 

Welcome to Saga plc's annual report and accounts

Saga exists to help our customers lead the life they want to live.

In order to succeed in this, we know that the most important thing to do is to listen to our customers. By doing this we can truly understand them and provide the services they need to live the lives they want to live.

This simple approach over the last six and a half decades has enabled us to become the leading provider of products and services to people aged 50 and over in the UK.

In this annual report, we demonstrate the progress we have made this year in continuing to grow our understanding of our customers to meet their developing needs and maintain our leading position.

We believe that by continuing to put our customers at the heart of everything we do, we will grow Saga and deliver long-term value for our shareholders.

Financial highlights

We've continued to deliver on our financial objectives of earnings and dividend growth

A renewed focus on our customers' journey allows us to understand their needs to improve their lives day to day.

See what we've learnt

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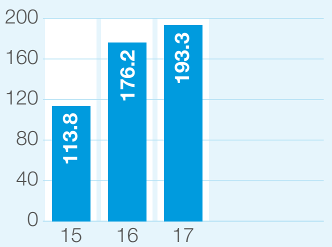
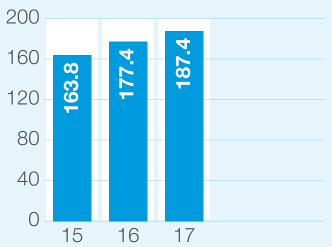
Profit before tax (£m)

9.7%



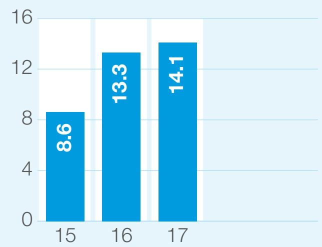
Underlying profit before tax[1] (£m)

5.6%



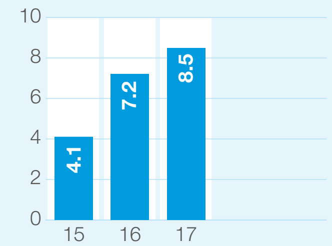
Basic earnings per share[2] (pence)

6.0%



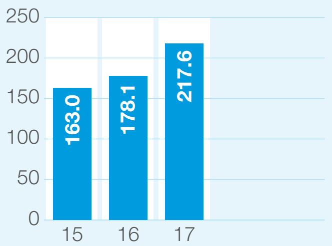
Dividend per share (pence)

18.1%



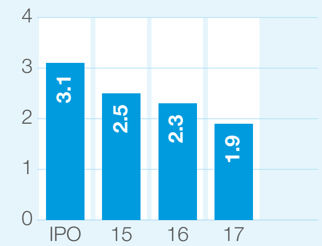
Available operating cash flow (£m)

22.2%



Debt ratio (net debt to EBITDA)

17.6%



High-affinity customers ('HACs')

483k

Product holding per HAC

2.1 core products

1 Profit before tax excluding derivatives and Ogden impact.
2 From continuing operations.

Saga provides a variety of market leading products and services to the UK's over 50s

Insurance

Our insurance business is the largest part of the Group, providing award winning tailored products and services, ranging from motor to pet insurance, to millions of customers each year.

Operations
- Retail broking
- Underwriting

To find out more go to

p24-26

Travel

Our award winning travel business is at the heart of the Saga brand, taking passengers all over the world on package holidays, escorted tours and cruises.

Operations
- Saga Cruises
- Saga Holidays
- Titan
- Destinology

To find out more go to

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Emerging businesses

Emerging businesses include our personal finance, homecare, publishing and printing operations as well as new development areas for the long-term growth of the business.

Operations
- Saga Money
- Saga Healthcare
- Saga Retirement Villages
- Saga Publishing
- MetroMail

To find out more go to

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Saga as an investment

Saga aims to deliver consistent long-term earnings growth with the right balance between investing for growth, paying down debt and returns to shareholders via dividends

Why invest in us?

How we are different
Saga focuses on the over 50s, the fastest growing demographic in the UK. This demographic tends to be wealthier and more resilient during times of economic uncertainty. Our customer insight allows us to gain unique insight into the traits of our target demographic, helping us to develop products and services that we know will be valuable to our customers. We operate across sectors which provide services that people need. This means that demand for our products and services remains consistent amongst a customer base that predominantly spends unearned income.

The model works
The Group has an excellent track record of delivering consistent earnings growth. The capital efficiency of the model means that we are highly cash generative. This enables us to invest for future growth, whilst continuing to pay down debt and enhance long-term returns to shareholders through our progressive dividend policy.

Confidence in future delivery
Our existing strategy is robust. The in-depth work we have undertaken to deepen our understanding of our customers has provided the logical next step in the evolution of our model.

We are now in a position to use our enhanced insight and data capability through a membership structure to become a more efficient organisation, ensuring that we:

- retain and deepen our customer relationships;
- increase new customer targeting; and
- generate increased profits at lower risk, with lower capital.

This strategic evolution increases our confidence in our ability to generate consistent long-term earnings growth on a sustainable basis.

...to deliver profit and dividend growth, strong cash generation and sustainable shareholder return.

Evolution of the strategy and further financial delivery leading to enhanced shareholder returns

"

Our focus on customer needs has been the driving force behind the growth of the business. They remain at the heart of everything we do.

"

I am delighted to present another strong set of results.

We have continued to deliver on our progressive dividend policy this year, increasing our dividend by 18.1% to 8.5p. This equates to a payout ratio of 62%[1] of net earnings, compared to 57%[2] in the previous year. Last year, we increased our target payout range from 40%-60%, to 50%-70% as a sign of our confidence that we will continue to deliver strong financial performance. This year's decision to increase the dividend again reflects the Board's ongoing confidence in the sustainability of our dividend policy, which is supported by a strong track record of profit growth and cash generation through our capital efficient model.

Financially, we have again delivered growth in underlying profit before tax of 5.6% to £187.4m and basic earnings per share by 6.0% to 14.1p. Furthermore, we have continued to be highly cash generative, resulting in a further deleveraging such that our net debt to EBITDA ratio has reduced to 1.9 times.

Our focus on customer need has been the driving force behind the growth of the business. Our customers remain at the heart of everything we do and it is a great credit to the Company that so many continue to support us through sustained ownership of our shares. The management team has done a lot of work throughout the year to deepen our understanding of our customers. This is helping us to interact differently and more efficiently with both existing and prospective customers.

1 Based on profit after tax excluding derivatives and Ogden impact.
2 Excluding the one-off benefit of Acromas tax losses.

I would like to thank all of our shareholders, both institutional and retail, for their ongoing support and to welcome those who have joined us during the year, including the many new institutional investors on our register.

I would also like to thank our employees. Their dedication to customer care and innovation enable us to deliver the exacting standards our customers value so highly.

The Saga Board is a strong group of individuals who have brought relevant and valuable experience and skills to bear in shaping Saga's thinking and strategy. We continue to be confident in Saga's ability to deliver long-term sustainable returns for our shareholders by delivering consistent profitable growth with a capital efficient model.

Our Group Chief Executive, Lance Batchelor, continues to effectively deliver on the execution of our strategy. Lance leads a strong Executive Team which comprises a mix of new hires and established staff. Their energy, commitment and focus on key strategic deliverables throughout the year have had a marked impact on our results.

Andrew Goodsell
Chairman
28 March 2017

Our governance supports our strategic priorities

Governance highlights

Our governance structure is now embedded within the Group to support growth.

- Our processes ensure good stewardship as we invest for future growth, whilst continuing to pay down debt and enhance long-term returns to shareholders through our progressive dividend policy.
- All resolutions proposed at our AGM were passed with a significant majority and all directors standing for re-election or election were appointed.
- We comply with the Corporate Governance Code 2016 (the 'Code') recommendation that half of the Board are independent Non-Executive Directors.
- We conducted our first externally facilitated Board and Committee evaluation exercise and agreed action plans to focus on areas of development.

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> Our performance has continued to prove the strength of the Saga business model, which builds multi-decade relationships with our target demographic through a range of excellent products and services.

I am very pleased that we have again delivered consistent profit growth in line with our stated targets. We have achieved this alongside some important strategic developments, particularly the work we have done to enhance our understanding of our customers and to develop our vision for building future value by improving our customers' experience.

Same clear strategy

We have continued to deliver on the clear strategy for sustainable earnings growth that we laid out in early 2015. This strategy has remained consistent and is focused on:

1. Becoming increasingly customer-centric.
2. Growing profits in our insurance and travel businesses.
3. Investing for future growth.
4. Maintaining our efficient operating model.
5. Developing our people.

Customer work

Our growing understanding of our customers has provided us with a unique opportunity to use our rich proprietary data to interact with them more efficiently to better understand what they want, and to deliver it right across the business. We are also able to identify customers who are more likely to have an affinity with the brand over time, and to use our marketing resources more effectively by targeting and rewarding those customers who are, or have the propensity to be higher-affinity customers ('HAC').

1 Profit before tax excluding derivatives and Ogden impact.

Through this work, we have identified a core group of c.500k HACs that form around 20% of our customer base, and have contributed around 80% of customer value over the last three years. This group has the following key characteristics, all of which deliver greater lifetime value to Saga. They:

- buy premium versions of what we sell;
- have higher retention levels; and
- have a higher propensity to buy multiple products across the Group, holding an average of 2.1 core products each.

We now fully understand the journeys by which these customers have developed a high affinity for Saga and the reasons why certain customers have not. This means that we are now in a position to improve the efficiency and effectiveness of our direct marketing model to better identify and target existing or potential HACs.

Historically, we have managed a highly effective product marketing approach, evidenced by industry leading customer acquisition costs in insurance. This marketing was based on average returns. By looking at it from the viewpoint of customer affinity, rather than by value of product, we can significantly refine this model to increase efficiency.

Just as importantly, we have been able to identify customers who have an affinity with the brand but who currently have neither the long tenure nor multiple product holdings. By considering their purchasing propensities, we can ensure that we approach and market to them in a way that optimises the likelihood of them developing an affinity with Saga.

So, what's next?

Strategic priorities for the coming year

In order to continue to deliver the consistent financial performance that we have demonstrated as a public company, and ensure future long-term value for shareholders, our strategic priorities for the coming year are:

1 Becoming increasingly customer-centric

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2 Growing profits in our retail insurance and travel businesses

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3 Investing for future growth

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4 Maintaining our efficient operating model

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5 Developing our people

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We have made a key improvement to our systems capability which will enable us to do this. In our core insurance and travel businesses, we have two excellent acquisition machines, whose demographic focus means we are constantly 'touching' current and new, potentially high-affinity, customers. The improved capability enables us to monitor in real time what customers are doing and, just as importantly, what they have done while journeying through any of our systems, both online and through our call centres. It will also enable us to automatically offer the customer the right product based on their history and their propensity to buy.

Membership

Saga's brand is synonymous with life after 50 in the UK. Thanks to the consistent delivery of tailored products, underpinned by exceptional service over many decades, customers often refer to being 'Saga members' without ever having run an official membership scheme.

Utilising the customer work we will create a membership scheme that rewards and incentivises our customers to both stay with Saga and deepen their relationship with us. The scheme, which will launch in the second half of the year, is open to all existing Saga customers and will be named "Saga Possibilities". Its mission statement is to: "Help you, our members, get more out of Saga and do more of the things that matter most to you".

Saga Possibilities will be structured around four key components:

- Experiences: provide members with a constant stream of inspiring products and experiences they can try.
- Expertise: the go-to place for the over 50s for subject matter and expertise, providing information, inspiration and insight on topics that matter most.
- Everyday: to make the little things in life more enjoyable, easier and better value.
- Enhanced Saga products: every product and service that Saga sells will have extra enhancements for our members.

We believe that the combination of our increasing customer insight, data capability and membership will be extremely powerful, helping us to focus our efforts on rewarding, retaining and growing our target customer base and deepening our relationship with them. Our goal is therefore to grow the number of products held by HACs by 20% over the next 5 years.

Conclusion – the Saga investment case

With a clear strategy in place to continue to drive profit growth through the core businesses and enhance the value of our most loyal customers, we have made a positive start to the current year, and I would like to touch again on the key takeaways that make Saga a strong investment case:

How we are different:

- Our focus on an older and growing demographic
- Our strong customer relationships and brand loyalty leads to better customer acquisition and retention
- Multiple businesses with tailored, differentiated offerings means the business is less exposed and carries less risk

The model works

- We have consistently delivered steady earnings growth over time
- We have demonstrated another year of strong earnings growth and cashflow

Confidence in future delivery

Our existing strategy is robust. The in-depth work we have undertaken to better understand our customers has provided the logical next step in the evolution of our model. We are now in a position to use our enhanced insight, data capability and membership scheme to become a more efficient organisation, ensuring:

- We retain and deepen our customer relationships with:
  - increased persistency
  - better cross-sell
  - low acquisition costs
- We improve new customer targeting through more efficient acquisition spend
- We generate increased profits at lower risk, with lower capital through higher quality of earnings.

We are seeing the benefits of this work in our current business performance. These early signs of successful implementation have increased our confidence that we can continue to leverage Saga's differentiated model to drive increased customer engagement and loyalty. This gives us further confidence to deliver consistent, sustainable earnings growth through increased efficiency and customer value across the business.

Lance Batchelor
Group Chief Executive Officer
28 March 2017

Our Executive team

The right mix
Introducing our Executive Team (from left to right)

1. **Jules Christmas**
   Group IT Director
2. **Jeannette Linfoot**
   Managing Director, Tour Operations
3. **Robin Shaw**
   Chief Executive, Saga Cruises
4. **Jonathan Hill**
   Group Chief Financial Officer
5. **Nici Audhlam-Gardiner**
   Managing Director, Saga Personal Finance
6. **Lance Batchelor**
   Group Chief Executive Officer
7. **Matt Atkinson**
   Group Chief Marketing Officer
8. **Roger Ramsden**
   Chief Executive, Insurance Broking
9. **Andrew Button**
   Chief Executive, AICL
10. **Karen Caddick**
   Group HR Director

How we do it

We look to develop and enhance strong relationships with our customers over the course of many years. By doing this we gain a unique insight into the traits of our target demographic, helping us to develop products and services that we know will be valuable to our customers, and helping them do more after 50.

We then either develop our offering in-house, or use a third party supplier. In order to choose the most effective method, we consider several factors, including: the route that would benefit the customer most; whether our internal expertise is required or if a third party is better positioned to deliver; and the optimal deployment of our capital.

We work across a large number of sectors, so if we do choose to use a third party, it is because we believe that their ability to operate in that particular area is best in class. When this is the case, we design and develop the product to our specifications, and the third party provides it.

This is the most common approach we take. Selecting and managing our supplier base is a core skill of the Group. We work with them to ensure that the customer gets what they want, underpinned by excellent customer service.

When we produce products in-house, it is because we believe that we are best placed to offer the value and levels of service that our customers expect. This is especially apparent when considering our cruise business.

Delivered through the Saga Model

Whether produced in-house or by a third party, all of our products and services are delivered through the Saga Model, the defining aspects of which are:

1. A great brand	We have a truly unique brand that is highly trusted and recognised by over 97% of the UK's over 50s. This allows us to provide products that offer exceptional levels of service, across multiple categories, at a fair price.
2. Differentiated products	Our ability to listen to our customers, analyse their behaviour and tailor our offering accordingly, means that we are able to offer products, services and added benefits that we know our customers want in order to help them enjoy life after 50.
3. Unique route to market	As a data driven business, direct access to our existing and potential customers means we can analyse and access both current and new customers across multiple channels.
4. Outstanding service	We compete across multiple sectors, and after buying products for many decades, our customers know what good service looks like. They expect this from us, and recognise it when they get it.

Underpinned by our flexible capital efficient model

The nature of our multi-business model provides us with great flexibility, and has allowed us to build a strong track record of resilience and growth.

The strength of our brand and our ability to select the best providers, allow us to develop new products and enter new markets very quickly, often with very little capital at risk.

We operate two different core businesses, travel and insurance, that run eight different principal product lines, and this breadth of offering helps to shield us against product specific risks. This allows us to focus management time and capital on the areas of the business with the most potential for growth.

This approach means we are highly cash generative. The majority of our profit after tax turns into cash, allowing us the flexibility to continue to invest for growth, whilst also paying down debt and enhancing long-term returns to shareholders via a progressive dividend policy.

We are well positioned to serve a growing demographic

Saga is the UK's leading provider of products and services tailored to the needs of the over 50s. This segment of the population is the fastest growing, most affluent and influential demographic in the UK. It accounts for 75% of the UK's household wealth and 50% of the UK's household expenditure. Needs are increasingly changing as the demographic as a whole continues to work longer and lead more active lives.

As part of our in-depth work on enhancing our customer knowledge and making our database work more efficiently for us, our knowledge of whom the Saga brand plays best with within our wider target market is improving significantly. The target customer for the Saga brand is predominantly within four very specific mosaic classifications whose characteristics are: over 60s; within ABC1 households; and having above average acquired assets. Our ability to map digitally their interactions with us and track what they do and don't like, has led to a more efficient customer acquisition strategy, allowing us to tailor our approach in order to continue to delight our customer.

Macro conditions

While macro events out of our control always have the potential to create a headwind, our target customers tend to be more resilient during times of economic uncertainty. In many instances, they live off pensions, savings and pools of acquired assets. This reliable stream of unearned income is a notable characteristic of ABC1 households.

Additional factors which enhance the economic stability of this group include:

- low levels of debt;
- fewer fixed costs; and
- members at the bottom end of the demographic benefiting from inheritance from the top end.

While the macroeconomic cycle will impact the underlying performance of our wider business, each of our core businesses of insurance and travel have different sector specific cycles. There is potential for customer behavioural changes depending on the stage of each cycle but, given the strengths of our demographic, we tend to see this to a lesser extent compared with other market participants. Also, as Saga operates different businesses across different sectors, this helps provide against a downturn in a particular sector. If, for example, the motor insurance market became subdued, we would be able to focus on our cruise and travel businesses as well as other insurance lines, such as travel, home and PMI.

Our travel business also benefits from comparatively strong resilience. Indeed, following the EU referendum vote, fewer than 1% of our customers said they would reconsider their future holiday plans, and our new ship has generated nearly 10,000 pre-registrations for its initial cruises.

Regulatory and political change

The over 50s are the most politically engaged demographic in the UK, and are therefore highly politically influential. For example, polling amongst our customer base gave us advanced visibility of the likely success of the Brexit vote when the professional polling companies were still indicating a win for the Remain vote. Our insight into the most important issues for our customers is extremely valuable, and we aim to create products and services that either take advantage of, or protect against, regulatory change. We also engage on these issues on their behalf when appropriate to do so.

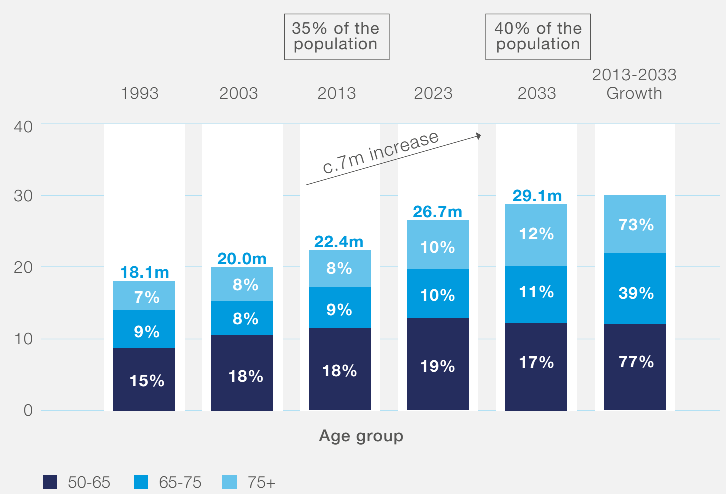
Saga as a regulated business

Saga operates across a number of regulated sectors, notably within our financial services and travel businesses. Regulation in these sectors continues to evolve constantly and we are experts in maintaining good communication with our regulatory bodies in order to ensure that we are always in a position to adapt quickly to any changes that could impact our operations. Given our target demographic, we often work with vulnerable customers. Our focus on our customers means that we are able to recognise that some may need more attention than others and we run dedicated teams throughout our business to ensure that vulnerable customers are identified and given a helping hand.

The competition for customers

As we operate across a number of sectors, we compete with many providers in those markets. While our brand as the over 50s specialist in the UK is particularly strong, we do not have a monopoly on our customers. We do, however, have the advantage of focusing on this demographic, which means everything we do can be tailored to the specific needs that are characteristic of our customer base. This gives us a competitive advantage against peers who offer their products to all age ranges.

Projected growth of the UK's over 50s



Source: Centre for Economic and Business Research.

Our strategy at a glance

Our strategy

1. Becoming increasingly customer-centric
2. Growing profit in our retail insurance and travel businesses
3. Investing in future growth
4. Maintaining our efficient operating model
5. Developing our people

KPIs

Profit before tax

£193.3m ↑ 9.7%

£176.2m

Earnings per share

14.1p ↑ 6.0%

13.3p

Dividend per share

8.5p ↑ 18.1%

7.2p

Available operating cash flow

£217.6m ↑ 22.2%

£178.1m

Debt ratio

1.9x ↓

2.3x

Number of HACs

483k

Core product holding per HAC

2.1

Strategic delivery

Becoming increasingly customer-centric

- Put the right team in place to make more of our database and deliver our multi-channel marketing activities.
- Identified the core group of HACs who form 20% of our customer base and contribute approximately 80% of our profits.
- Delivered new marketing capability with the introduction of the Adobe Marketing Cloud that allows us the better to identify customers with the characteristics of HACs.

Growing profits in our retail insurance and travel businesses

- Delivered profit growth across our key retail broking business.
- Increased profits through passenger growth and improved margins in our tour operating business and optimum yield of our ships.

Investing in future growth

- Continued to evolve the design and position of the new shipping capacity which will significantly change the profit trajectory of our travel business once delivered.
- Developed our Saga Money business.
- Continued the Saga Healthcare and Retirement Villages pilots.

Maintaining our efficient operating model

- The model continues to generate strong cash flows.
- Successfully launched the quota share arrangement with New Reinsurance Company Limited ('NewRe'), and the planned extension of the arrangement by three years.
- Invested in our new retail insurance platform and a new claims platform to deliver efficient savings within insurance businesses.
- Delivered Group wide cost and procurement efficiencies.

Developing our people

- Achieved a sustainable engagement score of 81%.
- Invested in our leadership capability with the launch of the 'Leading the Saga Way' Leadership Development Programme for our top 100 managers.

Measuring success

Number of HACs

Core product holding per HAC

Launch of the Saga membership scheme

Profit before tax from core businesses growing

New ship continues to be on track for delivery in mid-2019 and the first cruises will go on sale later this year

Growth in our portfolio of Saga Money products

Continued success of the Saga Healthcare and Retirement Village pilots

Investment in our new retail insurance platform and our enhanced data capability continues on track

Deliver cost and efficiency improvements

Continued improvement in sustained engagement

Rollout of the Leadership Development Programme to the top 400 leaders within Saga

What's our plan?

Our strategic objectives for the coming year are:

1. **Becoming increasingly customer-centric**
   We will continue the customer insight work, enhance our data capability and launch membership.
   p14

2. **Growing profits in our retail insurance and travel businesses**
   As the largest part of the Group, our retail insurance business remains a vital tool in acquiring and retaining customers. The travel business remains at the heart of the Saga brand and we use our customer insights to ensure the proposition remains relevant.
   p14

3. **Investing for future growth**
   We continue to invest in our core businesses of insurance and travel, and the emerging businesses.
   p15

4. **Maintaining our efficient operating model**
   We will finalise the delivery of our new claims platform and continue on track with our new retail insurance platform.
   p15

5. **Developing our people**
   Our people are central to everything we do by ensuring that our customers receive the Saga experience throughout the business.
   p15

1 Becoming increasingly customer-centric

The customer work we have completed has given us both enhanced insight into customer behaviours, and the ability to utilise that knowledge to offer our customers more of the products they want, in the right way and at the right time.

Membership

Saga's brand is synonymous with life after 50 in the UK. Thanks to consistently delivering tailored products underpinned by exceptional service over many decades, customers often refer to being 'Saga members' without us ever having run an official membership scheme.

Utilising the customer work we will create a platform through which to reward and incentivise our customers to both stay with Saga and deepen their relationship with us, we will launch a Saga membership programme in the second half of this year. The scheme is open to all existing Saga customers and will be named "Saga Possibilities" and its mission statement is to "Help you, our members, get more out of Saga and do more of the things that matter most to you".

Saga Possibilities will be structured around four key components:

- Experiences: provide members with a constant stream of inspiring products and experiences they can try.
- Expertise: the go-to place for the over 50s for subject matter expertise, providing information, inspiration, and expertise on topics that matter most.
- Everyday: To make the little things in life more enjoyable, easier and better value.
- Enhanced Saga products: Every product and service that Saga sells will have extra enhancements for our members.

We believe that the combination of our increasing customer insight, data capability and membership will be extremely powerful, helping us to focus our efforts on rewarding, retaining and growing our target customers and deepening our relationship with them. Our goal is to grow the number of products held by HACs by 20% over the next 5 years.

2 Growing profits in our retail insurance and travel businesses

We will maintain our focus on retail broking. Our third party panel members will continue to allow us to offer competitive retail broking products to a broader section of our target marketplace, while using enhanced insight from our customer work to improve our product offerings, encourage loyalty and grow multi-product holdings.

We will continue the work to ensure that Saga Holidays and Saga Cruises remain relevant by working with our customers to develop new propositions that appeal to them. High standards of customer satisfaction across the business will remain a priority, as will using our enhanced customer insight to increase retention of our valuable travel customers and their cross-sell ratios into other areas of the business.

3 Investing for future growth

In consultation with our customers, we have made further changes to the design of the new ship, which is on track for delivery in mid-2019, and the first cruises will go on sale later this year.

We will target further growth in our portfolio of Saga Money products and continue to develop our existing pilots in Saga Healthcare and Retirement Villages.

Our drive to improve the customer experience and efficiency of our insurance operations through the modernisation of our insurance sales and administration platform continues. The system will enable us to increase product differentiation within the insurance business, as well as provide our broking service more efficiently. We also expect to roll out our new claims platform this year.

4 Maintaining our efficient operating model

We will continue to focus on running the business in the most efficient way possible by growing earnings organically and continuing to carefully assess capital allocation. This will lead to a higher quality of earnings over time.

Additional efficiency savings will be delivered through investment in the new retail insurance system and a claims handling system, together with Group wide procurement projects.

5 Developing our people

We are continuing to invest in the development of our current employees, and to hire new talent where needed. We continue to instil the customer-centric culture that makes Saga different.

The ‘Leading the Saga Way’ Leadership Development Programme will be rolled out to the top 400 leaders across Saga.

People, culture and community

Saga people are core to our brand. We recognise that their energy, passion, and customer advocacy drives Saga's success, and we're incredibly proud of their ability and creativity. This year we've continued to invest heavily in our people, and focused key activities to embed The Saga Way further. It encourages our people to be brave and challenge, strive to deliver exceptional service to our customers, whilst creating a purpose and belonging to what we call The Saga Family.

We recognise the benefit of having highly energised and engaged employees who have shared values and believe in our products and services. We are delighted that 2016 was another solid year for employee engagement. Our annual engagement survey produced the highest level of employee participation: 81% of our employees responded to our survey and we maintained a sustainable engagement score of 81%, which was very encouraging. We continue to consistently out-perform the UK national norm.

We've continued to improve our employee value proposition providing our people with clear reward and career structures, with commitments from us that support them to grow with Saga, and enable us to attract high quality talent into our business.

We support people who want to learn. That's why in 2016 we developed our in-house learning and development calendar to maximise the learning opportunities at Saga. We've also spent 2016 investing in our leadership and management capabilities by introducing a development course, 'Leading the Saga Way', that's focused on embedding a high-performing and high-support culture in our organisation. Our top 100 leaders are working through this programme and we will soon be extending it to our 400 senior leaders. Building strength across our leadership team is essential for us to sustain our high levels of employee engagement and drive short and long-term business performance.

We're passionate about our people's progression at Saga, so we've continued to review talent at all levels every six months. We have also extended our succession pipeline to five to seven years to identify our rising stars, as well as training our managers to have honest career conversations, and set stretch objectives that support our employees' ambitions. We recognise that mobilising talent across Saga is essential in deepening our connection to our customers, innovating our products and services, and retaining talent within our business.

Celebrating success and rewarding exceptional performance is part of our culture, and our reward commitments underpin this.

We are committed to:

- making our rewards simple and easy to understand;
- rewarding great performance;
- being competitive and fair;
- creating flexible reward structures for all of the Saga family;
- making our rewards work for the long-term; and
- sharing our success.

We balance the need to attract and retain high quality talent essential to the Company's success with the need to manage costs, ensure we remain competitive and fair, and recognise exceptional performance. Close alignment of our people with our business is really important to us. That's why we have again awarded £300 worth of shares to our people so they can share in our success and are aligned with our business strategy. Our plan is to do this every year.

Gender diversity January 2017

	Male		Female		Total
	Actual	%	Actual	%	
Board[1]	6	75%	2	25%	8
Senior Managers[2]	118	67%	57	33%	175
Employees[3]	1,930	44%	2,564	56%	4,494
All	**2,054**	**44%**	**2,623**	**56%**	**4,677**

Notes:
1 Directors of the Company including executive and non-executive.
2 All divisional Directors, and employees with strategic input and influence.
3 All Saga employees (excluding Directors and senior managers).

Diversity and having an employee base that brings different perspectives, backgrounds and ways of thinking is very important to our business. Our policy is that full and fair consideration is given to applications for employment by all applicants, including those with disabilities, and for continuing the employment of employees who become disabled during employment. We are committed to treating all employees fairly and offering equal opportunities in all aspects of employment and advancement.

It's really important to us that our people speak up, get heard and we take action when necessary. That's why we've created channels that support two-way communication to understand what's working in Saga, and how we can continue to improve our business for both our customers and people. We've made great strides in 2016 to develop our internal communication plans so that we encourage the development of a 'One Saga' culture, whilst helping our people understand our strategic objectives and how they fit with them.

Our goal is to be the best employer in the South East and everywhere that we operate and we continue to have strong leadership commitment with a clear plan to deliver this.

Employee engagement
We focused on improving Talent Management, Culture and Reward & Benefits in our Group Employee Engagement Action Plan. We have worked very hard and are incredibly proud of everything that we have achieved so far.

"Working for a busy, customer focused company is a pleasure, and there seems to be a real effort to give something back to the employees these days, which is very refreshing and exciting."

"There is a deep respect amongst employees for Saga's customers – which has found a new voice in the Saga Way."

"I think the open opportunities available for those individuals who want to develop and progress are outstanding."

"What's the best thing about working here? The people, my colleagues."

Community and Social

We're proud to give something back. Saga is a major employer in Thanet, Folkestone, Hastings and Redhill. We recognise our responsibilities to the communities from which we draw potential recruits and also aim to be a good neighbour to local residents.

After seeking the opinion of many Saga customers and employees, we are proud that The Silver Line is Saga's first ever national charity partner. This is a great fit with our ethos as, like The Silver Line, making the lives of people better is at the heart of what we are here to do.

We make a real commitment to give back to the communities in which we live and work. In 2016 we supported a variety of local charities through allowing them to use our Pavilion at Saga's HQ – groups supported include the Cub Scouts which were celebrating their 100th anniversary. Titan Travel's local charity near Redhill was the Golden Lion Children's Trust; Destinology raised funds for The Bolton Hospice; and, Bennett's local charity has been Myton Hospice in Coventry. We have set up charity representatives at each site to help us coordinate activities and we have also introduced company matched funding to encourage people to participate.

During the year our contact centres were used for Children in Need and Sports Relief and the phones were manned by volunteers from across the business.

As a signatory to the Corporate Covenant we have polices that support employees who are members of the reserve forces or are spouses of those serving in our armed services. We also support local army, air and sea cadets and hold an annual Armed Forces day BBQ that raises money for: Royal British Legion; The Soldiers Sailors and Airmen's Families Association; Help for Heroes; and, Royal Navy and Royal Marines Charity.

The Saga Respite for Carers Trust has paid for respite care and provided holidays for 28 carers and their companions during the year.

This year the Saga Charitable Trust has provided 14 grants totalling over £200,000. Projects included courses for unschooled girls in India, the construction of a 12 bed children's home in Malawi and a farmer training programme in Peru.

Saga also has an important social commentary and campaigning aspect to the brand and we have spoken up on a number of issues that affect the nation's over 50s – GP waiting times, Stamp Duty exemptions for downsizing, employment of older people, pension changes, age discrimination and the social care crisis to name but a few.

We have also produced reports on topics including over 50s travel spend and the changing face of travel for those in retirement, and the future of pensions.

Saga is strictly non-party political but we do survey over 50s opinions of political topics. Our polling prior to the EU Referendum correctly predicted the outcome (52% vs 48%). Our polls also show that over 50s remain confident in the future and the Referendum did not dent their passion for travel.

Our insight is aided by the Saga Populus Panel – the largest poll of over 50s opinion. Since its inception in 2007, 1.3 million respondents have provided 24 million answers to a range of topical questions.

Human rights

Saga conducts business in an ethical and transparent way. Policies to support recognised human rights principles include those on non-discrimination, health and safety and environmental issues. Saga has a zero tolerance approach to bribery and corruption.

The Group is committed to transparency within our supply chain. We have carried out risk assessments and conducted due diligence on our material suppliers, full details of which will be included within our annual statement which will be published as stipulated under the UK Modern Slavery Act 2015. This statement will summarise our actions to address the risk of modern slavery and human trafficking within our own operations and those of our suppliers.

Health and safety

Saga is committed to protecting the health, safety and welfare of employees, customers and anyone affected by our operations. We have a positive health and safety culture and seek to improve continuously health and safety performance.

We meet our obligations through the development and implementation of suitable policies and procedures. Beyond this, everyone in Saga has a personal responsibility for health and safety and for performing the activities they undertake in a safe manner and this is regularly communicated.

Greenhouse gas emissions

This section of the annual report has been prepared in accordance with our regulatory obligation as a listed company to report greenhouse gas emissions ('GHG') pursuant to Section 7 of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

During the 2016/17 financial year, the Group emitted a total of 106,294 tCO_2e from fuel combustion (Scope 1 direct) and electricity purchased for our own use (Scope 2 indirect). This is equivalent to 89.9 tCO_2e per £m customer sales. We have also chosen to voluntarily report Scope 3 emissions arising from our business travel, which contribute 425 tCO_2e.

The table above shows our GHG emissions for the year ended 31 January 2017.

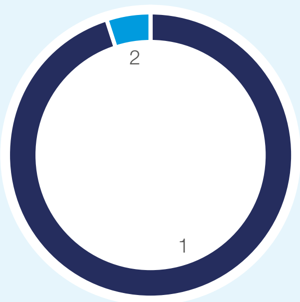
Greenhouse gas emissions in tonnes of carbon dioxide (tCO_2) or carbon dioxide equivalent (tCO_2e)

	2016/17 Emissions	2015/16 Emissions[1]
Scope 1	100,951 tCO_2e	100,692 tCO_2e
Scope 2 (location-based)	5,343 tCO_2e	6,235 tCO_2e
Total Scope 1 & 2	106,294 tCO_2e	106,927 tCO_2e
tCO_2e per £m customer sales	89.9	94.8
Scope 2 (market-based)[2]	658 tCO_2	1,078 tCO_2
Scope 3	425 tCO_2e	1,637 tCO_2e

Notes:
1 2015/16 Scope 1 emissions have been restated, following a review of fugitive gas emissions; emissions factors have been identified for all gases that have a global warming potential.
2 Emissions from the consumption of electricity outside the UK and emissions from purchased electricity calculated using the market-based approach using supplier specific mission factors are reported in tCO_2 rather than tCO_2e due to the availability of emission factors.

Total location-based emissions (2016/17)

1 Scope 1 **95%**
2 Scope 2 **5%**
3 Scope 3 **0%**



Methodology

We quantify and report our organisational GHG emissions in alignment with the GHG Protocol, which includes alignment with the Scope 2 Guidance (reporting Scope 2 purchased electricity using both the location-based and the market-based methodology).

The UK Government 2016 Conversion Factors for Company Reporting have been utilised in order to calculate Scope 1, Scope 2 (location-based) and Scope 3 emissions from corresponding activity data. IEA emissions factors have been used for the conversion of consumption from Bel Jou in St Lucia for the period that it was under control of Saga plc. Supplier-specific emissions factors have been applied for the calculation of Scope 2 market-based emissions, where available.

Emissions factors have been sourced from the US Environmental Protection Agency (EPA) for refrigerant gases that do not have an emissions factor in the UK Government database to ensure that all gases that have a global warming potential are accounted for.

Reporting boundaries and limitations

We consolidate our organisational boundary according to the operational control approach and have adopted a materiality threshold of 5% for GHG reporting purposes.

The GHG sources that constitute our operational boundary for the 2016/17 reporting period are:

- Scope 1: Natural gas combustion within boilers, marine fuel combustion within ships, road fuel combustion within vehicles, fuel combustion within non-road mobile machinery and fugitive refrigerants from air-conditioning equipment
- Scope 2: Purchased electricity consumption for our own use
- Scope 3: Business travel from grey fleet.

Diesel used in non-road machinery was previously not reported due to lack of data availability, but is now recorded and will be reported from 2016/17 onwards. Scope 3 business travel emissions from rail and air have been identified, but not included in our disclosure due to a lack of accurate data.

Assumptions and estimations

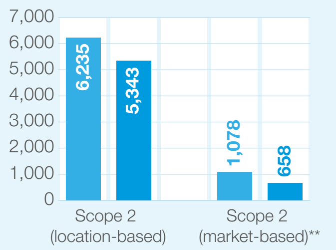
During this reporting year the Bel Jou hotel in St Lucia was sold on 20 July 2016. No data was available for Bel Jou's operations in 2016/17 due to the change in ownership. The emissions for the period of the year in which Bel Jou was part of the Group have been estimated using data from 2015.

In some cases, where data is missing, values have been estimated using either an extrapolation of available data from the reporting period or data from 2015 as a proxy.

Energy procurement decisions

The following graph shows the Group's Scope 2 emissions from purchased electricity, which have been calculated using both the location-based and the market-based methodologies.

Scope 2 electricity emissions by reporting type



Saga purchases electricity for the majority of its buildings from a 100% renewable supply from Haven Power. The remainder of the UK electricity is supplied by SSE, which has a cleaner fuel mix than the UK average. The dual reporting of our emissions in this way demonstrates the impact that selecting these suppliers has on our GHG emissions, and that we are making efforts to reduce our climate impact through the purchase of electricity generated from cleaner sources.

Improving performance

Saga actively monitors and manages its carbon impact. Our shipping business has seen a reduction in marine fuel usage by 3% through careful route planning; there have however been unforeseen leakages in refrigerant which have mitigated these reductions. There are reductions in fleet fuel usage and business mileage, and the sale of Allied Healthcare and the Bel Jou hotel have reduced electricity use by 15%. In our main office sites, there are ongoing initiatives to reduce utility use. These include, but are not limited to, a programme replacing all office lighting with LED, ongoing use of voltage optimisation in large sites, active management of building management systems to control carefully main building infrastructure and a capital infrastructure programme to replace old inefficient equipment with modern energy efficient systems. There is a continued use of electric vehicles in our maintenance fleet, and, where practical, active initiatives to switch off unused equipment. The management of our carbon impact has seen an improvement in the score calculated by the Carbon Disclosure Project and Saga now has a 'B' score which benchmarks well with comparable UK based companies. There is a long-term plan to further improve that score targeting an 'A' score in 2019. Overall our Scope 1 and Scope 2 emissions have reduced by 0.6% compared with last year.

Supplier partnerships

These relationships are fundamental to our business model. We work very closely with our suppliers to deliver the products and services to the standard our customers expect.

Once we have designed and tested products and services, we decide how best to source them for our customers – in-house or from a third party.

We are not a commission-based business. We design bespoke products ourselves then look for the best possible partners to supply them, comparing them for service and value. Over time we can move if more appropriate, or better, partners become available. Our partners work with us in this way because it is a mutually advantageous relationship – they benefit from our brand, customer knowledge and access to an attractive target market. Saga, and its customers, benefit from our partners' expertise and resources. This also means that we maintain responsibility for delivery and continue to own the relationship with our customers, ensuring we can manage the customer experience at all times.

Our principal risks and uncertainties

Risk governance
We have agreed with the Board systems and processes to govern our approach to risk management. These systems specifically encompass ensuring an effective risk assessment and management system is in place; agreeing the principal risks and uncertainties the business should accept in pursuit of its strategic objectives and regularly reviewing the status of these; ensuring a suitable risk culture is embedded throughout Saga; and frequently assessing the effectiveness of the Group's risk management systems, including essential levels of internal and external risk communication. Our approach and these processes are set out in more detail in the Accountability section of our Corporate Governance Statement on pages 54-57 of this annual report.

We believe that enhanced sustainability and shareholder value will come through achieving the optimum balance between risk and reward. Our divisions face a range of risks and uncertainties that could impact their strategic objectives, some common to the Group as a whole and others unique to the particular business or operation. It is therefore imperative to have a risk management policy and framework capable of assessing and monitoring these risks and uncertainties individually and in aggregate against an agreed risk appetite to ensure management within agreed tolerances.

Risk appetite
Our risk appetite, reviewed annually, defines the amount and sources of risk which we are willing to accept in aggregate in pursuit of our objectives. We express our overall attitude to risk using the following dimensions:

Financial strength
We aim to maintain an appropriate buffer of capital resources within the Group and, where relevant, within our legal entities, to ensure that we are able to absorb reasonable operational variation and meet regulatory thresholds.

Earnings volatility
We have a low appetite for volatile earnings and have established limits representing the maximum amount of acceptable variation in earnings during our planning cycle.

Liquidity
We aim to maintain a prudent level of free cash and committed borrowing facilities so that all entities in the Group have rapid access to funds when needed.

Conduct
We recognise that our continued success depends on maintenance of our brand, and reputation for quality service with our customers. We therefore strive to eliminate any systemic unfair customer outcomes as a result of failures in the product, marketing, sales or service delivery systems and processes, or cultural shortcomings.

Customer growth
Our goal is to know as many of our target customers as possible so we have a low appetite for actions or events which lead to a low growth or reduction in the number of our target customer contacts.

We further describe our attitude towards the following main categories of risk that we encounter through carrying out our business:

Market risk
We seek some market risk through our investment activity and seek to earn returns commensurate with our risk appetite. We have limited appetite for foreign exchange risk, commodity price movements and interest rate movements and actively manage these to reduce risk where possible.

Credit risk
Our practice of working with external counterparties, such as intermediaries, risk management activity (such as reinsurance and hedging) and deposit making introduce elements of credit risk. We have a low appetite for credit risk but are prepared to accept it to some extent where it is necessary to achieve our business objectives.

Liquidity risk
Through our daily operations we are exposed to needs for liquidity and we have a low appetite for this risk. We will therefore accept, but actively seek to manage, liquidity risk to ensure a minimum financial buffer is maintained in pursuit of our objectives.

Insurance risk
We actively seek measured amounts of insurance risk in business lines where we have appropriate expertise and expect to be appropriately rewarded for accepting the risk. We will accept limited insurance risk for personal injury risks that we feel we have the expertise to underwrite and manage and will accept non-life insurance risks that we have the relevant expertise in.

We enter into certain reinsurance arrangements, including the new funds-withheld quota share arrangement with NewRe, to reduce our exposure to large losses and any potential deterioration in claims development.

Strategic risk
We operate in a dynamic business environment and accept that we are exposed to a number of strategic risks. We will actively seek to grow our business in areas which present sustainable growth opportunities and where we have demonstrable expertise.

Mergers and acquisitions risk
We aspire to levels of business growth which may require us to consider merger and acquisition opportunities from time to time. Where these arise in areas where we have expertise we will consider them and establish suitable risk tolerances in each case.

Operational risk
We actively seek some logistical risks where we believe that we have expertise and will be rewarded for taking them. We have a very low appetite for risks which threaten our reputation and will only engage in regulated activities where we have the expertise to manage them effectively. We define our risk appetite for certain specific areas of operational risk as follows:

Health and safety
We have zero appetite and a low tolerance for health and safety risks and we will do all that is reasonably practicable to prevent personal injury and danger to the health of our employees, customers, and others who may be affected by our activities.

1 Becoming increasingly customer-centric
2 Growing profits in our insurance and travel businesses
3 Investing in future growth
4 Maintaining our efficient operating model
5 Developing our people

Cyber security

We recognise the need to utilise technology to achieve our business objectives. We are, however, focused on maintaining a robust and secure IT environment, with particular attention being paid to avoiding loss of customer, employee and other business confidential data, and interruption of customer service. We, therefore, have zero appetite and very low tolerance for risks that could breach our security measures and threaten the security of our systems and data.

Separate risk appetite statements and risk tolerance thresholds have also been created for each business in Saga, customised to their business needs and complementary to the Group's tolerances.

Risk appetite statements and risk tolerances are central to our decision making processes and are a point of reference for all significant investment decisions.

Principal risks and uncertainties	Strategic priorities linkage and risk movement	Specific concerns	Response/mitigation
IT systems and processes	1 2 3 4 ← →	Failure of our core IT systems to deliver required performance stability and resilience.	We have allocated specific investment for refreshing our IT Infrastructure and continue to strengthen our core IT team and processes.
		Inability to develop digital offerings sufficient to drive innovation and growth.	Digital innovation remains a core focus at Group and business level with continued investment during 2016 in system development and supporting resource.
Cybercrime	1 2 3 4 ← →	Cybercrime attacks cause breach/loss of sensitive data assets and prevent achievement of objectives.	We have continued to strengthen our Information Security team and protective counter measures during 2016 and our approach has been validated through a third party audit. Saga's continuous improvement programme is in place to ensure protections continue to be appropriate.
Database	1 2 3 4 ← →	Compliance with the incoming EU Data regulations (GDPR).	We have mobilised a programme of work to make any further improvements necessary to ensure compliance.
People	1 2 3 4 5 ← →	Our culture does not deliver the Saga brand.	We have redefined our brand and cultural values and cascaded these throughout the Group. We have created a further two year plan to ensure that these values are completely embedded group wide.
		We do not attract and/or retain the right people to achieve our objectives.	A revised people strategy has been introduced, designed to address attraction and retention issues across the Group and to ensure a pipeline of future talent at all levels.
Operational efficiency/ change/ innovation	1 2 3 4 ← →	Failure to accrue expected benefits from operational/ change initiatives.	We have added further resource to our dedicated change management function, and enhanced our change management governance to ensure change is managed consistently and effectively. Operational and change initiatives are reviewed at all governance and trading meetings and mitigating steps taken where appropriate.
		Failure to maintain existing shipping fleet at a level to meet both customer expectations and plan.	A 'beyond compliance' maintenance programme covering all aspects of our ships is overseen at Group level and reported weekly via our governance structure. Regular refits and overhauls ensure our ships are resilient and offer the quality of product our customers expect.
		New ship does not fully meet business/customer needs.	We have created dedicated product development and transition planning projects to ensure our customer needs are fully understood and met.
Business interruption	1 2 3 4 ← →	Reputational damage arising from ineffective handling of interruption incidents.	We have reinforced our Business Continuity team and continue to test and revise our Business Continuity Plans to address all aspects of potential interruption scenarios.
	2 3 4 ← →	Loss arising from shipping technical failure or maritime incident.	Our 'beyond compliance' safety and maintenance programme covering all aspects of our ships is overseen at Group level and reported weekly via our governance structure.

Our principal risks and uncertainties continued

Principal risks and uncertainties	Strategic priorities linkage and risk movement	Specific concerns	Response/mitigation
External regulatory landscape/ political change	1 2 3 4	Breach of regulation governing our operations.	Dedicated Compliance teams are embedded in all regulated businesses and are responsible for monitoring compliance performance. Teams exist at Group level to ensure Group compliance with key legislation such as the Health and Safety at Work Act.
		Inability to respond to regulatory change affecting our business.	Saga has a diversified business model to lessen the potential impact of changes affecting one product or service. Emerging and horizon compliance risks are tracked by the dedicated business compliance teams and raised at all governance forums.
	1 2 3 4 5 New	UK decision to leave the EU negatively impacts our business models.	We have created a task force to assess and respond to change arising from the implementation of 'Brexit'.
Counterparty	1 2 3 4	Inability of key partner to provide appropriate service leading to failure to produce anticipated benefits and reputational damage.	Saga controls its third party supply quality through contractual terms and agreed service level agreements. Adherence to these documents is monitored through internal and external audits, Customer 'moments of truth' surveys and customer complaint review. During 2016 we refreshed our selection, monitoring and due diligence processes in place for all key partners/suppliers.
Insurance landscape	1 2 3 4	Inability to compete with insurance competitors.	Competition within the Insurance market remains intense. To counteract this, we control the underwriting process for both broking and insurance operations, thereby allowing us to compete on policy terms and price where appropriate.
		Rates in the motor insurance market do not move as expected.	We continue to run a motor panel arrangement, thereby increasing competitiveness and reducing risk. We continuously review AICL risk appetite to consider non-standard risks where they are understood.
		Claims experience is adverse compared with current best-estimate assumptions.	We adopt strict underwriting criteria to price our risks, and review our claims and reserve development frequently. We also purchase reinsurance to reduce claims volatility, including the new funds-withheld quota share arrangement.
Conduct/ customers	1 2 3 4	Our behaviour results in poor/ unacceptable outcomes for customers.	Saga's governance structure is built on the premise of customer dedication with regular consideration of customer satisfaction throughout the organisation.
Macroeconomic climate	1 2 3 4	Changes in the macroeconomic climate impact our customers' inclination/capability to purchase our products and services.	The impact of external economic factors on costs and customer demand are closely monitored throughout the group and necessary changes are made to products and services regularly.
	2 3 4	Investments do not yield expected returns.	We manage its investment portfolio through an investment committee which ensures a spread of risk and optimal returns.
Travel landscape	1 2 3 4	Inability to offset product commoditisation with agile pricing and yield management.	We have focused on improving our efficiency and flexibility during 2016, to allow us to bring the right products to the market at the right time.
		Failure to enhance customer propositions and brand perception to drive more first time buyers and additional revenue streams.	Detailed reviews of customer wants and needs have been undertaken and work is ongoing to create products which meet both existing customers' and first time buyers' requirements.
		Failure to create expected customer demand for future shipping capacity.	We undertaken comprehensive customer research to understand future expectations and have marketing and sales development plans in design to deliver increased demand. We have a Transformation Programme in place to create appropriate service offerings and operation and marketing plans for the new vessel when it is delivered.

A busy year

Everything we have achieved this year has been a result of the successful implementation of the clear strategy.

Put simply we have continued to grow earnings from our core businesses and invest in future growth whilst focusing on our customers journey.

Retail broking

Our retail broking business provides tailored products and services, ranging from motor to pet insurance, to millions of customers each year.

Retail broking profit
£138.0m
+9.1%

Policy count
3.0m
+3.2%

Persistency rate – Motor
69.2%

Profit per core policy
£46.0
+5.7%

Persistency rate – Home
74.6%

Retail broking

Our retail broking business provides tailored products and services, ranging from motor to pet insurance, to millions of customers each year. Its role is to develop tailored products, price them to the customer and then source the cheapest cost of risk. This is achieved through our panels of third party insurers, which operate across both our motor and home businesses, or through solus arrangements, for example in travel or private medical insurance. Our in-house underwriter, AICL, sits on both motor and home panels and competes for the business on equal terms. If underwritten by a third party, the product is manufactured as a Saga product, and the customer interaction will always be managed by us. This approach to sourcing underwriting gives us the flexibility to operate a portfolio of products that takes advantage of, or protects against, prevailing market conditions at any given time. Overall the business performed strongly, with profit before tax increasing by 9.1% to £138.0m (2016: £126.5m).

Motor broking

We have delivered a strong improvement in motor broking profitability, growing profit before tax by 58% to £45.2m (2016: £28.6m). This was driven by a combination of improved yield management, improved efficiencies in marketing and operations and the benefit of the motor panel.

The introduction of the motor panel in summer 2015 has driven £3m of additional profit in the year, with around 30% of net premium for renewal policies being placed with third party underwriters by the end of the year. These policies tend to be for younger, higher risk drivers, meaning we are able to achieve a higher margin in our broking business without the need for holding capital in our underwriter.

The enhancement of our customer understanding is assisting in focusing retention and acquisition efforts on customers who are expected to add the greatest value to the Group. We have focused a greater marketing effort during the year on these core customers.

Home broking

The UK home insurance market continues to be highly competitive, with limited evidence of premium inflation in the market. Despite these difficult conditions, we chose to maintain policy volumes with a small reduction in profits. Profit before tax decreased to £61.2m (2016: £63.4m).

The combination of the panel, including our underwriter, participating on a no risk basis through our co-insurance and reinsurance arrangements, enables us to access a competitive cost of risk with no downside underwriting risk.

Other broking

Within other insurance (primarily private medical insurance ('PMI') and travel insurance), customer numbers have been stable and profit before tax was £31.6m (2016: £34.5m).

PMI performed strongly with high levels of persistency and robust demand. As part of our ongoing drive to enhance the customer proposition, we have continued to improve the GP fast track service and have extended the GP helpline facility. These popular initiatives are not widely available, and demonstrate our knowledge of our customer base, and our expertise in delivering bespoke products that particularly appeal to our demographic.

In travel insurance, we saw some weakening of demand in the latter part of the year, and some pressure on net rates, as the effects of the currency move worked through. The differentiated aspects of our travel insurance product range have ensured that our offering has remained popular with customers. This includes a recent add-on that significantly reduces the cost of car insurance, and access to our travel hub.

Both our travel insurance and PMI products play an important role in the Group's customer acquisition strategy, allowing us to reach high affinity customers with the resources and time both to travel and invest in their health. We are applying our new customer insight in a way that is already enhancing cross-sell between our insurance and travel businesses.

Current trading in retail broking

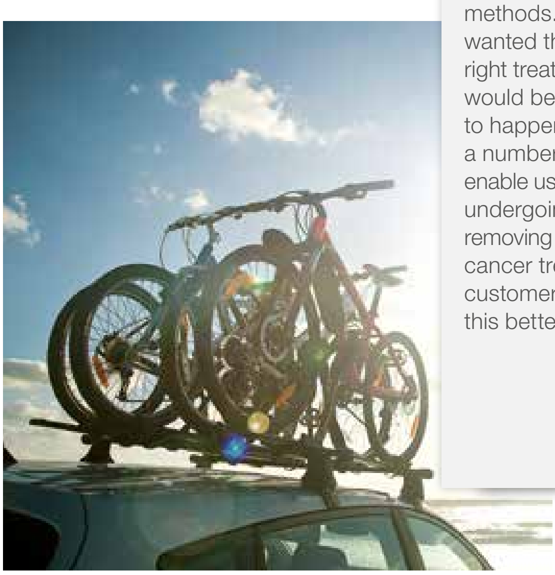
Given our varied retail broking product lines, we always experience varying market conditions in different businesses. Overall, we have seen a very positive start to the year on motor premiums, with strong upwards movement on new business. This is currently running in excess of claims inflation, and sets us on a strong footing to improve motor broking profits during the year. We have recently started to see the effects of the Ogden rate change being reflected in premiums across the market and affecting the net rates on the panel. However, this will take time to work through.

Home has continued to be difficult, with limited sign of premium inflation against a backdrop of claims inflation. Therefore, we expect another tough year for this market, particularly given the benign weather conditions over the winter period.

PMI is progressing well. Concerns over the NHS, and its ongoing funding, are leading to higher levels of interest and quotes. We expect this to continue, but with demand increasing on the private sector, we may see the emergence of increasing claims frequency and inflation.

Travel insurance demand is stable. We are starting to see the impact of sterling depreciation, which is filtering through to higher prices and may suppress demand going forward.

Overall, we remain positive on trading for our retail broking business for the coming year.



Case study: Our insight leads to development of our private medical insurance product

Cancer treatment has significantly advanced in recent years, and insight from our customers and specialist nurses told us that our cancer cover could be improved, given the rapid advances in modern treatment methods. Our customers said they wanted the peace of mind that the right treatment for their circumstances would be covered if the worst were to happen. We have therefore made a number of changes to our cover to enable us to better support customers undergoing treatment; these include removing the limits from our outpatient cancer treatment cover and allowing customers to be treated at home if this better suits their needs.

What this means for our customers

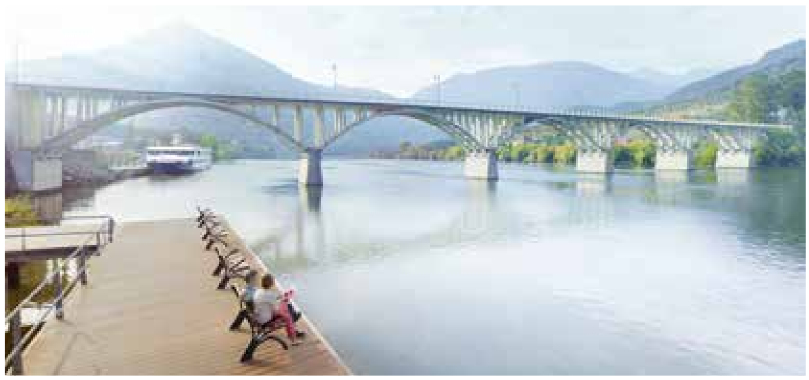
With no limits on outpatient cancer care, our customers can be assured that we're there to support them through the most challenging times, and that access to treatments that provide them with the best chance of recovery will be fully covered by their insurance. Having treatment at home, for example chemotherapy being administered by specialist nurses in the home rather than in a hospital, can be less traumatic and more convenient for some customers at what is clearly a difficult time.

How this helps us deliver our strategy

By seeing the world through our customers' eyes, we've created a new benefit that delivers on our goal to develop products that are focused on what our customers truly need, to ultimately exceed their expectations, particularly at the most important times of their life.

Underwriting

Our underwriting business remains a critical part of our business. Its expertise in pricing older, lower risk drivers, means that its high quality book has a track record of generating consistent earnings.



Underwriting profit
£73.1m
-13.1%

Solvency II coverage ratio
143%
-27%

Pure COR
94.7%
-4.7%

Reserve releases
£59.9m
-7.4%

Insurance underwriting

AICL, our underwriter, retains its competitive advantage and high panel share of older, lower risk drivers; as a result, it remains a vital part of the Group. Its rigorous focus on these drivers, along with ongoing efficient management of claims, has led to an excellent underwriting result. AICL targets a 3% return on net premiums and a strong return on equity, which it has consistently delivered over many years. The excellent management of claims costs has also delivered a high level of reserve releases. Profit before tax was £73.1m (2016: £84.1m), with the reduction due to reducing reserve releases and the first year of cost associated with our new quota share arrangement.

AICL's high quality book has a track record of generating consistent earnings for the Group. The implementation of the quota share arrangement with NewRe, covering 75% of the downside risk of all motor policies written from 1 August 2015 for accidents occuring from 1 February 2016, has decreased our ongoing capital requirements for this business, lowering both risk and volatility. This has given us further confidence that AICL can continue to provide a solid contribution to our earnings in the future.

Reserve releases

With our clear targeted returns within AICL, the net pricing provided to the retail broking business provides flexibility in pricing to customers, and retains a large proportion of the Group's earnings within broking activities.

We have seen a decrease in reserve releases from £68.0m to £63.0m (excluding the Ogden effect) during the year, and we expect the importance of reserve releases in Group earnings to decline gradually over coming years.

Ogden discount rate change

On 27 February 2017, the government announced the reduction in the Ogden discount rate, used to value long term liabilities, from 2.5% to minus 0.75%. Within the existing reserve surplus, AICL had already assumed a significant reduction in this rate. When combined with the relatively low and severity of claims for our underwritten drivers, the net additional impact on the Group was limited to £4m.

Travel

Our award winning travel business is at the heart of the Saga brand, taking passengers all over the world on package holidays, escorted tours and cruises.

Revenue

£432.0m

+2.1%

Operating margin

3.45%

+0.26%

Passengers – Holidays

190k

+0.5%

Profit before tax excluding derivatives

£14.9m

+10.4%

Passenger days – Cruising

301k

-11.2%

Travel

This year, our multi award winning travel business took over 211,000 customers around the world, as well as taking home 65 awards at UK travel awards and continuing to receive exceptionally high levels of positive feedback from customers. The business maintained its trajectory of profitable growth, and is expected to approach its stretch target of doubling profits to £40m one year early by the end of FY 2018. Overall, profit before tax excluding derivatives in travel increased by 10.4% to £14.9m (2016: £13.5m). Our new target is to grow profit before tax in the travel business by four to five times over the next five years.

Tour operating

We have delivered excellent earnings growth within our tour operating business, with profit before tax increasing by 32% to £11.5m (2016: £8.7m). We continue to see a shift in the mix of sales to longer-haul, higher-value products, as customers look beyond some of the more traditional holiday destinations. This demonstrates that our customers continue to value the security that products such as our river cruising and guided holidays offer – highly differentiated and tailored for the needs of our demographic.

The customer focused approach is key here, and, based on deep customer insight, we have developed four thematic product segments that we can apply and then tailor to the majority of our customer base. These are: Go For It, Discover, Unwind and Stay and Explore. By broadening our offering within these categories, we are also succeeding in attracting younger, first time buyers to the brand.

The profile of these customers tends to be higher value, making them a natural fit for cross-selling and our membership scheme. Combined with the optimised digital approach the travel business is taking with its online offering, this is providing a quality customer acquisition route as part of the Group's wider strategy.

Case study: New cruising capacity

The new ship investment has given the Cruise business a "once in a lifetime" opportunity. Not only are we designing and building a modern cruise ship with the obvious benefits of latest technology and expertise but we also have the opportunity to take a close look at our current customer proposition to ensure it meets the needs of both existing customers and the needs and aspirations of future customers.

As a result, from the very outset, customers have been central to our design and review process and we continue to work with a panel of both current Saga cruisers and non Saga cruisers to ensure we are on the right track. This has made us fundamentally re-think certain design elements, for example bar concepts, onboard and offshore services and indeed the variety of food and entertainment options required. At a more detailed level our customers have identified numerous small design details... some practical, some visual and some just plain common sense. Internally we refer to these as our "100 small design details, whilst individually not significant, altogether make a huge design statement".

Our belief is that this process of continuous customer input will create not only one of the most elegant and sophisticated cruise ships afloat but also one of the most practical and well thought out.

Trading to week ending 18 March 2017

	2017/18	Growth	2016/17
Tour operating revenue £m	**275.9**	*8.2%*	254.9
Tour operating passengers	**142.6**	*1.1%*	141.1
Cruise revenue £m	**76.0**	*8.0%*	70.4
Cruise passengers	**22.1**	*15.7%*	19.1

Cruising

Cruising remains essential to Saga's brand and customer offering. Our two cruise ships, the Saga Sapphire and Saga Pearl II, had another good year with exceptionally high customer satisfaction levels. We have significantly improved the yield management of our ships. While load factors have reduced marginally to 82%, we have increased the per diem rates by 8% through various value enhancements to the cruise product offering, including free wine with lunch and dinner, a newly established cruise services team and other enhancements to the customer experience.

We continued to invest in the resilience of the cruise ships, with the scheduled maintenance of the Saga Sapphire during the year impacting profit by c.£5m, as expected.

We remain very excited about the prospects for the new ship, with the project on track. As part of the design project, we are undertaking significant customer research. The results so far have proven hugely helpful and informative to both product and proposition design, and will ensure that the experience remains relevant for customers well into the future.

The first itineraries for the new ship will be going on sale later this year. We have already had over 10,000 customers register their interest in our new ship with over 50% securing their place on the first set of itineraries with payment of a deposit. Indeed, these 10,000 registered customers would equate to filling our first 12 cruises.

Current trading

Our travel business has excellent visibility due to our customers' propensity to book holidays far in advance. In both tour operating and cruising, we have already secured the substantial majority of our FY 2018 sales targets. Reservations for departures in FY 2018 as at 18 March 2017 are 8% ahead of the comparable reservation position one year ago. As previously noted in our post-Brexit poll, less than 1% of our customers said that they were reconsidering their future holiday plans as a result of the referendum result.

Cruise capacity is 5% higher year on year, with the 63 days of Sapphire wet dock in 2016/17 being followed by two dry docks in 2017/18, meaning that 41 days of trading will be given to further ship investment in 2017/18.

Emerging businesses

Emerging businesses includes our personal finance, homecare, publishing and printing operations as well as new development areas for the long-term growth of the business.

Continuing to invest for future growth
Saga is learning its way into three new categories, all of which have the capacity to contribute materially for us in future: money, health and retirement villages.

Money: this business is made up of a variety of products – credit cards, equity release, savings, loans and wealth management. The team is working on some exciting new products for test in 2017, based on our clear understanding of what our customers want.

Healthcare: Saga operates a number of brands in the homecare sector, where we look after you in your own home. Fastest growing is Saga Healthcare, which operates in a trial area around Hertfordshire. During 2017, we will be cautiously expanding the area covered and the number of Saga customers we serve.

Retirement villages: since 2015, we have worked closely with Wadswick Green in Wiltshire, helping them meet Saga customers and explain the benefits of dedicated village living to them. This relationship has been mutually successful, and we are now considering expansion deeper into the category.

> The strong set of results continues to demonstrate our ability to grow earnings and increase dividends whilst reducing our leverage.

I am pleased to report that the Group has delivered another strong financial performance, with profit before tax from continuing operations 9.7% higher at £193.3m. Excluding derivatives and the one-off impact of Ogden rate change, profit before tax increased by 5.6%. Strong cash flows have enabled us to further deleverage to 1.9x from 2.3x at the start of the year, with net debt reducing from £547.7m to £464.8m. Based on these results and our positive expectations for the business, we are proposing to increase our final dividend to 5.8p, leading to growth in the full year dividend of 18.1% to 8.5p per share.

Income Statement

Group Income Statement	12m to Jan 2017	*Growth*	12m to Jan 2016
Revenue	**£871.3m**	***(9.5%)***	**£963.2m**
Trading EBITDA[1]	**£246.1m**	*3.1%*	£238.8m
Depreciation & amortisation (excluding acquired intangibles)	**(£33.1m)**		(£27.8m)
Trading Profit	**£213.0m**	*0.9%*	£211.0m
Non-trading costs	**(£1.9m)**		(£3.3m)
Amortisation of acquired intangibles	**(£6.5m)**		(£6.3m)
Net finance costs	**(£17.2m)**		(£24.0m)
Profit before tax excluding derivatives and Ogden impact	**£187.4m**	***5.6%***	**£177.4m**
Net fair value gains/(losses) on derivatives	**£9.9m**		(£1.2m)
Ogden rate change impact	**(£4.0m)**		–
Profit before tax from continuing operations	**£193.3m**	***9.7%***	**£176.2m**
Tax expense	**(£36.0m)**	*28.1%*	(£28.1m)
Loss after tax for the year from discontinued operations	**–**		(£6.9m)
Profit after tax	**£157.3m**	***11.4%***	**£141.2m**
Basic earnings per share:			
Earnings per share from continuing operations	**14.1p**	*6.0%*	13.3p
Earnings per share	**14.1p**	*11.0%*	12.7p

Note:
1 Earnings before interest payable, tax, depreciation and amortisation, non-trading items and fair value gains and losses on derivative financial instruments.

Revenue from continuing operations decreased by 9.5% to £871.3m (2016: £963.2m), due to the accounting for the new funds-withheld quota share agreement in motor insurance. Our total customer spend with Saga increased by 4.7% to £1,182m (2016: £1,129m), which includes gross written premiums and insurance premium tax for all insurance policies sold.

Trading EBITDA grew by 3.1% to £246.1m (2016: £238.8m), with the current period incurring a profit impact of approximately £5m from the scheduled Saga Sapphire maintenance. Trading Profit increased by 0.9% to £213.0m (2016: £211.0m), with depreciation and amortisation increasing by £5.3m due to investment in the ongoing maintenance of both ships and in software. Now that the impact of IPO expenses seen in previous years has diminished, and the amortisation of intangibles acquired with the Destinology and Bennetts businesses has reached a steady state, profit before tax has replaced Trading Profit as the Group's key performance measure.

Profit before tax, excluding derivatives and the Ogden rate change impact, increased by 5.6% to £187.4m (2016: £177.4m), benefiting from a decrease in finance costs of £6.8m as a result of high levels of cash generation enabling continued deleveraging and a reduction in LIBOR, coupled with a £1.4m reduction in non-trading costs.

Profit before tax from continuing operations for the year was £193.3m, an increase of 9.7%, which was further impacted by gains on derivative instruments that do not meet the criteria to qualify as hedges for accounting purposes, and a £4.0m profit impact from the change in the Ogden discount rate from 2.5% to -0.75% that was announced by the UK Government on 27 February 2017.

Net finance costs

Finance costs in the year were £17.2m (2016: £24.0m), with the reduction due to lower interest costs on lower average borrowings, a lower charge associated with the pension scheme and the ending of the charge associated with the unwinding of the discount on the deferred consideration associated with Destinology.

Tax expense

The Group's tax expense for the year was £36.0m (2016: £28.1m) representing a tax effective rate of 18.6% (2016: 15.9%). The current year benefited from a £2.7m one-off positive impact from the utilisation under group relief rules of tax losses brought forward from the Allied business that was disposed of on 1 December 2015. The prior year benefited from a £7.6m one-off reduction in the tax expense due to the utilisation under group relief rules of tax losses from Acromas, which arose when Saga was a part of the Acromas Group. Going forward the tax charge is likely to be more in line with the underlying corporation tax rate.

Earnings per share

The Group's basic earnings per share were 14.1p (2016: 12.7p), with basic earnings per share from continuing operations for the same period of 14.1p (2016: 13.3p).

Dividends

The Directors have proposed a final dividend of 5.8p per share, which, combined with the interim dividend of 2.7p per share, will deliver a total dividend for the financial year ending 31 January 2017 of 8.5p per share (2016: 7.2p). This equates to a payout ratio of 62%[2] compared with the Group's basic earnings per share from continuing operations, excluding derivatives and the Ogden rate impact (2016: 57% excluding the one-off benefit of Acromas tax losses).

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 5 June 2017.

2 Based on profit after tax excluding derivatives and Ogden impact.

Cash flow and liquidity

The Group delivered an excellent cash flow performance in the year to 31 January 2017, achieving an available operating cash flow of £217.6m, 88.4% of Trading EBITDA. This cash flow increased by £39.5m on the previous period, driven by a higher payout from AICL as a result of the historical, strong underlying solvency capital position and the initial impact of the quota share on solvency capital. The working capital outflow in the current year included the payment to Acromas for tax losses recognised in the prior year.

Available Cash Flow	**12m to Jan 2017**	*Growth*	12m to Jan 2016
Trading EBITDA	**£246.1m**	***3.1%***	**£238.8m**
Less Trading EBITDA relating to restricted businesses	(£109.9m)	*14.7%*	(£95.8m)
Intra-group dividends paid by restricted businesses	£115.0m	*94.9%*	£59.0m
Working capital and non-cash items	(£13.6m)	*267.6%*	(£3.7m)
Capital expenditure funded with available cash	(£20.0m)	*(1.0%)*	(£20.2m)
Available operating cash flow	**£217.6m**	***22.2%***	**£178.1m**
Available operating cash flow %	88.4%		74.6%

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

	12m to Jan 2017	12m to Jan 2016
Net cash flow from operating activities (reported)	**£138.5m**	£150.4m
Exclude cash impact of:		
Trading of restricted divisions	**(£62.4m)**	(£61.5m)
Cash released from restricted divisions	**£115.0m**	£59.0m
Non-trading costs	**£5.9m**	£13.4m
Interest paid	**£15.6m**	£21.6m
	£74.1m	£32.5m
Include capital expenditure funded from available cash	**(£20.0m)**	(£20.2m)
Exclude 'non-operating' interest and tax cash flows	**£25.0m**	£15.4m
Available operating cash flow	**£217.6m**	**£178.1m**

Financing

Continued strong cash flows have enabled the Group to reduce its ratio of net debt to Trading EBITDA to 1.9 from 2.3. As at 31 January 2017, net debt was £464.8m, comprising £380.0m of gross debt and £100.0m of drawn revolving credit facility, offset by £15.2m of available cash. This compared with net debt as at 31 January 2016 of £547.7m, comprising £480.0m of gross debt and £75.0m of drawn revolving credit facility, offset by £7.3m of available cash.

It is the Group's intention to maintain a debt ratio of between 1.5 and 2.0 up to the delivery of the first ship expected in mid-2019. The Group is on track to reduce its debt to the lower end of this range before any debt associated with the ship is drawn down.

Pensions

Over the year, the valuation of the Group's pension scheme has strengthened on an IAS19R basis by £5.1m to a deficit of £13.7m (January 2016: deficit £18.8m).

Saga Scheme	**12m to Jan 2017**	12m to Jan 2016
Fair value of scheme assets	**£276.8m**	£218.6m
Present value of defined benefit obligation	**(£290.5m)**	(£237.4m)
Defined benefit scheme liability	**(£13.7m)**	(£18.8m)

The strengthening has been driven by a £58.2m increase in the fair value of the scheme assets to £276.8m (January 2016: £218.6m). This was offset by an increase in the scheme liabilities of £53.1m to £290.5m (January 2016: £237.4m), driven by a fall in corporate bond yields over the period and an increase in the expectation of the future rate of inflation.

Net assets

Since 31 January 2016, total assets and liabilities have reduced by £53.3m and £160.3m respectively, increasing overall net assets by £107.0m.

Total assets have reduced primarily as a result of a decrease in financial assets of £44.4m, which coincides with the release of surplus solvency capital from the Group's underwriting business.

The reduction in total liabilities reflects a £90.7m reduction in financial liabilities following the repayment of debt during the period, enabled through continued positive cash generation and the release of surplus solvency capital. This was coupled with an associated £61.0m reduction in gross insurance contract liabilities in line with further positive claims experience throughout the year, and a reduction in trade and other payables of £9.1m reflecting a reduction in accruals for costs relating to the build of the new ship and non-trading costs that were paid during the year.

Segmental performance

		12m to Jan 2017	*Growth*	12m to Jan 2016
Revenue	Motor broking	**£127.5m**	*42.5%*	£89.5m
	Home broking	**£89.8m**	*(0.2%)*	£90.0m
	Other broking	**£80.4m**	*(2.4%)*	£82.4m
	Underwriting	**£112.3m**	*(54.8%)*	£248.2m
		£410.0m	*(19.6%)*	£510.1m
	Travel	**£432.0m**	*2.1%*	£423.1m
	Emerging businesses and central costs	**£29.3m**	*(2.3%)*	£30.0m
		£871.3m	***(9.5%)***	**£963.2m**
Profit before tax excluding derivatives and Ogden impact	Motor broking	**£45.2m**	*58.0%*	£28.6m
	Home broking	**£61.2m**	*(3.5%)*	£63.4m
	Other broking	**£31.6m**	*(8.4%)*	£34.5m
	Underwriting	**£77.1m**	*(8.3%)*	£84.1m
		£215.1m	*2.1%*	£210.6m
	Travel	**£14.9m**	*10.4%*	£13.5m
	Emerging businesses and central costs	**(£42.6m)**	*(8.8%)*	(£46.7m)
		£187.4m	***5.6%***	**£177.4m**

Total revenue for the insurance businesses decreased by 19.6% to £410.0m (2016: £510.1m), due to the accounting for the quota share agreement in motor insurance, which required £110.5m of earned premiums ceded under the agreement to be accounted for as a deduction from revenue. The net impact on profit of the quota share was a £1.6m cost. Travel revenue increased by 2.1% to £432.0m, as the impact of the Saga Sapphire scheduled maintenance was more than offset by strong revenue growth in tour operations.

The retail broking insurance business increased profit before tax by 9.1%, with a particularly strong performance in motor broking. Underwriting profit reduced by £7.0m, as a result of reducing reserve releases and the cost of quota share. Travel increased profits by 10.4%, even after the effect of the Sapphire scheduled maintenance, which had a profit impact of around £5m. Emerging businesses and central costs saw an 8.8% decrease in losses before tax reflecting the reduction in finance costs.

Retail broking

	12m to Jan 2017					12m to Jan 2016			
	Motor broking	**Home broking**	**Other broking**	**Total broking**	*Growth*	Motor broking	Home broking	Other broking	Total broking
Revenue	**£127.5m**	**£89.8m**	**£80.4m**	**£297.7m**	***13.7%***	**£89.5m**	**£90.0m**	**£82.4m**	**£261.9m**
Gross profit	**£124.4m**	**£89.8m**	**£63.4m**	**£277.6m**	*14.2%*	£87.0m	£89.7m	£66.3m	£243.0m
Operating expenses	**(£79.2m)**	**(£28.6m)**	**(£31.8m)**	**(£139.6m)**	*19.8%*	(£58.4m)	(£26.3m)	(£31.8m)	(£116.5m)
Profit before tax	**£45.2m**	**£61.2m**	**£31.6m**	**£138.0m**	***9.1%***	**£28.6m**	**£63.4m**	**£34.5m**	**£126.5m**

Number of policies sold:									
– core	**1,366k**	**1,254k**	**381k**	**3,001k**	*3.2%*	1,238k	1,287k	383k	2,908k
– add-ons	**1,619k**	**529k**	**9k**	**2,157k**	*6.7%*	1,475k	546k	1k	2,022k
	2,985k	**1,783k**	**390k**	**5,158k**	*4.6%*	2,713k	1,833k	384k	4,930k
GWP	**£320.5m**	**£155.7m**	**£128.1m**	**£604.3m**	*(3.8%)*	£327.9m	£175.3m	£125.0m	£628.2m

Overall revenue from retail broking grew by 13.7% to £297.7m (2016: £261.9m), despite a competitive motor market and a home market with limited inflation. Overall profit before tax grew by 9.1% to £138.0m (2016: £126.5m). Across each of our products, we have balanced volume and profit to deliver this strong result.

The results for motor broking reflect the benefit of the number of initiatives that have been implemented during 2015 and 2016, with growth in both revenue and profit before tax, which increased by £38.0m and £16.6m respectively.

The introduction of the motor panel in summer 2015 contributed £3m of additional profit in the year, with around 30% of net premium for renewal policies now being placed with third party underwriters by the end of the year. Given the different risk profile of drivers underwritten by external underwriters, these policies had an average gross written premium significantly higher than those underwritten in-house, generating an additional net revenue and profit per policy. The written to earned benefit associated with the growth in the motor panel contributed an additional £4m of profit.

Improved yield management contributed additional profit of £4m, with modest growth in Saga core motor policies being achieved with a lower level of discounting. The full year impact of Bennetts, acquired on 1 July 2015, contributed an additional £2m profit, coupled with £4m of further written to earned benefit largely driven by the introduction of the arrangement fee in November 2015.

In a home market with stable average customer premiums and modest claims inflation increasing net rates, we chose to maintain volumes at a similar level, leading to consistent revenues of £89.8m (2016: £90.0m), with a small reduction in profit to £61.2m (2016: £63.4m).

Revenue and profit before tax from other insurance lines was £80.4m and £31.6m respectively (2016: £82.4m and £34.5m), with higher revenues from both private medical and travel insurance being offset by revenue in the prior year from the legal services product, which was discontinued at the end of 2015, and a decrease in credit hire and repair income. Core policies decreased slightly to 381k (2016: 383k), which was mainly due to a reduction in pet insurance policies sold. Profit was impacted by a more challenging travel market towards the end of the year, with net rate pressure becoming prevalent due to the depreciation of sterling.

Insurance underwriting
Underwriting income statement

		12m to Jan 2017					12m to Jan 2016
		Reported	**Ogden impact**	**Quota Share**	**Underlying**	*Growth*	Reported
Revenue	A	**£112.3m**	**(£0.7m)**	**(£110.5m)**	**£223.5m**	***(10.0%)***	***£248.2m***
Claims costs	B	**(£93.9m)**	**–**	**£102.0m**	(£195.9m)	*(11.2%)*	(£220.6m)
Reserve releases	C	**£59.9m**	**(£3.1m)**	**–**	£63.0m	*(7.4%)*	£68.0m
Other cost of sales	D	**(£9.6m)**	**(£0.2m)**	**£11.8m**	(£21.2m)	*2.4%*	(£20.7m)
	E	**(£43.6m)**	**(£3.3m)**	**£113.8m**	(£154.1m)	*(11.1%)*	(£173.3m)
Gross profit		**£68.7m**	**(£4.0m)**	**£3.3m**	**£69.4m**	*(7.3%)*	£74.9m
Operating expenses	F	**(£2.8m)**	**–**	**£2.6m**	(£5.4m)	*0.0%*	(£5.4m)
Investment return		**£7.2m**	**–**	**(£7.5m)**	£14.7m	*0.7%*	£14.6m
Quota share net cost		**–**	**–**	**£1.6m**	(£1.6m)	*n/a*	–
Profit before tax		**£73.1m**	**(£4.0m)**	**–**	**£77.1m**	***(8.3%)***	**£84.1m**
Reported loss ratio	(B+C)/A	**30.3%**			59.5%	*(2.0%)*	61.5%
Expense ratio	(D+F)/A	**11.0%**			11.9%	*1.4%*	10.5%
Reported COR	(E+F)/A	**41.3%**			71.4%	*(0.6%)*	72.0%
Pure COR	(E+F–C)/A	**94.7%**			99.6%	*0.2%*	99.4%

Excluding the impact of the new funds-withheld quota share agreement that became effective from 1 February 2016 and the impact of the Ogden rate change, underwriting revenue decreased by 10.0% to £223.5m (2016: £248.2m). This was due to the introduction of the motor panel, which has resulted in the likelihood of higher-risk, higher-premium motor policies now being underwritten by third party underwriters, and which has led to a fall in both AICL's earned policy volumes and average earned premiums. This in turn has resulted in lower claims costs, which, coupled with favourable claims experience, decreased by 11.2% to £195.9m (2016: £220.6m).

Favourable experience in small and large personal injury claims enabled the business to release £63.0m of reserves held in respect of previous accident years, £5.0m lower than the previous year.

When excluding the effect of the reserve releases and the impact of the quota share, the underwriting business delivered a broadly stable pure combined operating ratio[1] of 99.6%.

The reduced level of reserve releases, combined with the net cost of the new quota share agreement of £1.6m, for which there was no comparable cost in the prior year, has resulted in a decrease in the profit before tax from underwriting activity to £77.1m (2016: £84.1m). The Ogden rate change had an additional net profit impact of £4.0m, reducing the reported profit before tax from underwriting to £73.1m.

1 The ratio of the claims costs and expenses incurred to underwrite insurance (numerator) to the revenue earned by AICL (denominator) in a given period. Can otherwise be calculated as the sum of the loss ratio and expense ratio.

Reserving

Reserve releases	Total	Ogden rate changes	Underlying	Growth	12m to Jan 2016
	12m to Jan 2017				
Motor insurance	**£59.2m**	**(£3.1m)**	**£62.3m**	*(6.6%)*	£66.7m
Home insurance	**(£0.1m)**	**–**	**(£0.1m)**	*(150.0%)*	£0.2m
Other insurance	**£0.8m**	**–**	**£0.8m**	*(27.3%)*	£1.1m
Total	**£59.9m**	**(£3.1m)**	**£63.0m**	*(7.4%)*	£68.0m

Favourable claims development experience during the twelve months to 31 January 2017 has resulted in a reduction in the reserves required in respect of prior year claims. This has been driven by the experience on large and small personal injury claims and has enabled reserve releases totalling £63.0m during the year, offset by a £3.1m increase in prior year reserves that was required as a result of the Ogden discount rate change. There has been no deterioration in the underlying reserve margin held as a proportion of best estimate claims reserves year-on-year.

Analysis of insurance contract liabilities at 31 January 2017 and 31 January 2016 is as follows:

	12m to Jan 2017			12m to Jan 2016		
	Gross	**Reinsurance Assets**	**Net**	Gross	Reinsurance Assets	Net
Reported claims	**£313.3m**	**(£70.1m)**	**£243.2m**	£341.5m	(£70.7m)	£270.8m
Incurred but not reported*	**£193.7m**	**(£23.7m)**	**£170.0m**	£209.2m	(£30.9m)	£178.3m
Claims handling provision	**£10.0m**	**–**	**£10.0m**	£10.9m	–	£10.9m
Total claims outstanding	**£517.0m**	**(£93.8m)**	**£423.2m**	£561.6m	(£101.6m)	£460.0m
Unearned premiums	**£125.3m**	**(£3.7m)**	**£121.6m**	£141.7m	(£4.8m)	£136.9m
Total**	**£642.3m**	**(£97.5m)**	**£544.8m**	£703.3m	(£106.4m)	£596.9m

Notes:
* includes amounts for reported claims that are expected to become periodical payment orders.
** excludes funds-withheld quota share agreement.

The Group's total insurance contract liabilities net of reinsurance assets have reduced by £52.1m as at 31 January 2017 from the previous year end, driven by a £27.6m reduction in reported claims reserves, £15.3m less in unearned premium reserve and a £8.3m reduction in IBNR claims reserves.

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 £77.9m compared with the previous year, from £624.7m as at 31 January 2016 to £546.8m as at 31 January 2017. As at 31 January 2017, 94% of the financial assets held by the Group were invested with counterparties with a risk rating of A or above, which is up 2 percentage points on the previous year and reflects the improved credit risk rating of the Group's counterparties.

At 31 January 2017	**AAA**	**AA**	**A**	**Unrated**	**Total**
Underwriting investment portfolio:					
Deposits with financial institutions	**£30.0m**	**£90.9m**	**£188.6m**	**–**	**£309.5m**
Debt securities	**£79.5m**	**–**	**–**	**–**	**£79.5m**
Money market funds	**£122.1m**	**–**	**–**	**–**	**£122.1m**
Hedge funds	**–**	**–**	**–**	**£22.7m**	**£22.7m**
Loan funds	**–**	**–**	**–**	**£6.5m**	**£6.5m**
Loan notes	**–**	**–**	**–**	**£5.2m**	**£5.2m**
Unlisted equity shares	**–**	**–**	**–**	**£1.3m**	**£1.3m**
Total invested funds	**£231.6m**	**£90.9m**	**£188.6m**	**£35.7m**	**£546.8m**
Hedging derivative assets	**–**	**£50.0m**	**£3.5m**	**–**	**£53.5m**
Total financial assets	**£231.6m**	**£140.9m**	**£192.1m**	**£35.7m**	**£600.3m**

At 31 January 2016	AAA	AA	A	Unrated	Total
Underwriting investment portfolio:					
Deposits with financial institutions	£30.0m	£140.3m	£243.3m	–	£413.6m
Debt securities	£85.2m	–	–	–	£85.2m
Money market funds	£75.9m	–	–	–	£75.9m
Hedge funds	–	–	–	£26.7m	£26.7m
Loan funds	–	–	–	£19.3m	£19.3m
Loan notes	–	–	–	£3.8m	£3.8m
Unlisted equity shares	–	–	–	£0.2m	£0.2m
Total invested funds	£191.1m	£140.3m	£243.3m	£50.0m	£624.7m
Hedging derivative assets	–	£10.1m	£9.9m	–	£20.0m
Total financial assets	**£191.1m**	**£150.4m**	**£253.2m**	**£50.0m**	**£644.7m**

Solvency capital

	12m to Jan 2017	12m to Jan 2016
Solvency Capital Requirement (SCR)	**£102.9m**	£128.8m
Available capital	**£146.7m**	£219.6m
Surplus	**£43.8m**	£90.8m
Coverage	**143%**	170%

Under Solvency II the Group had an SCR of £102.9m at 31 January 2017 (2016: £128.8m), benefiting from the claims experience and the initial impact of the quota share agreement. Available capital was £146.7m (2016: £219.6m), giving a coverage ratio of 143% (2016: 170%). The reduction of SCR has enabled the Group to release a significant amount of capital from the underwriter. Even with the effect of Ogden, the coverage ratio remains robust.

The following table shows a range of impacts against the base Solvency II coverage ratio:

Sensitivities	
Base solvency II coverage	143%
Interest rates +/– 1%	+5% / -6%
Equities -15%	-2%
Credit spreads 50bps	-4%
3 large losses of £10m each	-4%

Travel

The travel business has had another strong year of trading. Despite having lower capacity days in Cruising due to scheduled maintenance of the Saga Sapphire in the first half of the year, the business has achieved growth in both revenue and profit before tax excluding derivatives, which are up 2.1% and 10.4% respectively.

	12m to Jan 2017				12m to Jan 2016		
	Tour operations	**Cruising**	**Total travel**	*Growth*	Tour operations	Cruising	Total travel
Revenue	**£350.1m**	**£81.9m**	**£432.0m**	***2.1%***	**£336.9m**	**£86.2m**	**£423.1m**
Profit before tax excluding derivatives	**£11.5m**	**£3.4m**	**£14.9m**	***10.4%***	**£8.7m**	**£4.8m**	**£13.5m**
Number of holidays passengers	**190k**	**n/a**	**190k**	*0.5%*	189k	n/a	189k
Number of cruise passengers	**n/a**	**21k**	**21k**	*(12.5%)*	n/a	24k	24k
Number of cruise passenger days	**n/a**	**301k**	**301k**	*(11.2%)*	n/a	339k	339k

The tour operations business generated a 3.9% increase in revenue to £350.1m (2016: £336.9m) from 190k passengers (2016: 189k). This reflects a continued shift in product mix towards higher value, higher margin long-haul river cruise and third party cruise products.

Profit before tax from tour operations grew by 32.2% to £11.5m. This was due to three factors. Firstly, the increased revenue generated greater margin. Secondly, a programme of back office redesign and cost control initiatives enabled the business to mitigate any cost inflation and hold its operating expenses flat. Finally, the prior year included a trading loss associated with the Bel Jou hotel that was sold on 20 July 2016. Overall profit margin improved to 3.3% (2016: 2.6%).

Saga Cruising delivered revenue of £81.9m (2016: £86.2m). The Saga Sapphire was out of operation for scheduled maintenance for 63 days between April and June, which impacted revenue and profit by approximately £9m and £5m respectively. Offsetting this was an improvement in yields, enabled through various value enhancements to the cruise product offering, including free wine with lunch and dinner, a newly established cruise services team and other enhancements to the customer experience. Profit before tax from the cruising business was £3.4m (2016: £4.8m).

Emerging businesses and central costs

	12m to Jan 2017	*Growth*	12m to Jan 2016
Revenue	**£29.3m**	***(2.3%)***	**£30.0m**
Gross profit	**£14.3m**	*5.1%*	£13.6m
Loss before tax	**(£42.6m)**	***8.8%***	**(£46.7m)**

Revenue from emerging businesses (which includes personal finance, healthcare services, retirement villages and the media businesses) decreased by 2.3% to £29.3m (2016: £30.0m), although these businesses delivered a 5.1% increase in gross profit to £14.3m (2016: £13.6m).

The overall loss before tax from this segment reduced by 8.8% to £42.6m (2016: £46.7m). This was due to a reduction in finance costs due to lower levels of debt and a decrease in LIBOR, and a reduction in the non-trading items due to IPO expenses in the prior year, offset by an increase in operating expenses reflecting the increased level of investment in the healthcare, personal finance and retirement villages businesses.

Financial outlook and guidance

During the year ending 31 January 2018, profits from insurance broking are expected to increase with improved yield management, operational and marketing efficiencies and the ongoing positive impact of the motor panel.

With the strong growth in revenue on forward travel reservations combined with the additional positive effects of the efficiency initiatives, profitability for the travel business is expected to step forward strongly year on year, primarily within the tour operating businesses. The uplift in Cruise capacity and profit will be limited due to two dry docks taking place in the current year, leading to 41 days when the ships are out of service.

With average net debt expected to be significantly lower year on year, finance costs are expected to reduce again in the coming year.

Reserve releases are expected to reduce again this year and increased investments will be made in membership and our future insurance broking platform.

Subject to market conditions remaining materially consistent, the Group is aiming to deliver ongoing consistent profit growth this year.

While the Group's leverage reduced significantly in the year to 31 January 2017, this benefited from the one-off move towards a sustainable, longer term solvency ratio level and therefore the rate of leverage reduction will be lower in the coming year. The Group is retaining the target debt range of 1.5 to 2.0 times Net Debt to Trading EBITDA, consistent with the dividend payout ratio of 50% to 70% of net earnings.

Jonathan Hill
Group Chief Financial Officer
28 March 2017

The Strategic Report was approved by the Board and signed on its behalf by Lance Batchelor, Group Chief Executive Officer on 28 March 2017.