For immediate release **23 March 2022**

Dignity plc

Preliminary results for the 53 week period ended 31 December 2021

Dignity plc (Dignity, the Company or the Group), the only end-of-life provider in the UK that is uniquely positioned to provide all the required elements of a funeral service, announces its preliminary results for the 53 week period ended 31 December 2021.

Financial highlights

	53 week period ended 31 December 2021	52 week period ended 25 December 2020 restated	Increase/ (decrease) per cent
Underlying revenue (£million)	**312.0**	314.1	(1)
Underlying operating profit (£million) [(1)]	**55.8**	60.3	(7)
Underlying profit before tax (£million) [(1)]	**26.8**	30.6	(12)
Underlying earnings per share (pence) [(1)]	**42.8**	46.4	(8)
Underlying cash generated from operations (£million) [(1)]	**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
Number of deaths	**664,000**	663,000	-

(1) Underlying performance measures throughout this announcement for December 2020 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 chose to exclude it from its underlying performance measures reported in 2020 in order to retain comparability. Therefore, the underlying performance measures reported above in both periods includes the application of IFRS 16. 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 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. Further detail may be found on pages 48 to 53.

Key points

- 2021, like 2020, was another year heavily impacted by the pandemic with an elevated death rate
- Underlying operating profit fell seven per cent as a combination of rising costs and lower prices impacted margins
- New strategy was agreed, and good progress made in implementation
- Focus groups and insight gathering to develop Dignity's new Principles; the guiding framework that once embedded will become the organisations new culture
- Reviewed and repositioned pricing for our at-need services to ensure we offer the best value-for-money locally
- Inverted the organisation through a new organisational structure with 12 regions; focuses on removing management hierarchy and replacing this with a locally empowered leadership structure

- Focused programme of work to prepare Dignity for Financial Conduct Authority regulation of the pre-paid funeral plan market (which comes into force July 2022), including submission of our application to the regulator
- Progress made to invest back into our funeral branches and crematoria; aiming to bring the Group's property portfolio to a high standard
- The Board agreed a formal climate commitment, pledging for the Group to be net-zero (across Scope 1 & 2 emissions) by 2038, following an initial sustainability and ESG assessment
- Progress made to ensure a balanced, Corporate Governance Code compliant, Board composition, with the appointments of John Castagno as new Non-executive Chairman and Graham Ferguson as an independent NED. Kate Davidson and Kartina Tahir Thomson were also welcomed to the Board in 2022
- In March 2022 we agreed a 12 month waiver to our main financial covenant with noteholders to protect us from a post pandemic drop in the death rate

Gary Channon, Chief Executive of Dignity plc, commented:

"2021 was a year of great change at Dignity as we set out and started implementing the new strategy which at its core promotes a culture focused on serving families and communities in all their end-of-life needs. There isn't a part of Dignity that hasn't been affected by the transformation so far as we inverted the whole organisation, empowered those serving clients and organised ourselves in a more collaborative structure.

I would like to call out the hard work, dedication and commitment of all our colleagues who continued to respond to the challenges of the COVID-19 pandemic whilst coping with the rapid pace of organisational change that Dignity has gone through.

Although there is still much work to do to complete the restructuring, we know what we need to do."

For further information please contact:

Gary Channon, Chief Executive
Dean Moore, Interim Chief Financial Officer
Dignity plc **+44 (0)20 7466 5000**

Richard Oldworth
Chris Lane
Tilly Abraham
Verity Parker

Buchanan **+44 (0)20 7466 5000**
www.buchanan.uk.com **dignity@buchanan.uk.com**

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

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.

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. 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 underway. 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.

John Castagno
Non-Executive Chairman
22 March 2022

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. 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.

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 52 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 52 and 53 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.

Gary Channon
Chief Executive
22 March 2022

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 10 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 6 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 48 to 53.

(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 pages 25 and 26 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 48. 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 48 to 53 and a reconciliation of statutory revenue to underlying revenue is detailed in note 2.

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

	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 48 to 53.
(c) 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 pages 25 to26 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 December 2021 £m	25 December 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.

(b) 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 7.

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.

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 17.

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 cashflows 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 December 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 10 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. 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.

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 49 and 50 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, previous 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 percent) 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 page 34 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.

Dean Moore
Interim Chief Financial Officer
22 March 2022

Our key performance indicators

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

KPI	KPI definitions	53 week period ended 31 December 2021	52 week period ended 25 December 2020 restated	Developments in 2021
Underlying earnings per share (pence)	This is underlying profit after tax divided by the weighted average number of Ordinary Shares in issue in the period.	**42.8p**	46.4p[(1)]	The reduction follows the decrease in underlying operating profit explained below.
Underlying operating profit (£m)	This is the statutory operating profit of the Group excluding non-underlying items and the impact of consolidating the Trusts and IFRS 15.	**£55.8m**	£60.3m[(1)]	Underlying operating profit declined year-on-year, despite higher deaths. This is primarily due to lower market share and higher costs.
Underlying cash generated from operations (£m)	This is the statutory cash generated from operations excluding non-underlying items and the impact of consolidating the Trusts and IFRS 15.	**£88.3m**	£88.9m[(1)]	The Group continues to convert operating profit into cash efficiently.
Underlying average revenue per funeral (£)	Underlying funeral revenue divided by the number of funerals performed in the relevant period.	**£2,548**	£2,522	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.
Total estimated number of deaths in Britain (number)	This is as reported by the Office for National Statistics.	**664,000**	663,000	Deaths were materially higher than originally anticipated due to the pandemic.
Funeral market share excluding Northern Ireland (per cent)	This is the number of funerals performed by the Group in Britain divided by the total estimated number of deaths in Britain.	**11.8%**	12.0%	Market share has declined slightly.
Number of funerals performed (number)	This is the number of funerals performed by the Group according to our operational data.	**79,200**	80,300	Changes are a consequence of the total number of deaths and the Group's market share.
Crematoria market share (per cent)	This is the number of cremations performed by the Group divided by the total estimated number of deaths in Britain.	**11.3%**	11.2%	Market share is broadly stable.
Number of cremations performed (number)	This is the number of cremations performed according to our operational data.	**74,800**	74,500	Changes are a consequence of the total number of deaths and the Group's market share.
Active pre-arranged funerals (number)	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.	**581,000**	558,000	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.

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

Maintaining consistently high-quality and standards

We closely monitor the results of our client surveys which are conducted by our funeral services division. In the last five years, we have received approximately 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.

The Dignity Client Survey 2021

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.

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.

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

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	2	**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	2	**17.8**	15.9
Finance costs	3	**(29.0)**	(29.8)
Finance income	3	**-**	0.1
Deferred revenue significant financing	3	**(51.6)**	(53.1)
Remeasurement of financial assets held by the Trusts and related income	3	**94.8**	47.3
Profit/(loss) before tax	2	**32.0**	(19.6)
Taxation	4	**(19.9)**	(5.9)
Profit/(loss) for the period attributable to equity shareholders	2	**12.1**	(25.5)
Earnings/(loss) per share for profit attributable to equity shareholders			
– Basic (pence)	5	**24.2p**	(51.0)p
– Diluted (pence)	5	**24.2p**	(51.0)p

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

Consolidated statement of comprehensive income
for the 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	12	**15.6**	(11.7)
Tax (charge)/credit on remeasurement on retirement benefit obligations		**(3.9)**	2.2
Tax charge on pension contributions		**(0.2)**	-
Restatement of deferred tax for the change in UK tax rate	4	**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	6	**167.9**	203.9
Intangible assets	6	**110.7**	120.5
Property, plant and equipment		**242.1**	240.9
Right-of-use asset		**89.1**	95.2
Deferred insurance commissions		**8.4**	9.4
Financial assets held by the Trusts	8	**1,043.1**	967.1
Deferred commissions	9	**100.9**	101.3
Deferred tax asset		**5.5**	20.3
		1,767.7	1,758.6
Current assets			
Inventories		**8.6**	9.0
Trade and other receivables		**30.0**	30.0
Current tax receivable		**2.4**	-
Deferred commissions	9	**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	7	**75.7**	95.2
		124.3	141.8
Total assets		**1,892.0**	1,900.4
Liabilities			
Current liabilities			
Financial liabilities		**11.5**	15.7
Trade and other payables		**59.5**	68.2
Lease liabilities		**7.1**	7.3
Current tax liabilities		**-**	7.9
Contract liabilities	9	**99.6**	95.5
Provisions for liabilities		**2.1**	2.4
		179.8	197.0
Non-current liabilities			
Financial liabilities		**518.3**	529.5
Other non-current liabilities		**2.2**	2.1
Lease liabilities		**75.8**	81.2
Contract liabilities	9	**1,237.9**	1,222.0
Provisions for liabilities		**9.4**	9.5
Retirement benefit obligation	12	**19.7**	36.6
		1,863.3	1,880.9
Total liabilities		**2,043.1**	2,077.9
Shareholders' deficit			
Ordinary share capital		**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 page 25 for further details.

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

Consolidated statement of changes in equity
for the 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 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		**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	7	**-**	(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)	8	**(948.7)**	(778.1)
Disposals of financial assets (by the Trusts)	8	**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	7	**-**	(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	7	**75.7**	78.3
Restricted cash - amounts set aside for debt service payments	7	**-**	16.9
Cash and cash equivalents at the end of the period as reported in the consolidated balance sheet	7	**75.7**	95.2

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

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.

1 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 17 together with the third balance sheet required to be disclosed in support of the prior year adjustments.

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 funerals 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 0.2p to 46.4p; 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.

2 Revenue and segmental analysis

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

For statutory purposes the Group 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.

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 48 to 50.

Reconciliations to statutory amounts

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

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 page 50 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 51 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.

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 tax			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 page 51 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 pages 25 to 26 for further details.

3 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 cost on IFRS 16 lease liability	**4.5**	4.7
Net finance cost on retirement benefit obligations	**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 9)	**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 8)	**(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 reporting measures have been restated to include the application of IFRS 16. See pages 25 to 26 for further details.

4 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

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.

5 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 page 48. These items have been adjusted for in determining underlying measures of profitability as these underlying measures are those used in the day-to-day management of the business and allow for greater comparability across periods.

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

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

	Earnings £m	Weighted average number of shares millions	Per share amount pence
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 2 for further details.

(2) Underlying performance measures have been restated to include the application IFRS 16 which were previously included within other adjustments. See pages 25 to 26 for further details.

6 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.

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
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**	Book value 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 than 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 committed to delivering its market share growth ambitions, given the infancy of the strategic plan implementation and the available evidence to demonstrate this growth as at the 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 intangibles 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.

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		
	Trade name	Goodwill	Total
Sensitivity applied:	£m	£m	£m
Decrease in funeral services market share growth in 2022 and beyond	(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 £1.0m	-	12.6	12.6
Decrease in 2022 funeral services EBITDA and beyond of £1.0m	(0.1)	(11.6)	(11.7)
Decrease in 2022 funeral services EBITDA and beyond of £5.0m	(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	(0.3)	(51.0)	(51.3)

7 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 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 was made on 31 December 2021.

The note trustees have charge over this restricted bank account.

8 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.

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.

9 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.

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.

10 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	**(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 7)	**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 pages 12 and 13.

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

11 Reconciliation of cash generated from operations

	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 6)	**2.5**	-
Trade name impairment (note 6)	**2.8**	15.3
Goodwill impairment (note 6)	**36.4**	28.7
Changes in other working capital	**2.3**	5.1
Trust investment administrative expenses deducted at source (3)	**2.8**	5.2
Foreign exchange rate difference – Trust assets	**1.7**	-
Employee share option charges	**0.8**	1.4
Cash flows from operating activities	**68.3**	62.7

12 Analysis of the movement in the retirement benefit obligation

	2021 £m	2020 £m
At beginning of period	**(36.6)**	(26.0)
Total expense 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)

13 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 financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2021 or 25 December 2020 but is derived from those accounts. Statutory accounts for 2020 have been delivered to the registrar of companies, and those for 2021 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2020 and 2021.

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

The principal accounting policies adopted in the preparation of these financial statements have been consistently applied to all periods presented.

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.

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.

14 Securitisation

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

Copies of these reports are available at **www.dignityplc.co.uk/corporate**.

15 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 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.

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.

Our principal risks and uncertainties

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

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

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.	Increased
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.	No change
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.	Increased

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.	No change
Financial Covenant under the Secured Notes The Group's Secured Notes requires EBITDA to total debt service to be above 1.5 times. If this financial covenant (which is applicable to the securitised subgroup of Dignity) is not achieved, then this may lead to an Event of Default under the terms of the Secured Notes, which could result in the Security Trustee taking control of the Securitisation Group on behalf of the Secured Note holders. In addition, the Group is required to achieve a more stringent ratio of 1.85 times for the same test in order to be permitted to transfer excess cash from the Securitisation Group to Dignity plc.	The nature of the Group's debt means that the denominator is now fixed unless further Secured Notes are issued in the future. This means that the covenant headroom will change proportionately with changes in EBITDA generated by the securitised subgroup. Current trading continues to support the Group's financial obligations, however lower reported profitability increases the risk of breaching covenants. 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.	No change

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.	Increased
Demographic shifts in population There can be no assurance that demographic shifts in population will not lead to a reduced demand for funeral services in areas where Dignity operates.	In such situations, Dignity would seek to follow the population shift by rebalancing the funeral location network together with meeting the developing cultural requirements.	No change

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.	No change

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.	No change

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. 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. 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.	No change
Changes in the funding of the pre-arranged funeral plan business In the current regulatory environment, the Group has given commitments to pre-arranged funeral plan members to provide certain funeral services in the future. Funding for these plans is reliant on either insurance companies paying the amounts owed or the pre-arranged funeral plan Trusts having sufficient assets. If this is not the case, then the Group may receive a lower amount per funeral.	There is considerable regulation around insurance companies which is designed, amongst other things, to ensure that the insurance companies meet their obligations. The Trusts hold assets of circa £1 billion with an average duration of circa 10+ years: we will seek to generate a surplus above funeral cost inflation.	No change

Emerging risk

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. 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.	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. 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.	New

16 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 52 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.

17 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.

27 December 2019 consolidated balance sheet (selected lines only):

	27 Dec 2019 as originally presented	Impairment of deferred commission prepayment	Recognition of future commission payable liability	Recognition of future expected funerals	Tax impact	**28 Dec 2019 restated**
	£m	£m	£m	£m	£m	**£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.

25 December 2020 consolidated balance sheet (selected lines only):

	25 Dec 2020 as originally presented	Impairment of deferred commission prepayment	Recognition of future commission payable liability	Recognition of future expected funerals	Tax impact	Removal of insurance commission accrual	**25 Dec 2020 restated**
	£m	£m	£m	£m	£m		**£m**
Non-current assets							
Deferred insurance commissions	10.7	(3.2)		2.4		(0.5)	**9.4**
Current liabilities							
Financial liabilities	15.1		0.6				**15.7**
Trade and other payables	68.7					(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

18 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 13 of the Preliminary Announcement). 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.

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 business.

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 Preliminary Announcement.

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 3.

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

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

(b) Non-underlying items

The Group's underlying measures of profitability exclude:

- amortisation of acquisition related intangibles;
- external transaction costs;
- profit or loss on sale of fixed assets (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.

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 straggle 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.

	Funeral services	Crematoria	Pre-arranged funeral plans	Central overheads	Group
53 week period ended 31 December 2021	£m	£m	£m	£m	£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)					
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.

(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.

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 Trust costs	**(6.2)**	**-**	**-**	**-**	**(6.2)**
Transfer of pre-need costs into funeral segment	**(24.7)**	**-**	**24.7**	**-**	**-**
IFRS 15:					
Net release 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**

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 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					**(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**

(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%

(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%

Forward-looking statements

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

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

Any forward-looking statements made in this Preliminary Announcement or the Dignity plc investor website, or made subsequently, which are attributable to the Company or any other member of the Group, or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to 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 Preliminary Announcement or on the Dignity plc investor website should be construed as a profit forecast or an invitation to deal in the securities of the Company.