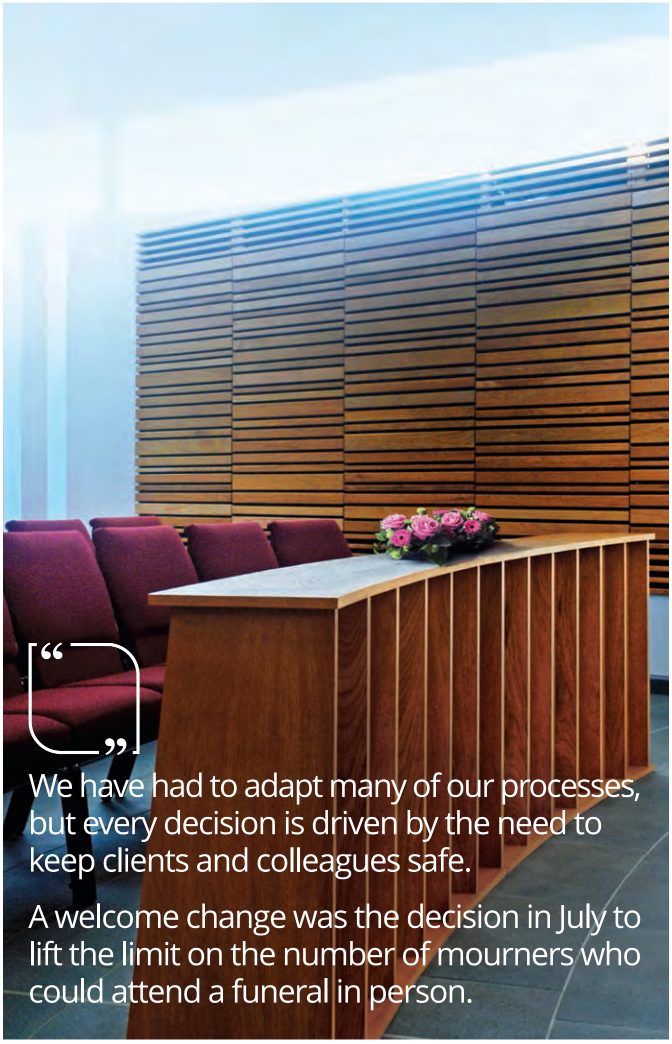
The year has also seen Dignity step up its promotion of positive mental health and wellbeing. We unveiled a new Be Supported service provided by AXA where colleagues can access online and professional telephone support in confidence for any issues troubling them.

We have created a wellbeing hub on our internal news platform Dignity Inside and run regular feature articles and webinars in our Wellbeing Wednesday series.

Recruitment got underway for a new Wellbeing Champions programme, including ambassador and mental health first aider roles. This will commence in 2022 once all training and a pilot scheme has been completed.

StayWell

Safety starts with You



"We have had to adapt many of our processes, but every decision is driven by the need to keep clients and colleagues safe.

A welcome change was the decision in July to lift the limit on the number of mourners who could attend a funeral in person."

Keeping clients and colleagues safe

There was little respite from COVID-19 during the year, with continued demand for our services from bereaved families.

Like many businesses, we also had to cope with operational challenges such as higher than normal absence rates where colleagues needed to self-isolate due to illness or being identified as a close contact of a positive case.

As ever, the response from our people when faced with adversity instils us with pride.

Teams recognise the importance of their roles, particularly those who are client-facing, and throughout the pandemic have sought to uphold the highest standards of compassion and client care, even in the face of tightening restrictions.

We have had to adapt many of our processes, but every decision is driven by the need to keep clients and colleagues safe.

Our approach is governed by a business-wide Safe Working Framework that defines the steps we need to take in order to remain COVID-secure. It operates across five different levels of severity and we choose the most appropriate one according to factors such as government guidelines, case numbers and the emergence of new variants.

Linked to this is our detailed Operational Guidance for frontline colleagues, including those directly responsible for taking care of the deceased. The guidance also captures any variations in rules across the devolved nations.

Towards the end of the year, we established an operational taskforce to relieve pressure in our busiest areas or locations where vacancies still needed to be filled. Taskforce members travelled from other parts of the country to lend a hand, with accommodation provided for those working away for a period of time.

A welcome change was the decision in July to lift the limit on the number of mourners who could attend a funeral in person.

This enabled us to provide families with a more normalised service across our funeral homes, chapels and crematoria, although we retained appropriate health and safety measures including regular sanitising and encouraging the wearing of face coverings while indoors or travelling in our limousines.

Some clients still felt the need to control attendance numbers for their own peace of mind and we supported this by offering the addition of live streaming a funeral where possible.

The pandemic has instigated lots of changes at Dignity, some of which have opened our eyes to more flexible and agile ways of working.

This is very much reflected in our head office based central support roles. Having successfully implemented remote working during each of the national lockdowns, we are now trialling the different approaches of office, home and hybrid working in line with colleagues' preferences.

While not suitable for every job type, it provides an excellent work life balance in many cases and teams have demonstrated they can be just as productive. Physical office space still has its place, but offering choice will help us build loyalty with existing colleagues and attract new talent in the future.

Communities

"Our people are active in the community. Their enthusiasm and willingness to put others first remains strong."

For the good of others

Our people are active in the community, supporting special events, communal celebrations and getting behind local charities. Their enthusiasm and willingness to put others first remains strong and is one of the hallmarks of Dignity's new Guiding Principles.

We have seen teams hosting open days, organising raffles, completing sponsored challenges and giving up their free time to volunteer.

Many branches have acted as collection points for community appeals, including clothing, Easter treats and Christmas gifts for children.

At Ernest Brigham Funeral Directors in Bridlington, colleagues donated their wedding dresses to the charity Dresses for Angels so they could be made into gowns for babies who have sadly passed too soon.

Remembering lost loved ones

We make use of our prominent locations on local High Streets to recognise key calendar events and enable clients to leave messages of remembrance.

They help to create striking and poignant window displays for Father's Day, Mothering Sunday and Remembrance Day, while at Christmas we put trees in our branches and crematoria with space to hang personalised memorial tags.

Our traditional Christmas memorial services were also well received this year, bringing bereaved members of the community together to light a candle in honour of someone special. Those unable to attend in person could watch live streams and recordings via secure sections of our website.

Funding specialist cancer care

Dignity's partnership with the charity Teenage Cancer Trust has entered its second year. We have contributed more than £256,000 to help ensure young people with cancer receive the specialist practical, emotional and social support they need.

Our contribution has been part funded by the CMG metal recycling scheme and a wide selection of fundraising activities organised by our colleagues.

The Client Service Centre team staged a 24-hour cycle challenge, peddling in shifts on a static exercise bike set up in their office. Numerous runs, walks and raffles have also helped keep the donations rolling in.

As well as fundraising, we have used established events such as World Cancer Day and International Nurses Day to raise awareness of the charity's vital work and share real life stories from the young people our contributions are supporting.

Funding a range of good causes

Many families choose to invite charitable donations when arranging a funeral, which we can support through our free Funeral Notices service.

By working together, our crematoria also raise substantial amounts of money every year by participating in an industry metal recycling scheme. With a client's consent, we separate any metals that remain after cremation so they can be sorted and recycled by a third-party specialist. We then use all of the revenues from recycling to donate to charities of our choosing.

From bereavement care to county air ambulances, we've been able to support a range of businesses through our participation in the scheme.

"In 2021, we have donated almost one million pounds to good causes as part of our COVID-19 fund and participation in the metal recycling scheme."

Crematorium metal recycling scheme & COVID-19 relief fund

Dignity participates in a funeral sector initiative which recycles metal that survives the cremation process to financially support good causes. The scheme is administered by the Association of Private Crematoria and Cemeteries ('APCC') and under its rules the profit from recycled metal is donated to a registered charity of the crematorium operator's choice.

In April 2020, the Executive Committee approved the proposal to ring-fence a fund of £75k from our participation in the metal recycling scheme for use by small, regional charities that had been impacted by COVID-19. It was agreed that larger donations to national charities fulfilling the same criteria could be granted if a recommendation was approved by the Executive Committee.

We were approached for financial support by hospices, homeless centres, food banks, over 60's community groups and bereavement counselling charities, all of whom received a donation to help maintain the provision of their services or comply with new safety guidelines.

In addition, the following examples demonstrate how our participation in the metal recycling scheme has benefited the local community:

- **Molly Olly's Wishes** in Warwickshire used a donation of £9k to manufacture therapeutic toys that explain chemotherapy to seriously ill children.
- With a donation of £5k, **Oxford Hospitals Charity** sourced phone chargers, games, puzzles, toys, and crafts for NHS patients that couldn't have visitors due to lockdown restrictions.
- A donation of £10k to **Croydon Health Services Charity** helped fund a tranquil garden space for patients and parents at the Children's Cancer Unit.
- By providing funding for fuel, the **Children's Air Ambulance** in the Midlands was kept airborne for a month when the charity's own fundraising activities were cancelled due to the pandemic.
- **The London Stroke Group** used our donation to fund online support for surviving patients at their 20 centres when face-to-face sessions could not be provided.
- A donation of £10k will help **Funeral Link** combat funeral poverty in Dundee.

A total of £250k from the metal recycling fund has been donated to our charity partner, **Teenage Cancer Trust**, during the past 12 months.

We were also approached by **Cruse Bereavement Care**, whose revenue streams have been impacted by COVID-19 during a period that saw a significant increase in demand for their services. Our donation of £75k helped the charity to adapt their service delivery model from face-to-face to phone or online.

Due to a surplus of funds, and following a vote amongst Dignity's crematoria colleagues', £100k was donated to mental health charity **MIND** and £50k to children's hospice network, **Together for Short Lives**. £25k was donated to both **Macmillan** and **British Heart Foundation**, providing 800 hours of care for cancer patients and funding a university research programme for one year.

Company & Corporate Governance

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

Doing the right thing

We believe that operating ably and responsibly is fundamental to creating long-term value. Our objective is not only to strengthen the reputation of our organisation, but also to promote and embed a culture of responsibility and performance that adds value for our stakeholders.

Business integrity

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

Dignity Code of Conduct

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

Anti-Bribery & Corruption

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

Equality, Diversity & Inclusion

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

Modern Slavery Act

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

Supplier Code of Conduct

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

"Strong and effective governance and ethical practice are essential considerations for Dignity as we develop our sustainability commitments."

Building ethical partnerships

Finding supply partners who place the same level of importance on ethics and responsible conduct as we do is an essential part of Dignity's approach to procurement.

A good example is workwear and in particular the provision of uniforms for our Funeral Directors and other client-facing colleagues.

Direct Corporate Clothing has a number of formal suit ranges featuring recycled polyester in the fabric blend. Each individual suit uses up to 45 recycled plastic bottles, which are melted down and spun into fibres.

Lyn Oakes is a family-owned tailoring business. Its fabrics come mainly from the UK and only ever from trademarked suppliers where everything has to meet strict eco-friendly requirements.

The most widely used material in our uniform range is the Herringbone 100 per cent natural woollen fabric for jackets, frockcoats, Morning Tails and waistcoats. This fabric is fully recyclable and sustainable and certified as non-mulesed, a process that ensures better welfare standards for animals.

An exciting new Venture

As a market leader, we not only want to promote growth and success within our own organisation; we want to see the sector thrive in order to achieve better consumer outcomes.

This is thinking behind Dignity Ventures, a bold example of how we value and foster good relationships within the business community.

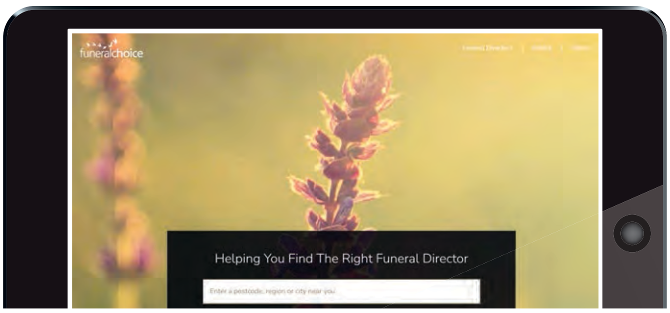
As a new division of the Dignity Group, Dignity Ventures aims to support innovation and entrepreneurship by providing expertise and financial resources.

There are a diverse range of organisations in the end-of-life sector ranging from consumer comparison and information platforms, to green and sustainability focused initiatives, unique manufacturers, as well as digital and technology advancement specialists. Dignity Ventures aims to accelerate innovation and customer choice by supporting entrepreneurism and helping some of these smaller organisations succeed in delivering a positive experience for consumers.

The investment and support from Dignity will provide a much-needed resource and financial boost, in addition to access to our market leading knowledge and experience. Firms may receive support in the form of acquisition, investment or partnering.

Importantly, these companies will maintain their independence, strategic focus and culture.

Our first venture is with Funeral Choice, an online funeral information platform. Our acquisition and ongoing partnership will accelerate the firm's ambition to become a go-to destination for consumers seeking information and advice related to funerals, whilst maintaining their full editorial independence.



PRINCIPAL RISKS AND UNCERTAINTIES

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

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

The Board operates a low-level risk appetite in order to ensure as much as is possible that the services provided by the Group are consistently of a high standard and that regulatory requirements are adhered to.

Risk appetites for specific key risks have been reviewed during the course of the year and, where appropriate, the Group's risk appetite has been adjusted accordingly.

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

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

The Board has established a new Risk Committee to enhance the oversight it has over its management of risks. The Risk Committee will be chaired by Kartina Tahir Thomson.

Responsibilities and actions

The Board
The Board is responsible for monitoring the Group's risk and associated mitigating factors and has carried out a robust assessment of both emerging and principal risks. This assessment process is supported by in-house risk management professionals.

Following the General Meeting on 22 April 2021, Clive Whiley ceased to be a Director and two independent Non-Executive Directors resigned from the Board. Gary Channon became Executive Chairman at this time. Subsequently, John Castagno was appointed to the Board as independent Non-Executive Chairman in July 2021 at which time Gary Channon became Chief Executive. Graham Ferguson was appointed to the Board in September 2021 as an independent Non-Executive Director and Chair of the Audit and Remuneration Committees. In 2022, Kate Davidson has been appointed as Chief Operating Officer and Kartina Tahir Thomson has recently been appointed as an independent Non-Executive Director and Chair of the Risk Committee.

The Company continues to work towards meeting its corporate governance responsibilities in respect of the composition of the Board and is currently in the recruitment process for a Chief Financial Officer.

Risk process
Every six months the Audit Committee formally considers the Group's Principal Risks and Uncertainties for subsequent adoption by the Board.

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

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

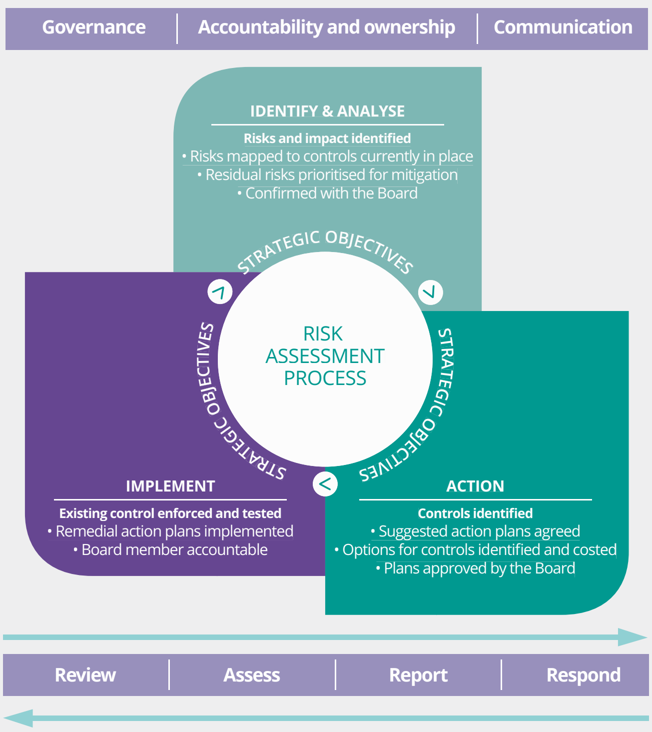
Assess
The potential impact and likelihood of occurrence of each risk is considered.

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

Review and internal audit
The link between each risk and the Group's policies and procedures is identified. Where relevant, appropriate work is performed by the Group's internal audit function, across a 3-year audit plan cycle, to assist in ensuring the related key controls, procedures and policies are understood and operated effectively where they serve to mitigate risks.

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

The risk management framework



Links
See Chairman's statement: **p.2**
See KPIs: **p.49 to p.51**
See Governance: **p.64 to p.104**

Risk Committee

With the establishment of the Risk Committee, a number of matters currently the responsibility of and reviewed by the Audit Committee will transfer to the Risk Committee. The Risk Committee will advise the Board on risk management issues, recommend the framework of risk limits and risk appetite to the Board for approval and to oversee the risk management arrangements of the Company, including the embedding and maintenance of a supportive risk management culture.

The Risk Committee will also ensure that the material risks facing the Company have been identified and that appropriate arrangements are in place to manage and mitigate those risks effectively within the Company's agreed risk appetite.

Risk status summary

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

Regulation of Pre-arranged funeral plans

In order to carry out regulated funeral plan activities, firms must be authorised by the FCA from July 2022. Continuing with regulated activity without authorisation will be a criminal offence.

Dignity believes that this regulation is necessary and welcomes its introduction. Dignity is working with the FCA to be registered as a regulated provider of pre-arranged funeral plans.

COVID-19

Although hopefully the worst is behind the country, COVID-19 created risks both to our ability to deliver our services in the context of restrictions imposed by the pandemic and the health and safety implications for our colleagues. We continue to regularly assess the potential risks.

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

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

Emerging Risks

Focus on the environment and businesses operating sustainably is now an imperative. We have started down the road to achieve net-zero by 2038. Further details on page 46.

Funeral Directors' Codes of Practice

A number of compliance requirements are currently recommended by the Scottish Government Funeral Directors' Code of Practice. In addition, the introduction of the Independent Funeral Standards Organisation will necessitate compliance with a UK co-regulatory Code of Practice as described by the Ministry of Justice. Further details on page 46.

Our principal risks and uncertainties

Financial risk management

- Significant movements in the death rate
- Nationwide adverse publicity
- Fall in average revenue per funeral or cremation resulting from market changes
- Direct cremations
- Financial Covenant under the Secured Notes

Strategic risk management

- Disruptive new business models leading to a significant reduction in market share
- Demographic shifts in population
- Competition in the funeral market

Operational risk management

- Cyber risk

Regulatory risk management

- Regulation of pre-arranged funeral plans
- Changes in the funding of the pre-arranged funeral plan business

Emerging risks

As part of the July 2018 update to the UK Corporate Governance Code, publicly listed companies are required to identify the procedures they have in place to identify emerging risks faced by the business and an explanation of how these are managed or mitigated. This year we have conducted a formal exercise to identify and assess emerging risks facing the business and these are outlined on page 46.

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

The principal risks we have identified

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

In the tables on pages 42 to 46 we provide a summary of each risk, a description of the potential impact and a summary of mitigating actions.

Key: Risk trend measures

- Risk exposure increased
- Risk exposure decreased
- No significant change
- New emerging risk

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

FINANCIAL RISK MANAGEMENT

Risk description and impact	Mitigating activities and commentary	Change
Significant movements in the death rate There is a risk that the number of deaths in any year significantly reduces or increases. This would have a direct result on the financial and operational performance of both the funeral and crematoria divisions.	The profile of deaths has historically seen intra year changes of +/- one per cent giving the Group the ability to plan its business accordingly. The ONS long-term projection is for deaths to increase. The risk is mitigated by the ability to control costs and the price structure although this would not mitigate a short-term significant reduction in the number of deaths. The number of deaths in 2021 was 664,000 which was 0.2 per cent above the prior year. It remains unknown over what time frame the death rate will normalise. Our planning continues to be based on the long-term expectations provided by the Office for National Statistics. Operationally, we have spent time understanding lessons from the dramatic increase in deaths due to COVID-19 to ensure we continue to respond professionally and safely. The pandemic has been a period of significant disruption to the funeral market as the elevated death rate has driven a higher number of funerals and cremations in 2021 compared to the five-year average. It is anticipated that this volatility in the death rate will continue as this excess death rate may well reverse. See Performance and Financial Results: **p.52 to p.63**	↗
Nationwide adverse publicity Nationwide adverse publicity for Dignity could result in a significant reduction in the number of funerals or cremations performed in any financial period. For pre-arranged funeral plans, adverse publicity for the Group or one of its partners could result in a reduction in the number of plans sold or an increase in the number of plans cancelled.	The Group's strategy is to focus on increasing funeral and crematoria market share together with prioritising the sale of funeral plans through branches rather than telephony partners. We ended our relationship with telephony partners who sold plans on our behalf and are now focused on the development and execution of a vision to excel in the new FCA regulated environment using all potential channels to find and delight new clients. The Group maintains a system of internal control to ensure the business is managed in line with its strategic objectives. Staff training and the work of the Quality and Standards Team assist in mitigating this risk. Dignity's aim is to develop a suite of sector-leading policies and practices that will form our Standard Operating Procedures ('SOP'). This will be at the core of everything we do regarding our care for clients and deceased persons. It includes a review of our guidelines for security and identification, access to premises and mortuaries, care for the deceased and all other important policies for both observed and unobserved procedures. In terms of quality of care for clients and their loved ones, the introduction of the SOP will assist in mitigating reputational risk and the possibility of consequential adverse press coverage. See The Client Survey performance: **p.50 and p.51**	↔
Fall in average revenue per funeral or cremation resulting from market changes There has been increasing price competition in the funeral market, resulting in material price reductions by the Group in recent years. It is highly likely that pricing pressure will remain for the foreseeable future and it may not therefore be possible to maintain average revenue per funeral or cremations at the current level. The recent and significant increase in wholesale gas prices will also contribute to the pressure on average revenue per cremation.	The Group's strategic review has resulted in a more efficient business that can accommodate more competitive pricing, but which continues to provide clients with a greater range of choice, underpinned by exceptional client service. This will be supported by strong reputational management. The Group is aspiring to achieve 20 per cent funeral market share in 10 years time (including both pre and at-need funerals) by offering the best service for the best prices. The Group will continue to adapt to serve evolving client needs. This will be through investment in digital capabilities including an enhanced reporting capability of business intelligence and management information which will enable risks and trends to be identified promptly and accurately. This risk has increased due to COVID-19 as the Group has experienced lower average revenues than originally expected. In addition, awareness of Simple Funerals and Simplicity Cremations has increased during the pandemic. The Group has, for some time, conducted low-price trials in a significant number of branches. Our trials and experience since we changed prices has been that market share loss stops and then reverses, and so in time we expect that revenue loss to be more than compensated by volume growth especially when combined with all the other elements of our strategy. We will monitor fuel markets and prices but accept that this market faces difficulties from external factors. See Divisional performance: **p.58 to p.63**	↗

FINANCIAL RISK MANAGEMENT CONTINUED

Risk description and impact	Mitigating activities and commentary	Change
Direct cremations Growth in the direct cremation market could reduce average revenue in the funeral business and adversely affect the volume mix and average revenue in the crematoria business.	The Group has addressed this with Simplicity Cremations which offers low-cost direct cremations without any initial funeral service that are both respectful and dignified. They are an affordable alternative to a full funeral or for those who wish to have a simple cremation. The Group also now offers a Simplicity pre-arranged funeral plan option. See Divisional performance: **p.60**	
Financial Covenant under the Secured Notes The Group's Secured Notes requires EBITDA to total debt service to be above 1.5 times. If this financial covenant (which is applicable to the securitised subgroup of Dignity) is not achieved, then this may lead to an Event of Default under the terms of the Secured Notes, which could result in the Security Trustee taking control of the Securitisation Group on behalf of the Secured Note holders. In addition, the Group is required to achieve a more stringent ratio of 1.85 times for the same test in order to be permitted to transfer excess cash from the Securitisation Group to Dignity plc.	The nature of the Group's debt means that the denominator is now fixed unless further Secured Notes are issued in the future. This means that the covenant headroom will change proportionately with changes in EBITDA generated by the securitised subgroup. Current trading continues to support the Group's financial obligations, however lower reported profitability increases the risk of breaching covenants. Whilst the Group's financial performance has delivered headroom in relation to financial covenants throughout 2021, given the distorting impact of the pandemic on the timing of deaths, there remains significant uncertainty around the UK death rate in the near term. Therefore, the Board has taken the prudent decision to seek a temporary waiver of the abovementioned financial covenant on a precautionary basis in relation to Dignity Finance plc's debt obligations. In March 2022 the Group was granted a waiver on the application of the covenants on the bonds for 12 months. This course of action accounted for post- pandemic uncertainty over the death rate which, together with the challenge of restructuring, risked a potential covenant breach. See Financial review: **p.53 to p.57**	

STRATEGIC RISK MANAGEMENT

Risk description and impact	Mitigating activities and commentary	Change
Disruptive new business models leading to a significant reduction in market share It is possible that external factors such as new competitors and the increased impact of the internet on the sector, could result in a significant reduction in market share within funeral and crematoria operations. This would have a direct result on the financial performance of those divisions.	The Group believes that this risk is mitigated by its reputation as a high-quality provider and with recommendation being a key driver to the choice of funeral director being used. In addition, the Group's actions on pricing and promotion seek to protect the Group's funeral market share by offering more affordable options. This focus on affordability has allowed our market share to begin to stabilise. The Group is prioritising investment into standards of care, facilities and our estate, alongside a combination of a competitive pricing and product mix, cultural change and stronger branding, to grow local market share. For crematoria operations this is mitigated by the Group's experience and ability in managing the development of new crematoria. The Group will focus on: • increasing both volume and revenue per crematoria by increasing throughput and growing ancillary sales; • continuing to build out the pipeline of crematoria and build additional capacity into existing facilities; and • embracing direct cremation and become price leaders for the location-agnostic value segment of the market. Additionally, the combination of the development of strong national brands and significant investment in digital capability together with a range of product and price offerings to clients is expected to strengthen the Group's competitiveness. See Divisional performance: **p.58 to p.63**	
Demographic shifts in population There can be no assurance that demographic shifts in population will not lead to a reduced demand for funeral services in areas where Dignity operates.	In such situations, Dignity would seek to follow the population shift by rebalancing the funeral location network together with meeting the developing cultural requirements. See Divisional performance: **p.58 to p.63**	

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

STRATEGIC RISK MANAGEMENT CONTINUED

Risk description and impact	Mitigating activities and commentary	Change
Competition in the Funeral Market The UK funeral services, crematoria and pre-need markets are currently fragmented. There could be further consolidation or increased competition in the industry, whether in the form of intensified price competition, service competition, over capacity facilitated by the internet or otherwise, which could lead to an erosion of the Group's market share, average revenues or an increase in costs and consequently a reduction in its profitability. Failure to replenish or increase the bank of pre-arranged funeral plans could affect market share of the funeral division in the longer-term. Competition continues to intensify, with additional funeral directors opening at varying price points, alongside an increase in the popularity of direct cremations.	The vision is for Dignity to be the UK's leading end-of-life business, renowned for its excellence and high standards, represented and embedded in the community with strong local brands, whilst offering the best service for the best prices. Central to our strategy is a focus on improving the culture of our business, empowering our colleagues and working openly together to be our best through teamwork. Our appetite to develop new products and trials has expanded through the greater collaboration and open debate. Several trials are up and running with the objective of achieving the right combination of price product and promotion to not only grow our local market share but to sustain and grow our revenues. The Branch Direct Cremation trial has introduced new competitively priced products that can fit within our existing price and product architecture. We continue to develop a new tiered funeral pricing proposition, that will provide greater flexibility to meet individual client needs. By unbundling our prices and services to provide our clients with greater flexibility to create the right funeral, we will be able to provide greater consistency and competitiveness on price, while reflecting Dignity's premium service levels. A significant online presence and visibility leverages our scale and addresses the needs of increasingly digitally focused clients. Through the Dignity and Simplicity names, we are leveraging scale advantages in the digital age. We also recognise that our established local funeral trading names continue to have significant value in the communities they serve. Through better allocation of our resources, the resultant efficiencies will allow us to reduce the number of funeral locations and their associated cost. Support functions are being centralised where appropriate to ensure a cost effective and consistent high standard of service. There are challenges to opening new crematoria due to the need to obtain planning approval and the costs of development. Dignity has extensive experience in managing the development of new crematoria. The Group offers a quality pre-need product, the marketing of which will benefit from the current and future significant investment in marketing and enhanced digital presence. Dignity supports full FCA regulation of the sector which presents an opportunity to gain competitive margin through both pricing and good quality service provision. See Chairman's statement: **p.2**	

OPERATIONAL RISK MANAGEMENT

Risk description and impact	Mitigating activities and commentary	Change
Cyber risk Our business is at risk of financial loss, disruption or damage to reputation resulting from the failure of its information technology systems. This could materialise in a variety of ways including deliberate and unauthorised breaches of security to gain access to information systems.	The Group has, in recent years, invested significantly in this area with the objective of both upgrading all aspects of our systems and our internal resources and also using external consultants to drive a continuous improvement programme. The chance of an organisation falling victim to a cyber-attack is growing. Threats are more pervasive and sophisticated than ever. In addition, however, to maintaining appropriate levels of Cyber Insurance we continue our investment in fit for purpose security controls, processes, and technology to allow us to maintain pace with the current threat landscape whilst proactively monitoring for breaches and improving internal understanding and communication of initial risks, mitigations and residual risks. The Group is working with external advisers at an operational level providing a broad view of our current maturity level of controls over multiple domains associated with cyber security. Additionally, this external assessment will include a deep dive review of Dignity's Security Architecture to confirm that our information systems are in alignment with required cyber security objectives addressing where possible potential risks to the technology environment. The Group has its security controls, processes and technology independently audited to ensure it remains effective or requires additional investment. See Chairman's statement: **p.2**	

REGULATORY RISK MANAGEMENT

Risk description and impact	Mitigating activities and commentary	Change
Regulation of pre-arranged funeral plans FCA Regulation has resulted in changes to processes, systems, pricing, funding, capital requirements and terms and conditions of plans. Regulation affects the Group's opportunity to sell pre-arranged funeral plans in the future and could result in the Trading Group not being able to draw down the current level of marketing allowances. The minimum solvency levels (110 per cent) for Trust funds set by the FCA means that levels below this minimum will require Dignity Funerals Limited to address shortfall within a 12 month period.	Changes apply to the industry as a whole and not just the Group. The FCA rules address: • Commission. • Customer documentation. • Trust structures. • Product value and features. • Minimum solvency requirements for Trust Funds. • Compliant sales of Pre-Paid plans. Our strong market presence in the Whole of Life Funeral Benefit market remains unchanged. The changes affect the whole industry, whilst we will experience a material drop in volumes, Dignity will be in a strong market position as a vertically integrated provider to grow its controlled channels that remain open post FCA regulation. As detailed on page 18, we very much welcome FCA regulation which is confirmed for 29 July 2022 and expect it to serve as a catalyst for our growth ambitions (see pages 18 to 20 for more on the forthcoming regulation). It will lead to a better product. One in which British consumers have greater confidence and are more likely to purchase. It is also likely to cause unscrupulous firms in the sector to exit the industry as they struggle to attain authorisation with the regulator. We have already begun to see signs of this happening. Internally we are working to improve the product by bringing more choice, flexibility, and simplicity to our offering. We are also working hard to improve our own channels of distribution. FCA regulation prevents us from paying commissions to third parties and so we have ceased business with many of our previous distribution partners. Instead, we will focus on developing our proposition and sales strategy delivered through our website and via our well-trained community-based colleagues. Our ambition is to significantly increase the number of funeral plans sold through our branch network. As well as top line growth we aim to reduce the cost per plan sale. Minimum Solvency levels of 120 per cent of assets/liabilities have been agreed by the Dignity Funerals Limited Board. This represents a 10 per cent buffer over the regulatory minimum of 110 per cent. Board oversight of product development, pricing and distribution of Pre-Paid funeral plans. See Chairman's statement: **p.2** See Strategic review: **p.18 to p.20**	
Changes in the funding of the pre-arranged funeral plan business In the current regulatory environment, the Group has given commitments to pre-arranged funeral plan members to provide certain funeral services in the future. Funding for these plans is reliant on either insurance companies paying the amounts owed or the pre-arranged funeral plan Trusts having sufficient assets. If this is not the case, then the Group may receive a lower amount per funeral.	There is considerable regulation around insurance companies which is designed, amongst other things, to ensure that the insurance companies meet their obligations. The Trusts hold assets of circa £1 billion with an average duration of circa 10+ years: we will seek to generate a surplus above funeral cost inflation. See **note 29**	

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

EMERGING RISKS

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

Risk description and impact	Mitigating activities and commentary	Change
Sustainability and climate resilience The need to operate businesses sustainability and with a focus on the environment is now an imperative in order to achieve the Government's target of net-zero.	The vision is for Dignity to achieve net-zero by 2038. Dignity is ranked in the Top 200 in the FT/Statista's Europe's Climate Leaders Report 2021 due to a 27 per cent reduction in core emissions between 2014 and 2019. Dignity are voluntarily submitting a message of intent with regards to TCFD for the year 2021 prior to this becoming mandatory for 2022. Dignity have partnered with Inspired Energy for the reporting of the TCFD and will assist in growing our reporting requirements in line with Science-Based Targets. To assist with this an extensive programme of smart meters and water meters are being rolled out both to allow us to have concise data to report against and to identify quickly any wastage/leakage. Our ESG report can be seen on pages 26 to 39, but key focuses for 2022 include: • Climate scenarios analysis and interim target setting to 2038; • Develop a standalone TCFD report – full disclosure; • Improve data collection and metrics across Scopes 1,2&3; and • Improved cremator technology. We will review the Environmental and Sustainability Committee Terms of reference to drive change and will develop a 3-year plan to mitigate risks against emerging HM Government led initiatives. See Environmental, Social and Governance: **p.26 to p.39**	New
Funeral Directors' Codes of Practice A number of compliance requirements currently recommended by the Scottish Government Funeral Directors' Code of Practice can reasonably be expected to become law. For example, one draft requirement for funeral directors is to have a ratio of 1 refrigerated space per 50 funerals performed. Additionally, the need to respond to registration and inspection requirements which will be enacted in law. The introduction of the Independent Funeral Standards Organisation in late 2021/22 will necessitate compliance with a UK co-regulatory Code of Practice as described by the Ministry of Justice. Intended obligations include transparency, quality and standards measures with risk ratings and public reporting in subsequent phases. The relationship between and requirements of the two Codes of Practice have yet to be finally determined.	The Group is undertaking an assessment of compliance guidelines and works required to achieve compliance across the UK legislative networks. Consideration for the resource profile and methodology for responding to legal registration in Scotland and a statutory inspection response is being initiated as a pre-emptive measure in advance of a published Scottish government position. Relationship management with the National Association of Funeral Directors ('NAFD') and the Independent Funeral Standards Organisation ('IFSO') is underway. As stated on page 17, we strongly support the progress IFSO has made and look forward to working with the body should it transition into a government endorsed self-supervisory body for the sector. We have also worked closely with Scottish Government to develop its approach to regulation of the sector and provision of services, including the anticipated implementation of a new Code of Practice for Funeral Directors that will sit under a legal framework in Scotland. See Strategic review: **p.17**	New

VIABILITY STATEMENT

In accordance with Provision 31 of the UK Corporate Governance Code, the Board has assessed the Group's viability taking into account its current position, the Boards assessment of its business prospects, and its principal and emerging risks.

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

- This period aligns with our current medium-term strategic plan and forecasting; and
- Performance is significantly impacted by deaths which are increasingly difficult to forecast beyond 2024 due to the uncertainty the COVID-19 pandemic has had on the medium-term death forecast.

As the Group has been granted a waiver for the covenants for 2022, the key consideration of viability for 2022 is profitability. The key consideration of viability for 2023 and 2024 remains the Group's ability to service its Secured Notes as and when those obligations fall due, twice a year, totalling approximately £34 million per annum (see Going Concern review for further details on the related covenants which are tested quarterly). In making this statement the Directors have fully considered the principal and emerging risks facing the Group and have stress tested the impact of a combination of these risks with severe but plausible scenarios, and the effectiveness of any mitigating actions. These scenarios were then reviewed in the context of the Group's ability to generate funds to meet those obligations and comply with the debt service cover ratio ('DSCR') covenant.

The scenarios build on the sensitised base case used for the Going Concern review which assumes that the new strategy of reduced pricing and increased funeral market share delivers growth in 2023 and 2024 at higher rates than previously seen. The scenarios have then specifically considered the following:

- the possibility of 50,000 lower deaths in all three years compared to the current ONS forecast caused by the excess level of deaths seen recently due to COVID-19;
- the mix remains at the Q4 2021 mix, so assumes the funeral market share growth results in the same mix of funeral types rather than an increase in full adult funerals;
- a 50 per cent reduction to the forecast market share growth 2022 and beyond;
- overhead costs £10 million higher than budgeted in 2022 and beyond;
- £100 reduction in funeral average revenue compared to the budgeted rate in 2022 and beyond; and
- £100 reduction in cremation average revenue compared to the budgeted rate in 2022 and beyond.

The Group has also specifically considered:

- the Group's current position and trading prospects;
- the current and ongoing strategy;
- the Board's appetite for risk; and
- a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and how they are managed, as explained in this Strategic Report (pages 40 to 46).

Notwithstanding the above, the Directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the period to December 2024. It is recognised that future assessments are subject to a level of uncertainty and, therefore, future outcomes cannot be predicted with certainty.

NON-FINANCIAL INFORMATION STATEMENT

Our objective is not only to provide and enhance the reputation of our Group but also to promote and embed and build the culture of caring, responsibility and performance that adds value to our clients, our people, our shareholders and the local communities we serve.

Our corporate responsibility activities are an important way for us to deliver upon our strategic objectives. We believe that the best way to support a sustainable business is to act in the long-term interests of all our stakeholders, in addition to making a positive contribution to the communities in which we operate.

The table sets out where the information required in the non-financial information statement by section 414CB of the Companies Act 2006 can be found in this Annual Report.

Reporting requirement	Impacts	Some of our relevant policies and statements	Where to find more in this Annual Report	Page
Employees	We are truly a people business because we help people at an extremely difficult time in their lives. Meeting their needs means that our employees must be caring, thoughtful and truly engaged with those they serve, which they are. Dignity staff show clients care and commitment. Our culture and way of working means delivering the highest standards of service and going the extra mile. In the COVID-19 pandemic, we have had many staff who have isolated from their families in order to continue their jobs and serve their communities. We believe that the quality of our people is a strong enabler of business growth. We value our people as they are a great asset. We support them by recognising and rewarding performance and long service plays a key part in this. We aim to provide a safe working environment, encourage personal development, responsibility and respect, and attract a diverse and inclusive workforce.	• Code of Conduct [1] • Equality and Diversity Policy Statement [1] • Health and Safety Policy • Our CSR commitments [1]	• Chairman's statement • Stakeholder engagement & decision-making • Environmental, Social and Governance report • Directors' report	2 21 to 25 26 to 39 101 to 104
Environment	We are committed to maintaining the quality of the environment in which we all live and we aim to reduce the impact of our operations so that we act in an environmentally friendly manner. We believe that operating sustainably and responsibly is fundamental to creating long-term value. Our objective is not only to strengthen the reputation of our organisation, but also to promote and embed a culture of responsibility and performance that adds value for our stakeholders. A number of procedures and policies are in place to further ensure responsible practice is embedded in the way we do business.	• Our CSR commitments [1] • Code of Conduct [1] • Anti-Bribery and Corruption Policy [1] • Equality and Diversity Policy Statement [1] • Modern Slavery Act Statement [1] • Supplier Code of Conduct	• Environmental, Social and Governance report	26 to 39
Waste disposal	Dignity produces waste that is hazardous. Specifically, these are – items such as gloves used for handling the deceased, PPE, waste arising from embalming and mercury from cremator abatement, which are placed in dedicated containers and are collected by contractors and incinerated. All sites where this happens have been registered as required under the legislation. All other waste is disposed of in accordance with local authority regulations. The Regional Health and Safety Managers also monitor this area. A waste disposal mission statement has been issued to all sites.	• Safe Handling and Use of Substances Policy • Waste Disposal Mission Statement	• Environmental, Social and Governance report	26 to 39
Crematoria emissions	Crematoria are subject to emission controls from the local authority areas in which they are sited. They are licensed on an annual basis with quarterly emissions testing information being submitted to the local authority. All cremators are subject to rigorous maintenance schedules completed by an external contractor. Air Pollution Control is a risk for all crematoria. The Group's nominated service provider completes a planned test programme on all cremators which includes emissions testing. This mitigates the risk of any air pollution control issues.	• Our CSR commitments [1]	• Environmental, Social and Governance report	31
Ethical Sourcing	There is a risk that Dignity could use a supplier that manufactures or purchases goods that are made using slave, forced or child labour. This risk is mitigated first by purchasing via a reputable agent and secondly by ethical audits. Factories that supply Dignity are inspected by the General Manager of Dignity Manufacturing on a three yearly cycle and audit of ethical production and processes undertaken in conjunction with the owners of those factories. An E-Learning Module addressing the Modern Slavery Act is required to be completed by colleagues.	• Modern Slavery Act Statement [1] and related E-Learning Module • Our CSR commitments [1]	• Environmental, Social and Governance report	39
Human Rights	We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. Our stated commitment is to act ethically and with integrity in all our business relationships and to implement and enforce effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains or in any part of the business.	• Modern Slavery Act Statement [1] and related E-Learning Module • Our CSR commitments [1] • Whistleblowing Policy [1]	• Stakeholder engagement & decision-making • Environmental, Social and Governance report	21 to 25 26 to 39

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

The Strategic Report on pages 2 to 51 was approved by the Board on 22 March 2022 and signed on its behalf by:

G A Channon, Chief Executive
22 March 2022

KEY PERFORMANCE INDICATORS

The link between our strategy and our KPIs

These historical KPIs remain relevant

The Group has had a consistent set of financial and non-financial KPIs used to monitor the performance of the business against its strategy for many years. These KPIs have continued to remain relevant during this period. Financial KPIs are measured by reference to underlying operating performance and are therefore unaffected by the accounting policy changes made in either period with the exception of IFRS 16, which has now been adjusted in both periods.

How we measure performance

- We monitor our performance by measuring and tracking KPIs that we believe are important to our longer-term success.
- The Group uses both financial and non-financial KPIs to manage the business and ensure the Group's strategy and objectives are being delivered.
- Each KPI reflects a quantifiable measure of different aspects of the Group's strategy. They act as headlines for the Board, allowing them to use more detailed management information to consider the Group's strategy and financial performance in greater depth where appropriate.
- Our KPIs and goals are set to measure our progress in improving our financial performance and in embedding sustainable long-term growth.

Environmental performance metrics can be found in our ESG report on pages 29 and 30.

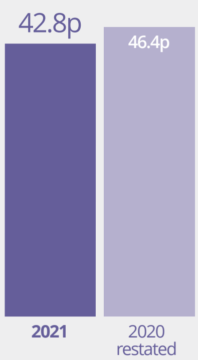
Alignment of new strategy and our KPIs

These KPIs were aligned with our previous strategic objectives and are still valid for the new strategy however, new KPIs are being introduced as discussed in the Strategic review and will be fully reported on going forward.

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

Financial KPIs

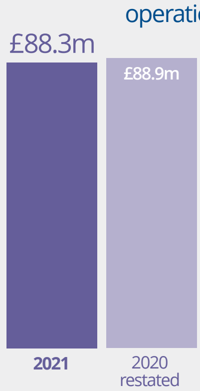
Underlying earnings per share (pence)



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

Developments in 2021
The reduction follows the decrease in underlying operating profit explained below.

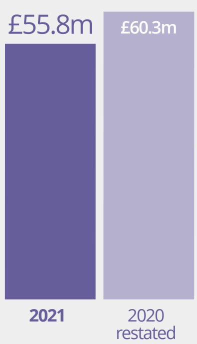
Underlying cash generated from operations (£m)



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

Developments in 2021
The Group continues to convert operating profit into cash efficiently.

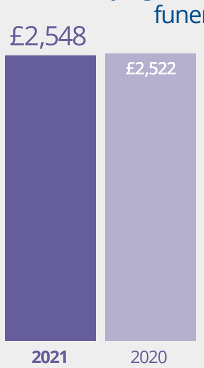
Underlying operating profit (£m)



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

Developments in 2021
Underlying operating profit declined year-on-year, despite higher deaths. This is primarily due to lower market share and higher costs.

Underlying average revenue per funeral (£)



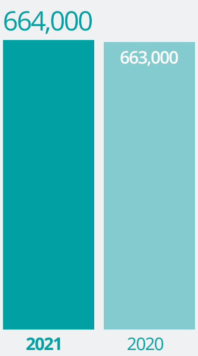
Definition
Underlying funeral revenue divided by the number of funerals performed in the relevant period.

Developments in 2021
Restrictions in client choices due to COVID-19 continued to adversely impact average revenue as clients opted for simpler funerals during the first half of 2021. Quarter 4 has been adversely impacted by the change in pricing strategy in September 2021.

KEY PERFORMANCE INDICATORS CONTINUED

NON-FINANCIAL KPIs

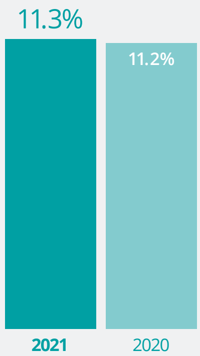
Total estimated number of deaths in Britain (number)



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

Developments in 2021
Deaths were materially higher than originally anticipated due to the pandemic.

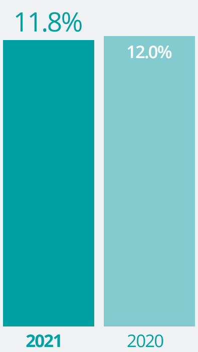
Cremation market share (per cent)



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

Developments in 2021
Market share is broadly stable.

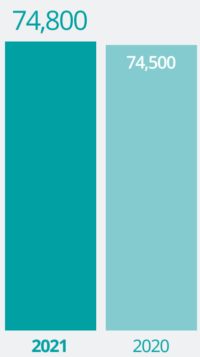
Funeral market share excluding Northern Ireland (per cent)



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

Developments in 2021
Market share has declined slightly.

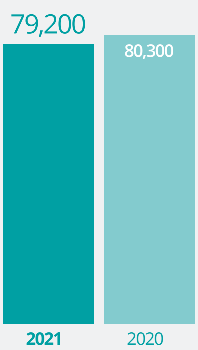
Number of cremations performed (number)



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

Developments in 2021
Changes are a consequence of the total number of deaths and the Group's market share.

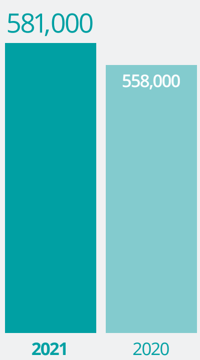
Number of funerals performed (number)



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

Developments in 2021
Changes are a consequence of the total number of deaths and the Group's market share.

Active pre-arranged funerals (number)



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

Developments in 2021
This increase reflects continued sales activity (both trust funeral plans and insurance backed) offset by plans cancelled and the crystallisation of plans sold in previous periods.

Customer Service and Satisfaction

"We are proud of how we care for our clients and families and aim to continuously improve our approach to delivering high-quality services and standards."

Our mission is to drive forward positive change in the sector and become a true market leader with an unrivalled focus on quality, transparency and choice.

To achieve this, we recognise the importance of investing in our people, digital platforms, and facilities; as well as empowering our colleagues to make the right decisions that deliver a positive experience and outcome for our clients and in turn we become more competitive.

Approximately one in eight of all funerals is handled by one of our funeral directors, and if we include cremations in our crematorium then we were involved in approximately one in five of all funerals in the UK in 2021. Doing our best for those clients is our best source of future business.

Digital engagement

As digital adoption trends evolve, we continue to invest in technology and expertise to ensure we can make it easy for people to find us online. We continue to develop our digital communication channels which enhances customer engagement and offers an additional channel to hear from our clients. Having an effective digital strategy aligned with our local propositions is an essential part of our effort to grow our share of funerals and cremations in all areas.

"We engage and interact with our clients directly through our branches, telephone and online."

Maintaining high-quality and standards

We closely monitor the results of our client surveys which are conducted by our funeral services division. In the last five years, we have received approximately 155,000 responses. This is our measure of how these services meet or exceed client expectations. Our consistently high satisfaction scores reflect the strength of our relationships with our clients. We listen to our clients and use our survey responses to focus on areas in which we can improve and add value.

Reputation and recommendation

99.0% (2020: 98.9%)

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

98.0% (2020: 97.9%)

98.0 per cent of respondents would recommend us.

Quality of service and care

99.9% (2020: 99.9%)

99.9 per cent thought our staff were respectful.

99.7% (2020: 99.6%)

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

99.2% (2020: 99.1%)

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

In the detail

99.2% (2020: 98.9%)

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

99.1% (2020: 99.2%)

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

98.3% (2020: 98.0%)

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

High standards of facilities and fleet

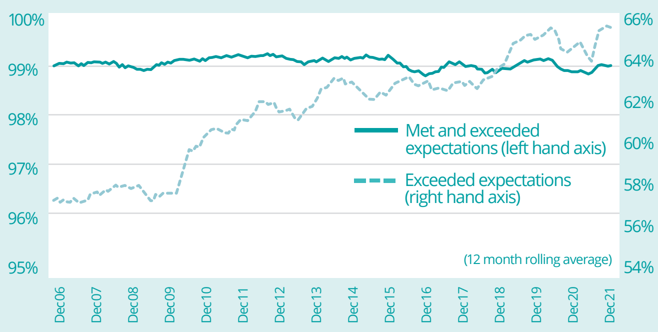
99.8% (2020: 99.7%)

99.8 per cent thought our premises were clean and tidy.

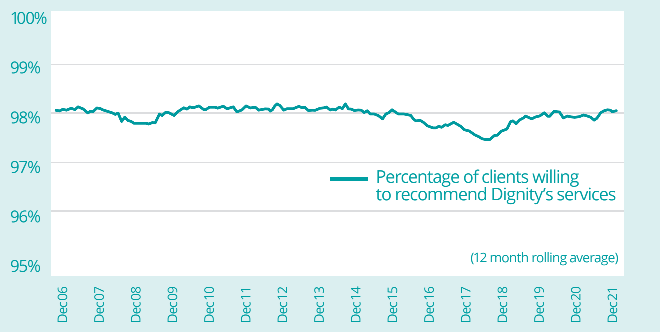
99.6% (2020: 99.2%)

99.6 per cent thought our vehicles were clean and comfortable.

Meeting and exceeding expectations (% of clients)



Recommending our services (% of clients)



SUMMARY GROUP RESULTS

Summary Group Financial Performance 2021

REVENUE
£353.7m
(2020: £357.5m)

OPERATING PROFIT
£17.8m
(2020: £15.9m)

CASH GENERATED FROM OPERATIONS
£68.3m
(2020: £62.7m)

UNDERLYING REVENUE
£312.0m
(2020: £314.1m)

UNDERLYING OPERATING PROFIT
£55.8m
(2020: £60.3m)(1)

UNDERLYING CASH GENERATED FROM OPERATIONS
£88.3m
(2020: £88.9m)(1)

BASIC EARNINGS/(LOSS) PER SHARE
24.2p
(2020: (51.0)p)

UNDERLYING EARNINGS PER SHARE
42.8p
(2020: 46.4p)(1)

DIVIDENDS PAID IN THE PERIOD
£nil
(2020: £nil)

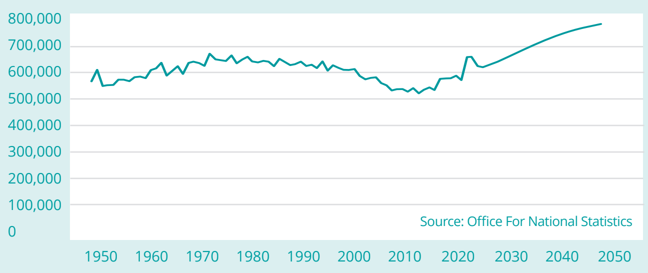
(1) A number of prior year underlying measures have been restated to include the application of IFRS 16 which were previously excluded from underlying performance measures. See note 1 for further details.

Alternative performance measures ('APMs')

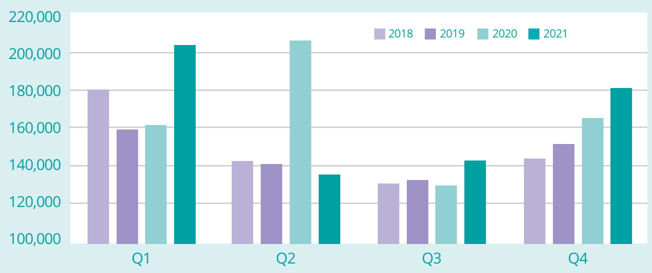
The Board believes that whilst statutory reporting measures provide financial performance of the Group under IFRS, APMs are necessary to enable users of the financial statements to fully understand the trading performance and financial position of the business. The APMs provided are aligned with those used in the day-to-day management of the business and allow for greater comparability across periods. For this reason, the APMs provided exclude the impact of consolidating the Trusts and the changes which relate to the application of IFRS 15, as well as non-underlying items comprising certain non-recurring and non-trading transactions. Further detail may be found on pages 179 to 185.

This year we are reporting statutory results on the 53 week period to 31 December 2021 in comparison with last year's 52 week period to 25 December 2020.

Deaths in Great Britain



Number of Deaths



FINANCIAL REVIEW

DEAN MOORE, INTERIM CHIEF FINANCIAL OFFICER

Our performance in 2021 reflects the continued impact of COVID-19 and the implementation of the new strategy in quarter four. As a result, underlying operating profit decreased by seven per cent to £55.8 million. Allowing for the fact that 2021 represents a 53 week period for the Group means that, on a 52 week comparable basis, deaths were 14,000 lower in the period. Therefore, although 2021 has an additional week of underlying revenue compared to 2020, total deaths including week 53 were broadly comparable.

Our market share slightly decreased on funeral services and there was a strong market share performance by our crematoria business.

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

Introduction

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

Statutory operating profit was £17.8 million (2020: £15.9 million), an increase of £1.9 million. Gross margin was broadly in line with prior year. Administrative expenses were £2.5 million lower, largely driven by a decreased impairment charge of £4.8 million on goodwill and trade names compared to last year, a further trade name write-off of £2.5 million and after incurring additional central overheads of £3.1 million relating to digital expenditure and other costs. This was partially offset by a reduction in other non-underlying items, primarily in respect of £4.7 million less spent on the Transformation Plan which has been abrogated, £2.9 million less spent on the Operating and competition review and £1.6 million less spent on Directors' severance pay. See table on page 54 for further details on the impacts to statutory and underlying operating profit.

A total impairment of £39.2 million has been charged in the period (2020: £44.0 million), of which £2.8 million (2020: £15.3 million) relates to trades names and £36.4 million (2020: £28.7 million) to goodwill. The impairment has arisen within the funeral services division primarily due to the reduced average revenues following the new pricing strategy for the Group. Whilst the Group expects 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 Group is focussed on committing 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 year end when the impairment assessment is made, the full extent of potential longer-term gains are not reflected in the impairment modelling. Note 8 in the accounts provides sensitivity analysis based on the calculated impairment.

In addition to the impairment described above, a further trade name write-off of £2.5 million (2020: £nil) has been charged in the period following the withdrawal of seven trading names from use following part of the Group's strategic review.

The Group's net finance income was £14.2 million (2020: net finance costs £35.5 million), a £49.7 million movement primarily due to the increase in fair value movements of the financial assets held by the Trusts of £43.7 million.

The above has resulted in profit before tax for the Group of £32.0 million (2020 loss: £19.6 million).

Financial highlights

The Group's financial performance is summarised below:

	53 week period ended 31 Dec 2021 £m	52 week period ended 25 Dec 2020 restated[(b)] £m	Increase/ (decrease) %
Underlying revenue[(a)] (£million)	**312.0**	314.1	(1)
Underlying operating profit[(a)] (£million)	**55.8**	60.3	(7)
Underlying profit before tax[(a)] (£million)	**26.8**	30.6	(12)
Underlying earnings per share[(a)] (pence)	**42.8**	46.4	(8)
Underlying cash generated from operations[(a)] (£million)	**88.3**	88.9	(1)
Revenue (£million)	**353.7**	357.5	(1)
Operating profit (£million)	**17.8**	15.9	12
Profit/(loss) before tax (£million)	**32.0**	(19.6)	
Basic earnings/(loss) per share (pence)	**24.2**	(51.0)	
Cash generated from operations (£million)	**68.3**	62.7	9
Dividends paid in the period:			
Final dividend (pence)	**–**	–	

(a) Further details of alternative performance measures can be found on pages 179 to 185.

(b) Underlying reporting measures for the 52 week period ended 25 December 2020 have been restated to include the application of IFRS 16 which were previously included within other adjustments. See page 119 for further details.

Alternative performance measures

The alternative performance measures are stated before non-underlying items and the effect of consolidation of the Trusts and applying IFRS 15 as defined on page 179. These items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day-to-day management of the business and allow for greater comparability across periods.

Detailed information on non-underlying items is set out on pages 179 to 183 and a reconciliation of statutory revenue to underlying revenue is detailed in note 3.

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

	53 week period ended 31 Dec 2021 £m	52 week period ended 25 Dec 2020 restated[(c)] £m
Operating profit for the period as reported	**17.8**	15.9
Add the effects of:		
Acquisition related amortisation	**4.2**	4.6
External transaction costs in respect of completed and aborted transactions	**2.6**	0.2
Marketing costs in relation to trials	**0.9**	0.6
Profit on sale of fixed assets	**(1.1)**	(0.2)
Transformation Plan costs[(a)]	**–**	4.7
Directors' severance pay	**–**	1.6
Operating and competition review costs	**–**	2.9
Trade name write-off	**2.5**	–
Trade name impairment	**2.8**	15.3
Goodwill impairment	**36.4**	28.7
Impact of Trust consolidation and IFRS 15	**(10.3)**	(14.0)
Underlying operating profit[(b)]	**55.8**	60.3
Underlying net finance costs	**(29.0)**	(29.7)
Underlying profit before tax[(b)]	**26.8**	30.6
Tax charge on underlying profit before tax	**(5.4)**	(7.4)
Underlying profit after tax[(b)]	**21.4**	23.2
Weighted average number of Ordinary Shares in issue during the period (million)	**50.0**	50.0
Underlying EPS (pence)[(b)]	**42.8**	46.4
Decrease in underlying EPS (per cent)	**8**	23

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

(b) Further details of alternative performance measures can be found on pages 179 to 185.

(a) The 52 week period ended 25 December 2020 has been restated to include the application of IFRS 16 within underlying operating profit which were previously included within other adjustments. See page 119 for further details. A presentation adjustment has also been made to separately pull out the marketing costs in relation to trials.

Earnings per share

Statutory profit after tax was £12.1 million (2020: loss of £25.5 million). Basic earnings per share were 24.2 pence per share (2020 loss: 51.0 pence per share). Underlying profit after tax was £21.4 million (2020: restated £23.2 million), giving underlying earnings per share of 42.8 pence per share (2020: restated 46.4 pence per share), a reduction of eight per cent.

Items excluded from underlying operating profit

Amortisation of acquisition related intangibles

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

External transaction costs

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

Profit on sale of fixed assets

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

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

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

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

Trade name write-off
During 2021, the Group withdrew seven trading names from use following part of the Group's strategic review. As the trading names had specific intangible assets related to them, they were required to be written-off.

Trade name impairment
The Group assessed the carrying value of its trade names. In light of the lower level of profitability and lower anticipated average revenue per funeral, an impairment of £2.8 million (2020: £15.3 million) has been recognised.

Goodwill impairment
The Group assessed the carrying value of its goodwill. In light of the lower level of profitability and lower anticipated average revenue per funeral, an impairment of £36.4 million (2020: £28.7 million) has been recognised.

Trust consolidation/IFRS 15
In the prior period the Group changed its accounting policy to consolidate the Trusts and to implement IFRS 15. This adjustment reverses the impact of these policy changes in order to maintain underlying performance measures with those used in the day-to-day management of the business.

Capital expenditure
Capital expenditure on property, plant and equipment and intangible assets was £21.0 million (2020: £11.1 million).

This is analysed as:	31 Dec 2021 £m	25 Dec 2020 £m
Maintenance capital expenditure:		
Funeral services	**10.5**	5.0
Crematoria	**5.4**	2.7
Other	**1.7**	1.4
Total maintenance capital expenditure [a]	**17.6**	9.1
Branch relocations	**0.1**	0.5
Transformation capital expenditure	**–**	0.2
Development of new crematoria and cemeteries	**3.3**	1.3
Total property, plant and equipment	**21.0**	11.1
Partly funded by:		
Disposal proceeds – properties [b]	**(1.2)**	(1.1)
Net capital expenditure	**19.8**	10.0

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

[a] Property disposals in 2021 includes £0.8 million of insurance proceeds received. Property disposals in 2020 were the result of the now abrogated Transformation Plan.

The Group will continue to invest in the maintenance of its existing portfolio of vehicles and funeral and crematoria locations.

Cash flow and cash balances for the Trading Group
Underlying cash generated from operations was £88.3 million (2020: restated £88.9 million).

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

Cash balances of the Trading Group at the end of the period were £55.9 million (2020: £56.7 million excluding £16.9 million set aside for debt service: total Trading Group cash balances of £73.6 million). Further details and analysis of the Group's cash balances are included in note 16 to the consolidated financial statements.

Pensions
The balance sheet shows a deficit of £19.7 million before deferred tax (2020: deficit of £36.6 million). Following the triennial valuation performed in April 2020, the scheme will receive future annual cash obligations from the Group from 2022 onwards of £4.5 million. See note 28 for further details.

Taxation
The Group's effective tax rate on underlying profits in the period was 20.2 per cent (2020: restated 24.2 per cent). The current period underlying effective tax rate is higher than the standard rate of corporation tax due to the effects of permanent disallowables and prior year items with a tax impact totalling £0.3 million. The underlying effective tax rate is lower than originally anticipated due to the effects of prior year credits and a lower level of permanent disallowables.

In 2022, the Group expects its underlying effective tax rate to be approximately two to three per cent above the headline rate of corporation tax. This translates to an underlying effective rate of between 21.0 per cent and 22.0 per cent.

The Group's effective tax rate on profits is 62 per cent (2020: charge on losses of 30.0 per cent) which is higher than the underlying effective tax rate primarily due to the £1.5 million corporate interest restriction disallowance, £6.9 million arising on the corporation tax rate change and £6.1 million of disallowable taxation on the goodwill and trade name impairments and write-off.

Prior year restatements

Following a review of the Group's accounting policy for insurance plans in relation to the prepaid balances held on the consolidated balance sheet it has been amended to include a provision for expected future cancellations. It was further noted that a liability was not held for active plans where a known commission is payable in future years. The total impact has been booked into opening reserves at 28 December 2019 and is a reduction to reserves of £3.5 million. Further details of the prior year restatement are set out in note 34 to the financial statements.

Comparatives for the 52 week period ended 25 December 2020 have been restated due to a prior year adjustment in relation to the application of IFRS 16. This has impacted the consolidated statement of cash flows and the revenue and segmental analysis. Furthermore, underlying operating profit within divisional results have also been restated. See note 1 for further details.

Capital structure and financing for the Trading Group

Secured Notes

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

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

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

The Secured Notes have an annual debt service obligation (principal and interest) of circa £33.2 million. Net amounts owing on the Secured Notes is £526.6 million (2020: £541.7 million).

It is not currently possible to issue further Secured Notes, as such an issue would require the rating of the Secured B Notes to raise to BBB by both rating agencies.

Financial Covenant

The Group's primary financial covenant under the Secured Notes requires EBITDA to total debt service to be above 1.5 times. The ratio at 31 December 2021 was 2.13 times (2020: 1.99 times). The Group therefore had EBITDA headroom of approximately £21.4 million (2020: approximately £16.0 million) against its financial covenants at the end of December. This covenant calculation uses a prescribed definition of EBITDA detailed in the loan documentation and only represents the profit of a sub-group of the Group which is party to the loans (the 'Securitisation Group'). Furthermore, the calculations are unaffected by the consolidation of the Trusts or the application of IFRS 15 and IFRS 16 described elsewhere, as the Group was able to elect to disregard those changes when making the calculations.

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

	31 Dec 2021 £m
EBITDA per covenant calculation – Securitisation Group	72.4
Add: EBITDA of entities outside Securitisation Group	1.3
Add: Impact of IFRS 16	12.5
Less: Non-cash items[a]	(1.3)
Underlying operating profit before depreciation and amortisation – Group	84.9
Underlying depreciation and amortisation	(29.1)
Non-underlying items	(48.3)
Impact of Trust consolidation and IFRS 15	10.3
Operating profit	17.8

[a] The terms of the securitisation require certain items (such as pensions, Save As You Earn Scheme and Long-Term Incentive Plan Scheme costs) to be adjusted from an accounting basis to a cash basis.

In addition, in order for the Group to transfer excess from the Securitisation Group to Dignity plc, it must achieve both a higher EBITDA to total debt service ratio of 1.85 times and achieve a Free Cash Flow to total debt service (a defined term in the securitisation documentation) of at least 1.4 times. This latter ratio at December was 1.76 times (December 2020: 1.57 times). These combined requirements are known as the Restricted Payment Condition ('RPC') which have been met in 2021. Failure to pass the RPC would not be a covenant breach and would not cause an acceleration of any debt repayments. Any cash not permitted to be transferred whilst the RPC is not achieved will be available to be transferred at a later date once the RPC requirement is achieved.

Net debt

The Trading Group has underlying net debt of £471.2 million (2020: £480.6 million) at the balance sheet date. See note 25 for further details.

Should the Group wish to repay all amounts due under the Secured Notes, the cost to do so at the year end would have been approximately £757.4 million, (Class A Notes: £202.8 million; Class B Notes: £554.6 million) (2020: £822.7 million, (Class A Notes: £226.0 million; Class B Notes: £596.7 million)).

Net finance costs

The Group's underlying finance costs substantially consist of the interest on the Secured Notes and ancillary instruments. The net finance cost in the period relating to these instruments was £23.7 million (2020: £24.1 million).

Other ongoing underlying finance costs incurred in the period amounted to £0.8 million (2020: £1.0 million), covering the unwinding of discounts on the Group's provisions and other financial liabilities.

Interest receivable on bank deposits was £nil (2020: £0.1 million).

The Group also incurred £4.5 million (2020: £4.7 million) lease liability interest, under IFRS 16, giving a total underlying net finance cost of £29.0 million (2020: restated £29.7 million).

Shareholders' deficit

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

On consolidation of the Trusts, all funds received from the plan members are deferred until recognised on satisfaction of a funeral obligation or when a plan is cancelled and refunded (subject to an administrative fee). These deferred funds increase under IFRS 15 by a material non-cash significant financing charge (see note 1 for accounting policy). The assets of the Trusts, initially representing the same funds received from plan members less an amount paid to the Trading Group to cover marketing costs, are invested by the Trusts and are subject to market movements. Over time, investments are also realised to fund funeral payments or refund obligations. The net impact of the above gives rise to a significant reduction in the net asset value of the Group to a position where the Group has reported a net deficit of £151.1 million (2020: restated £177.5 million). Whilst this position appropriately reflects the application of IFRS 15 to the underlying contract with the plan member, based on the current cost of delivery of a funeral service, delivery of pre-need funerals is expected to result in the future recognition of profits under IFRS, which, over time, the Directors consider would more than eliminate the deficit noted above.

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

The Trusts

At the balance sheet date, the Trusts had £1,043.1 million (2020: £967.1 million) of financial assets and £19.8 million (2020: £21.6 million) of cash, which was recognised in the consolidated balance sheet. This has resulted in average net Trust asset per plan increasing six per cent to £3,650 (2020: £3,400). The movement in financial assets is primarily attributable to remeasurement gains recognised in the consolidated income statement of £85.0 million (2020: £41.3 million), reflecting changes in asset values and net disposals of financial assets of £12.2 million (2020 net disposals of financial assets: £18.7 million).

Aggregated contract liabilities totalled £1,337.5 million (2020: £1,317.5 million) with the primary movements being sales of new plans of £86.3 million (2020: £82.0 million), increases due to significant financing of £51.6 million (2020: £53.1 million) and releases due to death or cancellation totalling £117.9 million (2020: £122.2 million).

Outlook

The successful delivery of our strategy will deliver long-term growth and value.

DIVISIONAL PERFORMANCE

Introduction

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker of the Group has been identified as the three Executive Directors.

For statutory purposes the Group has two reporting segments, funeral services and crematoria, as under IFRS 15 only a single performance obligation exists when a pre-arranged funeral plan is sold, being the performance of a funeral. The Group also reports central overheads, which comprise unallocated central expenses.

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

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

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

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

Divisional Summary 2021

FUNERAL SERVICES

- Group operating profit share (before central overheads) 22% (2020: 30%)[(3)]
- Group underlying operating profit share (before central overheads) 51% (2020: 55%)[(2)(3)]

UNDERLYING REVENUE[(1)]
£201.9m
(2020: £202.6m)

OPERATING PROFIT
£13.0m
(2020: £18.7m)[(3)]

UNDERLYING OPERATING PROFIT
£48.2m
(2020: £53.1m)[(3)]

776
Number of funeral locations we operate in the UK.

79,200
Number of funerals conducted during 2021.

CREMATORIA

- Group operating profit share (before central overheads) 78% (2020: 70%)[(3)]
- Group underlying operating profit share (before central overheads) 49% (2020: 45%)[(2)(3)]

UNDERLYING REVENUE[(2)]
£85.5m
(2020: £82.7m)

OPERATING PROFIT
£46.5m
(2020: £44.0m)[(3)]

UNDERLYING OPERATING PROFIT
£47.0m
(2020: £44.2m)[(3)]

46
Number crematoria we operate in England and Scotland.

74,800
Number of cremations conducted during 2021.

PRE-ARRANGED FUNERAL PLANS

UNDERLYING REVENUE[(4)]
£24.6m
(2020: £28.8m)

OPERATING PROFIT[(4)]
£nil
(2020: £nil)

581,000
Number of active plans as at 31 December 2021 (2020: 558,000).

(1) Total underlying revenue was £201.9 million (2020: £202.6 million). On a statutory basis the Group recognised funeral services revenue of £268.2 million (2020: £274.8 million). See note 3 for further details.
(2) There is no difference between underlying revenue and statutory revenue for the Crematoria division.
(3) Restatements relate to the correction of the application of IFRS 16 in 2020. See note 1 for further details.
(4) Pre-arranged funeral plans are not a separate division in statutory terms, as a result statutory revenue and operating profit are £nil (2020: £nil). Please see note 3 for further details.

Funeral services

Overview

As at 31 December 2021, we operated from a network of 776 (2020: 795) funeral locations throughout the UK, generally operating under established local trading names. The change to the portfolio reflects five branch openings and 24 closures in the year. Most closures represent funeral locations where leases have naturally come to an end and have not been renewed and also include seven freehold closures.

Performance

We conducted 79,200 funerals (2020: 80,300) during the period under review. Underlying operating profit was £48.2 million (2020: restated £53.1 million) a reduction of nine per cent, this can be explained by the financial summary table below.

Financial summary 2021	H1 £m	H2 £m	FY £m
Underlying operating profit – 2020 restated [1]	36.0	17.1	53.1
Impact of:			
Number of deaths [2]	(8.2)	8.5	**0.3**
Market share[2]	(2.9)	(0.1)	**(3.0)**
Average revenues [2]	6.2	(4.4)	**1.8**
Net cost base changes	0.5	(4.5)	**(4.0)**
Underlying operating profit – 2021	31.6	16.6	**48.2**

[1] Restatement relates to the correction of the application of IFRS 16 in 2020. See note 1 for further details.
[2] Represents revenue impact.

Items totalling £35.2 million (2020: restated £34.4 million) excluded from underlying operating profit resulted in statutory operating profit of £13.0 million (2020: restated £18.7 million). These items are discussed on pages 179 to 183 but relate to non-underlying items and the impact of consolidating the Trusts and IFRS 15.

Progress and Developments

Market share

Approximately one per cent of all funerals were conducted in Northern Ireland. Excluding Northern Ireland, these funerals represented approximately 11.8 per cent (2020: 12.0 per cent) of total estimated deaths in Britain. Whilst funerals divided by estimated deaths is a reasonable measure of Dignity's market share, the Group does not have a complete national presence and consequently, this calculation can only ever be an estimate.

On a comparable basis, excluding any funerals from locations not contributing to the whole of 2020 and 2021, market share was 11.8 per cent, compared to 11.9 per cent in 2020. Both 2021 and 2020 are a significant improvement on the dramatic market share declines witnessed in 2016 and 2017, however, the Group's new strategy is expected to grow market share significantly.

Market share is calculated based on a fixed assumption of one week between the registration of the death and the date of the funeral. Therefore, due to COVID-19 and longer delays between the date of registering the death and the date of the funeral being performed, calculations of market share in 2020 and 2021 may not be comparable.

Funeral mix and Average revenue

In September 2021, funeral services introduced an Attended Funeral at prices from £1,595 to £2,495 (excludes extras) across the network and implemented the Unattended Funeral (direct cremation), and the simple funeral was removed (apart from our location in Jersey). As such, the historical full service average and the simple and direct cremation average are no longer comparable. In order to have comparability the full service and the simple averages have been blended to give a new Attended average and the direct cremation, previously included as simple and direct cremation, has been restated to Unattended to make both comparable. The previous averages and the restated averages can be seen in the two tables below.

The new pricing strategy was introduced in early September and as expected it has caused a decline in our underlying average revenue. It is too early to judge the precise effects of this however, as demonstrated in the second table, the underlying Attended average in quarter four 2021 is £788 lower than 2019 and £356 lower than 2020, which was impacted by COVID-19. Sales of ancillary items such as flowers and memorials have also improved compared to 2020 at £154.

Funeral mix and average revenue	Funeral type	FY 2019 Actual	FY 2020 Actual	**Q1 2021 Actual**	**Q2 2021 Actual**	**H1 2021 Actual**	**Q3 2021 Actual**	**Q4 2021 Actual**	**H2 2021 Actual**	**FY 2021 Actual**
Underlying average revenue (£)	Full service	3,578	3,337	3,354	3,441	3,393	3,284	2,462	2,780	**3,062**
	Simple, limited and direct cremation(1)	2,047	1,941	1,929	1,921	1,926	1,876	1,081	1,589	**1,818**
	Pre-need	1,846	1,911	1,943	1,955	1,948	1,980	1,965	1,959	**1,959**
	Other (including Simplicity)	770	940	1,004	982	982	873	790	943	**904**
Volume mix (%)	Full service	52	39	41	46	43	49	61	55	**49**
	Simple, limited and direct cremation(1)	14	25	21	17	20	14	6	10	**15**
	Pre-need	27	28	29	28	28	28	27	28	**28**
	Other (including Simplicity)	7	8	9	9	9	9	6	7	**8**
Underlying weighted average (£)		2,699	2,397	2,434	2,545	2,478	2,505	2,145	2,306	**2,394**
Ancillary revenue (£)		231	125	131	168	150	187	135	154	**154**
Underlying average revenue (£)		2,930	2,522	2,565	2,713	2,628	2,692	2,280	2,460	**2,548**
Full service volume as a percentage of full, simple and limited (%)		79	61	66	73	68	78	n/a	n/a	**n/a**

Funeral mix and average revenue – restated	Funeral type	FY 2019 Actual	FY 2020 Actual	**Q1 2021 Actual**	**Q2 2021 Actual**	**H1 2021 Actual**	**Q3 2021 Actual**	**Q4 2021 Actual**	**H2 2021 Actual**	**FY 2021 Actual**
Underlying average revenue (£)	Attended	3,253	2,821	2,903	3,064	2,959	3,000	2,465	2,696	**2,855**
	Unattended	n/a	996	1,010	944	980	1,178	1,060	1,085	**1,063**
	Pre-need	1,846	1,911	1,943	1,955	1,948	1,980	1,965	1,959	**1,959**
	Other (including Simplicity)	770	940	1,004	982	982	873	790	943	**904**
Volume mix (%)	Attended	66	63	61	62	62	61	61	61	**61**
	Unattended	n/a	1	1	1	1	2	6	4	**3**
	Pre-need	27	28	29	28	28	28	27	28	**28**
	Other (including Simplicity)	7	8	9	9	9	9	6	7	**8**
Underlying weighted average (£)		2,699	2,397	2,434	2,545	2,478	2,505	2,145	2,306	**2,394**
Ancillary revenue (£)		231	125	131	168	150	187	135	154	**154**
Underlying average revenue (£)		2,930	2,522	2,565	2,713	2,628	2,692	2,280	2,460	**2,548**

Investment

Investment in the Group's locations and fleet have continued. In 2021, £10.5 million (2020: £5.0 million) was invested in maintenance capital expenditure. Whilst 2021 expenditure was considerably higher than 2020 the Group anticipates higher spend in 2022.

Outlook

The Group is focusing on its restructure which will allow it to put the power back in the hands of the colleagues who are at the heart of their local communities, with this will come growth.

Crematoria

Overview

The Group remains the largest single independent operator of crematoria in Britain, operating 46 (2020: 46) crematoria as at 31 December 2021.

Performance

The Group performed 74,800 cremations (2020: 74,500) in the period, representing 11.3 per cent (2020: 11.2 per cent) of total estimated deaths in Britain.

Underlying operating profit was £47.0 million (2020: restated £44.2 million), an increase of six per cent. This can be explained by the financial summary table below:

Financial summary 2021	H1 £m	H2 £m	FY £m
Underlying operating profit – 2020 restated [1]	24.4	19.8	44.2
Impact of:			
Number of deaths [2]	(3.2)	3.3	**0.1**
Market share[2]	(0.4)	0.5	**0.1**
Average revenues [2]	4.6	(2.0)	**2.6**
Cost base changes	(0.2)	0.2	**–**
Underlying operating profit – 2021	25.2	21.8	**47.0**

(1) Restatement relates to the correction of the application of IFRS 16 in 2020. See note 1 for further details.
(2) Represents revenue impact.

The primary reason for the increase in underlying operating profit is average revenues. Crematoria grounds have been fully open for all of 2021 compared to being closed in quarter two of 2020, and consequently total memorial and cemetery revenue was £19.2 million (2020: £16.7 million), approximately 15 per cent higher despite cremation volume being in line with 2020. The average cremation revenue is in line with the prior year at £887 (2020: £885).

Non-underlying costs of £0.5 million (2020: £0.2 million) are excluded from underlying operating profit resulting in statutory operating profit of £46.5 million (2020: restated £44.0 million).

Progress and Developments

The Group has invested £5.4 million (2020: £2.7 million) maintaining and improving its locations in the period.

The Group now has planning permission for six new crematoria. The total capital commitment for these six projects is expected to be approximately £55 million, with £11.5 million of this amount having already been invested. Each of the locations with planning permission will take five to seven years to reach maturity, performing 800 to 1,000 cremations per year.

In addition, the Group also has one location where it is appealing the planning decisions and another one that is currently in the planning process. Furthermore, the Group withdrew its interest in one location following an unsuccessful planning appeal.

Outlook

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

Pre-arranged funeral plans

Underlying Performance

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

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

Approximately 50,000 (2020: 60,000) new plan sales were made and the number of active pre-arranged plans (including insurance backed arrangements) increased to 581,000 (2020: 558,000). All plan sales are stated net of cancellations of 33,000 (2020:32,000). The majority of commissions are clawed back from distribution partners on cancellation in the first two years (the majority of expected cancellations take place in this period).

Of the sales in the period 26,000 plans were trust based funeral plans (2020: 30,000). In addition, 24,000 (2020: 30,000) plans were linked to life assurance plans with third parties. Not all of these insurance backed plans include an obligation to provide a guaranteed funeral and we anticipate the cancellation experience to be significantly higher than is witnessed on trust based sales.

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

Progress and Developments

Dignity remains focused on selling high-quality business, in ways that support the strong reputation of the Group. We ended our relationship with those third-party telephony partners who sold plans on our behalf and are now focussing on prioritising the sale of funeral plans through our branches.

The financial position of the Trusts holding members' monies is crucial, given the Group ultimately guarantees the promises made to members. At the end of 2021, the Trusts had average assets per plan of £3,650 (2020: £3,400) in respect of 323,000 trust based funeral plans. Average assets per plan are greater than the amount currently received by the Trading Group for performing a funeral.

The latest actuarial valuations of the Trusts (at 24 September 2021) showed them to have a surplus of £147.3 million (25 September 2020: surplus £4 million), based on assumptions by the Trust's actuary. This valuation is based on the amounts the Trusts are expected to pay when a funeral is performed rather than the actual cost of performance (being a lower amount) to the Group.

During the first half year the new investment strategy announced last year was largely executed as the previous investment allocations were unwound and the Trusts' assets placed in a combination of high-grade bonds (open-ended investment funds) and low cost index funds (equities). This will reduce the ongoing fund management cost and more rationally align the investments with the liabilities with the intention of seeking in the long run to outperform the cost of carrying out the funerals the trusts support.

The Trusts have assets, including cash, under the management of the Trustees of £1,062.9 million (2020: £988.7 million) with investments split as follows:

	Example investment types	Actual (%)
Defensive investments	Index linked gilts and corporate bonds	11-14
Illiquid investments	Private investments	5-6
Core growth investments	Equities	74-78
Liquid investments	Cash	6

The current allocation is subject to annual review by the Trustees with support from their investment advisers. See pages 142 and 143 for additional discussion of Trust balances.

Outlook

The Group remains optimistic on its ability to continue to be a market leader in pre-arranged funerals and has successfully submitted its FCA application in December 2021 and is planning for regulation to be effective by the middle of 2022.

The Group intends to continue to sell as many plans as is commercially possible and economically sensible primarily through its branches. The Group expects plan sales in H1 2022 to be lower than previous years whilst it transitions from plans being sold by third party providers to selling the majority of plans through its branches.

Central overheads

Overview

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

Developments

Underlying costs in the period were £39.4 million (2020: restated £37.0 million). This reflects continued investment in digital activities and central capabilities. The table below summarises the key movements:

	H1 £m	H2 £m	FY £m
Central overheads –2020 restated[(1)]	18.5	18.5	37.0
Impact of:			
Digital activities	0.6	0.7	**1.3**
Salaries	(1.1)	0.4	**(0.7)**
Other	0.6	1.2	**1.8**
IT support fees	0.4	(0.4)	**–**
Central overheads – 2021	19.0	20.4	**39.4**

(1) Restatement relates to the correction of the application of IFRS 16 in 2020. See note 1 for further details.

The increase in digital activities primarily relates to promotional spend. Salaries have reduced year on year partly due to £0.7 million savings in temporary staff costs that were high in 2020 due to the increase in cover required in the call centre during the pandemic. Other costs include legal and professional fees of £2.3 million (2020: £1.5 million), recruitment fees £0.8 million (2020: £0.3 million) and insurance costs of £0.5 million (2020: £0.2 million).

Non-underlying items of £2.3 million (2020: £9.8 million) are excluded from underlying costs resulting in total central costs of £41.7 million (2020: £46.8 million).

In addition to the above costs, maintenance capital expenditure of £1.7 million (2020: £1.4 million) has been incurred on central projects predominantly relating to IT that will help the business as a whole operate more efficiently.

Outlook

As previously stated, Central overheads are expected to reduce as part of the strategic review. In January 2022 the Group made the decision to make some colleagues redundant as well as suspending some of its marketing and digital activities.

In this section

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

"The Board is collectively responsible for setting the long-term business strategy and establishing the Company's purpose, vision and principles which together inspire the day-to-day culture of the business to promote the long-term sustainable success of the Company, while generating value for shareholders and contributing to wider society."

Dear Shareholder,

I am pleased to be able to present on behalf of the Board the Group's Corporate Governance Report for 2021. This report provides shareholders with a clear and comprehensive explanation of what governance means within Dignity, what it means to us, the Board of Directors, how it is applied and how it guides our decision-making. The report sets out our governance framework, the Board's approach to alignment of purpose, principles, culture and strategy and our engagement with stakeholders.

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

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

I would encourage you to participate in our Annual General Meeting on 9 June 2022 and take the opportunity to meet the Board. We will take questions at that meeting.

John Castagno
Non-Executive Chairman

22 March 2022

Transparent reporting

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

Section 172 Statement

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

Principles of the UK Corporate Governance Code 2018

The Principles set out in the UK Corporate Governance Code 2018 (the 'Code') emphasise the value of good corporate governance for long-term sustainable success. Whilst we are reporting a number of areas where we have not been able to comply with specific Code provisions, we do not consider this extends to any of the Principles set out within the Code. Further information on how we have complied and applied the Principles set out in the Code can be found on pages 70 and 71.

The Code is publicly available on the website of the UK Financial Reporting Council at www.frc.org.uk.

SECTION 1: BOARD LEADERSHIP AND COMPANY PURPOSE

- Chairman's Introduction to governance
- Strategic Report
- Section 172 Statement
- Leadership, Purpose, Principles and Culture
- Board engagement with key stakeholders
- Board key activities

SECTION 2: DIVISION OF RESPONSIBILITIES

- Board Composition
- Roles and Responsibilities
- Committee Composition
- Independence of Non-Executive Directors
- Time Commitment and External Appointments
- Conflicts of Interest

SECTION 3: COMPOSITION, SUCCESSION AND EVALUATION

- Board Composition and Succession
- Diversity and Inclusion
- Appointment, Tenure and Re-election
- Nomination Committee Report
- Board Effectiveness and Evaluation

SECTION 4: AUDIT, RISK AND INTERNAL CONTROL

- Audit Committee Report
- Significant Reporting and Accounting Matters
- Fair, Balanced and Understandable Assessment
- Viability Statement and Going Concern
- Risk Management and Internal Controls
- Internal Audit
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SECTION 5: REMUNERATION

- Directors' Remuneration Report
- Remuneration Principles
- Remuneration Policy
- Pension and benefits
- Directors' shareholdings and share interests
- External advisors

Compliance with the UK Corporate Governance Code

In the 2021 reporting period, Dignity plc was subject to the Code issued by the Financial Reporting Council (available at frc.org.uk). As a publicly listed company, Dignity is required to report on how it has applied the Principles of the Code and this is set out in the following pages. Other than as detailed in the paragraphs below, Dignity has complied with the provisions of the Code throughout the period ended 31 December 2021.

As stakeholders will appreciate, 2021 was again a difficult and challenging year for all of us. Those of us in the funeral sector had to continue to ensure that both our colleagues and the bereaved families we serve across the UK have been protected and supported during this time.

As previously reported, I became the independent Chairman of the Board in July 2021.

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

Board Changes

In 2021, the following Board changes occurred:

- **February:** Paul Humphreys was appointed to the Board on 23 February 2021 and chaired the Audit Committee and was a member of the Remuneration and Nomination Committees.
- **April:** Following the General Meeting held on 22 April 2021 and with immediate effect, Clive Whiley who had been Executive Chairman since April 2020, ceased to be a Director and Gary Channon was appointed as Executive Chairman. In addition, Gillian Kent and Paul Humphreys resigned as independent Non-Executive Directors on 22 April 2021.
- James Wilson, Non-Executive Director stepped down from the Board on 26 April 2021 in line with commitments made by Phoenix UK Fund Limited regarding the future composition of the Board.
- **July:** On 23 July 2021, John Castagno was appointed to the Board as Independent Non-Executive Chair and Chair of the Nomination Committee. On John's appointment, Gary Channon stood down as Executive Chairman to become Chief Executive.
- **September:** On 1 September 2021, Graham Ferguson was appointed as an Independent Non-Executive Director and Chair of both the Audit and Remuneration Committees.
- **Since year-end:** On 7 January 2022, Kate Davidson was appointed to the Board as Chief Operating Officer and on 7 February 2022, Kartina Tahir Thomson was appointed as an Independent Non-Executive Director and Chair of the recently established Risk Committee.

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

- 9. In respect of the separation of the roles of chair and chief executive (non-compliant from April 2020 until July 2021).
- 11. In respect of the proportion of the Board, excluding the Chairman, who are considered to be independent (non-compliant from April 2020 to February 2021 and then from April 2021 to date).
- 12. In respect of the appointment of a Senior Independent Director. The Board has not appointed a Senior Independent Director since David Blackwood left the Board in June 2020.

- 17 and 32. In respect of the composition of the Board's key committees (non-compliant from December 2020 to February 2021 and from April 2021 to February 2022). Mr Ferguson, Chairman of the Remuneration Committee, has not served on a Remuneration Committee prior to his appointment to the Dignity Board.
- 24. In respect of the membership of the Audit Committee (non-compliant from December 2020 to date).
- 21. An annual Board and Committee evaluation was conducted in respect of 2020. Given the Board restructuring in 2021, the evaluation in respect of 2021 will be held in the first half of 2022 to enable directors appointed since the second half of 2021 to provide a more informed contribution.

Following the General Meeting in April 2021, the Board comprised Gary Channon, Executive Chairman, Andrew Judd, Executive Director of Funeral Operations and Dean Moore, Interim Chief Financial Officer. A consequence of there being no independent Non-Executive Director representation on the Board at this time was that Audit, Remuneration and Nomination Committees could not be constituted. This situation was corrected on the appointment of John Castagno in July 2021 as Independent Non-Executive Chairman and Graham Ferguson in September 2021 as an Independent Non-Executive Director.

As stated in the Company's 2021 Interim Statement, the Chairman continues to work on strengthening the governance further with the objective for the business to be Code compliant in the near future.

At the current time and, in addition to the Independent Non-Executive Chairman, the Board comprises four Executive Directors, Gary Channon, Dean Moore, Andrew Judd and Kate Davidson, and two Independent Non-Executive Directors, Graham Ferguson and Kartina Tahir Thomson.

The Company is in the process of searching for a Chief Financial Officer, which will enable Dean Moore to relinquish his executive role. Following this appointment, the Board will comprise four Executive Directors and, excluding the Chairman, three Non-Executive Directors. Graham and Kartina are considered by the Board to be independent. Dean's independence is subject to appropriate review and approval by the Board.

The direct and indirect consequences of changing roles and Board restructuring during 2021 has demanded additional time commitment to Dignity from a number of Board members. Whilst the Chief Executive, Interim Chief Financial Officer and our Independent Non-Executive Directors have various roles with other companies, the Nomination Committee formally confirms annually that at all times each individual Board member has the capacity to perform their roles on the Dignity Board.

Board induction

Following appointment, an induction programme is provided to new directors so that they become as effective as soon as possible in their role.

The induction programme includes:

- Briefings with fellow directors, senior leadership members and advisers.
- A briefing on the role of a public company director and the framework in which the Board operates.
- Provision of Board and Committee papers and governance documents such as the Schedule of Matters Reserved for the Board and Committee terms of reference.
- Provision of corporate policies.
- Analysts' reports.

Corporate Governance

The Group is committed to high standards of corporate governance, details of which are given in this report and the separate reports from the Chairs of:

- The Audit Committee;
- The Nomination Committee; and
- The Remuneration Committee.

The various sections of this report contain summarised information from Dignity plc's Articles of Association (the 'Articles') and the Companies Act 2006 which is the applicable English law concerning companies. The relevant provisions of the Articles or the Companies Act should be consulted if more detailed information is needed.

Workforce engagement

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

The Board seeks to maintain good channels of communication with all its employees. For a business that prides itself on communicating sensitively with clients, we have to ensure the same care and consideration is shown towards our colleagues too. That means regular dialogue, which is accessible through a variety of channels, with the opportunity for colleagues to interact and easily share their feedback.

Adopting a multi-channel approach has seen us develop digital communications solutions that sit alongside our established company newsletter. 'Dignity Inside' is a dedicated website housing, amongst many things, news, blogs and opinion polls.

More frequent and accessible communication is complemented by an increase in the face-to-face support available to colleagues, particularly those in operational roles across funerals, crematoria and manufacturing.

CHAIRMAN'S INTRODUCTION TO GOVERNANCE CONTINUED

The Dignity Team Forum (see below) provides a key opportunity for the Board to assess and monitor the culture of the business.

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

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

Across the organisation, the Board has looked carefully at people support. We care deeply about the wellbeing of our people and continue to offer access to an Employee Assistance Programme. This free and confidential advice service is available 24/7 and enables colleagues to discuss any issues that may be causing them concern, be they related to work, home life, or their physical and mental health.

The Board established the Dignity Team Forum, a formal workforce advisory panel with representatives elected by their peers, to facilitate regular and constructive engagement between colleagues and senior leaders, including the Board.

The purpose of the Dignity Team Forum is to share information on a broad range of topics, everything from business performance, operational initiatives and Board remuneration policy to future strategy and vision. It also creates a platform for relaying colleagues' opinions and ideas, helping to ensure that the business decisions we make are fully informed with insight from all major stakeholders.

The minutes of the Dignity Team Forum which has a schedule of four meetings annually, are considered by the Board which, inter alia, facilitates knowledge of issues of importance to employees and the assessment and monitoring of culture. We are a people-orientated and principles driven business and strive to create a culture where everybody feels valued, included and motivated to perform at their best.

The Dignity Team Forum has been consulted collectively on a regular basis (often weekly) to consider matters relating to restructuring matters discussed in the Chairman's Statement and the Strategic Review.

Promoting an inclusive and diverse workforce

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

In line with the Equality Act 2010, it is the policy of the Company that there shall be no discrimination or less favourable treatment of employees or job applicants in respect of age, race, religion or belief, gender, sex, sexual orientation, pregnancy, disability or martial status. The Company is fully committed to ensuring there is no unfair and unlawful discrimination in relation to employees, job applicants, clients, suppliers and members of the public. It is Company policy to engage, promote and train employees on the basis of their capabilities, qualifications and experience, without discrimination, and all employees will receive equal opportunity to progress within the Company.

In order to put this policy into practice in the day-to-day management and operations of the Company, we:

- Monitor decisions on recruitment, selection, training and promotion to ensure they are based solely on objective and job related criteria;
- Provide training for managers to ensure that they understand the nature of discrimination and are fully aware of their responsibilities in implementing our Equality and Diversity policy;
- Provide awareness for employees to ensure that they have a greater understanding of Equality and Diversity in the workplace;
- Provide information and advice on the implications of the relevant legislation and on assistance available to help in the employment of people with disabilities;
- Ensure that all policies are applied thoroughly and fairly particularly those relating to any complaint involving discrimination or harassment;
- Communicate this policy to employees, suppliers and third parties, where applicable, through induction, training and communications; and
- Encourage our suppliers and third parties to adopt policies and working practices, which reflect our own views and values on Equality and Diversity and that of our Clients.

All employees are also responsible for the promotion and advancement of this policy and the Company will support its implementation and communication through its Equality and Diversity Programme of Action.

Board leadership, purpose, principles and culture

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

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

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

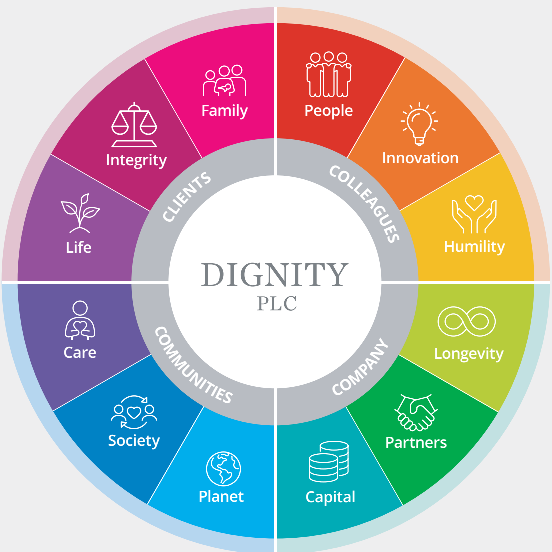
The Board has overall responsibility for establishing the Company's purpose, Principles and strategy to deliver the long-term sustainable success of the Company and generate value for all our stakeholders.

Ensuring effective decision-making

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

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

Our Guiding Principles



Section 172 and stakeholder engagement

This is the second year we have set out our Section 172 Statement, which can be found on pages 21 and 22. As part of our compliance with Section 172, the Board is required to consider a number of factors in its decision-making, including the interests of its stakeholders. Further details on how the Company and the Board engage with stakeholders can be found on pages 21 to 25.

The Board and the business has continued to focus on employee engagement during this period of significant change to create a culture that everyone can be proud of, where people come first, and everyone is committed to delivering Dignity's long-term goals.

Governance and stakeholders

The Board takes the view of, and effects on, key stakeholders into consideration in Board discussions and when making decisions, including shareholders with whom it engages at appropriate times on appropriate subject matters during the year.

Fair, balanced and understandable

The Board as a whole is responsible for the preparation of the Annual Report and Accounts and ensuring that they are fair, balanced and understandable. Drafts of this document have been reviewed by the Committee Chairs and the Board as a whole. The Audit Committee recommended to the Board, following its in-depth review, that this Annual Report and Accounts is, in its opinion, fair, balanced and understandable. The Board has reviewed the Annual Report and Accounts, drawing on its collective knowledge of the business and updates from management during the year, and in the opinion of the Audit Committee, and I can confirm that the Board believe this Annual Report and Accounts provides shareholders with information necessary to assess the Company's position, performance, business model and strategy.

The Board's involvement in setting the business strategy and future outlook

In 2021, we supported and encourage the Executive team to evolve the long-term business strategy, explained on pages 4 to 7 and we remain confident in its approach.

The Board believes in our strategy and in the coming year, will focus on the Company's progression and the implementation and articulation of the business strategy.

CHAIRMAN'S INTRODUCTION TO GOVERNANCE CONTINUED

HOW WE COMPLY WITH THE 2018 UK CORPORATE GOVERNANCE CODE

THROUGHOUT THE YEAR, THE BOARD HAS APPLIED THE PRINCIPLES AND COMPLIED WITH THE MAJORITY OF THE PROVISIONS OF THE 2018 UK CORPORATE GOVERNANCE CODE AS SET OUT BELOW:

PRINCIPLE	HOW WE APPLY THE PRINCIPLES	FURTHER INFORMATION
1. BOARD LEADERSHIP AND COMPANY PURPOSE		
A. THE BOARD'S ROLE A successful company is led by an effective and entrepreneurial Board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	The Board is collectively responsible for the long-term success of the Company, including its relationships and engagement with all shareholders, and operates via a formal schedule of matters reserved for its decision.	See the Governance structure on page 72 for further information and details of the responsibilities of the Board.
B. SETTING PURPOSE, VALUES AND STRATEGY The Board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	The schedule of matters reserved for the Board provide that the Board is responsible for the overall leadership of the Group and setting its values and standards and for approving the Group's strategic aims and objectives. In addition, the role of The Dignity Team Forum is a key element in the Board's oversight of culture. Our Code of Conduct also defines the behaviours we expect of our people and the ethical standards to which we adhere. Culture is central to ensuring that Dignity has a clear business vision and an understanding of our social purpose that people can align to. In 2021, the Group set a clear direction for Dignity's future. The vision is to be the most trusted provider in the UK, but also the most inspirational and rewarding employer.	See the Chairman's statement for further information.
C. RISK MANAGEMENT The Board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	The Group has mature risk management and governance processes in place to identify, report and manage risk. The Audit Committee is provided with a twice- yearly review of the principal risks, including emerging risks, together with updates from Internal Audit on matters for review.	See page 72 for further information on the Governance structure and pages 40 to 46 for our Principal and Emerging risks.
D. STAKEHOLDER ENGAGEMENT In order for the company to meet its responsibilities to shareholders and stakeholders, the Board should ensure effective engagement with, and encourage participation from, these parties.	The Board reviews and oversees relationships with the business's key stakeholders. At each meeting, the Board, inter alia, receives (i) a report on the performance and operational issues of each business (ii) an update from the Chief Executive on amongst a number of matters, investor relations, (iii) supplier management and (iv) in 2021, regular updates on matters relating to the FCA regulation of pre-need funeral plans. The Board committees also address such matters as the performance development framework and whistleblowing. Workforce engagement is achieved as described on pages 67 and 68.	See the Strategic Report on pages 21 to 25 for further details and workforce engagement pages 67 and 68.
E. WORKFORCE POLICIES The Board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	The Board firmly believes that good ethics and good business combine to produce the best results in the long-term. We take our responsibility and reputation as a good corporate citizen very seriously and we are committed to ethical business practices which reflect and enhance our core values of quality, integrity, courtesy and respect. Our Code of Conduct sets out our policy on the standards to be followed to promote legal, honest, ethical and safe business practices. There are Group policies and supporting e-learning modules that define our approach to managing health, safety, environmental and social matters affecting our employees. In addition, there is also an independent and anonymous whistleblowing procedure allowing any employee to confidentially raise any concerns.	See our website at www.dignityplc.co.uk.
2. DIVISION OF RESPONSIBILITIES		
F. CHAIR LEADERSHIP The Chair leads the Board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	The Chairman, in conjunction with the Company Secretary, ensures that quality information is provided to the Board in advance of each Board meeting. The performance of the Chairman is monitored through the annual Board evaluation process and through separate meetings of the Non-Executive Directors without the Chairman present.	See our Governance section on page 72 for further information. Full Code compliance impacted by Board restructuring in 2021.
G. BALANCE OF THE BOARD The Board should include an appropriate combination of executive and non-executive (and in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the Board's decision-making. There should be a clear division of responsibilities between the leadership of the Board and the executive leadership of the company's business.	The Board currently comprises the independent Non-Executive Chairman, the Chief Executive, the Interim Chief Financial Officer (who was independent on appointment), the Chief Operating Officer, the Executive Director of Funeral Operations and two independent Non-Executive Directors. The Chief Executive is responsible for the day-to-day leadership and management of the business through defined delegated authority limits. The Chairman and two Non-Executive Directors provide an independent view on the running of our business, governance and boardroom best practice. They oversee and constructively challenge management in its implementation of strategy and performance of the Group.	See the Governance structure and how the Board functions on page 74 for further information. Full Code compliance impacted by Board restructuring in 2021.
H. NED'S ROLE AND TIME COMMITMENT Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	Prior to taking up a Non-Executive Director position, the Board considers whether the Non-Executive Director has sufficient time to devote to their role with the Group and in light of any changes to a Non-Executive Director's external commitments during the year. At the Nomination Committee meeting in December 2021, each of the Non-Executive Directors confirmed that they were able to devote sufficient time to their role as a Director of Dignity plc. This confirmation is sought annually.	
I. THE COMPANY SECRETARY The Board, supported by the Company Secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	All Directors have access to the advice and services of the Company Secretary. The Company Secretary ensures that the Board receive papers of a high-quality in a timely manner. He advises the Board on all governance matters, including compliance with the Code. He works with the Chairman and Committee Chairs to ensure that the right matters are escalated to the Board and Committees at the appropriate time and that sufficient time is devoted to strategic matters. He arranges Directors' induction and Board evaluation exercises and supports succession planning and recruitment of new Non-Executive Directors.	

PRINCIPLE	HOW WE APPLY THE PRINCIPLES	FURTHER INFORMATION
3. COMPOSITION, SUCCESSION AND EVALUATION		
J. BOARD APPOINTMENTS Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for Board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	The Board appointments post the General Meeting on 26 April 2021, were subject to a rigorous and transparent procedure. There are regular succession planning reviews at the Nomination Committee regarding Executive and Non-Executive succession and below Board level. In 2022, a key priority is for the Nomination Committee to have more direct interaction with employees which can be more valuable in building understanding of talent issues than consideration of metrics. To achieve this a programme for individuals to present/ contribute at meetings of the Board/ Committees, where appropriate, is being developed.	
K. SKILLS, EXPERIENCE AND KNOWLEDGE The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed.	The Nomination Committee reviews the balance, composition and structure of the Board, as well as the length of service of each Board member and where considered appropriate recommends the re-appointment of the Non-Executive Director and any extensions to their term. John Castagno, Graham Ferguson, Kate Davidson and Kartina Tahir Thomson were appointed for the skills, experience and knowledge they can contribute to the Board and its Committees. The Board has been restructured since the General Meeting in 2021 such that Dean Moore is the longest serving Board member having been appointed on 11 March 2020. All Directors will stand for election or re-election at the AGM on 9 June 2022.	
L. BOARD EVALUATIONS Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	In line with the requirement of the Code, the Board conducts an annual evaluation of the performance of the Board and Committees and each Director. Given the significant Board restructuring in 2021 (which meant that there were no Independent Non-Executive Directors on the Board until the appointment of John Castagno in July followed by Graham Ferguson in September 2021), the evaluation will be conducted in the first half of 2022 by which time the Directors appointed in the second half of 2021 and in early 2022 will have more experience of the Company, the Board and Committees. These evaluations are externally facilitated annually.	See the Board appraisal on page 75 and pages 82 and 84 of the Committee Reports.
4. AUDIT, RISK AND INTERNAL CONTROL		
M. FINANCIAL REPORTING INTEGRITY The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	The Board delegates detailed oversight of the Group's system of internal controls to the Audit Committee, to ensure the integrity of the Group's full year and half year results and the Annual Report and Accounts. The Audit Committee ensured it complies with this requirement as detailed on pages 79 to 82. On the recommendation of the Audit Committee, the Board reviewed and approved the 2021 half year and full year results and this 2021 Annual Report.	See our Governance section on page 76 for further information. See the Audit Committee report on pages 79 to 82.
N. FAIR, BALANCED AND UNDERSTANDABLE ASSESSMENT The Board should present a fair, balanced and understandable assessment of the company's position and prospects.	As described in the Audit Committee Report on pages 79 to 82, the Audit Committee reviewed the 2021 Annual Report and Accounts in March 2022 and was satisfied that it presents a fair, balanced and understandable assessment of the Group's position and prospects. The Audit Committee reported its findings to the Board.	
O. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	The Audit Committee monitors the Group's risk management and internal control systems on behalf of the Board. The Committee reviews the Group's principal risks and recommends any changes to risk appetite to the Board. The Group Risk Register is reviewed twice yearly by the Audit Committee. The Board has also established a Risk Committee which will be chaired by the Independent Non-Executive Director, Kartina Tahir Thomson. The Risk Committee has a schedule of meetings in 2022 and will advise the Board on risk management issues, recommend the framework of risk limits and risk appetite to the Board for approval and will oversee the risk management arrangements of the Company, including the embedding and maintenance of a supportive risk management culture. The Committee will ensure that the material risks facing the Company have been identified and that appropriate arrangements are in place to manage and mitigate those risks effectively within the Company's agreed risk appetite.	Please see the section on Principal risks and uncertainties on pages 40 to 46.
5. REMUNERATION		
P. SUPPORTING STRATEGY AND LONG-TERM SUSTAINABLE SUCCESS Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.	The Remuneration Committee gives considerable consideration to aligning remuneration policy and packages to strategy and to supporting long-term sustainable success. The Remuneration Committee reviews and proposes the Group's remuneration policy to the Board for approval and the Directors' remuneration report is put to an advisory vote at the AGM, in line with statutory requirements. In accordance with section 439A of the Companies Act 2006, a new three-year Remuneration Policy will be put to a binding vote at the 2022 AGM.	Please see the Remuneration Committee report on pages 85 to 100.
Q. REMUNERATION POLICY A formal and transparent procedure for developing policy on Executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	In accordance with its terms of reference, the Remuneration Committee reviewed the current Remuneration Policy (2019 to 2021) against corporate governance requirements, institutional investor views and market practice. A new three-year Remuneration Policy will be put to a binding vote at the 2022 AGM; no increase to quantum proposed. The remuneration of Non-Executive Directors is a matter for the Board. No Director, committee attendee, Executive, senior manager or other person can be involved in any discussion or decision as to their own remuneration.	The Remuneration Policy can be found on pages 87 to 91 within the Remuneration report. The terms of reference for the Remuneration Committee can be found on our website at www.dignityplc.co.uk.
R. INDEPENDENCE OF REMUNERATION OUTCOME DECISIONS Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	The Committee takes advice from an external consultant (Korn Ferry) and ensures that remuneration for Board and senior management is suitably structured so as to attract, retain and motivate Executives, and to link reward to corporate and individual performance and all relevant internal and external factors.	

GOVERNANCE STRUCTURE

THE BOARD PROVIDES STRATEGIC LEADERSHIP TO THE GROUP WITHIN A FRAMEWORK OF SOUND CORPORATE GOVERNANCE AND INTERNAL CONTROL.

THE DIGNITY PLC BOARD
(Chairman, Executive Directors and Independent Non-Executive Directors)

BOARD LEVEL COMMITTEES

AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE	RISK COMMITTEE
(Chairman and Independent Non-Executive Directors)	(Chairman and Independent Non-Executive Directors)	(Chairman and Independent Non-Executive Directors)	(Chairman and Independent Non-Executive Directors)

THE EXECUTIVE COMMITTEE

The Board

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

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

Non-Executive Directors

The Non-Executive Directors scrutinise, measure and review the performance of management; constructively challenge and assist in the development of strategy; review the Group's financial information and monitor the effectiveness of internal risk management systems.

Committees of the Board

There are four standing committees of the Board: the Audit Committee, the Remuneration Committee, the Nomination Committee and the recently established Risk Committee. The Terms of Reference of these Committees are set by the Board and are available on the Dignity plc corporate website. Membership is reserved for the Independent Non-Executive Directors save for the Nomination and Risk Committees. Whilst the Risk Committee has a schedule of meetings in 2022, it has not met as of the date of this Annual Report.

The Audit, Nominations and Remuneration Committee Reports are on pages 79 to 100.

The Chairman

The Chairman is responsible for:

- The leadership of the Board;
- Ensuring the Board functions effectively in all aspects of its role;
- Facilitating the effective contribution of the Non-Executive Directors and ensuring a constructive working relationship between Executive and Non-Executive Directors;
- Making sure all Directors receive accurate, timely and clear information;
- Setting the agenda so all strategic and other important issues are discussed, ensuring sufficient time is devoted to discussing such issues; and
- Making sure there is effective communication with stakeholders and acting as the public face of the Group.

The Chief Executive and Executive Directors

The Chief Executive and Executive Directors together with the Executive Committee are responsible for:

- Operational management and control of the Group on a day-to-day basis. Local operational decisions are the responsibility of the local managers, who are accountable to the Executive Directors;
- Formulating and proposing strategy to the Board; and
- Implementing the strategy and policies adopted by the Board.

The Executive Committee

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

- Chief Executive: Gary Channon;
- Executive Director Funeral Operations: Andrew Judd;
- Chief Operating Officer: Kate Davidson;
- Interim Chief Financial Officer: Dean Moore;
- People Director: Tracey Rose; and
- Head of Compliance: Carl Higgins.

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

Commentary on the Board in 2021

As detailed on page 66 the structure of the Board is currently going through a period of change. As a result, the Company has not been compliant throughout the year with the following Code Provisions:

- 9. The roles of chair and chief executive should not be exercised by the same individual. With the appointment of John Castagno as Chairman, the Company is now compliant in this respect.
- 11. At least half of the Board excluding the chair, should be non-executive directors whom the board considers to be independent.
- 12. The board should appoint one of the independent directors to be the senior independent director.
- 17. The Nomination Committee should comprise a majority of independent non-executive directors. With the appointment of Graham Ferguson and Kartina Tahir Thomson, compliance has been achieved. The Company was non-compliant until the appointment of Kartina on 7 February 2022.
- 24. The Audit Committee should comprise independent non-executive directors and the Chair should not be a member. With the appointment of Graham Ferguson and Kartina Tahir Thomson, the Committee has the required Non-Executive Directors but as the Chair is a member, compliance has not been achieved.
- 32. The Remuneration Committee should comprise independent non-executive directors. With the appointment of Graham Ferguson and Kartina Tahir Thomson, compliance has been achieved. The Company was non-compliant until the appointment of Kartina on 7 February 2022. Mr Ferguson, Chairman of the Remuneration Committee, has not served on a Remuneration Committee prior to his appointment to the Dignity Board.

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

At the current time and, in addition to the Independent Non-Executive Chairman, the Board comprises four Executive and two Independent Non-Executive Directors. As advised in the Chairman's Statement on page 2, once the Board has appointed a new Chief Financial Officer, the intention is for Dean Moore to resume his position as an Independent Non-Executive Director. This is subject to appropriate review and approval by the Board.

The role of the Executive Chairman in 2021

Following the departure in April 2020 of our former Chief Executive, Mike McCollum, Clive Whiley took on temporarily, the role of Executive Chairman. In that role, Clive had the responsibilities of both Chairman and Chief Executive. Following the results of the General Meeting in April 2021, Clive Whiley left the Board with Gary Channon becoming Executive Chairman until the appointment in July 2021 of John Castagno as Independent Non-Executive Chairman.

BOARD OF DIRECTORS

THE RESTRUCTURING OF THE BOARD HAS ALREADY PROVIDED A STRONG AND COMPLEMENTARY MIX OF SKILLS AND EXPERIENCE WHICH WILL CONTRIBUTE TO THE LONG-TERM SUCCESS OF THE GROUP.

John Castagno, Independent Non-Executive Chairman

John Castagno
Independent Non-Executive Chairman

Appointed to the Board: 2021 A N R Ri

Background and experience:
John is an experienced Non-Executive Director with a background in financial services and support companies, having held senior positions at British Gas Insurance, Tesco Bank, and a variety of insurance providers.

John brings extensive business planning and development capabilities in regulated environments, including those under the Financial Conduct Authority. This experience is of benefit to the Board and the Dignity Executive team in navigating the changes being instigated by the Financial Conduct Authority regarding the pre-need sector.

John is Chair of the Nomination Committee and a member of the Audit, Remuneration and Risk Committees.

Gary Channon
Chief Executive

Appointed to the Board: 2021

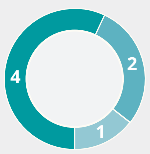
Background and experience:
Gary Channon is the Chief Investment Officer of Phoenix Asset Management Partners Limited, the firm he co-founded in 1998. Gary brings over 30 years of business and financial services experience. Gary's investment approach at Phoenix is strongly influenced by Warren Buffett and Phil Fisher: long-term, value-based and focused, looking for great businesses run by competent, honest, shareholder-aligned managers, companies with strong pricing power, generating an enduring high return on capital, and waiting for the opportunity to invest in them at attractive prices. Gary began his career in 1987 at Nikko Securities Europe within Fixed Income Trading, before joining Goldman Sachs in 1989 within Global Equity Derivative Products Trading. He then joined Nomura International Plc in 1992 as their Head of Equity Derivative Trading before ultimately becoming Nomura International's Co-Head of Equity and Equity Derivatives Trading, a position he held until he left Nomura to co-found Phoenix.

Board composition, balance and tenure

The Board comprises six Directors and the Independent Non-Executive Chairman. In addition to the Chairman, there are currently two Independent Non-Executive Directors and four Executive Directors.

As at 22 March 2022

Executive and Non-Executive Directors

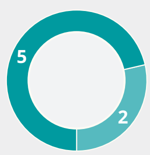


- Executive Directors: 4
- Non-Executive Directors: 2
- Non-Executive Chairman: 1

Non-Executive Tenure

- 0 – 3 years: 3
- 3+ years: 0

Directors ratio



- Male: 5
- Female: 2

Dean Moore
Interim Chief Financial Officer

Appointed to the Board: 2020

Background and experience:
Dean is a chartered accountant with extensive public company experience having previously been Chief Financial Officer at Cineworld plc, N Brown Group plc, T&S Stores plc and Graham Group plc and formerly non-executive Chairman of Tuxedo Money Solutions Limited. He is currently an independent non-executive director and Chairman of the Audit Committee at Cineworld plc and Audit Committee Chairman and Senior Independent Director of Volex plc.

Dean was an Independent Non-Executive Director before stepping into the role of Interim Chief Financial Officer. Dean does not participate in any incentive plans.

Kate Davidson
Chief Operating Officer

Appointed to the Board: 2022

Background and experience:
With over 15 years funeral and crematoria industry experience, Kate began her career in the crematoria sector within Local Government, later joining Dignity plc in management and strategic roles spanning eight years.

Kate Davidson re-joined Dignity plc as Chief Operating Officer, from Westerleigh in June 2021. She has since sat on the Group's Executive Committee; focused on organisational change, operational efficiencies, and delivery of Dignity's future development projects.

Kate is well respected in the end-of-life sector and has been involved with a number of industry-wide funeral and crematoria policy initiatives.

Andrew Judd
Executive Director of Funeral Operations

Appointed to the Board: 2020

Background and experience:
Andrew joined what is now Dignity in 1996. He is responsible for all aspects of the Group's day-to-day provision of funeral services through a national network of employees, funeral locations and associated facilities.

Andrew has progressed through a variety of roles within both the Co-operative Group and independent sectors. He holds a degree from Wolverhampton University in Economics and Business and holds additional professional qualifications in both Funeral Service Management and Funeral Directing. He has held office in the British Institute of Funeral Directors and various positions within the National Association of Funeral Directors most recently Past President of the Western Counties Area Federation and Committee for Professional Standards. In 2018, Andrew was the driving force behind the establishment of the Funeral Service Consumer Standards Review ('FSCSR') creating for the first time in the sector an independently chaired project that brings together the skills and knowledge of industry experts and key stakeholders with a view to improving quality, standards and outcomes for funeral service consumers.

Graham Ferguson
Independent Non-Executive Director

Appointed to the Board: 2021 A N R Ri

Background and experience:
Graham joined the Board of First Derivatives plc (now FD Technologies plc) in September 2008 and had responsibility for its financial operations. Graham stepped down as Chief Financial Officer and from the Board of FD Technologies plc on 1 January 2021 to devote more time supporting the development of SMEs based in Northern Ireland.

During his career, Graham has worked on numerous corporate acquisitions and restructuring projects and has experience in business and acquisition finance. He formerly held senior roles with KPMG, Bank of Ireland and Silverwood Property Developments Limited and is a qualified Chartered Accountant.

Graham is Chair of both the Audit and Remuneration Committees and is a member of the Nomination and Risk Committee.

Kartina Tahir Thomson
Independent Non-Executive Director

Appointed to the Board: 2022 A N R Ri

Background and experience:
Prior to this, Kartina spent six years at the Bank of England, leading the general insurance risk specialists and supervisors, responsible for ensuring financial stability of the UK financial market through sound supervision of risk management, capital and solvency.

Kartina is chair of the Risk Committee and is a member of the Audit, Remuneration and Nomination Committees.

Tim George
Company Secretary

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

The Board records its thanks to Clive Whiley, James Wilson, Gillian Kent and Paul Humphreys all of whom left the Board in 2021.

Key to Committee membership

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

Links

See Audit Committee report: **p.79 to p.82**
See Nomination Committee report: **p.83 and p.84**
See Report on Directors' remuneration: **p.85 to p.100**

DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

How the Board Functions

The Group is controlled through the Board of Directors that meets regularly throughout the year. The structure of the Board, together with explanations of responsibilities, is shown on page 72. Informal meetings are held between individual Directors as required.

The day-to-day management of the Group is delegated to the Executive Directors and the Executive Committee (see page 73) supported by an experienced and generally long serving senior and middle management team, the size and structure of which is commensurate with the complexity of the Group's activities. Managers have the necessary skills and knowledge relevant to their areas of responsibility. The remainder of the responsibilities rest with the Board however, certain capital expenditures and acquisition projects are delegated under a formally adopted Schedule of Matters Reserved for the Board and Expenditure Authorisation Policy.

All Directors are provided with the necessary papers in advance of the meetings to permit them to make informed decisions at those meetings. The Board also considers employee issues and key management appointments, including the role of Company Secretary.

The Board now comprises six Directors and the Independent Non-Executive Chairman. During 2021 the total number of directors who served was nine. Clive Whiley the former Chairman, stood down from the Board following the General Meeting on 22 April 2021 as did Gillian Kent and Paul Humphries, former Independent Non-Executive Directors. James Wilson, a non-independent Non-Executive Director, retired from the Board on 26 April 2021. John Castagno was appointed Independent Non-Executive Chairman on 23 July 2021 and Graham Ferguson was appointed as an Independent Non-Executive Director and Chair of the Audit and Remuneration Committees on 1 September 2021. Since year-end, Kate Davidson was appointed to the Board on 7 January 2022 as Chief Operating Officer and Kartina Tahir Thomson on 7 February 2022 as an Independent Non-Executive Director and Chair of the Risk Committee.

There are currently three Independent Non-Executive Directors including the Chairman and four Executive Directors.

The Board considers that four Executive Directors, supported by the wider Executive Committee details of which are on page 72, are sufficient to manage a Group of this size, complexity and organisational structure.

Biographical details for the serving Non-Executive Directors appear on page 73. Their role is to challenge constructively the management of the Group and to assist in the development of strategy. The Non-Executive Directors are chosen for their diversity of skills and experience. Each Non-Executive Director is appointed for a fixed term of up to three years, subject to annual re-election by shareholders. This term may then be renewed by mutual consent up to a maximum of nine years in accordance with the Code. Appointments beyond six years are also subject to rigorous review prior to approval. The Non-Executive letters of appointment are available, upon request, from the Company Secretary.

The Chairman and the Non-Executive Directors are required to, and have, confirmed formally to the Board that, mindful of their other commitments they have and will have sufficient time to devote to their responsibilities as Directors of the Company.

John Castagno, Graham Ferguson and Kartina Tahir Thomson are independent of management as defined by the Code.

Dean Moore became Interim Chief Financial Officer on 14 December 2020. This interim position means that Dean Moore does not currently qualify as independent as defined in the July 2018 UK Corporate Governance Code.

All Directors are able to take independent professional advice on the furtherance of their duties as necessary at the Group's expense. They also have access to the advice and services of the Company Secretary and, where it is considered appropriate and necessary, training is made available to Directors. All Directors receive training and updates on the duties and responsibilities of being a Director of a listed company. This covers legal, accounting, security and tax matters as required or as requested by any Director. In addition, any newly appointed Director receives appropriate induction training.

The Company maintains appropriate insurance cover in respect of any legal action against its Directors. The level of cover is currently £60 million.

The Directors have, during the period, formally reminded themselves of their duties as Directors under the Companies Act 2006 (Section 171-177). These duties include the need to avoid conflicts of interest (Section 175). Gary Channon is both CEO of Dignity and a Partner of Phoenix Asset Management Partners Limited ('Phoenix') which is the Company's largest shareholder managing 29.43 per cent of the shares. At each Board meeting, Directors are required to declare any conflicts of interest in matters to be considered. To date, any such conflicts declared have been managed to ensure that no undue influence exists in discussions and resultant resolutions. An agreement in respect of share dealing exists between the Company and Phoenix.

In accordance with the Code, all Directors will submit themselves for election or re-election as appropriate at the 2022 Annual General Meeting.

Board Appraisal

In accordance with the requirements of the Code, a formal evaluation of the Board, its Committees, the Chair and individual directors was undertaken in respect of 2020 with the results reviewed at the Board meeting on 21 January 2021. The evaluation was conducted by Linstock (see below). Evaluations will be undertaken in respect of 2021. Given the significant Board restructuring in 2021 (which meant that there were no Independent Non-Executive Directors on the Board from 22 April 2021 until the appointment of John Castagno in July 2021 and Graham Ferguson in September 2021), the evaluation will be conducted in the first half of 2022 by which time the directors appointed in the second half of 2021 and in early 2022 will have more experience of the Group, the Board and Committees.

The evaluation will be conducted by Lintstock a corporate advisory firm, entirely independent of the Group. This evaluation is undertaken annually by Lintstock and will continue annually. This meets the requirements of the Code.

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

Specific matters which will be reviewed by the Board include:

- Board composition;
- Stakeholder oversight;
- Strategic oversight;
- Board dynamics;
- Board support;
- Board Committees;
- Management and Focus of meetings;
- Risk oversight;
- Succession planning and people oversight; and
- Priorities for change.

Issues arising from the evaluation will be reviewed and addressed.

The Non-Executive Directors are responsible for the performance evaluation of the Chairman taking into account the views of the Executive Directors.

Board and Board Committee Attendance

Those attending and the frequency of Board and Committee meetings held during the period was as follows:

	Main Board(i)	Audit Committee	Remuneration Committee(ii)	Nomination Committee
Number of meetings	**9**	**3**	**4**	**2**
Clive Whiley(iv)	2	1	2(ii)	1
James Wilson(iv)	3	1	1(ii)	1
Dean Moore	9	3	2(ii)	2
Gillian Kent(iv)	2	1	2	1
Andrew Judd	9	3	–	1
Paul Humphreys(iii) (iv)	1	1	1	–
Gary Channon(iii)	7	2(iii)	–	1(iii)
John Castagno(iii)	3	2	2	1
Graham Ferguson(iii)	3	2	2	1

(i) Only scheduled Board meetings, of which there were nine in the period, have been included in the attendance analysis. A further thirteen meetings were held to consider announcements, documents or the issue of shares pursuant to share awards.
(ii) In attendance by invitation of the respective Committee.
(iii) Paul Humphreys was appointed to the Board on 23 February 2021, Gary Channon on 22 April 2021, John Castagno on 23 July 2021 and Graham Ferguson on 1 September 2021.
(iv) Clive Whiley, Gillian Kent and Paul Humphreys stood down from the Board on 22 April 2021. James Wilson stood down on 26 April 2021.

The Board had nine full Board meetings spread broadly equally across the year. The Board considers that nine is the appropriate number required to exercise effective governance and control although this is kept under review. Further meetings are arranged as required.

If Directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Such views will be included in the minutes of the meeting if necessary.

The Chairman and the Non-Executive Directors met during 2021 without the Executive Directors present. The Non-Executive Directors also met during 2021 without the Chairman present.

The Company Secretary

The Company Secretary, Tim George, is responsible for overseeing the preparation and distribution of all agendas, minutes and related Board and Committee papers. He attends the Board meetings in his capacity as Company Secretary and provides corporate governance advice if required.

The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Internal Control and Risk Management

The Board has responsibility for the Group's system of internal control and risk management, which is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. A formal and ongoing process of identifying, evaluating and managing the significant risks faced by the Group was in place throughout the period and in place up to the date this Corporate Governance Report was signed and approved for the Annual Report and Accounts 2021.

The Executive Directors and the wider management group are responsible for designing, implementing, maintaining and evaluating the necessary systems of internal controls. Such controls are reviewed on an ongoing basis and formally reviewed on an annual basis in accordance with the requirements of the Code. This annual review confirmed that the Group's risk management and internal control systems were appropriate and suitable for a Group of this size and complexity.

Internal Audit completes a programme of work each year that provides assurance that the internal controls have been operated as designed and also proposes improvements where appropriate and necessary. Coupled with this, the six-monthly review of the risk system provides a further mechanism for considering and reviewing internal controls. All such work is reported to and monitored by the Audit Committee which recommends approval to the full Board. Please also see the Audit Committee Report on pages 79 to 82.

The Audit Committee on behalf of the Board, as part of an ongoing process, formally reviews and continues to keep under review the effectiveness of the Group's systems of internal control, including financial, operational and compliance controls and risk management systems. The Audit Committee also formally reviews risk management annually and receives reports from management and Internal Audit regarding any weaknesses in internal control, any losses arising out of weaknesses in internal control and progress in implementing revised procedures to improve and enhance internal control. It also identifies the significant controls upon which reliance will be placed. Any significant control weaknesses would be reported to the full Board at the next meeting. There have been no reports of weaknesses that have resulted or would have resulted in a material misstatement or loss in the period, nor in the period up to the date this Annual Report was published.

The key procedures, which operated throughout the period, are as follows:

- Financial Reporting – The Group has a comprehensive system of financial performance review, internal budgeting and forecasting. The Group's monthly actual results analysed by operating division are reported to the Board and significant variances to budget are investigated with revised forecasts prepared as necessary. The Audit Committee has delegated responsibility from the Board for financial reporting; monitoring external audit, internal audit, risk and controls and reviewing instances of whistleblowing and the Group's procedures for detecting fraud;
- Financial Controls – The Group has defined appropriate and necessary financial controls and procedures to be employed by operational management. Key controls over major business risks include reviews against budgets and forecasts, review against key performance indicators and exception reporting;
- Quality and Integrity of Personnel – One of the Group's core Principles is integrity. This is regarded as vital to the maintenance of the Group's system of internal financial control. The Board has in place an organisation structure appropriate to the size and complexity of the Group with defined lines of responsibility and delegation of authority where the Board considers it necessary and appropriate. There is also a Code of Conduct applicable to all employees of the Group, as well as specific policies such as Anti-Bribery and Corruption, Modern Slavery, Prevention of Fraud, Whistleblowing, Anti-Tax Evasion and Anti-Money Laundering;
- Internal Audit – The Group has a dedicated Internal Audit team, which reports to the Interim Chief Financial Officer, Chairman and the Audit Committee. The latter reviews and approves the annual work plan of the Internal Audit function which tests the design and operating effectiveness of key controls across the business. Any significant weaknesses are reported to management and the Audit Committee on a timely basis. It also coordinates the completion of self-assessment reports by operational management that assists in highlighting areas of control weakness or exposure. Internal audit reviews are completed on such areas, together with selected areas of the head office function and any area where a Director requests a review;
- During 2021 (as in previous years), there were quarterly meetings between the Head of Internal Audit and the Executive Directors to formally review and discuss Internal Audit's work programme and findings. In addition, regular meetings between the Head of Internal Audit and the external auditors, Ernst & Young LLP ('EY'), were held during the year to discuss and plan audit work and to ensure a complementary approach. The Head of Internal Audit formally reports to the Audit Committee at every meeting and also held private meetings with the Chair of the Audit Committee during 2021 and the Audit Committee members;

- Procedures – The Group has established and documented processes and procedures covering most parts of its operations, both client-facing and in support departments. These provide clear guidance on the correct or most appropriate course of action in various circumstances. Procedures are supplemented by training where needs have been identified. Both Internal Audit and the comprehensive management structure monitor the adherence to such processes and procedures; and
- Risk assessment – The Executive Directors and the Executive Committee have responsibility for the identification and evaluation of significant risks that might arise in their areas of responsibility, together with the design of suitable internal controls. This was in place throughout the accounting period and at the date of approval of the Annual Report. They also regularly assess the risks facing the Group. A Risk Register is maintained which is presented to and reviewed by the Audit Committee twice a year and then formally adopted by the Board of Dignity plc. Risks and any changes to those risks are discussed at every Board meeting. The principal risks and uncertainties facing the Group, which are documented in the Risk Register, are discussed on pages 40 to 46 of the Annual Report. These risks have also been formally considered when the Directors prepared their Viability Statement on page 47 of this Annual Report in accordance with provision 31 of the Code.

These procedures are designed to, amongst other things, help to provide assurance regarding the process of preparing consolidated financial statements and the financial reporting system.

An explanation of how the Group aims to create and preserve value and the strategy for delivering its objectives is included in the Strategic Review.

Relationship with Shareholders

The Group recognises the importance of good communication with shareholders.

Regular contact with institutional investors, fund managers and analysts is undertaken by the Chairman, Chief Executive and the Interim Chief Financial Officer to discuss information made public by the Group. The Board receives reports of these meetings and any significant issues raised are discussed by the Board and the Non-Executive Directors are also available to meet separately with shareholders if necessary, to discuss any issues that they may have. The Chair of the Remuneration Committee in early 2022 consulted major shareholders on the changes proposed to the remuneration policy to ensure the proposals can be supported. The Chief Executive is also available to discuss governance and strategy matters with the major shareholders. The Company Secretary deals with queries or enquiries from private shareholders. The Board is interested in the views and concerns of all shareholders whether private, institutional or corporate.

The AGM which was a virtual meeting in 2021 but will be a physical meeting in 2022 subject, of course to the latest Government guidelines relating to COVID-19, provides an opportunity to meet the Board. All shareholders are free to attend and put questions to any Director and the Chair of each of the Board Committees at the AGM on 9 June 2022. At least 20 days' notice will be given ahead of that meeting. Questions asked in person at the AGM will receive a verbal response whenever possible, otherwise a written response will be provided as soon as practicable after the AGM. Questions raised at any other time will normally receive a written response. Shareholders attending the AGM will also have the opportunity to meet informally with all the Directors after the meeting has concluded subject to current COVID-19 guideline and/or social distancing measures.

The Directors consider that this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model, risks and strategy. In order to assess whether the Annual Report and Accounts were fair, balanced and understandable, the Board received an early draft to enable time for review and comment. The Audit Committee then met to consider the criteria for a fair, balanced and understandable Annual Report and to review the process underpinning the compilation and assurance of the report, in relation to financial and non-financial management information. At that meeting they considered the Annual Report and Accounts as a whole and discussed the tone, balance and language of the document, being mindful of the UK reporting requirements and consistency between narrative sections and the financial statements. As part of this process, the Board considered the Group's reporting governance framework and the views of the external auditor as reported to the Audit Committee. Pages 79 to 82 provide an assessment of the Group's affairs.

The Annual Report and Accounts is made available to all shareholders at least 20 working days before the AGM. Registered shareholders receive a Notice of Meeting and Form of Proxy, the latter document allowing a shareholder to vote in favour, or against or indicate a vote withheld on each separate resolution tabled at the AGM. Particulars of aggregate proxies lodged are also announced to the London Stock Exchange ('LSE') and placed on the Group's investor website, www.dignityplc.co.uk, as soon as practicable after the conclusion of the AGM.

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

The Group is happy to arrange visits to its funeral locations and crematoria, if requested by a shareholder, at a time suitable to all parties.

Our approach to diversity

The Board is committed to and takes responsibility for equality and diversity throughout the Dignity Group.

It is the policy of the Company that there shall be no discrimination or less favourable treatment of employees or job applicants in respect of age, race, religion or belief, gender, sex, sexual orientation, pregnancy, disability or marital status. The Company is fully committed to ensuring there is no unfair and unlawful discrimination in relation to employees, job applicants, clients, suppliers and members of the public. It is Company policy to engage, promote and train employees on the basis of their capabilities, qualifications and experience, without discrimination, and all employees will receive equal opportunity to progress within the Company.

In order to put this policy into practice in the day-to-day management and operations of the Company, we:

- Monitor decisions on recruitment, selection, training and promotion to ensure they are based solely on objective and job-related criteria;
- Provide training for managers to ensure that they understand the nature of discrimination and are fully aware of their responsibilities in implementing our Equality and Diversity policy;
- Provide awareness for employees to ensure that they have a greater understanding of equality and diversity in the workplace;
- Provide information and advice on the implications of the relevant legislation and on assistance available to help in the employment of people with disabilities;
- Ensure that all policies are applied thoroughly and fairly particularly those relating to any complaint involving discrimination or harassment;
- Communicate this policy to employees, suppliers and third parties, where applicable, through induction, training and communications; and
- Encourage our suppliers and third parties to adopt policies and working practices, which reflect our own views and values on equality and diversity and that of our clients.

All employees are also responsible for the promotion and advancement of this policy and the Group supports its implementation and communication through its Equality and Diversity Programme which covers a number of matters including induction, learning and development.

For further details on Employee diversity, see above and also page 35 of the Environmental, Social and Governance report and page 68 of the Chairman's introduction to Governance.

Substantial shareholdings

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

	As at 14 March 2022		As at 31 December 2021	
Holder	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
Phoenix Asset Management Partners Limited	14,718,468	29.42	14,718,468	29.42
Granular Capital Limited	6,104,861	12.2	6,104,861	12.2
Artemis Investment Management LLP	4,955,451	9.90	4,955,451	9.90
John Stewart Jakes	3,669,612	7.33	3,669,612	7.33
Indian Creek B.V.	2,508,194	5.01	2,508,194	5.01
Prudential plc group of companies	2,469,210	4.94	2,469,210	4.94
Pictet Asset Management Limited	2,394,069	4.79	2,394,069	4.79
Standard Life Aberdeen plc	1,841,495	3.68	1,841,495	3.68

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

By order of the Board

Tim George
Company Secretary

22 March 2022

AUDIT COMMITTEE REPORT

THE AUDIT COMMITTEE MONITORS THE INTEGRITY OF FINANCIAL STATEMENTS, THE EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROLS AND THE IMPLEMENTATION OF NEW ACCOUNTING STANDARDS IN ORDER TO GIVE ASSURANCE TO STAKEHOLDERS.

Graham Ferguson, Chair of the Audit Committee

Dear Shareholder,

I am pleased to present my first report as the Chair of the Audit Committee (the 'Committee') since my appointment to the Board and to this Committee on 1 September 2021.

I joined the Board of First Derivatives plc (now FD Technologies plc) in September 2008 and had responsibility for its financial operations. I stepped down as Chief Financial Officer and from the Board of FD Technologies plc on 1 January 2021 to devote more time supporting the development of SMEs based in Northern Ireland.

During my career, I have worked on numerous corporate acquisitions and restructuring projects and have experience in business and acquisition finance. In my career, I have also held senior roles with KPMG, Bank of Ireland and Silverwood Property Developments Limited. I am a qualified Chartered Accountant.

In order to inform myself both before and following my appointment, I held a number of conversations with the Chairman, Chief Executive, Interim Chief Financial Officer, the Group Financial Controller, key members of the Executive Committee and other senior leaders as well as with senior audit personnel from EY.

Membership and Process

The following Directors served on the Audit Committee during 2021: Gillian Kent, Paul Humphreys, John Castagno and myself. John is an Independent Non-Executive Director as I am, Gillian and Paul were Independent Non-Executive Directors but stood down as Directors following the General Meeting on 22 April 2021. Kartina Tahir Thomson was appointed to the Board and this Committee on 7 February 2022 and is an Independent Non-Executive Director.

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

The Committee met three times during 2021; in March prior to the release of the 2020 Preliminary Announcement; in September prior to the release of the 2021 Interim Announcement and again in December 2021 immediately prior to the end of the financial period. The attendance records of the members are shown on page 75. All Committee members at the time were present at the relevant meetings. The external auditors, EY, the Chairman at the time, the Chief Executive at the time, the Interim Chief Financial Officer, the Head of Internal Audit, the Financial Controller, the Executive Director of Funeral Operations, the Chief Operating Officer and James Wilson, the former Non-Executive Director, have all attended meetings by invitation.

The Committee holds a private session with the audit team from our external auditors, EY, without management present at least once a year. In addition, the Chair of the Audit Committee, has discussions with the Lead Partner on a number of occasions plus additional interactions in the year which provide the opportunity for open communication and the free flow of any concerns relating both to the openness, transparency and general engagement of management with the audit process as well as to understand EY's assessment of key judgements as they arise.

Member	Since	Experience
Dean Moore	March 2020-December 2020	Former Chair of the Audit Committee until December 2020.
Gillian Kent	June 2020 – April 2021	Previously Managing Director of MSN UK. Non-Executive Director roles at Mothercare plc where Gillian is Chair of the Remuneration Committee, SIG plc, NAHL Group plc, Ascential Plc, and at three private companies.
Paul Humphreys	February 2021– April 2021	A broad executive career spanning both quoted and unquoted companies, including having been Group Financial Director at Care UK. Currently holds advisory roles at a small number of unlisted companies.
John Castagno	July 2021	An experienced Non-Executive Director with a background in support industries and financial services, having held senior positions at British Gas Insurance, Tesco Bank and a variety of insurance providers.
Graham Ferguson	September 2021	Former CFO of FD Technologies plc and a chartered accountant who previously held senior roles in KPMG and Bank of Ireland.
Kartina Tahir Thomson	February 2022	A Fellow of the Institute and Faculty of Actuaries, with over twenty years of actuarial, risk, governance and regulatory experience.

Key Responsibilities

The Committee both reports to and works with the Board to fulfil its oversight responsibilities. Its primary functions are to:

- Monitor the integrity of the financial statements and other information provided to shareholders and other stakeholders to ensure they represent a clear and accurate assessment of the Group's position, performance, strategy and prospects;
- Consider the financial statements and recommend to the Board as to whether the Annual Report and Accounts, taken as a whole, are fair, balanced, understandable and provide information necessary for shareholders and stakeholders to assess the performance, business model and strategy of the Group, recognising the changes to the strategy of the business;
- Review significant financial reporting issues and judgements contained in the financial statements;
- Review the systems of accounting, internal control and risk management;
- Monitor and review the significant risks identified by the Group as well as the management and mitigation of those risks;
- Oversee and maintain an appropriate relationship with the Group's external auditors and review the effectiveness, independence and objectivity of the external audit process;
- Monitor the integrity of the financial statements and other information provided to shareholders and other stakeholders to ensure they represent a clear and accurate assessment of the Group's position, performance, strategy and prospects; and
- Consider the financial statements and recommend to the Board as to whether the Annual Report and Accounts, taken as a whole, are fair, balanced, understandable and provide information necessary for shareholders and stakeholders to assess the performance of the business.

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

Activities in the period

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

- Review and agreement of the 2021 Internal Audit Plan and budget;
- At all meetings, the review of Internal Audit progress against the Internal Audit plan for the period, the results of principal audits and other significant findings, adequacy of management's responses and the timeliness of the resolution of actions arising;
- Review Dignity's risk control framework and its linkage to the Risk Register and Viability Statement included in the Strategic Report on page 47;
- Review of the Going Concern and Viability Statements in relation to the Annual Report and the former to the Interim Results;
- A six-monthly review of the Group's Principal Risks and recommendation of adoption by the Board. This is part of an ongoing process of identifying, evaluating and managing the significant risks faced by the Group. A review of the Risk Register was also completed in December 2021. The principal risks facing the Group are considered on pages 40 to 46 of this Annual Report;
- In advance of the financial period end, the review with the external auditors, EY, of the annual external audit plan, which addressed the planned audit approach to key audit matters;
- Consideration of the external auditor's views on key judgement areas and audit findings relating to key accounting matters at the conclusion of the audit;
- An assessment of the effectiveness of the external auditors;
- A comprehensive review of the 2020 and 2021 Annual Report and Accounts and the 2021 Interim Report. This review was to ensure that the Committee was completely satisfied that the information was fair, balanced and understandable. As part of this review the Committee received reports from the external auditors on their audit of that Annual Report and Accounts and their review of the interim results. The Committee also reviewed the Preliminary and Interim Announcements made to the London Stock Exchange; and
- The formal review of the going concern assumptions adopted in the preparation of the 2020 and 2021 financial statements.

Areas that have been discussed and considered by the Committee to be appropriate in relation to the 2021 Annual Report and Accounts are:

- Impairment – the Committee considered the results and disclosures of the impairment tests performed, ensuring that the assessment made and conclusions reached were consistent with the analysis and reflected the changes in the funeral and crematoria industries which include the decline in underlying profitability due to a challenging year which lowered average funeral incomes, the impact of COVID-19, increased consumer price awareness and competition;
- Pre-Need Trust accounting – valuation of Level-3 Trust assets – the Committee considered the basis of valuation of private (illiquid) investment funds which are classified as Level-3 assets for the purpose of fair value disclosures, including the adequacy of the disclosures made in the Financial Statements;
- Deferred Insurance Commission – the Committee considered the ongoing cancellation rate per annum of life assurance products sold by third party insurance companies but where the Group is the named beneficiary in consideration for which the Group has committed to perform the funeral of a plan holder at a discount to its rate prevailing at the time of death. A detailed analysis on the cancellation rate for these life assurance products resulted in a prior year restatement to opening reserves as at 28 December 2019 of £3.5 million reflecting the adjustment to the commission asset, the recognition of a commission liability and considered net of tax;
- Pensions – the Committee examined the assumptions used in the actuarial valuation for the defined benefit pension scheme considering the consistency of approach with the prior year and compliance with the requirements of IAS 19;

- Alternative Performance Measures – the Committee reviewed growing emphasis on ensuring the appropriate, and not disproportionate, use of Alternative Performance Measures ('APMs'). In this regard, the Committee noted guidance that one of the key underlying principles of APMs is that they should not be given greater prominence than measures calculated based upon IFRS;
- Risk – the Committee performed a comprehensive review of the principal risks and uncertainties disclosed in the 2021 Annual Report based on the changing and competitive environment in which the Group operates;
- Going Concern and Viability – the Committee performed an assessment and ratification of the Going Concern and Viability Statements, including giving due consideration to severe but plausible downside risks;
- Corporate Governance – the Committee reviewed the Statement on Corporate Governance and the adequacy of the explanation set out in respect of those provisions with which the Company is currently not compliant; and
- Section 172 Statement – reviewed by the Committee.

Fair, balanced and understandable assessment

At the request of the Board, the Committee considered whether the 2021 Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy. To enable the Board to have confidence in making this statement, the Committee considered the elements in the table below:

Fair
- Is the whole story being presented?
- Are the key messages in the narrative reflected in the financial reporting?
- Are the KPIs disclosed at an appropriate level based on the financial reporting?

Balanced
- Is there a good level of consistency between the narrative in the front section and the financial reporting in the back section of the report?
- Are statutory and adjusted measures explained clearly with appropriate prominence?
- Are the key judgements referred to in the narrative reporting and the significant issues reported in the Audit Committee Report consistent with the disclosures of key estimation uncertainties and critical judgements set out in the financial statements?

Understandable
- Is there a clear framework to the report?
- Are the important messages highlighted appropriately throughout the document?
- Is the layout clear with good linkage throughout in a manner which reflects the whole story?

As a result of this review, the Committee made a recommendation to the Board that it could make the statement that the Annual Report and Accounts were fair, balanced and understandable.

External audit

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. This policy assigns responsibility for monitoring objectivity, independence and compliance with ethical and regulatory requirements to the Audit Committee with day-to-day responsibility assigned to the Interim Chief Financial Officer, Dean Moore. The Committee also retains responsibility for the appointment and removal of the external auditors, who are currently EY.

The Audit Committee, on an annual basis, formally considers the performance and independence of the external auditors. The formal annual review was completed in the first quarter of 2022. This review took the form of a detailed questionnaire that was sent to all Committee members and attendees at the Committee meetings. The Committee was, based on that review which indicated a strong level of confidence in the external auditors, fully satisfied with EY's performance in 2021 and a resolution to re-appoint them as external auditors will be tabled at the AGM on 9 June 2022.

Policy on non-audit fees

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

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

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

In the period, EY undertook non-audit work on behalf of the Group including an assurance related non-audit review of the Interim Report for 2021, a financial covenants compliance certificate and certifications required as part of the Group's membership renewal of the Funeral Planning Authority. Total fees of £134,000 were charged for non-audit services. The EY fee for audit services was £631,000.

The Audit Committee has kept under review the independence of EY and has been satisfied at all times that any threats arising to their independence have been subject to appropriate safeguards.

The Committee is, therefore, confident that the objectivity and independence of the external auditors is not compromised by reason of non-audit work, not least because such work will generally be undertaken by other professional firms. A formal statement of independence from EY has been received in respect of 2021.

AUDIT COMMITTEE REPORT CONTINUED

Audit partner and firm rotation

Consistent with the requirements of the Financial Reporting Council's Ethical Standard, EY audit partners serve for a maximum of five years on listed clients. Adrian Roberts is Dignity's audit partner having been appointed to the role in 2020.

As stated in the 'External Audit' section, the Audit Committee conducts an annual evaluation of the performance and relationship with EY. The Committee considers that the relationship with the auditors is working well and is satisfied with their effectiveness and there are no current plans to put the external audit out to tender. The Company last carried out a competitive tender for audit services in 2014 which resulted in EY being appointed for the December 2014 period end. In line with the statutory requirements, the position of Group auditor will be re-tendered in advance of the 2024 period end.

Internal Audit

The Group has a dedicated Internal Audit team, which reports to the Chief Executive and the Audit Committee. The Head of Internal Audit coordinates a risk-assessed programme of work across all departments and operations of the Company with the aim of ensuring full coverage over a three-year cycle. Where appropriate, Internal Audit utilise support from professional services firms to provide subject matter expertise on specialist areas.

During 2021, there were monthly meetings between the Head of Internal Audit and the Executive Chairman/Chief Executive formally to review and discuss Internal Audit's work programme and findings. In addition, regular meetings between the Head of Internal Audit and the external auditors, EY, were held during the year to discuss and plan audit work and to ensure a complementary approach. The Head of Internal Audit provides reports to the Audit Committee at every full meeting and met on a one-to-one basis with the Chair of the Audit Committee, on four occasions in the period. In addition, a private meeting is held annually between the Audit Committee members and the Head of Internal Audit, without any Executive Directors present. This process allows the Committee to have appropriate discussion and debate with the Head of Internal Audit as well as to monitor the effectiveness of the Internal Audit function, including comprehensive review of all reports and their conclusions.

Whistleblowing

We have a policy and procedure by which employees of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or any other matter. This ensures arrangements are in place for the proportionate and independent investigation of such matters and appropriate follow-up action. A whistleblowing report is formally reviewed on an annual basis by the Committee or more frequently should the need arise.

Annual Evaluation

The Board completed 2020 performance evaluations of itself and its Committees. Specific matters reviewed in respect of the Committee included:

- Time management;
- Committee processes and support;
- The relationship between the Committee and the Chief Financial Officer, the External Audit Partner and the Head of Internal Audit;
- Assessment of the work of Internal Audit;
- Assessment of the work of the External Auditors;
- The quality of the Group's financial reporting;
- Assessment of the system of internal controls;
- The effectiveness of monitoring the management of risk; and
- How the Committee can improve its performance over the coming year.

Issues arising from the evaluation are reviewed and addressed.

Given the significant Board restructuring in 2021 (which meant that there were no Independent Non-Executive Directors on the Board until the appointment of John Castagno in July 2021 followed by Graham Ferguson in September 2021), the evaluation will be conducted in the first half of 2022 by which time the directors appointed in the second half of 2021 and in early 2022 will have more experience of the Company, the Board and Committees. Issues arising from the evaluation will be reviewed and addressed.

With the establishment of the Risk Committee, a number of matters currently the responsibility of and reviewed by the Audit Committee will transfer to the Risk Committee. The Risk Committee will advise the Board on risk management issues, recommend the framework of risk limits and risk appetite to the Board for approval and to oversee the risk management arrangements of the Company, including the embedding and maintenance of a supportive risk management culture.

The Risk Committee will also ensure that the material risks facing the Company have been identified and that appropriate arrangements are in place to manage and mitigate those risks effectively within the Company's agreed risk appetite.

I will be available to answer any questions about the work of the Committee at the AGM on 9 June 2022.

This Audit Committee report was reviewed and approved by the Board on 16 March 2022.

Graham Ferguson
Chair of the Audit Committee

22 March 2022

NOMINATION COMMITTEE REPORT

THE COMMITTEE HAS OVERSEEN THE APPOINTMENT OF BOTH A NEW CHAIR OF THE BOARD, CHAIR OF THE AUDIT AND THE REMUNERATION COMMITTEES AND A CHAIR OF THE NEWLY ESTABLISHED RISK COMMITTEE. THE COMMITTEE'S OBJECTIVE IS TO ENSURE WE HAVE AND WILL HAVE THE RIGHT BLEND OF SKILLS AND EXPERIENCE ON THE BOARD TO DELIVER OUR GROWTH STRATEGY.

John Castagno, Chair of the Nomination Committee

Dear Shareholder,
On behalf of the Board, it is my pleasure to present the 2021 Nomination Committee report as both Chairman of the Company and the Nomination Committee.

During 2021, the membership of the Nomination Committee (the 'Committee') comprised Clive Whiley (previously chair of the committee), Gillian Kent, Paul Humphreys and James Wilson all of whom left the Board following the General Meeting on 22 April 2021. Following my appointment on 23 July 2021 and Graham Ferguson on 1 September 2021 we currently constitute the Committee membership. Kartina Tahir Thomson joined the Board on 7 February 2022 and also serves on this Committee.

During 2021, three external search consultancies were engaged for Board appointments – Ridgeway Partners, Warren Partners and Nurole. These consultancies provide no other services to the Group.

Both myself, Graham and Kartina are Independent Non-Executive Directors. The Company Secretary is Secretary to the Committee.

Currently, the Committee is looking to appoint a Chief Financial Officer. The objective is to maintain an appropriate balance of Independent Non-Executive Directors and suitable representation for the Board committees including throughout the period where Dean Moore is Interim Chief Financial Officer.

The authorities delegated to the Committee by the Board comprise, among other matters:

- The review of the structure, size, and composition of the Board;
- The evaluation of the balance of skills, knowledge, independence, diversity and experience of the Board including the impact of new appointments;
- Overseeing and recommending the recruitment of new directors;
- Ensuring appointments are made against objective criteria; and
- Succession planning to ensure processes and plans are in place with regard to both Board and senior appointments; keeping under review the leadership needs of the Group; and ensuring that the Non-Executive Directors can meet the time requirements of the role.

The principal duties of the Committee in 2021 were overseeing the appointment of Paul Humphreys to succeed Dean Moore as Chair of the Audit Committee and, subsequent to the General Meeting in April, to appoint an Independent Non-Executive Chair of the Board which resulted in my appointment and Graham Ferguson as Chair of the Audit and Remuneration Committees. The Committee also reviewed the monitoring and oversight of succession planning processes together with ongoing succession planning and talent mapping within the Group, identifying individuals and any development requirements necessary to ensure effective succession.

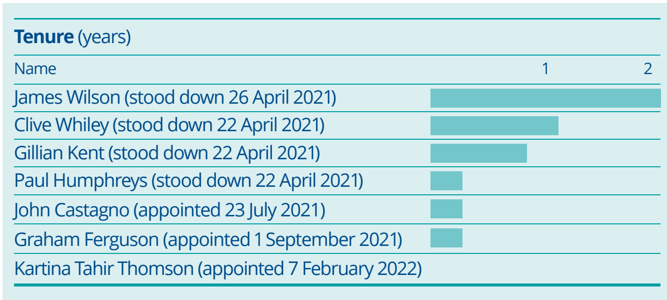
Succession planning, development and leadership requirements will continue to be reviewed in 2022.

The Committee is committed to embedding inclusion and diversity throughout the Group. It is the policy of the Company that there shall be no discrimination or less favourable treatment of employees or job applicants in respect of age, race, religion or belief, gender, sex, sexual orientation, pregnancy, disability or marital status. The Company is fully committed to ensuring there is no unfair and unlawful discrimination in relation to employees, job applicants, clients, suppliers and members of the public. It is Company policy to engage, promote and train employees on the basis of their capabilities, qualifications and experience, without discrimination, and all employees will receive equal opportunity to progress within the Company. See also 'Our approach to diversity' on page 78.

The Company provides a balanced, supportive, caring and flexible culture and environment with working practices to accommodate peoples' needs. In so doing, it aims to continue to attract and retain the best candidates and ensure the development of all Group employees.

The members of the Committee's attendance record is set out on page 75. The Committee's proceedings are reported at the next Board meeting and the Committee's minutes are made available to all members of the Board.

All the Non-Executive Directors are appointed for up to three-year terms which may then be renewed up to a maximum of nine years service in accordance with the independence guidelines in the 2018 UK Corporate Governance Code.



As at 31 December 2021, I had been on the Board for five months and Graham Ferguson four months.

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

NOMINATION COMMITTEE REPORT CONTINUED

The Committee is committed to ensuring inclusion and diversity at Board and all levels throughout the Group. Employee diversity of those in senior and middle management roles is shown on page 35.

We acknowledge that we have much to do to fulfil our diversity ambitions and it will take time but it is very much an objective of ours: we will work towards making progress on this matter.

It is the policy of the Company that there shall be no discrimination or less favourable treatment of employees or job applicants in respect of age, race, religion or belief, gender, sex, sexual orientation, pregnancy, disability or marital status. The Company is fully committed to ensuring there is no unfair and unlawful discrimination in relation to employees, job applicants, clients, suppliers and members of the public. It is Company policy to engage, promote and train employees on the basis of their capabilities, qualifications and experience, without discrimination, and all employees will receive equal opportunity to progress within the Company. See also 'Our approach to diversity' on page 78.

The appointment to the Board in the first quarter of 2022 of Kate Davidson and Kartina Tahir Thomson, means that, women make up 29 per cent of the Board of seven Directors. While the Committee will continue to pursue a policy of ensuring that the best people are appointed for the relevant roles, the benefits of greater diversity are recognised and will continue to be taken into account when considering a particular appointment.

I am also pleased to confirm that the Group will continue to publish the details on corporate diversity and report on our compliance and appointment process in this Annual Report.

Details of the gender balance for Directors and those in senior management and their direct reports can be found in Environmental, Social and Governance on page 35. Subsequent to the period end Kate Davidson and Kartina Tahir Thomson have joined the Board of Directors.

The Board completed 2020 performance evaluations of itself and its Committees. Specific matters reviewed in respect of the Committee included:

- Time management;
- Committee processes and support;
- Performance in reviewing the composition of the Board;
- The processes by which Board appointments are made;
- Plans for Executive and Non-Executive succession; and
- How the Committee can improve its performance over the coming year.

Issues arising from the evaluation were reviewed and addressed.

As stated in Board Evaluations on page 75 of the Chairman's introduction to governance, in light of the significant Board restructuring in 2021 (which meant that there were no independent Non-Executive Directors on the Board from 22 April 2021 until the appointment of myself in July 2021 followed by Graham Ferguson in September 2021), the evaluation will be conducted in the first half of 2022 by which time the directors appointed in the second half of 2021 and in early 2022 will have more experience of the Group, the Board and Committees.

Finally, all Directors offer themselves for election or re-election at the AGM on 9 June 2022 and I will be available at the AGM to answer questions on the work of the Committee.

This Nomination Committee report was reviewed and approved by the Board on 16 March 2022.

John Castagno
Chair of the Nomination Committee

22 March 2022

REPORT ON DIRECTORS' REMUNERATION

for the 53 week period ended 31 December 2021

ALIGNING REMUNERATION, REWARD AND PERFORMANCE TO SHAREHOLDERS' INTERESTS AND OUR STRATEGY.

Graham Ferguson, Chair of the Remuneration Committee

Dear Shareholder,

On behalf of the Board, I am pleased to present this Directors' Remuneration Report for the period ended 31 December 2021, my first since being appointed Chair on 1 September 2021.

As the 2022 AGM will be the third anniversary of shareholders approving our remuneration policy, we are required to seek shareholder approval for a new policy for the next three-year period, 2022 to 2024. The new Directors' Remuneration Policy is set out on pages 87 to 93, together with details of the changes compared to the current policy we propose to make. The Annual Report on Remuneration together with this Statement, will be subject to a separate advisory vote.

Board changes

Following the General Meeting on 22 April 2021, Gary Channon was appointed Executive Chairman subsequently becoming Chief Executive on the appointment of John Castagno as Independent Non-Executive Chairman on 23 July 2021.

Gary Channon elects not to be paid as an Executive Director of the Company. However, in order to comply with the National Minimum Wage regulations, his service contract requires that he is paid £18,500 per annum which is donated to the Company's selected charity, the Teenage Cancer Trust. Gary receives no other remuneration for his role as CEO.

John Castagno as Board Chairman receives an annual fee of £175,000.

Clive Whiley, Gillian Kent and Paul Humphreys left the Company following the General Meeting. There was no compensation for loss of office.

I was appointed an Independent Non-Executive Director and Chairman of the Audit and Remuneration Committees on 1 September 2021 with an annual fee of £60,000.

Kate Davidson, Chief Operating Officer, was appointed an Executive Director on 7 January 2022. Kate's package comprises a salary of £225,000, pension contribution of four per cent (in line with the rate for the majority of the workforce), bonus opportunity of 100 per cent of salary and an LTIP award for FY22 of 100 per cent of base salary.

Kartina Tahir Thomson was appointed an Independent Non-Executive Director and Chair of the Risk Committee on 7 February 2022 again with an annual fee of £60,000.

Activities in the period

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

- Reviewing base salaries for Executive Directors and senior management;
- Andrew Judd was appointed to the Board on 14 December 2020. Following benchmarking to ensure market competitiveness, Andrew Judd's salary was increased from that previously reported for 2021 by 12.5 per cent to £225,000. His 2020 remuneration disclosed is for the 14 day period as a Director that year and has been restated from what was included in the 2020 Annual Report which incorrectly included his remuneration for the whole year, which included 353 days not as a Director;
- Determining there was no annual bonus scheme for Executive Directors and approving the 2021 bonus outturn for senior management and wider group;
- Setting the 2022 bonus targets for the Executive Directors;
- Approving awards and setting performance measures under the Company's share plan;
- Assessment of the 2019 to 2021 Long-Term Incentive Plan performance;
- Reviewing the Remuneration Policy and its application for 2022;
- Reviewing Executive Director share ownership levels;
- Reviewing trends in market practice and investor guidelines;
- Reviewing the Gender Pay Gap and plans for diversity and inclusion;
- Reviewing the Company Performance Management framework; and
- Approving the 2021 Directors' Remuneration Report.

Remuneration outturns for 2021

There was no annual bonus plan operated in FY21 for Executive Directors.

Andrew Judd was granted a LTIP award in 2019 which was subject to performance against a relative TSR target, measured over the three year period to the end of 2021. Dignity's TSR performance was compared to the companies comprising the FTSE SmallCap Index (excluding Investment trusts) over this period and failed to achieve the minimum performance threshold and so this award will lapse with no shares vesting.

Andrew was also granted LTIP awards in 2020 and 2021 both of which are subject to performance measures of growth in funeral market share and TSR over three-year performance periods.

The Committee considers that there has been an appropriate link between reward and performance, and the remuneration policy operated as intended for 2021. However, the Committee acknowledges going forward the need for minor changes to the policy and implementation such that remuneration will have a stronger alignment to shareholder interests and our strategy. Further details of these changes are set out in this letter. In determining that remuneration was appropriate for 2021 the Committee took into account external factors and internal relativities between the pay levels of executives and employees.

Remuneration Policy review

During the year, the Committee reviewed the Remuneration Policy taking into account investor guidelines, market best practice and the alignment to strategy and shareholder interests. As a result of the review, the following changes are proposed which do not result in a significant change to Policy structure:

1) Annual bonus deferral – the level of deferral will be increased from 20 per cent of any bonus earned for 2 years to one third of any bonus earned for 3 years. Furthermore, the bonus deferral mechanism will be changed such that the Executive will be required to purchase shares outright which are then subject to a holding period during which time they cannot be sold.
2) Target pay out for annual bonus will reduce from 60 per cent to 50 per cent of maximum to align with market best practice and investor expectations.
3) The post-employment shareholding requirement will be increased to 200 per cent of salary for two years post-cessation to align with the IA's recommendation.
4) In addition, policy wording has been refined in relation to pension alignment with the workforce and the provision of payments made in relation to a notice period or PILON payments to align with market best practice.

Further details on the rationale for these proposed changes can be found in the Policy section of this report.

How we will apply the new policy in 2022

There is no change to the Chief Executive's salary for FY22 and he will not participate in the incentive plans for 2022. The Interim Chief Financial Officer receives only basic salary and also will not participate in the incentive plans for 2022. His salary is unchanged for FY22 at £316,000.

Both the Chief Operating Officer and the Executive Director of Funeral Operations receive a salary of £225,000. The Committee determined it was appropriate to award an increase taking into account the experience gained in the PLC Director role, his performance, relativity of pay to other executive colleagues and market rates for directors' remuneration, which remain significantly higher. We see scope for further salary increases as both executives grow further into their roles.

Both Executive Directors will participate in the annual bonus plan, with a maximum opportunity of 125 per cent of salary. It is presently intended that 70 per cent of the bonus will be based on a mix of stretching underlying EBITDA and 30 per cent on strategic objectives. Underlying EBITDA will provide a measure of underlying profitability and the Strategic objectives will support our business.

In relation to the FY22 LTIP award, having considered the performance measures carefully for the FY21 award, the same Market Share and Relative TSR performance measures will again apply. The Committee will consider carefully the grant level in light of the prevailing share price at the time of grant but intends to apply a grant level of 150 per cent of base salary for the award to both of the Executive Directors.

Concluding remarks

On behalf of the Remuneration Committee, I would like to thank shareholders for their ongoing support, and I look forward to this continuing at the forthcoming Annual General Meeting.

Graham Ferguson
Chair of the Remuneration Committee

22 March 2022

REMUNERATION AT A GLANCE

Our remuneration principles

- Competitive Market positioning and opportunity.
- Pay aligned with sustainable long-term performance.
- Incentive metrics aligned with our strategy and key performance indicators.
- Alignment of Executive and shareholder interests.
- Mindful of our wider stakeholder responsibilities.

REMUNERATION POLICY REPORT

This section of the Directors' Remuneration Report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008 (as amended). This Directors' Remuneration Policy will be put to a binding shareholder vote at the Company's AGM on 9 June 2022. Once approved, the Policy will apply for a period of three years from the AGM, unless shareholder approval is sought for earlier changes.

Overview of Remuneration Policy

The objective of the Remuneration Policy is to provide remuneration packages to each Executive Director that will:

- Align rewards with the interests of shareholders;
- Motivate and encourage superior performance;
- Allow the Group to retain the talent needed to execute its business strategy;
- Enable the Group to be competitive when recruiting appropriately skilled and experienced management; and
- Ensure that the overall package for each Director is linked to strategic objectives of the Group.

The table below describes how the factors of Provision 40 listed in the Code are addressed:

Clarity	In line with our commitment to ensuring an open dialogue with our shareholders, the Remuneration Committee Chair consults with shareholders when changes are being made to the Remuneration Policy or where there is a material change in the way in which we operate our policy. Our Team Forum facilitates two-way communication between employees, management and the Board of Directors where, amongst other topics, remuneration policy is discussed, and employees' opinions and suggestions are welcomed.
Simplicity	Our remuneration policies and practices are simple, clear and well understood by employees and externally. We set metrics that are aligned to our business strategy and the operation of our policy demonstrates pay for performance.
Risk	The design of our Remuneration Policy ensures that risks are identified and will not be rewarded by: • the weighting of equity in our incentive plans (alongside shareholding guidelines in service and post service); • discretion to override formulaic outturns of incentives; and • malus/clawback provisions.
Predictability	The incentive plans are subject to individual caps, and the scenario charts on page 91 illustrate the potential rewards receivable by our Executive Directors and how they vary based on performance and share price growth. The Remuneration Committee also has the discretion to adjust any vesting outcomes if they are not considered appropriate and malus and clawback provisions are in place.
Proportionality	The performance conditions are aligned to strategy and performance targets are stretching, and ranges calibrated such that poor performance is not rewarded. The link between individual awards, the delivery of strategy and the long-term performance of the Company is explained in the policy table and demonstrated in the scenario charts on page 91.
Alignment to culture	The Remuneration Committee is mindful of the Company culture in designing and implementing the policy, ensuring remuneration policies and practices are appropriate, fair and aligned and support the culture of the business. The alignment of performance metrics and strategy drives behaviours consistent with our purpose values as a business.

Decision-making process for determination, review and implementation of the Policy

The Committee reviews the Policy and its operation to ensure it continues to motivate and reward the Executive Directors to execute the business strategy and aligns with the interests of shareholders. The UK Corporate Governance Code, institutional investor and investor representative body views and market practice is taken into account during the review process. Where changes are being made to the remuneration policy or where there is a material change in which we operate our policy, major shareholders will be consulted in advance and their views taken into account. In addition, the Committee also takes into account views from Management and its independent remuneration consultants who provide the Committee with updates on corporate governance developments and market best practice guidance. To manage any potential conflicts of interest, the Committee ensures that no individual is involved in discussions regarding their own remuneration arrangements and that remuneration is fully aligned to and supports our strategy, culture and values. When reviewing the policy, the Committee also carefully considers the remuneration arrangements, policies and practices of the workforce and the cascade of remuneration throughout the business.

Implementation of the Policy is considered annually for the year ahead in light of the strategy and incentive targets are also reviewed to check if they remain appropriate or need to be recalibrated.

Changes to the Remuneration Policy

Three material policy changes are proposed:

1. Annual bonus deferral – currently 20 per cent of any bonus earned is deferred into a share award, which vests and the shares are delivered after 2 years, subject to continued employment.

   The level of deferral will be increased to one third of any bonus earned and the deferral period extended from 2 to 3 years, to provide a stronger incentive to build shareholdings quickly, subject to performance.

   The bonus deferral mechanism will be changed from a share award, with the shares delivered at the end of the deferral period subject to continued service, to a requirement for the Executive to purchase shares outright with one third of the cash bonus, with the shares then subject to a three year holding period during which time they cannot be sold. This mechanism provides a stronger alignment with shareholders through the direct holding of shares from the outset and provides further long-term alignment post cessation of employment, as the shares are not forfeited on any cessation (good or bad leaver).

2. Target bonus level pay out – the current pay out level for achieving a target level of performance is 60 per cent of the maximum.

   This is being reduced from 60 per cent of the maximum to 50 per cent, to increase the level of stretch in the bonus targets and to bring the target bonus pay out level more into line with market best practice.

3. Post-employment shareholding requirement – the current post-employment shareholding requirement is the retention of shares worth 100 per cent of salary (or, if lower, the actual shareholding) to be held for one-year post-cessation of employment.

   This is being brought into line with the Investment Association's recommended approach, of 200 per cent of salary (or, if lower, the actual shareholding) for two years post-cessation of employment. This requirement to hold a higher number of shares for longer will provide a longer-term alignment of interest with shareholders after an executive director leaves.

Further minor refinements to the policy wording will also (i) make it clear that pension provisions must be in line with workforce and (ii) tightening the wording to make it clear that payments in relation to a notice period or payment in lieu of notice payments will be paid monthly and will be subject to mitigation, including offset against employment earnings elsewhere, in line with best practice.

The table on pages 89 and 90 sets out the components of Dignity's Remuneration Policy. Details of how the Committee will implement the policy are provided in the Annual Report on Remuneration on page 93.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
Base salary	Essential to recruit and retain executives of a high calibre. Reflects an individual's experience, role and performance. To provide a fair fixed level of pay commensurate for the role, ensuring no over reliance on variable pay.	Salaries are paid monthly. They are normally reviewed annually and fixed for 12 months commencing 1 January. In deciding appropriate salary levels, the Committee takes into account: • the role, experience, responsibility and performance (individual and Group); • salary levels and increases applied to the broader workforce; • relevant market information for similar roles in broadly similar companies of a similar size; and • the current Chief Executive has voluntarily chosen not to receive a base salary for his services, which the policy permits. However, in order to comply with the National Minimum Wage regulations, he is required to be paid a salary which is donated to charity.	There is no prescribed maximum. Salary levels are determined based on the relevant reference points noted under the heading 'Operation' and for increases, generally the Committee is guided by average increases across the workforce. However, higher increases may be awarded on occasion, for example, where an individual is promoted or has been recruited on a below market rate, where there have been changes to individual responsibilities or in the size or complexity of the business or where salaries have fallen significantly below mid-market levels.	The Committee reviews the salaries of Executive Directors each year taking due account of Company and individual performance and positioning relative to other employees and the market.
Benefits	To provide competitive benefits to help recruit and retain executives and to ensure the well-being of the executives.	Benefits include but are not limited to provision of a company car (or cash allowance in lieu), fuel, landline telephone and broadband at each Executive Director's home residence, mobile phone, family private medical cover and a pre-arranged funeral plan for the individual and spouse. Relocation or other related expenses may be offered, as required. Executive Directors are also eligible to participate in the all-employee HMRC approved share schemes on the same basis as other employees. Any business expenses incurred in carrying out an executive's duties which are deemed to be taxable will be reimbursed by the Company together with any personal tax due.	There is no prescribed maximum as costs may vary in accordance with market conditions. Relocation expenses must be reasonable and necessary. HMRC tax-approved limits will apply to all employee share schemes.	Not applicable.
Pension	To provide retirement benefits in line with the overall Company policy.	The Company may contribute to selected individuals' personal pension schemes or is able to make salary supplements in lieu of pension contributions.	Company contributions to defined contribution plans or salary supplements in lieu of pension will be in line with the pension provision of the workforce, currently a pension contribution of 4 per cent of salary.	Not applicable.
Annual bonus	To motivate executives and incentivise the achievement of annual financial and/or strategic business targets. To ensure further alignment with shareholders through a deferred share-based element.	One third of any annual bonus earned will be invested in shares, which must be held for three years, with the remainder being payable in cash. The holding period continues post cessation of employment. Bonus payments, including the shares element, are subject to recovery and withholding provisions as set out in note 1.	Up to 135 per cent of salary for the Chief Executive and up to 125 per cent of salary for the other Directors. The current Chief Executive and Interim Chief Financial Officer do not currently participate in the annual bonus plan.	Performance metrics are selected annually based on the Group's strategic objectives. The bonus may be based on the achievement of an appropriate mix of challenging financial, strategic or personal targets with financial measures accounting for the majority of the bonus. Measures and weightings may change each year to reflect any year-on-year changes to business priorities. • For financial metrics, a range of targets may be set by the Committee, taking into account the business outlook for the year. For financial metrics up to 20 per cent of the maximum potential bonus is payable for threshold performance and up to 50 per cent of maximum potential bonus is payable for target performance. • In relation to strategic targets the structure of the target will vary based on the nature of the target set and it will not always be practicable to set targets using a graduated scale. Vesting may therefore take place in full if specific criteria are met in full. The Committee may adjust the bonus that is payable if it considers the formulaic outcome is not representative of the underlying performance of the Company, investor experience or employee reward outcome. See note 2.

REPORT ON DIRECTORS' REMUNERATION CONTINUED
for the 53 week period ended 31 December 2021

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
Long-Term Incentive Plan	Incentivises selected employees and Executive Directors to achieve successful execution of business strategy over the longer-term. Provides long-term retention. Aligns the interests of the Executives and shareholders through the requirement to build up a substantial shareholding.	Awards are normally granted annually in the form of nil cost options or conditional share awards. Participation and individual award levels will be reviewed annually (subject to the individual limit) taking into account matters such as market practice, overall remuneration, the performance of the Group and the Executive being granted the award. Awards normally vest after three years subject to the achievement of stretching performance conditions and continued employment. Following vesting, the net of tax vested shares must be retained for two years. The post vesting holding period continues post cessation of employment. Awards are subject to recovery and withholding provisions as set out in note 1. A dividend equivalent provision allows the Committee to pay an additional amount equal to the value of the dividends that would have been payable on the vested shares over the vesting period (and holding period in relation to an unvested nil cost option) normally payable in shares (but may be in cash in exceptional circumstances) and may assume the reinvestment of dividends on a cumulative basis.	Up to 150 per cent of salary. The current Chief Executive and Interim Chief Financial Officer do not currently participate in LTIP.	Awards under the LTIP vest subject to the satisfaction of challenging performance targets set at the time of award. Awards may be subject to the achievement of total shareholder return performance, or measures linked to the strategy such as market share, financial or ESG/strategic measures. Specific measures and weightings will be set by the Remuneration Committee each year prior to grant and may change each year to reflect any year-on-year changes to business priorities and strategy. 25 per cent of the award vests for threshold performance. Performance periods will normally start from the beginning of the financial year in which the award is made. The Committee may scale back the LTIP vesting amount if it considers the formulaic outcome is not representative of the underlying performance of the Company, investor experience or employee reward outcome. See note 2 for additional detail.
Non-Executive Chairman and Directors' fees	To attract and retain a high-quality Chairman and experienced Non-Executive Directors.	The Board determines the fees of the Non-Executive Directors. They are based upon recommendations from the Chairman and Chief Executive (or, in the case of the Chairman, based on recommendations from the Remuneration Committee and the Chief Executive). Both the Chairman and the Non-Executive Directors are paid annual fees and do not participate in any incentive plans or receive pension or other benefits. The Chairman receives a single fee covering all his duties. The Non-Executive Directors receive a basic fee and additional fees payable for chairing the Audit and Remuneration Committees and for performing the Senior Independent Director role. Supplemental fees may be paid for additional responsibilities and activities and additional fees for chairing new board committees or for other additional roles requiring additional time commitment. The Chairman and Non-Executive Directors shall be entitled to have reimbursed all expenses that they reasonably incur in the performance of their duties, including those expenses that have been deemed to be taxable benefits by HMRC. This includes any personal tax that may become due. The level of fees of the Non-Executive Directors reflects the time commitment and responsibility of their respective roles. Their fees are reviewed from time to time against broadly similar UK listed companies and companies of a similar size. In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment of the Non-Executive Chairman and Directors.	There is no prescribed maximum, however, any increase to fees will be considered in light of the expected time commitment in performing the role, scope and responsibility, increases received by the wider workforce and market rates in comparable companies.	Neither the Non-Executive Chairman nor the Non-Executive Directors are eligible for any performance related remuneration.
Share ownership requirement	To align the interests of management and shareholders and promote a long-term approach to performance.	Executive Directors are required to build and maintain a holding of shares to the value of at least 200 per cent of base salary. We will value shareholdings using the value of beneficially owned shares plus the net of tax value of deferred bonus shares and vested but unexercised LTIP awards. The calculation of the shareholding level will be based on the average price for the last month of the financial year and the salary at the end of the financial year. Until the guideline is met, the executive is required to retain 50 per cent of shares acquired under the Company's share plans (after allowing for tax and national insurance liabilities). In addition, a post-employment shareholding requirement of the lower of the 200 per cent of salary in-service requirement or the actual shareholding on cessation of employment is required to be held for two-years post cessation of employment, applying to share awards granted from 2020.	Not applicable.	Not applicable.

Notes
1. Recovery and withholding provisions apply to variable pay, to enable the Company to recover amounts paid under the annual bonus, legacy deferred annual bonus share plan and LTIP in the event of a restatement of the accounts, an error in calculation leading to an over-payment, corporate failure or failure in risk management or if the participant has been guilty of gross misconduct or has brought the Company or any member of the Group into disrepute. Payments may be recovered for up to two years after payment/vesting or two external audit cycles. The amount to be recovered would generally be the excess payment over the amount which would otherwise be paid, and recovery may be satisfied in a variety of ways, including through the reduction of outstanding legacy deferred annual bonus awards, clawback of deferred bonus shares, reduction of the next bonus or LTIP vesting and seeking a cash repayment.
2. The Committee assesses annually at the beginning of the relevant performance period which performance measures, or combination and weighting of performance measures, are most appropriate for both annual bonus and any LTIP awarded to reflect the Company's strategic initiatives for the performance period. The Committee has the discretion to change the performance measures for awards granted in future years based upon the strategic plans of the Company. In determining the target range for any financial measures that may apply, the Committee ensures they are challenging by taking into account current and anticipated trading conditions, budget, the long-term business plan and external expectations.
3. The Committee considers the general basic salary increase for the broader employee population when determining the annual salary review for the Executive Directors. The performance measures and targets for annual bonus and LTIP awards for Senior Managers are normally aligned to those of the Executive Directors to ensure that everyone is focusing and working together on the same critical measures of performance. All permanent employees are invited to participate in the SAYE scheme which provides a mechanism for everyone to share in the overall success of the Group through sustained longer-term share price growth. Overall, the remuneration policy for the Executive Directors and more senior management is more heavily weighted towards variable pay than for other employees. This ensures that there is a clear link between the performance and value created for shareholders and the remuneration received by those individuals who are considered to have the greatest potential to influence Group performance and value creation.

Bonus Plan and LTIP use of discretion

The Committee will operate the annual bonus plan and LTIP according to their respective rules and in accordance with the Listing Rules and HMRC rules where relevant. A copy of the LTIP rules is available on request from the Company Secretary. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following (albeit with the level of award restricted as set out in the policy table on page 90):

- Who participates in the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or a payment;
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, on a change of control and special dividends); and
- The ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose whilst being no less stretching.

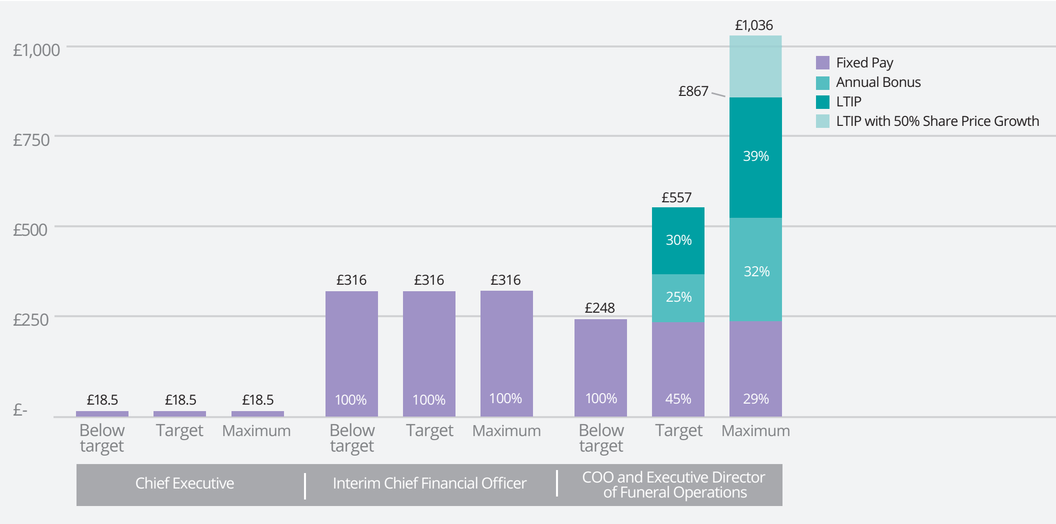
Legacy arrangements

Any commitments entered into with current or former Directors that have been disclosed previously to shareholders will be honoured.

Remuneration scenarios for Executive Directors

The Company's policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The graph below illustrates how the total pay opportunities for the Executive Directors for 2022 vary under three performance scenarios: minimum, target and maximum.

Remuneration (£000s)



Notes

- Fixed pay, comprises 2022 basic salary or fee and, for the Chief Operating Officer and the Executive Director of Funeral Operations, the value of benefits in 2021, and for the Chief Operating Officer, an estimate of the value of benefits, and a four per cent company pension contribution.
- Target comprises fixed pay and for the Executive Director of Funeral Operations, and Chief Operating Officer, assumes a bonus of 50 per cent of maximum is paid and 50 per cent of the LTIP award vests.
- Maximum comprises fixed pay and for the Executive Director of Funeral Operations, and Chief Operating Officer, assumes full bonus payment of 125 per cent of salary and full LTIP vesting of 150 per cent of salary. A 50 per cent increase in the value of the LTIP is also to show the impact of the share price growth. The 50 per cent increase is calculated using the maximum LTIP value.

Recruitment and Promotion policy

The remuneration package for a new Director will be established in accordance with the Company's approved policy subject to such modifications as are set out below.

Salary levels for Executive Directors will be set in accordance with the Company's Remuneration Policy, taking into account the experience and calibre of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be made over subsequent years subject to individual performance and development in the role. Benefits will generally be provided in line with the approved policy, with relocation or other expenses provided for if necessary. Pension contribution will be in line with that applying to the majority of the workforce at the time of appointment, in line with policy.

The structure of variable pay elements will be in accordance with the Company's approved policy detailed above. The maximum variable pay opportunity will be as set out in the remuneration policy table. Different performance measures may be set initially for the annual bonus in the year of joining, taking into account the responsibilities of the individual, and the point in the financial year that he or she joined the Board.

In the case of external recruitment, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer), this may be provided, with the new awards taking into account the form (cash or shares), timing left to vesting, the extent to which performance conditions apply and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Replacement share awards, if used, may be granted using the Company's existing share plans to the extent possible, although awards may also be granted outside of these schemes. The aim of any such award would be to ensure that as far as possible, the expected value and structure of the award will be no more generous than the amount forfeited.

In the case of an internal recruitment, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant or adjusted as considered desirable to reflect the new role.

Fees for a new Chairman or Non-Executive Director will be set in line with the approved policy.

Service contracts and payments for loss of office

The Service contracts for Executive Directors will continue indefinitely and are subject to a notice period from the Company or Executive Director of up to six months. Gary Channon elects not to be paid as an Executive Director of the Company. In order to comply with the National Minimum Wage regulations, however, his service contract requires that he is paid £18,500 per annum which is donated to the Company's selected charity, the Teenage Cancer Trust.

The Company may in its absolute discretion at any time after notice is served by either party, terminate a Director's contract with immediate effect by paying an amount equal to base salary for the then unexpired period of notice plus the fair value of contractual benefits subject to the deduction of tax. Payments in relation to a notice period, whether actively employed, or on 'garden leave', or a payment in lieu of notice if the contract is terminated by the Company, will continue to be paid monthly and will be subject to mitigation, including offset against employment earnings elsewhere.

An Executive Director's service contract may be terminated without notice for certain events such as gross misconduct or a serious breach of contract. No payment or compensation beyond salary (and the value of holiday entitlement) accrued up to the date of termination will be made if such an event occurs.

All Non-Executive Directors have letters of appointment with the Company for an initial period of two years, subject to annual re-appointment at the AGM. Appointments may be terminated with three months' notice. The appointment letters for the Chairman and Non-Executive Directors provide that no compensation is payable on termination, other than accrued fees and expenses.

All Directors submit themselves for election or re-election at the Annual General Meeting each year. Service contracts and letters of appointment are available for inspection at the Company's registered office.

There are no special provisions relating to change of control. The policy on termination is that the Group does not make payments beyond its contractual obligations and the Committee ensures that there are no unjustified payments for failure.

Any statutory payments required by law may be made. The Company may also pay outplacement, legal and other reasonable relevant costs associated with termination and may settle any claim or potential claim relating to the termination.

Treatment of outstanding incentive awards

At the discretion of the Committee, for certain good leaver circumstances (such as death, illness, injury, disability, redundancy, retirement, their employing company ceasing to be a Group company or the undertaking business or division for which he or she works being sold out of the Company's group, or any other circumstances at the discretion of the Committee), a pro rata bonus may become payable at the normal payment date for the period of active employment and based on performance.

The treatment of share-based incentives previously granted to an Executive Director will be determined based on the plan rules. The default treatment will be for outstanding awards to lapse on cessation of employment. However, an executive will be treated as a 'good leaver' under certain circumstances such as death, illness, injury, disability, redundancy, retirement, their employing company ceasing to be a Group company or the undertaking business or division for which he or she works being sold out of the Company's group, or any other circumstances at the discretion of the Committee. Under the Deferred Share Bonus Plan, if treated as a good leaver, awards will normally vest on the original vesting date. Under the new deferral structure, where Executives are required to purchase shares which are then subject to a holding period, these shares will not be forfeit on cessation of employment for a good or bad leaver. The holding period will continue post-cessation of employment. Under the LTIP, if treated as a good leaver, awards will vest at the normal vesting date subject to the extent to which performance targets have been achieved. The number of LTIP awards that would vest will normally be reduced pro rata to reflect the proportion of the three-year period actually served. A post vest holding period would continue to apply post-cessation of employment.

External directorships
The Group allows Executive Directors to hold a Non-Executive position with one other company or organisation, with the Board's permission, for which they can retain the fees earned.

How shareholder views are taken into account
The Remuneration Committee is committed to ensuring an open dialogue with our shareholders and therefore, where changes are being made to the remuneration policy or where there is a material change in which we operate our policy, we will consult with major shareholders in advance. The Remuneration Committee adopted such an approach in putting together this policy by consulting the Company's largest shareholders and shareholder advisory bodies beforehand. Broad views on our approach to remuneration were invited and those that responded confirmed that they were comfortable with the current approach.

In addition, the Committee considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally in reviewing and implementing the policy.

Consideration of employment conditions elsewhere in the Group
As part of the Committee's wider remit and as part of the Directors' Remuneration Policy review process, the Committee reviewed with management the pay structures across the wider Group and certain changes were made to the wider Group policy as a result of the review to ensure an appropriate and clear cascade of the Executive Directors' policy to the wider Group. The Committee will continue within its Terms of Reference to monitor pay policies and practices within the wider Group and to provide input and challenge in respect of current policies and practices as well as any proposed future review and changes to ensure that they are appropriate, fair, aligned to the Executive Directors' Remuneration Policy and support the culture and growth of the business.

A Dignity Team Forum was established in 2019 following an election of Employee Representatives. The Forum provides the opportunity for the appointed Employee Representatives to discuss business objectives, facilitate change and continuous improvement through a pro-active dialogue. It's also a place in where they can share suggestions, ideas and feedback from the colleagues they represent, to help shape our future. The Company Secretary has engaged with the Forum to explain the alignment of the Directors' Remuneration Policy to the wider Group pay policy.

ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration set out below (together with the Remuneration Committee Chair's Annual Statement) will be put to an advisory shareholder vote at the 2022 AGM. The information below includes how we intend to operate our policy in 2022 and the pay outcomes in respect of the 2021 financial year. The information from the single total remuneration figures for Directors on page 95 to the end of the section on loss of office payments on page 97 has been audited. The remainder is unaudited.

Implementation of Remuneration Policy in 2022

Salaries
The Committee has determined that the other Executive Directors will not receive a base salary / fee increase for 2022. Therefore, the salaries as at 1 January 2022 are:

	2022 £	2021 £	Increase %
Gary Channon (Chief Executive)	18,500	18,500[a]	–
Dean Moore (Interim Chief Financial Officer)	316,200	316,200	–
Andrew Judd (Executive Director of Funeral Operations)	225,000	225,000	–
Kate Davidson (Chief Operating Officer)	225,000	n/a	n/a

[a] Since being appointed Executive Chairman on 22 April 2021.

Non-Executive Directors' fees
The current fee levels for Non-Executive Directors, are as detailed below. There is no increase to fee levels for 2022:

	2022 £	2021 £	Increase %
Fee for Chairman	175,000	175,000	–
Basic fee for Non-Executive Directors	50,000	50,000	–
Supplementary Senior Independent Director fee	10,000	10,000	–
Supplementary Audit Committee Chair fee	10,000	10,000	–
Supplementary Remuneration Committee Chair fee	10,000	10,000	–
Supplementary Risk Committee Chair fee	10,000	10,000	–

Pension and Benefits

Gary Channon and Dean Moore do not receive pension and benefits. Kate Davidson and Andrew Judd will receive a salary supplement in lieu of pension of four per cent of basic salary. Benefits will be provided in line with the approved remuneration policy.

Annual bonus

The maximum bonus potential will be 125 per cent of salary for the Chief Operating Officer and Executive Director of Funeral Operations. The Chief Executive and Interim Chief Financial Officer (the latter being a temporary appointment) will not participate in the annual bonus plan.

It is presently intended that 70 per cent of the bonus will be based on a mix of stretching underlying EBITDA and 30 per cent on strategic objectives. Underlying EBITDA will provide a measure of underlying profitability and the Strategic objectives will support our business.

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

There will be Committee discretion to adjust the formula driven outturn to ensure that the bonus payments also reflect performance more broadly and the experience of other stakeholders in the business.

The underlying EBITDA element target range and the strategic objective targets are deemed to be commercially sensitive and have not been disclosed prospectively. However, full retrospective disclosure of the targets and performance against them will be provided in next year's Remuneration Report.

Subject to approval of the new Remuneration Policy at our 2022 AGM, Executive Directors will be required to purchase shares with one third of their cash bonus earned for 2022. These shares will be subject to a three-year holding period.

Long-Term Incentive Plan

Both the Chief Operating Officer and Executive Director of Funeral Operations will receive an LTIP award at 150 per cent of base salary. The Chief Executive and Interim Chief Financial officer will not participate in the LTIP.

The awards will be based 50 per cent on Funeral Market Share with a requirement to achieve an improved level of Market Share. As with the FY21 grant, there will again be an underpinning performance condition whereby the Committee must be satisfied that our underlying profitability must be in line with the business plan over the performance period. The remaining 50 per cent will be based on the Company's Total Shareholder Return compared to the FTSE SmallCap Index of companies (excluding Investment Trusts) over the three year period to 31 December 2024. In each case 25 per cent of each element of the award will vest for threshold performance.

The targets relating to the FY22 award are set out in the table below. The Market Share performance conditions will be published later in the corporate governance section of the website and disclosed fully in the next Annual Report.

	Weighting	Threshold (25% vests)	Maximum (100% vests)
Funeral Market Share	50%	14%	16%
TSR relative to the FTSE SmallCap Index (excluding investment trusts)	50%	Median	Upper quartile

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

Total remuneration payable to Directors in 2021

		Fixed Pay				Pay for Performance			
		Salary/fee £000	Benefits[a] £000	Pension £000	Total fixed pay £000	Annual bonus[b] £000	LTIP £000	Total variable pay £000	Total remuneration £000
Executive Directors									
Gary Channon[c]	2021	13	–	–	13	–	–	–	13
	2020	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Clive Whiley[d]	2021	140	–	–	140	–	–	–	140
	2020	*400*	–	–	*400*	–	–	–	*400*
Andrew Judd[e]	2021	225	14	9	248	–	–	–	248
	2020	*8*	*0.4*	*0.6*	*9*	*0.8*	–	*0.8*	*9.8*
Dean Moore[f]	2021	316	–	–	316	–	–	–	316
	2020	*5*	–	–	*5*	–	–	–	*5*
Non-Executive Directors									
Dean Moore[f]	2021	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2020	*59*	–	–	*59*	–	–	–	*59*
John Castagno[g]	2021	77	–	–	77	–	–	–	77
	2020	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Gillian Kent[h]	2021	17	–	–	17	–	–	–	17
	2020	*30*	–	–	*30*	–	–	–	*30*
James Wilson[i]	2021	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2020	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Paul Humphreys[j]	2021	9	–	–	9	–	–	–	9
	2020	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Graham Ferguson[k]	2021	20	–	–	20	–	–	–	20
	2020	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*

[a] Taxable benefits for the year included: provision of a company car or allowance, family private medical cover and a mobile telephone together with a pre-arranged funeral plan in accordance with any scheme established by the Group in respect of the funeral of the Executive Director or his spouse.

[b] A bonus scheme was not operated for Executive Directors in respect of FY21.

[c] Gary Channon was appointed to the Board on 22 April 2021 as Executive Chairman and then Chief Executive from 23 July 2021. He has chosen not to receive any remuneration in relation to his role as an Executive Director of the Company. However, in order to comply with the National Minimum Wage regulations, he receives £18,500 per annum which is donated to the Company's selected charity, the Teenage Cancer Trust.

[d] Clive Whiley was appointed to the Board as Non-Executive Chairman on 26 September 2019. The fee for 2020 is the Non-Executive Chairman's fee to 3 April 2020 and the Executive Chairman's fee for the remainder of the year. Clive stood down from the Board on 22 April 2021.

[e] Andrew Judd was appointed to the Board on 14 December 2020. Following benchmarking to ensure market competitiveness, Andrew Judd's salary was increased from that previously reported for 2021 by 12.5 per cent to £225,000. His 2020 remuneration disclosed is for the 14 day period as a Director that year and has been restated from what was included in the 2020 Annual Report which incorrectly included his remuneration for the whole year, which included 353 days not as a Director.

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

[g] John Castagno was appointed to the Board on 23 July 2021. The fee for 2021 is for the period from date of appointment to 31 December 2021.

[h] Gillian Kent was appointed to the Board on 11 June 2020 and the fee is the pro rata payment of the base Non-Executive Director fee and the supplement for Chairing the Remuneration Committee. Gillian stood down from the Board on 22 April 2021.

[i] James Wilson who stepped down from the Board on 26 April 2021 elected not to receive a Non-Executive Director's fee.

[j] Paul Humphreys was appointed to the Board on 23 February 2021 and stepped down following the General Meeting on 22 April 2021.

[k] Graham Ferguson was appointed to the Board on 1 September 2021. The fee for 2021 is for the period from date of appointment to 31 December 2021.

[l] The following directors served on the Board during 2020. Their total remuneration in 2020 is shown as are the dates they stood down from the Board:

- Mike McCollum former Chief Executive £238,000 (comprising Salary: £171,000, Benefits: £10,000, Pension: £26,000, Annual Bonus: £31,000) until 3 April 2020;
- Richard Portman former Chief Operating Officer £360,000 (comprising Salary: £248,000, Benefits: £19,000, Pension: £37,000, Annual Bonus: £56,000) until 14 December 2020;
- Steve Whittern former Finance Director £454,000 (comprising Salary: £316,000, Benefits: £20,000, Pension: £47,000, Annual Bonus: £71,000) until 14 December 2020;
- Jane Ashcroft Non-Executive Director £12,000 until 3 April 2020; and
- David Blackwood Non-Executive £27,000 until 11 June 2020.

No LTIP awards were made to the former Executive Directors in 2020.

Determination of 2021 annual bonus

No bonus scheme was operated for Executive Directors in FY21.

Determination of LTIP awards with performance periods ending in the year

The LTIP awards made in 2019 were subject to a range of relative total shareholder return performance targets against the companies comprising the FTSE SmallCap Index (excluding investment trusts). As the threshold target was not met, these awards lapsed in full, as shown below.

	Relative TSR performance	% vesting
Below threshold	Below median	–
Threshold	Median	25
Maximum	Upper quartile or above	100
Actual Performance	99/131 companies	–

Director	2019 LTIP award number of shares	Vesting level	Award value £000
Andrew Judd	22,494	–	–

LTIP awards granted in the year

The terms of the LTIP award granted to the Executive Director of Funeral Operations on 17 December 2021 were as follows:

Executive	Number of LTIP awards	Type of award	Face/maximum value of awards at grant date*£	% of award vesting at threshold	Performance period
Andrew Judd	39,659	Nil-cost options	241,920	25	01.01.21 – 31.12.23

* Based on a share price on the date of grant on 17 December 2021 of 610 pence.

50 per cent of the 2021 award will vest subject to a range of relative total shareholder return performance against the companies comprising the FTSE SmallCap Index (excluding investment trusts) over the three-year performance period commencing 1 January 2021. The vesting of this award is dependent on the following:

	TSR relative to FTSE SmallCap (excl.IT) companies *Performance required*	*% vesting*
Below threshold	Below median	–
Threshold	Median	25
Stretch or above	Upper quartile or above	100

The remaining 50 per cent of the award will be based on our Funeral Market Share in the final year of the performance period, 2023.

	Funeral market share *performance required in 2023*	*% vesting*
Below threshold	Below 12.5%	–
Threshold	12.5%	25
Stretch or above	15% or above	100

The Funeral Market Share measure will be subject to a performance underpin which requires the Remuneration Committee to be satisfied that our underlying profitability is in line with our business plan over the performance period.

The Market Share will be calculated using the average of the 12 monthly Market Share figures for 2023 and independently verifiable using ONS external market figures. The Committee is satisfied that the target range is sufficiently stretching, particularly as this requires growth following several years of decline and the fact that the starting period for the average is based on monthly figures over the final year, and not just the final month or few months of the year (which would give longer to achieve the target but would not be independently verifiable).

The award will vest on the third anniversary of grant. Clawback and malus provisions apply and there is a holding period requiring the net of tax value of shares to be held for two years after the awards vest.

Outstanding Long-Term Incentive Plan awards

Details of the nil cost option awards, not yet vested and exercised, made under the LTIP are disclosed in the table below:

Director	Award grant date	Share price at date of grant (pence)	As at 25.12.20	Granted during year	Lapsed during year	Vested and exercised during year	As at 31.12.21	Earliest date shares can be acquired	Latest date shares can be acquired
Andrew Judd	23.03.18[(i)]	890	7,486	–	7,486	–	–	23.03.21	23.03.28
	13.06.19[(ii)]	633.5	22,494	–	–	–	22,494	13.06.22	13.06.29
	22.12.20[(iii)]	584	31,509	–	–	–	31,509	22.12.23	22.12.30
	17.12.21[(iv)]	610	–	39,659	–	–	39,659	17.12.24	17.12.31

(i) These awards were subject to a range of share price targets from 1,550p to 1,950p for 25 per cent to 100 per cent vesting and a financial performance underpin. These awards lapsed in full.

(ii) The 2019 award is based on relative TSR compared to the FTSE SmallCap Index (excluding investment trusts) as set out on page 99 of this report. Based on performance against targets these awards will lapse in full.

(iii) Subject to TSR and Funeral Market Shares performance conditions. TSR performance is assessed relative to the FTSE SmallCap Index (excluding investment trusts) and the target range is median to upper quartile performance for 25 per cent to 100 per cent vesting. Funeral market share targets are based on performance required in 2022 of 12.5 per cent to 15 per cent for 25 per cent to 100 per cent vesting.

(iv) Subject to TSR and Funeral Market Shares performance conditions as set out on page 96 of this report.

The aggregate gain on the exercise of Long-Term Incentive Plan options by the continuing Directors in the period was £nil (2020: £nil).

Directors' interest in shares

The interests of the Directors (including those of their connected persons) in the share capital of Dignity plc at 31 December 2021 are set out below:

	Number of Ordinary Shares							
		At 31 December 2021 (or date of cessation of employment if earlier)						
	At 25 December 2020 Legally owned	At 31 December 2021 Legally owned (or date of stepping down from the Board if earlier)	Subject to SAYE	Deferred Annual Bonus Options[(2)]	Subject to performance conditions under the LTIP[(2)]	Vested but unexercised under the LTIP	Value of shares counting towards proposed shareholding guideline[(1)]	Percentage of salary held as shares[(1)]
Andrew Judd	3,460	3,460	1,192	2,089	93,662	–	£26,490	12
Clive Whiley	25,000	25,000	–	–	–	–	–	–
Dean Moore	–	–	–	–	–	–	–	–
Gillian Kent	–	–	–	–	–	–	–	–
Paul Humphreys	–	–	–	–	–	–	–	–
James Wilson	1,000	1,000	–	–	–	–	–	–
John Castagno	n/a	–	–	–	–	–	–	–
Graham Ferguson	n/a	–	–	–	–	–	–	–
Gary Channon[(3)]	n/a	–	–	–	–	–	–	–

(1) Based on the average share price of the last financial month of the year of 580 pence and includes legally owned shares plus the net of tax value (i.e. tax and national insurance at 47 per cent) of deferred bonus options and vested but unexercised LTIP awards.

(2) 20 per cent of any annual bonus earned is deferred in shares (the Deferred Annual Bonus) which vest after two years subject to continued employment but no further performance targets. LITP awards normally vest after three years subject to the achievement of stretching performance conditions and continued employment.

(3) Gary Channon is partner of Phoenix Asset Management Partners Ltd which holds 14,718,468 shares in Dignity plc.

There has been no change in the interests set out above between 31 December 2021 and 22 March 2022.

Shareholding guideline

The current shareholding guideline for the Executive Directors is 200 per cent of salary. At 31 December 2021, the shareholding guideline has not been met by the Executive Directors. The Committee note Andrew Judd's recent appointment to the Board and that the Chief Executive and Interim Chief Financial officer do not currently participate in the incentive schemes. The Executive Directors are required to retain at least 50 per cent of the net of tax value of shares of future awards vesting until the required guideline of 200 per cent of salary is achieved.

Payment for loss of office

In 2021, Clive Whiley, Paul Humphries, Gillian Kent and James Wilson all stood down from the Board. None received payment for loss of office. Full details are available in Section 430 statements available on the Company's website at www.dignityplc.co.uk.

Mike McCollum, Steve Whittern and Richard Portman hold 2019 LTIP awards over 33,642, 49,913 and 39,139 shares respectively which are subject to a pro-rata reduction for the proportion of the performance period served. These awards, however, lapse in full as the performance targets have not been met. See 'Determination of LTIP awards with performance periods ending in the year' on page 96. As detailed in the 2020 Directors' Remuneration Report, their 2018 LTIP awards also lapsed in full as a result of the performance condition not being met. Full details of payments made to these former directors are included in the 2020 Report on Directors' Remuneration.

Relative importance of spend on pay between employee pay and distributions to shareholders

The following table sets out the percentage change in dividends and overall spend on employee pay in the 2021 financial year compared with the prior year:

	2021 £m	2020 £m	Change %
Dividends	–	–	–
Employee remuneration costs	116.6	116.4	(1)

Percentage change in Directors' pay

The table below shows the percentage change between 2020 vs 2021 and 2019 vs 2020 in the value of salary, benefits and annual bonus for each Director compared to that of the average employee on a full-time equivalent basis.

	2020 vs 2021			2019 vs 2020		
	% change in salary/ fees	% change in taxable benefits	% change in bonus	% change in salary/ fees	% change in taxable benefits	% change in bonus
John Castagno	n/a	n/a	n/a	n/a	n/a	n/a
Gary Channon	n/a	n/a	n/a	n/a	n/a	n/a
Dean Moore	–	–	–	n/a	n/a	n/a
Andrew Judd	12.5	17	(100)	n/a	n/a	n/a
Clive Whiley	–	–	–	–	–	–
Paul Humphreys	n/a	n/a	n/a	n/a	n/a	n/a
Gillian Kent	–	–	–	n/a	n/a	n/a
James Wilson	n/a	n/a	n/a	n/a	n/a	n/a
All Group employees	2	–	–	2	–	–

Andrew Judd received a pay rise in 2021 following a benchmarking exercise.

CEO pay ratios

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

This methodology was selected as the Committee believes this provides a more accurate and consistent calculation based on the information available at this time.

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

Financial year	Method	25th percentile pay ratio	Median	75th percentile pay ratio
2021	Option A	8.18:1	6.32:1	5.00:1
2020[a]	Option A	32.66:1	27.52:1	22.01:1

[a] 2020 median, 25th and 75th percentile have been restated to reflect the correction of Clive Whiley's CEO remuneration which incorrectly included his Non-Executive Director fee.

The three employees used for comparison are shown below:

	2021		2020	
	Employee's salary (£)	Total remuneration (£)	Employee's salary (£)	Total remuneration (£)
CEO pay	152,874	152,874	519,767	586,767
Q 25 pay	18,501	18,651	17,380	17,965
Q 50 pay	20,806	24,155	21,190	21,325
Q 75 pay	28,726	30,536	26,337	26,662

The full-time equivalent remuneration for FY21 was calculated for employees of Dignity as at 31 December 2021. Employees that joined the company prior to this date have been grossed up to full time equivalent pay and any employee that left the company prior to this date has been excluded. Part time employees have been grossed up to full time equivalents based on full time equivalent hours for the role. Casual workers have been included based on the actual hours worked for the year due to the significant variations in working hours. Total pay for employees includes salary, pensions, casual pay, allowances, overtime and variable pay. The management bonus has been included based on amounts paid in FY21 as the amounts earned in FY21 for this bonus have not yet been determined.

The CEO pay has been included based on the previous Executive Chair's single figure remuneration for 2021 until his departure in April 2021 of £140,000. The current CEO receives a salary of £18,500 per annum which he donates to charity. His pro-rated salary of £12,874 from his appointment in April 2021 has been included in the ratio calculations.

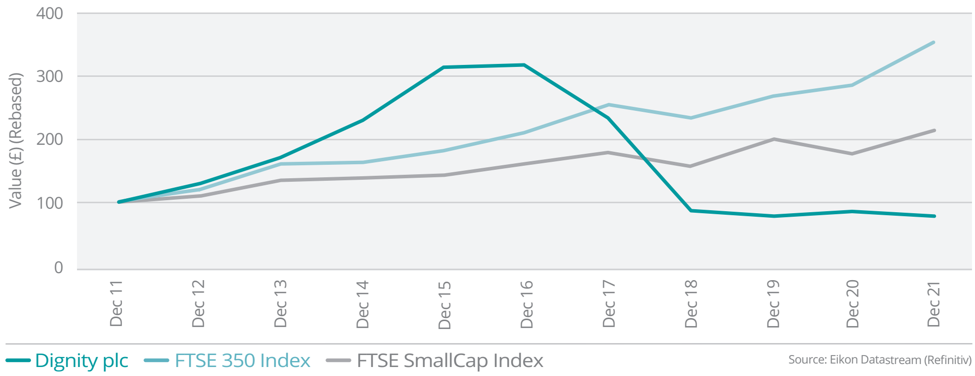
The ratio is significantly lower this year due to the departure of the Executive Chair and the fact the current CEO receives a significantly lower salary which has been set in order to comply with National Minimum Wage regulations. The Directors included for the CEO pay for 2021 also did not receive incentive pay. There has been no material change in our approach to remuneration during the period.

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

Long-Term Total Shareholder Return Performance and CEO pay over this period

The following graph shows the Company's TSR performance over the last ten financial years against the FTSE 350 Index and the FTSE SmallCap Index. The FTSE 350 Index has been chosen as the Company has been a member of that Index for much of this period and the FTSE SmallCap Index has been chosen as it is now a member of that Index.

Ten Year Total Shareholder Return



This graph shows the value, by 31 December 2021, of £100 invested in Dignity plc on 31 December 2011, compared with the value of £100 invested in the FTSE 350 Index and FTSE SmallCap Index on the same date.

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 Mike McCollum[a]	2020 Clive Whiley[a]	2021 Clive Whiley[a]	2021 Gary Channon[a]
CEO single total figure of remuneration (£000)	917	2,081	2,217	2,426	2,440	2,372	966	1,010	733	238	349[b]	140	13
Annual bonus pay-out relative to maximum (%)	100	100	100	100	100	100	–	58	18	18	n/a	n/a	n/a
LTIP vesting (%)	–	100	100	100	100	100	50	–	–	–	n/a	n/a	n/a

[a] This represents the pro rata total remuneration for Mike McCollum to 3 April 2020 and Clive Whiley for the remainder of 2020 and 2021 in his role as Executive Chairman until 22 April 2021. Gary Channon receives £18,500 per annum for his role as Chief Executive, which he donates to charity.

[b] 2020 median, 25th and 75th percentile have been restated to reflect the correction of Clive Whiley's CEO remuneration which incorrectly included his Non-Executive Director fee.

Details of Directors' service contracts and letters of appointment

Details of the service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors are as follows:

Name	Contract date	Notice period
Andrew Judd	14 December 2020	6 months
Gary Channon	22 April 2021	6 months
Kate Davidson	7 January 2022	6 months
John Castagno	23 July 2021	3 months
Dean Moore	11 March 2020	3 months
Graham Ferguson	1 September 2021	3 months
Kartina Tahir Thomson	7 February 2022	3 months

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

External directorships

John Castagno and Kartina Tahir Thomson do not currently have any external directorships. Graham Ferguson is a director of Iona Star Capital Limited, Bertnet Residential Limited and Bertnet Investments Limited.

Membership of the Remuneration Committee

The Remuneration Committee currently comprises three Independent Non-Executive Directors, Graham Ferguson, Kartina Tahir Thomson and John Castagno. During 2021, the Committee was chaired by Gillian Kent until the General Meeting in April 2021 when she and Paul Humphreys stepped down from the Board. Graham Ferguson became Chair of the Remuneration Committee from the date of his appointment on 1 September 2021. Dean Moore was a member of the Committee until 1 January 2021.

The Remuneration Committee members have no personal financial interest in matters to be decided, no potential conflicts of interests arising from cross directorships and no day-to-day involvement in running the business.

The Remuneration Committee determines and agrees with the Board, within formal terms of reference, the framework and policy of Directors' and senior management's remuneration. The Committee met four times during the year. At the start of the year the Committee determined the incentive payments for 2020 and the application of the Remuneration Policy for 2021. During the year the Committee considered the remuneration package for the Executive Director of Funeral Operations and Chief Operating Officer.

The Committee receives advice from several sources, namely:

- The Chairman, Chief Executive and Interim Chief Finance Officer and People Director, who attend the Remuneration Committee by invitation, and the Company Secretary, who attends meetings as Secretary to the Committee. No individual takes part in discussions relating to their own remuneration and benefits.
- Korn Ferry, who were appointed by the Committee as its independent advisers on 3 August 2018 following a tendering process. Korn Ferry report directly to the Committee Chair and are signatories of the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). Korn Ferry provides other consulting services on leadership development, but this is an entirely separate team independent from the team advising the Committee and the advice to the Committee is therefore considered independent. During 2021, total fees charged in the period by Korn Ferry in relation to advice to the committee were £50,809 +VAT (2020: £31,079.25 +VAT) and were charged on a time spent basis.

Statement of shareholder voting at the AGM (Unaudited)

Votes cast by proxy at the Annual General Meeting held on 23 June 2021 in respect of the Remuneration Report and on 13 June 2019 in respect of the Remuneration Policy, are as shown below:

	Remuneration Report (2021 AGM)		Remuneration Policy (2019 AGM)	
	Total number of votes	Percentage of votes cast	Total number of votes	Percentage of votes cast
For	32,569,687	99.92	17,956,750	98.14
Against	26,731	0.08	340,926	1.86
Total votes cast	**32,596,418**	**100**	**18,297,676**	**100**
Abstentions	221,534	n/a	13,416,745	n/a

The Report on Directors' Remuneration on pages 85 to 100 was approved by the Board on 22 March 2022.

On behalf of the Board

Graham Ferguson
Chair of the Remuneration Committee

22 March 2022

DIRECTORS' REPORT

for the 53 week period ended 31 December 2021

Directors' report

The Directors present their report for Dignity plc for the 53 week period ending 31 December 2021. As permitted by legislation, some of the matters required to be included in the Directors' report have instead been included in the Strategic Report on pages 2 to 51, as the Board considers them to be of strategic importance. Specifically, these are:

- Future business developments (throughout the Strategic Report).
- Total greenhouse gas emissions and carbon reporting (see pages 27 to 31).
- Information on stakeholder engagement and how the Directors have had regard for the Company's stakeholders, and the effect of that regard, on pages 21 to 25.

The company registration number of Dignity plc is 04569346.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Report on Directors' remuneration and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101, Reduced Disclosure Framework ('FRS 101') (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs and in respect of the Parent Company financial statements, FRS 101, is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company financial position and financial performance;
- In respect of the consolidated financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation EC No 1606/2002 as it applied in the European Union have been followed, subject to any material departures disclosed and explained in the consolidated financial statements;
- In respect of the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in Parent Company financial statements respectively; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and/or the Group 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 the Group and enable them to ensure that the financial statements and the Report on Directors' Remuneration comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's websites. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report

Each of the Directors, whose names and functions are listed on page 73 of this Annual Report, confirm that, to the best of their knowledge and belief:

- The consolidated financial statements prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation EC No 1606/2002 as it applied in the European Union give a true and fair view of the assets, liabilities, financial position and profit of the Company and undertakings included in the consolidation as a whole;
- This Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that they face; and
- Having taken into account all matters considered by the Board and brought to the attention of the Board during the year, the Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable. The Directors believe that the disclosures set out in this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Principal risks and uncertainties

Principal risks are considered on pages 40 to 46.

An assessment of the Group's exposure to financial risks and a description of how these risks are managed are included in note 2 to the consolidated financial statements.

Share capital, authorities and restrictions

During the period, 10,525 Ordinary Shares of 12 48/143 pence each were issued to satisfy share incentives which became exercisable in the period.

The issued share capital of Dignity plc at 31 December 2021 consisted of 50,031,008 Ordinary Shares of 12 48/143 pence each. All the Ordinary Shares carry the same rights and obligations. There are no other class or type of share in issue.

The Company has one class of voting share capital, Ordinary Shares. All of the shares rank pari passu. There are no special control rights in relation to the Company's shares. The rules governing the appointment and replacement of Board members and changes to the Articles of Association accord with usual English company law provisions. The Board has authority to purchase its own shares and is seeking renewal of that power at the forthcoming AGM within the limits set out in the notice of that meeting. There are no significant agreements to which the Group is party which take effect, alter or terminate in the event of change of control of the Group.

There are no restrictions on the transfer of the Company's shares, with the exception that Directors are periodically restricted in dealing in the Company's shares under the Group's share dealing policy, which reflects the requirements of the UK Market Abuse Regulations. In certain specific circumstances, the Directors are permitted to decline to register a transfer in accordance with the Company's Articles of Association. There are no other limitations on holdings of securities, and no requirements to obtain the approval of the Company, or other holders of shares in the Company, prior to the share transfer. The Company is not aware of any agreements between holders of shares that may result in restrictions on the transfer of shares or voting rights, or of agreements between holders that might restrict voting rights.

The Employee Benefit Trust ('EBT') holds shares in the Company in connection with Group share incentive plans. The Trust generally abstains from voting at shareholder general meetings in respect of shares held by them.

A special resolution passed at the last AGM on 23 June 2021 gives Dignity plc the authority to purchase up to 5,002,521 Ordinary Shares of 12 48/143 pence each at not less than nominal value and not more than five per cent above the average middle market quotation for the preceding five business days. At the same meeting the Company was also given authority to allot Ordinary Shares up to an aggregate nominal value of £4,113,549 of which up to £308,547 may be for cash. These authorities will expire at the conclusion of the next AGM on 9 June 2022. It is the intention of the Directors to seek renewal of these authorities at that AGM. There are no restrictions at the period end on the transfer of securities.

Results

The results for the period are set out in the Consolidated Income Statement on page 114. The Group's Profit before tax amounted to £32.0 million (2020: loss of £19.6 million).

Dividends

The Group has not paid a dividend since June 2019 and the Directors do not expect to do so until the business has returned to a more sustainable financial footing. We continue to work on our plans to improve our capital structure so that the pursuit of the best long-term value for shareholders is not compromised by the covenants attached to our bonds. We retain significant cash resources, continue to be cash generative and understand the importance of optimising total shareholder return whilst maintaining a balance between different stakeholders, and it is the Directors' intention to pay a dividend as soon as we believe it is financially prudent to do so.

Financial instruments

The Group's financial risk management objectives and policies and exposure to risks in relation to financial instruments are disclosed in note 22 to the financial statements.

Employment engagement

During the period, the Group has maintained its obligations to effectively communicate and involve employees in its affairs. Methods of communication used include a Team Forum, an in-house magazine, team talks, regular bulletins both national and regional, and management briefings. This is discussed in more detail in Environmental, Social and Governance report on pages 33 to 35.

Details of how the Directors have considered the interests of the Company's employees in principal decisions can be found in the s172(1) Statement on pages 21 to 25.

Employment policies

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

The Directors published gender pay data on the corporate website www.dignityplc.co.uk during 2021 in accordance with the Equality Act 2010 (Gender Pay Gap) Regulations 2017.

Employee share ownership

The Company offers a regular SAYE scheme to all employees. Employees who held share options through the SAYE scheme for the period ended 31 December 2021 was 377,767 (2020: 435,664).

Directors and their interests

The Directors of the Company who were in office during the period and up to the date of signing the financial statements, including changes to the Directors during the year and up to the date of this report are set out in the table below.

Name	Role	Effective date of change
Andrew Judd	Executive Director of Funeral Operations	
Dean Moore	Interim Chief Financial Officer	
Resignations		
Paul Humphreys	Independent Non-Executive Director	Appointed 23 February 2021 Resigned 22 April 2021
Gillian Kent	Independent Non-Executive Director	Resigned 22 April 2021
Clive Whiley	Chairman	Resigned 22 April 2021
James Wilson	Independent Non-Executive Director	Resigned 26 April 2021
Appointments		
Gary Channon	Chief Executive	Appointed 22 April 2021
John Castagno	Independent Non-Executive Chairman	Appointed 23 July 2021
Graham Ferguson	Independent Non-Executive Director	Appointed 1 September 2021
Kate Davidson	Chief Operating Officer	Appointed 7 January 2022
Kartina Tahir Thomson	Independent Non-Executive Director	Appointed 7 February 2022

The interests of the Directors in the share capital of the Company are set out in the Report on Directors' remuneration on page 97.

In accordance with the UK Corporate Governance Code, at the AGM, all Directors will retire as Directors of the Company and, being eligible, offer themselves for election or re-election at the AGM on 9 June 2022.

Directors' and Officers Liability Insurance and indemnities

During the period, the Company maintained liability insurance for its Directors and Officers to a value of £60 million. In addition, the Directors of the Company and each of the Company's subsidiaries have the benefit of an indemnity provision in the Company's Articles of Association. The indemnity provision, which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006, was in force throughout the period and is currently in force.

Health and Safety policy

The Group's operations are designed at all times in such a way as to ensure, so far as reasonably practicable, the health, safety and welfare of all of our employees and all other persons who may attend our premises. This is discussed in the Environmental, Social and Governance section of the Strategic Report on page 35.

Corporate Social Responsibility

Maintaining the quality of the environment in which we all live is an important concern for the Group. This is discussed in the Environmental, Social and Governance report on pages 26 to 39 alongside other social and ethical considerations. Details of the Group's greenhouse gas and carbon dioxide emissions can be found on pages 29 to 31 of the Strategic Report.

Political donations

It is not the Group's policy to make donations to political parties, and the Directors have no intention of changing that policy. Accordingly, none were made during the financial year.

Going concern

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

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

Following consideration of the base case forecasts, and the range of downside stress test scenarios, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period through to 31 March 2023 and have also considered events beyond the assessment period. The Directors formally considered this matter at the Board meeting held on 16 March 2022. For these reasons, they continue to adopt the going concern basis for preparing the Annual Report.

Disclosures required under Listing Rule 9.8.4R

The information to be included under LR 9.8.4R, where applicable, can be located as set out below:

Information	Page reference
Directors' emoluments waiver	94

Post balance sheet events

Consent solicitation with bondholders

On 17 February 2022, Dignity Finance plc ('Dignity Finance'), a Group subsidiary, announced the launch of a consent solicitation period with its Class A Bondholders in relation to a proposed temporary covenant waiver (as described in note 1 of the consolidated financial statements). As stated in the Group's interim results on 21 September 2021, the Board continues to work on its plans to improve the Group's capital structure in the pursuit of the best long-term value for shareholders.

Whilst the Group's financial performance has delivered headroom in relation to financial covenants throughout the last 12 months, given the distorting impact of the pandemic on the timing of deaths, there remains significant uncertainty around the UK death rate in the near term. Therefore, the Board has taken the prudent decision to seek a temporary waiver of the abovementioned financial covenant on a precautionary basis in relation to Dignity Finance's debt obligations.

Following a meeting of the Class A Bondholders on 11 March 2022, the necessary quorum was achieved (with 99.58 per cent of the aggregate principal amount of the Notes for the time being outstanding being represented) and the Extraordinary Resolution was duly passed (with 95.19 per cent of the votes being cast in favour).

Trust financial assets

The Trust has over £1 billion in assets that are invested in various equities, bonds, funds and private investments. Such investments can be subject to volatility due to movements in underlying markets and assets and can go up and down. This can be seen in movements post year end following the situation in Ukraine. The Group monitors this closely and this forms part of its considerations for its long-term investment strategy, noting that the purpose of the Trust is to provide asset coverage (and a surplus) to fund the pre-need funerals return which are forecast to have an average maturity of 10 plus years.

Acquisition activity

The Group has acquired the trade and assets of one business since the balance sheet date through the Dignity Ventures division.

Independent Auditors and disclosure of information to Auditors

A resolution for the re-appointment of Ernst & Young LLP as auditors will be proposed at the forthcoming AGM.

In the case of each of the persons who are Directors at the time when the report is approved, the following applies:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Directors have taken appropriate steps to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Corporate Governance Statement

The information that fulfils the requirements of a corporate governance statement in accordance with rule 7.2 of the Disclosure and Transparency Rules can be found in this Directors' report and in the Directors' Statement on Corporate Governance on pages 74 to 78, which is incorporated by reference.

Directors' Report

This Directors' report and Statement of Directors' responsibilities was approved by the Board on 22 March 2022.

By order of the Board

Tim George
Company Secretary

22 March 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIGNITY PLC

for the 53 week period ended 31 December 2021

Opinion

In our opinion:

- Dignity plc's group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit for the 53 week period then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Dignity plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

Group	Parent company
• Consolidated balance sheet as at 31 December 2021	• Company balance sheet as at 31 December 2021
• Consolidated income statement for the 53 week period then ended	• Company statement of changes in equity for the 53 week period then ended
• Consolidated statement of comprehensive income for the 53 week period then ended	• Related notes C1 to C9 to the financial statements including a summary of significant accounting policies
• Consolidated statement of changes in equity for the 53 week period then ended	
• Consolidated statement of cash flows for the 53 week period then ended	
• Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards to the group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

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

- Understanding and walking through management's process for and controls related to assessing going concern including discussion with management to assess whether all key factors were taken into account.
- Read and considered the directors' going concern assessment covering the period through to 31 March 2023, including their assessment of the risks and impact of COVID-19, to understand the key assumptions upon which it was based and testing the model integrity for clerical accuracy.
- As described in notes 1 and 17 to the financial statements, the company has in issue Class A Notes with an outstanding principal of £170.7 million and Class B Notes with an outstanding principal of £356.4 million that are listed on the Irish Stock Exchange. The terms and conditions for these Notes are covered by an Issuer/Borrower Loan Agreement ('IBLA'). We inspected the debt service cash requirement ('DSCR') and earnings before interest, tax, depreciation and amortisation ('EBITDA') definition as per the IBLA to confirm the basis of the DSCR covenant calculation, which is a minimum of 1.5x the annual debt service payments (c.£51 million), tested each quarter on a last 12 months basis.

- Inspected the documentation in relation to the modification to the DSCR terms under the IBLA for the period to 31 December 2022 agreed with bondholders after the period end, 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 (up to a maximum of £15 million) can be included in the last 12 months calculation in future quarters until it no longer is included in the lookback 12 months period. Further, we confirmed that management's going concern assessment accurately reflected the impact of the modification of the DSCR terms. We further 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 company is compliant with this ratio during the period and at the period end date.
- Tested the forecast compliance with the EBITDA: DSCR covenant ratio as follows:
  - Agreed the DSCR to the interest and principal repayment schedules;
  - Obtained management's forecast through 31 March 2023 which was prepared using the 2022 budget as a basis and the 2023 plan, which was presented to and approved by the Board, having given due consideration to changes in financial performance in respect of expected number of deaths, market share and pricing;
  - Tested the underlying assumptions and data upon which the budget and forecast were based to ensure their reasonableness, by;
    - assessing the accuracy of management's historical budgeting (pre COVID-19);
    - comparing forecast deaths to independent information from the Office for National Statistics ('ONS');
    - assessing cost saving initiatives against management plans, considering the achievability of both the timing and quantum;
    - assessing current trading performance by inspecting the January 2022 period end management accounts and further financial information available for February 2022 in addition to making inquiries of management to identify any issues with 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 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.
- Assessed the forecast liquidity of the group, including both its current cash resources and the availability of further facilities, should they be required, in order to meet the debt service payments falling due over a period through to 31 March 2023 and the ability of Dignity plc (the company) to provide a liquidity injection into the Securitised Group to remediate an EBITDA shortfall should this be needed.
- Inquired of management as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern and compared their response to forecast market conditions by the ONS, the profile of payments and covenant requirements of the IBLA and other information that could impact the funeral and crematoria sectors, notably the regulation of pre-need sector by Financial Conduct Authority (FCA).
- 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 requires a liquidity injection into the Securitised Group to remediate the shortfall. Under all scenarios modelled, Dignity plc has sufficient liquidity to contribute cash into the Securitised Group in order to remediate any DSCR shortfall.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern from when the financial statements are authorised for issue through 31 March 2023. Going concern has also been determined to be a key audit matter.

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

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

Overview of our audit approach

Audit scope	• We performed an audit on the consolidated financial statements of the group to the materiality and performance materiality described below. The audit of all the companies within the group is undertaken by one audit team.
Key audit matters	Group • Revenue recognition - risk of management override • Valuation of pre-need Trusts level 3 (illiquid) investments • Impairment of funerals goodwill, trade names and related assets Company • Impairment of parent company investments
Materiality	• Overall group materiality of £1.0 million which represents 4.6% of adjusted profit before tax (see Materiality section below for calculation)

An overview of the scope of the group and parent company audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed for the group.

In assessing the risk of material misstatement to the group audit, we considered that all significant elements of the group's finance and accounting function are situated and managed centrally in Sutton Coldfield, UK, and operate under one common internal control environment; and all operations of the group are also managed from this location together with the UK headquarters. All audit work performed for the purposes of the audit was undertaken by the group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIGNITY PLC CONTINUED

for the 53 week period ended 31 December 2021

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition – risk of management override (Revenue 2021: £353.7 million, 2020: £357.5 million) Given investor focus on the Group's underlying revenue (2021: £312.0 million, 2020: £314.1 million) we consider there to be a risk in relation to the manipulation by group management of the amount of revenue recorded. Management reward and incentive schemes based on achieving profit targets may also place pressure on management to manipulate revenue recognition. Therefore, there is a risk that group management may override controls to intentionally misstate revenue transactions through inappropriate manual journal entries, including those arising from consolidation of the Trusts. Refer to the Accounting policies, note 1 and note 3 of the Consolidated Financial Statements and the Audit Committee report (pages 79 to 82).	• We understood the group's revenue recognition policies and how they are applied, including the relevant controls. We performed walkthrough of each significant class of revenue transactions and assessed the design effectiveness of key controls; • In respect of the funerals and crematoria segments, which together form 92% of the group's underlying revenue. We used data analytical tools to correlate revenue transactions through to receivables and cash settlement. Where the postings did not follow our expectation, we investigated and understood the characteristics of these entries and tested a sample to assess their validity by agreeing the transactions back to source documentation; • We reconciled the aggregate underlying revenue amounts extracted from the sales invoicing systems to revenue recorded in the general ledger and traced material reconciling items to supporting documentation; • We tested journal entries posted to revenue accounts, applying parameters designed to identify entries that were not in accordance with our expectations. This included analysing and selecting journals for testing which appeared unusual in nature either due to size, preparer or being manually posted. To assess their validity, we verified the journals to originating documentation; • We performed detailed testing over the manual adjustments to revenue made as a result of the consolidation of the Trusts and the IFRS 15 adjustment to recognise revenue in respect of pre-need disbursements and those services performed by non-Dignity funeral directors in the period, where the group is acting as principal in the arrangement. This testing compared the outputs of management's deferred income liability model to the journals posted; and • We performed analytical procedures to compare revenue recognised with expectations based on past experience, management's forecasts and, where possible, external market data in respect of the numbers of deaths in the period, assessed any contrary information and obtained corroborative evidence to support divergences from our expectations.	We have not identified any evidence of management override through inappropriate journal entries in respect of the amount of revenue recorded in the period.
Valuation of pre-need Trusts level 3 (illiquid) investments (2021: £66.9 million out of total Trust financial assets of £1,043.1 million, 2020: £49.9 million out of £967.1 million) Certain assets held by the pre-need Trusts require a level of estimation in assessing their valuation, specifically the private (illiquid) investment fund which are classed as Level 3 assets. Refer to the Accounting policies, note 1 and note 13 of the Consolidated Financial Statements and the Audit Committee report (pages 79 to 82).	• We understood the group policy in relation to financial assets held by the Trusts, obtained the breakdown of investments and performed the following procedures: Existence • For the investments held at the balance sheet date we validated the existence of these assets by directly obtaining confirmation from the custodians of the number of units held. We reconciled these to the statements that we obtained directly from the fund manager. Valuation • We obtained and reviewed the ISAE 3402 SOC-1 Type II report for the third party investment management services for the year to 31 December 2021. This report concluded on the suitability of the design and operating effectiveness of controls over the valuation of assets held by the fund. Controls over valuation were assessed as effective. • We independently built an expectation of the valuation as at 31 December 2021 having considered the fund monthly management accounts (directly obtained from the fund manager) for December 2021 and the level of investment units held by the Trusts as obtained directly from the asset custodian. • Our assessment involved independently calculating an expectation of the price at 31 December 21, derived using an appropriate publicly available benchmark (considering the nature and geography of the investments in the fund) and by performing a variance analysis between the December 2018, 2019 and 2020 management accounts with audited financial statements of the funds for the same years. We then compared this expectation with the actual price at 31 December 2021, as confirmed by the fund manager. • We reviewed the financial instruments and fair value disclosures in the group's financial statements and assessed whether they met the requirements of IFRS 7 and IFRS 13.	The carrying value of the Level 3 Trust assets is fairly stated. The related disclosures are in accordance with IFRS except for the omission of certain IFRS 13 disclosures related to valuation sensitivity as this information was not available to management (as explained in note 22).

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Carrying value of goodwill, trade names and related assets (2021: £609.8 million, 2020: £660.5 million), net of a £39.2 million (2020: £44.0 million) impairment of funeral segment goodwill and trade names The group has significant balances of goodwill, other intangible assets, including trade names, property plant and equipment and right-of-use assets recognised on the balance sheet. As outlined in the strategic report the group has faced a challenging year arising from continued changes in the funeral market and the implementation of new strategy and re-pricing in response to Competition and Market Authority ('CMA') transparency requirements which has lowered average incomes. Despite having no material reduction in the number of funerals performed compared to prior year, the group has experienced an overall decline in underlying operating profit from £60.3 million in 2020 to £55.8 million in 2021. Therefore, there is a risk that goodwill and the group's cash generating units ('CGUs'), in particular the funeral services segment and the related trade name CGUs, may not achieve the anticipated business performance to support their respective carrying values. Judgement is required in forecasting the future cash flows of each CGU, determination of the long-term growth rates applied to these cash flows, together with the rate at which they are discounted. Refer to the Accounting policies, note 1 and note 8 of the Consolidated Financial Statements and the Audit Committee report (pages 79 to 82).	• We understood the group's process for preparing impairment review calculations and assessed the design effectiveness of key controls and how they are applied; • We assessed whether management's identification of cash generating units was in accordance with IAS 36 by comparing the identified CGUs to internal management reporting demonstrating how the cash flows are monitored; • We examined management's methodology together with their models for assessing the valuation of goodwill, other intangible assets, right-of-use assets and property, plant and equipment balances to understand the composition of management's future cash flow forecasts and the process undertaken to prepare them. This included confirming the underlying cash flows were derived from the board approved budgets and assessing the appropriateness of the identified CGUs. We also re-performed the calculations in the model to test the mathematical integrity; • We tested the key inputs to management's impairment model by: – analysing the historical accuracy of budgets (pre COVID-19) to actual results to determine whether forecast cash flows are reliable based on past experience; – checking the consistency of the forecast used in the CGU impairment models for 2022 and beyond to the scenario analysis prepared for use elsewhere in the group, e.g. the going concern review; – assessing the discount rate used by obtaining the underlying data used in the calculation and benchmarking it against an EY range derived from comparable organisations and market data, involving EY valuation specialists to assist us with this assessment; and – challenging whether the forecast growth rates have been appropriately adjusted to reflect the group's strategy and the changes experienced in the funeral market, together with comparing them to observable market data; • We examined the sensitivities performed by management on the group's forecasts by incorporating reasonably possible changes in key assumptions including EBITDA growth rates (including as driven by market share gains) and the discount rate and assessed the decline in headroom/change in impairment; • Where CGUs were not impaired, we calculated the degree to which the key inputs and assumptions would need to fluctuate before an impairment was triggered and considered the likelihood of this occurring; • We challenged management to reassess the useful economic life of trade names, considering the existence of both corroborative and contra evidence; and • We audited the disclosures in note 8 against the requirements of IAS 36 *Impairment of Assets*.	We consider the group's conclusions in respect of impairment of intangible and tangible assets are appropriate, and that the £36.4 million impairment of funeral segment goodwill and £2.8 million impairment of trade names are fairly stated. The impairment is sensitive to movements in key assumptions, notably in respect of market share and the discount rate applied to the cash flows. The impairment disclosures are in accordance with IAS 36.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIGNITY PLC CONTINUED

for the 53 week period ended 31 December 2021

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of parent company investments (2021: £153.2 million, 2020: £151.3 million) The parent company holds investments in subsidiaries with a significant carrying value. As at 31 December 2021, the market capitalisation of Dignity plc was lower than the net assets of the company, this is an indicator of impairment. As set out above, the Group's performance continues to be impacted from changes in the funeral market driven by COVID-19 and the implementation of the new strategy. Therefore, there is a risk that the subsidiaries may not achieve the anticipated business performance to support their respective carrying values. Judgement is required in forecasting the future cash flows of the subsidiary investments and the Trusts, determination of the long-term growth rates applied to these cash flows, together with the rate at which they are discounted. Refer to the Accounting policies, note C1 and note C3 of the Parent Company Financial Statements and the Audit Committee report (pages 79 to 82).	• Management tested the parent company investment in subsidiaries for potential impairment using a model which adjusts the value in use established as part of the goodwill, other intangible assets and property, plant and equipment impairment assessment (see audit response above) for net debt, pensions and cashflows and assets associated with the Trusts; • We tested the mathematical integrity of the calculation performed; • We examined management's methodology and model for assessing the valuation of investments to understand the composition of management's future cash flow forecasts and the process undertaken to prepare them. In addition to the steps noted above in respect of the value in use established for goodwill, other intangible assets and property, plant and equipment impairment assessment purposes, we vouched each of the adjustments made, primarily driven by pre-need Trusts consolidation, to amounts recorded elsewhere in the financial statements or underlying accounting records which were subject to our audit procedures; • We examined the sensitivities performed by the management on the group's forecasts by incorporating reasonable possible changes in key assumptions including EBITDA growth rates and the discount rate, as mentioned above and assessed the change in impairment; and • We audited the related disclosures with reference to the requirements of IAS 36.	We consider the group's conclusions in respect of impairment of investment is appropriate, and that the £11.8 million impairment of investment in subsidiaries is fairly stated. The impairment disclosures are in accordance with IAS 36.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £1.0 million (2020: £1.2 million), which is 4.6% (2020: 4.6%) of adjusted profit before tax (IFRS profit before tax, adding back net non-underlying costs (excluding the add back for amortisation of acquisition related intangibles and marketing costs for low priced funeral trials)).

We believe that this measure of adjusted profit before tax is the most appropriate measure of the financial performance of the group on which to base the audit materiality. In evaluating management's adjustment to derive underlying operating profit, we excluded the add back of the £4.2 million amortisation of acquisition related intangibles as this is a recurring item and £0.9 million marketing costs in relation to low priced funeral trials given any related change to the revenue is included in the underlying results. Further, we have excluded from our materiality calculation the additional net profit of £53.5 million achieved by the group as a result of the consolidation of the pre-need trusts. We set materiality on a basis that is comparable with that determined in previous years and in line with how the trading business is operated. The exclusion of the impact of the consolidation of the pre-need trusts is consistent with how management prepare their underlying results and communicate financial performance to investors.

Starting basis	• Profit before tax as reported in the financial statements – £32.0 million
Adjustments	• Add back non-underlying items (excluding acquisition related amortisation of £4.2 million and marketing costs for low priced funeral trials of £0.9 million) – £43.2 million • Exclude the profit impact of consolidation of the Trusts – £53.5 million
Materiality	• Adjusted profit before tax – £21.7 million • Materiality calculated at 4.6% – £1.0 million

We determined materiality for the Parent Company to be £4.8 million (2020: £4.7 million), which is 1% (2020: 1%) of equity. Equity is the most appropriate measure given the parent company is an investment holding company with no revenue. The materiality determined for the standalone parent company financial statements exceeds the group materiality as it is determined on a different basis given the nature of the operations. For the purposes of the audit of the group financial statements, our procedures, including those on balances in the parent company, are undertaken with reference to the group materiality and performance materiality set out in this report.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality be retained at 50% (2020: 50%) of our planning materiality, being £0.5 million (2020: £0.6 million).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1 million (2020: £0.1 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the annual report set out on pages 1 to 104 and 179 to 188, including the Overview set out on page 1, the Strategic Report set out on pages 2 to 51, Governance set out pages 64 to 104 and Other Information set out on pages 179 to 188, 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 there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIGNITY PLC CONTINUED

for the 53 week period ended 31 December 2021

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

Matters on which we are required to report by exception

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

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

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

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to compliance with the UK Corporate Governance Code and instances of non-compliance with the code provisions as set out on pages 66 and 67;
- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 103;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 47;
- Directors' statement on fair, balanced and understandable set out on page 101;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 102;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 76 and 77; and
- The section describing the work of the audit committee set out on pages 79 to 82.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 101, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 101, the Companies Act 2006 and UK Corporate Governance Code 2018) and the relevant tax compliance regulations in the UK. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Disclosure Guidance and Transparency Rules and the Listing Rules of the Financial Conduct Authority, and those laws and regulations relating to occupational health and safety and data protection.
- We understood how the group is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and any correspondence received from regulatory bodies.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from material misstatements arising from fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of group management, internal audit; and focused testing, as referred to in the key audit matters section above.

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

Other matters we are required to address

- Following the recommendation from the audit committee, we were appointed by the company on 23 June 2021 to audit the financial statements for the 53-week ended 31 December 2021 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is eight years, covering the years ending 26 December 2014 to 31 December 2021.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

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

22 March 2022

Notes:

1. The maintenance and integrity of the Dignity plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

for the 53 week period ended 31 December 2021

	Note	53 week period ended 31 December 2021 £m	52 week period ended 25 December 2020 £m
Revenue	3	**353.7**	357.5
Cost of sales		**(174.1)**	(177.3)
Gross profit		**179.6**	180.2
Administrative expenses		**(161.8)**	(164.3)
Operating profit	3	**17.8**	15.9
Finance costs	4	**(29.0)**	(29.8)
Finance income	4	**–**	0.1
Deferred revenue significant financing	4	**(51.6)**	(53.1)
Remeasurement of financial assets held by the Trusts and related income	4	**94.8**	47.3
Profit/(loss) before tax	5	**32.0**	(19.6)
Taxation	6	**(19.9)**	(5.9)
Profit/(loss) for the period attributable to equity shareholders	3	**12.1**	(25.5)
Earnings/(loss) per share for profit attributable to equity shareholders			
– Basic (pence)	7	**24.2p**	(51.0)p
– Diluted (pence)	7	**24.2p**	(51.0)p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 53 week period ended 31 December 2021

	Note	53 week period ended 31 December 2021 £m	52 week period ended 25 December 2020 £m
Profit/(loss) for the period		**12.1**	(25.5)
Items that will not be reclassified to profit or loss			
Remeasurement gain/(loss) on retirement benefit obligations	28	**15.6**	(11.7)
Tax (charge)/credit on remeasurement on retirement benefit obligations	6	**(3.9)**	2.2
Tax charge on pension contributions	6	**(0.2)**	–
Restatement of deferred tax for the change in UK tax rate	6	**1.9**	0.5
Other comprehensive income/(loss)		**13.4**	(9.0)
Comprehensive income/(loss) for the period		**25.5**	(34.5)
Attributable to:			
Equity shareholders of the parent		**25.5**	(34.5)

CONSOLIDATED BALANCE SHEET

as at 31 December 2021

	Note	31 December 2021 £m	25 December 2020 restated £m
Assets			
Non-current assets			
Goodwill	8	**167.9**	203.9
Intangible assets	8	**110.7**	120.5
Property, plant and equipment	9	**242.1**	240.9
Right-of-use asset	10	**89.1**	95.2
Deferred insurance commissions	12	**8.4**	9.4
Financial assets held by the Trusts	13	**1,043.1**	967.1
Deferred commissions	19	**100.9**	101.3
Deferred tax asset	21	**5.5**	20.3
		1,767.7	1,758.6
Current assets			
Inventories	14	**8.6**	9.0
Trade and other receivables	15	**30.0**	30.0
Current tax receivables		**2.4**	–
Deferred commissions	19	**7.6**	7.6
Cash and cash equivalents – Trading Group		**55.9**	73.6
Cash and cash equivalents – held by the Trusts		**19.8**	21.6
Cash and cash equivalents	16	**75.7**	95.2
		124.3	141.8
Total assets		**1,892.0**	1,900.4
Liabilities			
Current liabilities			
Financial liabilities	17	**11.5**	15.7
Trade and other payables	18	**59.5**	68.2
Lease liabilities	17	**7.1**	7.3
Current tax liabilities		**–**	7.9
Contract liabilities	19	**99.6**	95.5
Provisions for liabilities	20	**2.1**	2.4
		179.8	197.0
Non-current liabilities			
Financial liabilities	17	**518.3**	529.5
Other non-current liabilities	18	**2.2**	2.1
Lease liabilities	17	**75.8**	81.2
Contract liabilities	19	**1,237.9**	1,222.0
Provisions for liabilities	20	**9.4**	9.5
Retirement benefit obligation	28	**19.7**	36.6
		1,863.3	1,880.9
Total liabilities		**2,043.1**	2,077.9
Shareholders' deficit			
Ordinary share capital	23	**6.2**	6.2
Share premium account		**12.9**	12.7
Capital redemption reserve		**141.7**	141.7
Other reserves		**(2.3)**	(3.0)
Retained earnings		**(309.6)**	(335.1)
Total deficit		**(151.1)**	(177.5)
Total deficit and liabilities		**1,892.0**	1,900.4

Prior year comparatives have been restated due to a prior year adjustment in relation to insurance plans. See note 1 for further details.

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

The financial statements on pages 114 to 166 were approved by the Board of Directors on 22 March 2022 and were signed on its behalf by:

G A Channon
Chief Executive

D R Moore
Interim Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 53 week period ended 31 December 2021

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Shareholders' equity as at 27 December 2019 – as previously stated	6.2	12.5	141.7	(4.0)	(297.9)	(141.5)
Impact of insurance plans on 28 December 2019 – prior year adjustment (note 1)	–	–	–	–	(3.5)	(3.5)
Adjustment on initial application of IFRS 16 on 28 December 2019	–	–	–	–	0.8	0.8
Shareholders' equity as at 28 December 2019 – restated	6.2	12.5	141.7	(4.0)	(300.6)	(144.2)
Loss for the 52 weeks ended 25 December 2020	–	–	–	–	(25.5)	(25.5)
Remeasurement loss on retirement benefit obligations	–	–	–	–	(11.7)	(11.7)
Tax on retirement benefit obligations	–	–	–	–	2.2	2.2
Restatement of deferred tax for the change in UK tax rate	–	–	–	–	0.5	0.5
Other comprehensive loss	–	–	–	–	(9.0)	(9.0)
Total comprehensive loss	–	–	–	–	(34.5)	(34.5)
Effects of employee share options	–	–	–	1.2	–	1.2
Proceeds from share issue(1)	–	0.2	–	–	–	0.2
Gift to Employee Benefit Trust	–	–	–	(0.2)	–	(0.2)
Shareholders' equity as at 25 December 2020 – restated	6.2	12.7	141.7	(3.0)	(335.1)	(177.5)
Profit for the 53 weeks ended 31 December 2021	**–**	**–**	**–**	**–**	**12.1**	**12.1**
Remeasurement gain on retirement benefit obligations	**–**	**–**	**–**	**–**	**15.6**	**15.6**
Tax on retirement benefit obligations	**–**	**–**	**–**	**–**	**(3.9)**	**(3.9)**
Tax on pension contributions	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Restatement of deferred tax for the change in UK tax rate	**–**	**–**	**–**	**–**	**1.9**	**1.9**
Other comprehensive income	**–**	**–**	**–**	**–**	**13.4**	**13.4**
Total comprehensive income	**–**	**–**	**–**	**–**	**25.5**	**25.5**
Effects of employee share options	**–**	**–**	**–**	**0.8**	**–**	**0.8**
Proceeds from share issue(2)	**–**	**0.2**	**–**	**–**	**–**	**0.2**
Gift to Employee Benefit Trust	**–**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Shareholders' equity as at 31 December 2021	**6.2**	**12.9**	**141.7**	**(2.3)**	**(309.6)**	**(151.1)**

(1) Relating to issue of 7,745 shares under 2017 DAB scheme and 344 shares issued under the 2019 SAYE scheme.
(2) Relating to issue of 5,963 shares under 2016 DAB scheme and 4,562 shares under the 2019 SAYE scheme.

Comparatives for the 52 weeks ended 25 December 2020 have been restated due to a prior year adjustment in relation to insurance plans. See note 1 for further details.

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

Capital redemption reserve

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

Other reserves

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the 53 week period ended 31 December 2021

	Note	53 week period ended 31 December 2021 £m	52 week period ended 25 December 2020 restated £m
Cash flows from operating activities			
Cash generated from operations	26	**68.3**	62.7
Finance income received		**–**	0.1
Finance costs paid		**(40.2)**	(29.2)
Transfer from restricted bank accounts for finance costs		**12.0**	12.1
Payments to restricted bank accounts for finance costs	16	**–**	(12.0)
Total payments in respect of finance costs		**(28.2)**	(29.1)
Tax paid		**(17.7)**	(6.9)
Net cash generated from operating activities		**22.4**	26.8
Cash flows from investing activities			
Acquisition of subsidiaries and businesses (net of cash acquired)		**(0.2)**	–
Proceeds from sale of property, plant and equipment		**1.2**	1.1
Purchase of property, plant and equipment and intangible assets		**(21.0)**	(11.1)
Purchase of financial assets (by the Trusts)	13	**(948.7)**	(778.1)
Disposals of financial assets (by the Trusts)	13	**960.9**	796.8
Realised return on financial assets		**2.1**	3.8
Net cash (used)/generated in investing activities		**(5.7)**	12.5
Cash flows from financing activities			
Payments due under Secured Notes		**(15.1)**	(9.6)
Transfer from restricted bank accounts for repayment of borrowings		**4.9**	4.8
Payments to restricted bank accounts for repayment of borrowings	16	**–**	(4.9)
Total payments in respect of borrowings		**(10.2)**	(9.7)
Principal elements of lease payments		**(9.1)**	(7.8)
Net cash used in financing activities		**(19.3)**	(17.5)
Net (decrease)/increase in cash and cash equivalents		**(2.6)**	21.8
Cash and cash equivalents at the beginning of the period		**78.3**	56.5
Cash and cash equivalents at the end of the period	16	**75.7**	78.3
Restricted cash – amounts set aside for debt service payments	16	**–**	16.9
Cash and cash equivalents at the end of the period as reported in the consolidated balance sheet	16	**75.7**	95.2

Comparatives for the 52 weeks ended 25 December 2020 have been restated due to a prior year adjustment in relation to the application of IFRS 16. See note 1 for further details.

NOTES TO THE FINANCIAL STATEMENTS
for the 53 week period ended 31 December 2021

1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

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

In the current period, the Group's consolidated financial statements have been prepared for the 53 week period ended 31 December 2021. For the comparative period, the Group's consolidated financial statements have been prepared for the 52 week period ended 25 December 2020.

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

Preparation of financial statements
The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. This will also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from those estimates.

Terminology:
Trusts refers to The National Funeral Trust and the Trust for Age UK Funeral Plans considered for accounting purposes to be controlled and therefore included in the consolidated financial statements of Dignity plc.

Small Trusts refers to pre-arranged funeral plans from which the Group receives funeral cover in the event that they deliver a funeral service. Dignity is unable to influence variable returns, such that the Group is not considered to control these trusts and therefore these trusts are not consolidated.

Trading Group refers to Dignity plc and its subsidiaries excluding the Trusts. Trading Group therefore represents what would have been described as the 'Dignity plc Group' or 'Group' in previous Annual Reports.

Group or Dignity plc Group refers to Dignity plc, including its subsidiaries and the Trusts.

Securitisation Group or Securitised Group refers to Dignity (2002) Limited, including its subsidiaries, but excluding the Trusts. It represents those entities over which security has been granted in respect of the Secured Notes.

Basis of consolidation
The financial statements are presented in the form of Group financial statements. The Group financial statements consolidate the accounts of the Company and the entities controlled by the Company (including all of its subsidiary entities) after eliminating internal transactions. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Results of subsidiary undertakings acquired during a period are included from the effective date of control using the acquisition method of accounting. The separable net assets, both tangible and intangible, of newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value to the Group as at the effective date of control.

Prior year restatements
Insurance plans
The Group is the named beneficiary on a number of life assurance products sold by third party insurance companies on which the Group pays commission. The Group is entitled to recover commission paid if plans are cancelled within two years of being sold. However, if plans are cancelled outside this two year period, commissions paid are not refundable. The majority of plans with these features ceased to be written in October 2019 and the remainder in February 2020.

Following a review of the Group's accounting policy for insurance plans in relation to the prepaid balance held on the consolidated balance sheet within 'deferred insurance commissions' it has been amended to include a provision for expected future cancellations. A detailed analysis has been performed on the cancellation rates for insurance products and a prior year restatement has been required to reflect the expected level of future cancellations.

It was further noted that a liability was not held for the active plans where a known commission is payable in future years. The calculation for the liability includes an estimate of the level of cancellations before the commission is payable and is discounted using a risk free rate of return. Furthermore, an assessment has been performed to determine the level of future expected funerals and this element of the liability has been held as a corresponding asset.

Prior year comparatives have been restated to reflect the above changes. There is no impact on statutory earnings, underlying earnings or earnings per share for the 52 week period ended 25 December 2020. A reconciliation from the reported prior period comparatives has been provided in note 34 together with the third balance sheet required to be disclosed in support of the prior year adjustments.

1 Accounting policies (continued)

IFRS 16

Following the finalisation of adopting IFRS 16 for the first time and as presented in the consolidated financial statements as at and for the 52 week period ended 25 December 2020 a number of restatements have been made to the consolidated financial information as follows:

- The operating profit impact of IFRS 16 in December 2020 was reported within the funeral services segment within 'other adjustments' totalling £4.6 million, however this has now been split between the funeral services (£3.1 million), crematoria (£1.4 million) and central overheads (£0.1 million) segments to better reflect where the leasing arrangements are held;
- The December 2020 restated split reported in the 2021 Interim Report was £1.9 million to funeral services, £2.6 million to crematoria and £0.1 million to central overheads. Following further analysis of the leasing arrangements these have been restated within this Annual Report as above. Operating profit for December 2020 has therefore been restated from £17.5 million to £18.7 million in the funerals segment and from £45.2 million to £44.0 million in the crematoria segment. All remaining analysis of the restatement is based on this revised split; and
- The impact of IFRS 16 has now been moved into underlying performance measures to reflect the application of IFRS 16. On adoption in 2020 the modified retrospective approach was applied which meant 2019 comparatives were not restated. As a result, the Group choose to exclude it from its underlying performance measures reported in 2020 in order to retain comparability.

The following restatements have been made within the segmental analysis as a result of the above:

- Funeral services – Underlying operating profit before depreciation and amortisation has been increased by £10.9 million to £73.0 million, underlying depreciation and amortisation has increased by £7.8 million to £19.9 million giving an overall increase in underlying operating profit of £3.1 million to £53.1 million. Accordingly, 'other adjustments' has decreased by £1.9 million to £13.9 million. Statutory operating profit has increased by £1.2 million to £18.7 million;
- Crematoria – Underlying operating profit before depreciation and amortisation has been increased by £2.5 million to £51.2 million, underlying depreciation and amortisation has increased by £1.1 million to £7.0 million giving an overall increase in underlying operating profit of £1.4 million to £44.2 million. Accordingly, 'other adjustments' has decreased by £2.6 million to £nil. Statutory operating profit has decreased by £1.2 million to £44.0 million; and
- Central overheads – Underlying operating loss before depreciation and amortisation has been reduced by £0.4 million to £34.9 million, underlying depreciation and amortisation has increased by £0.3 million to £2.1 million giving an overall decrease in underlying operating loss of £0.1 million to £37.0 million. Accordingly, 'other adjustments' has decreased by £0.1 million to £nil. There is no impact to statutory operating profit.

Accordingly, the following restatements have also been made within the segmental analysis:

- IFRS 16 finance costs of £4.7 million have been transferred out of other adjustments into underlying profit before tax. The total underlying finance costs has been restated to £29.8 million;
- Accordingly, the total impact of the above on underlying profit before tax is a decrease of £0.1 million to £30.6 million;
- There is no impact on the underlying taxation charge;
- Underlying earnings for the 52 week period ended 25 December 2020 have been restated by £0.1 million to £23.2 million. Therefore, underlying earnings per share has decreased by 0.2 pence to 46.4 pence; and
- There is no impact to statutory loss after taxation or statutory earnings per share.

Consolidated statement of cashflows

The consolidated statement of cash flows has also been restated as at and for the 52 week period ended 25 December 2020 as follows:

- The 'principal and interest elements of lease payments' was previously classified within cashflows from financing activities. The interest element of IFRS 16 amounting to £4.7 million has been reclassified into finance costs paid under cash flow from operating activities. Total finance costs paid now totals £29.2 million, leading to a net cash generated from operating activities of £26.8 million. Principal elements of lease payments has been restated to £7.8 million leading to a net cash used in financing activities of £17.5 million.

Going concern

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

The financial performance of the Group and the Securitisation Group has been forecast for a period through 31 March 2023 (the going concern period) and those forecasts have been subjected to a number of sensitivities. These forecasts reflect an assessment of current and future market conditions and their impact on the future profitability of the Group and the Securitised Group.

1 Accounting policies (continued)

Going concern (continued)

As at 31 December 2021, the Group had cash (excluding cash in the Trusts) of £55.9 million and its operations are also funded by Class A Notes with an outstanding principal of £170.7 million (matures 2034) and Class B Notes with an outstanding principal of £356.4 million (matures 2049) that are listed on the Irish Stock Exchange. As part of the conditions of these notes, the Securitisation Group is required to comply with an EBITDA: Debt Service Charge Ratio (DSCR) covenant, tested quarterly on a last 12 month basis. At each point of testing, EBITDA must exceed c.£51 million (i.e. 1.5x the annual debt service cost of £34 million).

Due to the uncertainty around the forecasted deaths for 2022 and 2023 (due to the impact of COVID-19 on deaths in 2020 and 2021), as a precautionary measure, the Group sought and was granted a waiver of the DSCR and related covenants within the debt.

This waiver allows for an equity cure by Dignity plc should there be a shortfall in EBITDA of the Securitisation Group at any covenant measurement point up to and including 31 December 2022. Any cash transferred into the Securitisation Group during this period (up to an allowed maximum of £15 million) is included within the EBITDA for the purpose of the DSCR for the following 12 months and therefore the waiver covers the entire going concern period, i.e. cash (required to be) injected into the Securitisation Group prior to 31 December 2022 will be included in the calculation of EBITDA for the following 12 months. The Group has forecast its liquidity position and has sufficient liquidity in Dignity plc (the company), under all severe but plausible scenarios modelled, should it need to inject cash into the Securitised Group.

The Group accelerated its new strategy in September 2021 and introduced an Attended Funeral at prices from £1,595 to £2,495 (excludes extras, e.g. limousines, etc., which are charged in addition to this rate) across the majority of the network, implemented the Unattended Funeral (direct cremation) across the whole network and the simple funeral was removed (apart from our location in Jersey). Whilst 2021 funeral market share is slightly lower than the prior year that started to change after the price changes and the Group expects the new strategy to generate growth in its funeral market share and growth in profits.

When considering the going concern assumption, the Directors of the Group have reviewed the principal risks within the environment in which it operates and have prepared relevant sensitised scenarios, these include:

- Deaths being 10,000 less than budgeted (noting for going concern purposes, the Directors considered a budget for 610,000 deaths which is less than the ONS projections of 631,000 deaths in 2022);
- Funeral market share growth being one per cent less than budgeted;
- Average revenue per funeral being two per cent lower than budgeted; and
- A higher proportion of Unattended Funerals than budgeted.

This scenario modelling confirmed that, after considering the potential use of the equity cure, there was no plausible scenario in which the Group would not meet its debt service payments or related covenants in the going concern period. The Group is forecast to have sufficient liquidity to meet its liabilities as they fall due in the period assessed through to 31 March 2023.

Having considered all the above the Directors remain confident in the long-term future prospects for the Group and its ability to continue as a going concern for the foreseeable future and for a period through to 31 March 2023 and therefore continue to adopt the going concern basis in preparing the Annual Report.

Alternative performance measures ('APMs')

The Board believes that whilst statutory reporting measures provide financial performance of the Group under IFRS, APMs are necessary to enable users of the financial statements to fully understand the trading performance and financial position of the Group. The APMs provided are aligned with those used in the day-to-day management of the Group and allow for greater comparability across periods. For this reason, the APMs provided exclude the impact of consolidating the Trusts and the changes which relate to the application of IFRS 15, as well as non-underlying items comprising certain non-recurring and non-trading transactions. See Financial review on pages 54 and 55 and alternative performance measures on pages 179 and 180 for further information.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not control or joint control over those policies.

The Group's investment in an associate is accounted for using the equity method. The investment is initially recorded at cost and the carrying amount is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment. The consolidated income statement reflects the Group's share of the results of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. The Group aligns accounting policies and makes adjustments where necessary prior to recognising their share in the financial statements.

At each reporting date the Group performs a review to assess whether there is any objective evidence that the investment in the associate is impaired. Where such evidence exists the recoverable amount of the investment is determined by calculating its value-in-use. This recoverable amount is compared to the carrying amount of the investment and to the extent that the recoverable amount exceeds the carrying value of the investment, an impairment is recognised accordingly. Any impairment is recognised within 'Share of loss and impairment in respect of associate' in the consolidated income statement.

1 Accounting policies (continued)

Revenue

At-need funerals and cremations

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

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

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

All amounts are exclusive of VAT.

Pre-arranged funeral plans

Trust for Age UK Plans and National Funeral Trust

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

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

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

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

As the only directly attributable costs in respect of the marketing of the pre-arranged funeral plans are commission payments, these are held as deferred commissions in the consolidated balance sheet and recognised in the Group's consolidated income statement, within administration expenses, on the performance of a funeral (single performance obligation) or cancellation of the plan (if outside of a clawback period).

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

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

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

Other trust plans

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

1 Accounting policies (continued)

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

Where a commission is paid to the insurers, these costs are carried as a prepayment and charged to the consolidated income statement as a funeral is performed. 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 consolidated 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 Group performs the funeral, it receives an agreed amount from the insurers which is recognised as revenue within the funeral services division. On occasions a third party will perform the funeral and the Group will pass on all monies received to that party and in this situation the Group is deemed to be acting as an agent and revenue is treated as pass through revenue and not grossed up within the consolidated income statement.

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

An expense is recognised to spread the fair value of each award over the vesting period on a straight line basis, after allowing for an estimate of the share awards that will eventually not vest. The estimate of the level of vesting is reviewed at least annually, with any impact on the cumulative charge being recognised immediately. When the options are exercised the Company issues new shares.

Earnings per Ordinary Share
Basic Earnings per Ordinary Share ('EPS') is calculated by dividing the profit after taxation by the weighted average number of shares in issue during the period. Diluted EPS is calculated by dividing profit after taxation by the weighted average number of shares in issue during the period increased by the effects of all dilutive potential Ordinary Shares (primarily share options). Underlying Earnings per Ordinary Share is calculated by dividing the underlying profit after taxation by the weighted average number of shares in issue during the period.

Fair value measurement
The Group measures financial assets held by the Trusts at fair value and discloses fair values for all other financial assets and liabilities at each balance sheet date which are held at amortised cost.

Fair value related disclosures are set out in note 22 in respect of financial instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability measured using the assumptions that market participants would use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and where required the use of unobservable inputs.

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Businesses and subsidiaries that are acquired and subsequently combined with existing operations in the year of acquisition, or the year thereafter are 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.

1 Accounting policies (continued)

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

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

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

Intangible assets – use of third party brand name
The Group has a marketing agreement with Age UK Enterprises Limited, giving rights to market pre-arranged funeral plans under the Age UK brand. The value of this right has been recognised as a separate intangible asset.

This asset is being amortised over 20 years on a straight line basis, recognising that each year's additional marketing activity generates incremental revenues and profits to the Group for at least the following 20 years.

Intangible assets – other
The Group previously acquired interests in two crematoria subject to finite periods of operation (by way of lease and/or service concession). The fair value of these interests has been identified and recognised as a separate intangible asset. The value of each interest is being amortised over the remaining period of operation.

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

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

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

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

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

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

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

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

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

1 Accounting policies (continued)

Right-of-use assets and lease liabilities

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

Where a lease is identified the Group recognises a right-of-use asset and a corresponding lease liability, except for short-term leases (defined as leases with a lease term of 12 months or less), leases of low-value assets (defined as leases with rentals below £1,000 per annum) and leases with contingent rentals.

Right-of-use assets

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

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

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

Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. On transition to IFRS 16 on 28 December 2019 the weighted average lessee's IBR applied to the lease liabilities was 4.9 per cent, with a minimum rate of 3.6 per cent and a maximum rate of 6.8 per cent.

On transition to IFRS 16 the right-of-use asset equalled the lease liability being recognised, with the exception of a £0.9 million difference relating to prepaid and accrued lease payments and £7.2 million representing amounts paid to acquire the long leasehold interest in land at certain of the Group's properties.

The lease liability is presented as a separate line in the consolidated balance sheet, split between current and non-current liabilities.

Short-term leases and leases of low-value assets

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

Impairment of assets

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

Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. For goodwill this is considered at a business segment level as that is the level at which the return on assets acquired is monitored. Recoverable amount is the higher of fair value less costs 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 expectations for the following year and an annual growth rate in subsequent years. These cash flows are discounted at rates that management estimate to be the risk affected average cost of capital for the particular segment and compared to the carrying value of the relevant asset. Any impairment in the value of an asset below its carrying value is charged to the income statement within operating profit. A reversal of an impairment loss is recognised in the income statement to the extent that the original loss was recognised, net of the amortisation or depreciation that would have been charged. Any impairment loss recognised for goodwill will not be reversed.

Inventories

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

1 Accounting policies (continued)

Taxation

The tax charge for the period includes the charge for tax currently payable and deferred tax. The current tax charge represents the estimated amount due that arises from the operations of the Group in the period and after making adjustments to estimates in respect of prior years. Tax is recognised in the consolidated 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 profit, 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 in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax assets and liabilities are offset to generate a net asset or liability if the conditions of IAS 12 are met.

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

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

Pensions

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

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligation. The net interest arising on applying the opening discount rate to the plan assets and defined benefit obligations is recognised in the consolidated 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 retained earnings in other comprehensive income in the period in which they arise. Past and current service costs are recognised in the consolidated income statement.

Changes in the present value of the defined benefit obligation resulting from plan amendments, curtailments or one off adjustments such as GMP equalisation are recognised immediately in the consolidated income statement as a past service cost.

Provisions

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

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

Employee share trust

The assets of the employee share trust are held by a separate limited company, of which the Directors consider that Dignity plc has de facto control. At the balance sheet date, the trust's assets and liabilities recognised in the Group's balance sheet within share capital and reserves were nil (2020: nil).

Dividends

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

Financial instruments:

Financial liabilities

Borrowings

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

Trade payables

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

1 Accounting policies (continued)

Financial assets

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

Initial recognition & measurement

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

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

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

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

Subsequent measurement

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

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

Derecognition

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

Impairment

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

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

Cash and cash equivalents

Cash and cash equivalents within the statement of financial position comprise cash in hand and on demand deposits and amounts included in accounts restricted for specific uses. Cash and cash equivalents have an original maturity of three months or less, are subject to insignificant changes in value and are readily convertible into known amounts. Cash held in accounts restricted for specific uses is excluded from cash for the purpose of the cash flow statement in accordance with IAS 7.

Trade receivables

Trade and other receivables (not subject to significant financing component) are initially recognised at transaction price under IFRS 15 and subsequently measured at amortised cost. A provision for impairment is established based on historical experience. When a trade receivable is not collectable it is written-off against the allowance account. Subsequent recovery of amounts previously written-off are credited against administrative expenses in the income statement.

Equity instruments

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

Critical accounting judgements

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

1 Accounting policies (continued)

Consolidation of pre-need trusts

The Group markets and sells pre-arranged funeral plans, with monies received from selling funeral plans being held and invested by pre-arranged funeral plan trusts. These financial statements reflect the consolidation of the two principal pre-arranged funeral plan trusts being the Trust for Age UK Plans and the National Funeral Trust (together the 'Trusts').

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

The decision as to whether to consolidate these trusts is a matter of significant judgement in respect of which the Group believes that informed individuals could reach alternative conclusions. The Group concluded that more weight should be attributed to its ability to appoint and remove trustees and less to the legislative requirement for a majority of trustees to be unconnected with Dignity. As a result, the Group reached a judgement, the basis of which is summarised below, that it does have control as defined by IFRS 10 and therefore those pre-arranged funeral plan trusts where it has the ability to appoint and remove trustees are consolidated.

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

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

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

Deferred revenue and associated significant financing

The significant financing component is based on estimates made in respect of the enlarged Group's (to include the Trusts) incremental borrowing rate at the time of inception of each funeral plan. Once established the rate applied to a plan is fixed for the duration of the plan. Given the rates are fixed at inception, there is no further estimation uncertainty on these cash flows, and therefore no further sensitivity disclosures are applied as for more recent cash flows in respect of 2020 and 2021, the estimate of the Group's (including the Trusts) incremental borrowing rate contains less estimation uncertainty.

1 Accounting policies (continued)

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

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

While management believes that the actuarial assumptions are appropriate, any significant changes to those used would affect the consolidated balance sheet and consolidated statement of comprehensive income. The Group considers that the most significant assumptions are the discount rate and the inflation rate. See note 28 for further details.

Funeral services goodwill impairment assessment
Performing the annual impairment assessment for goodwill requires an estimation of the value-in-use of the cash-generating units to which the goodwill has been allocated. The value-in-use calculation requires the use of estimates including those in respect of future cash flows, growth rates and an appropriate discount rate. See note 8 for further details.

Trade name intangible assets impairment assessment
An impairment assessment has been required on trade name intangible assets given the changes in the funeral market. 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 8 for further details. The current rebranding strategy will inevitably see further trade name writes offs in 2022 and 2023. Given these are unknown they cannot be factored into the current period impairment assessment.

Fair value of financial assets
As set out in note 22 some of the Group's financial assets held by the Trusts are valued using inputs that are not based on observable data and therefore contain some estimates. This fair value information is provided by the investment manager engaged by the Trusts. The Group has no input to, or influence over, the valuation methodologies applied by the investment manager. See also note 22 on market risk.

Contract liabilities
Deferred revenue is split between current and non-current to reflect the expected number of plans to be utilised within the next 12 months. This is based on historical experience. Actual experience may differ due to factors such as death rate.

The refund liability is split between current and non-current based on historical experience to reflect the expected number of plans to be cancelled within the next 12 months. Actual cancellation rates may differ.

IFRS 16 Incremental Borrowing Rate ('IBRs')
On transition to IFRS 16 the Group's IBR was 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 were based on corporate bond yields to maturity reflecting the Group's indicative credit rating. In order to assess the Group's IBRs we considered yield curves at 28 December 2019 for similarly rated listed corporate bonds for durations aligned with the adjusted unexpired lease durations.

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 Group 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 £0.8 million would reduce/increase by £0.4 million. 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 £0.8 million would reduce/increase by £0.8 million.

Standards, amendments and interpretations effective in 2021
There are no new accounting standards, interpretations or amendments that have been adopted by the Group for the period ended 31 December 2021.

1 Accounting policies (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted

The following standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2022 or later periods but which the Group has not early adopted:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform Phase 2. The standard is effective 1 January 2021 and will therefore impact on the Group's 2022 Annual Report. The amendments address the effects of the reform on financial statements that arise when an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark rate. The Group are currently engaged with relevant parties to move banking agreements over to a new benchmark. Given the only agreement impacted is the liquidity facility that is undrawn, this is not expected to have a material impact on the Group.

IFRS 9, Financial instruments. The amendment to the standard is expected to be effective from 1 January 2022 and will therefore impact on the Group's 2022 Annual Report. The amendment clarifies the fees to include when assessing the terms of a new or modified financial liability. This is not expected to have a material impact on the Group.

IFRS 17, Insurance Contacts. The standard is expected to be effective 1 January 2023 and will therefore impact on the Group's 2024 Annual Report. The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The Group is in the early stages of assessing whether the standard will have an impact in relation to its pre-need funeral plans.

IAS 1, Presentation of financial statements. The amendment to the standard is expected to be effective 1 January 2023 and will therefore impact on the Group's 2024 Annual Report. The amendment specifies the requirements for classifying liabilities as current or non-current. This is not expected to have a material impact on the Group.

IAS 12, Income Taxes. The amendment to the standard is expected to be effective 1 January 2023 and will therefore impact on the Group's 2024 Annual Report. The amendment relates to initial recognition of deferred tax arising from single transactions. This is not expected to have a material impact on the Group.

All other new accounting standards and interpretations that have been published are not effective for 31 December 2021 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods or on foreseeable future transactions.

The Group's securitisation documents contemplate accounting policy changes and provide a mechanism that ensure covenant calculations are not materially impacted to the detriment of either the Group or Noteholders.

2 Financial risk management

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

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

Market risk

Interest rate risk and other price risk

The Group's main borrowings consist of Secured Notes, which are at fixed interest rates, resulting in a predetermined repayment profile. The fair value of these financial instruments is based on underlying gilt prices and yield spreads based on the market's current view of the risk profile of the Secured Notes. Consequently, the fair value of these instruments will fluctuate. Fair values are not relevant to the Group unless it was to change its funding strategy and repay the Secured Notes early.

The Trading Group has significant cash balances that are held by institutions with a long-term rating of at least BBB by Standard & Poor's and BBB- by Fitch. These balances earn interest by reference to the Bank of England base rate. If interest rates reduced by one per cent at the beginning of 2022 then the Group would receive no interest income due to the rates all currently being below one per cent. If interest rates were to increase by one per cent at the beginning of 2022 then the Group would receive £0.1 million additional interest on an annualised basis for each £10.0 million held.

The Trusts also hold significant cash balances which are also subject to interest rate fluctuations, as well as holding equity and bond investments which see fluctuations due to market conditions. The Trusts have trustees, the majority of whom are required by law to be unconnected to the Trading Group. The Trusts have separate professional advisers, meet regularly and operate an investment policy by reference to a statement of investment principles. The Trustees target a return that seeks to generate a surplus above funeral cost inflation, subject to defined acceptable levels of absolute loss and risk of loss to the actuarial valuation.

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

2 Financial risk management (continued)

Credit risk
Trade receivables are the main source of credit risk to the Group. However, this risk is minimised as much as possible through well-established credit control procedures. Quantitative disclosures regarding the ageing of these receivables are included in note 22(c).

Liquidity risk
The Group manages its liquidity risk by maintaining sufficient cash reserves, committed undrawn borrowing facilities and regular monitoring and forecasting of cash balances. In addition, the Group is required under the terms of its secured borrowings to maintain a precisely defined EBITDA to total debt service ratio of at least 1.5 times in respect of the securitisation group, excluding the pre-need trusts. This ratio was determined when raising the debt as being sufficient to ensure all borrowings could be repaid. This covenant test has been satisfied on each quarterly testing date in the period. At 31 December 2021 the actual ratio was 2.13 times (2020: 1.99 times).

Capital risk management
The Group's objective under managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and repay holders of Secured Notes. It also aims to reduce its cost of capital by maintaining an optimal capital structure. The Group's capital comprises equity and net debt as set out in note 25. The Group's principal source of long-term debt financing are the Secured A Notes, rated A- by both Fitch and Standard & Poor's and the Secured B Notes rated BB+ and B+ respectively by Fitch and Standard & Poor's.

The Group monitors its capital structure based on the ratio of the Trading Group gross debt service, as summarised in note 25, to underlying earnings before interest, taxation, depreciation and amortisation.

In order to achieve these objectives, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or issue further Class A and B Secured Notes.

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

Following the period end, Dignity Finance plc ('Dignity Finance'), a Group subsidiary, announced the launch of a consent solicitation period with its Class A Bondholders in relation to a proposed temporary covenant waiver. See note 1 for details. As stated in the Group's interim results on 21 September 2021, the Board continues to work on its plans to improve the Group's capital structure in the pursuit of the best long-term value for shareholders.

Whilst the Group's financial performance has delivered headroom in relation to financial covenants throughout the last 12 months, given the distorting impact of the pandemic on the timing of deaths, there remains significant uncertainty around the UK death rate in the near term. Therefore, the Board has taken the prudent decision to seek a temporary waiver of the abovementioned financial covenant on a precautionary basis in relation to Dignity Finance's debt obligations.

Following a meeting of the Class A Bondholders on 11 March 2022, the necessary quorum was achieved (with 99.58 per cent of the aggregate principal amount of the Notes for the time being outstanding being represented) and the Extraordinary Resolution was duly passed (with 95.19 per cent of the votes being cast in favour).

Climate risk
In preparing the consolidated financial statements the Group has considered the impact of climate change, particularly in the context of the disclosures included in the Environmental, Social and Governance report on pages 26 to 39 and the new pledge aiming to be net-zero by 2038. Due to the early stages of development of a pathway, these considerations did not have an impact on the current period financial reporting judgements and estimates, consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment to March 2023 nor the viability of the Group over the next three years.

3 Revenue and segmental analysis

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker of the Group has been identified as the three Executive Directors.

For statutory purposes the Group has two reporting segments, funeral services and crematoria, as under IFRS 15 only a single performance obligation exists when a pre-arranged funeral plan is sold, being the performance of a funeral. The Group also reports central overheads, which comprise unallocated central expenses.

3 Revenue and segmental analysis (continued)

Revenue

Funeral services relate to two primary sources of revenue:

- Funerals arranged and funded by the client at the time of need, in addition to ancillary items, such as memorials and floral tributes; and
- Funerals arranged and funded by a pre-arranged Trust funeral plan, for which amounts recognised as revenue arise from the de-recognition of deferred revenue on completion of the related performance obligation.

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

Underlying revenue and operating profit

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

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

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

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

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

Underlying revenue and underlying operating profit are stated before non-underlying items and the effect of consolidation of the Trusts and applying IFRS 15 as defined on pages 179 and 180.

Underlying performance measures have been restated to reflect the application of IFRS 16, Leases. This standard was adopted in 2020 using the modified retrospective adoption which meant 2019 comparatives were not restated. As a result, the Group choose to exclude it from its underlying performance measures reported in 2020 in order to retain comparability. Therefore, the underlying performance measures reported below for all periods includes the impact of IFRS 16.

Reconciliations to statutory amounts

Non-underlying items represent certain non-recurring or non-trading transactions. See alternative performance measures on pages 179 and 180 for further details.

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

Disaggregated revenue

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

53 week period ended 31 December 2021	Underlying revenue £m	Other adjustments [(1)] £m	Revenue £m
Funeral services	201.9	66.3	268.2
Crematoria	85.5	–	85.5
Pre-arranged funeral plans	24.6	(24.6)	–
Group	312.0	41.7	353.7

(1) See alternative performance measures on page 182 for a reconciliation of other adjustments.

Within funeral services revenue £108.1 million relates to the release of deferred revenue arising on the completion of performance obligations or on cancellation under pre-need Trust plans.

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

3 Revenue and segmental analysis (continued)

53 week period ended 31 December 2021	Underlying operating profit/ (loss) before depreciation and amortisation £m	Underlying depreciation and amortisation £m	Underlying operating profit/ (loss) £m	Non-underlying items(1) £m	Other adjustments(1) £m	Operating profit/(loss) £m
Funeral services	67.6	(19.4)	48.2	(45.4)	10.2	13.0
Crematoria	54.5	(7.5)	47.0	(0.5)	–	46.5
Pre-arranged funeral plans	–	–	–	(0.1)	0.1	–
Central overheads	(37.2)	(2.2)	(39.4)	(2.3)	–	(41.7)
Group	84.9	(29.1)	55.8	(48.3)	10.3	17.8
Finance costs			(29.0)	–	–	(29.0)
Deferred revenue significant financing					(51.6)	(51.6)
Remeasurement of financial assets held by the Trusts and related income					94.8	94.8
Profit before tax			26.8	(48.3)	53.5	32.0
Taxation – continuing activities			(5.4)	2.5	(10.1)	(13.0)
Taxation – rate change			–	(8.3)	1.4	(6.9)
Taxation – total			(5.4)	(5.8)	(8.7)	(19.9)
Underlying earnings for the period			21.4			
Non-underlying items				(54.1)		
Other adjustments					44.8	
Profit after taxation						12.1
Earnings per share for profit attributable to equity shareholders						
– Basic (pence)			42.8p			24.2p
– Diluted (pence)						24.2p

(1) See alternative performance measures on pages 180 and 182 for a reconciliation of non-underlying items and other adjustments.

52 week period ended 25 December 2020	Underlying revenue £m	Other adjustments (1) £m	Revenue £m
Funeral services	202.6	72.2	274.8
Crematoria	82.7	–	82.7
Pre-arranged funeral plans	28.8	(28.8)	–
Group	314.1	43.4	357.5

(1) See alternative performance measures on page 183 for a reconciliation of other adjustments.

Within funeral services revenue £113.2 million relates to the release of deferred revenue arising on the completion of performance obligations or on cancellation under pre-need Trust plans.

3 Revenue and segmental analysis (continued)

52 week period ended 25 December 2020 – restated[(2)]	Underlying operating profit/(loss) before depreciation and amortisation £m	Underlying depreciation and amortisation £m	Underlying operating profit/(loss) £m	Non-underlying items[(1)] £m	Other adjustments[(1)] restated £m	Operating profit/(loss) restated £m
Funeral services	73.0	(19.9)	53.1	(48.3)	13.9	18.7
Crematoria	51.2	(7.0)	44.2	(0.2)	–	44.0
Pre-arranged funeral plans	–	–	–	(0.1)	0.1	–
Central overheads	(34.9)	(2.1)	(37.0)	(9.8)	–	(46.8)
Group	89.3	(29.0)	60.3	(58.4)	14.0	15.9
Finance costs			(29.8)	–	–	(29.8)
Finance income			0.1	–	–	0.1
Deferred revenue significant financing					(53.1)	(53.1)
Remeasurement of financial assets held by the Trusts and related income					47.3	47.3
(Loss)/profit before taxation			30.6	(58.4)	8.2	(19.6)
Taxation – continuing activities			(7.4)	6.1	(5.7)	(7.0)
Taxation – rate change			–	(3.6)	4.7	1.1
Taxation – total			(7.4)	2.5	(1.0)	(5.9)
Underlying earnings for the period			23.2			
Non-underlying items				(55.9)		
Other adjustments					7.2	
Loss after taxation						(25.5)
Earnings/(loss) per share for profit attributable to equity shareholders – restated[(2)]						
– Basic (pence)			46.4p			(51.0)p
– Diluted (pence)						(51.0)p

(1) See alternative performance measures on pages 180 and 183 for a reconciliation of non-underlying items and other adjustments.

(2) Underlying reporting measures have been restated to include the application of IFRS 16 which were previously included within other adjustments. See page 119 for further details.

4 Net finance costs

	53 week period ended 31 December 2021 £m	52 week period ended 25 December 2020 restated[(1)] £m
Finance costs		
Secured Notes	**23.1**	23.4
Other loans	**0.9**	1.1
Finance costs on IFRS 16 lease liability	**4.5**	4.7
Net finance cost on retirement benefit obligations (note 28)	**0.5**	0.5
Unwinding of discounts	**–**	0.1
Finance costs	**29.0**	29.8
Finance income		
Bank deposits	**–**	(0.1)
Finance income	**–**	(0.1)
Deferred revenue significant financing (note 19)	**51.6**	53.1
Remeasurement of financial assets held by the Trusts and related income		
Realised investment income	**(9.8)**	(6.0)
Changes in fair value of financial assets held by the Trusts (note 13)	**(85.0)**	(41.3)
Remeasurement of financial assets held by the Trusts and related income	**(94.8)**	(47.3)
Underlying net finance costs		
Underlying finance costs	**29.0**	29.8
Finance income	**–**	(0.1)
Underlying net finance costs	**29.0**	29.7

(1) Underlying performance measures have been restated to include the application of IFRS 16. See page 119 for further details.

5 Profit before tax

Analysis by nature	53 week period ended 31 December 2021 £m	52 week period ended 25 December 2020 restated[(2)] £m
The following items have been included in arriving at profit before tax:		
Staff costs (note 27)	**116.6**	116.4
Cost of inventories recognised as an expense (included in cost of sales)	**19.1**	17.4
Depreciation of property, plant and equipment – owned assets (note 9)	**19.9**	19.6
Deprecation of right-of-use asset (note 10)	**9.2**	9.2
Amortisation of intangible assets (included in administrative expenses) (note 8)	**4.5**	4.9
Expense related to practical expedients applied under IFRS 16 (note 10)	**0.5**	0.2
Foreign currency losses – arising on Trust assets	**1.7**	–
Inventory provisions (note 14)	**1.1**	1.3
Trade receivables impairment (included in administrative expenses) (note 22(c))	**3.7**	1.9
Transformation Plan costs[(1)]	**–**	4.7
Directors' severance pay[(1)]	**–**	1.6
External transaction costs (included in administrative expenses)[(1)]	**2.6**	0.2
Operational review and competition review costs[(1)]	**–**	2.9
Trade name impairment (note 8)[(1)]	**2.8**	15.3
Trade name write-off (note 8) [(1)]	**2.5**	–
Marketing costs in relation to trials [(1)]	**0.9**	0.6
Goodwill impairment (note 8)[(1)]	**36.4**	28.7
Profit on sale of fixed assets[(1)]	**(1.1)**	(0.2)
Services provided by the Group's auditors and its associates:		
Fees payable to the Company's auditors for the audit of parent company and consolidated financial statements	**0.5**	0.4
Fees payable to the Company's auditors and its associates for other services:		
– The audit of Company's subsidiaries	**0.2**	0.2
– Audit related assurance services	**0.1**	0.1
	0.8	0.7

(1) Items are excluded in arriving at underlying performance measures. Please see the alternative performance measures on pages 179 and 180 for further details.

(2) A presentation adjustment has been made in December 2020 to separately pull out the marketing costs in relation to trials from external transaction costs.

During 2021, the Group received £2.5 million (2020: £4.1 million) of business rates relief.

During 2021, the Group paid £0.1 million (2020: £0.1 million) of fees to the Group's auditor in connection with non-audit services, which are included within audit related assurance services in the table above. See the Audit Committee Report for further details.

6 Taxation

Analysis of charge in the period	53 week period ended 31 December 2021 £m	52 week period ended 25 December 2020 £m
Current tax – current period	7.7	9.4
Adjustments for prior period	(0.2)	0.1
Total corporation tax	7.5	9.5
Deferred tax – current period	5.4	(2.9)
Adjustments for prior period	0.1	0.4
Restatement of deferred tax for the change in UK tax rate	6.9	(1.1)
Total deferred tax	12.4	(3.6)
Taxation	19.9	5.9

Tax on items credited to other comprehensive income	53 week period ended 31 December 2021 £m	52 week period ended 25 December 2020 £m
Deferred tax charge/(credit) on remeasurement gains/(losses) on retirement benefit obligations	3.9	(2.2)
Deferred tax charge on pension contributions	0.4	–
Current tax credit on pension contributions	(0.2)	–
Restatement of deferred tax for the change in UK tax rate	(1.9)	(0.5)
Total tax charged/(credited) to other comprehensive income	2.2	(2.7)

The taxation charge in the period is higher (2020: higher) than the standard rate of corporation tax in the UK of 19.0 per cent (2020: 19.0 per cent). The differences are explained below:

	53 week period ended 31 December 2021 £m	52 week period ended 25 December 2020 £m
Profit/(loss) before taxation	32.0	(19.6)
Profit/(loss) before taxation multiplied by the standard rate of corporation tax in the UK of 19.0% (2020: 19.0%)	6.1	(3.7)
Effects of:		
Adjustments in respect of prior period	(0.1)	0.5
Corporate interest restriction disallowance	1.5	4.3
Restatement of deferred tax for the change in UK tax rate	6.9	(1.1)
Expenses not deductible for tax purposes	5.5	5.9
Total taxation charge	19.9	5.9

Under IFRS the effective tax rate is higher (2020: higher) than the standard UK tax rate of 19.0 per cent (2020: 19.0 per cent) principally due to the non-deductible expenses, prior period adjustments and corporate interest restriction disallowance. The Group's effective tax rate on underlying profits in the period was 20.2 per cent (2020: restated 24.2 per cent). The current period underlying effective tax rate is higher due to the effects of permanent disallowables and adjustments in respect of the prior period with a tax impact totalling £0.3 million (2020: £1.5 million). The Group expects its future underlying effective tax rate to be approximately two to three per cent above the headline rate of corporation tax. This translates to an underlying effective rate for 2022 of between 21.0 per cent and 22.0 per cent. Due to the change in corporation tax rates the underlying effective rate for 2023 translates to between 25.5 per cent and 26.5 per cent and from 2024 thereafter of between 27.0 per cent and 28.0 per cent. The Group does not have any provisions for uncertain tax positions.

In the March 2021 budget, legislation to increase the main rate of corporation tax from 19 per cent to 25 per cent from 1 April 2023 was announced. The change was substantively enacted at the balance sheet date and is therefore recognised in these financial statements. As a result, the Group recognised a non-underlying taxation charge of £6.9 million through its income statement and a credit of £1.9 million through other comprehensive income to reflect the one off increase in the period of the Group's deferred tax position.

7 Earnings per share

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

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

The Group has two classes of potentially dilutive Ordinary Shares being those share options granted to employees under the Group's SAYE Scheme and the contingently issuable shares under the Group's LTIP Schemes. At the balance sheet date, the performance criteria for the vesting of the awards under the LTIP Schemes, including any deferred annual bonus, are assessed, as required by IAS 33, and to the extent that the performance criteria have been met those contingently issuable shares are included within the diluted EPS calculations. As the impact of these shares is dilutive for the 53 week period ended 31 December 2021, an adjustment has been made in respect of arriving at diluted earnings per share measures for that period (2020: anti-dilutive so no adjustment).

The Group's underlying measures of profitability exclude non-underlying items, the effects of IFRS 15 and consolidation of the Trusts as set out on pages 179 and 180. These items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day-to-day management of the business and allow for greater comparability across periods.

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

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

	Earnings £m	Weighted average number of shares millions	Per share amount pence
53 week period ended 31 December 2021			
Underlying profit after taxation and EPS	**21.4**	**50.0**	**42.8**
Add: Non-underlying items (net of taxation charge of £5.8 million)	**(54.1)**		
Add: Other adjustments (net of taxation charge of £8.7 million)[1]	**44.8**		
Profit attributable to shareholders – Basic EPS	**12.1**	**50.0**	**24.2**
Profit attributable to shareholders – Diluted EPS	**12.1**	**50.1**	**24.2**
52 week period ended 25 December 2020 – restated[2]			
Underlying profit after taxation and EPS	23.2	50.0	46.4
Add: Non-underlying items (net of taxation credit of £2.5 million)	(55.9)		
Add: Other adjustments (net of taxation charge of £1.0 million)[1]	7.2		
Loss attributable to shareholders – Basic EPS	(25.5)	50.0	(51.0)
Loss attributable to shareholders – Diluted EPS	(25.5)	50.0	(51.0)

(1) See note 3 for further details.

(2) Underlying performance measures have been restated to include the application of IFRS 16 which were previously included within other adjustments. See page 119 for further details.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 53 week period ended 31 December 2021

8 Goodwill and other intangible assets

	Trade names[1] £m	Use of third party brand name £m	Other[2] £m	Software £m	Non-compete agreements £m	Sub-total £m	Goodwill £m	Total £m
Cost								
At 27 December 2019	150.4	3.2	4.7	2.5	0.2	161.0	232.6	393.6
Additions	–	–	–	0.2	–	0.2	–	0.2
At 25 December 2020	150.4	3.2	4.7	2.7	0.2	161.2	232.6	393.8
Additions	–	–	–	–	–	–	0.4	0.4
At 31 December 2021	**150.4**	**3.2**	**4.7**	**2.7**	**0.2**	**161.2**	**233.0**	**394.2**
Accumulated amortisation and impairment								
At 27 December 2019	(16.4)	(1.8)	(1.4)	(0.7)	(0.2)	(20.5)	–	(20.5)
Amortisation charge	(4.1)	(0.2)	(0.4)	(0.2)	–	(4.9)	–	(4.9)
Impairment	(15.3)	–	–	–	–	(15.3)	(28.7)	(44.0)
At 25 December 2020	(35.8)	(2.0)	(1.8)	(0.9)	(0.2)	(40.7)	(28.7)	(69.4)
Amortisation charge	(3.6)	(0.2)	(0.4)	(0.3)	–	(4.5)	–	(4.5)
Trade name write-off[3]	(2.5)	–	–	–	–	(2.5)	–	(2.5)
Impairment	(2.8)	–	–	–	–	(2.8)	(36.4)	(39.2)
At 31 December 2021	**(44.7)**	**(2.2)**	**(2.2)**	**(1.2)**	**(0.2)**	**(50.5)**	**(65.1)**	**(115.6)**
Net book amount at 31 December 2021	**105.7**	**1.0**	**2.5**	**1.5**	**–**	**110.7**	**167.9**	**278.6**
Net book amount at 25 December 2020	114.6	1.2	2.9	1.8	–	120.5	203.9	324.4
Net book amount at 27 December 2019	134.0	1.4	3.3	1.8	–	140.5	232.6	373.1

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

(2) The Group previously acquired interests in two crematoria subject to finite periods of operation (by way of lease and/or service concession). The fair value of these interests has been identified and recognised as a separate intangible asset. The value of each interest will be amortised over the remaining period of operation.

(3) During the period, the Group identified seven specific trade names that are no longer being used within the Group under the new regional structure and those intangible items were required to be written off.

Goodwill acquisitions in 2021

On 16 September 2021, the Group acquired the entire share capital of Funeral Advisor Limited, a non-listed company based in the UK that offers a free online resource to support individuals and families to research and organise a funeral online. The Group acquired Funeral Advisor Limited because the online offering is seen as an enhancement to the services it provides.

	Total provisional fair value £m
Net assets acquired	**–**
Goodwill arising	**0.4**
	0.4
Satisfied by:	
Cash paid on completion (funded from internally generated cash flows)	**0.2**
Deferred consideration	**0.1**
Contingent consideration	**0.1**
Total consideration	**0.4**

The fair values of the identifiable assets and liabilities of Funeral Advisor Limited as at the date of acquisition was negligible and consequently, the consideration relates to goodwill arising on acquisition, none of which is tax deductible. The expected purchase consideration is £0.4 million. This goodwill comprises the value of expected access to customers and making available information and support to a wider customer base. Goodwill is allocated entirely to the funeral segment.

The results of the business from the start of the accounting period would not have been material to the Group had the acquisition been as of the beginning of the annual reporting period. From the date of acquisition, Funeral Advisor Limited is not expected to contribute significantly to revenue or profit in the short term until the Group provides investment in the business' operations to increase awareness of the service within the industry.

8 Goodwill and other intangible assets (continued)

As part of the purchase agreement, contingent consideration has been agreed. The fair value of the contingent consideration at the acquisition date is estimated to be £0.1 million. The fair value is determined using a DCF method. Future developments may require further revisions to the estimate. The maximum contingent consideration to be paid is £0.7 million.

Impairment tests for goodwill and trade names

As described in note 1, goodwill is subject to an annual impairment test in accordance with IAS 36, Impairment of Assets. For the purpose of this impairment test goodwill is tested at a business segment level as this is the level at which the return on assets acquired, including goodwill, is monitored.

The segmental allocation of goodwill and the recoverable amount is shown below:

	Book value 31 December 2021 £m	**Recoverable amount 31 December 2021 £m**	25 December 2020 £m	Recoverable amount 25 December 2020 £m
Funeral services	**112.1**	**371.3**	148.1	433.2
Crematoria	**55.8**	**391.5**	55.8	346.5
	167.9	**762.8**	203.9	779.7

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 consolidated income statement.

The value-in-use calculations use cash flow projections derived from the latest annual budget. Key assumptions used to produce the annual budget are the estimated UK death rates (based on forecast death rates supplied by ONS), anticipated market share and Attended Funeral price ranges from £1,595 to £2,495 (excluding extras). The value-in-use calculations for the 2021 model include the approved annual budget for 2022 and a forecast for 2023 and 2024. Forecasts are based on death rates announced by ONS and market share growth assumptions reflecting budgeted increases as benchmarked to the results of recent pricing trials, and then stabilised at the projected 2022 year end market share position over the remaining forecast period. Cash flows for all segments beyond the initial 36 month period (2020: 24 month period) are extrapolated using a growth rate of 2.25 per cent (2020: 2.25 per cent), being an estimate of long-term growth rates for impairment review purposes only, which reflects the expectations of long-term inflation and death rates. The cash flows for each segment are discounted at a pre-tax rate of 10.3 per cent (2020: 10.3 per cent).

Goodwill assessment

The impairment calculation indicated no impairment in the crematoria division with headroom under the current assumptions used of £170.3 million (2020: £99.1 million). The discount rate would need to increase to 17.7 per cent (2020: increase to 14.1 per cent) or the long-term growth rate would need to fall to minus 7.7 per cent (2020: minus 1.4 per cent) for the impairment test to result in £nil headroom for this segment. The likelihood of such movements in the discount rate and growth rate is deemed unlikely based on current market conditions.

The impairment calculation has also been performed on the funeral services division and an impairment of £36.4 million (2020: £28.7 million) has been recognised within administrative expenses in the consolidated income statement. The impairment has arisen within the funeral services division primarily due to the reduced average revenues following the new pricing strategy for the Group. Whilst the Group expects 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 Group is focussed on committing 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 year end when the impairment assessment is made, the full extent of potential longer-term gains are not reflected in the impairment modelling.

Trade name assessment

In addition to the Group's annual goodwill impairment test, given the changes in the funeral market noted above, an impairment test was performed in respect of the Group's trade name intangible assets in accordance with the requirements of IAS 36. A value-in-use calculation has been performed against each recognisable trade name. The trade name specific cashflows are based on the individual CGU projections for the next 12 months and then adjusted in years two and three onwards using the same assumptions as used within the goodwill impairment assessment described above. The performance of this impairment assessment indicated that an impairment within the funerals segment of £2.8 million (2020: £15.3 million) arose and has been recognised within administrative expenses in the consolidated income statement. This is due to lower levels of profitability and lower anticipated average revenue per funeral. The recoverable amount of trade names that have been impaired is £3.4 million which is based on a value-in-use calculation.

The trade name impairment and the subsequent reduction in net book value has been reflected within the above goodwill impairment calculations to reflect the lower asset base.

8 Goodwill and other intangible assets (continued)

Goodwill and trade name sensitivities

The following table demonstrates the impact on the above impairment charges in the funerals segment based on a number of reasonably possible sensitivities:

		Decrease/(increase) in impairment charge	
Sensitivity applied:	Trade name £m	Goodwill £m	Total £m
Decrease in funeral services market share growth in 2022 and beyond of 0.5 per cent	(1.7)	(103.4)	(105.1)
Decrease in number of deaths in 2022 by 20,000	–	(4.6)	(4.6)
Increase in discount rate of 0.5 per cent (to 10.8 per cent)	(0.1)	(20.3)	(20.4)
Increase in 2022 funeral services EBITDA and beyond of £1.0 million	–	12.6	12.6
Decrease in 2022 funeral services EBITDA and beyond of £1.0 million	(0.1)	(11.6)	(11.7)
Decrease in 2022 funeral services EBITDA and beyond of £5.0 million	(0.4)	(62.2)	(62.6)
Decrease in long-term growth rate of 0.25 per cent (to 2.0 per cent)	–	(8.4)	(8.4)
Delay in funeral services market share growth by 1 per cent from 2022 to 2023	(0.3)	(51.0)	(51.3)

9 Property, plant and equipment

	Freehold land and buildings £m	Leasehold buildings £m	Plant, machinery, fixtures and fittings £m	Motor vehicles £m	Work in progress £m	Total £m
Cost						
At 27 December 2019	182.0	64.2	58.3	79.8	3.8	388.1
Transferred to right-of-use asset	–	(0.7)	–	–	–	(0.7)
Additions	0.7	0.6	3.2	0.1	6.1	10.7
Disposals	(0.8)	(0.7)	(0.3)	(1.3)	–	(3.1)
Reclassification	1.2	1.7	1.5	–	(4.4)	–
At 25 December 2020	183.1	65.1	62.7	78.6	5.5	395.0
Additions	5.6	0.3	3.0	0.7	11.7	21.3
Disposals	(0.3)	(0.6)	(1.3)	(0.3)	–	(2.5)
Reclassification	6.0	0.8	3.4	–	(10.2)	–
At 31 December 2021	**194.4**	**65.6**	**67.8**	**79.0**	**7.0**	**413.8**
Accumulated depreciation						
At 27 December 2019	(37.3)	(22.0)	(33.7)	(43.8)	–	(136.8)
Transferred to right-of-use asset	–	0.2	–	–	–	0.2
Depreciation charge	(5.3)	(3.8)	(4.9)	(5.6)	–	(19.6)
Disposals	0.1	0.5	0.3	1.2	–	2.1
At 25 December 2020	(42.5)	(25.1)	(38.3)	(48.2)	–	(154.1)
Depreciation charge	(5.8)	(3.6)	(5.5)	(5.0)	–	(19.9)
Disposals	0.1	0.5	1.4	0.3	–	2.3
At 31 December 2021	**(48.2)**	**(28.2)**	**(42.4)**	**(52.9)**	**–**	**(171.7)**
Net book amount at 31 December 2021	**146.2**	**37.4**	**25.4**	**26.1**	**7.0**	**242.1**
Net book amount at 25 December 2020	140.6	40.0	24.4	30.4	5.5	240.9
Net book amount at 27 December 2019	144.7	42.2	24.6	36.0	3.8	251.3

Depreciation expense of £9.4 million (2020: £9.1 million) is included within cost of sales and £10.5 million (2020: £10.5 million) is included within administrative expenses.

Details of any security over assets are disclosed in note 30.

The Group had capital expenditure authorised by the Board and contracted for at the balance sheet date of £6.3 million (2020: £9.6 million) in respect of property, plant and equipment.

10 Leases

Right-of-use asset

	31 December 2021 £m	25 December 2020 £m
At beginning of period	95.2	101.7
Additions	2.4	1.4
Depreciation charge	(9.2)	(9.2)
Impact of changes in lease payments	0.7	1.3
At end of period	**89.1**	95.2

Lease liability

	31 December 2021 £m	25 December 2020 £m
At beginning of period	88.5	93.6
Additions	2.7	1.4
Impact of changes in lease payments	0.8	1.3
Interest expense	4.5	4.7
Payments	(13.6)	(12.5)
At end of period	**82.9**	88.5
Current	**7.1**	7.3
Non-current	**75.8**	81.2

See note 22 (e) for maturity analysis of lease liabilities.

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 £82.9 million of lease liabilities held on the consolidated balance sheet.

The following are the amounts recognised in the consolidated income statement:

	31 December 2021 £m	25 December 2020 £m
Depreciation expense of the right-of-use asset	**9.2**	9.2
Interest expense on lease liabilities	**4.5**	4.7
Expense related to practical expedients applied	**0.5**	0.2
Total amount recognised in the consolidated income statement	**14.2**	14.1

In addition, £1.3 million (2020: £1.4 million) has been recognised in the consolidated income statement in respect of contingent rentals and other charges on leases and is recognised within cash flows from operating activities within the consolidated statement of cash flows. Contingent rentals depend upon the level of turnover achieved, in accordance with the related lease contracts.

The Group had total cash outflows for leases classified under IFRS 16 of £13.6 million (2020: £12.5 million). The Group also had non-cash additions to right-of-use assets of £2.4 million (2020: £1.4 million) and lease liabilities of £2.7 million (2020: £1.4 million).

Sublease payments received in the period amount to £0.3 million (2020: £0.3 million). Total future sublease payments receivable relating to leases amount to £0.2 million (2020: £0.3 million).

11 Investments in associates

At 31 December 2021 and 25 December 2020 the Group has a 23.8 per cent investment in Funeral Zone Limited ('Funeral Zone'). Funeral Zone is a UK online funeral resource for funeral directors and clients and has been invested in for its intellectual property opportunities. Funeral Zone is a private entity that is not listed on any public exchange. The registered office of Funeral Zone is Michael House, Castle Street, Exeter, Devon, EX4 3LQ.

The Group holds less than two per cent of the voting rights of Funeral Zone but is deemed to have significant influence principally due to having an appointed board member who represents 25 per cent of the Board of Directors and therefore has the power to participate in the financial and operating policy decisions. The Group also hold a call option over a further 44.4 per cent of shares. These potential voting rights are not currently taken into consideration when assessing control as the call option is not considered to be substantive in nature at this time, due to the exercise price of the option. The option is considered to have a £nil fair value at 31 December 2021 for the same reason.

In the previous periods the Group performed a review to assess whether there was objective evidence that the carrying value of the investment was impaired. Given ongoing losses recorded by Funeral Zone coupled with the going concern risk of the business, as noted in their most recent financial statements, the Group fully provided against its investment. At 31 December 2021, the company continues to make losses and the investment is still fully provided against.

12 Deferred insurance commissions

	31 December 2021 £m	25 December 2020 restated[1] £m
Non-current		
Deferred insurance commissions	**8.4**	9.4

(1) Prior year comparatives have been restated due to a prior year adjustment in relation to insurance plans. See note 1 for further details.

Deferred insurance commissions

The Group is the named beneficiary on a number of life assurance products sold by third party insurance companies, in consideration for which the Group has committed to performing the funeral (including some disbursements) of the plan holder at a discount to its rates prevailing at the time of death. The asset reflects the level of expected future funerals on commissions paid and payable in the future and is offset with a provision for expected future cancellations.

13 Financial assets – held by the Trusts

	31 December 2021 £m	25 December 2020 £m
Financial assets – held by the Trusts	**1,043.1**	967.1

The Trusts continue to take independent advice regarding the investment strategy and have changed investment manager during the period with the intention of growing the assets of the Trust over time. As a result, the investment portfolio has been simplified during 2022 and it is anticipated that the investment allocation by class will develop further during 2023 and beyond. The current portfolio profile is as follows:

	Example investment types	Actual (%)
Defensive investments	Index linked gilts and corporate bonds	11-14
Illiquid investments	Private equity investments	5-6
Core growth investments	Equities	74-78
Liquid investments	Cash	6

The revised investment strategies are expected to provide returns that create a 10 per cent capital buffer over the regulatory minimum of 110 per cent. Any surpluses above this level are expected to be invested in fluctuating assets that have a potential for greater returns.

Given the high percentage of investments held within equities, this does impose an inherent risk of exposure to downward falls in equity markets. Such investments can be subject to volatility due to movements in underlying markets and assets and can go up and down. This can be seen in movements post year end following the situation in Ukraine. The Group monitors this closely and this forms part of its considerations for its long-term investment strategy, noting that the purpose of the Trust is to provide asset coverage (and a surplus) to fund the pre-need funerals return which are forecast to have an average maturity of 10 plus years.

See Strategic Review for further details.

13 Financial assets – held by the Trusts (continued)

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

	31 December 2021 £m	25 December 2020 £m
Fair value at the start of the period	**967.1**	947.5
Remeasurement recognised in the consolidated income statement	**85.0**	41.3
Investment income	**7.7**	2.2
Purchases	**948.7**	778.1
Disposals	**(960.9)**	(796.8)
Foreign exchange rate difference	**(1.7)**	–
Investment administrative expenses deducted at source	**(2.8)**	(5.2)
Fair value at the end of the period	**1,043.1**	967.1

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

14 Inventories

	31 December 2021 £m	25 December 2020 £m
Materials	**0.7**	0.6
Finished goods	**7.9**	8.4
	8.6	9.0

During the period £0.2 million (2020: £1.3 million charge) has been credited to the consolidated income statement relating to the provision against obsolete PPE.

15 Trade and other receivables

	31 December 2021 £m	25 December 2020 £m
Trade receivables: Trusts	**9.4**	10.0
Trade receivables: at-need	**24.0**	21.3
Less: provision for impairment (note 22(c))	**(8.8)**	(7.2)
Net trade receivables	**24.6**	24.1
Prepayments and accrued income	**4.2**	3.2
Other receivables	**1.2**	2.7
	30.0	30.0

Trust trade receivables represent amounts due to the Group's Trusts in respect of plans sold, where the Group's performance obligation has yet to be satisfied. Instalments due to the Trusts after the balance sheet date are excluded as they are not contractually due.

At-need trade receivables represent all other trade receivables due to the Group.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Due to this, management believes there is no further credit risk provision required in excess of normal provision for doubtful receivables. For further details of the trade receivables past due and impaired refer to note 22(c).

Due to the short-term nature of these balances, the carrying value is considered to be their fair value.

16 Cash and cash equivalents

	Note	31 December 2021 £m	25 December 2020 £m
Trading Group		**55.9**	56.7
Trusts	(a)	**19.8**	21.6
Operating cash as reported in the consolidated statement of cash flows as cash and cash equivalents		**75.7**	78.3
Amounts set aside for debt service payments	(b)	**–**	16.9
Cash and cash equivalents as reported in the consolidated balance sheet		**75.7**	95.2

(a) Trusts cash balances

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

(b) Amounts set aside for debt service payments

Amounts are transferred to these restricted bank accounts shortly in advance of making the bi-annual payments to the holders of the Secured Notes, which include the payment of the interest and principal on the Secured Notes, the repayment of liabilities due on the Group's commitment fees due on its undrawn borrowing facilities and for no other purpose. The Statement of Cash Flows shows the gross amounts of payments to the restricted bank accounts as 'finance costs paid' and 'payments due under Secured Notes', in accordance with their nature. Supplementary information is provided to show the actual payments to the noteholders and the movement in the restricted bank accounts in the period. The amounts shown as 'transfer from restricted bank accounts for finance costs' and 'payments to the restricted bank accounts for repayment of borrowings' relate to the opening and closing balances of the account respectively, and hence the figures exclude the mid-year transfers and payments. No amounts were included in December 2021 as the payments to these respective parties were made on 31 December 2021.

The note trustees have charge over this restricted bank account.

17 Financial liabilities

	Note	31 December 2021 £m	25 December 2020 restated[1] £m
Current			
Secured A Notes	(a)	**10.5**	15.1
Lease liabilities	(c)	**7.1**	7.3
Insurance commissions payable	(d)	**1.0**	0.6
	(b)	**18.6**	23.0
Non-current			
Secured Notes	(a)	**516.1**	526.6
Lease liabilities	(c)	**75.8**	81.2
Insurance commissions payable	(d)	**2.2**	2.9
		594.1	610.7

(1) Prior year comparatives have been restated due to a prior year adjustment in relation to insurance plans. See note 1 for further details.

(a) Secured Notes

On 17 October 2014, Dignity Finance PLC issued the Secured Notes. Interest is payable on the Secured Notes on 30 June and 25 December of each year.

Transaction costs of £0.3 million and £0.4 million were incurred directly relating to the issue of the Secured A Notes and the Secured B Notes respectively. At 31 December 2021, £0.2 million (2020: £0.2 million) and £0.3 million (2020: £0.3 million) of the transaction costs in respect of the Secured A Notes and the Secured B Notes respectively remain unamortised.

For further details of security over the Secured Notes see note 30.

17 Financial liabilities (continued)

The amortisation profile of the Secured Notes is as follows:

Secured A Notes

	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 £m	2029 £m	2030 £m	2031 £m	2032 £m
June	5.2	5.4	5.6	5.8	6.0	6.2	6.4	6.7	6.9	7.2	7.4
December	5.3	5.5	5.7	5.9	6.1	6.4	6.6	6.8	7.1	7.3	7.6
Total	10.5	10.9	11.3	11.7	12.1	12.6	13.0	13.5	14.0	14.5	15.0

	2033 £m	2034 £m	Total £m
June	7.7	7.9	84.4
December	7.8	8.1	86.2
Total	15.5	16.0	170.6

Secured B Notes

	2035 £m	2036 £m	2037 £m	2038 £m	2039 £m	2040 £m	2041 £m	2042 £m	2043 £m	2044 £m	2045 £m
June	8.4	8.7	9.1	9.6	10.0	10.5	11.0	11.5	12.1	12.6	13.2
December	8.5	9.0	9.4	9.8	10.3	10.8	11.3	11.8	12.3	12.9	13.5
Total	16.9	17.7	18.5	19.4	20.3	21.3	22.3	23.3	24.4	25.5	26.7

	2046 £m	2047 £m	2048 £m	2049 £m	Total £m
June	13.8	14.5	15.2	15.9	176.1
December	14.2	14.8	15.5	16.2	180.3
Total	28.0	29.3	30.7	32.1	356.4

(b) Current financial liabilities

The current financial liabilities represent the amounts falling due within one year of the Group's balance sheet date.

(c) Lease liabilities

See note 10 for more details on the Group's lease liabilities under IFRS 16.

See note 22 (e) for maturity analysis of the Group's lease liabilities.

(d) Insurance commissions payable

A liability is recognised representing active insurance plans where a known commission is payable in future years, which includes an estimate of the level of cancellations before the commission is payable and is discounted using the risk free rate of return.

(e) Changes in liabilities arising from financing activities

	25 December 2020 £m	Cash flow £m	Other £m[2]	31 December 2021 £m
Current				
Secured Notes	15.1	**(15.1)**	**10.5**	**10.5**
Lease liabilities[1]	7.3	**(13.6)**	**13.4**	**7.1**
Non-current				
Secured Notes	526.6	**–**	**(10.5)**	**516.1**
Lease liabilities[1]	81.2	**–**	**(5.4)**	**75.8**
Total liabilities from financing activities[3]	630.2	**(28.7)**	**8.0**	**609.5**

(1) See note 10 for more information on the Group's lease liabilities under IFRS 16.

(2) Other includes reclassification from non-current to current, unwinding of discounts and movement in the lease portfolio in the period.

(3) Insurance commissions payable are paid out of operating cashflow and therefore have not been included in the table above.

17 Financial liabilities (continued)

	27 December 2019 £m	IFRS 16 transition £m	Cash flow £m	Other £m(2)	25 December 2020 £m
Current					
Secured Notes	9.6	–	(9.6)	15.1	15.1
Lease liabilities(1)	–	5.9	(12.5)	13.9	7.3
Non-current					
Secured Notes	541.7	–	–	(15.1)	526.6
Lease liabilities(1)	0.6	87.1	–	(6.5)	81.2
Total liabilities from financing activities(3)	551.9	93.0	(22.1)	7.4	630.2

(1) See note 10 for more information on the Group's lease liabilities under IFRS 16.

(2) Other includes reclassification from non-current to current, unwinding of discounts and movement in the lease portfolio in the period.

(3) Insurance commissions payable are paid out of operating cashflow and therefore have not been included in the table above.

18 Trade and other payables

	31 December 2021 £m	25 December 2020 restated(1) £m
Current		
Trade payables	**9.3**	5.5
Tax and social security	**2.9**	3.2
Other current liabilities	**2.3**	2.9
Accruals	**40.3**	51.8
Deferred income relating to at-need deposits	**4.7**	4.8
	59.5	68.2
Non-current		
Other non-current liabilities	**1.6**	1.6
Deferred income relating to at-need deposits	**0.2**	0.4
Deferred consideration for acquisitions	**0.4**	0.1
	2.2	2.1

(1) Prior year comparatives have been restated due to a prior year adjustment in relation to insurance plans. See pages 164 to 166 for further details.

Accruals includes interest, payroll and trade accruals.

Deferred income relating to at-need deposits represents cash amounts received in advance for services such as a funeral arranged at the time of need.

19 Deferred commissions and contract liabilities

Deferred commissions	**31 December 2021 £m**	25 December 2020 £m
Deferred commissions – current	**7.6**	7.6
Deferred commissions – non-current	**100.9**	101.3

Deferred commissions represent directly attributable costs in respect of the marketing of the pre-arranged funeral plans where the plan has yet to be used or cancelled. An amount of £7.4 million (2020: £7.8 million) has been amortised to the consolidated income statement within administrative expenses.

19 Deferred commissions and contract liabilities (continued)

Contract liabilities

	Note	31 December 2021 £m	25 December 2020 £m
Current			
Contract liabilities – deferred revenue	(a)	**98.6**	94.4
Contract liabilities – refund liability	(b)	**1.0**	1.1
		99.6	95.5
Non-current			
Contract liabilities – deferred revenue	(a)	**1,224.0**	1,208.1
Contract liabilities – refund liability	(b)	**13.9**	13.9
		1,237.9	1,222.0

Movement in total contract liabilities

	31 December 2021 £m	25 December 2020 £m
Balance at the beginning of the year	**1,317.5**	1,304.6
Sale of new Trust plans	**86.3**	82.0
Increase due to significant financing	**51.6**	53.1
Recognition of revenue following delivery or cancellation of a Trust plan	**(117.9)**	(122.2)
Balance at the end of the year	**1,337.5**	1,317.5

(a) Contract liabilities – deferred revenue

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

(b) Contract liabilities – refund liability

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

20 Provisions for liabilities

	Dilapidations £m
At beginning of period	11.9
Charged to income statement	0.8
Released to income statement	(0.7)
Utilised in period	(0.5)
At end of period	**11.5**

Provisions have been analysed between current and non-current as follows:

	31 December 2021 £m	25 December 2020 £m
Current	**2.1**	2.4
Non-current	**9.4**	9.5
	11.5	11.9

Dilapidations

The provision for dilapidations covers the costs of repair to leased premises occupied by the Group in respect of which a dilapidations notification has been received, and properties where a dilapidation obligation exists but for which no notification has been received.

It is anticipated that the element of provision relating to dilapidation notices served, £2.1 million (2020: £2.4 million), will be utilised in the following financial year, and the element relating to dilapidation obligations where no notice has been served will be utilised over the terms of the relevant property leases, the majority of which is expected to be by 31 December 2031.

21 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19.0 per cent on balances expected to unwind before 5 April 2023 and 25.0 per cent on the remaining balance (2020: 19 per cent).

The movement on the deferred tax net asset is as shown below:

	31 December 2021 £m	25 December 2020 £m
At beginning of period	**(20.3)**	(14.0)
Charged/(credited) to income statement (note 6)	**5.5**	(2.5)
Taken to other comprehensive income (note 6)	**4.3**	(2.2)
Restatement of deferred tax for the change in UK tax rate	**5.0**	(1.6)
At end of period	**(5.5)**	(20.3)

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

Deferred tax liabilities

	Accelerated tax depreciation £m	Trade names £m	Deferred commissions and Trust assets £m	Other £m	Total £m
At 28 December 2019	11.8	17.1	183.9	2.7	215.5
Charged/(credited) to income statement (note 6)	(2.1)	(2.1)	5.7	0.3	1.8
Restatement of deferred tax for the change in UK tax rate taken to the income statement (note 6)	1.4	2.0	21.6	0.3	25.3
At 25 December 2020	11.1	17.0	211.2	3.3	242.6
Charged/(credited) to income statement (note 6)	(1.4)	(1.4)	19.5	(0.2)	16.5
Restatement of deferred tax for the change in UK tax rate taken to the income statement (note 6)	2.5	5.0	65.0	0.9	73.4
At 31 December 2021	**12.2**	**20.6**	**295.7**	**4.0**	**332.5**

Deferred tax assets

	Pensions £m	Contract liabilities £m	Other £m	Total £m
At 28 December 2019	(4.5)	(224.3)	(0.7)	(229.5)
Charged/(credited) to income statement (note 6)	0.2	(4.3)	(0.2)	(4.3)
Restatement of deferred tax for the change in UK tax rate taken to the income statement (note 6)	–	(26.3)	(0.1)	(26.4)
Restatement of deferred tax for the change in UK tax rate taken to other comprehensive income	(0.5)	–	–	(0.5)
Taken to other comprehensive income/to equity	(2.2)	–	–	(2.2)
At 25 December 2020	(7.0)	(254.9)	(1.0)	(262.9)
Charged/(credited) to income statement (note 6)	–	(10.9)	(0.1)	(11.0)
Restatement of deferred tax for the change in UK tax rate taken to the income statement (note 6)	–	(66.4)	(0.1)	(66.5)
Restatement of deferred tax for the change in UK tax rate taken to other comprehensive income	(1.9)	–	–	(1.9)
Taken to other comprehensive income/to equity	4.3	–	–	4.3
At 31 December 2021	**(4.6)**	**(332.2)**	**(1.2)**	**(338.0)**

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 31 December 2021 was £5.5 million (2020: £20.3 million). The Group has recognised the net deferred tax asset as this is expected to be recovered against future taxable profits. The Group has no unrecognised deferred tax assets.

Other deferred tax liabilities includes capital gains rolled forward and deferred tax on software and leasehold land. Other deferred tax assets includes option schemes, long service awards and leases.

21 Deferred tax (continued)

Elements of these deferred tax balances may be payable or recoverable within one year. However, the Directors consider that it is not possible to quantify the amount because the level of uncertainty in the timing of events and have therefore classified the whole balance as due after more than one year.

No deferred tax asset has been recognised in relation to £10.1 million (2020: £8.6 million) disallowed interest expense calculated in the annual corporate interest restriction returns due to insufficient evidence to support recognition.

The deferred income tax credited to other comprehensive income or charged to equity during the period was as follows:

	53 week period ended 31 December 2021 £m	52 week period ended 25 December 2020 £m
Deferred tax charge/(credit) on remeasurement losses on retirement benefit obligations	**3.9**	(2.2)
Deferred tax charge on pension contributions	**0.4**	–
Restatement of deferred tax for the change in UK tax rate	**(1.9)**	(0.5)
Total charged/(credited) to other comprehensive income	**2.4**	(2.7)
Deferred tax charge/(credit) relating to maturity of option schemes	**–**	–
Total charged/(credited) to equity	**–**	–

22 Financial instruments

Fair values of non-derivative financial assets and financial liabilities

IFRS 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Financial assets held by the Trusts are held at fair value. All other financial assets and liabilities are held at amortised cost.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(a) Fair value of Trust financial assets

	31 December 2021 £m	25 December 2020 £m
Financial assets at fair value through consolidated income statement		
Index linked gilts and corporate bonds	**–**	174.3
Core growth investments – Equities	**669.8**	262.9
Growth fixed income and alternative investments – Property funds and emerging market debt	**–**	417.0
Liquid investments – Open-ended investment funds	**306.4**	63.0
Illiquid investments – Private equity investments	**66.9**	49.9
Total financial assets at fair value	**1,043.1**	967.1

All other financial assets are held at amortised cost and there is no difference between the book value and the fair value of these assets, due to the short-term maturities of these instruments.

22 Financial instruments (continued)

The following table provides the fair value measurement hierarchy of the Trusts' financial assets.

31 December 2021	Total £m	Fair value measurement using: Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Core growth investments – Equities	**669.8**	**669.5**	**0.3**	**–**
Liquid investments – Open-ended investment funds	**306.4**	**114.8**	**191.6**	**–**
Illiquid investments – Private investments	**66.9**	**–**	**–**	**66.9**

During the 53 week period ending 31 December 2021 a number of investments which were previously classed as a level 2 investment were divested and then reinvested into different instruments which are classified as level 1.

25 December 2020	Total £m	Fair value measurement using: Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m
Index linked gilts and corporate bonds	174.3	–	174.3	–
Core growth investments – Equities	262.9	–	262.9	–
Growth fixed income and alternative investments – Property funds and emerging market debt	417.0	–	401.4	15.6
Liquid investments – Open-ended investment funds	63.0	–	63.0	–
Illiquid investments – Private investments	49.9	–	–	49.9

During the 52 week period ending 25 December 2020 £64.6 million which was previously classed as a level 3 investment was divested and the reinvested into different instruments which are classified as level 2.

The following methods and assumptions were used to estimate the fair values:

Core growth investments and liquid investments – level 1
The fair values of equities are based on active market prices or price quotations at the reporting date.

Index linked gilts and corporate bonds – level 2
The fair values of index linked gilts and corporate bonds are based on active market prices or price quotations at the reporting date. Whilst these assets have a quoted price on a recognised exchange adjustments are required in respect of related inflation factors, thereby making these measurements level 2 rather than level 1.

Growth fixed income and alternative investments & liquid investments – level 2
These represent pooled investment funds that do not have a quoted price on a recognised exchange. The underlying assets of the pooled fund have been valued using active market prices or price quotations at the balance sheet date.

Growth fixed income and alternative investments & illiquid investments – level 3
These investments hold some underlying investment that rely on significant unobservable inputs to price or a premium or discount may apply on exit.

In all cases, fair value information is provided by the investment manager engaged by the Trusts. The Group has no input to, or influence over the valuation methodologies applied by the investment manager.

Within the above reconciliation of financial assets through the consolidated income statement the following movements relate to level 3 assets:

	31 December 2021 £m	25 December 2020 £m
Fair value at the start of the period	**65.5**	239.4
Remeasurement recognised in the consolidated income statement	**10.7**	(2.9)
Purchases	**7.5**	–
Sales	**(15.6)**	(168.9)
Investment administrative expenses	**(1.2)**	(2.1)
Fair value at the end of the period	**66.9**	65.5

22 Financial instruments (continued)

At 31 December 2021, the Trust financial assets (all level 2 or 3, fair value of £258.8 million (2020: £967.1 million)) are exposed to market sensitivity and changes in valuation over time due to factors including currency, interest rate and commodity prices. As the fair value information is provided by the investment manager who has not been able to provide sensitivity analysis on the inputs to the fair values, the Group is unable to disclose this information. However, a five per cent movement in the fair value of these assets would result in a £12.9 million (2020: £48.4 million) increase/decrease to the carrying value, with a corresponding movement in an unrealised gain/loss in the income statement. A 10 per cent movement would increase this movement to £25.9 million (2020: £96.7 million).

(b) Fair value of current and non-current financial liabilities

	31 December 2021			25 December 2020		
	Nominal value £m	Book value £m	Fair value £m	Nominal value £m	Book value £m	Fair value £m
Secured A Notes – 3.5456% maturing 31 December 2034	170.7	170.5	189.9	185.8	185.6	199.2
Secured B Notes – 4.6956% maturing 31 December 2049	356.4	356.1	385.0	356.4	356.0	289.2
Total	527.1	526.6	574.9	542.2	541.6	488.4

The Secured Notes are held at amortised cost. Other categories of financial liabilities include trade payables and other liabilities, however there is no difference between the book value and fair value of these items.

The fair values of the Secured Notes are their market value at the balance sheet date and are considered to be level 1.

In addition to the above financial liabilities include lease payables of £82.9 million (2020: £88.5 million), which represent the present value of future minimum lease payments. At 31 December 2021 there is no difference between the book value and fair value of this liability.

(c) Trade receivables

Credit risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (at-need trade receivables). The Group has various at-need payment terms depending on the service being provided. Funerals are payable on receipt of the invoice which is sent out approx. 10 days after the funeral. Cremation fees are due either on receipt of invoice or seven days after date of the invoice if the third party funeral director has an account with Dignity and is invoiced monthly. Crematoria memorials are due 30 days from the point of sale.

Trade receivables

Due to the nature of the Group's customer base credit risk is managed by obtaining cash payments and/or deposits upfront where possible, setting up direct debt instalment payments from pre-need plan sales, together with staff training and internal control procedures to understand the customers' ability to pay for services. Outstanding trade receivables are regularly monitored with an established credit control policy in place.

At-need trade receivables are held net of provision for impairment. As at 31 December 2021, £13.4 million of the individual gross at-need trade receivables (2020: £10.2 million) were past due and partially impaired. Receivables are written off to the income statement when credit control procedures have been enforced. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on past experience together with any expected changes. The amount of the provision, as at 31 December 2021, was £8.8 million (2020: £7.2 million). The individually impaired receivables principally relate to monies owing for funerals performed by the funeral services division. The ageing of at-need receivables is as follows:

	31 December 2021 £m	25 December 2020 £m
One to six months	6.2	3.6
Over six months	7.2	6.6
	13.4	10.2

The amount of gross at-need trade receivables past due that were not impaired was not significant.

There is no expected credit loss on trade receivables held by the Trusts on the basis that a separate refund liability is recorded for expected plan cancellations. All amounts outstanding to be paid under a member's pre-need plan must be paid in full prior to the performance of the services under the plan. In the event of default any write-off would be offset by an equivalent or greater release of the related refund liability. See note 19.

22 Financial instruments (continued)

Movements on the Group's loss allowance for trade receivables are as follows:

	31 December 2021 £m	25 December 2020 £m
At beginning of period	**(7.2)**	(6.7)
Charged to income statement	**(3.7)**	(1.9)
Utilised in period	**2.1**	1.4
At end of period	**(8.8)**	(7.2)

The maximum exposure to credit risk is the carrying value of each class of financial assets. The Group does not hold collateral as security.

Set out below is the information about credit risk exposure on at-need trade receivables using a provision matrix. £9.4 million (2020: £10.0 million) is excluded from the analysis as it relates to trade receivables held by the Trust.

31 December 2021		Days past due				
	Current	30–60 days	61–90 days	91–180 days	>181 days	Total
Expected credit loss rate	**2.5%**	8.8%	21.9%	55.9%	95.9%	
Estimated total gross carrying amount at default	**10.5**	3.0	1.4	1.9	7.2	24.0
Expected credit loss	**0.3**	0.3	0.3	1.0	6.9	8.8

25 December 2020		Days past due				
	Current	30–60 days	61–90 days	91–180 days	>181 days	Total
Expected credit loss rate	4.3%	10.1%	24.5%	41.5%	88.3%	
Estimated total gross carrying amount at default	11.1	1.5	0.8	1.4	6.5	21.3
Expected credit loss	0.5	0.1	0.2	0.6	5.8	7.2

(d) Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 31 December 2021, all of which were at floating interest rates, in respect of which all conditions precedent had been met at that date:

	31 December 2021 £m	25 December 2020 £m
Expiring within one year	**–**	10.0
Expiring between one and two years	**–**	–
Expiring in more than two years	**55.0**	55.0
	55.0	65.0

£55.0 million (2020: £55.0 million) of the undrawn facilities available to the Group is a liquidity facility relating to the Class A and B Secured Notes. This facility may only be used to repay interest and principal on the Secured Notes in the event of insufficient cash to service these instruments. The facility is subject to annual renewal. However, if the bank providing the facility does not renew it, then the provider is required to place £55.0 million (2020: £55.0 million) in a bank account, which the Group may access as if it represented a borrowing facility on the same terms. The facility is available on these terms until the Secured Notes have been repaid in full.

The Group had a £10.0 million RCF facility at 25 December 2020. The RCF is provided by the Royal Bank of Scotland, which is secured against the remaining trade and assets held by legal entities outside of the Group's securitisation structure. The facility expired in July 2021 and the Group decided not to renew this facility.

22 Financial instruments (continued)

(e) Maturity of financial liabilities

The tables below analyse the Group's financial liabilities, which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows, including interest costs yet to be incurred. The amounts disclosed for contract liabilities relate solely to the refund liability component which is considered to be a financial liability based on the expectation that cash will be returned to the plan holder on the cancellation of the plan. The deferred revenue component of contract liabilities is not considered to be a financial liability as there is no expected obligation to deliver cash. The maturity profile of the refund liability represents the Group's assessment of the likely timing of such cash flows and the contractual undiscounted cash flow which would occur at that time.

	31 December 2021					
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	Total £m
Cash liabilities						
Secured Notes (gross)	**10.5**	**10.9**	**11.4**	**23.8**	**470.5**	**527.1**
Interest payable on Secured Notes	**22.7**	**22.3**	**21.9**	**42.7**	**295.8**	**405.4**
Lease liabilities	**11.4**	**10.7**	**10.2**	**18.3**	**88.2**	**138.8**
Insurance commissions payable	**1.0**	**0.4**	**0.4**	**0.8**	**0.7**	**3.3**
	45.6	**44.3**	**43.9**	**85.6**	**855.2**	**1,074.6**
Debt repayments						
Other financial liabilities	**59.0**	**0.4**	**0.4**	**0.6**	**0.8**	**61.2**
	104.6	**44.7**	**44.3**	**86.2**	**856.0**	**1,135.8**
Refund liability	**1.0**	**1.0**	**1.0**	**2.0**	**9.9**	**14.9**
Total liabilities	**105.6**	**45.7**	**45.3**	**88.2**	**865.9**	**1,150.7**

	25 December 2020 – restated (1)					
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	Total £m
Cash liabilities						
Secured Notes (gross)	15.1	10.6	10.9	23.0	482.6	542.2
Interest payable on Secured Notes	34.7	22.7	22.3	43.5	316.9	440.1
Lease liabilities	11.9	11.0	10.4	19.2	93.7	146.2
Insurance commissions payable	0.9	0.4	0.4	0.8	1.1	3.6
	62.6	44.7	44.0	86.5	894.3	1,132.1
Debt repayments						
Other financial liabilities	67.9	0.4	0.3	0.5	0.7	69.8
	130.5	45.1	44.3	87.0	895.0	1,201.9
Refund liability	1.1	1.1	1.1	2.2	9.5	15.0
Total liabilities	131.6	46.2	45.4	89.2	904.5	1,216.9

(1) Other financial liabilities due in less than one year as at 25 December 2020 has been restated due to a prior year adjustment in relation to insurance plans. Insurance commissions payable has also been included within cash liabilities. See note 1 for further details.

An administrative fee may be payable by the customer in the event of cancellation and therefore the refund liability may be lower than the total amount detailed above for refund liabilities. The administrative fee payable is dependent upon when the pre-need plan is cancelled, and the type of pre-need plan originally sold.

22 Financial instruments (continued)

The amounts disclosed in the following tables represent the anticipated amortisation profile for the issue costs relating to the Group's financial liabilities.

	31 December 2021					
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	Total £m
Non-cash liabilities						
Issue costs on Secured Notes	–	–	–	–	0.5	0.5
	–	–	–	–	0.5	0.5

	25 December 2020					
	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	In more than five years £m	Total £m
Non-cash liabilities						
Issue costs on Secured Notes	–	–	–	–	0.6	0.6
	–	–	–	–	0.6	0.6

23 Ordinary share capital

	31 December 2021 £m	25 December 2020 £m
Allotted and fully paid Equity shares		
50,031,008 (2020: 50,020,483) Ordinary Shares of 12 48/143 pence (2020: 12 48/143 pence) each	6.2	6.2

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

During the period, the Group received £nil consideration in relation to the 5,963 shares issued under the 2016 DABS scheme. In addition, the Group received £17.5 thousand consideration in relation to the 4,562 shares issued under the 2019 SAYE scheme (614 shares of which relate to SAYE options exercised in the prior year).

At the period end 9,729 shares were held by the Employee Benefit Trust (2020: 29,673).

Potential issues of Ordinary Shares

Certain employees hold options to subscribe for shares in the Company under an approved Save As You Earn ('SAYE') Scheme. In addition, Executive Directors and senior management hold options to subscribe for shares in the Company under Long-Term Incentive Plans ('LTIPs'), including deferred annual bonus, awarded in 2014, 2015, 2019, 2020 and 2021.

23 Ordinary share capital (continued)

The total number of outstanding shares subject to options (excluding lapses), the periods in which they were granted and the periods in which they may be exercised are given below:

Year of grant	Exercise price (pence)	Exercise period	2021 Number	2020 Number	2019 Number
2019 – SAYE	383.52	1 December 2022 to 31 May 2023	**377,767**	435,664	498,164
2014 – LTIP	–	25 March 2017 to 24 March 2024	**2,000**	2,000	2,000
2015 – LTIP	–	6 March 2018 to 5 March 2025	**7,729**	27,673	45,110
2018 – LTIP	–	16 March 2020 to 16 March 2027	**–**	120,523	146,157
2019 – LTIP	–	23 March 2021 to 23 March 2028	**257,926**	270,904	388,719
2020 – LTIP	–	12 June 2022 to 12 June 2029	**222,188**	264,271	n/a
2021 – LTIP	–	31 March 2024 to 16 December 2031	**39,659**	n/a	n/a
2021 – Restricted stock	–	31 December 2023 to 30 June 2031	**11,933**	n/a	n/a

24 Share-based payments

In respect of share-based payments, total charges to the income statement were £0.8 million (2020: £1.4 million). The Group has both LTIP and SAYE schemes, both of which are equity based settled.

LTIP Schemes

The LTIP Scheme was introduced after the flotation of the Group in 2004. Under the LTIP Scheme, the remuneration committee can grant options over shares in the Company to employees of the Group. Awards under the LTIP Scheme are generally reserved for 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 the conditions described on pages 96 and 97. For the 2019, 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. Market-related 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	13 June 2019
Share price at grant date	**£6.10**	£6.03	£6.33
Exercise price	**–**	–	–
Number of employees	**1**	36	39
Shares under option	**39,659**(1)	264,271(1)	388,719
Vesting period (years)	**3**	3	3
Expected volatility	**59.2%**	60.2%	45.3%
Option life (years)	**10**	10	10
Expected life (years)	**3**	3	3
Risk free rate	**0.51%**	0.11%	0.78%
Expected dividends expressed as a dividend yield	**0%**	0%	3.3%
Possibility of ceasing employment before vesting	**0%**	0%	0%
Fair value per option	**£4.59**	£4.63	£3.85

(1) 50 per cent of these options relate to total shareholder return with the remaining relating to funeral market share. See Report on Directors' remuneration on pages 96 and 97 for further details.

24 Share-based payments (continued)

LTIP Schemes (continued)

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

Reconciliation of LTIP awards:

Award grant date		Outstanding as at 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
(i)	24.03.14	2,000	–	–	–	–	2,000
(ii)	06.03.15	27,673	–	–	–	(19,944)	7,729
(iii)	23.03.18	120,523	–	(120,523)	–	–	–
(iv)	13.06.19	270,904	–	–	(12,978)	–	257,926
(v)	22.12.20	264,271	–	–	(42,083)	–	222,188
(vi)	17.12.21	–	39,659	–	–	–	39,659

Award grant date		Outstanding as at 27.12.19	Granted during the period	Lapsed during the period	Forfeited during the period	Vested and exercised during the period	Outstanding as at 25.12.20
(i)	24.03.14	2,000	–	–	–	–	2,000
(ii)	06.03.15	45,110	–	–	–	(17,437)	27,673
(iii)	16.03.17	133,942	–	(133,942)	–	–	–
(iv)	23.03.18	146,157	–	–	(25,634)	–	120,523
(v)	13.06.19	388,719	–	–	(117,815)	–	270,904
(vi)	22.12.20	–	264,271	–	–	–	264,271

The options under the 2019, 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 £0.6 million (2020: £1.0 million), all of which are equity based settled.

SAYE Scheme

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

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

During the period 53,949 options (2020: 61,542 options) under the 2019 SAYE Scheme were forfeited and 3,948 options (2020: 958 options) were exercised with a weighted average share price of £6.48 (2020: £3.71) at exercise.

The charge to the income statement in the period in respect of the SAYE Schemes was £0.2 million (2020: £0.4 million) all of which are equity based settled.

The expected volatility is calculated by reference to historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The options under the 2019 SAYE Scheme have not yet vested.

25 Net debt

	31 December 2021 £m	25 December 2020 £m
Net amounts owing on Secured Notes per financial statements	(526.6)	(541.7)
Add: unamortised issue costs (note 17(a))	(0.5)	(0.5)
Gross amounts owing	(527.1)	(542.2)
Accrued interest on Secured Notes	–	(12.0)
Cash and cash equivalents – Trading Group (note 16)	55.9	73.6
Net debt	(471.2)	(480.6)

Net debt is an alternative performance measure calculated as shown in the table. Net debt excludes any liabilities recognised in accordance with IFRS 16.

The Group's primary financial covenant in respect of the Secured Notes requires EBITDA to total debt service ('EBITDA DSCR'), in the securitisation group, to be at least 1.5 times. At 31 December 2021, the actual ratio was 2.13 times (2020: 1.99 times). The calculations are unaffected by the consolidation of the Trusts or the application of IFRS 15 and IFRS 16 described elsewhere, as the Group was able to elect to disregard those changes when making the calculations. See Financial review on page 56.

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

26 Reconciliation of cash generated from operations

	53 week period ended 31 December 2021 £m	52 week period ended 25 December 2020 £m
Net profit/(loss) for the period	12.1	(25.5)
Adjustments for:		
Taxation	19.9	5.9
Net finance costs	70.8	76.8
Profit on sale of fixed assets	(1.1)	(0.1)
Depreciation charges on property, plant and equipment	19.9	19.6
Depreciation charges on right-of-use asset	9.2	9.2
Amortisation of intangibles	4.5	4.9
Movement in inventories	0.4	(1.1)
Movement in trade receivables	(2.5)	2.4
Movement in trade payables	3.7	(2.0)
Movement in contract liabilities	(31.6)	(40.2)
Fair value movement on net assets	(85.0)	(41.3)
Net pension charges less contributions	(1.3)	(1.6)
Trade name write-off (note 8)	2.5	–
Trade name impairment (note 8)	2.8	15.3
Goodwill impairment (note 8)	36.4	28.7
Changes in other working capital	2.3	5.1
Trust investment administrative expenses deducted at source	2.8	5.2
Foreign exchange rate difference – Trust assets	1.7	–
Employee share option charges (note 24)	0.8	1.4
Cash flows from operating activities	**68.3**	62.7

Other non-cash transactions
Non-cash charges comprise of amortisation of deferred debt issue costs, as discussed in note 17(a).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the 53 week period ended 31 December 2021

27 Employees and Directors

	53 week period ended 31 December 2021 £m	52 week period ended 25 December 2020 £m
Wages and salaries	**103.0**	101.9
Social security costs	**8.7**	9.0
Other pension costs (note 28)	**4.1**	4.2
Share option charges (note 24)	**0.8**	1.3
	116.6	116.4

For the period from 26 December 2020 to 22 April 2021, key management are considered to be the Board of Executive Directors plus the members of the Operating Board. For the remainder of the period ended 31 December 2021, key management are considered to be the Board of Executive Directors and Kate Davidson. For the period ended 25 December 2020, key management were considered to be the Board of Executive Directors plus the members of the Operating Board. Total key management remuneration in the period was £2.2 million (2020: £3.0 million), including £1.9 million (2020: £2.4 million) relating to short-term employee benefits, £0.1 million (2020: £0.2 million) relating to pensions and £0.2 million (2020: £0.4 million) related to share-based payments. The comparative figures do not include Directors' severance payment (as disclosed in note 5) of £1.6 million. The monthly average number of people, including Executive Directors, employed by the Group during the period was as follows:

	2021 Number	2020 Number
Management and administration	**369**	286
Funeral services staff	**2,481**	2,475
Crematoria staff	**394**	406
Pre-arranged funeral plan staff	**111**	176
	3,355	3,343

Directors' emoluments
Details of Directors' emoluments are disclosed in the Report on Directors' Remuneration on pages 93 to 97 which form part of these consolidated financial statements.

28 Pension commitments

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

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

The pension costs for defined contribution schemes are as follows:

	2021 £m	2020 £m
Defined contribution schemes	**3.6**	3.6

Defined benefit plan
The Group operates a defined benefit scheme the Dignity Pension and Assurance Scheme. A full actuarial valuation was undertaken as at 6 April 2020 with a subsequent Actuarial Report as at 6 April 2021. This latest valuation has been updated to 31 December 2021 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 2021 were £0.1 million (2020: £0.1 million of contributions). In addition, special contributions of £2.2 million (2020: £2.1 million) have been paid to make total contributions for the year of £2.3 million (2020: £2.2 million).

28 Pension commitments (continued)

The principal actuarial assumptions at the balance sheet date were:

Assumptions	2021 %	2020 %
Discount rate	**1.85**	1.35
Rate of increase in salaries	**2.60**	2.20
Pensions increase assumption: RPI capped at 5% p.a.	**3.45**	3.10
Pensions increase assumption: RPI capped at 2 1/2% p.a.	**2.30**	2.20
RPI price inflation assumption	**3.60**	3.20
CPI price inflation assumption – Pre February 2030	**2.60**	2.20
CPI price inflation assumption – Post January 2030	**3.60**	3.20

The demographic assumptions used include rates for mortality which, for example, lead to an average projected life expectancy of 22.0 (2020: 22.0) years for male members and 24.4 (2020: 24.3) years for female members currently aged 65 and of 22.9 (2020: 22.9) years from age 65 for male members and 25.5 (2020: 25.4) years from age 65 for female members currently aged 50.

Pensions and other post-retirement obligations

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

	2021 £m	2020 £m
Fair value of plan assets	**129.8**	121.6
Present value of funded obligations	**(149.5)**	(158.2)
Net obligation recognised in the balance sheet	**(19.7)**	(36.6)

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

	2021 £m	2020 £m
Current service cost included within cost of sales (staff costs)	**0.1**	0.1
Administration expenses paid by the scheme	**0.4**	0.4
Interest costs less interest income included within net finance cost	**0.5**	0.5

Analysis of fair value of plan assets

	2021		2020	
	£m	%	£m	%
Equity and diversified growth funds	**60.4**	**46.5**	62.0	51.0
Debt	**66.7**	**51.4**	56.8	46.7
Cash	**2.7**	**2.1**	2.8	2.3
Fair value of plan assets	**129.8**	**100.0**	121.6	100.0

At 31 December 2021 and 25 December 2020 the Pension Trustees did not hold, on behalf of the scheme, any direct investments in the Group, nor did the Group occupy any property or other assets included with the fair value of plan assets.

28 Pension commitments (continued)

Changes in the present value of the defined benefit obligation are as follows:	2021 £m	2020 £m
Present value of obligation at beginning of period	**(158.2)**	(140.5)
Current service cost	**(0.1)**	(0.1)
Interest cost	**(2.1)**	(2.7)
Benefits paid	**3.8**	4.8
Remeasurement gains/(losses) – financial	**5.7**	(17.4)
Remeasurement gains/(losses) – demographics	**0.3**	(1.9)
Remeasurement gains/(losses) – experience	**1.1**	(0.4)
Present value of obligation at end of period	**(149.5)**	(158.2)

Changes in the fair value of plan assets are as follows:	2021 £m	2020 £m
Fair value of plan assets at beginning of period	**121.6**	114.5
Interest income on plan assets	**1.6**	2.2
Contributions by Group	**2.3**	2.2
Benefits paid	**(3.8)**	(4.8)
Administration expenses paid by the scheme[(a)]	**(0.5)**	(0.7)
Remeasurement gains	**8.6**	8.2
Fair value of plan assets at end of period	**129.8**	121.6

(a) Administration expenses paid by the scheme includes £0.1 million charged (2020: £0.2 million charged) to other comprehensive income.

Analysis of the movement in the balance sheet obligation	2021 £m	2020 £m
At beginning of period	**(36.6)**	(26.0)
Total expense as above charged to the income statement	**(1.0)**	(1.1)
Remeasurement gains/(losses) and administration expenses credited/(charged) to other comprehensive income	**15.6**	(11.7)
Contributions by Group	**2.3**	2.2
At end of period	**(19.7)**	(36.6)

The actual return on plan assets was £10.3 million (2020: £10.5 million).

Change in assumptions	Liabilities £m	Assets £m	Deficit £m	(Increase)/ decrease in deficit £m
No change	**(149.5)**	**129.8**	**(19.7)**	**–**
0.25% rise in discount rate	**(143.0)**	**129.8**	**(13.2)**	**6.5**
0.25% fall in discount rate	**(156.3)**	**129.8**	**(26.5)**	**(6.8)**
0.25% rise in inflation	**(154.0)**	**129.8**	**(24.2)**	**(4.5)**
0.25% fall in inflation	**(145.1)**	**129.8**	**(15.3)**	**4.4**

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 31 December 2021, 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	2021	2020
Active members[(a)]	**31%**	33%
Deferred pensioners	**28%**	27%
Current pensioners	**41%**	40%
Average duration of liabilities	**18 years**	18 years

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

28 Pension commitments (continued)

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

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

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

Funding arrangements
The Trustees use the Projected Unit funding method. The latest full valuation was undertaken as at 6 April 2020 with a subsequent Actuarial Report as at 6 April 2021.

With effect from 1 January 2022 the Company will pay deficit funding contributions of £4 million 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 are comprised as follows:

	2021 £m	2020 £m
Assets held by investment managers	**129.3**	121.0
Balance of the Trustees' bank account	**0.5**	0.6
Total	**129.8**	121.6

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

Investment return risk
If the assets under-perform the returns assumed in setting the funding targets then additional contributions may be required at subsequent valuations.

Investment matching risk
The Plan invests significantly in equity type assets, whereas the solvency target is closely related to the return on bonds. If equities type assets have fallen in value relative to the matching asset of bonds, additional contributions may be required.

Longevity risk
If future improvements in mortality exceed the assumptions made then additional contributions may be required.

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

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

29 Pre-arranged funeral plans

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

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

The Small Trusts had approximately £15.6 million (2020: £16.9 million) of net assets as at the balance sheet date.

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

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

The Trustees have advised that the latest actuarial valuations of the Trusts were performed as at 24 September 2021 (2020: 25 September) using assumptions determined by the Trustees. Actuarial liabilities in respect of the Trusts have decreased to £967.1 million as at 24 September 2021 (2020: £995 million). The corresponding market value of the assets of the Trusts was £1,114.4 million (2020: £999 million) as at the same date. Consequently the actuarial valuations recorded a total surplus of £147.3 million at 24 September 2021 (2020: surplus of £4 million).

Active members and assets per plan

	31 December 2021 Number	25 December 2020 Number
Supported by:		
The Trusts	**323,000**	319,000
The Small Trusts	**43,000**	46,000
Insurance Plans	**215,000**	193,000
	581,000	558,000

The Trusts have approximately £3,650 (2020: £3,400) average asset per active plan (see alternative performance measures on page 184 for further details). On average the Trading Group received approximately £3,000 (2020: £3,000) in the period for the performance of each funeral (including amounts to cover disbursements such as crematoria fees, ministers' fees and doctors' fees where applicable).

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

(c) Transactions with the Group
During the period, the Group entered into transactions with the Small Trusts. Amounts may only be paid out of the Trusts in accordance with the relevant Trust Deeds. Transactions (which were recognised as revenue in the funeral division) amounted to £0.9 million (2020: £0.9 million) in the period and principally comprised receipts from the Small Trusts in respect of funerals provided. No amounts were due to the Group on either balance sheet date.

30 Contingent liabilities

Securitisation

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

- The Dignity (2002) Group have granted the Security Trustee fixed and floating charges over all assets and undertakings of the Dignity (2002) Group;[(i)]
- Dignity plc has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity (2004) Limited, Dignity (2008) Limited, Dignity (2011) Limited and Dignity Holdings No.3 Limited;
- Dignity (2004) Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings No.2 Limited and Dignity (2002) Limited;
- Dignity Holdings No.2 Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Holdings Limited;
- Dignity Holdings Limited has granted the Security Trustee, with full title guarantee a first fixed charge over the shares (and any monies receivable in respect of the shares) which it holds in Dignity Mezzco Limited;
- Dignity Holdings Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loans (both interest and non-interest bearing) to Dignity (2002) Limited;
- Dignity Mezzco Limited has also assigned to the Security Trustee by way of security with full title guarantee, its right title and interest in the loan to Dignity (2002) Limited;
- Dignity (2004) Limited has granted the Security Trustee, with full title guarantee a floating charge over the assets now or in the future owned by Dignity (2004) Limited (other than those assets validly and effectively charged by way of fixed security);
- Dignity plc, Dignity Holdings No.2 Limited, Dignity Holdings Limited and Dignity Mezzco Limited have granted the Security Trustee, with full title guarantee a floating charge over the assets now or in the future owned by each of Dignity plc, Dignity Holdings No.2 Limited, Dignity Holdings Limited and Dignity Mezzco Limited (other than those assets validly and effectively charged by way of fixed security);
- The Guarantors[(ii)] each irrevocably and unconditionally jointly and severally guarantees to the Security Trustee punctual performance by each other Obligor of that Obligor's obligations and agrees as a primary obligation to indemnify the Security Trustee immediately on demand against any cost, loss or liability suffered by it if any obligation guaranteed by the Guarantors is or becomes unenforceable, invalid or illegal;
- Dignity Funerals Limited and Derriman & Haynes Funeral Services Limited have granted the Security Trustee with full title guarantee, a first legal mortgage over each of its rights, title and interest from time to time in properties situated in England and Wales;
- Dignity Funerals Limited has granted the Security Trustee with full title guarantee[(iii)], a first legal mortgage over its rights, title and interest from time to time in properties situated in Northern Ireland;
- Dignity Finance PLC has granted BNY Mellon Corporate Trustee Services Limited (in its capacity as Note Trustee) with full title guarantee, an assignment by way of security of its benefit in each Issuer Transaction Document (other than the Trust Documents), the Security Trust Deed and each Obligor Security Document and charges by way of first fixed charge the benefit of its accounts; and
- Dignity Funerals Limited has, in respect of any Scottish property which is capable of being so charged, granted 'standard securities' in favour of the Security Trustee[(iv)].

(i) Means Dignity (2002) Limited and its subsidiaries.

(ii) Means the Obligors (other than Dignity (2002) Limited (as Borrower)), Dignity (2004) Limited, Dignity plc, Dignity Holdings No.2 Limited, Dignity Holdings Limited and Dignity Mezzco Limited.

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

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

At 31 December 2021, the amount outstanding in relation to these borrowings was £527.1 million (2020: £542.2 million).

31 Related party transactions

During the period since 22 April 2021 Gary Channon and other members of Phoenix Asset Management Partners Limited, the Group's significant shareholder, have held roles within the Group, such as Chief Executive, for which no remuneration has been paid to the individuals or Phoenix Asset Management Partners Limited.

There have been no other related party transactions in the current or previous period.

32 Investments

A list of all entities included within the financial information are included in note C9 to the Company's financial statements.

33 Post balance sheet events

Consent solicitation with bondholders

On 17 February 2022, Dignity Finance plc ('Dignity Finance'), a Group subsidiary, announced the launch of a consent solicitation period with its Class A Bondholders in relation to a proposed temporary covenant waiver (as described in note 1 of the consolidated financial statements). As stated in the Group's interim results on 21 September 2021, the Board continues to work on its plans to improve the Group's capital structure in the pursuit of the best long-term value for shareholders.

Whilst the Group's financial performance has delivered headroom in relation to financial covenants throughout the last 12 months, given the distorting impact of the pandemic on the timing of deaths, there remains significant uncertainty around the UK death rate in the near term. Therefore, the Board has taken the prudent decision to seek a temporary waiver of the abovementioned financial covenant on a precautionary basis in relation to Dignity Finance's debt obligations.

Following a meeting of the Class A Bondholders on 11 March 2022, the necessary quorum was achieved (with 99.58 per cent of the aggregate principal amount of the Notes for the time being outstanding being represented) and the Extraordinary Resolution was duly passed (with 95.19 per cent of the votes being cast in favour).

Trust financial assets

The Trust has over £1 billion in assets that are invested in various equities, bonds, funds and private investments. Such investments can be subject to volatility due to movements in underlying markets and assets and can go up and down. This can be seen in movements post year end following the situation in Ukraine. The Group monitors this closely and this forms part of its considerations for its long-term investment strategy, noting that the purpose of the Trust is to provide asset coverage (and a surplus) to fund the pre-need funerals return which are forecast to have an average maturity of 10 plus years.

Acquisition activity

The Group has acquired the trade and assets of one business since the balance sheet date through the Dignity Ventures division.

34 Insurance plans

The Group is the named beneficiary on a number of life assurance products sold by third party insurance companies on which the Group pays commission. The Group is entitled to recover commission paid if plans are cancelled within two years of being sold. However, if plans are cancelled outside this two year period, commissions paid are not refundable. The majority of plans with these features ceased to be written in October 2019 and the remainder in February 2020.

Following a review of the Group's accounting policy for insurance plans in relation to the prepaid balance held on the consolidated balance sheet within 'deferred insurance commissions' the Group has amended the accounting treatment to include a provision for expected future cancellations. A detailed analysis has been performed on the cancellation rates for insurance products and a prior year restatement has been required to reflect the expected level of future cancellations.

It was further noted that a liability was not held for the active plans where a known commission is payable in future years. The calculation for the liability includes an estimate of the level of cancellations before the commission is payable and is discounted using a risk free rate of return. Furthermore, an assessment has been performed to determine the level of future expected funerals and this element of the liability has been held as a corresponding asset.

The change to the recognition and measurement of the plans has been reflected in these financial statements as a prior period restatement impacting opening reserves.

34 Insurance plans (continued)

27 December 2019 consolidated balance sheet (selected lines only):

	27 Dec 2019 as originally presented £m	Impairment of deferred commission prepayment £m	Recognition of future commission payable liability £m	Recognition of future expected funerals £m	Tax impact £m	**28 Dec 2019 restated £m**
Non-current assets						
Deferred insurance commissions	11.0	(3.2)		2.4		**10.2**
Current liabilities						
Financial liabilities	9.6		0.6			**10.2**
Current tax liabilities	6.0				(0.8)	**5.2**
Non-current liabilities						
Financial liabilities	542.3		2.9			**545.2**
Shareholders' deficit						
Retained earnings	(297.9)	(3.2)	(3.5)	2.4	0.8	**(301.4)**

The impact of the above is as follows:

- At 28 December 2019 the deferred insurance commission prepayment of £11.0 million has been impaired by £3.2 million;
- A liability has been recognised representing the future commission payable of £3.5 million within financial liabilities. This is split between current and non-current liabilities at £0.6 million and £2.9 million respectively;
- The corresponding entry of the liability is the recognition of an asset of £2.4 million which represents the level of expected future funerals. The net impact of these adjustments of £1.2 million is a charge to the consolidated income statement which has been corrected through opening reserves as at 28 December 2019;
- The deferred commission prepayment of £11.0 million at 28 December 2019 has therefore overall reduced by £0.8 million to £10.2 million;
- The tax impact at 28 December 2019 is a credit of £0.8 million and has reduced the current tax liability to £5.2 million; and
- The total impact of this impairment on opening reserves at 28 December 2019 is a reduction of £3.5 million to £145.0 million.

These adjustments have no impact on cash.

The above adjustments have been recorded in the funerals segment.

When comparing the updated amortisation analysis and roll forward of the assets and liabilities at 25 December 2020 there is no material difference between the original amounts charged to the consolidated income statement. Therefore, no adjustments have been made to these accounting periods aside from the adjustments to the assets and liabilities referred above. The balance sheet at 25 December 2020 as presented in the annual report and accounts for that period included a £0.5 million accrual and a related £0.5 million deferred insurance commission asset. These balances should have been recorded as of 28 December 2019 and have been corrected as part of the above adjustment.

34 Insurance plans (continued)

25 December 2020 consolidated balance sheet (selected lines only):

	25 Dec 2020 as originally presented £m	Impairment of deferred commission prepayment £m	Recognition of future commission payable liability £m	Recognition of future expected funerals £m	Tax impact £m	Removal of insurance commission accrual £m	**25 Dec 2020 restated £m**
Non-current assets							
Deferred insurance commissions	10.7	(3.2)		2.4		(0.5)	**9.4**
Current liabilities							
Financial liabilities	15.1						**15.7**
Trade and other payables	68.7		0.6			(0.5)	**68.2**
Current tax liabilities	8.7				(0.8)		**7.9**
Non-current liabilities							
Financial liabilities	526.6		2.9				**529.5**
Shareholders' deficit							
Retained earnings	(331.6)	(3.2)	(3.5)	2.4	0.8	–	**(335.1)**

A further impairment of £0.8 million has been charged to the consolidated income statement for the 53 week period ending 31 December 2021 which reflects the changes in future expected cancellation rates.

The key judgement used within the calculation of the above assets and liabilities at 31 December 2021 is the future expected cancellation rate of 1.6 per cent per annum for the remaining life of active plans held. This is based on historical data of cancellation rates on similar insurance plans sold by third parties in the past for which the Group 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 £0.8 million would reduce/increase by £0.4 million. 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 £0.8 million would reduce/increase by £0.8 million.

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

DIGNITY PLC COMPANY BALANCE SHEET
As at 31 December 2021

	Note	31 December 2021 £m	25 December 2020 £m
Fixed assets			
Investments	C3	**153.2**	151.3
Current assets			
Debtors	C4	**287.0**	285.7
Cash at bank and in hand		**44.6**	48.9
Total current assets		**331.6**	334.6
Creditors: amounts falling due within one year	C5	**(14.9)**	(14.2)
Net current assets		**316.7**	320.4
Total assets less current liabilities		**469.9**	471.7
Net assets		**469.9**	471.7
Capital and reserves			
Called up share capital	C6	**6.2**	6.2
Share premium account		**12.9**	12.7
Capital redemption reserve		**141.7**	141.7
Other reserves		**5.4**	4.8
Profit and loss account reserve		**303.7**	306.3
Total shareholders' funds		**469.9**	471.7

The Company has taken advantage of the exemption permitted by section 408 of the Companies Act 2006 not to publish its individual profit and loss account and related notes. The Company made a loss attributable to the equity shareholders of £2.6 million in the period (2020: profit of £10.4 million).

The financial statements on pages 167 to 176 were approved by the Board of Directors on 22 March 2022 and were signed on its behalf by:

G A Channon
Chief Executive

D R Moore
Interim Chief Financial Officer

DIGNITY PLC COMPANY STATEMENT OF CHANGES IN EQUITY

for the 53 week period ended 31 December 2021

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total £m
Shareholders' equity as at 27 December 2019	6.2	12.5	141.7	3.7	295.9	460.0
Profit for the period	–	–	–	–	10.4	10.4
Effects of employee share options	–	–	–	1.3	–	1.3
Proceeds from share issue	–	0.2	–	–	–	0.2
Gift to Employee Benefit Trust	–	–	–	(0.2)	–	(0.2)
Total transactions with owners, recognised directly in equity	–	0.2	–	1.1	–	1.3
Shareholders' equity as at 25 December 2020	6.2	12.7	141.7	4.8	306.3	471.7
Loss for the period	–	–	–	–	(2.6)	(2.6)
Effects of employee share options	–	–	–	0.7	–	0.7
Proceeds from share issue	–	0.2	–	–	–	0.2
Gift to Employee Benefit Trust	–	–	–	(0.1)	–	(0.1)
Total transactions with owners, recognised directly in equity	–	0.2	–	0.6	–	0.8
Shareholders' equity as at 31 December 2021	**6.2**	**12.9**	**141.7**	**5.4**	**303.7**	**469.9**

Capital redemption reserve

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

Other reserves

Other reserves includes movements relating to the Group's SAYE and LTIP schemes.

C1 Principal accounting policies

Basis of preparation
The financial statements of the Company for the period ended 31 December 2021 were authorised for issue by the Board of Directors and the balance sheet was signed on the Board's behalf by Mr G A Channon and Mr D R Moore. The Company is incorporated and domiciled in England and Wales. The Company's registered address is 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

The financial statements of the Company have been prepared in accordance with the Companies Act 2006, as applicable to companies using Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). The financial statements have been prepared on a going concern basis under the historical cost convention. The principal accounting policies are set out below and have been applied consistently throughout the year.

The Company's financial statements are presented in Sterling and all values are stated in pound million rounded to one decimal place (£m) except where otherwise indicated.

In accordance with the concession granted under Section 408 of the Companies Act 2006, the income statement of the Company has not been separately presented in the financial statements.

In the current period, the Company's financial statements have been prepared for the 53 week period ended 31 December 2021. For the comparative period, the Company's financial statements have been prepared for the 52 week period ended 25 December 2020.

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

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

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

C1 Principal accounting policies (continued)

New standards, amendments and IFRIC interpretations
No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2021, have had a material impact on the Company.

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

Investments in subsidiary undertakings impairment assessment
Performing the annual impairment assessment for investments in subsidiary undertakings requires the use of estimates including those in respect of future cash flows, growth rates and an appropriate discount rate as set out in note 8 to the Group's consolidated financial statements. The assessment is also sensitive to movements in the fair value of the financial assets held within the Trusts and the fair value of the Group's external debt, as set out in note 22 to the Group's consolidated financial statements. The current period impairment test has resulted in an impairment charge of £11.8 million (2020: £nil).

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

Impairment of fixed assets
The carrying values of fixed assets are reviewed for impairment in periods where events or changes in circumstances indicate that the carrying value may not be recoverable or at the end of the first full financial year following the recognition. Any impairment in the value of fixed assets below depreciated historical cost is charged to the income statement within operating profit. A reversal of an impairment loss is recognised in the income statement to the extent that the original loss was recognised.

Employee share schemes
The Company operates two employee share schemes: The Save As You Earn Scheme ('SAYE') and Long-Term Incentive Plan Scheme ('LTIP').

The Company applies IFRS 2 in respect of share option schemes resulting in the charge for such schemes being recognised in a subsidiary of the Company. The Company's financial statements reflect the cost of the scheme as an increase in the cost of investment in the subsidiary with the corresponding credit included within other reserves.

Employee share trust
The assets of the employee share trust are held by a separate limited company, of which the Directors consider that Dignity plc has de facto control. In accordance with IFRS, Accounting for ESOP Trusts and the substance of the transaction, the trust's assets and liabilities are recognised in the Company's balance sheet.

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

Financial instruments
Borrowings
All borrowings and loans are initially recognised at the fair value of consideration received or paid after deduction of issue costs and are subsequently measured at amortised cost. The issue costs and interest payable or receivable on debt finance are charged/credited to the Income statement, as interest payable and similar charges or interest receivable and similar income, on a constant-yield basis over the term of the borrowings, or over a shorter period where it is more likely than not that the lender will require earlier repayment using the effective interest method.

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

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

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

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

C2 Operating result

The amounts for auditor remuneration for the company required by regulation 5(1)(b) of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 are not disclosed as the consolidated financial statements comply with this regulation on a consolidated basis.

C3 Investments in subsidiary undertakings

Cost	£m
At beginning of period	151.3
Additions in respect of corporate interest restriction payments	12.9
Additions in respect of share-based payments	0.8
At end of period	**165.0**
Impairment	
At beginning of period	–
Impairment charge	(11.8)
At end of period	**(11.8)**
Net book amount	
At 31 December 2021	**153.2**
At 25 December 2020	151.3

Additions in the period reflect the effect of capital contributions to subsidiaries as a result of share-based payment schemes operated in those company's over the shares of Dignity plc and payments made on behalf of subsidiaries as a result of corporate interest restriction liabilities.

A detailed listing of all subsidiary undertakings is included in note C9 below.

The market capitalisation of the Company was lower than the aggregate of the amount of the Company's investment in subsidiaries and receivables from those entities and subsequently an impairment of £11.8 million has been charged. The Directors consider that the remaining carrying value of the investments is supported by their underlying net assets and value-in-use. This assessment is sensitive to assumptions in relation to value-in-use, as set out in note 8 to the Group's consolidated financial statements and to movements in the fair value of the financial assets held within the Trusts and the fair value of the Group's external debt, as set out in note 22 to the Group's consolidated financial statements.

Impairment sensitivities
The following table demonstrates the impact of changes to the Group's value-in-use on the above impairment charge, based on a number of different sensitivities:

Sensitivity applied:	Decrease/ (increase) in impairment charge £m
Decrease in funeral services market share growth in 2022 and beyond of 0.5 per cent	(105.1)
Decrease in number of deaths in 2022 by 20,000	(6.1)
Increase in discount rate of 0.5 per cent (to 10.8 per cent)	(42.1)
Increase in 2022 funeral services EBITDA and beyond of £1.0 million	11.8
Decrease in 2022 funeral services EBITDA and beyond of £1.0 million	(11.7)
Decrease in 2022 funeral services EBITDA and beyond of £5.0 million	(62.6)
Decrease in long-term growth rate of 0.25 per cent (to 2.0 per cent)	(17.7)
Delay in funeral services market share growth by 1 per cent from 2022 to 2023	(51.3)

C4 Debtors: amounts falling due within one year

	31 December 2021 £m	25 December 2020 £m
Amounts owed by subsidiary undertakings	**287.0**	285.5
Corporation tax	–	0.2
	287.0	285.7

An ECL of £1.6 million (2020: £0.3 million) is held against amounts owed by subsidiary undertakings, based on a 12 month ECL. Amounts are unsecured, non-interest bearing and repayable on demand.

NOTES TO THE DIGNITY PLC FINANCIAL STATEMENTS CONTINUED
for the 53 week period ended 31 December 2021

C5 Creditors: amounts falling due within one year

	31 December 2021 £m	25 December 2020 £m
Amounts owed to subsidiary undertakings	**13.2**	12.4
Accruals	**1.7**	1.8
	14.9	14.2

Amounts owed to subsidiary undertakings are unsecured, non-interest bearing and repayable on demand.

C6 Called up share capital

	31 December 2021 £m	25 December 2020 £m
Allotted and fully paid Equity shares		
50,031,008 (2020: 50,020,483) Ordinary Shares of 12 48/143p (2020: 12 48/143p) each	**6.2**	6.2

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

See note 23 of the Group's consolidated accounts for further details. See also note 24 of the Group's consolidated accounts for details on share-based payments.

C7 Staff costs
There were no employees in either period.

Directors' remuneration
Details of the Directors' emoluments are included in pages 93 to 97. The emoluments were borne by a subsidiary undertaking and not recharged.

C8 Related party transactions
There are no related party transactions for either period requiring disclosure.

C9 Investments in subsidiary undertakings and associates

Principal subsidiaries

Company name	Principal activity
Advance Planning Limited	Pre-arranged funeral plans
Dignity (2002) Limited	Intermediate holding company
Dignity Crematoria Limited	Construction and leasing of crematoria
Dignity Crematoria No.2 Limited	Construction and leasing of crematoria
Dignity Finance PLC	Finance company
Dignity Funerals Limited	Funeral services
Dignity Funerals No.3 Limited	Funeral services
Dignity Pre Arrangement Limited	Pre-arranged funeral plans
Dignity Securities Limited	Pre-arranged funeral plans
Pitcher & Le Quesne Limited***	Funeral services

Other subsidiaries

Company name	Principal activity
Birkbeck Securities Limited	Intermediate holding company
Dignity (2004) Limited	Intermediate holding company
Dignity (2008) Limited	Intermediate holding company
Dignity Ventures Limited	Intermediate holding company
Dignity (2014) Limited	Intermediate holding company
Dignity Finance Holdings Limited	Intermediate holding company
Dignity Holdings Limited	Intermediate holding company
Dignity Holdings No.2 Limited	Intermediate holding company
Dignity Holdings No.3 Limited	Intermediate holding company
Dignity Mezzco Limited	Finance company
Dignity Services	Intermediate holding company
Dignity Funerals No.2 Limited	Intermediate holding company
Valedictum Limited	Non-trading company
Funeral Advisor Limited	Online funeral resource

Associates

Company name	Principal activity
Funeral Zone Limited – 23.8 per cent	Online funeral resource for funeral directors

NOTES TO THE DIGNITY PLC FINANCIAL STATEMENTS CONTINUED
for the 53 week period ended 31 December 2021

C9 Investments in subsidiary undertakings and associates (continued)

Dormant companies

A & N Duckworth Limited
A Ashton & Sons Limited
A Bennett & Sons Limited
A F Townsend (Funeral Directors) Limited
A Hazel & Sons Limited
A Shepherd & Sons Limited
A T Genders Limited
A V Band Limited
A. & G. Huteson Ltd
A Haxby & Sons (Filey) Limited
Abbey Funeral Service Limited
Adela Funeral Homes Limited
Aberdeen Funeral Directors Limited*
Anglian Funeral Service Limited
Armitage (Funeral Directors) Limited
Arthur Denyer Limited
Arthur G Whitehead (Westminster) Limited
Ashton & Ebbutt Limited
Ashton Ebbutt Holdings Limited
Ashton Memorials Limited
Ashtons (Brighton) Limited
Associated Funeral Services Limited
Astley Funerals Limited
Arthur J. Nash Limited

B & B Funeral Directors Limited
B. Bernard & Sons Limited
Baguley Bros. Limited
Banks Funeral Service Limited
Bayley Brothers Hereford Limited
Birmingham Crematorium (1973) Limited
Boyce Anderson Motors Limited**
Bracher Brothers Limited
Brighton Stonemasons Limited
Broadwater Limousines Limited

C Powell Funeral Service Limited
Caledonian Funeral Services Limited*
Carrwood Funeral Supplies Limited
Castle Court Funeral & Limousine Services Limited
Chichester Crematorium Limited
Chosen Heritage (Scotland) Limited*
Chosen Heritage Limited
Chosen Heritage Services Limited
Clegg Humphreys Limited
Cooksey & Son Limited
Cooksley & Son Limited
Coombes & Sons (Bovey Tracey) Limited
Counties Crematorium Limited
Coyne Brothers Limited
Cumbernauld Funeral Services Ltd*
Cyril H. Lovegrove Limited

D J Thomas (Funeral Directors) Limited
D. J. Evans Forse & Co Limited
D. Walsh & Son Limited
Daly & Company Limited
David B Hendry Limited
David Silvey & Son Limited
Davis McMullan Funeral Directors Limited
Derriman & Haynes Funeral Services Limited
Dewi Reynolds & Sons Limited
Dignity (2009) Limited
Dignity Caring Funeral Services Limited
Dignity Funerals No.4 Limited
Dignity In Destiny Limited
Dignity Legal Services Limited
Dignity Manufacturing Limited
Dillistone Funeral Service Limited
Docklands Funeral Services Limited
Dottridge Brothers Limited
Downer & White Limited
Downs Crematorium Limited
Dowsett & Jenkins Limited
Dundee Crematorium Limited*
Dunning (Undertaking) Limited
Dyson Richards Limited

E Hurton & Son Limited
E M Lander Limited
E Seymour & Son Limited
E. Brigham Funeral Directors Limited
E.F.Edwards Limited
E.Finch & Sons Limited
Earl Of Plymouth Limited
Eden Park Estate Limited
Edmund & Lewis Limited
Edward Lewis Wicks & Sons Limited
Ely Funeral Service Limited
Exeter & Devon Crematorium Limited

F L Mildred & Sons (Funeral Directors) Limited
F. Kneeshaw & Sons (Funeral Directors) Limited
F.E.J. Green & Sons Limited
F.G.Pymm (Funeral Directors) Limited
F.Harrison & Son (Funeral Directors) Limited
F. J. Gibb Limited
F.M. & J. Wait & Co Limited
F. Jennings & Sons Limited
F.Smith & Son (Staines) Limited
Family Funeral Services Limited
Farebrother Funeral Services Limited
Fisher & Townsend (Funeral Directors) Limited
Flowers By Design Limited
Ford Ennals Funeral Services Limited
Forethought Limited
Francis Chappel & Sons Limited
Frank Stephenson & Son (Funeral Directors) Limited
Frederick W Chitty & Co Limited
Fredk. W.Paine Limited
Funeral Arrangements Online Limited
Funeral Debt Collection Limited
Funeral Services London Limited

C9 Investments in subsidiary undertakings and associates (continued)

Dormant companies (continued)

G & L Evans Ltd
G. M. Charlesworth & Son Limited
G.F. Cook (Funerals) Limited
G.F.Hunt (Bath) Limited
G.Gamble & Son Limited
G.Smith (Wooburn) Limited
George Hall & Son Funeral Directors Limited
George S. Munn & Company, Limited*
George Stanton (1935) Limited
Ginns & Gutteridge Limited
Gornalls Funeral Services Limited
Graeme Buckle Funeral Services Limited
Graham Sullivan Funeral Directors Limited
Grave Design Limited
Great Southern Group Limited
Grimmett & Timms Limited

H & G Wilde Funeral Directors Limited
H A Harrold & Son Limited
H Eaton & Sons Holdings Limited
H.Eaton & Sons Limited
H J Dawson Limited
H J Phillips & Son (Funeral Directors) Limited
H Johnson & Sons Limited
H Leslie Humphreys Limited
H Tonkin Limited
H. J. Whalley & Sons Limited
H. Towell Ltd
H.Copeland & Son Limited
H.Dorricott & J.Bent Limited*
H.G.Brown & Sanders Limited
H.Hill Funeral Service Limited
H.R.H. Holdings Limited
Hambrook & Johns Limited
Hanningtons (Funeral Directors) Limited
Hardacres Funeral Directors Limited
Harry Williams & Sons (Cambridge) Limited
Heighton & Son Limited
Hemley Funeral Service Limited
Henry Naylor (Funeral Directors) Limited
Henry Paul Limited
Henry Smith (Wandsworth) Limited
Highfield Funeral Service Limited
Hindu Funeral Service Limited
Hodgson Holdings (Scotland) Limited
Hodgson Holdings Limited
Holdfast (Funerals) Limited**
Howard Jenkins (Edge Hill) Limited
Hunters Funeral Directors Limited

Ian Clarke Funeral Service Limited
Ingall Services Limited
Inverclyde Funeral Directors Limited*
Invicta Memorials Limited

J H Kenyon Limited
J H Raven Limited
J Hylton & Sons Limited
J Kynaston Limited
J Steadman & Sons Limited
J.W.Tate & Son (Holdings) Limited
J.W.Tate & Son Limited
Jack Lee & Sons Limited
James Allen & Son (Disley) Limited
James Crook Limited
John & William Shering Limited
John Bardgett & Sons Limited
John G Ashton & Co (Funeral Directors) Limited
Johnson Funeral Supplies Limited
Johnson-Sears Limited
Jonathan Harvey Limited
Jonathan Walker Funeral Directors Limited
Joseph Swift (Funeral Director) Limited
Joseph Tomlinson & Sons Limited
Joslin Memorials (1974) Limited

K.Y. Green Limited
Kellaways (Funeral Service) Limited
Ken Gregory & Sons Limited
Kent Funeral Supplies Limited
Kenyon Air Transportation Limited
Kenyon Emergency Services Limited
Kenyon Repatriation Limited
Kenyon Securities Limited
Kenyons Funeral Directors Limited
Kirkwoods (Funeral Directors) Limited**

L Fulcher Limited
L J Clegg Limited
Lambeth & Brixton Community Funeral Services Limited
Lambeth Funeral Services Limited
Lea Valley Funeral Services Limited
Leeds Limousines Limited
Leehope Services Limited
London Necropolis Company Limited
Longhurst (Undertakers) Limited
Lowden Wells Limited

MacIntosh & Steven Limited*
Mahony & Ward Limited
Malcolm J Presland Limited
Mannerings Limited
Mason Funeral Service Limited
Mathias's of Putney Limited
Maxwell Bros. Limited
Meadow Pool Limited
Mews & Yeatmans Limited
Mid Sussex Funeral Services Limited
Middleton & Wood (1919) Limited
Monumental Masons Limited
Moodys Funeral Directors Limited
Moray Crematorium Holdings Limited*
Moray Crematorium Limited*
Morecambe & Heysham Funeral Service Limited

N A Medd Limited
National Funeral Trust Limited
Newport & Telford Funeral Service Ltd
Newport Hire (I.W.) Limited
Newsome's Funeral Service (Royston) Limited
Nicholls Memorials Limited
Norfolk Crematorium Limited
Northampton Crematorium Limited
Norwich Crematorium Holdings Limited
Norwich Crematorium Limited
Nubian Funeral Directors Limited

NOTES TO THE DIGNITY PLC FINANCIAL STATEMENTS CONTINUED
for the 53 week period ended 31 December 2021

C9 Investments in subsidiary undertakings and associates (continued)

Dormant companies (continued)

Oxford Crematorium Limited

Patrick Stonemasons Limited
Personal Choice Funeral Plan Limited
Peter Johnson Funerals Ltd.
PFG Hodgson Kenyon (Services) Limited
PFG Hodgson Kenyon (UK) Limited
PFG Hodgson Kenyon Limited
Philip Ford & Son (Funeral Directors) Limited
Phillips Funeral Plans Limited
Phillips Funeral Services Limited
Phillips Holdings (Hertfordshire) Limited
Phillips Supplies Limited
Piccioni (Masonry) Limited
Plantsbrook Group Limited
Plantsbrook Limited
Preston Ireland Bowker Limited
Priestley & Cockett Limited

R Butler & Sons Limited
R C Holden & Son Limited
R Garner Son & Wood Limited
R.Davies & Son Limited
R.S. Johnson & Sons Limited
R.S.Scott (Funerals) Limited
Ravenhill Funeral Services Limited**
Remembrance Limited
Robemanor Limited
Robert Nicholls Funeral Directors Limited
Roberts & Brain Limited
Romney Marsh Funeral Services Limited
Rosspark Limited

S A Bates & Sons Limited
S Wellens & Sons Limited
Saftway Limited
Salenew Limited
Sanders Goodale & Co.Limited
SCI Pre Arrangement Limited
Seaford Funeral Service Limited
Seddons of Southport Limited
Selim Smith & Co. Limited
Serenity Limited
Sevenoaks District Crematorium Limited
Shankill Funeral Services Limited**
Silver Lady Funeral Service Limited
Simplicity Funerals Limited
Simpsons (Undertakers Requisites) Limited
Spotland Bridge Funeral Services Limited
Stanway & Garnett Funeral Service Limited
Swift & Mildred Limited

T & R O'Brien Limited*
T H Fenton Limited
T S Annison & Sons Limited
T. S. Horlock & Son Limited
T.H.Sanders & Higgs Limited
T.H.Sanders & Sons Limited
T J Brown & Sons Limited
T.J.Davies & Sons (Funeral Directors) Limited
Taylors Funerals (Wirral) Limited
The Crematorium Company Limited
The Dignity Plan Limited
The East Riding Crematorium Company Limited
The Haltemprice Crematorium Limited
The Lawrence Funeral Service Limited

The Leverton Funeral Service (Dartford) Limited
The South London & Southern Counties Cremation Society Limited
The South London Crematorium Co Limited
The Titford Funeral Service Limited
Thomas Brothers (Wellington and Taunton) Limited
Thompsons (Busbys) Limited
Thompsons (Funeral Furnishers) Limited
Thompsons (Maguires) Limited
Thompsons (Rimmers) Limited
Tovey & Morris Limited

U.F.D. Limited
UK Funerals Limited
UKF Limited

Valedictum Holdings Limited
Valedictum Group Limited
Valedictus Limited
Valedictus Holdings Limited
Valedictus Group Limited

W G Dixon Limited
W G Rathbone Funeral Directors Limited
W H Scott & Son Limited
W S Bond Limited
W S Harrison & Son Limited
W Thorp & Sons (Leigh-on-Sea) Limited
W.E.Turner (Funeral Furnishers) Limited
W.Garstin & Sons Limited
Walkers Funeral Directors Limited
Walmsley Hammond (Rayleigh) Limited
Warburton Funerals Limited
Wetton Funeral Services Limited
White Lady Funerals Limited
Whyte Funeral Services Limited*
William Pearce & Son Limited
Wilmshurst & Dickson Limited
WM. Jordan & Son (Funeral Directors) Limited*
Woodfield Park Funeral Home Limited
Wrekin Funeral Service Limited

Yew Holdings Limited

Registered office
* The registered office for these subsidiaries is 280 Kinfauns Drive, Glasgow, G15 7AR
** The registered office for these subsidiaries is 14 Scotch Quarter, Carrickfergus, County Antrim, BT38 7DP
*** The registered office for this subsidiary is 59 Kensington Place, St Helier, JE2 3PA, Jersey
All other subsidiary undertakings are registered at 4 King Edwards Court, King Edwards Square, Sutton Coldfield, West Midlands, B73 6AP.

Other information
All of the subsidiaries are incorporated in the United Kingdom except for Pitcher & Le Quesne Limited which is incorporated in Jersey.
All subsidiaries are controlled by the Group.

All of the above shareholdings are held indirectly, with the exception of Dignity (2004) Limited, Dignity (2008) Limited, Dignity (2011) Limited and Dignity Holdings No.3 Limited.

Dignity plc owns, either directly or indirectly, 100 per cent of the equity interest of all the subsidiaries.

Summarised consolidated income statement

	2021 £m	2020 restated[c] £m	2019 £m	2018 £m	2017[d] £m
Underlying revenue					
Funeral services	**201.9**	202.6	203.3	214.9	221.8
Crematoria	**85.5**	82.7	76.8	78.0	74.0
Pre-arranged funeral plans	**24.6**	28.8	21.2	22.7	28.2
	312.0	314.1	301.3	315.6	324.0
Underlying operating profit					
Funeral services	**48.2**	53.1	56.3	62.2	79.5
Crematoria	**47.0**	44.2	38.4	40.3	40.0
Pre-arranged funeral plans	**–**	–	–	2.8	8.0
Central overheads	**(39.4)**	(37.0)	(31.4)	(25.1)	(22.9)
	55.8	60.3	63.3	80.2	104.6
Underlying finance costs	**(29.0)**	(29.8)	(25.8)	(26.0)	(26.9)
Underlying finance income	**–**	0.1	0.2	0.2	0.1
Underlying profit before tax	**26.8**	30.6	37.7	54.4	77.8
Underlying taxation	**(5.4)**	(7.4)	(7.4)	(11.5)	(13.8)
Underlying profit after tax	**21.4**	23.2	30.3	42.9	64.0
Underlying earnings per share (pence)	**42.8p**	46.4p	60.6p	85.8p	128.3p
Revenue	**353.7**	357.5	338.9	353.7	324.0
Operating profit	**17.8**	15.9	44.8	75.9	98.0
Profit/(loss) after tax	**12.1**	(25.5)	30.6	(17.0)	57.8
Basic earnings/(loss) per share (pence)	**24.2p**	(51.0)p	61.2p	(34.0)p	115.8p

Key performance indicators

	2021	2020 restated[c]	2019	2018	2017
Total estimated number of deaths in Britain (number)	**664,000**	663,000	584,000	599,000	590,000
Number of funerals performed (number)	**79,200**	80,300	69,400	72,300	68,800
Funeral market share[b] (per cent)	**11.8%**	12.0%	11.7%	11.9%	11.5%
Number of cremations performed (number)	**74,800**	74,500	64,800	65,200	63,400
Cremation market share (per cent)	**11.3%**	11.2%	11.1%	10.9%	10.7%
Active pre-arranged funerals (number)	**581,000**	558,000	523,000	486,000	450,000
Underlying cash generated from operations (£million)	**88.3**	88.9	71.8	101.9	115.4

Net debt

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Net amounts owing on Secured Notes per financial statements	**(526.6)**	(541.7)	(551.3)	(560.6)	(565.1)
Add: unamortised issue costs	**(0.5)**	(0.5)	(0.6)	(0.6)	(0.6)
Gross amounts owing	**(527.1)**	(542.2)	(551.9)	(561.2)	(565.7)
Accrued interest on Secured Notes	**–**	(12.0)	(12.2)	(12.3)	(0.3)
Accrued interest on Crematoria Acquisition Facility and Revolving Credit Facility	**–**	–	–	(0.2)	(0.2)
Cash and cash equivalents – Trading Group	**55.9**	73.6	57.9	66.9	49.3
Net debt	**(471.2)**	(480.6)	(506.2)	(506.8)	(516.9)

FINANCIAL RECORD[a] CONTINUED

Summarised consolidated balance sheet

	2021 £m	2020 restated[e] £m	2019 restated[e] £m	2018 £m	2017[d] £m
Non-current assets					
Goodwill and intangible assets	**278.6**	324.4	373.1	384.9	385.5
Property, plant and equipment	**242.1**	240.9	251.3	254.1	248.0
Right-of-use asset	**89.1**	95.2	–	–	–
Investments in associated undertakings	**–**	–	–	6.0	–
Deferred insurance commissions	**8.4**	9.4	10.2	8.4	6.0
Other financial assets	**–**	–	7.2	7.3	8.3
Financial assets – held by the Trusts	**1,043.1**	967.1	947.5	862.4	865.6
Deferred commissions	**100.9**	101.3	96.8	94.5	92.4
Deferred tax asset	**5.5**	20.3	14.0	17.9	6.8
	1,767.7	1,758.6	1,700.1	1,635.5	1,612.6
Current assets					
Cash and cash equivalents – Trading Group	**55.9**	73.6	57.9	66.9	49.3
Cash and cash equivalents – held by the Trusts	**19.8**	21.6	15.5	13.8	21.8
Cash and cash equivalents	**75.7**	95.2	73.4	80.7	71.1
Other current assets	**48.6**	46.6	47.6	46.9	49.6
	124.3	141.8	121.0	127.6	120.7
Total assets	**1,892.0**	1,900.4	1,821.1	1,763.1	1,733.3
Current liabilities					
Financial liabilities	**11.5**	15.7	10.2	9.3	4.5
Contract liabilities	**99.6**	95.5	95.5	91.5	88.3
Lease liabilities	**7.1**	7.3	–	–	–
Other current liabilities	**61.6**	78.5	68.8	73.0	62.8
	179.8	197.0	174.5	173.8	155.6
Non-current liabilities					
Financial liabilities	**518.3**	529.5	545.2	551.9	561.2
Contract liabilities	**1,237.9**	1,222.0	1,209.1	1,164.6	1,117.3
Lease liabilities	**75.8**	81.2	–	–	–
Other non-current liabilities	**31.3**	48.2	37.3	36.7	34.2
	1,863.3	1,880.9	1,791.6	1,753.2	1,712.7
Total liabilities	**2,043.1**	2,077.9	1,966.1	1,927.0	1,868.3
Total deficit	**(151.1)**	(177.5)	(145.0)	(163.9)	(135.0)
Total deficit and liabilities	**1,892.0**	1,900.4	1,821.1	1,763.1	1,733.3

NOTES

(a) This information has been extracted from the current and previous Annual Reports and accordingly does not constitute audited information.

(b) Market share excluding funerals performed in Northern Ireland.

(c) 2020 underlying profit measures have been restated to include the impact of IFRS 16. Equivalent underlying measures in 2019, 2018 and 2017 have not been restated.

(d) 2017 income statement has not been restated for the impact of IFRS 15 or the consolidation of the Trusts.

(e) The consolidated balance sheet for the 52 weeks ended 25 December 2020 and for the 52 weeks ended 27 December 2019 have been restated due to a prior year adjustment in relation to insurance plans. No other accounting periods have been restated for insurance plans. See note 1 for further details.

ALTERNATIVE PERFORMANCE MEASURES

Non-GAAP measures

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

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

For this reason, the alternative performance measures provided exclude the impact of consolidating the Trusts, the corporate interest restriction disallowance arising as a result of consolidating the Trusts and the changes which relate to the application of IFRS 15. In addition, the deferred tax impact relating to the corporation tax rate change in both 2021 and 2020 arising on the deferred tax balances on consolidating the Trusts and application of IFRS 15 have also been excluded, as well as non-underlying items comprising certain non-recurring and non-trading transactions.

IFRS 16 has previously been included within the alternative performance measures for 2020 only. This was due to the modified retrospective adoption of the standard, meaning the 2019 comparatives had not been restated and therefore were not comparable. IFRS 16 is now included within underlying performance measures and all comparatives have been restated accordingly. As a result all references to IFRS 16 have been removed from the other adjustments reconciliation tables in comparative periods. Therefore, a prior year restatement has been made to December 2020 underlying performance measures to the magnitude of a £0.1 million charge to underlying profit. This is made up of an adjustment to remove the operating lease rentals of £13.8 million which is replaced with a depreciation charge of £9.2 million, a finance expense of £4.7 million and a tax charge of £nil. See note 1 for further details of the impact of this restatement on the consolidated financial statements.

The exclusion of the impact of consolidating the Trusts and the application of IFRS 15 will continue for the foreseeable future. We will also assess whether it is right to exclude any future new accounting standards from alternative performance measures based on whether they are included in the measures used in the day-to-day management of the business.

All of these measures are highlighted as underlying throughout this Annual Report.

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

Underlying net finance costs are calculated before the application of IFRS 15 and the impact of consolidating the Trusts. See note 4.

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

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

(b) Non-underlying items
The Group's underlying measures of profitability exclude:

- amortisation of acquisition related intangibles;
- external transaction costs;
- profit or loss on sale of fixed assets (net of any insurance proceeds received);
- Transformation Plan costs (see below);
- marketing costs in relation to trials;
- restructuring costs;
- Directors' severance pay;
- operating and competition review costs;
- trade name write-off's and impairments;
- goodwill impairments; and
- the taxation impact of the above items together with the impact of taxation rate changes.

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

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Non-GAAP measures (continued)

(b) Non-underlying items (continued)
In the tables below, non-underlying items are categorised as either non-trading or non-recurring. Non-trading items refers to expenditure which does not relate to the normal day-to-day transactions of the business, whereas non-recurring also does not relate to the day-to-day transactions of the business and is not expected to reoccur, however the same non-recurring item may straddle more than one accounting period.

Transformation Plan costs
Cost incurred in relation to the Group's now abrogated Transformation Plan resulted in significant, directly attributable non-recurring costs in 2020 and these amounts are excluded from the Group's underlying profit measures and treated as a non-underlying item.

These costs include, but are not limited to:

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

53 week period ended 31 December 2021	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Central overheads £m	Group £m
Non-trading					
Amortisation of acquisition related intangibles	**3.7**	**0.4**	**0.1**	**–**	**4.2**
External transaction costs in respect of completed and aborted transactions	**–**	**1.2**	**–**	**1.4**	**2.6**
Profit on sale of fixed assets (net of insurance proceeds received) (1)	**–**	**(1.1)**	**–**	**–**	**(1.1)**
Trade name write-off	**2.5**	**–**	**–**	**–**	**2.5**
Trade name impairment	**2.8**	**–**	**–**	**–**	**2.8**
Goodwill impairment	**36.4**	**–**	**–**	**–**	**36.4**
Non-recurring					
Marketing costs in relation to trials	**–**	**–**	**–**	**0.9**	**0.9**
	45.4	**0.5**	**0.1**	**2.3**	**48.3**
Taxation(2)					**(2.5)**
Taxation – rate change					**8.3**
					54.1

(1) Includes £1.1 million of insurance proceeds received in respect of a Crematoria fire which occurred in 2020.
(2) All of the above items are subject to corporation tax, except for the trade name write-off, trade name impairment and goodwill impairment.

52 week period ended 25 December 2020 – restated(3)	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Central overheads £m	Group £m
Non-trading					
Amortisation of acquisition related intangibles	4.1	0.4	0.1	–	4.6
External transaction costs in respect of completed and aborted transactions	0.2	–	–	–	0.2
Profit on sale of fixed assets	–	(0.2)	–	–	(0.2)
Trade name impairment	15.3	–	–	–	15.3
Goodwill impairment	28.7	–	–	–	28.7
Non-recurring					
Marketing costs in relation to trials	–	–	–	0.6	0.6
Transformation Plan costs	–	–	–	4.7	4.7
Directors' severance pay	–	–	–	1.6	1.6
Operating and competition review costs	–	–	–	2.9	2.9
	48.3	0.2	0.1	9.8	58.4
Taxation					(6.1)
Taxation – rate change					3.6
					55.9

(3) A presentation adjustment has been made in December 2020 to separately pull out the marketing costs in relation to trials.

Non-GAAP measures (continued)

(c) Other adjustments reconciliation

Other adjustments enable a user of the financial statements to assess the financial performance of the Trading Group as it was historically reported prior to the consolidation of the Trusts and the impact of IFRS 15, Revenue from Contracts with Customers. This mirrors the financial reporting provided to management on a monthly basis to monitor the performance of the underlying Trading Group.

Adjustments to the Group's consolidated financial statements are made to reflect the following:

- Deferred revenue recognised on the delivery of a funeral is replaced with the payment received by the Trading Group from the Trust at the same time. Pre-need segment income, in the form of upfront payments received by the Trading Group from the Trusts in support of marketing are recognised when received at inception of a funeral plan rather than being deferred as part of the aforementioned deferred revenue.
- Payments made by the Trusts on cancellation are recognised by the Trading Group.
- Unlike disbursements on at-need funerals, disbursements on pre-need funerals under IFRS 15 are recognised on a principal basis within both revenue and cost of sales, but for consistency in the alternative performance measure both are reduced as these items are not included in either measure. Similarly, pre-need funerals delivered by subcontracted funeral directors, which form part of deferred income, are excluded within the alternative performance measure with a corresponding adjustment to cost of sales.
- Commissions payable on securing new Trust plans are recognised at the inception of the plan rather than being deferred and recognised at the time the funeral service is delivered.
- The amounts recorded in respect of the remeasurement of assets held in the Trust is removed as is the significant financing component that only arises when deferred revenue is recognised on consolidation of the Trusts.
- The taxation impact of the above adjustments, including the impact of corporate interest restriction and changes in the rate of deferred tax associated with the items noted above are removed.

Non-GAAP measures (continued)

(c) Other adjustments reconciliation (continued)

53 week period ended 31 December 2021	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Central overheads £m	Group £m
Revenue					
Trust consolidation:					
Release of deferred revenue on death or cancellation	117.9	–	–	–	117.9
Removal of payments received from the Trusts on death	(58.4)	–	–	–	(58.4)
Payments on cancellation	(9.8)	–	–	–	(9.8)
Derecognise pre-need segment income	–	–	(24.6)	–	(24.6)
IFRS 15:					
Recognition of disbursement element of pre-need plans	16.6	–	–	–	16.6
Revenue – Total other adjustments	66.3	–	(24.6)	–	41.7
Cost of sales					
IFRS 15:					
Amounts paid on subcontracted funerals	(8.2)	–	–	–	(8.2)
Recognition of disbursement element of pre-need plans	(16.6)	–	–	–	(16.6)
Administrative expenses					
Trust consolidation:					
Recognition of the Trust costs	(6.2)	–	–	–	(6.2)
Transfer of pre-need costs into funeral segment	(24.7)	–	24.7	–	–
IFRS 15:					
Net increase of deferred costs in respect of commissions	(0.4)	–	–	–	(0.4)
Operating profit – Total other adjustments	10.2	–	0.1	–	10.3
Finance income/(costs)					
Trust consolidation:					
Deferred revenue significant financing					(51.6)
Remeasurement of financial assets held by the Trusts and related income					94.8
Finance costs – Total other adjustments					43.2
Taxation:					
Trust consolidation:					
Taxation impact on above adjustments					(8.1)
Corporate interest restriction disallowance					(1.5)
Deferred tax rate change					6.9
IFRS 15:					
Taxation impact on above adjustments					(0.5)
Deferred tax rate change					(5.5)
Taxation – Total other adjustments					(8.7)
Profit after taxation – Total other adjustments					44.8

Non-GAAP measures (continued)

(c) Other adjustments reconciliation (continued)

52 week period ended 25 December 2020 – restated	Funeral services £m	Crematoria £m	Pre-arranged funeral plans £m	Central overheads £m	Group £m
Revenue					
Trust consolidation:					
Release of deferred revenue on death or cancellation	122.2	–	–	–	122.2
Removal of payments received from the Trusts on death	(59.8)	–	–	–	(59.8)
Payments on cancellation	(8.8)	–	–	–	(8.8)
Derecognise pre-need segment income	–	–	(28.8)	–	(28.8)
IFRS 15:					
Recognition of disbursement element of pre-need plans	18.6	–	–	–	18.6
Revenue – Total other adjustments	72.2	–	(28.8)	–	43.4
Cost of sales					
IFRS 15:					
Amounts paid on subcontracted funerals	(8.8)	–	–	–	(8.8)
Recognition of disbursement element of pre-need plans	(18.6)	–	–	–	(18.6)
Administrative expenses					
Trust consolidation:					
Recognition of the Trust costs	(6.9)	–	–	–	(6.9)
Transfer of pre-need costs into funeral segment	(28.9)	–	28.9	–	–
IFRS 15:					
Net release of deferred costs in respect of commissions	4.9	–	–	–	4.9
Operating profit – Total other adjustments	13.9	–	0.1	–	14.0
Finance income/(costs)					
Trust consolidation:					
Deferred revenue significant financing					(53.1)
Remeasurement of financial assets held by the Trusts and related income					47.3
Finance income – Total other adjustments					(5.8)
Taxation:					
Trust consolidation:					
Taxation impact on above adjustments					(0.5)
Corporate interest restriction disallowance – prior year adjustment					(4.3)
Deferred tax rate change					6.8
IFRS 15:					
Taxation impact on above adjustments					(0.9)
Deferred tax rate change					(2.1)
Taxation – Total other adjustments					(1.0)
Profit after taxation – Total other adjustments					7.2

Non-GAAP measures (continued)

(d) Non-underlying cash flow items

	31 December 2021 £m	25 December 2020 restated[1] £m
Cash flows from operating activities	**68.3**	62.7
Cash flows of other adjustments	**16.1**	16.3
Cash flows from operating activities – Trading Group	**84.4**	79.0
External transaction costs	**1.6**	0.6
Marketing costs in relation to trials	**0.9**	0.2
Directors' severance pay	**0.9**	0.7
Transformation Plan costs	**–**	5.4
Operating and competition review costs	**0.5**	3.0
Underlying cash generated from operations	**88.3**	88.9

(1) December 2020 has been restated to separately pull out spend on marketing costs in relation to trials out of external transaction costs.

(e) Funeral market share

Comparable funeral market share excludes any volumes from locations not contributing for the whole of 2020 and 2021 to date and therefore excludes 26 locations closed and one location opened in 2020 and a further 24 locations closed and five locations opened in 2021.

(f) Average assets per plan

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

	31 December 2021 £	25 December 2020 £
Net assets in the Trusts	**1,179,000**	1,097,000
Number of active plans	**323,000**	319,000
Asset per plan	**3,650**	3,400

(g) Return on Trusts assets

Return on Trust assets are calculated as net investment return in the Trusts divided by the opening net assets within the consolidated balance sheet.

	31 December 2021 £m	25 December 2020 £m
Remeasurement recognised in the consolidated income statement	**85.0**	41.3
Investment income	**7.7**	2.2
Foreign exchange rate difference	**(1.7)**	–
Investment administrative expenses deducted at source	**(2.8)**	(5.2)
Net investment return in the Trusts	**88.2**	38.3
Opening net assets as per the consolidated balance sheet	**967.1**	947.5
Return on the Trust assets (per cent)	**9.1%**	4.0%

Non-GAAP measures (continued)

(h) Cash Return on Core Capital ('CROCC')

The Dignity CROCC is a measure of the return made on the productive capital in the business ignoring intangible assets and non-cash returns. This is a proprietary measure ('APM') and therefore not subject to accounting rules which you should bear in mind.

We calculate it by taking the underlying cash generated from operations and subtracting the maintenance capital expenditure, net finance costs paid and tax paid; this gives the Cash Return ('CR'). This is then divided by the sum of the property, plant and equipment, Trade receivables: at-need and Inventories less Trade payables which make up the Core Capital ('CC').

To illustrate what it measures imagine that a company built a crematorium costing say £8 million including the land which once mature makes a return after tax and capital expenditure of £1.2 million, then its CROCC would be 15 per cent (£1.2 million /£8.0 million). Now if that crematorium were sold to another company for £20.0 million it would still be making £1.2 million but they might measure its return at 6 per cent (£1.2 million /£20.0 million). CROCC would still come out at 15 per cent because it is based upon the capital used to create the asset, not the goodwill reflected in its transfer. 6 per cent is the initial return on an investment in what is a 15 per cent asset purchased for 2.5 times the capital invested in it.

Core Capital is taken from a concept introduced by Warren Buffett about judging a business based upon the capital you would need to replicate it.

CROCC is useful because it gives a measure of the underlying returns of a business which are a guide to what the returns on retained capital might be. As we progress the CROCC will increasingly reflect the returns from the capital retained and allocated by the executive for organic growth. The CROCC calculation can be reconciled as follows:

	31 December 2021 £m	25 December 2020 £m
Underlying cash generated from operations	**88.3**	88.9
Less:		
Maintenance capital expenditure	**(17.6)**	(9.1)
Net finance costs paid	**(28.2)**	(29.1)
Tax paid	**(17.7)**	(6.9)
Cash Return	**24.8**	43.8
Property, plant and equipment	**242.1**	240.9
Trade receivables: at-need	**15.2**	14.1
Inventories	**8.6**	9.0
Less:		
Trade payables	**(9.3)**	(5.5)
Core Capital	**256.6**	258.5
Cash Return on Core Capital (per cent)	**9.7%**	16.9%

SHAREHOLDER INFORMATION

General enquiries may be addressed to the Company Secretary, Tim George, at the Company's registered office.

General information

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in England and Wales.

Company Registrars

Enquiries concerning shareholdings, change of address or other particulars, should be directed in the first instance to the Company's Registrars, Equiniti. They also provide a range of online shareholder information services at www.shareview.co.uk where shareholders can check their holdings and find practical help on transferring shares and updating personal details. Alternatively, they can be contacted by telephone on 0371 384 2674 (textphone for shareholders with hearing difficulties 0371 384 2255) if calling from within the UK, or +44 (0) 121 415 7047 if calling from outside the UK.

Shareholder communications

The Company makes documents and information available to shareholders by electronic means and via our website. The Company's website is www.dignityplc.co.uk.

Making documents and information available electronically:

- Enables the Company to reduce printing and postage costs;
- Allows faster access to information; and
- Reduces the amount of resource consumed and lessens the impact on the environment of printing and mailing.

The Company provides hard copy documentation to those shareholders who have requested this and is, of course, happy to provide hard copies to any shareholder upon request.

Electronic communications

The Company encourages shareholders to elect to receive notification of the availability of Company documentation by means of an email.

Shareholders who wish to receive e-mail notification should register online at www.shareview.co.uk click on 'Open a Portfolio Account' under the 'Portfolio' section. You will need your Shareholder Reference Number, which is shown on your share certificate or dividend tax voucher.

Choosing e-mail notification will result in you joining the Equiniti Shareview Service in accordance with its terms and conditions.

Share price information

The latest Dignity plc share price can be obtained via the Company's investor website www.dignityplc.co.uk.

Unsolicited approaches to shareholders

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money. The Financial Conduct Authority ('FCA') has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200 million lost in the UK each year.

PROTECT YOURSELF

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

1. Get the name of the person and organisation contacting you.
2. Check the FCA Register at http://www.fca.gov.uk/register to ensure they are authorised.
3. Use the details on the FCA Register to contact the firm.
4. Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
5. Search The FCA's list of unauthorised firms and individuals to avoid doing business with.
6. If it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme ('FSCS') if things go wrong.

Annual General Meeting

The Company's Annual General Meeting will be held on 9 June 2022 at 11.00 am at the offices of DLA Piper UK LLP, Two Chamberlain Square, Paradise, Birmingham, West Midlands, B3 3AX.

Dividends

The Group has not paid a dividend since June 2019 and the Directors do not expect to do so until the business has returned to a more sustainable financial footing. We continue to work on our plans to improve our capital structure so that the pursuit of the best long-term value for shareholders is not compromised by the covenants attached to our bonds. We retain significant cash resources, continue to be cash generative and understand the importance of optimising total shareholder return whilst maintaining a balance between different stakeholders, and it is the Directors' intention to pay a dividend as soon as we believe it is financially prudent to do so.

CONTACT DETAILS AND ADVISERS

Registered Office:
Dignity plc
4 King Edwards Court
King Edwards Square
Sutton Coldfield
West Midlands B73 6AP

Tel: +44 (0) 121 354 1557
E-mail: enquiries@dignityuk.co.uk

www.dignityplc.co.uk

Company Secretary:
Tim George FCIS

Registered Number:
04569346

Registrars:
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Tel: +44 (0) 371 384 2674

www.shareview.co.uk

Auditors:
Ernst & Young LLP
No.1 Colmore Square
Birmingham B4 6HQ

Joint Brokers:
Investec
A division of Investec Bank plc
30 Gresham Street
London EC2V 7QP

Liberum
25 Ropemaker Street
London EC2 9LY

Principal Bankers:
Royal Bank of Scotland plc
West Midlands Corporate Office
2 St Philips Place
Birmingham B3 2RB

Legal Advisers:
DLA Piper UK LLP
Two Chamberlain Square
Paradise
Birmingham B3 3AX

FINANCIAL CALENDAR

9 June 2022	• Annual General Meeting
1 July 2022	• 2022 financial half year end
10 August 2022	• Announcement of 2022 interim results
30 December 2022	• Financial period end

Forward-looking statements

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

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

Any forward-looking statements made in this Annual Report or the Dignity plc investor website, or made subsequently, which are attributable to the Company or any other member of the Group, or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to in this statement. Each forward-looking statement speaks only as of the date it is made. Except as required by its legal or statutory obligations, the Company does not intend to update any forward-looking statements.

Nothing in this Annual Report or on the Dignity plc investor website should be construed as a profit forecast or an invitation to deal in the securities of the Company.

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Thank you

Dignity plc

4 King Edwards Court
King Edwards Square
Sutton Coldfield
West Midlands B73 6AP

www.dignityplc.co.uk