SAGA
keep doing

Interim Results

for the six months ended 31 July 2017

GAN-CP0342

22 September 2017

Saga plc

Interim Results for the six months ended 31 July 2017

Continued underlying profit growth with increased dividend; launch of membership scheme

Saga plc ("Saga" or the "Group"), the UK's specialist in products and services for life after 50, announces its interim results for the six months ended 31 July 2017.

Financial highlights

	31 July 2017	31 July 2016	Change
Underlying profit before tax[1]	£110.2m	£104.5m	5.5%
Profit before tax	£103.0m	£109.9m	(6.3%)
Interim dividend	3.0p	2.7p	11.1%
Net debt[2]	£460.4m	£534.0m	(13.8%)
Debt ratio (net debt to Trading EBITDA[3])	1.8x	2.2x	(0.4x)

- Consistent growth of 5.5% in underlying profit before tax, supported by 10.4% growth in our retail broking and travel businesses
- Profit before tax of £103.0m reflects costs associated with the successful refinancing and net fair value losses on derivatives
- Sustained cash generation, leading to further deleveraging to 1.8x
- 11.1% growth in the interim dividend to 3.0p

Operational and divisional highlights

- Saga Possibilities launched to all our customers with a range of exclusive benefits
- Launch of our new 'keep doing' brand identity
- High demand for Spirit of Discovery supports our decision to invest in our cruise capacity with the purchase of our second new ship, Spirit of Adventure, for earlier delivery in August 2020
- Retail broking profit growth of 4.7% to £70.9m (H1 2016: £67.7m) with a strong performance in motor broking
- Underwriting profit before tax of £46.8m (H1 2016: £49.1m) driven by lower reserve releases as previously guided
- Strong travel profit growth of 63% to £11.9m (H1 2016: £7.3m)
- Marketing and operational efficiencies reducing operating costs

Commenting on the results, Lance Batchelor, Group Chief Executive Officer, said:

"Saga is on track to deliver a fourth consecutive year of growth. Underlying profits are up again and so is our dividend. Our retail broking and travel divisions are performing well. Saga's new ship, Spirit of Discovery, will arrive in June 2019, and pre-sales are very strong. Our confidence in demand has supported our decision to purchase our second new ship, Spirit of Adventure, and to bring forward delivery to August 2020.

I'm delighted to announce the launch of Saga Possibilities, our new membership programme, available to all Saga customers. Saga Possibilities is a critical new offering that will allow us to thank and encourage our customers to enjoy more of what Saga can offer.

I believe that these results continue to demonstrate that Saga is growing, has good momentum, and is on track to deliver in line with expectations for the full year."

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[1] Profit before tax excluding fair value gains and losses on derivatives and debt write-off costs

[2] Bank debt and borrowings, excluding any overdrafts held by the restricted trading subsidiaries, net of available cash (see the "Financing" section later in this report for further detail)

[3] Earnings before interest payable, tax, depreciation and amortisation, non-trading items, IAS19R pension charge and fair value gains and losses on derivatives (see "Income Statement" section later in this report for reconciliation to profit before tax)

END

An interim results presentation to analysts will be held at 09.30 at the offices of Numis, 10 Paternoster Square, London, EC4M 7LT. The presentation will be broadcast via a webcast and a conference call for registered participants. Registration for the webcast can be completed at http://corporate.saga.co.uk/. The conference call can be accessed on: UK: 020 3059 8125, all other locations: + 44 20 3059 8125

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Notes to editors

Saga is a specialist in the provision of products and services for life after 50. The Saga brand is one of the most recognised and trusted brands in the UK and is known for its high level of customer service and its high-quality, award-winning products and services including cruises and holidays, insurance, personal finance and the Saga Magazine.

Group Chief Executive's Review

Overview

I am very pleased that we have delivered another consistent financial performance in the first half of the year with robust profit growth in our retail broking and travel businesses. Underlying profit before tax grew by 5.5% to £110.2m, generating £89.6m of available operating cash flow[4]. This allowed us to further reduce our debt ratio to 1.8x net debt to EBITDA, within our guided range of 1.5x to 2.0x. Our continued confidence in the business's operational performance has allowed us again to increase our interim dividend by 11.1% to 3.0p.

I am delighted with the great progress that we have made on our strategic priorities and in particular on our customer-focused strategy, with the launch of our new membership scheme and our new brand identity, providing a strong platform to drive loyalty through an enhancement of the Saga offering and our members' experience.

Launch of Saga Possibilities and new brand identity

The team has done an exceptional job to launch Saga Possibilities, available to all our customers, each of whom will become members and get access to a range of exclusive benefits, including:

- Exclusive offers from carefully chosen partners – for example, Nuffield Health, Apple, Majestic, and Prezzo;
- Events and experiences – money-can't-buy experiences; and
- Access to the Saga Possibilities community – providing access to useful guides and sound advice.

Saga Possibilities is designed to say thank you to our members and we are committed to developing the scheme over time. Membership represents a fundamental change in the way in which we develop and create a beneficial long-term relationship with our customers, one that rewards loyalty and incentivises them to hold more products with us.

We see Saga Possibilities as critical to how we engage with our members and the scheme will provide us with a truly unique proposition in readiness for the new General Data Protection Regulations coming into effect in May 2018. We fully support the introduction of this new data protection legislation, which will enable consumers to better control their personal data and how it is used. We see this as an opportunity to engage with our members and ensure that we are providing them with the information they want, in the way that they want it.

The launch of Saga Possibilities has also coincided with the launch of our new brand identity. The new look brings to life our new 'keep doing' ethos. 'Keep doing' is about celebrating what's at the heart of Saga's purpose and our members' needs; their desire to lead a rich and full life, full of experiences and opportunities. Saga's role is to create products and services that enable our members to make the most out of life.

While the number of High Affinity Customers ("HACs") has reduced by 1% to 477k, this has been offset by a 4% increase in the revenue per HAC driven by our focused marketing activity and new product propositions. We are confident that the combination of our new brand identity and Saga Possibilities will provide a more powerful toolkit that will help us to reward, retain and grow our HACs and the 2.3 average products they hold over the long term.

[4] Free cash flow generated before deducting tax payments, investing and financing cash flows and after deducting capital expenditure (see "Cash flow & liquidity" section later in this report for more information)

Growing our core businesses

Our retail broking and travel businesses have increased profit before tax by 10.4% to £82.8m.

The motor insurance market has seen a period of change with the new FCA regulations, increase in insurance premium tax and the changes to the Ogden rate. In this changing market our retail broking business has delivered a strong written performance from a stable number of Saga policies, supported by the competitive pricing of AICL.

The UK home insurance market continues to be highly competitive and we have seen the same flat premium environment that the wider market has experienced. Despite these conditions, the efficiency of our panel has helped us to maintain our margins on slightly lower policy levels.

Our in-house underwriter, AICL, has again delivered a strong underwriting performance, generating profit before tax of £46.8m, driven by a 1.7 percentage point improvement in the pure combined operating ratio[5] to 97.1%, offset by lower reserve releases as previously guided.

Investing in future growth

Our new cruise ship, Spirit of Discovery, is now at an advanced stage of design with construction due to begin in February 2018. She will be delivered in June 2019 for her maiden cruise. We launched the first 19 cruises to our advanced registered members on 18 July, having generated over 18,000 advanced and pre-registrations by this date. Our calls with the advanced registered members are converting into sales at around 80% and as at 18 September we had booked 6,449 passengers.

The strong demand for Spirit of Discovery has given us the confidence to approve Spirit of Adventure, our second new ship, and to bring forward delivery to August 2020. This decision to further invest in our shipping capacity will complete the transformation of our cruise business for us and our members.

Our emerging businesses continue to be exciting areas for the future. The healthcare pilot has developed well and we now have scalable systems and processes that are enabling us to expand the operations within Hertfordshire.

We continue to believe that a wealth management offering is important for our members. To better serve them we have restructured our joint venture with our partner, Tilney, to a lower cost commercial model.

Efficient operating model

We have made considerable progress in investing in operational systems of our businesses during the first half of 2017. The new claims management platform is now live and is delivering a significantly improved claims experience for our members, at a lower overall cost. Development of the new policy platform for our retail broking business is also progressing well and we expect this to go live during the first half of 2018 for our motor products.

Summary and outlook

We have made exciting progress in developing the business, especially with the launch of Saga Possibilities and our new brand identity. With our enhanced proposition and improving capability, we can really focus on our members' needs, particularly our HACs, to create value going forward.

We have delivered a consistent financial performance in the first half of the year, and are confident that we are on track to meet our expectations for the full year.

[5] The ratio of claims costs (excluding reserve releases) and expenses incurred to underwrite insurance (numerator) to the revenue earned by AICL (denominator) in a given period (see "Insurance Underwriting" section later in this report for more information)

Chief Financial Officer's Review

I am pleased to report that the Group has delivered another strong financial performance, with underlying profit before tax, 5.5% higher at £110.2m. Strong cash flows and conversion have enabled us to continue to deleverage to 1.8x from 1.9x at the start of the year. Based on these results and our positive expectations for the business, we are proposing to increase our interim dividend by 11.1% to 3.0p (2016: 2.7p).

Income Statement

Group Income Statement	6m to July 2017	*Growth*	6m to July 2016
Revenue	**£435.4m**	***(0.4%)***	**£437.2m**
Trading EBITDA[1]	£140.6m	*5.1%*	£133.8m
Depreciation & amortisation (excluding acquired intangibles)	(£16.8m)		(£15.8m)
Trading Profit[1]	**£123.8m**	***4.9%***	**£118.0m**
Non-trading costs	(£2.2m)		(£0.6m)
Amortisation of acquired intangibles	(£2.5m)		(£3.5m)
Pension charge IAS19R	(£2.6m)		(£0.7m)
Net finance costs[2]	(£6.3m)		(£8.7m)
Underlying profit before tax[3]	**£110.2m**	***5.5%***	**£104.5m**
Net fair value (losses)/gains on derivatives	(£2.9m)		£5.4m
Debt write-off costs	(£4.3m)		-
Profit before tax	**£103.0m**	***(6.3%)***	**£109.9m**
Tax expense	(£19.6m)	*(10.9%)*	(£22.0m)
Profit after tax	**£83.4m**	***(5.1%)***	**£87.9m**
Basic earnings per share	7.5p	*(5.1%)*	7.9p

[1] This measure has been adjusted to exclude the impact of IAS19R current service costs, as this is a non-cash accounting adjustment that has increased notably in the period and so has been separately identified in the table above. The non-GAAP measures of Trading EBITDA and Trading Profit have been presented to be consistent with prior reporting periods
[2] Restated to exclude IAS19R pension costs
[3] The non-GAAP measure underlying profit before tax has been used to exclude non-cash accounting adjustments, and in particular, the one-off costs associated with unamortised facility fees of the previous banking facilities

Revenue decreased by £1.8m to £435.4m (H1 2016*:* £437.2m) due to the accounting for the quota share agreement in motor insurance. Excluding the impact of the quota share, underlying revenue increased by 2.3%. Total customer spend with Saga increased by 3.6% to £617.1m (H1 2016: £595.8m), which includes gross written premiums and insurance premium tax for all insurance policies sold.

Trading Profit increased by 4.9% to £123.8m (H1 2016: £118.0m) with the current period benefiting from a strong performance in retail broking and travel offset by the expected decline in reserve releases from our underwriter. Depreciation and amortisation increased by £1.0m due to the planned investment in software within our insurance business and the maintenance of the Saga Sapphire in the prior period.

Underlying profit before tax increased by 5.5% to £110.2m (H1 2016: £104.5m) with the benefit of lower net finance costs and amortisation of acquired intangibles offset by the increases in non-trading costs and the pension charge from IAS19R. The increase in non-trading costs was largely due to the costs associated with moving the joint venture with Tilney to a commercial arrangement.

Profit before tax from continuing operations decreased to £103.0m (H1 2016: £109.9m) due to derivative losses that have impacted the business with the weakening of sterling and one-off costs associated with the unamortised facility fees of our previous banking facilities.

Finance costs

Net finance costs in the period were £6.3m (H1 2016: £8.7m), with the reduction due to lower interest costs on lower average borrowings.

In May, the Group refinanced its existing credit facilities, which were due to expire in April 2019. The refinancing has strengthened the Group's balance sheet by extending the maturity profile and increasing the diversity of the sources of its borrowings. As part of the refinancing, the Group incurred £4.3m of one-off non-cash costs associated with the write-off of unamortised facility fees of the previous banking facilities.

Tax expense

The Group’s tax expense for the period was £19.6m (H1 2016: £22.0m) representing a tax effective rate of 19.0% (H1 2016: 20.0%).

Earnings per share

The Group’s basic earnings per share were 7.5p (H1 2016: 7.9p).

Dividends

The Directors have proposed an interim dividend of 3.0p per share. The dividend will be paid on 17 November 2017 to shareholders of ordinary shares on the register at the close of business on 13 October 2017.

Saga offers a share alternative in the form of a dividend re-investment plan ("DRIP") for those shareholders who wish to elect to use their dividend payments to purchase additional shares in the Group, rather than receive a cash payment. The last date for shareholders to elect to participate in the DRIP will be 23 October 2017.

Cash flow and liquidity

The Group delivered a strong cash flow performance in the six months to 31 July 2017, achieving available operating cash flow of £89.6m, 63.7% of Trading EBITDA. This cash flow decreased by £7.7m on the previous period, which was driven by a lower dividend paid from AICL and an increase in capital expenditure on IT systems. Within the Travel business, we are retaining profits to make stage payments for Spirit of Discovery, with £13.2m paid in the six months to 31 July 2017 (H1 2016: £13.4m).

Available Cash Flow	**6m to July 2017**	***Growth***	**6m to July 2016**
Trading EBITDA[1]	**£140.6m**	***5.1%***	**£133.8m**
Less Trading EBITDA relating to restricted businesses	(£68.7m)	*6.8%*	(£64.3m)
Intra-group dividends paid by restricted businesses	£45.0m	*(10.0%)*	£50.0m
Working capital and non-cash items	(£14.4m)	*9.1%*	(£13.2m)
Capital expenditure funded with available cash	(£12.9m)	*43.3%*	(£9.0m)
Available operating cash flow	**£89.6m**	***(7.9%)***	**£97.3m**
Available operating cash flow %	*63.7%*	*(9.0%)*	*72.7%*

[1] Restated to exclude IAS19R pension current service costs

Available operating cash flow reconciles to net cash flows from operating activities as follows:

	6m to July 2017	6m to July 2016
Net cash flow from operating activities (reported)	£96.8m	£91.7m
Exclude cash impact of:		
Trading of restricted divisions	(£61.4m)	(£62.1m)
Cash released from restricted divisions	£45.0m	£50.0m
Non-trading costs	£2.9m	£4.9m
Interest paid	£4.3m	£7.3m
	(£9.2m)	£0.1m
Include capital expenditure funded from available cash	(£12.9m)	(£9.0m)
Exclude 'non-operating' interest and tax cash flows	£14.9m	£14.5m
Available operating cash flow	**£89.6m**	**£97.3m**

Financing

Continued strong cash flows have enabled the Group to continue to deleverage to a debt ratio of 1.8x (Jan 2017: 1.9x). The Group's net debt is made up as follows:

Net Debt	31 July 2017	31 January 2017
Term loan	£200.0m	£380.0m
Revolving credit facility	£30.0m	£100.0m
Corporate bond	£250.0m	-
Less available cash[1]	(£19.6m)	(£15.2m)
Net debt	£460.4m	£464.8m

[1] Refer to note 13 of the Financial Statements for information as to how this reconciles to a statutory measure of cash

The Group intends to target a debt ratio (net debt to Trading EBITDA) of between 1.5x and 2.0x over the medium term. The delivery of the first new ship is expected in June 2019 and the Group is on track to reduce its debt to the lower end of this range before any debt associated with this ship is drawn down. While the debt associated with the new ships will move the debt ratio above 2.0x, it is expected to return to the target range within twelve months.

Pensions

Over the six month period, the valuation of the Group's pension scheme has strengthened on an IAS19R basis by £5.1m to a deficit of £8.6m (31 January 2017: deficit £13.7m):

Saga Scheme	31 July 2017	31 January 2017
Fair value of scheme assets	£291.3m	£276.8m
Present value of defined benefit obligation	(£299.9m)	(£290.5m)
Defined benefit scheme liability	(£8.6m)	(£13.7m)

The strengthening has been driven by a £14.5m increase in the fair value of the scheme assets to £291.3m (January 2017: £276.8m); this was partly offset by an increase in the scheme liabilities of £9.4m to £299.9m (January 2017: £290.5m), which was driven by a continued fall in corporate bond yields over the period partly offset by a decrease in the expectation of the future rate of inflation and an update to the latest mortality data resulting in lower life expectancies.

Net assets

Since 31 January 2017, total assets have increased by £9.9m and liabilities have decreased by £15.9m, increasing overall net assets by £25.8m.

The increase in total assets is the result of an increase in property, plant and equipment of £10.5m, primarily due to the second stage payment for the new ship being paid in July 2017 of £13.2m, and an increase in trade and other receivables of £9.5m, partly offset by a decrease in financial assets of £47.3m, due to the maturation of some of the Group's deposits with financial institutions in cash, with a corresponding increase in cash and short-term deposits of £35.8m.

With regard to liabilities, there was a £40.9m reduction in gross insurance contract liabilities due to lower total claims outstanding, a £5.2m decrease in trade and other payables, and a £5.1m reduction in pension scheme obligations. This was partly offset by a £36.4m increase in other liabilities due to a higher deferred revenue driven by the seasonality of the Travel business.

Segmental Performance

Segmental Performance Summary	**6m to July 2017**	***Growth***	**6m to July 2016**
Revenue			
Motor broking	£62.7m	*(3.7%)*	£65.1m
Home broking	£42.5m	*(3.2%)*	£43.9m
Other insurance broking	£39.7m	*(6.6%)*	£42.5m
Total retail broking	£144.9m	*(4.4%)*	£151.5m
Underwriting	£47.9m	*(24.4%)*	£63.4m
Total insurance	£192.8m	*(10.3%)*	£214.9m
Travel	£228.2m	*9.7%*	£208.0m
Emerging businesses and central costs	£14.4m	*0.7%*	£14.3m
	£435.4m	*(0.4%)*	**£437.2m**
Underlying profit before tax			
Motor broking	£25.5m	*15.4%*	£22.1m
Home broking	£28.6m	*(3.7%)*	£29.7m
Other insurance broking	£16.8m	*5.7%*	£15.9m
Total retail broking	£70.9m	*4.7%*	£67.7m
Underwriting	£46.8m	*(4.7%)*	£49.1m
Total insurance	£117.7m	*0.8%*	£116.8m
Travel	£11.9m	*63.0%*	£7.3m
Emerging businesses and central costs	(£19.4m)	*(1.0%)*	(£19.6m)
	£110.2m	*5.5%*	**£104.5m**

Total revenue for the insurance businesses decreased by 10.3% to £192.8m (H1 2016: £214.9m) due to the accounting for the quota share agreement in motor insurance, which required £61.0m (H1 2016: £47.9m) of earned premiums ceded under the agreement to be accounted for as a deduction from revenue. Travel revenue increased by 9.7% to £228.2m from strong growth in both the tour operations and cruise businesses.

The retail broking business increased profit before tax by 4.7%, with a particularly strong performance in motor broking. Underwriting profit reduced by £2.3m as a result of reducing reserve releases. Travel increased profits by 63.0%, due to strong trading and less ship maintenance days during the period compared with last year. Emerging businesses and central costs saw a slightly reduced loss before tax excluding the accelerated debt write-off cost of £4.3m following the refinancing of the Group's debt. Lower finance costs were largely offset by a £1.9m increase in the IAS19R pension charge for the period.

Retail Broking

	6m to July 2017					6m to July 2016			
	Motor Broking	**Home Broking**	**Other Insurance Broking**	**Total Insurance**	***Growth***	**Motor Broking**	**Home Broking**	**Other Insurance Broking**	**Total Insurance**
Revenue	**£62.7m**	**£42.5m**	**£39.7m**	**£144.9m**	***(4.4%)***	**£65.1m**	**£43.9m**	**£42.5m**	**£151.5m**
Gross profit	**£61.0m**	**£42.5m**	**£34.1m**	**£137.6m**	***(2.1%)***	**£63.5m**	**£43.9m**	**£33.2m**	**£140.6m**
Operating expenses	(£35.5m)	(£13.9m)	(£17.3m)	(£66.7m)	*(8.5%)*	(£41.4m)	(£14.2m)	(£17.3m)	(£72.9m)
Profit before tax	**£25.5m**	**£28.6m**	**£16.8m**	**£70.9m**	***4.7%***	**£22.1m**	**£29.7m**	**£15.9m**	**£67.7m**
Number of policies sold:									
- core	661k	602k	181k	1,444k	*(7.8%)*	703k	633k	230k	1,566k
- add-ons	841k	276k	5k	1,122k	*1.2%*	839k	267k	3k	1,109k
	1,502k	878k	186k	2,566k	*(4.1%)*	1,542k	900k	233k	2,675k
GWP	£168.1m	£74.7m	£68.5m	£311.3m	*(2.0%)*	£171.8m	£77.6m	£68.1m	£317.5m
GWP (excluding Direct Choice)	£164.4m	£74.7m	£68.5m	£307.6m	*0.7%*	£159.9m	£77.6m	£68.1m	£305.6m

Although total revenue within our retail broking business was down 4.4% to £144.9m (H1 2016: £151.5m), profit before tax increased by 4.7% to £70.9m (H1 2016: £67.7m) due to strong profit growth in the motor broking business.

Motor broking revenue decreased by 3.7% to £62.7m (H1 2016: £65.1m) reflecting a positive trading environment that saw written revenue per policy increase strongly, offset by the deferral of revenue associated with an increase in our in-house underwriter's ("AICL") share of broker revenue in the current period even with a lower share of the number of policies sold, and the impact of the introduction of the arrangement fee in November 2015. AICL has become more competitive on the panel as a result of a comparatively smaller impact to pricing following the Ogden rate change in February 2017, relative to other motor panel insurers.

Following our strategic decision to close our Direct Choice brand, motor core policies sold decreased by 42k. The number of Saga motor policies sold was consistent year-on-year.

Motor broking operating expenses decreased by 14.3% to £35.5m, reflecting improved efficiency of marketing spend and programmes to deliver operational efficiencies across the broking business, the deferral of acquisition costs associated with policies underwritten by AICL, and savings associated with the closure of our Direct Choice brand. As a result, profit before tax from motor broking increased by 15.4% to £25.5m (H1 2016: £22.1m).

With ongoing challenges in the home market, we have chosen to reduce the number of core policies sold but improve the profit per policy. This has led to a small reduction in profit before tax to £28.6m (H1 2016: £29.7m).

Revenue from other insurance lines decreased by 6.6% to £39.7m (H1 2016: £42.5m), mainly due to a reduction in travel policies. This was driven by higher net rates in Q1 2017, due to the impact of foreign exchange rate movements making us less competitive in the market. This disadvantage has now unwound. We delivered a marginal uplift in profit before tax to £16.8m (H1 2016: £15.9m) with robust trading in private medical insurance.

Insurance Underwriting

		6m to July 2017				6m to July 2016		
		Reported	**Quota Share (QS)**	**Underlying (excl. QS)**	***Growth***	**Reported**	**Quota Share (QS)**	**Underlying (excl. QS)**
Revenue	**A**	**£47.9m**	**(£61.0m)**	**£108.9m**	***(2.2%)***	**£63.4m**	**(£47.9m)**	**£111.3m**
Claims costs	**B**	(£36.8m)	£55.5m	(£92.3m)	*(5.4%)*	(£53.4m)	£44.2m	(£97.6m)
Reserve releases	**C**	£39.0m	-	£39.0m	*(5.3%)*	£41.2m	-	£41.2m
Other cost of sales	**D**	(£4.9m)	£6.2m	(£11.1m)	*8.8%*	(£4.5m)	£5.7m	(£10.2m)
	E	(£2.7m)	£61.7m	(£64.4m)	*(3.3%)*	(£16.7m)	£49.9m	(£66.6m)
Gross profit		**£45.2m**	**£0.7m**	**£44.5m**	***(0.4%)***	**£46.7m**	**£2.0m**	**£44.7m**
Operating expenses	**F**	(£1.2m)	£1.1m	(£2.3m)	*4.5%*	(£1.2m)	£1.0m	(£2.2m)
Investment return		£2.8m	(£2.9m)	£5.7m	*(24.0%)*	£3.6m	(£3.9m)	£7.5m
Quota share net cost		-	£1.1m	(£1.1m)	*22.2%*	-	£0.9m	(£0.9m)
Profit before tax		**£46.8m**	**-**	**£46.8m**	***(4.7%)***	**£49.1m**	**-**	**£49.1m**
Reported loss ratio	**(B+C)/A**	(4.6%)		48.9%	(1.8%)	19.2%		50.7%
Expense ratio	**(D+F)/A**	12.7%		12.3%	1.2%	9.0%		11.1%
Reported COR	**(E+F)/A**	8.1%		61.2%	(0.6%)	28.2%		61.8%
Pure COR	**(E+F-C)/A**	89.6%		97.1%	(1.7%)	93.2%		98.8%
Number of earned policies				464k	(4.3%)			485k

Excluding the impact of the quota share agreement, underwriting revenue decreased by 2.2% to £108.9m (H1 2016: £111.3m) as AICL underwrote a lower number of policies, with external panel members winning a greater share compared with H1 in the prior year. The underwriting business delivered an improved pure combined operating ratio of 97.1% (H1 2016: 98.8%).

Investment income was down by £1.8m at £5.7m (H1 2016: £7.5m) due to a lower yield on a smaller investment portfolio. As historic fixed income investments have matured, the funds have been reinvested at current market rates and total investments have reduced, as surplus solvency capital has been released driven by continued favourable claims experience.

Favourable experience in small and large personal injury claims enabled the business to release £39.0m of reserves held in respect of previous accident years. These have reduced by £2.2m from H1 in the prior year.

The lower level of reserve releases has resulted in a 4.7% decrease in profit before tax to £46.8m (H1 2016: £49.1m).

Reserving

Reserve Releases	6m to July 2017	*Growth*	6m to July 2016
Motor insurance	£39.0m	*(2.5%)*	£40.0m
Home insurance	-		£0.4m
Other insurance	-		£0.8m
Total	£39.0m	*(5.3%)*	£41.2m

Although the positive experience on large and small personal injury claims has enabled reserve releases totalling £39.0m, there has been no deterioration in the underlying reserve margin held over best estimate claims reserves year-on-year.

Analysis of insurance contract liabilities at 31 July 2017 and 31 Jan 2017 is as follows:

	At 31 July 2017			At 31 January 2017		
	Gross	Reinsurance Assets[1]	Net	Gross	Reinsurance Assets[1]	Net
Reported claims	£336.6m	(£83.6m)	£253.0m	£313.3m	(£70.1m)	£243.2m
Incurred but not reported[2]	£134.4m	(£11.7m)	£122.7m	£193.7m	(£23.7m)	£170.0m
Claims handling provision	£10.0m	-	£10.0m	£10.0m	-	£10.0m
Total claims outstanding	£481.0m	(£95.3m)	£385.7m	£517.0m	(£93.8m)	£423.2m
Unearned premiums	£120.4m	(£2.7m)	£117.7m	£125.3m	(£3.7m)	£121.6m
Total[2]	£601.4m	(£98.0m)	£503.4m	£642.3m	(£97.5m)	£544.8m

[1] excludes funds-withheld quota share agreement
[2] includes amounts for reported claims that are expected to become periodical payment orders

The Group's total insurance contract liabilities net of reinsurance assets have reduced by £41.4m as at 31 July 2017 from the previous year end, driven by a £47.3m reduction in IBNR claims reserves, £3.9m less in unearned premium reserve, offset by an increase of £9.8m in reported claims reserves. The reduction in IBNR claims reserves was mainly due to favourable experience on large and small personal injury claims.

Investment portfolio

The majority of the Group's financial assets are held by its underwriting entity and represent premium income received and invested to settle claims and to meet regulatory capital requirements. The maturity profile of the invested financial assets is aligned with the expected cash outflow profile associated with the settlement of claims in the future.

The amount held in invested funds decreased by £45.6m compared with the year end, from £546.8m as at 31 January 2017 to £501.2m as at 31 July 2017. As at 31 July 2017, 94% of the financial assets held by the Group were invested with counterparties with a risk rating of A or above, which is in line with the previous year and reflects the stable credit risk rating of the Group’s counterparties.

At 31 July 2017	AAA	AA	A	Unrated	Total
Underwriting investment portfolio:					
Deposits with financial institutions	£10.0m	£91.3m	£150.7m	-	£252.0m
Debt securities	£78.4m	-	-	-	£78.4m
Money market funds	£135.6m	-	-	-	£135.6m
Hedge funds	-	-	-	£21.1m	£21.1m
Loan funds	-	-	-	£6.5m	£6.5m
Loan notes	-	-	-	£5.9m	£5.9m
Unlisted equity shares	-	-	-	£1.7m	£1.7m
Total invested funds	£224.0m	£91.3m	£150.7m	£35.2m	£501.2m
Hedging derivative assets	-	£50.7m	£1.1m	-	£51.8m
Total financial assets	**£224.0m**	**£142.0m**	**£151.8m**	**£35.2m**	**£553.0m**

Solvency Capital

	6m to July 2017	12m to January 2017
Undertaking-specific parameters		
Solvency Capital Requirement (SCR)	£84.3m	£102.9m
Available capital	£142.1m	£146.7m
Surplus	£57.8m	£43.8m
Coverage	*169%*	*143%*

Under Solvency II the Group had an SCR of £84.3m at 31 July 2017 (Jan 2017: £102.9m) and available capital was £142.1m (Jan 2017: £146.7m), giving a coverage ratio of 169% (Jan 2017: 143%). Solvency coverage has improved since the previous year end due to continued favourable claims experience and as the benefit of the funds-withheld quota share arrangement feeds through.

Travel

	6m to July 2017				6m to July 2016		
	Tour Operations	**Cruising**	**Total Travel**	***Growth***	**Tour Operations**	**Cruising**	**Total Travel**
Revenue	**£183.4m**	**£44.8m**	**£228.2m**	***9.7%***	**£170.5m**	**£37.5m**	**£208.0m**
Gross profit	**£35.7m**	**£12.1m**	**£47.8m**	***14.9%***	**£36.7m**	**£4.9m**	**£41.6m**
Operating expenses	(£28.4m)	(£7.6m)	(£36.0m)	*4.7%*	(£30.0m)	(£4.4m)	(£34.4m)
Investment return	£0.1m	-	£0.1m	*0.0%*	£0.1m	-	£0.1m
Profit before tax excluding derivatives	**£7.4m**	**£4.5m**	**£11.9m**	***63.0%***	**£6.8m**	**£0.5m**	**£7.3m**
Number of holiday passengers	96k	n/a	96k	*1.1%*	95k	n/a	95k
Number of cruise passengers	n/a	13k	13k	*18.2%*	n/a	11k	11k
Number of ship passenger days	n/a	164k	164k	*21.5%*	n/a	135k	135k

The travel business has had another strong period of trading, having achieved growth in both revenue and profit before tax excluding derivatives, which are up 9.7% and 63.0% respectively.

The tour operations business generated a 7.6% increase in revenue to £183.4m (H1 2016: £170.5m) from a modest increase in passengers to 96k (H1 2016: 95k). The increased spend per passenger has primarily been driven by the foreign exchange impact of weak sterling, but also a continued shift in product mix towards higher value long-haul, river cruise and third party cruise products. Gross profit margin percentage was impacted by the foreign exchange changes which were offset by operational savings. Profit before tax from tour operations increased by 8.8% to £7.4m at a stable profit margin of 4.0% (H1 2016: 4.0%).

Saga Cruising delivered revenue of £44.8m (H1 2016: £37.5m), reflecting an increase in passenger days of 29k. The Saga Pearl was out of operation for scheduled maintenance for 21 days in February, compared with 63 days of maintenance on the Saga Sapphire in the comparable period.

The Group's business case for the purchase of Spirit of Adventure, our second new ship, remains primarily based on margin improvement, resulting from the increased efficiency of operating new capacity. The Group's financial projections for the second new ship generate an ungeared IRR in the low to mid-teens, comfortably above the Group's cost of capital.

Profit before tax from the cruising business was £4.5m (H1 2016: £0.5m), led by the increase in passenger days and lower fuel prices, being offset by initial marketing spend for the Group's new ship that is under construction, the Spirit of Discovery.

Trading to week ending 16 September 2017	**2017/18**	***Growth***	**2016/17**
Tour operating revenue £'m	343.4	*6.0%*	324.1
Tour operating passengers	181.8	*(1.9%)*	185.4
Cruise revenue £'m	81.1	*8.0%*	75.1
Cruise passengers	23.9	*13.8%*	21.0

Our tour and cruises businesses are almost fully sold for the year, giving us further confidence of delivering increased profits for the full year. We also expect to be approaching our target to double the EBITDA of the travel business in the five years to 31 January 2020 one year early.

Emerging Businesses and Central Costs

	6m to July 2017				6m to July 2016		
	Emerging Businesses	**Central Costs**	**Total**		**Emerging Businesses**	**Central Costs**	**Total**
Revenue	**£13.4m**	**£1.0m**	**£14.4m**	*0.7%*	**£12.8m**	**£1.5m**	**£14.3m**
Profit before interest, tax & the IAS19R pension charge	£0.5m	(£11.0m)	(£10.5m)	*2.9%*	(£0.3m)	(£9.9m)	(£10.2m)
IAS19R pension charge	-	(£2.6m)	(£2.6m)		-	(£0.7m)	(£0.7m)
Net finance costs	-	(£6.3m)	(£6.3m)		-	(£8.7m)	(£8.7m)
Underlying loss before tax[1]	**£0.5m**	**(£19.9m)**	**(£19.4m)**	*(1.0%)*	**(£0.3m)**	**(£19.3m)**	**(£19.6m)**

[1] Excludes £4.3m of debt write-off costs

Revenue from emerging businesses (which includes personal finance, healthcare services, retirement villages and the media businesses) increased to £13.4m (H1 2016: £12.8m), which delivered an improved profit before tax of £0.5m (H1 2016: £0.3m loss).

Central costs were £11.0m (H1 2016: £9.9m), which includes a £1.6m increase in non-trading costs, mainly due to the costs associated with moving the joint venture with Tilney to a commercial arrangement. The Group saw a £1.9m increase in the IAS19R pension charge due to prevailing market conditions, particularly in the bond market, as at 1 February 2017. This was offset by lower debt service costs, driven by the refinancing of the Group's borrowings and lower levels of debt, which led to a £2.4m reduction in finance costs to £6.3m (H1 2016: £8.7m). This resulted in an underlying loss before tax from central costs of £19.9m (H1 2016: £19.3m).

Financial outlook and guidance

We expect underlying profit before tax to grow in line with our expectations supported by the current trading environment for insurance, our expected uplift in travel profits and lower finance costs offset by lower reserve releases and by higher IAS19R pension costs. Our tax rate will be close to the underlying corporation tax rates for the full year. We also expect positive cash flow to enable us to move further down within our leverage range of 1.5 to 2.0x.

Condensed consolidated income statement
for the period ended 31 July 2017

	Note	**Unaudited 6m to Jul 2017 £'m**	Unaudited 6m to Jul 2016 £'m	12m to Jan 2017 £'m
Revenue	3	435.4	437.2	871.3
Cost of sales	3	(197.4)	(201.5)	(422.7)
Gross profit		**238.0**	**235.7**	**448.6**
Administrative and selling expenses		(126.5)	(122.9)	(251.6)
Investment income		1.3	2.0	5.0
Finance costs		(10.0)	(9.7)	(18.6)
Finance income		0.7	6.1	11.3
Share of loss of joint ventures		(0.5)	(1.3)	(1.4)
Profit before tax		**103.0**	**109.9**	**193.3**
Tax expense	5	(19.6)	(22.0)	(36.0)
Profit for the period		**83.4**	**87.9**	**157.3**
Attributable to:				
Equity holders of the parent		**83.4**	**87.9**	**157.3**
Earnings per share:				
Basic	7	7.5p	7.9p	14.1p
Diluted	7	7.4p	7.8p	14.0p

Condensed consolidated statement of comprehensive income for the period ended 31 July 2017

	Unaudited 6m to Jul 2017 £'m	Unaudited 6m to Jul 2016 £'m	12m to Jan 2017 £'m
Profit for the period	**83.4**	**87.9**	**157.3**
Other comprehensive income			
Other comprehensive income to be reclassified to the income statement in subsequent periods			
Exchange differences on translation of foreign operations	-	-	0.7
Net gain on cash flow hedges	-	32.0	32.0
Net gain on available for sale financial assets	1.3	4.3	1.0
Tax effect	(0.2)	(6.6)	(5.4)
	1.1	29.7	28.3
Other comprehensive income not to be reclassified to the income statement in subsequent periods			
Re-measurement gains/(losses) on defined benefit plans	5.8	(30.1)	4.6
Tax effect	(1.0)	5.4	(1.1)
	4.8	**(24.7)**	**3.5**
Total other comprehensive income	**5.9**	**5.0**	**31.8**
Total comprehensive income for the period	**89.3**	**92.9**	**189.1**
Attributable to:			
Equity holders of the parent	**89.3**	**92.9**	**189.1**

Condensed consolidated statement of financial position as at 31 July 2017

Assets	Note	**Unaudited As at Jul 2017 £'m**	Unaudited As at Jul 2016 £'m	As at Jan 2017 £'m
Goodwill	9	1,485.0	1,485.0	1,485.0
Intangible assets	10	58.3	51.5	53.8
Investment in joint ventures		-	1.5	1.4
Property, plant and equipment	11	142.0	137.9	131.5
Financial assets	12	553.0	647.8	600.3
Deferred tax assets		14.1	25.3	16.3
Reinsurance assets	15	98.0	108.9	97.5
Inventories		5.6	4.5	5.6
Trade and other receivables		208.2	204.0	198.7
Cash and short-term deposits	13	144.5	129.0	108.7
Total assets		**2,708.7**	**2,795.4**	**2,698.8**
Liabilities				
Retirement benefit scheme obligations	14	8.6	47.6	13.7
Gross insurance contract liabilities	15	601.4	670.6	642.3
Provisions		0.5	3.9	4.0
Financial liabilities	12	488.4	561.3	489.8
Current tax liabilities		18.6	20.9	14.9
Deferred tax liabilities		21.6	23.4	21.5
Other liabilities		171.3	163.2	134.9
Trade and other payables		177.3	177.9	182.5
Total liabilities		**1,487.7**	**1,668.8**	**1,503.6**
Equity				
Issued capital		11.2	11.2	11.2
Share premium		519.3	519.3	519.3
Retained earnings		637.2	540.0	607.8
Share-based payment reserve		10.9	13.4	15.6
Foreign currency translation reserve		-	(0.7)	-
Available for sale reserve		4.4	6.1	3.3
Hedging reserve		38.0	37.3	38.0
Total equity		**1,221.0**	**1,126.6**	**1,195.2**
Total liabilities and equity		**2,708.7**	**2,795.4**	**2,698.8**

Condensed consolidated statement of changes in equity
for the period ended 31 July 2017

	Attributable to the equity holders of the parent							
	Issued capital £'m	Share premium £'m	Retained earnings £'m	Share-based payment reserve £'m	Foreign currency translation reserve £'m	Available for sale reserve £'m	Hedging reserve £'m	Total equity £'m
Unaudited								
At 1 February 2017	**11.2**	**519.3**	**607.8**	**15.6**	**-**	**3.3**	**38.0**	**1,195.2**
Profit for the period	-	-	83.4	-	-	-	-	83.4
Other comprehensive income	-	-	4.8	-	-	1.1	-	5.9
Total comprehensive income	-	-	88.2	-	-	1.1	-	89.3
Dividends paid	-	-	(64.9)	-	-	-	-	(64.9)
Share-based payment charge	-	-	-	2.1	-	-	-	2.1
Exercise of share options	-	-	6.1	(6.8)	-	-	-	(0.7)
At 31 July 2017	**11.2**	**519.3**	**637.2**	**10.9**	**-**	**4.4**	**38.0**	**1,221.0**

Unaudited								
At 1 February 2016	**11.2**	**519.3**	**527.0**	**17.7**	**(0.7)**	**2.4**	**11.3**	**1,088.2**
Profit for the period	-	-	87.9	-	-	-	-	87.9
Other comprehensive income	-	-	(24.7)	-	-	3.7	26.0	5.0
Total comprehensive income	-	-	63.2	-	-	3.7	26.0	92.9
Dividends paid	-	-	(55.9)	-	-	-	-	(55.9)
Share-based payment transactions	-	-	-	2.3	-	-	-	2.3
Exercise of share options	-	-	5.7	(6.6)	-	-	-	(0.9)
At 31 July 2016	**11.2**	**519.3**	**540.0**	**13.4**	**(0.7)**	**6.1**	**37.3**	**1,126.6**

At 1 February 2016	**11.2**	**519.3**	**527.0**	**17.7**	**(0.7)**	**2.4**	**11.3**	**1,088.2**
Profit for the year	-	-	157.3	-	-	-	-	157.3
Other comprehensive income	-	-	3.5	-	0.7	0.9	26.7	31.8
Total comprehensive income	-	-	160.8	-	0.7	0.9	26.7	189.1
Dividends paid	-	-	(86.1)	-	-	-	-	(86.1)
Share-based payment transactions	-	-	-	4.9	-	-	-	4.9
Exercise of share options	-	-	6.1	(7.0)	-	-	-	(0.9)
At 31 January 2017	**11.2**	**519.3**	**607.8**	**15.6**	**-**	**3.3**	**38.0**	**1,195.2**

Condensed consolidated statement of cash flows for the period ended 31 July 2017

	Note	**Unaudited 6m to Jul 2017 £'m**	Unaudited 6m to Jul 2016 £'m	12m to Jan 2017 £'m
Profit before tax		103.0	109.9	193.3
Depreciation, impairment and loss on disposal of property, plant and equipment		10.2	10.3	21.6
Amortisation and impairment of intangible assets		9.1	9.0	18.1
Share-based payment transactions		1.2	1.4	4.0
Accelerated amortisation of debt issue costs		4.3	-	-
Impairment of investment in joint venture		1.9	-	-
Finance costs		10.0	9.7	18.6
Finance income		(0.7)	(6.1)	(11.3)
Share of loss of joint ventures		0.5	1.3	1.4
Interest income from investments		(1.3)	(2.0)	(5.0)
Movements in other assets and liabilities		(23.5)	(22.0)	(58.8)
		114.7	111.5	181.9
Interest received		1.3	2.0	5.0
Interest paid		(4.3)	(7.3)	(15.8)
Income tax paid		(14.9)	(14.5)	(32.6)
Net cash flows from operating activities		**96.8**	**91.7**	**138.5**
Investing activities				
Proceeds from sale of property, plant and equipment		0.4	0.1	0.2
Purchase of property, plant and equipment and intangible assets		(32.9)	(29.2)	(43.9)
Net disposal of financial assets		61.4	69.6	124.7
Investment in joint venture		(1.0)	(1.3)	(1.3)
Net cash flows from investing activities		**27.9**	**39.2**	**79.7**
Financing activities				
Proceeds from exercise of share options		0.2	-	-
Payment of finance lease liabilities		(0.3)	(0.2)	(0.5)
Proceeds from borrowings	16	480.0	20.0	65.0
Repayment of borrowings	16	(480.0)	(30.0)	(140.0)
Debt issue costs		(5.1)	-	-
Dividends paid		(65.1)	(56.1)	(86.3)
Net cash flows used in financing activities		**(70.3)**	**(66.3)**	**(161.8)**
Net increase in cash and cash equivalents		**54.4**	**64.6**	**56.4**
Net foreign exchange differences		-	-	0.7
Cash and cash equivalents at the start of the period		221.5	164.4	164.4
Cash and cash equivalents at the end of the period	13	**275.9**	**229.0**	**221.5**

Notes to the condensed consolidated interim financial statements

1 Corporate information

Saga plc ('the Company') is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (registration number 8804263). Its registered office is located at Enbrook Park, Folkestone, Kent, CT20 3SE.

The interim condensed consolidated financial statements of Saga plc and the entities controlled by the Company (its subsidiaries, collectively 'the Group') for the six months ended 31 July 2017 were authorised for issue in accordance with a resolution of the Directors on 21 September 2017.

2.1 Basis of preparation

These condensed financial statements comprise the interim financial statements of the Group for the six month period to 31 July 2017.

The presentation currency of the Group is sterling. Unless otherwise stated, the amounts shown in the condensed consolidated financial statements are in millions of pounds sterling (£'m).

The condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority (FCA) and in accordance with IAS 34 'Interim Financial Reporting'. The significant accounting policies applied by the Group are set out in note 2.3. The Group has applied all IFRS standards and interpretations adopted and endorsed by the EU effective for the period ending 31 January 2018. The condensed consolidated interim financial statements have been reviewed by KPMG LLP and include their review conclusion.

These condensed consolidated interim financial statements do not comprise statutory financial statements within the meaning of Section 435 of the Companies Act 2006. Statutory financial statements for the year ended 31 January 2017 have been delivered to the Registrar of Companies. The auditor's report on those financial statements:

(i) was unqualified;
(ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and
(iii) did not constitute a statement under Section 498 (2) or (3) of the Companies Act 2006.

2.2 Basis of consolidation

The condensed consolidated financial statements comprise the financial position and results of each of the companies within the Group. Where necessary, adjustments have been made to the financial position and results of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses have been eliminated on consolidation. The policies set out below have been applied consistently throughout the periods presented to items considered material to the condensed consolidated interim financial statements.

2.3 Summary of significant accounting policies

The condensed set of interim financial statements for the period ended 31 July 2017 have been prepared applying the same accounting policies that were applied in the preparation of the Group's published consolidated financial statements for the year ended 31 January 2017.

Full details of the accounting policies of the Group can be found in the annual report and accounts for the year ended 31 January 2017 available at www.corporate.saga.co.uk.

2.4 Standards issued but not yet effective

Standards and amendments to standards in issue but not effective or not adopted by the Group as at 31 January 2017 continue to be not yet effective or not adopted by the Group at 31 July 2017 and can be found in the annual report and accounts for the year ended 31 January 2017 available at www.corporate.saga.co.uk.

In May 2017, the IASB issued IFRS 17 'Insurance Contracts' that will supersede IFRS 4. This new standard will require insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. The standard is effective for annual periods beginning on or after 1 January 2021, although it is yet to be endorsed by the EU. There have been no other amendments to standards or interpretations issued since 1 February 2017 which impact the consolidated financial statements of the Group.

Notes to the condensed consolidated interim financial statements

2.5 Significant accounting judgements, estimates and assumptions

Full details of significant accounting judgements, estimates and assumptions used in the application of the Group's accounting policies can be found in the annual report and accounts for the year ended 31 January 2017 available at www.corporate.saga.co.uk. There have been no changes to the principles or assumptions in these critical accounting estimate and judgement areas during the period.

2.6 Going concern

The condensed consolidated interim financial statements have been prepared on a going concern basis.

The Directors have reviewed the Group's projections including cash flows for the twelve months from the date of approval of the condensed consolidated interim financial statements and beyond, and have concluded that the Group has sufficient funds to continue trading for this period, and for the foreseeable future.

3 Segmental information

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- *Insurance*: primarily comprising general insurance products, further analysed into four sub-segments:
    - Motor Broking
    - Home Broking
    - Other Insurance Broking
    - Underwriting

- *Travel*: primarily comprising the operation and delivery of package tours and cruise holiday products

- *Emerging Businesses and Central Costs*: comprises the Group's other businesses and its central cost base. The other businesses include the financial services product offering including the wealth management joint venture, the domiciliary care services offering, the retirement villages offering, a monthly subscription magazine product and the Group's internal mailing house

The six month period to 31 July 2016 has been restated in line with the reportable operating segments detailed above to ensure consistency with the six month period to 31 July 2017 and the year ended 31 January 2017. This was changed in the annual report and accounts for the year ended 31 January 2017 to enhance the users' understanding of the Insurance segment and is in line with reporting to the chief operating decision maker (i.e. the Board).

Seasonality

The Group is subject to seasonal fluctuations in both its Insurance and Travel segments resulting in varying profits over each quarter.

The Insurance segment experiences increased motor insurance sales in the month of March, and to a lesser degree September, due to the issue of new vehicle registration plates; and increased home insurance sales in March, June and September coinciding with the historic quarter days. In the motor underwriting business, a greater proportion of claims are notified in the second half of the financial year.

Typically, increased holiday departures in the shoulder months of May, June and September and low departure volumes during July and August create seasonal fluctuations in the profit of the Travel segment.

When the seasonalities of the various segments are considered in aggregate, the resultant half yearly profit before tax excluding derivatives is broadly consistent with half of the full year result.

Notes to the condensed consolidated financial statements (continued)

3 Segmental information (continued)

Unaudited 6m to Jul 2017	Insurance: Motor Broking £m	Insurance: Home Broking £m	Insurance: Other Insurance Broking £m	Insurance: Under-writing £m	Insurance: Total £m	Travel £m	Emerging Businesses & Central Costs £m	Adjust-ments £m	Total £m
Revenue	**62.7**	**42.5**	**39.7**	**47.9**	**192.8**	**228.2**	**17.8**	**(3.4)**	**435.4**
Cost of sales	(1.7)	-	(5.6)	(2.7)	(10.0)	(180.4)	(7.0)	-	(197.4)
Gross profit	**61.0**	**42.5**	**34.1**	**45.2**	**182.8**	**47.8**	**10.8**	**(3.4)**	**238.0**
Administrative and selling expenses	(35.5)	(13.9)	(17.3)	(1.2)	(67.9)	(36.0)	(21.7)	3.4	(122.2)
Investment income	-	-	-	2.8	2.8	0.1	(1.6)	-	1.3
Finance costs	-	-	-	-	-	-	(7.1)	-	(7.1)
Finance income	-	-	-	-	-	-	0.7	-	0.7
Share of loss of joint venture	-	-	-	-	-	-	(0.5)	-	(0.5)
Underlying profit before tax	**25.5**	**28.6**	**16.8**	**46.8**	**117.7**	**11.9**	**(19.4)**	**-**	**110.2**
Net fair value loss on derivative financial instruments	-	-	-	-	-	(2.9)	-	-	(2.9)
Accelerated amortisation of debt issue costs	-	-	-	-	-	-	(4.3)	-	(4.3)
Profit before tax	**25.5**	**28.6**	**16.8**	**46.8**	**117.7**	**9.0**	**(23.7)**	**-**	**103.0**

Unaudited 6m to Jul 2016 (as restated)	Insurance: Motor Broking £m	Insurance: Home Broking £m	Insurance: Other insurance Broking £m	Insurance: Under-writing £m	Insurance: Total £m	Travel £m	Emerging Businesses & Central Costs £m	Adjust-ments £m	Total £m
Revenue	**65.1**	**43.9**	**42.5**	**63.4**	**214.9**	**208.0**	**17.9**	**(3.6)**	**437.2**
Cost of sales	(1.6)	-	(9.3)	(16.7)	(27.6)	(166.4)	(7.5)	-	(201.5)
Gross profit	**63.5**	**43.9**	**33.2**	**46.7**	**187.3**	**41.6**	**10.4**	**(3.6)**	**235.7**
Administrative and selling expenses	(41.4)	(14.2)	(17.3)	(1.2)	(74.1)	(34.4)	(18.0)	3.6	(122.9)
Investment income	-	-	-	3.6	3.6	0.1	(1.7)	-	2.0
Finance costs	-	-	-	-	-	-	(9.7)	-	(9.7)
Finance income	-	-	-	-	-	-	0.7	-	0.7
Share of loss of joint venture	-	-	-	-	-	-	(1.3)	-	(1.3)
Underlying profit before tax	**22.1**	**29.7**	**15.9**	**49.1**	**116.8**	**7.3**	**(19.6)**	**-**	**104.5**
Net fair value gain on derivative financial instruments	-	-	-	-	-	5.4	-	-	5.4
Profit before tax	**22.1**	**29.7**	**15.9**	**49.1**	**116.8**	**12.7**	**(19.6)**	**-**	**109.9**

Notes to the condensed consolidated financial statements (continued)

3 Segmental information (continued)

12m to Jan 2017	Insurance								
	Motor broking £m	Home broking £m	Other insurance broking £m	Under-writing £m	Total £m	Travel £m	Emerging Businesses & Central Costs £m	Adjust-ments £m	Total £m
Revenue	**127.5**	**89.8**	**80.4**	**112.3**	**410.0**	**432.0**	**36.5**	**(7.2)**	**871.3**
Cost of sales	(3.1)	-	(17.0)	(43.6)	(63.7)	(344.0)	(15.0)	-	(422.7)
Gross Profit	**124.4**	**89.8**	**63.4**	**68.7**	**346.3**	**88.0**	**21.5**	**(7.2)**	**448.6**
Administrative and selling expenses	(79.2)	(28.6)	(31.8)	(2.8)	(142.4)	(73.3)	(43.1)	7.2	(251.6)
Investment income	-	-	-	7.2	7.2	0.2	(2.4)	-	5.0
Finance costs	-	-	-	-	-	-	(18.6)	-	(18.6)
Finance income	-	-	-	-	-	-	1.4	-	1.4
Share of loss of joint venture	-	-	-	-	-	-	(1.4)	-	(1.4)
Underlying profit before tax	**45.2**	**61.2**	**31.6**	**73.1**	**211.1**	**14.9**	**(42.6)**	**-**	**183.4**
Net fair value gain on derivative financial instruments	-	-	-	-	-	9.9	-	-	9.9
Profit before tax	**45.2**	**61.2**	**31.6**	**73.1**	**211.1**	**24.8**	**(42.6)**	**-**	**193.3**

Revenue is generated solely in the UK.

Cost of sales within the insurance segment includes claims costs incurred on insurance policies underwritten by the Group (see note 3b).

Notes to the condensed consolidated financial statements (continued)

3a Analysis of insurance revenue

	Unaudited 6m to Jul 2017 £'m	Unaudited 6m to Jul 2016 £'m	12m to Jan 2017 £'m
Gross earned premiums on insurance underwritten by the Group	137.8	152.6	292.4
Less: ceded to reinsurers	(69.4)	(54.6)	(123.1)
Net earned premiums on insurance underwritten by the Group			
- Motor broking	20.7	32.2	54.3
- Home broking	4.6	6.7	12.2
- Other insurance broking	0.7	0.7	1.4
- Underwriting	42.4	58.4	101.4
	68.4	98.0	169.3
Other income from insurance products	124.4	116.9	240.7
	192.8	214.9	410.0

3b Analysis of insurance cost of sales

	Unaudited 6m to Jul 2017 £'m	Unaudited 6m to Jul 2016 £'m	12m to Jan 2017 £'m
Gross Claims incurred on insurance underwritten by the Group	65.6	68.7	149.4
Less: ceded to reinsurers	(61.8)	(50.7)	(103.8)
Net Claims incurred on insurance underwritten by the Group			
- Motor broking	1.7	1.6	3.1
- Underwriting	2.1	16.4	42.5
	3.8	18.0	45.6
Other cost of sales	6.2	9.6	18.1
	10.0	27.6	63.7

Notes to the condensed consolidated financial statements (continued)

4 Non-trading items

	Unaudited 6m to Jul 2017 £'m	Unaudited 6m to Jul 2016 £'m	12m to Jan 2017 £'m
Share-based payment costs (note 17)	0.2	0.4	0.5
Flotation and other costs	0.1	0.4	0.3
Restructuring costs	0.7	(0.2)	1.8
Impairment of joint venture	1.2	-	-
Insurance claims	-	-	(0.7)
	2.2	0.6	1.9

Non-trading items represent one-off or extraneous costs or revenues that are related to the primary trading activities of the Group. These items are reported separately to enable the user of the accounts to understand these items in more detail. Further detail on each category of item is provided as follows:

Flotation and other costs comprise the cost of awards made at the time of the IPO and which vest over a period of time post-award.

Restructuring costs represent costs associated with restructuring and reorganising a number of Group operations and includes staff-related costs such as redundancy and other termination costs, together with various professional fees for advice and processes associated with the restructuring.

Impairment of joint venture represents the write-down of the carrying value of the Group's joint venture, Saga Investment Services Limited, following the decision to replace the current legal structure with a new, more cost-efficient structure and includes an estimate of costs to wind up the joint venture.

In the prior year, the Group received amounts under insurance policies towards the costs of cancelled or curtailed cruises; the costs of these operational issues were treated as non-trading items.

Notes to the condensed consolidated financial statements (continued)

5 Tax

	Unaudited 6m to Jul 2017 £'m	Unaudited 6m to Jul 2016 £'m	12m to Jan 2017 £'m
Current income tax			
Current income tax charge	19.1	20.8	36.2
Adjustments in respect of previous years	(0.6)	(0.4)	(3.6)
	18.5	20.4	32.6
Deferred tax			
Origination and reversal of temporary differences	1.1	1.6	3.0
Effect of change in tax rate on opening balance	-	-	0.4
Tax expense in the income statement	19.6	22.0	36.0

Reconciliation of net deferred tax (liabilities)/assets:

	Unaudited 6m to Jul 2017 £'m	Unaudited 6m to Jul 2016 £'m	12m to Jan 2017 £'m
At 1 February	(5.2)	4.7	4.7
Tax charge in the income statement	(1.1)	(1.6)	(3.4)
Tax charge in other comprehensive income	(1.2)	(1.2)	(6.5)
At the end of the period	(7.5)	1.9	(5.2)

A reduction in the UK corporation tax rate from 20% to 19% took effect on 1 April 2017, and a further reduction was enacted in the Finance Act 2015 to reduce the rate to 18% from 1 April 2020. A further reduction to 17% from 1 April 2020 was enacted in the Finance Act 2016. As a result, closing deferred tax balances have been reflected at 17%.

The Group has tax losses which arose in the UK of £4.2m (July 2016: £4.2m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset has not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group, as they have arisen in subsidiaries that have been loss-making for some time, and there are no tax planning opportunities or other evidence of recoverability in the near future.

6 Dividends

The Company paid an ordinary dividend of 5.8p per share during the period. The total dividend paid was £64.8m (July 2016: £55.9m).

Notes to the condensed consolidated financial statements (continued)

7 Earnings per share

Basic EPS is calculated by dividing the profit after tax for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by also including the weighted average number of ordinary shares that would be issued on conversion of all potentially dilutive options.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

The calculation of basic and diluted EPS is as follows:

	Unaudited 6m to Jul 2017 £'m	Unaudited 6m to Jul 2016 £'m	12m to Jan 2017 £'m
Profit attributable to ordinary equity holders	83.4	87.9	157.3
Weighted average number of ordinary shares	'm	'm	'm
Original shares	800.0	800.0	800.0
297.3m shares issued on 29 May 2014	297.3	297.3	297.3
Free shares issued on 5 June 2015	7.0	7.0	7.0
IPO share options exercised	12.5	9.5	9.7
LTIP/CSOP share options exercised	0.4	-	-
Other share options exercised	0.1	-	-
Weighted average number for Basic EPS	1,117.3	1,113.8	1,114.0
Dilutive options			
IPO share options not yet exercised	0.6	3.6	3.5
Other share options not yet vested	0.1	0.1	0.1
LTIP share options not yet vested	4.9	3.5	4.4
Deferred bonus plan share options not yet vested	0.3	0.2	0.3
Weighted average number for Diluted EPS	1,123.2	1,121.2	1,122.3
Basic EPS	**7.5p**	**7.9p**	**14.1p**
Diluted EPS	**7.4p**	**7.8p**	**14.0p**

Notes to the condensed consolidated financial statements (continued)

8 Acquisitions

The Group made no acquisitions during the six month period ended 31 July 2017 or six month period ended 31 July 2016.

9 Goodwill

The net book value of goodwill is £1,485.0m (July 2016: £1,485.0m).

The Group has performed a review for indicators of impairment at 31 July 2017, and concluded that no indicators of impairment exist at that date.

10 Intangible fixed assets

During the period, the Group capitalised £13.6m (July 2016: £8.2m) of software assets and charged £9.1m of amortisation to its intangible assets (July 2016: £9.0m).

The Group has performed a review for indicators of impairment of the acquired contracts, brands and customer relationships at 31 July 2017, and concluded that no indicators of impairment exist at that date.

11 Property, plant and equipment

During the period, the Group capitalised assets with a cost of £21.3m (July 2016: £7.8m).

On 21 December 2015, the Group contracted with Meyer Werft GmbH & Co. KG to purchase Spirit of Discovery which is expected for delivery in June 2019, with an option to purchase a second similar cruise ship for delivery in 2021. On the 20 September 2017, the Saga plc Board approved, subject to financing, the purchase of the second cruise ship, Spirit of Adventure, with an earlier delivery date of August 2020.

As at 31 July 2017, capital amounts contracted for but not provided in the financial statements in respect of Spirit of Discovery amounted to £266.9m (July 2016: £280.1m).

The first and second stage payments for Spirit of Discovery were made in February 2016 and July 2017 respectively. Two similar stage payments will be made during the construction period (18 months, and 12 months prior to delivery) funded via cash resources of the Group. The remaining element of the contract price is due on delivery of the ship, and the Group entered into appropriate financing for this on 21 December 2015.

The financing represents a twelve year fixed-rate sterling loan, backed by an export credit guarantee. The loan value of approximately £245m will be repaid in 24 broadly equal instalments, with the first payment six months after delivery. The effective interest rate on the loan (including arrangement and commitment fees) is 4.29%.

Notes to the condensed consolidated financial statements (continued)

12 Financial assets and financial liabilities

a) Financial assets

	Note	**Unaudited As at Jul 2017 £'m**	Unaudited As at Jul 2016 £'m	As at Jan 2017 £'m
Fair value through profit or loss				
Foreign exchange forward contracts		1.4	2.0	3.7
Fuel oil swaps		0.8	0.2	1.3
Loan funds		6.5	6.2	6.5
Hedge funds		21.1	25.5	22.7
		29.8	**33.9**	**34.2**
Fair value through the hedging reserve				
Foreign exchange forward contracts		49.0	47.7	47.3
Fuel oil swaps		0.6	0.2	1.2
		49.6	**47.9**	**48.5**
Loans and receivables				
Deposits with financial institutions		252.0	364.8	309.5
		252.0	**364.8**	**309.5**
Available for sale investments				
Debt securities		78.4	81.9	79.5
Money market funds	13	135.6	114.6	122.1
Unlisted equity shares		1.7	0.2	1.3
Loan notes		5.9	4.5	5.2
		221.6	**201.2**	**208.1**
Total financial assets		**553.0**	**647.8**	**600.3**
Current		309.1	309.9	310.5
Non-current		243.9	337.9	289.8
		553.0	**647.8**	**600.3**

The Group's financial assets are analysed by Moody's rating in the Chief Financial Officer's Review.

Notes to the condensed consolidated financial statements (continued)

12 Financial assets and financial liabilities (continued)

b) Financial liabilities

	Note	**Unaudited As at Jul 2017 £'m**	Unaudited As at Jul 2016 £'m	As at Jan 2017 £'m
Fair value through profit or loss				
Foreign exchange forward contracts		1.2	1.0	1.0
Fuel oil swaps		0.1	2.0	0.3
		1.3	**3.0**	**1.3**
Fair value through the hedging reserve				
Foreign exchange forward contracts		1.6	-	1.0
Fuel oil swaps		-	1.2	-
		1.6	**1.2**	**1.0**
Loans and borrowings				
Bank loans	16	477.4	539.6	475.2
Finance leases and hire purchase obligations		3.9	2.9	3.0
Bank overdrafts	13	4.2	14.6	9.3
		485.5	**557.1**	**487.5**
Total financial liabilities		**488.4**	**561.3**	**489.8**
Current		9.9	20.0	12.5
Non-current		478.5	541.3	477.3
		488.4	**561.3**	**489.8**

c) Fair value hierarchy

	Unaudited As at Jul 17				Unaudited As at Jul 16			
	Level 1 £'m	Level 2 £'m	Level 3 £'m	**Total £'m**	Level 1 £'m	Level 2 £'m	Level 3 £'m	**Total £'m**
Financial assets measured at fair value								
Foreign exchange forwards	-	50.4	-	**50.4**	-	49.7	-	**49.7**
Fuel oil swaps	-	1.4	-	**1.4**	-	0.4	-	**0.4**
Loan funds	6.5	-	-	**6.5**	-	6.2	-	**6.2**
Hedge funds	21.1	-	-	**21.1**	-	25.5	-	**25.5**
Debt securities	78.4	-	-	**78.4**	81.9	-	-	**81.9**
Money market funds	-	135.6	-	**135.6**	-	114.6	-	**114.6**
Unlisted equity shares	-	-	1.7	**1.7**	-	-	0.2	**0.2**
Loan notes	-	-	5.9	**5.9**	-	-	4.5	**4.5**
Financial liabilities measured at fair value								
Foreign exchange forwards	-	2.8	-	**2.8**	-	1.0	-	**1.0**
Fuel oil swaps	-	0.1	-	**0.1**	-	3.2	-	**3.2**
Assets for which fair values are disclosed								
Deposits with institutions	-	252.0	-	**252.0**	-	364.8	-	**364.8**
Liabilities for which fair values are disclosed								
Bank loans	-	477.4	-	**477.4**	-	539.6	-	**539.6**
Finance leases and hire purchase obligations	-	3.9	-	**3.9**	-	2.9	-	**2.9**
Bank overdrafts	-	4.2	-	**4.2**	-	14.6	-	**14.6**

Notes to the condensed consolidated financial statements (continued)

12 Financial assets and financial liabilities (continued)

c) Fair value hierarchy (continued)

	As at Jan 17			
	Level 1	Level 2	Level 3	**Total**
	£'m	£'m	£'m	**£'m**
Financial assets measured at fair value				
Foreign exchange forwards	-	51.0	-	**51.0**
Fuel oil swaps	-	2.5	-	**2.5**
Loan funds	-	6.5	-	**6.5**
Hedge funds	-	22.7	-	**22.7**
Debt securities	79.5	-	-	**79.5**
Money market funds	-	122.1	-	**122.1**
Unlisted equity shares	-	-	1.3	**1.3**
Loan notes	-	-	5.2	**5.2**
Financial liabilities measured at fair value				
Foreign exchange forwards	-	2.0	-	**2.0**
Fuel oil swaps	-	0.3	-	**0.3**
Assets for which fair values are disclosed				
Deposits with institutions	-	309.5	-	**309.5**
Liabilities for which fair values are disclosed				
Bank loans	-	475.2	-	**475.2**
Finance leases and hire purchase obligations	-	3.0	-	**3.0**
Bank overdrafts	-	9.3	-	**9.3**

d) Other information

Available for sale investments and deposits with financial institutions relate to monies held by the Group's insurance underwriting business and are subject to contractual restrictions and are not readily available to be used for other purposes within the Group. Whilst the Group's fixed / floating interest securities investments could be realised at short notice, it is anticipated that they will be held until maturity.

Following a review of the Group's investment portfolio at the 31 July 2017, loan funds and hedge funds have been transferred from Level 2 to Level 1 in the hierarchy. There are no non-recurring fair value measurements of assets and liabilities.

The Group operates a programme of economic hedging against its foreign currency and fuel oil exposures. During the period, the Group designated 297 foreign exchange forward currency contracts as hedges of highly probable foreign currency cash expenses in future periods, and designated 25 fuel oil swaps as hedges of highly probable fuel oil purchases in future periods. As at 31 July 2017, the Group has designated 558 forward currency contracts and 115 fuel oil swaps as hedges.

During the period, the Group recognised net gains of £3.1m on cash flow hedging instruments through other comprehensive income into the hedging reserve. Additionally, the Group recognised net gains of £8.9m through other comprehensive income into the hedging reserve, in relation to the specific hedging instrument for the acquisition of a new ship. The overall net gains of £12.0m are offset by a net £0.6m loss on forecast transactions recognised in the financial statements. The Group recognised a £0.7m loss through the income statement in respect of the ineffective portion of hedges measured during the period.

There has been no de-designation of hedges during the period as a result of cash flows forecast that are no longer expected to occur, or as a result of failed ineffectiveness testing. During the period, the Group recognised a £11.4m gain through the income statement in respect of matured hedges, which has been recycled from other comprehensive income. No amounts have been removed from the hedging reserve to be included in the carrying value of non-financial assets.

Notes to the condensed consolidated financial statements (continued)

13 Cash and cash equivalents

	Unaudited As at Jul 2017 £'m	Unaudited As at Jul 2016 £'m	As at Jan 2017 £'m
Cash at bank and in hand	59.3	69.2	55.5
Short term deposits	85.2	59.8	53.2
Cash and short term deposits	144.5	129.0	108.7
Money markets funds (note 12a)	135.6	114.6	122.1
Bank overdraft (note 12b)	(4.2)	(14.6)	(9.3)
Cash and cash equivalents in the cash flow statement	275.9	229.0	221.5

Included within cash and cash equivalents are amounts held by the Group's Travel and Insurance businesses which are subject to contractual or regulatory restrictions. These amounts held are not readily available to be used for other purposes within the Group and total £256.3m (July 2016: £218.0m, January 2017: £206.3m). Available cash excludes these amounts and any amounts held by disposal groups.

14 Retirement benefit schemes

The Group operates a funded defined benefit scheme, The Saga Pension Scheme ("Saga Scheme") which is open to new members who accrue benefits on a career average salary basis. The assets of the scheme are held separately from those of the Group in independently administered funds.

The fair value of the assets and present value of the obligations of the Saga defined benefit scheme are as follows:

	Unaudited As at Jul 2017 £'m	Unaudited As at Jul 2016 £'m	As at Jan 2017 £'m
Fair value of scheme assets	291.3	267.8	276.8
Present value of defined benefit obligation	(299.9)	(315.4)	(290.5)
Defined benefit scheme liability	(8.6)	(47.6)	(13.7)

The present values of the defined benefit obligation at 31 January 2017, the related current service cost and any past service costs were measured using the projected unit credit method. Liabilities at 31 July 2017 have been estimated by rolling forward from 31 January 2017, allowing for changes in market conditions and estimating the value of benefits accrued and paid out over the period.

During the period ended 31 July 2017, the net liability of the Saga Scheme has improved by £5.1m to a total scheme liability of £8.6m.

Notes to the condensed consolidated financial statements (continued)

15 Insurance contract liabilities and reinsurance assets

Gross and net insurance liabilities are analysed as follows:

	Unaudited As at Jul 2017 £'m	Unaudited As at Jul 2016 £'m	As at Jan 2017 £'m
Gross			
Claims outstanding	481.0	537.0	517.0
Provision for unearned premiums	120.4	133.6	125.3
Total gross liabilities	601.4	670.6	642.3
Recoverable from reinsurers			
Claims outstanding	95.3	106.5	93.8
Provision for unearned reinsurance premiums	2.7	2.4	3.7
Total reinsurers' share of insurance liabilities (as presented on the face of the condensed statement financial position)	98.0	108.9	97.5
Amounts recoverable under funds withheld quota share agreements recognised within trade payables:			
Claims outstanding	76.5	29.1	55.5
Provision for unearned premiums	65.6	63.2	66.1
Total reinsurers' share of insurance liabilities after funds withheld quota share	240.1	201.2	219.1
Net			
Claims outstanding	385.7	430.5	423.2
Provision for unearned premiums	117.7	131.2	121.6
Total net insurance liabilities	503.4	561.7	544.8
Amounts recoverable under funds withheld quota share agreements recognised within trade payables:			
Claims outstanding	(76.5)	(29.1)	(55.5)
Provision for unearned premiums	(65.6)	(63.2)	(66.1)
Total net insurance liabilities after funds withheld quota share	361.3	469.4	423.2

The total loss on purchasing reinsurance recognised during the period was £12.8m (July 2016: £0.6m gain).

Notes to the condensed consolidated financial statements (continued)

16 Loans and borrowings

	Unaudited As at Jul 2017 £'m	Unaudited As at Jul 2016 £'m	As at Jan 2017 £'m
Bond	250.0	-	-
Bank loans	200.0	470.0	380.0
Revolving credit facility	30.0	75.0	100.0
Accrued interest payable	2.2	1.2	0.1
	482.2	546.2	480.1
Less: deferred issue costs	(4.8)	(6.6)	(4.9)
	477.4	539.6	475.2

On 12 May 2017, the Group refinanced its existing bank facilities with the launch of a debut £250.0m seven-year senior unsecured bond, a £200.0m five-year term loan facility and a £100.0m five-year revolving credit facility. The Bond was issued on 12 May 2017 on the Irish Stock Exchange.

At 31 July 2017, the Group had drawn £30.0m of its £100.0m revolving credit facility.

Interest on the bond is incurred at an annual interest rate of 3.375%. Interest on the term loan and revolving credit facility is incurred at a variable rate of LIBOR plus between 1% and 2.2%, which is linked to and dependent on the Group's leverage ratio.

During the period the Group charged £6.6m (July 2016: £9.1m) to the income statement in respect of fees and interest associated with the bonds, term loan and revolving credit facility. In addition, finance costs recognised in the income statement includes £0.5m (July 2016: £0.6m) relating to interest on finance lease liabilities, net finance expense on pension schemes and other interest costs and £2.9m (July 2016: £nil) of net fair value losses on derivatives.

Debt issue costs of £4.3m in relation to the Group's previous debt financing was released to the income statement following the re-financing of the Group's debt during the period.

17 Share-based payments

The Group has granted a number of different equity-based awards which it has determined to be share-based payments. New awards granted during the period were as follows:

a) On 1 May 2017, options over 3,449,199 shares were issued under the Long-Term Incentive Plan to certain Directors and other senior employees which vest and become exercisable on the third anniversary of the grant date and are 30% linked to Basic EPS performance, 30% linked to Organic EPS performance and 40% linked to TSR performance;

b) On 26 May 2017, options over 317,710 shares were issued under the Deferred Bonus Plan ("DBP") to the Executive Directors reflecting their deferred bonus in respect of 2016/17, which vest and become exercisable on the third anniversary of the grant date.

c) On 13 July 2017, 488,583 shares were awarded to eligible staff on the 3rd anniversary of the IPO and allocated at £nil cost; these shares become beneficially owned over a three-year period from allocation subject to continuing service.

The fair values of all awards are assessed using techniques based upon the "Black-Scholes" pricing model. The Group charged £2.1m during the period (July 2016: £2.3m) to the income statement in respect of equity-settled share-based payment transactions. Of this, £0.2m (July 2016: £0.4m) is included within non-trading items (note 4), which represents the share based payment charge on options awarded at the IPO that are still vesting.

18 Related party transactions

Related party transactions during the six months ended 31 July 2017 were consistent in nature, scope and quantum with those disclosed in the Group's annual report and accounts for the year ended 31 January 2017 available at www.corporate.saga.co.uk.

Notes to the condensed consolidated financial statements (continued)

19 Events after the balance sheet date

Ogden discount rate

On 7 September 2017, the UK Government announced its plans on discount rate reform, and is proposing to change the way in which the Ogden discount rate is set. The rate is used to set the value of lump sum settlement of claims. The announcement indicated that, if the legislation is enacted, the rate might then be increased from its current level of -0.75% to between 0% and 1%.

If such a rate change would be applicable to all claims outstanding as at 31 July 2017, then the impact of such a change would be to reduce the Group's net exposure to insurance contract liabilities by between £4m and £9m as at the balance sheet date, based on a rate change to 0% and 1% respectively.

Second cruise ship

On 21 December 2015, the Group contracted with Meyer Werft GmbH & Co. KG to purchase Spirit of Discovery which is expected for delivery in June 2019, with an option to purchase a second similar cruise ship for delivery in 2021. On the 20 September 2017, the Saga plc Board approved, subject to financing, the purchase of the second cruise ship, Spirit of Adventure, with an earlier delivery date of August 2020.

Principal Risks and Uncertainties

The Group is subject to a number of risks and uncertainties as part of its activities. The Board regularly considers these and seeks to ensure that appropriate processes are in place to manage, monitor and mitigate these risks. The Directors consider that the principal risks and uncertainties facing the Group during the period under review and for the remainder of the financial period have not materially changed from those outlined on pages 20 to 22 of the annual report and accounts for the year ended 31 January 2017 available at www.corporate.saga.co.uk. One additional risk has been added during the first half of the year in relation to our ability to attract and retain High Affinity Customers. The Group has in place processes to monitor and mitigate these risks.

Responsibility Statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;

- the interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules , being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

Lance Batchelor	Jonathan Hill
Chief Executive Officer	Chief Financial Officer
21 September 2017	21 September 2017

INDEPENDENT REVIEW REPORT TO SAGA PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 July 2017 which comprises condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 July 2017 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2.3, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Stuart Crisp
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

21 September 2017