Saga plc

Annual Report and Accounts for
the year ended 31 January 2018

SAGA
keep doing

Saga plc exists to help our customers lead the life they want to lead and to enable and inspire new possibilities.

Everything starts with our customers.

Contents

Highlights

Profit before tax from continuing operations (£m)

(7.6%)

2018	**178.7**
2017	193.3
2016	176.2

Dividend per share (pence)

5.9%

2018	**9.0**
2017	8.5
2016	7.2

Underlying Profit Before Tax (£m)[1]

1.4%

2018	**190.1**
2017	187.4
2016	177.4

Available operating cash flow (£m)[1]

(19.3%)

2018	**175.5**
2017	217.6
2016	178.1

Basic earnings per share (pence)

(7.8%)

2018	**13.0**
2017	14.1
2016	13.3

Underlying earnings per share (pence)[1]

0.7%

2018	**13.8**
2017	13.7
2016	12.7

Debt ratio (net debt to trading EBITDA)

(0.2x)

2018	**1.7x**
2017	1.9x
2016	2.3x

Members

536k

As at 31 March 2018

Products held by High Affinity Customers

1,143k

2017: 1,129k

Note:
1 Through this Annual Report and Accounts use is made of Alternative Performance Measures (APMs) in explaining and reporting on the Group's performance. Definitions and explanations of the primary APMs can be found on page 209

Our business at a glance

Saga is the leading provider of products and services for people aged 50 and over in the UK. For 65 years our customers have been at the heart of everything we do.

Saga's business segments

Insurance

The Insurance business, which is split between Retail Broking and Underwriting, is the largest part of the Group.

- Insurance Retail Broking
- Insurance Underwriting

+ Read more **p30–p33**

Travel

The Travel business is at the heart of the Saga brand, taking passengers all over the world on package holidays, escorted tours and cruises.

- Saga Cruises
- Saga Holidays
- Titan
- Destinology

+ Read more **p34–p35**

Emerging Businesses

Emerging Businesses include new development areas for the long-term growth of the business.

- Saga Money
- Saga Healthcare

+ Read more **p35**

The Saga brand has evolved to keep pace with the ever-changing needs of our customers.

During the year we launched a new brand identity. 'Keep doing' is at the heart of Saga's purpose, to inspire and enable our customers to do more of the things that matter to them most.

Constantly

Evolving

Our increasingly customer-centric brand

999

passenger capacity

Over 50%

of our sales target sold for her first 19 cruises

Our second ship, Spirit of Adventure, will complete the transformation of our Cruise business when she is delivered in August 2020.

Our first new ship, Spirit of Discovery, remains on track and on budget for delivery in June 2019.

Sales for her first 19 cruises have exceeded expectations. This is a great testament to our deep understanding of, and relationship with, our customers and to their appetite to travel with us.

The investment will significantly improve the profit trajectory of our Cruise business.

A growing sense of

Adventure

Renewing our fleet

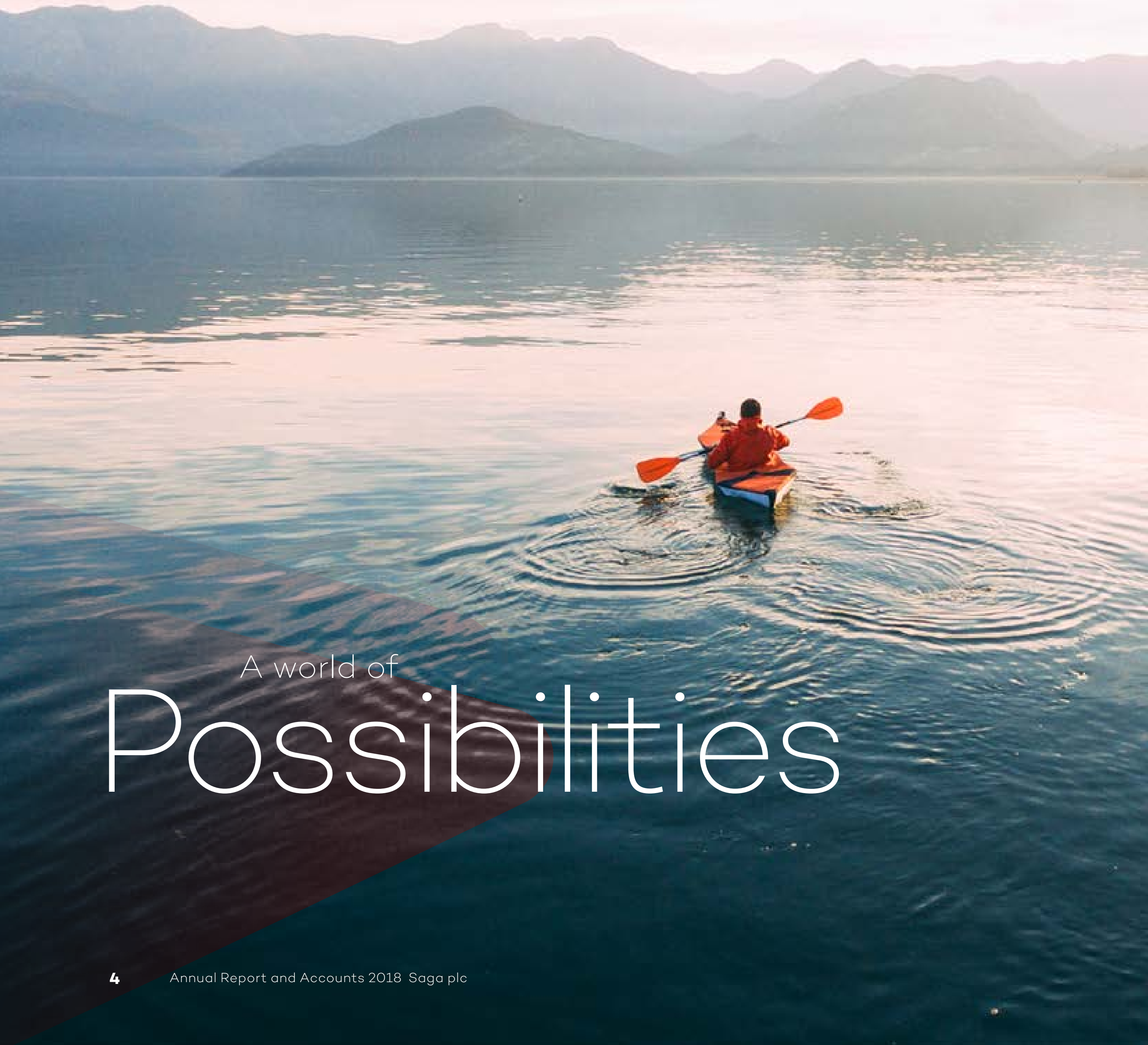
Possibilities is a membership programme for Saga customers. It brings them exclusive experiences, access to events, and great offers that are selected to appeal to a diverse range of tastes.

Membership is free. It is our way of rewarding and incentivising our customers to stay with Saga and deepen their relationship with us.

In the six months since launch, we have built an active base of over half a million members.

The programme is structured around three key components:

- **Events:** our events are either unique to Possibilities members or offer market leading value for publicly available events. Members are also invited to enter ballots to win tickets to exclusive arts, entertainment and sporting experiences created by us.
- **Offers:** through discounts and added extras, Possibilities offers value on everyday purchases such as dining out, sending flowers, booking a hotel or buying a bottle of wine.
- **Community:** we bring our members advice from UK experts in the fields of travel, technology, home and garden, financial solutions and health.



A world of Possibilities

We are investing in our core systems to create platforms that enhance our customers' experience and drive the efficiency of our operations.

A focus on customer experience and efficiency led to the modernisation of our insurance broking and claims handling platforms.

These new systems provide a platform to increase product differentiation whilst improving the efficiency of our call centres and back office functions.

June 2017
claims handling system went live

April 2018
first motor policy written on new broking platform, Guidewire

Investing in our

Capabilities

I would like to thank our shareholders, both institutional and retail, for their ongoing support and forbearance this year and to welcome those who have joined us.

At the end of 2017 we took steps to rebase our profit expectations, implement £10m of annualised savings from across the Group at a one off cost of £5m, and increase our targeted spend by £10m a year to grow customer numbers. This had a significant impact on our share price and Lance and Jonathan have been working to rebuild the market's confidence in Saga.

Due to the challenging markets in which our core businesses of Retail Insurance and Travel operate, we delivered growth in Underlying Profit Before Tax[1] of 1.4% to £190.1m and in underlying earnings per share[1] of 0.7% to 13.8p. Profit before tax and earnings per share from continuing operations declined by 7.6% and 7.8% respectively, due to costs associated with our refinancing, the £10m annualised savings, and fair value movements on derivatives.

We have continued to be highly cash generative, resulting in a further deleveraging and enabling us to reduce our net debt to Trading EBITDA ratio to 1.7 times.

> "Our customers and their changing needs remain central to everything we do at Saga."

Note:
1 Alternative performance measure – refer to the glossary on page 209 for definition and explanation

We have delivered on our dividend policy again this year, increasing our dividend to 9.0p. The decision to increase the dividend to this level reflects the Board's ongoing confidence in the stability of our highly cash generative model.

Our customers and their changing needs remain central to everything we do at Saga and we have built strong platforms and systems in 2017 that will help us interact differently and more efficiently with our 500,000 plus members going forward.

After 26 years with Saga, 14 as Chairman, I will retire from the Board on 30 April 2018. I welcome Patrick O'Sullivan as my successor and wish him success as he takes over the stewardship of this great British company.

I am hugely proud of Saga. Our employees have incredibly high standards and a passion for delivery and customer service that I have not seen elsewhere. I would like to thank them all–past and present–for everything they have done to make my time at Saga so enjoyable and to make Saga the great business it is. I wish Lance, the Board and the management team every success in the next stage of its evolution.

Andrew Goodsell
Chairman
11 April 2018

Our governance supports our strategic priorities

Governance highlights
Our governance structure supports our investment for future growth.

- Our processes ensure good stewardship as we strive to become increasingly customer-centric, seek to grow our Retail Insurance and Travel businesses and maintain our efficient operating model.
- All resolutions proposed at our AGM were passed with a significant majority and all Directors standing for re-election were reappointed.
- We comply with the UK Corporate Governance Code 2016 (Code) recommendation that half of the Board are independent Non-Executive Directors.
- We conducted an externally facilitated Board and Committee evaluation process and agreed action plans to focus on areas of development.

+ Read more **p52**

This is Saga's fourth set of results as a public company. It has been a challenging few months during which the share price has been under real pressure. This is in contrast to the four years since IPO, in which we have achieved a great deal.

We came to market with a target to grow profits every year and reduce the £700m of inherited bank debt. We set out a strategy that replaced riskier and more capital-intensive Underwriting earnings with earnings from Broking and Travel. As part of this we needed to grow profits in the Broking business, especially via the motor panel; grow profits in the Travel business; and deliver growth in Emerging Businesses.

We have made good progress in achieving these objectives while also upgrading most of our IT platforms. However, while we have achieved excellent growth in earnings in our Travel business, we have not delivered the expected profit uplift in Broking.

In recent years, we achieved profit growth from a static customer base. In December 2017 we announced our decision to increase our targeted spend by £10m a year to allow us to focus on growing our customer numbers. While it will have an impact on profitability in 2018/19, I am confident that this investment will lead to a larger customer base and a return to sustainable profit growth.

> "I am a passionate believer in the uniqueness of the Saga model."

In addition to the targeted investment and enhancements to our platform, our new membership scheme, Possibilities, increases our ability to attract, target and retain people who are likely to develop a high affinity with our brand. It will also help the broader business, and particularly the Retail Broking business, to grow customer numbers.

Early signs show these initiatives are working: in the first two months of the year there has been a 14% increase in the volume of new business in Retail Broking.

A membership scheme to reward our loyal customers
The launch of our new membership scheme, Possibilities, in September was a significant achievement for the Group. Eighty per cent of customers who have been invited to join the scheme have signed up and we now have over half a million active members.

After a successful launch, the Group is now ready to drive a fundamental change in how we interact with our customers which will reward loyalty and encourage the take up of multiple Saga products.

Increased product holdings by HACs
The number of products held by High Affinity Customers (HACs) has increased to 1,143k (1,129k in 2017) due to a combination of a slightly lower number of HACs (471k versus 483k in 2017) offset by a higher number of average products of 2.4 (versus 2.3 in 2017). Our new product propositions and marketing activity have also driven a 5.5% increase in revenue per HAC.

Spirit of Discovery and Spirit of Adventure
We are now just over a year away from the delivery of Spirit of Discovery. We have achieved over 50% of our sales target for the first 19 cruises, at per diems that continue to be in line with our expectations.

The highlight of the year for me was the decision to invest further in our shipping capacity. Our second new ship, Spirit of Adventure, will be delivered in August 2020. Having two new efficient ships will significantly change the profit trajectory of our Travel business.

Systems improvements
We continue to renew and refresh our systems to enhance our customers' experience and to provide efficient operating platforms across the Group. Important achievements which position us well for the next phase of our development include:

- our new claims platform was launched in the first half of the year. It is delivering an enhanced customer experience at a reduced cost;
- work throughout the year culminated in the launch of our broking platform, Guidewire, in April 2018; and
- we started work on a new reservation system for our Tour Operating business which will be used for reservations from FY 2020.

So, what's next?

Strategic priorities for the coming year
In order to deliver long-term sustainable earnings, our strategic priorities for the coming year are:

1. Becoming increasingly customer-centric

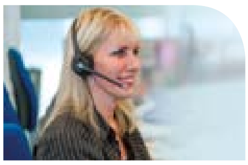
+ Read more **p18**

2. Growing our Retail Insurance and Travel businesses

+ Read more **p18**

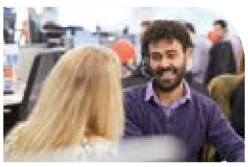
3. Investing for future growth

+ Read more **p19**



4. Maintaining our efficient operating model

+ Read more **p19**



5. Developing our people

+ Read more **p19**

Summary and outlook

I am a passionate believer in the uniqueness of the Saga model. The fundamentals have not changed: we are focused on an attractive and growing demographic which has strong loyalty to the Saga brand and we continue to evolve our products and services to ensure that they remain relevant to our customers.

A comprehensive overhaul of our systems, a clear focus on the development of our offering, and progress in developing our Retail Broking model, give us a strong foundation from which to increase customer engagement and retention. We are also beginning to see the benefits of our targeted investment in Retail Broking and Travel. These early signs, together with the arrival of our new ships in 2019 and 2020, give me confidence in our ability to return the business to sustainable profit growth.

Lance Batchelor
Group Chief Executive Officer
11 April 2018

A focused team

Introducing our Executive Team (from left to right)

Stuart Beamish
Group Marketing Director

Gary Duggan
Chief Executive, Insurance Broking

Andrew Button
Chief Executive, AICL

Karen Caddick
Group HR Director

Lance Batchelor
Group Chief Executive Officer

Jules Christmas
Group IT Director

Robin Shaw
Chief Executive, Travel

Jonathan Hill
Group Chief Financial Officer

Fundamentals of our target demographic

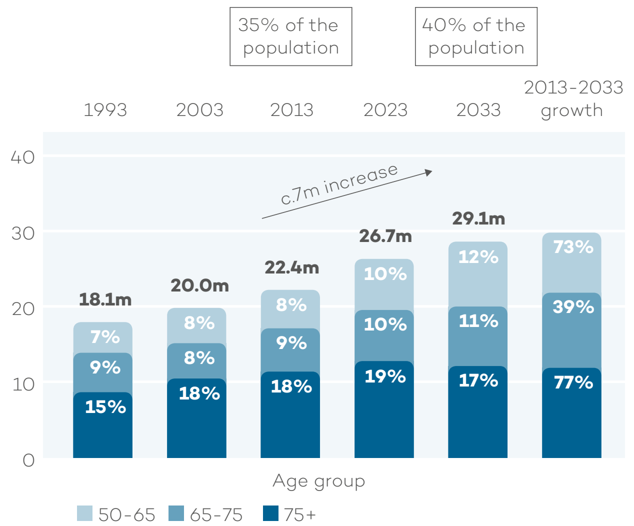
Leveraging our customer insight and rich proprietary data, we have maintained our position as the UK's leading provider of products and services tailored to the needs of people aged 50 and over.

This segment accounts for 75% of the UK's household wealth and 50% of the UK's household expenditure and is the fastest growing, most affluent and influential demographic in the UK. Needs are increasingly changing as the people in this demographic continue to work longer and lead more active lives. We use our understanding of these needs to create differentiated products and services to support our customers, to 'keep doing' as they enter new life chapters, rich in possibilities.

The ideal member of Saga is predominantly within three very specific mosaic classifications whose characteristics are:

- over 50;
- within ABC1[1] households; and
- having above average wealth.

Note:
1 Refer to the glossary on page 210 for definition and explanation



Source: Centre for Economic and Business Research

High Affinity Customers

Our rich proprietary data helps us identify customers who are more likely to have an affinity with the brand over time, and to deploy marketing resources effectively by targeting and rewarding those customers who are, or have the propensity to be High Affinity Customers (HACs).

We have identified a core group of c.470k HACs who form around 25% of our customer base, and who have contributed c.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 Saga sells;
- have higher retention levels; and
- have a higher propensity to buy multiple products across the Group, holding an average of 2.4 core products each.

Having invested in customer insight tools, we have developed an understanding of the journeys by which these customers have developed a high affinity for Saga and the reasons why certain customers have not. This has helped us improve the efficiency and effectiveness of our direct marketing model to better identify and target existing or potential HACs and convert them to customers with a long tenure and multiple product holdings.

Macro conditions

While macro events out of Saga's control have the potential to create a headwind, the Group's target customers tend to be more resilient during times of economic uncertainty. In many instances, they benefit from 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
- inherited wealth.

Operating different businesses across different sectors helps protect the wider organisation in the event of a downturn in a particular sector.

Regulatory and political change

Saga's members are the most politically engaged in the UK, and are therefore highly influential. Saga's insight into the most important issues for its target demographic enhances its competitive advantage. The Company leverages this to create products and services that either take advantage of, or protect against, regulatory change. Where appropriate, Saga engages on these issues on behalf of its customers.

Saga as a regulated business

Regulation continues to evolve and Saga strives to maintain good relationships and levels of communication with its regulatory bodies to ensure that it is always in a position to adapt quickly to changes that could impact its operations.

Vulnerable customers

We recognise that some of our customers need more attention than others. There are dedicated teams throughout the business to ensure that vulnerable customers are identified and given what help they need.

Competition for customers

Saga competes for business with many providers within the sectors in which it operates. Whilst our brand as the over 50s specialist in the UK is particularly strong, we do not have a monopoly. We do, however, have the advantage of focusing on this demographic, which means that 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.

+ Read more about our business model on **p14**
+ Read more about strategy on **p18**
+ Read more about risk on **p24**

Creating value through our repeatable model

The resources and relationships that set us apart

We continue to invest in the resources and relationships that drive Saga's long-term value creation. These include:

Strong brand
Saga is a truly unique brand that is highly trusted and synonymous with life after 50 in the UK.

Rich proprietary data
Access to an extensive database provides insights into the needs, wants and behavioural traits of our target demographic. This enables us to tailor our offering and aids customer acquisition.

Strong customer relationships
The delivery of tailored products, underpinned by exceptional service, enhances brand loyalty and retention over many decades.

Flexible, capital efficient operating model
Leveraging the strength of the Saga brand and our ability to select the best providers, we are able to develop new products and enter new markets very quickly, with little capital at risk.

Possibilities
A tailored membership scheme that rewards and incentivises our customers to both stay with Saga and deepen their relationship with us as they strive to do more of what matters to them.

Developing our people
Ongoing investment in the development of our employees whilst continuing to instil the customer-centric culture that makes Saga different.

Investment in systems capabilities
Additional efficiency savings continue to be delivered through further upgrades to our systems capabilities, including a new retail insurance and claims handling system.

Financial strength
Saga's flexible operating model and the ability to allocate capital to the areas of the business with the most potential for growth means we are highly cash generative and have the option to continue to invest for growth, whilst paying down debt and enhancing long-term value to shareholders via a steady flow of dividends.

+ Read more about resources and relationships on **p20**

What we do and how we do it

Delivering a sustainable competitive advantage

1

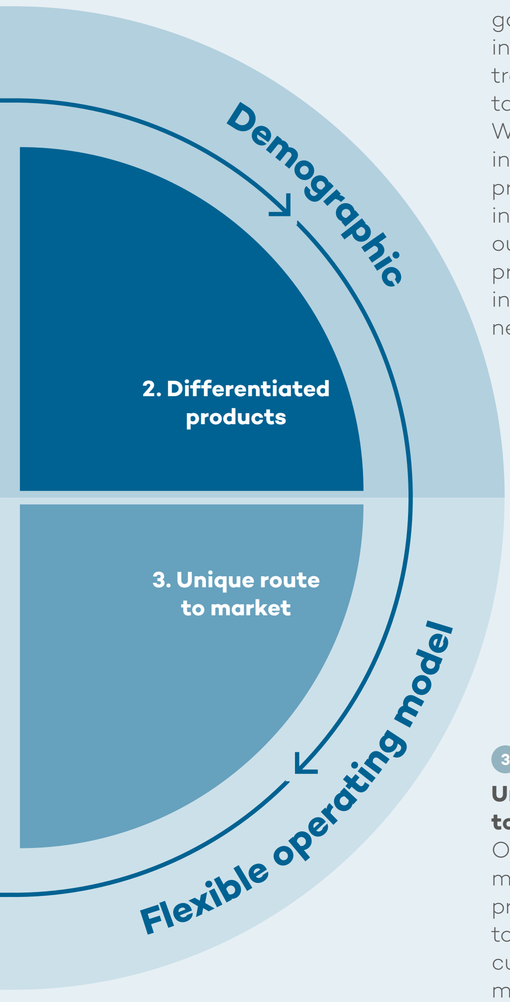
A great brand
We have a truly unique brand that is highly trusted and recognised by over 97% of people aged 50 and over in the UK. This allows us to provide products that offer exceptional levels of service, across multiple categories at a fair price.

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.

We match unique member needs with our outstanding hands-on customer service.

+ Read more about Insurance on **p30**
+ Read more about Travel on **p34**
+ Read more about Emerging Businesses on **p35**



2
Differentiated products
We seek to develop and enhance strong relationships with our customers over the course of many years, gaining a unique insight into the behavioural traits and needs of our target demographic. We use this strategic insight to develop products and services in-house to provide our customers with propositions that inspire and enable new possibilities.

3
Unique route to market
Our database and marketing model provide direct access to existing and potential customers across multiple channels, at low cost.

Creating value for stakeholders

Saga is committed to maximising value for its key stakeholders

Employees[1]

4,296
number of employees

Members

536k
number of members

471k
number of HACs

2.4
core products per HAC

Note: Members quoted as at 31 March 2018

Company

£190.1m
in Underlying Profit Before Tax[2] (2017: £187.4m)

Shareholders

9.0p
dividend per share

(2017: 8.5p)

13.8p
Underlying earnings per share[2]

(2017: 13.7p)

Community (CSR)

£371k
charitable donations

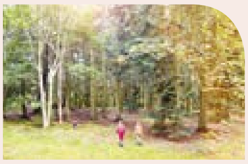
(2017: £163K)

Notes:
1 This figure excludes casuals, agency staff, contractors and retainers
2 Alternative performance measure – refer to glossary on page 209 for definition and explanation

+ Read more about risk on **p24**
+ Read more about strategy on **p18**
+ Read more about KPIs on **p16**

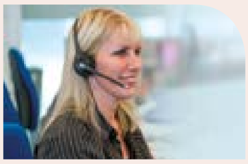
Our strategy

1. Becoming increasingly customer-centric

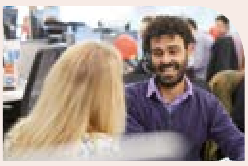


2. Growing our Retail Insurance and Travel businesses

3. Investing for future growth



4. Maintaining our efficient operating model



5. Developing our people

KPIs

Underlying Profit Before Tax[1]

£190.1m

↑ 1.4%

£187.4m

Underlying earnings per share[1]

13.8p

↑ 0.7%

13.7p

Dividend per share

9.0p

↑ 5.9%

8.5p

Available operating cash flow[1]

£175.5m

↓ (19.3%)

£217.6m

Debt ratio

1.7x

↓ (0.2x)

1.9x

Number of HACs

471k

↓ (2.5%)

483k

Core product holding per HAC

2.4

↑ 4.3%

2.3

Note:
1 Alternative performance measure – refer to glossary on page 209 for definition and explanation

Strategic delivery

1. Becoming increasingly customer-centric

- Launched the Saga membership scheme, Possibilities, with over 500k members and a sign-up rate of 80% of those invited to join Started to build engagement with our increasing membership digitally and through experiences
- Increased the core product holding of our 471k HACs from 2.3 to 2.4
- Continued to roll out our new marketing capability, Adobe Marketing Cloud, which allows us to better identify and target customers with the characteristics of HACs
- Completed the new Saga brand identity, with the introduction of the 'keep doing' ethos. 'Keep doing' underlines the relevance of Saga in the lives of our members and customers as they continue to seek new opportunities and new experiences

2. Growing our Retail Insurance and Travel businesses

- Delivered performance in Retail Broking in line with guidance provided in December 2017
- Increased profits through improved margins and a shift in product mix in our Tour Operating business and the optimum yield of our ships

3. Investing for future growth

- Completed the transformation of our Cruise business with the announcement of our second ship, Spirit of Adventure, to be delivered in August 2020
- Our first new ship, Spirit of Discovery, remains on track and on budget for delivery in June 2019; we have achieved over 50% of the sales target for our first 19 cruises
- Delivered improvements to the customer experience and efficiency of our Insurance business through the development of a new retail insurance platform and the rollout of a new claims handling platform

4. Maintaining our efficient operating model

- Continued to generate strong cash flows
- Maintained our lower exposure to underwriting risk with a new quota share arrangement with NewRe and Hannover Re covering 80% of the downside risk of all motor policies on a rolling three year agreement
- Delivered Group-wide cost and procurement efficiencies

5. Developing our people

- Achieved a sustainable engagement score of 77%
- Continued to invest in the capability of our top 400 leaders through our 'Leading the Saga Way' leadership development programme
- Launched Leadership degree

What's our plan?

In order to deliver sustainable long-term earnings our strategic priorities for the coming year are:

1. Becoming increasingly customer-centric

We will expand and improve Possibilities, further enhance our data capability and increase the rate of product differentiation.

+ Read more **p18**

Measuring success

- Products held by HACs
- Number of HACs and potential HACs (pHACs)
- Number of core products per HAC

2. Growing our Retail Insurance and Travel businesses

As the largest part of the Group, our Retail Insurance business has a vital role 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.

+ Read more **p18**

- Increase in number of core Saga policies
- Increase in number of passengers travelled and booked

3. Investing for future growth

We will continue building demand for our new ships and prepare for operational delivery. We will also launch our new retail insurance platform for motor insurance and develop the next phase for home insurance. We will accelerate the development of our new travel reservation system.

+ Read more **p19**

- New ships on track for June 2019 and August 2020
- Number of booked passengers

4. Maintaining our efficient operating model

We will drive efficiencies across the Group, facilitated by the new claims platform and first phase of the broking policy platform.

+ Read more **p19**

- Deliver cost and efficiency improvements
- Continue to refresh our systems with the launch of a new travel reservation system

5. Developing our people

Our people are central to everything we do. They ensure our customers receive the Saga experience throughout the business.

+ Read more **p19**

- Improvement in sustained engagement
- Continued rollout of the leadership development programme to the top 400 leaders within Saga

1. Becoming increasingly customer-centric

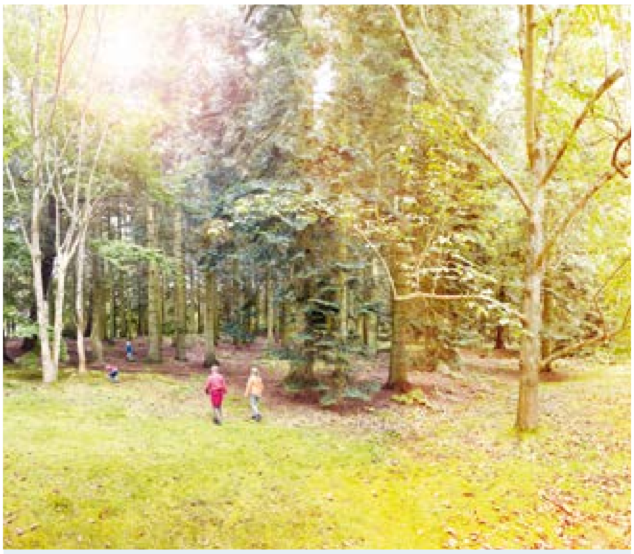
Our membership programme strengthens our ability to focus on rewarding, retaining and growing our target customer base. We will continue to look at ways to expand and improve the proposition for our 500k+ members and enhance both engagement and retention.

We will continue to invest in increasing our data capabilities to gain insight into the evolving needs and behaviours of our customer base. Leveraging this knowledge, we will seek to offer more differentiated products within our Insurance and Travel businesses.

Possibilities provides the unique opportunity to gain greater insight into the needs and behaviours of our target customers, and leads to opportunities to develop our membership programme further.

We will continue to roll out the Adobe Marketing Cloud tool to help us identify customers with the characteristics of HACs and will focus our marketing activities on this segment.

Our goal continues to be to grow the number of products held by HACs by 20% by 2022.



2. Growing our Retail Insurance and Travel businesses

To support our return to sustainable profit growth, we are rebalancing the business towards growing customer numbers through targeted marketing.

As the largest part of the Group, our Retail Broking business remains a vital tool in acquiring and retaining customers. Our panel of third-party underwriters allows us to offer competitive insurance products to a broad section of our target demographic without taking any underwriting risk.

We will focus on generating growth in our Retail Insurance business through optimised pricing, differentiated product propositions and increased efficiencies within our call centres and back office functions.

The Travel business remains at the heart of the Saga brand. We will focus on increasing our tour passenger numbers through existing propositions in which we have a differentiated product and new propositions in segments in which we have a competitive advantage.

+ Read more about risk on **p24**
+ Read more about our target market on **p12**
+ Read more about KPIs on **p16**

3. Investing for future growth

We will continue building demand for our new ships and preparing for operational delivery.

We will launch our new retail insurance platform for motor insurance and develop the next phase for home insurance.

We will accelerate the development of our new travel reservation system.

We will continue to focus on delivering improvements to the customer experience and on improving the efficiency of our Insurance and Travel businesses to attract new customers, increase cross-sell, retain and grow HACs.

4. Maintaining our efficient operating model

We will build a stronger focus on operational efficiency and performance excellence to ensure that we run the business in the most efficient way, allowing us to price competitively. We will continue to focus on growing policy and passenger numbers organically whilst carefully assessing capital allocation. This will lead to a higher quality of earnings over time.

We will drive efficiencies across the Group, facilitated by the new claims platform and the first phase of the broking policy platform.

5. Developing our people

Our people are central to everything we do because they ensure that our customers receive the Saga experience. We continue to invest in their development.

People and culture

Our people are core to our brand. They bring the Saga Way to life by putting our customers and colleagues at the heart of everything they do. We continue to build a culture which encourages our people to be brave and challenge each other to do the right things for our customers. We work together as One Saga to deliver exceptional products and services to our customers.

This year we reshaped our structure to focus increasingly on our customers. Through regular communication, we have made sure our people understand how our business is changing and why.

We want our employees to reach their potential wherever they work in the business and in 2017 we:

- launched the Leadership degree through the Saga Academy, to which over 50 employees have signed up for to date;
- invested in leadership development to take over 400 of our senior managers through the Leading the Saga Way programme which focuses on building a high-performing culture in the business; and
- re-launched our graduate management trainee scheme.

Together with new apprenticeship programmes in a range of teams and the Saga Academy, which provides a suite of learning and development tools for all our employees, these initiatives will help us attract talent to Saga. To support making Saga a great place to work, we hold listening groups and carry out regular engagement surveys, the outputs of which are shared with our leaders across the business.

We continue to strive for high levels of employee engagement. Whilst our sustainable engagement score fell slightly in 2017 from 81% to 77%, we are committed to using the insight to improve our overall sustainable engagement score. We were delighted that more than 70% of our people completed the online survey in 2017 and we have continued to out-perform the UK norm in a number of key areas such as our employees supporting our values and being proud to be associated with Saga.

We want our employees to feel closely aligned to the success of our business and this year, for the third year, we awarded all eligible employees up to £300 worth of shares.

We have continued to embed our reward principles, and have kept our pay and benefits competitive and fair while managing costs.

We consulted on changes to our pension schemes proposing changes that were more sustainable for the organisation in the long term. We have kept our defined benefit scheme open to new colleagues as well as encouraging our employees to keep saving.

We support the Government's commitment to address the gender pay gap through annual reporting.

We are a proud member of the 30% Club because we see gender diversity as a business imperative.

We value diversity not just because it is the right thing to do, but because diverse teams perform better. Creating a culture in which everyone feels welcome and offering equal opportunities in all aspects of employment and advancement continue to be incredibly important to us.

Diversity and an employee base that brings different perspectives, backgrounds and ways of thinking is very important to our business. Fair consideration is given to applications from all applicants, including those with disabilities; and to continuing the employment of employees who become disabled during employment.

We are committed to treating all employees fairly and to offering equal opportunities in all aspects of employment and advancement.

Gender diversity January 2018

	Male		Female		Total
	Actual	%	Actual	%	
Board[1]	5	71	2	29	7
Senior managers[2]	131	68	63	32	194
Employees[3]	1,736	42	2,359	58	4,095
All	**1,872**	**44**	**2,424**	**56**	**4,296**

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)

Community and social

Saga is a major employer in Folkestone, Thanet, Hastings and Redhill, as well as having satellite offices in Redhill, Bolton, Durham, Coventry and Peterborough. We recognise the impact that we have in the communities in which we operate, which is why we are so proud to support these areas through charitable giving and employee volunteer programmes.

In 2016, Saga announced a three year partnership with The Silver Line, the UK's only 24-hour helpline for isolated older people. Through the support of customers, employees and the business, Saga gave £228k to The Silver Line during the first year of the partnership.

In 2017, we launched our local giving programme, which assists registered charities based within a 20-mile radius of our office sites.

Our partner sites continue to support charities which resonate with their brands or with which their employees have a strong connection. This year, Titan Travel continued to support the Golden Lion Children's Trust; Destinology raised funds for The Bolton Hospice; and Bennetts has supported the PICU unit at Addenbrooke's Hospital.

CSR Site Representatives at each office coordinate fundraising activities, respond to charitable enquiries and recruit volunteers.

In 2016, match funding was introduced to employee payroll giving and this has been rolled out further during 2017. Employees taking part in fundraising activities for registered charities can now apply for match funding.

We also launched an employee lottery in aid of charity this year.

Our offices were again selected as contact centres for Children in Need and the phones were manned by volunteers from across the business.

As a signatory to the Corporate Covenant, we have policies that support employees who are members of the reserve forces or whose spouses serve in our armed forces. To mark Armed Forces Day, representatives from the armed services were invited to Saga's HQ. Donations were made to: The Royal British Legion; The Armed Forces charity SSAFA; Help for Heroes; and The Royal Navy and Royal Marines Charity.

The Saga Respite for Carers Trust provided 28 holidays for unpaid carers during 2017, utilising remaining trust funds before closing on 2 February 2018.

This year the Saga Charitable Trust continued to provide grants to projects in the developing world in areas visited by Saga's holidaymakers. Eleven grants totalling over £124,000 were awarded. Projects included a mobile clinic in India, vocational training for deafblind people in Nepal, and a community kitchen in Peru.

Public relations

There is an important social commentary aspect to the Saga brand. We have represented the views of our members on a wide range of issues that affect the nation's over 50s including stamp duty exemptions for downsizing, energy costs, cybercrime, GP waiting times, NHS treatment and employment.

Saga is strictly non-party political, but we do survey the opinions of our members through the Saga Populus Panel – the largest poll of over 50s opinion. This poll has been running for more than 10 years, giving us enhanced insight into a wide range of views that are important to our members.

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.

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 are included in our annual statement which is published as stipulated under the UK Modern Slavery Act 2015. This statement summarises our actions to address the risk of modern slavery and human trafficking within our own operations and those of our suppliers.

Anti-bribery and anti-corruption

Saga has a zero tolerance approach to bribery and corruption. An anti-bribery and anti-corruption policy is in operation throughout the Group to ensure compliance with the Bribery Act 2010. We undertake regular risk assessments of our activities and destination markets, and design suitable procedures to mitigate the risk of bribery and corruption. These include due diligence before entering into new business acquisitions, material supplier contracts and joint ventures. Saga's Financial Crime, Data and Information Security Committee monitors the effectiveness of our policy and procedures, and oversight is provided by the Audit Committee as set out in the Committee report on page 74.

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 continuously improve 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 (GHG) emissions pursuant to section 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Total GHG emissions decreased by 13% during the 2017/18 financial year compared with the year before. Saga plc has emitted a total of 90,317 tCO_2e from fuel combustion (Scope 1 direct) and electricity purchased for our own use (Scope 2 indirect). This is equivalent to 74.7 tCO_2e per £m customer spend. The Scope 3 emissions, which we choose to report voluntarily, have increased significantly due to improved data coverage in 2017/18. The expanded reporting of emissions arising from business travel gives our stakeholders greater visibility of our actual impact.

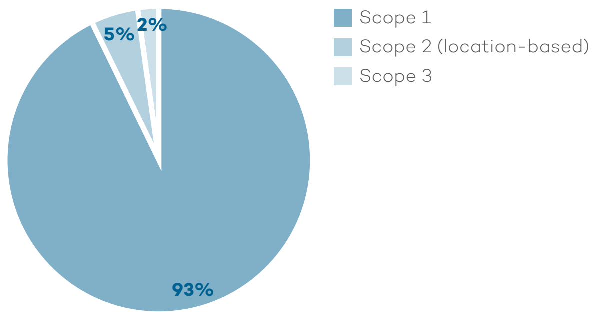
The table below shows GHG emissions for the year ended 31 January 2018:

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

Emissions Source	2017/18 Emissions	2016/17 Emissions
Scope 1	86,264 tCO_2e	100,951 tCO_2e
Scope 2 (location-based)	4,053 tCO_2e	5,343 tCO_2e
Total Scope 1 & 2	90,317 tCO_2e	106,294 tCO_2e
tCO_2e per £m customer spend	74.7	89.9
Scope 2 (market-based)[1]	221 tCO_2	658 tCO_2
Scope 3	2,187 tCO_2	425 tCO_2e

Note:
1 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



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 *2017 Government GHG Conversion Factors for Company Reporting* have been applied to calculate Scope 1, Scope 2 (location-based) and Scope 3 emissions from corresponding activity data. Supplier-specific emissions factors have been applied for the calculation of Scope 2 market-based emissions.

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 2017/18 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 and from taxis, transmission and distribution losses associated with electricity consumption.

Saga plc is disclosing diesel used in non-road machinery for the second year. This year, the disclosure has been further expanded to include business travel in taxis and transmission and distribution losses associated with electricity consumption. As in previous years, 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

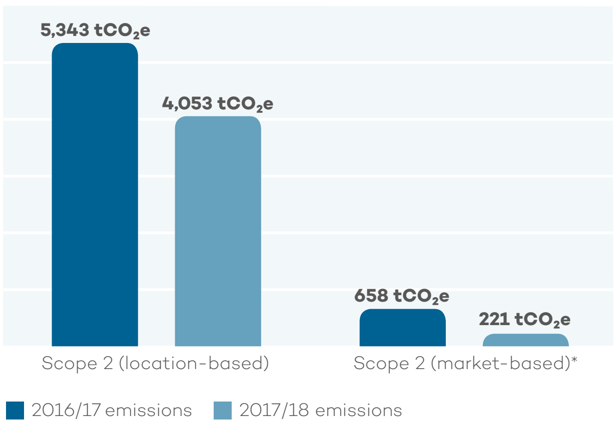
The Bel Jou hotel in Saint Lucia was sold during the 2016/17 financial year and is no longer part of the Group.

In some instances, where data is missing, values have been estimated using either an extrapolation of available data from the reporting period or data from 2016/17 as a proxy.

Energy procurement decisions

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

Scope 2 electricity emissions by reporting type



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

Improving performance

In collaboration with Carbon Credentials, we continue to monitor and measure our carbon impact.

There have been efforts to reduce energy usage across Saga plc during 2017/18, and overall Scope 1 and 2 emissions have reduced by 15% compared with last year.

Marine fuel usage, which is the largest contributor to our emissions, has decreased by 8% compared with last year. This is attributed to more fuel efficient itinerary planning and two dry docks during the financial year; as fuel quantity may improve in future years, we expect that fuel use per passenger will decrease.

Furthermore, there have been reductions in every energy consuming activity apart from natural gas consumption and Scope 3 business travel.

Risk governance

The Board has agreed systems and processes to govern our approach to risk management. These systems require us to ensure that effective risk assessment and management systems are in place; to agree the principal risks and uncertainties (PRUs) the business should accept in pursuit of its strategic objectives and regularly review the status of these; to ensure a suitable risk culture is embedded throughout Saga; and to frequently assess the effectiveness of the Group's risk management systems, including essential levels of internal and external communication of risk. Our approach and these processes are set out in more detail in the Accountability section of the Corporate Governance Statement on pages 69-73 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 of the risk 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 a reputation for excellent service. 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.

Market risk

We accept some market risk through our investment activity and seek to earn returns that are 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

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.

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.

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 where we expect to be appropriately rewarded for accepting the risk. For example, we accept limited insurance risk for personal injury risks that we feel we have the expertise to underwrite and manage, and accept non-life insurance risks in which we have the relevant expertise.

We enter into certain reinsurance arrangements, for example, our funds-withheld quota share arrangement with Hannover Re and NewRe, to reduce our exposure to large losses and a potential deterioration in claims development.

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 in which 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. In the table on pages 26-29, we define our risk appetite for certain specific areas of operational risk.

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.

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, and pay particular attention to avoid the loss of customer, employee and other business confidential data, and the 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 division 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.

+ Read more in the Accountability section on **p69**

PRU Category	Strategic priorities linkage	Risk
IT systems and processes	1 2 3 4	Inability to develop digital offerings sufficient to drive innovation and growth
		Insurance platform replacement does not deliver future planned benefits
		Failure to create the appropriate omni-channel customer experience to achieve plan
Cybercrime	1 2 3 4	Cybercrime attacks cause breach or loss of sensitive data assets and prevent achievement of objectives
People	1 2 3 4 5	We do not attract or retain the right people to achieve our objectives
		Our culture does not align to our brand values
Operational efficiency/ change/innovation	1 2 3 4	New ship(s) do not fully meet future customer needs
		Failure to accrue expected benefits from operational change initiatives
		Failure to achieve benefits anticipated from Possibilities
	2 3 4 5	Failure to achieve the right return from marketing investment
Business interruption	1 2 3 4	Reputational damage arising from ineffective handling of interruption incidents
External regulatory landscape/political change	1 2 3 4	Changes in regulation impact on planned activities (including Financial Conduct Authority (FCA) and General Data Protection Regulation (GDPR))
	1 2 3 4 5	UK decision to leave the EU negatively impacts our business models

Key

1 Becoming increasingly customer-centric
2 Growing our Retail Insurance and Travel businesses
3 Investing for future growth
4 Maintaining our efficient operating model
5 Developing our people

Mitigation	Movement
Digital innovation remains a core focus at Group and business level with continued investment during 2017 in system development, particularly in digital marketing systems and supporting resource	↓
We are currently on track to deliver assumed benefits, and we have also gained positive assurance on our programme management	New
We continue to invest in our key data and marketing systems. Our understanding of our customers provides us with the insight to deliver an omni-channel customer experience	New
Saga's 'continuous improvement' approach to providing ongoing protection to Saga's data assets is well embedded and enables us to keep abreast of emerging threats	→
A recent review of roles and responsibilities has been completed to ensure we have the right people in the right roles throughout the organisation, supported by talent management and leadership development programmes	→
Our brand and cultural values are now well understood across the business, and good progress is being made in embedding these as planned	→
Our dedicated product development and transition programme is now well established and is fully aligned with the new ship design team. We have gained input from new and existing customers on the proposition	→
Our Group Change Management function is now well established and all change throughout the Group is consistently prioritised and monitored	→
Following the launch of Possibilities, initial customer take-up and feedback have been extremely positive and the business continues to invest in further enhancing the customer proposition	New
Plans are in place to maximise the benefit from the additional investment in marketing in 2018/19	New
Our reinforced Business Continuity team is well established and work continues to ensure that our processes operate to a robust level of resilience and recovery capability	↓
Our project teams are working to ensure that the business complies with recent changes to FCA and GDPR regulations. Internal monitoring teams across the 2nd and 3rd lines of defence test compliance on an ongoing basis. The additional regulatory requirements increase the short-term risk while our mitigations are being implemented	↑
Following an initial impact assessment, further scenarios have been considered, potential outcomes and actions have been identified and monitoring is ongoing	→

PRU Category	Strategic priorities linkage	Risk
Counterparty	3 4 5	Inability to find an appropriate solution to manage pension fund shortfall
	1 2	Inability of key partner to provide appropriate service
Insurance landscape	1 2 3 4	Claims experience is adverse compared with current best-estimate assumptions
		Inability to compete with insurance competitors
		Rates in the motor insurance market do not move as expected
		Motor panel does not deliver the expected benefit
	2 3 4	Further changes in the Ogden discount rate negatively impact claims reserves and profitability
Conduct/customers	1 2 3 4	Our behaviour results in poor or unacceptable outcomes for customers
Macroeconomic climate	2 3 4	Investments do not yield expected returns
Travel landscape	1 2 3 4	Failure to create expected demand for future shipping capacity
		Failure to maintain existing shipping fleet at a level to meet both customer expectations and plan
		Failure to enhance customer propositions and brand perception to drive more first time buyers and additional revenue streams
		Inability to offset product commoditisation with agile pricing and yield management

Key

1 Becoming increasingly customer-centric
2 Growing our Retail Insurance and Travel businesses
3 Investing for future growth
4 Maintaining our efficient operating model
5 Developing our people

Mitigation	Movement
The Company has been closely engaged with employees and the pension Trustee to work on an appropriate recovery plan and redesign of the pension scheme benefits. A deficit repayment plan has been agreed	↓
We have recently refreshed our approach to assessing supplier risk, and to ensuring that our approach to completing due diligence, contracts and ongoing monitoring is appropriate given their potential impact on our operations and customer outcomes	→
AICL's claims experience continues to be in line with expectations, and is subject to close scrutiny and ongoing monitoring	→
Competition remains intense within the insurance market. To counteract this, we set the price in the Insurance Broking operation to compete where appropriate. We have panels in place for home and motor products to enable an appropriate customer footprint	→
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	→
The performance of the motor panel has continued to improve and we are working closely with all panel underwriters to look for opportunities to further improve net rates and broaden our footprint	New
AICL continues to monitor the impact of the Ogden rate on the industry and is prepared to respond to any further changes	New
Saga's governance structure, brand and cultural values are built on the premise of customer dedication, and customer outcomes are regularly considered throughout the organisation	↓
We have recently updated our investment strategy to ensure our investment portfolio has an appropriate spread of risk and optimal returns, which is governed by an investment committee	↓
Following the completion of customer research, we continue to enhance our product offering, marketing and sales development plans. Our activities are generating sufficient demand for the new ship currently on sale	↓
The 'Beyond Compliance' programme is now completed. There is a significant focus on maintaining existing vessels, and ensuring that the right level of maintenance and customer care is established for new ships. The risk increases with the age of the existing fleet. The first of our two older vessels will leave the fleet in February 2019	↑
Extensive work has been undertaken to refresh and expand our product ranges, improve product flexibility and shift brand perception to attract more first time buyers. This will be ongoing	↓
Investment in new travel systems will include improvements in pricing and yield management capability	↓

Insurance Retail Broking

Our Retail Broking business provides tailored insurance products to millions of customers each year.

Retail Underlying Profit Before Tax[1]

£130.2m
(5.7%)

Policy count

2,781k
(7.3%)

Written profit per core policy

£44.3
+12.4%

Note:
1 Alternative performance measure – refer to the glossary on page 209 for definition and explanation

Insurance Retail Broking

Our Retail Broking business provides tailored products and services that are underwritten by our panels of underwriters or via a solus arrangement.

Our in-house insurer AICL sits on our motor and home panels and competes for that business with other panel members on equal terms.

Our travel insurance and private medical insurance are underwritten through solus arrangements with third party insurers.

When underwritten by a third party, the product is manufactured as a Saga product and we manage the customer relationship.

Motor broking

Our motor broking business performed strongly during the year, delivering a 37.3% increase in written PBT to £39.0m (2017: £28.4m). This was despite a fall in persistency to 65.4% (2017: 69.2%) as a result of the introduction of new FCA renewal wording, an increase in Insurance Premium Tax (IPT) and a more competitive trading environment in the last quarter of 2017. During this period we have focused on value over volume which has resulted in written profit per core policy increasing by 46.2% to £30.4 (2017: £20.8) and a 3.4% reduction in our Saga branded policies sold.

Profit before tax decreased by £2.8m to £42.4m (2017: £45.2m) as a result of a lower written to earned adjustment. We continue to benefit from our transition to a capital light broker model driving a positive written to earned adjustment of £3.4m (2017: £16.8m). This resulted from the expansion of the panel and the outsourcing of the underwriting for add-ons.

Home broking

The UK home insurance market has remained competitive throughout the year. We have continued to experience the same flat premium environment as the wider market. In response, we chose to maintain the quality of our home business. Where we believe prices in the market are unprofitable we are prepared to lose business and this has resulted in a reduction in the number of core policies sold. Core policies reduced to 1,186k (2017: 1,254k) and profit per policy declined by 3.5% to £44.7. Profit before tax was £56.6m (2017: £61.2m).

The efficiency of our panel continues to enable us to access a competitive cost of underwriting, and this is key to maintaining our margins in a challenging environment.

Other broking

Our other insurance broking business is primarily comprised of private medical insurance (PMI) and travel insurance. These products have been designed for our customers and play an important role in deepening our relationship with them.

Our PMI business performed strongly, in terms of both new policies and renewals.

Demand for travel insurance was weaker in the first quarter due to higher net rates from our underwriting partner. These stemmed from unfavourable foreign exchange movements in Q1 2017, which have now normalised.

Profit before tax was broadly in line with the prior year at £31.2m (2017: £31.6m).

Gary Duggan joined Saga in September as part of our succession planning for the Retail Broking business, and became CEO of Saga Services in January. Gary brings a wealth of experience in running and growing broking businesses at GE, Barclays and most recently as Managing Director of BGL's General Insurance partnerships business. He is focused on driving growth in the broking business by:

- continuing to drive the efficiency and footprint of our panels;
- focusing on increasing customer acquisition and retention; and
- maintaining our efficient operating model.

Case study: A simpler quote journey for our home insurance customers

Drawing on data and customer feedback, a simplified home insurance quote journey was launched in late 2017.

Within the new journey, we have removed over a third of the risk questions and have simplified almost a third more. This means that obtaining a quote online or over the phone is quicker and more straightforward than ever before.

We have improved the customer experience significantly and reduced the time it takes to provide a home insurance quote. We are having richer conversations with our customers about things that really matter to them.

Current trading in Retail Broking

The decision to invest in targeted marketing spend to return our customer base to growth is working well and motor and home new business volumes increased in the year to date by 17.7% and 9.2% respectively.

In the motor broking market, the strong price inflation we saw in 2017 has eased due to the expectation that the Ogden discount rate review and the implementation of proposed whiplash reforms put a downward pressure on retail pricing.

Our third party panel members currently underwrite 24.4% of net premiums. Since the panel was established two and a half years ago, we have seen a steady progression in panel share, apart from in H1 2017, when the cautious approach to pricing by external underwriters meant that AICL's share temporarily increased. The growth recovered in H2 2017 and we expect this to continue as we progress through the year.

Trading conditions continue to be challenging within the home insurance market but we have seen some signs of premium inflation, reflecting the backdrop of claims inflation. While we expect another tough year in this market, our targeted marketing spend and a focus on increasing home and motor cross product holdings by our High Affinity and potential High Affinity Customers are expected to provide some opportunities for policy count growth.

Other insurance has been resilient. PMI continues to benefit from the ongoing concerns about NHS funding and travel insurance remains stable.

Insurance Underwriting

AICL, our underwriter, retains its competitive advantage and high panel share of older, lower-risk drivers and remains a critical part of our business.

Underwriting Underlying Profit Before Tax[1]

£79.2m

+2.7%

Solvency II coverage ratio

171%

+28 ppts

Pure COR[2]

97.7%

(1.9ppts)

Underlying reserve releases

£60.0m

(4.8%)

Notes:
1 Alternative performance measure – refer to the glossary on page 209 for definition and explanation
2 Please refer to page 46 of the Group Chief Financial Officer's review for how this Alternative Performance Measure is calculated and defined

Insurance Underwriting
Our in-house underwriter AICL retains its competitive advantage and has a high panel share of older, lower-risk drivers. Its focus on these drivers, along with its ongoing efficient management of small and large personal injury claims, has led to a strong Underwriting result. Profit before tax was £79.2m (2017: £77.1m).

AICL targets a 3% return on net premiums and a strong return on equity, which it has consistently delivered over many years. Claims inflation continues to be in the mid-single percentages reflecting a higher average claims cost, partially offset by a lower frequency of claims. The average claims cost has been driven by the depreciation of sterling and an increase in theft costs. Our excellent claims management and our claims experience continue to be very positive for small and large personal injury claims. This has enabled us to maintain reserve releases at roughly the same level year on year. However, we continue to expect a c.£10-15m decline in reserve releases in the coming year.

We have a 75% quota share arrangement with NewRe which expires on 31 January 2019. The new arrangement with both NewRe and Hannover Re will provide three years' cover on a rolling basis. It will cover 80% of the downside risk of all motor policies written from February 2019 up to 120% loss ratio cap.

This agreement is a testament to the stability and high quality of our Underwriting business.

Travel

Our award winning Travel business is at the heart of the Saga brand. In 2017, we took more than 208,000 passengers all over the world on package holidays, escorted tours and cruises.

Revenue
£448.8m
+3.9%

Passengers – Holidays
184k
(3.2%)

Passenger days – Cruising
323k
+7.3%

Operating margin
4.5%
+1.1ppts

Underlying Profit before Tax[1]
£20.4m
+36.9%

Notes:
1 Alternative performance measure – refer to glossary on page 209 for definition and explanation

Travel

The Travel business achieved growth in both revenue and Underlying PBT[1] of 3.9% and 36.9% respectively, and remains on track to grow PBT[1] by four to five times over the five years from January 2017. Profit before tax was £18.1m, reflecting the net fair value loss on derivatives.

Tour Operating

The Tour Operating businesses delivered another year of earnings growth: Underlying PBT[1] increased 20.0% to £13.8m (FY 2017: £11.5m). We continue to see a shift in the mix of sales towards higher-value long-haul, river cruise and third-party cruise products. The trend to higher value products has been offset by a slight decline in passengers during the year, primarily due to flight cancellations following the collapse of Monarch Airlines.

Our Tour Operating business is comprised of four product segments: Go for it; Discover; Unwind; and Stay & Explore. We remain focused on leveraging our deep customer insight in the development of highly differentiated holidays and guided tours tailored to meet the needs of our Travel customers.

Cruising

Saga Cruising is an integral component of our brand and delivers the most differentiated customer experience of all our products.

Underlying Profit before Tax[1] for our two cruise ships, Saga Sapphire and Saga Pearl II, increased by £3.2m to £6.6m (2017: £3.4m). This was driven by favourable fuel hedges and a 7% increase in passenger days as both ships required fewer maintenance days: a 19 day dry dock of the Pearl in April 2017 and a 20 day dry dock of Sapphire in November 2017, compared to a 63 day wet dock of Sapphire in the prior year.

Trading to week ended 31 March 2018

	2018/19 departures			2019/20 departures		
	2018/19	*Growth*	2017/18	2018/19	*Growth*	2017/18
Tour operating revenue £'m	285.0	*0.2%*	284.3	18.1	*9.0%*	16.6
Tour operating passengers ('000s)	139.5	*(5.7%)*	147.9	6.3	*12.5%*	5.6
Cruise revenue £'m	78.9	*2.6%*	76.9	42.6	*124.2%*	19.0
Cruise passengers ('000s)	23.3	*4.0%*	22.4	11.4	*153.3%*	4.5

Emerging Businesses

Current trading
Our Travel business has excellent visibility of bookings in the year ahead due to our customers' preference for booking holidays in advance. In both Tour Operating and Cruising, we have already secured the majority of our FY 2019 sales targets.

Overall profitability of the Travel business is expected to step forward again year on year. Growth in forward Travel reservations combined with our cost reductions will be partially offset by incremental marketing.

The incremental marketing investment in Tour Operating has led to an increase in revenue in the year to date of 0.7%.

There are no scheduled days in dock for our shipping fleet this year, increasing the number of days at sea. This benefit will be partially offset by a year on year increase in fuel costs because we will not benefit from the excellent forward acquired fuel rates we enjoyed in FY 2018.

Booked revenue has increased by £23.6m year on year for 2019/20 departures. This is due to Spirit of Discovery having achieved over 50% of our sales target for her first 19 cruises at attractive per diem rates.

Case study: Service differentiation in our Travel business helps us build long-term relationships with our customers
The overseas concierge service is a personal pre-departure service that aims to give our holidays customers information regarding all aspects of their holiday. This ranges from generic information about the locale to personalised requests, such as arranging restaurant bookings and organising flowers for special occasions. Our concierges build relationships with our customers right from the beginning of their Saga holidays journey, helping us create more memorable holiday experiences for our customers.

Our Emerging Businesses include our personal finance, healthcare, retirement villages and media operations. These businesses provide long-term growth opportunities to the Group. Profit before tax was £0.7m (2017: £0.8m) from the cluster of businesses.

Saga Money
Saga Money is made up of a variety of products, including credit cards, equity release, savings, loans and wealth management. We believe that a money proposition is an important part of our offering and we continue to explore ways of bringing innovative products to our customers.

During the year we have restructured our joint venture with our partner, Tilney, to a lower-cost commercial model.

Saga Healthcare
Saga operates a number of brands within the homecare sector. We continue to strengthen our domiciliary care pilot in Hertfordshire to ensure we have a scalable and repeatable model before we roll it out to other areas.

I am pleased to report that the Group has delivered a robust financial performance. Underlying Profit Before Tax is 1.4% higher at £190.1m. Strong cash flows and conversion have enabled us to continue to deleverage to 1.7x from 1.9x at the start of the year. Net debt has reduced from £464.9m to £432.0m. Based on these results and the stability of our highly cash generative model, we propose to increase our final dividend to 6.0p, leading to growth in the full year dividend of 5.9% to 9.0p per share. Profit before tax from continuing operations has decreased by 7.6% to £178.7m (2017: £193.3m).

> "Strong cash flows and conversion have enabled us to continue to deleverage to 1.7x from 1.9x at the start of the year."

Income Statement

Group Income Statement	**12m to Jan 2018**	*Growth*	12m to Jan 2017
Revenue	**£860.1m**	***(1.3%)***	**£871.3m**
Trading EBITDA[1]	£250.1m	*1.2%*	£247.1m
Depreciation & amortisation (excluding acquired intangibles)	(£33.9m)		(£33.1m)
Trading Profit[1]	**£216.2m**	***1.0%***	**£214.0m**
Non-trading costs (note 4b)	(£3.4m)		(£1.9m)
Amortisation of acquired intangibles	(£4.7m)		(£6.5m)
Pension charge IAS19R[2]	(£5.5m)		(£1.5m)
Net finance costs[3]	(£12.5m)		(£16.7m)
Underlying Profit Before Tax[1]	**£190.1m**	***1.4%***	**£187.4m**
Net fair value gains/(losses) on derivatives	(£2.3m)		£9.9m
Debt issue costs	(£4.3m)		–
Restructuring costs	(£4.8m)		–
Ogden rate change impact	–		(£4.0m)
Profit before tax from continuing operations	**£178.7m**	***(7.6%)***	**£193.3m**
Tax expense	(£33.6m)	*(6.7%)*	(£36.0m)
Loss after tax for the year from discontinued operations	(£7.6m)		–
Profit after tax	**£137.5m**	***(12.6%)***	**£157.3m**
Basic earnings per share:			
Underlying earnings per share from continuing operations[1]	13.8p	*0.7%*	13.7p
Earnings per share from continuing operations	13.0p	*(7.8%)*	14.1p
Earnings per share	12.3p	*(12.8%)*	14.1p

Notes:
1 Alternative performance measure – refer to the glossary on page 209 for definition and explanation
2 Pension charge IAS19R includes the additional non-cash pension current service cost in excess of employer contributions made in the year and the non-cash pension interest cost that are both required under IAS19R
3 Net finance costs excludes net fair value gains/(losses) on derivatives and has been restated to exclude IAS19R pension interest cost

Revenue decreased by 1.3% to £860.1m (2017: £871.3m). Saga's total customer spend[1] increased by 2.3% to £1,209m (2017: £1,182m). This includes gross written premiums and insurance premium tax on all insurance policies sold.

Trading Profit grew by 1.0% to £216.2m (2017: £214.0m). A strong performance in Travel was offset by a decline in the written to earned benefit in Retail Broking. Depreciation and amortisation increased by £0.8m due to the planned investment in software within our insurance business and the maintenance of the Saga Sapphire in the prior year.

Underlying Profit Before Tax increased by 1.4% to £190.1m (2017: £187.4m). The benefit of lower net finance costs and amortisation of acquired intangibles was offset by an increase in the pension charge under IAS19R and higher non-trading costs. The increase in pension charge was due to the effect of low corporate bond yields as at 1 February 2017 driving down the discount rate used in the accounting valuation of the pension current service cost for the year.

Profit before tax from continuing operations was £178.7m for the year. This is a decrease of 7.6% due to the derivative losses that impacted the business following the weakening of sterling, the one-off costs associated with the unamortised facility fees of our previous banking facilities and the one-off restructuring costs incurred as a result of a review of the Group's cost base. This was partially offset by a one-time £4.0m profit impact in the prior year 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
Net finance costs in the year were £12.5m (2017: £16.7m). This reduction has been achieved through the Group obtaining an overall lower average cost of debt following the refinancing of its debt earlier in the year along with lower average borrowings during the year. The cost of the external bank debt is now linked to the Group's leverage ratio and the continuing deleveraging has enabled the Group to be charged interest at the low end of the range.

Tax expense
The Group's tax expense for the year was £33.6m (2017: £36.0m) representing an effective tax rate of 18.8% (2017: 18.6%). The current year benefited from a lower corporation tax rate. The prior year benefited from a £2.7m one-off positive impact from the utilisation of tax losses brought forward from the Allied business that was disposed of on 1 December 2015. Going forward, the tax charge is likely to be more in line with the underlying corporation tax rate.

Discontinued operations
The loss after tax from discontinued operations is in relation to the sale of Allied Healthcare in the year ended 31 January 2016. The Group received deferred consideration in the form of two loan notes with face value of £3.5m each which attract uncompounded interest at a rate of 5% due to mature on 30 May 2018 and 30 May 2019. In the year to 31 January 2018, following an impairment review, management no longer consider the loan notes to be recoverable and as such have impaired the loan notes to £nil.

Earnings per share
The Group's underlying earnings per share from continuing operations were 13.8p (2017: 13.7p). The Group's basic earnings per share were 12.3p (2017: 14.1p), with basic earnings per share from continuing operations for the same period of 13.0p (2017: 14.1p).

Dividends
In determining the level of dividend in any year in accordance with the policy, the Board also considers a number of other factors that influence the proposed dividend. These include but are not limited to:

- the level of available distributable reserves;
- future cash commitments and investment needs, including Saga's new ships;
- availability of cash resources; and
- consideration of prevailing risks and uncertainties as documented on pages 24-29.

Reflecting Saga's strong cash generation and confidence in the business, the Directors have proposed a final dividend of 6.0p per share. Combined with the interim dividend of 3.0p per share, this will deliver a total dividend for the financial year ended 31 January 2018 of 9.0p per share (2017: 8.5p). This equates to a payout ratio of 65% compared with the Group's underlying earnings per share from continuing operations.

Looking ahead the Board is committed to a long-term sustainable dividend policy. The increase in the dividend to this level reflects our ongoing confidence in the stability of our highly cash generative model.

Saga plc has £1,249.2m of distributable reserves at 31 January 2018 available for distribution to support the dividend policy. The distributable reserves of Saga plc are equal to the balance of the retained earnings reserve of £1,249.2m as at 31 January 2018. If necessary, its subsidiary companies hold significant reserves from which a dividend can be paid to support Saga plc's dividend policy. Subsidiary distributable reserves are available immediately with the exception of companies within the Travel and Underwriting segments, which require regulatory approval before any dividends can be declared and paid.

Saga offers a share alternative in the form of a dividend reinvestment plan (DRIP) for those shareholders who wish to elect to use their dividend payments to purchase additional shares in the Group, rather than receiving a cash payment. The last date for shareholders to elect to participate in the DRIP will be 4 June 2018. The record date will be 18 May 2018 and the final dividend will be paid on 29 June 2018. Payment of the final dividend of 6.0p per share remains subject to shareholder approval at the Company's 2018 Annual General Meeting.

Cash flow and liquidity

Available operating cash flow is made up of the unrestricted cash flows from the Retail Broking and Emerging Businesses and Central Costs, plus any dividends paid by our restricted businesses, Underwriting and Travel.

The Group delivered a strong cash flow performance in the year to 31 January 2018, achieving an available operating cash flow of £175.5m, 70.2% of Trading EBITDA. This cash flow decreased by £42.1m on the previous period, which was primarily driven by a more normalised dividend paid from AICL, as the initial reduction in solvency capital from the introduction of the quota share in the prior year reduces. The reduction in working capital outflow is due to the decrease in the written to earned adjustment.

Available Cash Flow	**12m to Jan 2018**	*Growth*	12m to Jan 2017
Trading EBITDA[1]	**£250.1m**	***1.2%***	**£247.1m**
Less Trading EBITDA relating to restricted businesses	(£117.4m)	*(6.8%)*	(£109.9m)
Intra-group dividends paid by restricted businesses	£70.0m	*(39.1%)*	£115.0m
Working capital and non-cash items[2]	(£0.9m)	*93.8%*	(£14.6m)
Capital expenditure funded with available cash	(£26.3m)	*(31.5%)*	(£20.0m)
Available operating cash flow[1]	**£175.5m**	***(19.3%)***	**£217.6m**
Available operating cash flow %	*70.2%*		*88.1%*

Notes:
1 Alternative performance measure – refer to the glossary on page 209 for definition and explanation
2 Restated to exclude IAS19R pension service costs

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

	12m to Jan 2018	12m to Jan 2017
Net cash flow from operating activities (reported)	**£135.2m**	£138.5m
Exclude cash impact of:		
Trading of restricted divisions	**(£56.0m)**	(£62.4m)
Non-trading costs	**£8.7m**	£5.9m
Interest paid	**£11.1m**	£15.6m
Tax paid	**£32.8m**	£25.0m
	(£3.4m)	(£15.9m)
Cash released from restricted divisions	**£70.0m**	£115.0m
Include capital expenditure funded from available cash	**(£26.3m)**	(£20.0m)
Available operating cash flow	**£175.5m**	**£217.6m**

Financing

In May 2017, the Group refinanced its bank facilities with the launch of a debut £250m seven year senior unsecured bond, a £200m five year term loan facility and a £100m five year revolving credit facility. The refinancing strengthened the Group's balance sheet by extending the maturity profile and increasing the diversity of its sources of borrowings. The overall level of indebtedness did not change.

Continued strong cash flows have enabled the Group to continue to deleverage to a debt ratio (net debt to Trading EBITDA) of 1.7 from 1.9. The Group's net debt is made up as follows:

Net debt	31 Jan 2018	31 Jan 2017
Corporate bond	**£250.0m**	–
Term loan	**£180.0m**	£380.0m
Revolving credit facility	**£15.0m**	£100.0m
Less available cash[1]	**(£13.0m)**	(£15.1m)
Net debt	**£432.0m**	£464.9m

Note:
1 Refer to note 21 of the financial statements for information as to how this reconciles to a statutory measure of cash

Pensions

Over the year, the valuation of the Group's pension scheme has strengthened on an IAS19R basis by £6.7m to a deficit of £7.0m (January 2017: deficit £13.7m):

Saga Scheme	**12m to Jan 2018**	12m to Jan 2017
Fair value of scheme assets	**£307.3m**	£276.8m
Present value of defined benefit obligation	**(£314.3m)**	(£290.5m)
Defined benefit scheme liability	**(£7.0m)**	(£13.7m)

The strengthening has been driven by a £30.5m increase in the fair value of the scheme assets to £307.3m (January 2017: £276.8m). This was partially offset by an increase in the scheme liabilities of £23.8m to £314.3m (January 2017: £290.5m), driven by a fall in corporate bond yields over the period.

Net assets

Since 31 January 2017, total assets and liabilities have reduced by £55.0m and £83.3m respectively, increasing overall net assets by £28.3m.

The decrease in total assets is as a result of a decrease in financial assets of £85.8m, which coincides with the release of surplus solvency capital from the Group's Underwriting business and a decrease in cash and short-term deposits of £25.5m. This was partly offset by an increase in intangible fixed assets of £7.4m due to increased investment in IT systems, and an increase in trade and other receivables of £11.3m. The latter was primarily due to an increase in prepayments, which includes significant commitment fees on the two new ships and an increase in property, plant and equipment of £31.9m, which includes the second and third stage payments for Spirit of Discovery of £13.2m and £13.9m respectively and the first stage payment for Spirit of Adventure of £15.2m.

The reduction in total liabilities reflects a £20.6m reduction in financial liabilities following the repayment of debt during the year, enabled through continued positive cash generation and the release of surplus solvency capital. This was coupled with an associated £60.3m reduction in gross insurance contract liabilities in line with further positive claims experience throughout the year.

Segmental performance

	12m to Jan 2018	Growth	12m to Jan 2017
Revenue			
Motor broking (written)	**£117.8m**	*5.2%*	£112.0m
Home broking (written)	**£81.4m**	*(6.1%)*	£86.7m
Other broking (written)	**£76.2m**	*(5.2%)*	£80.4m
Total Retail Broking (written)	**£275.4m**	*(1.3%)*	£279.1m
Written to earned adjustment	**£7.2m**	*(61.3%)*	£18.6m
Total Retail Broking (earned)	**£282.6m**	*(5.1%)*	£297.7m
Underwriting	**£98.8m**	*(12.0%)*	£112.3m
	£381.4m	*(7.0%)*	£410.0m
Travel	**£448.8m**	*3.9%*	£432.0m
Emerging Businesses and Central Costs	**£29.9m**	*2.0%*	£29.3m
	£860.1m	*(1.3%)*	£871.3m
Underlying Profit Before Tax			
Motor broking (written)	**£39.0m**	*37.3%*	£28.4m
Home broking (written)	**£53.0m**	*(8.8%)*	£58.1m
Other broking (written)	**£31.2m**	*(1.3%)*	£31.6m
Total Retail Broking (written)	**£123.2m**	*4.3%*	£118.1m
Written to earned adjustment	**£7.0m**	*(64.8%)*	£19.9m
Total Retail Broking (earned)	**£130.2m**	*(5.7%)*	£138.0m
Underwriting	**£79.2m**	*2.7%*	£77.1m
	£209.4m	*(2.6%)*	£215.1m
Travel	**£20.4m**	*36.9%*	£14.9m
Emerging Businesses and Central Costs	**(£39.7m)**	*6.8%*	(£42.6m)
	£190.1m	*1.4%*	£187.4m

KPIs			
Total core policies			
Saga branded	**2,488k**	*(6.4%)*	2,658k
Non-Saga branded	**293k**	*(14.6%)*	343k
	2,781k	*(7.3%)*	3,001k
Passengers travelled			
Tour Operations	**184k**	*(3.2%)*	190k
Cruise	**24k**	*14.3%*	21k
	208k	*(1.4%)*	211k
Pure COR (underlying excl. QS)[1]	**97.7%**	*1.9ppt*	99.6%

Total revenue for the Retail Broking business on a written basis decreased by 1.3% to £275.4m (2017: £279.1m). This was mainly due to ongoing challenges in the home market and a reduction in travel policies. Revenue from the written to earned (WTE) adjustment has decreased by 61.3% to £7.2m (2017: £18.6m). This was mainly due to a reduction in the motor WTE adjustment. The WTE adjustment is required when the Group underwrites the portion of policies that it sells in its broker business to spread the broker revenue earned on those policies, and associated direct costs, over the period of cover.

Revenue for the Underwriting business decreased by 12.0% to £98.8m (2017: £112.3m), due to the accounting for the quota share agreement in motor insurance, which required £126.6m (2017: £110.5m) of earned premiums ceded

Note:
1 Please refer to page 46 for details of how this alternative performance measure is calculated and defined

under the agreement to be accounted for as a deduction from revenue. The net impact on profit of the quota share was a £2.1m cost (2017: £1.6m cost). Travel revenue increased by 3.9% to £448.8m, due to revenue growth in both the Tour Operations and Cruise businesses.

Underlying Profit Before Tax in the Retail Broking insurance business on a written basis has increased by 4.3%, primarily due to higher average revenue per policy in motor. Underwriting profit increased by £2.1m, from an increase in investment return. Travel underlying profits increased by 36.9%, due to higher average revenues and less ship maintenance days during the year compared with last year. Emerging Businesses and Central Costs saw a 6.8% decrease in its underlying loss before tax reflecting the reduction in finance costs and central cost base, partially offset by an increase in the IAS19R pension charge.

Motor broking

	12m to Jan 2018				12m to Jan 2017		
	Earned	**WTE**	**Written**	*Growth*	Earned	WTE	Written
GWP							
Broked	£102.1m	–	£102.1m	*4.3%*	£97.9m	–	£97.9m
Underwritten	£223.8m	–	£223.8m	*0.5%*	£222.6m	–	£222.6m
	£325.9m	**–**	**£325.9m**	***1.7%***	**£320.5m**	**–**	**£320.5m**
Broker revenue	£40.5m	(£1.8m)	£42.3m	*17.2%*	£39.4m	£3.3m	£36.1m
Instalment revenue	£7.1m	–	£7.1m	*51.1%*	£4.7m	–	£4.7m
Add-on revenue	£34.3m	£5.4m	£28.9m	*(11.3%)*	£38.3m	£5.7m	£32.6m
Other revenue	£39.5m	–	£39.5m	*2.3%*	£45.1m	£6.5m	£38.6m
Revenue	**£121.4m**	**£3.6m**	**£117.8m**	***5.2%***	**£127.5m**	**£15.5m**	**£112.0m**
Gross profit	**£118.9m**	**£3.6m**	**£115.3m**	***5.9%***	**£124.4m**	**£15.5m**	**£108.9m**
Marketing expenses	(£19.0m)	(£1.2m)	(£17.8m)	*15.6%*	(£20.7m)	£0.4m	(£21.1m)
Other operating expenses	(£57.5m)	£1.0m	(£58.5m)	*1.5%*	(£58.5m)	£0.9m	(£59.4m)
Underlying Profit Before Tax	**£42.4m**	**£3.4m**	**£39.0m**	***37.3%***	**£45.2m**	**£16.8m**	**£28.4m**

Number of policies sold							
– core			1,281k	*(6.2%)*			1,366k
– add-ons			1,572k	*(2.9%)*			1,619k
			2,853k	***(4.4%)***			**2,985k**
Core policies sold analysed by:							
– Saga branded			988k	*(3.4%)*			1,023k
– Non-Saga branded			293k	*(14.6%)*			343k
			1,281k	***(6.2%)***			**1,366k**
Core Saga branded third-party panel share (by policy count)			**17.0%**	***4.3ppt***			**12.7%**

Gross written premiums increased by 1.7%, with core policies lower by 6.2% offset by an increase in average gross written premiums of 7.9%.

Gross written premiums from business underwritten by third party underwriters increased by 4.3% to £102.1m (2017: £97.9m), as the number of policies underwritten by third parties increased by 4.3ppt to 17.0% (2017: 12.7%). Gross written premiums from business underwritten within the Group increased by 0.5% to £223.8m (2017: £222.6m) due to an increase in average premiums partially offset by a decrease in the number of policies sold. The discontinuation of the Direct Choice brand impacted both policies and gross written premiums. Saga branded policies reduced by 3.4%.

Written broker revenue has increased by 17.2% to £42.3m (2017: £36.1m) reflecting a positive trading environment that saw written revenue per policy increase strongly with premium inflation increasing ahead of the claims inflation during the year. When excluding the discontinued Direct Choice brand, broker revenue increased by 23.0% to £41.5m (2017: £33.7m).

Written instalment revenue has increased by £2.4m to £7.1m (2017: £4.7m) following the insourcing of the Bennetts debtor book during the prior year and an increase in the number of Saga customers paying by instalments coupled with higher premiums. Written add-on revenue has decreased by £3.7m to £28.9m (2017: £32.6m) due to the reduction in core policies and a decrease in add-on penetration.

Overall, this has led to written revenue increasing by 5.2% to £117.8m (2017: £112.0m).

Written marketing expenses have decreased by 15.6%, reflecting a reduction in aggregator volumes and improved efficiency of marketing spend. Written operating expenses have decreased by 1.5% as a result of programmes to deliver operational efficiencies across the Broking business and savings associated with the closure of the Direct Choice brand. As a result, underlying written profit before tax has increased by 37.3% to £39.0m (2017: £28.4m).

The profit impact of the WTE adjustment has decreased by £13.4m to £3.4m (2017: £16.8m) with a £6.6m increase in the deferral of broker revenue on policies associated with AICL, driven by an increase in average premiums and £6.5m due to the introduction of the arrangement fee in November 2015 accelerating earnings in the prior year only.

Home broking

	12m to Jan 2018				12m to Jan 2017		
	Earned	**WTE**	**Written**	*Growth*	Earned	WTE	Written
GWP							
Broked	£150.6m	–	£150.6m	*(3.3%)*	£155.7m	–	£155.7m
Underwritten	–	–	–	*0.0%*	–	–	–
	£150.6m	**–**	**£150.6m**	***(3.3%)***	**£155.7m**	**–**	**£155.7m**
Broker revenue	£52.9m	–	£52.9m	*(6.9%)*	£56.8m	–	£56.8m
Instalment revenue	£2.8m	–	£2.8m	*(6.7%)*	£3.0m	–	£3.0m
Add-on revenue	£15.4m	£3.6m	£11.8m	*(14.5%)*	£16.9m	£3.1m	£13.8m
Other revenue	£13.9m	–	£13.9m	*6.1%*	£13.1m	–	£13.1m
Revenue	**£85.0m**	**£3.6m**	**£81.4m**	***(6.1%)***	**£89.8m**	**£3.1m**	**£86.7m**
Gross profit	**£85.0m**	**£3.6m**	**£81.4m**	***(6.1%)***	**£89.8m**	**£3.1m**	**£86.7m**
Marketing expenses	(£5.6m)	–	(£5.6m)	*3.4%*	(£5.8m)	–	(£5.8m)
Other operating expenses	(£22.8m)	–	(£22.8m)	*0.0%*	(£22.8m)	–	(£22.8m)
Underlying Profit Before Tax	**£56.6m**	**£3.6m**	**£53.0m**	***(8.8%)***	**£61.2m**	**£3.1m**	**£58.1m**

Number of policies sold			
– core	1,186k	*(5.4%)*	1,254k
– add-ons	559k	*5.7%*	529k
	1,745k	***(2.1%)***	**1,783k**
– Core Saga branded	1,186k	*(5.4%)*	1,254k
– Core non-Saga branded	0k	*0.0%*	0k
	1,186k	***(5.4%)***	**1,254k**

The ongoing challenges in the home market have reduced revenues and underlying profits in our home broking business. Core policies have fallen by 5.4% which has led to decreases in earned revenue and earned profit to £85.0m and £56.6m respectively (2017: £89.8m and £61.2m).

The positive home WTE adjustment in the current and prior year reflects the standard accounting treatments, as the Group has moved towards a capital light broking model whereby add-ons were fully outsourced to a third party underwriter. These benefits will no longer occur in future years and we expect there to be no home WTE adjustment going forward.

Other insurance broking

	12m to Jan 2018				12m to Jan 2017		
	Earned	**WTE**	**Written**	*Growth*	Earned	WTE	Written
GWP							
Broked	£123.9m	–	£123.9m	*0.9%*	£122.8m	–	£122.8m
Underwritten	£4.7m	–	£4.7m	*(11.3%)*	£5.3m	–	£5.3m
	£128.6m	**–**	**£128.6m**	***0.4%***	**£128.1m**	**–**	**£128.1m**
Broker revenue	£54.5m	–	£54.5m	*(4.6%)*	£57.1m	–	£57.1m
Instalment revenue	£0.2m	–	£0.2m	*0.0%*	£0.2m	–	£0.2m
Add-on revenue	£0.1m	–	£0.1m	*100%*	–	–	–
Other revenue	£21.4m	–	£21.4m	*(7.4%)*	£23.1m	–	£23.1m
Revenue	**£76.2m**	**–**	**£76.2m**	***(5.2%)***	**£80.4m**	**–**	**£80.4m**
Gross profit	**£64.3m**	**–**	**£64.3m**	***1.4%***	**£63.4m**	**–**	**£63.4m**
Marketing expenses	(£12.0m)	–	(£12.0m)	*(5.3%)*	(£11.4m)	–	(£11.4m)
Other operating expenses	(£21.1m)	–	(£21.1m)	*(3.4%)*	(£20.4m)	–	(£20.4m)
Underlying Profit Before Tax	**£31.2m**	**–**	**£31.2m**	***(1.3%)***	**£31.6m**	**–**	**£31.6m**

Number of policies sold			
– core	314k	*(17.6%)*	381k
– add-ons	10k	*11.1%*	9k
	324k	***(16.9%)***	**390k**
Core policies sold analysed by:			
– Core Saga branded	314k	*(17.6%)*	381k
– Core non-Saga branded	0k	*0.0%*	0k
	314k	***(17.6%)***	**381k**

Revenue from other broking decreased by 5.2% to £76.2m (2017: £80.4m), mainly due to a reduction in travel policies. This was driven by higher net rates in Q1 2017, due to the impact of foreign exchange rate movements, which made us less competitive in the market. This disadvantage has now unwound. Private medical insurance revenue also decreased due to lower average broker revenues. This resulted in a decrease in Underlying Profit Before Tax of 1.3% to £31.2m (2017: £31.6m).

Insurance Underwriting
Underwriting P&L

		12m to Jan 2018				12m to Jan 2017			
		Reported	**Quota Share (QS)**	**Underlying (excl. QS)**	*Growth*	Reported	Ogden impact	Quota Share (QS)	Underlying (excl. QS and Ogden)
Revenue	**A**	**£98.8m**	**(£126.6m)**	**£225.4m**	***0.9%***	**£112.3m**	**(£0.7m)**	**(£110.5m)**	**£223.5m**
Claims costs	**B**	**(£79.0m)**	**£114.3m**	**(£193.3m)**	*1.3%*	(£93.9m)		£102.0m	(£195.9m)
Reserve releases	**C**	**£60.0m**	**–**	**£60.0m**	*(4.8%)*	£59.9m	(£3.1m)	–	£63.0m
Other cost of sales	**D**	**(£8.7m)**	**£12.8m**	**(£21.5m)**	*(1.4%)*	(£9.6m)	(£0.2m)	£11.8m	(£21.2m)
	E	**(£27.7m)**	**£127.1m**	**(£154.8m)**	*(0.5%)*	(£43.6m)	(£3.3m)	£113.8m	(£154.1m)
Gross profit		**£71.1m**	**£0.5m**	**£70.6m**	***1.7%***	**£68.7m**	**(£4.0m)**	**£3.3m**	**£69.4m**
Operating expenses	**F**	**(£2.3m)**	**£3.2m**	**(£5.5m)**	*(1.9%)*	(£2.8m)		£2.6m	(£5.4m)
Investment return		**£10.4m**	**(£5.8m)**	**£16.2m**	*10.2%*	£7.2m		(£7.5m)	£14.7m
Quota share net cost		**–**	**£2.1m**	**(£2.1m)**	*(31.3%)*	–		£1.6m	(£1.6m)
Underlying Profit Before Tax		**£79.2m**	**–**	**£79.2m**	***2.7%***	**£73.1m**	**(£4.0m)**	**–**	**£77.1m**
Reported loss ratio	**(B+C)/A**	**19.2%**		**59.1%**	*(0.4%)*	30.3%			59.5%
Expense ratio	**(D+F)/A**	**11.1%**		**12.0%**	*0.1%*	11.0%			11.9%
Reported COR	**(E+F)/A**	**30.4%**		**71.1%**	*(0.3%)*	41.3%			71.4%
Pure COR	**(E+F-C)/A**	**91.1%**		**97.7%**	*(1.9%)*	94.7%			99.6%
Number of earned policies				**916k**					955k

Excluding the impact of the quota share agreement and the Ogden rate change, Underwriting revenue increased by 0.9% to £225.4m (2017: £223.5m), while AICL underwrote a lower number of policies, as a result of external panel members winning a greater share compared with the prior year, this was more than offset by an increase in revenue per policy. The Underwriting business delivered an improved pure combined operating ratio of 97.7% (2017: 99.6%).

Investment return increased by £1.5m to £16.2m (2017: £14.7m) with a profit from the on sale of some bonds partially offset by a lower yield on a smaller investment portfolio. The lower yield resulted from historical fixed income investments that have matured and the funds have been reinvested at current market rates. Total investments have reduced as surplus solvency capital has been released, which has been driven by continued favourable claims experience and an increase in the number of accident years covered by the quota share agreement.

Despite the lower level of underlying reserve releases, profit from Underwriting activity has increased to £79.2m (2017: £77.1m).

Reserving

	12m to Jan 2018	Growth	12m to Jan 2017	Ogden rate changes	Underlying 12m to Jan 2017
Motor insurance	**£64.0m**		£59.2m	(£3.1m)	£62.3m
Home insurance	**(£1.2m)**		(£0.1m)	–	(£0.1m)
Other insurance	**(£2.8m)**		£0.8m	–	£0.8m
Total	**£60.0m**	*(4.8%)*	£59.9m	(£3.1m)	£63.0m

Excellent claims management and favourable claims development experience during the twelve months to 31 January 2018 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 on motor totalling £64.0m during the year. There has been no deterioration in the underlying reserve margin held over best estimate claims reserves year on year in percentage terms.

The strengthening of prior year reserves for home and other insurance are in respect of products sold by third parties for which the Group has in place profit and loss sharing agreements such that the associated impact on profit is negligible.

Analysis of insurance contract liabilities at 31 January 2018 and 31 January 2017 is as follows:

	12m to Jan 2018			12m to Jan 2017		
	Gross	**Reinsurance assets[1]**	**Net**	Gross	Reinsurance assets[1]	Net
Reported claims	**£307.3m**	**(£76.1m)**	**£231.2m**	£313.3m	(£70.1m)	£243.2m
Incurred but not reported[2]	**£149.3m**	**(£17.9m)**	**£131.4m**	£193.7m	(£23.7m)	£170.0m
Claims handling provision	**£10.4m**	**–**	**£10.4m**	£10.0m	–	£10.0m
Total claims outstanding	**£467.0m**	**(£94.0m)**	**£373.0m**	£517.0m	(£93.8m)	£423.2m
Unearned premiums	**£115.0m**	**(£6.2m)**	**£108.8m**	£125.3m	(£3.7m)	£121.6m
Total	**£582.0m**	**(£100.2m)**	**£481.8m**	£642.3m	(£97.5m)	£544.8m

Notes:
1 Excludes funds-withheld quota share agreement
2 Includes amounts for reported claims that are expected to become periodical payment orders

The Group's total insurance contract liabilities net of reinsurance assets have reduced by £63.0m as at 31 January 2018 from the previous year end driven by a £12.0m reduction in reported claims reserves, a £38.6m reduction in IBNR claims reserves and a £12.8m reduction in unearned premium reserve. The reduction in IBNR claims reserves was mainly due to favourable experience on large and small personal injury claims.

Investment portfolio

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

The amount held in invested funds decreased by £71.5m compared with the previous year, from £546.8m as at 31 January 2017 to £475.3m as at 31 January 2018. As at 31 January 2018, 91% of the financial assets held by the Group were invested with counterparties with a risk rating of A or above, which is broadly in line with the previous year and reflects the stable credit risk rating of the Group's counterparties.

At 31 Jan 2018	**AAA**	**AA**	**A**	**< A**	**Unrated**	**Total**
Underwriting investment portfolio:						
Deposits with financial institutions	**–**	**£60.8m**	**£54.8m**	**–**	**–**	**£115.6m**
Debt securities	**£28.9m**	**£119.1m**	**£11.5m**	**–**	**–**	**£159.5m**
Money market funds	**£153.2m**	**–**	**–**	**–**	**–**	**£153.2m**
Equities	**–**	**–**	**–**	**–**	**£31.4m**	**£31.4m**
Hedge funds	**–**	**–**	**–**	**–**	**£7.5m**	**£7.5m**
Loan funds	**–**	**–**	**–**	**–**	**£6.4m**	**£6.4m**
Loan notes	**–**	**–**	**–**	**–**	**–**	**–**
Unlisted equity shares	**–**	**–**	**–**	**–**	**£1.7m**	**£1.7m**
Total invested funds	**£182.1m**	**£179.9m**	**£66.3m**	**–**	**£47.0m**	**£475.3m**
Hedging derivative assets	**–**	**–**	**£38.6m**	**£0.6m**	**–**	**£39.2m**
Total financial assets	**£182.1m**	**£179.9m**	**£104.9m**	**£0.6m**	**£47.0m**	**£514.5m**

At 31 Jan 2017	AAA	AA	A	< 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**

Solvency capital

	12m to Jan 2018[1]	12m to Jan 2017
Undertaking-specific parameters		
Solvency Capital Requirement (SCR)	**£79.9m**	£102.9m
Available capital	**£137.0m**	£146.7m
Surplus	**£57.1m**	£43.8m
Coverage	**171%**	143%

Note:
1 The amounts shown for 12m to Jan 2018 are estimated and unaudited

Under Solvency II the Group had an SCR of £79.9m at 31 January 2018 (2017: £102.9m), benefiting from the claims experience and the impact of the quota share agreement. Available capital was £137.0m (2017: £146.7m), giving a coverage ratio of 171% (2017: 143%).

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

Sensitivities	
Base solvency II coverage	171%
Interest rates +/– 1%	+8%/-7%
Equities -15%	-4%
Credit spreads 50bps	-6%
3 large losses of £10m each	-6%

Travel

	12m to Jan 2018				12m to Jan 2017		
	Tour Operations	**Cruising**	**Total Travel**	*Growth*	Tour Operations	Cruising	Total Travel
Revenue	**£360.4m**	**£88.4m**	**£448.8m**	***3.9%***	**£350.1m**	**£81.9m**	**£432.0m**
Gross profit	**£69.5m**	**£23.1m**	**£92.6m**	***5.2%***	**£71.5m**	**£16.5m**	**£88.0m**
Marketing expenses	**(£18.4m)**	**(£7.8m)**	**(£26.2m)**	*1.5%*	(£19.6m)	(£7.0m)	(£26.6m)
Other operating expenses	**(£37.4m)**	**(£8.8m)**	**(£46.2m)**	*1.1%*	(£40.6m)	(£6.1m)	(£46.7m)
Investment return	**£0.1m**	**£0.1m**	**£0.2m**	*0.0%*	£0.2m	–	£0.2m
Underlying Profit Before Tax	**£13.8m**	**£6.6m**	**£20.4m**	***36.9%***	**£11.5m**	**£3.4m**	**£14.9m**
Number of holidays passengers	**184k**	**n/a**	**184k**	*(3.2%)*	190k	n/a	190k
Number of cruise passengers	**n/a**	**24k**	**24k**	*14.3%*	n/a	21k	21k
Number of cruise passenger days	**n/a**	**323k**	**323k**	*7.3%*	n/a	301k	301k

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The Travel business has had another strong year of trading having achieved growth in both revenue and profit, which are up 3.9% and 36.9% respectively.

The Tour Operations business generated a 2.9% increase in revenue to £360.4m (2017: £350.1m) from a decrease in passengers to 184k (2017: 190k). Approximately half of the decrease in passengers was due to the cancellations following the Monarch insolvency. The increased spend per passenger has primarily been driven by the foreign exchange impact of weak sterling, but also a continued shift in product mix towards higher-value long-haul, river cruise and third party cruise products. Gross profit margin was impacted by cost associated with the Monarch insolvency and adverse foreign exchange movements but was more than offset by operational savings. Underlying Profit Before Tax from Tour Operations increased by 20.0% to £13.8m at an increased profit margin of 3.8% (2017: 3.3%). The insolvency of Monarch had a profit impact of approximately £2.0m during the year.

Saga Cruising delivered a 7.9% increase in revenue to £88.4m (2017: £81.9m) reflecting an increase in passenger days of 22k, in part driven by an increase in capacity days. The Saga Pearl was out of operation for scheduled maintenance for 19 days in April 2017 and the Saga Sapphire had a scheduled maintenance of 20 days in November 2017. This compared with 63 days of maintenance on the Saga Sapphire in the prior year.

Underlying Profit Before Tax from the Cruising business almost doubled to £6.6m (2017: £3.4m), led by the increase in passenger days, lower fuel prices, and improved operating efficiency, partly offset by initial marketing spend for Spirit of Discovery, due for delivery in June 2019.

On the 20 September 2017, the Saga plc Board approved the purchase of the second cruise ship, Spirit of Adventure, with an earlier delivery date of August 2020, and the Group exercised the option in December 2017. The financing for Spirit of Adventure represents a 12 year fixed rate sterling loan at an interest cost of 2.63% (overall cost of 3.3%) per annum fixed, backed by an export credit guarantee. The loan value of approximately £295m will be repaid in 24 broadly equal instalments, with the first payment is due six months after delivery. On the date the finance was entered into, the Group purchased Euro currency forwards totalling £211.5m which represents 72% of the cost of the ship.

Emerging Businesses and Central Costs

	12m to Jan 2018				12m to Jan 2017		
	Emerging Businesses	**Central Costs**	**Total**	*Growth*	Emerging Businesses	Central Costs	Total
Revenue	**£28.0m**	**£1.9m**	**£29.9m**	***2.0%***	**£27.2m**	**£2.1m**	**£29.3m**
Profit / (loss) before interest, tax & the IAS19R pension charge	**£0.7m**	**(£22.4m)**	**(£21.7m)**	*11.1%*	£0.8m	(£25.2m)	(£24.4m)
IAS19R pension charge	**–**	**(£5.5m)**	**(£5.5m)**	*(266.7%)*	–	(£1.5m)	(£1.5m)
Net finance costs	**–**	**(£12.5m)**	**(£12.5m)**	*25.1%*	–	(£16.7m)	(£16.7m)
Underlying Profit/(Loss) Before Tax	**£0.7m**	**(£40.4m)**	**(£39.7m)**	***6.8%***	**£0.8m**	**(£43.4m)**	**(£42.6m)**

Revenue from Emerging Businesses (which includes personal finance, healthcare services, retirement villages and the media businesses) increased by 2.9% to £28.0m (2017: £27.2m), which delivered a broadly stable profit of £0.7m (2017: £0.8m).

Central Costs reduced to £22.4m (2017: £25.2m) due to cost savings initiatives. The Group saw a £4.0m increase in the IAS19R charge due to prevailing market conditions, particularly in the bond market, as at 1 February 2017. This was offset by lower debt service costs, driven by lower levels of debt, which led to a £4.2m reduction in net finance costs to £12.5m (2017: £16.7m). This resulted in a loss from Central Costs of £40.4m (2017: £43.4m).

Previous trading guidance

On 6 December 2017, the Group published a Trading Update stating that the Group's growth in Underlying PBT was expected to be between 1% and 2% for the year ended 31 January 2018. Within the Chief Financial Officer's review for the year ended 31 January 2017, the following statement was made in respect of the year ended 31 January 2018, The Group is aiming to deliver ongoing consistent profit growth this year. The Group's published Underlying PBT within this Annual Report and Accounts for the year ended 31 January 2018 is £190.1m which represents 1.4% growth.

Financial outlook and guidance

During the year ending 31 January 2019, written profits from insurance broking are expected to be relatively flat with lower costs and improvements in net revenues will be offset by an incremental investment of approximately £5m in policy growth. There will be a negative movement in the written to earned accounting adjustment of approximately £10m.

For Tour Operating, higher revenues are expected to drive incremental profit, but the additional investment of approximately £5m in passenger growth in 2019/20 will mean that profit will be relatively stable year on year. While Cruise has more capacity days to sell with no dry docks this year, the hedging on fuel and foreign exchange for the current year are less advantageous than last year, therefore Cruise profits will also remain flat year on year.

Lower costs and limited IAS19R pension charge in Central Costs will provide a profit improvement year on year.

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

Reserve releases are expected to reduce this current year by c.£10-15m.

Subject to market conditions remaining materially consistent, the Group is aiming to deliver Underlying Profit approximately 5% lower than in the year to 31 January 2018.

While the Group's leverage reduced materially in the year to 31 January 2018, the rate of any reduction is expected to be lower this year due to our profit guidance.

Jonathan Hill
Group Chief Financial Officer
11 April 2018

The Strategic Report was approved by the Board and signed on its behalf by Lance Batchelor, Group Chief Executive Officer on 11 April 2018.

Governance continues to support our strategic priorities in a practical way as we seek to grow.

The governance framework helped us remain focused through the challenges of 2017 and provided support to plan for the future. Our strategic priorities continue to evolve (as outlined on pages 1-51) as we focus on our customers' needs and on growing our core businesses.

In defining the key areas of focus and strategy for growth, we reviewed strategic initiatives and considered how we could improve the mechanisms by which we attract and retain our customers. As always, we considered our stakeholders and built feedback in to our plans. We invited customers to participate in focus groups to help us design our new ship, Spirit of Discovery, and considered our customers' comments, needs and lifestyles in designing our membership scheme, Possibilities.

The Board spent time considering how operational efficiencies could be improved and agreed to invest in the continuing improvement of core systems. The new insurance and travel platforms will enable greater product differentiation and more tailored offerings for our customers.

We reviewed key policies throughout the year. We discussed the modern slavery policy and statement, which was published on our website. Details of Board activities during the year and how the governance structure supported key decisions, such as the decision to build our second ship, can be found on page 59.

Key features

Our internal governance procedures must support our strategic priorities

Corporate governance report:

- An explanation of how governance works to support our strategic priorities as we seek to become increasingly customer-centric and invest for growth.
- How performance is reviewed to ensure that our stakeholders are listened to and long-term relationships are developed with our customers.

Board discussion topics:

- How to reward our customers through Possibilities, our membership scheme.
- Strategy – how to grow our Retail Insurance and Travel businesses and invest in our capabilities.
- Financial performance.
- How we can continue to develop our people.
- Risk appetite.
- Brand and reputation.
- How to maintain an efficient operating model.

The Audit, Risk, Remuneration and Nomination Committees (Committees) also played an important role throughout the year. The Risk Committee considered how our principal risks and uncertainties could affect our strategy and discussed our risk appetite and tolerance levels. This analysis played an important part in the formulation of the viability statement (see page 73). The Audit Committee considered the approach taken and the viability statement (see page 54), and provided assurance that appropriate systems, controls and processes were in place and advised the Board that they supported the statement that the Annual Report is 'fair, balanced and understandable'. Details can be found in the Audit Committee Report on pages 74-77.

Our brand and reputation
Our brand and reputation for outstanding levels of customer service are core to our business and are key considerations in every decision made by the Board, as are the needs of our stakeholders.

Board composition and changes
Philip Green left the Board in March 2017 and was replaced as Senior Independent Director and Chair of the Nomination Committee by Orna NiChionna, one of our existing Non-Executive Directors.

I announced my intention to retire in October 2017 and I will leave the Company on 30 April 2018. The Nomination Committee, led by Orna, conducted a search for my successor and appointed Patrick O'Sullivan, who will join the business as Non-Executive Director and Chairman with effect from 1 May 2018. Patrick has extensive experience of growing businesses in the financial services and insurance industries and is a good choice for the business and the next stage of its evolution. For more details of the process see page 67.

In March 2018, it was announced that Jonathan Hill, Group Chief Financial Officer, will leave the Company in September 2018. A search for his replacement began immediately. Jonathan has been with the Company since April 2015. I thank him for his commitment during that time and wish him every success for the future.

We comply with the recommendation in the UK Corporate Governance Code 2016 (Code) that at least half of our Board members are independent Non-Executive Directors. For full details of Board composition see pages 62-64.

Our people
Our people and culture are core to our success. Talent development and succession planning is discussed in detail by the Nomination Committee and the Board throughout the year, including bi-annual formal reviews. The Board is committed to developing our employees and creating future leaders. During the year we approved the introduction of a Leadership degree and the extension of the Saga Way leadership development programme to our wider group of senior leaders – see page 20 for more details. We awarded eligible employees free shares for the third year running to reward their hard work and encourage a sense of ownership of the business.

Board evaluation
We conducted our second externally facilitated Board and Committee evaluation during the year. The exercise focused on areas identified during last year's review as opportunities for further development. The review concluded that progress has been made in numerous development areas, particularly in relation to the quality of information supplied to the Board which facilitates good quality, strategically focused discussion. The business will continue to structure information to provide a clear explanation of key drivers, so that the Board can ensure that growth and initiatives remain on track. A full explanation of the evaluation exercise can be found on page 65.

The Remuneration Report was approved by shareholders at our AGM: over 90% voted in favour. The full Remuneration Report can be found on pages 83-121.

UK Corporate Governance Code
Our governance framework is reviewed by the Board every year against best practice and regulatory requirements.

Governance continues to support our strategic priorities in a practical way as we seek to grow and enhance long-term returns to our shareholders through a sustainable dividend policy.

A summary of how we have applied the Principles of the Code is set out overleaf. Our approach to leadership is detailed on page 57, effectiveness on pages 64-65, accountability on pages 69-73, and relations with shareholders on page 82.

Our shareholders and our AGM
Our Executive Directors, Senior Independent Director and I met with key shareholders throughout the year, heard from our brokers and discussed how we could improve communication and explain our strategy. At our third AGM at our head office in Folkestone, Kent on 22 June 2017, all resolutions were passed with a significant majority and all Directors standing for re-election were reappointed.

I welcome Patrick O'Sullivan as my successor and leave the Company with my best wishes for success in the future.

Andrew Goodsell
Chairman
11 April 2018

Compliance statement	The Board is committed to high standards of corporate governance and manages Saga's operations in accordance with the Code. A full version of the Code can be found on the Financial Reporting Council's (FRC) website www.frc.org.uk. The Company applied the Principles and complied with all of the relevant Provisions of the Code throughout the year.
Viability statement	The Directors have considered the viability of the Group over the five year period to January 2023 and have concluded there to be a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over this period. The Directors have determined the five year period to January 2023 to be an appropriate period over which to assess the Group's viability, as this period: a) is consistent with the planning horizon over which the Directors normally consider the future performance, capital and solvency requirements of the business; b) includes the delivery of the contracted new ships in 2019 and 2020; and c) includes the refinancing of senior bank facilities which took place in 2017, maturing in five to seven years. In making this statement, the Directors have considered the resilience of the Group, taking account of its current position, the principal risks facing the business in severe but plausible scenarios, and the effect of any mitigating actions. The details of this work are set out on page 73. The Directors have considered each of the Group's principal risks and uncertainties detailed on pages 24-29 and the potential impact of these risks on the business model, future performance, solvency and liquidity over the period. The Directors have made a key assumption that it is reasonable to believe that debt funding to replace the existing senior bank facilities when they mature will be available in all plausible market conditions.
Fair, balanced and understandable	In accordance with the Principles of the Code, the Board has established arrangements to evaluate whether the information presented in the Annual Report is fair, balanced and understandable. Having taken advice from the Audit Committee, the Board considers the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
Going concern	The Group's business activities, together with the factors likely to affect its future development and performance, its exposure to risk and its management of these risks, details of its financial instruments and derivative activities, and details of other financial and non-financial liabilities, are described throughout the Annual Report (principal risks and uncertainties pages 24-29; Group Chief Financial Officer's review pages 36-51; accountability pages 69-73; Audit Committee report pages 74-77; Risk Committee report pages 78-81; and notes on pages 140-207). The Group has access to sufficient cash and other financial resources together with a large renewing income stream from insurance policies and high-repeat purchase levels from customers of its other products, and long-term contracts with a number of suppliers across different industries. As a consequence, the Directors believe that the Group is well placed to successfully manage its business risks. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. It is therefore appropriate to adopt the going concern basis in preparing the financial statements.
Assessment of risk	Through the risk cycle detailed on pages 69-73, the Board is able to confirm that it has carried out a robust assessment of the principal risks facing the Company, including those which would threaten our business model, future performance, solvency or liquidity, in accordance with section C 2.1 of the Code.
Statement of review	The risk management process detailed on pages 69-73 was in place for the year under review and up to the date of approval of this report. The Board has conducted a review of the effectiveness of Saga's risk management and internal control systems, including all material financial, operational and compliance controls, and concluded that these are acceptable.

The Company applied the main Principles of the Code as follows:

A. Leadership

A1 The role of the Board

The Board met formally six times during the year. The schedule of matters reserved for the Board (detailed on page 57) was reviewed on 20 September 2017. There is a clear governance structure throughout the Group, which sets out delegated authorities.

A2 Division of responsibilities

There is a clear division of responsibilities between the Chairman and the Group Chief Executive Officer. The Chairman is responsible for the leadership and effectiveness of the Board. The Group Chief Executive Officer is responsible for leading the day-to-day management of the Group within the strategy set by the Board. A document clarifying these divisions and the role of the Senior Independent Director was reviewed and approved by the Board on 6 November 2017. This document is reviewed annually by the Board.

A3 The Chairman

The Chairman sets the agenda for meetings, manages the meeting timetable (in conjunction with the Company Secretary) and facilitates open and constructive dialogue during the meetings, with particular focus on strategic issues. The Chairman promotes constructive relations between Executive and Non-Executive Directors.

A4 Non-Executive Directors

The Non-Executive Directors provide objective, rigorous and constructive challenge to management and meet regularly without the Executive Directors. The Senior Independent Director acts as a sounding board for the Chairman, led an evaluation of the Chairman's performance and is available for meetings with major shareholders.

B. Effectiveness

B1 The composition of the Board

The Nomination Committee is responsible for regularly reviewing the composition of the Board, considering succession planning and evaluating the skills, knowledge and experience required of Board candidates.

B2 Appointments to the Board

The appointment of new Directors to the Board is led by the Nomination Committee and the process is such that candidates are selected on merit and with due regard for the benefits of diversity, including gender. This included the search for a successor to the Chairman. Further details of the activities of the Nomination Committee can be found on pages 66-68.

B3 Commitment

On appointment, Directors are notified of the time commitment expected from them. External directorships, which may impact on the existing time commitments of the Executive Directors, must be agreed beforehand with the Chairman.

B4 Development

A tailored programme is set up when a Director joins the Board and this is ongoing to ensure that Directors' skills and knowledge are regularly updated and refreshed.

B5 Information and support

The Chairman, in conjunction with the Company Secretary, ensures that all Board members receive accurate and timely information and are kept informed on all governance matters.

B6 Evaluation

The Board conducted an externally facilitated annual evaluation of its own performance and that of its Committees and individual Directors, as set out on page 65.

B7 Re-election of Directors

All Directors are subject to annual re-election by shareholders at the Company's AGM.

C. Accountability

C1 Financial and business reporting

The Board has established arrangements to ensure that reports and other information published by the Group are fair, balanced and understandable. The Strategic Report is set out on pages 1-51 inclusive and this provides information about the performance of the Group, the business model, strategy and principal risks and uncertainties relating to the Group's future prospects.

C2 Risk management and internal control

The Board sets out the Group's risk appetite and risk policy. The effectiveness of the Group's risk management and internal control systems is reviewed annually. The activities of the Risk Committee, which assists the Board with its responsibilities in relation to the management of risk, are summarised on pages 78-81.

C3 Audit Committee and auditors

The Board has delegated a number of responsibilities to the Audit Committee, which is responsible for overseeing the Group's financial reporting processes, internal controls and the work undertaken by the external auditor. The principal activities of the Audit Committee are set out on pages 74-77.

The Chairs of the Risk and Audit Committees are Board members and provide regular updates to the Board regarding Committee business.

D. Remuneration

D1 The level and components of remuneration

The Remuneration Committee is responsible for setting levels of remuneration which will attract, retain and motivate Board members. Remuneration is structured to link it to both corporate and individual performance, so that management's interests are aligned with those of shareholders and the long-term success of the Company.

D2 Procedure

Details of the work of the Remuneration Committee and the Remuneration Policy can be found in the Directors' Remuneration Report on pages 83-121 inclusive.

E. Relations with shareholders

E1 Dialogue with shareholders

The Board actively engages with shareholders and values opportunities to meet with them. The Chairman has direct contact with our major shareholders and ensures that the Board is kept informed of shareholder views and that all Directors are in touch with shareholder opinion. The Senior Independent Director also meets with major shareholders as required and the Non-Executive Directors receive analyst and broker briefings.

E2 Constructive use of general meetings

The Board sees the AGM as an important opportunity to meet shareholders. The Chairman and Chairs of each Committee are available for questions during the formal part of the business and the Board (and senior management) are available after the meeting.

Details of how the Board engages with shareholders can be found on page 82.

Culture

The Saga People Action Plan addresses themes identified by our employee pulse surveys, which are conducted throughout the year. The leadership development programme was rolled out to the senior leaders in the business during the year, to ensure that this group were aligned on delivering growth. Further investment in developing our people was made with the launch of the Leadership degree, for which 50 individuals have enrolled to date.

All Directors, members of the Group Executive Committee and persons discharging managerial responsibilities (PDMRs) receive training on an ongoing basis. During the year, the Directors received regular updates on topics including the Market Abuse Regulation, General Data Protection Regulation (GDPR) and other relevant regulatory changes. Training has been built into the Board and Committee annual plan for 2018 and is scheduled to include PDMR refresher training, the threat of cybercrime and GDPR.

Directors make ongoing visits to business areas to ensure that they remain close to what Saga does and to see first-hand how strategy works in practice and how boardroom discussions translate to the front line of the business.

Our Board

There is an articulated set of matters which are reserved for the Board and these are reviewed annually. The last review took place on 20 September 2017. Matters reserved for the Board include:

- Any decision likely to have a material impact on Saga from any perspective including, but not limited to, financial, operational, strategic or reputational.
- The strategic direction of the overall business, objectives, budgets and forecasts, levels of authority to approve expenditure, and any material changes to them.
- The commencement, material expansion, diversification or cessation of any of Saga's activities.
- Saga's regulatory, financial and material operational policies.
- Changes relating to Saga's capital, corporate, management or control structures.
- Material capital or operating expenditure outside pre-determined tolerances or beyond the delegated authorities.
- Major capital projects (including post-investment reviews where not considered in detail by the Audit or Risk Committee or where the Board decides a full review is required), corporate action or investment by Saga that will have, or is likely to have, a financial cost greater than the amount set out in the relevant contract approval processes from time to time.
- Any contract which is material strategically or by reason of size, not in the ordinary course of business, or outside agreed budgetary limits or that relates to joint ventures and material arrangements with customers or suppliers.

A review of our strategic objectives and financial performance takes place at each Board meeting. The Board is responsible for, and provides, the overall direction for management, debating our strategic priorities and setting Saga's values and standards.

A fundamental part of this role is to consider the balance of interests between our stakeholders including shareholders, our customers, our employees and the communities in which we work.

The Board also provides oversight and supervision of Saga's operations ensuring:

- successful implementation of agreed strategy;
- sound planning and competent management;
- a solid system of internal control and risk management;
- adequate accounting and other records; and
- compliance with statutory and regulatory obligations.

Details of the Board's activities during the year can be found on page 59.

Board attendance during the year

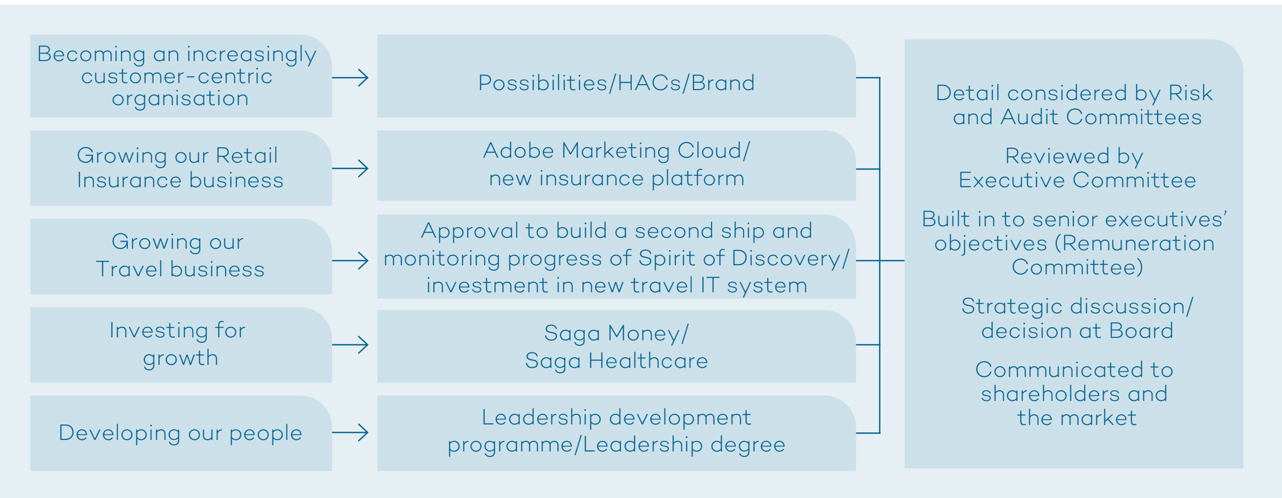
The Board and Committees have a scheduled forward programme of meetings. During the year, the Board met formally on six occasions. In addition, meetings were convened as necessary to approve strategic matters (including a review of the Group's financing arrangements and financing for Spirit of Adventure) and a strategy event was held in November at which annual and five-year plans for each of the businesses were presented to the Board and discussed. The Chairman meets regularly with the Senior Independent Director and Non-Executive Directors outside of formal meetings.

Member	Role	Attendance at Board meetings
Andrew Goodsell	Chairman (leadership, Board governance, setting the agenda and facilitating open Board discussions, performance and shareholder engagement)	6/6
Lance Batchelor	Group Chief Executive Officer (developing strategy for Board approval and Group performance)	6/6
Jonathan Hill	Group Chief Financial Officer (Group financial performance, including creation of the budget and five-year plans for recommendation to the Board)	6/6
Independent Non-Executive Directors:		
Philip Green[1]	Participate in, assess, challenge and monitor Executive Directors' delivery of the strategy (within risk and governance structures), financial controls and integrity of financial statements, and Board diversity. Evaluate and appraise the performance of Executive Directors and senior management.	0/6
Ray King		5/6
Bridget McIntyre		6/6
Orna NiChionna		6/6
Gareth Williams		6/6

Note:
1 Philip Green resigned on 31 March 2017 and sent apologies for the Board meeting held in the period before his resignation date

The Company Secretary attends all meetings as secretary to the Board. Other executives, members of senior management and external advisers are also invited to attend Board meetings, to present items of business and provide insight into key strategic issues. The Company Secretary assists the Chairman of the Board and Committee Chairs in planning for each meeting and ensures that Board and Committee members receive information and papers in a timely manner.

Governance in action



Board activities during the year

Strategy Our Board is structured to support becoming an increasingly customer-centric business	• Reviewed strategic initiatives. • Considered how to attract and retain High Affinity Customers. • Discussed Possibilities, our membership proposition and our new Brand. • Discussed how to grow the Retail Insurance and Travel businesses. • Approved the new quota share arrangement.	• Approved plans to a build a second ship, Spirit of Adventure, for delivery in August 2020 and monitored progress of the build of our new ship, Spirit of Discovery.
Investing in our capabilities Recognising the need to continually improve our customers' experience and the efficiency of our operations	• Discussed the new insurance platform, how this would increase product differentiation, improve call centre and back office efficiencies and enable cross-sell and retention of our HACs. • Discussed the investment in Adobe Marketing Cloud.	• Reviewed the marketing permissions centre and considered how this would comply with the General Data Protection Regulation.
Shareholder engagement Effective communication with our shareholders	• Regularly discussed shareholder feedback with our brokers at Board meetings. • Executive Directors, Chairman and Senior Independent Director held meetings with key shareholders.	• Met shareholders at our AGM.
Developing our people Ensuring our people are aligned in how growth is delivered	• Agreed to extend the leadership development programme to the senior leaders in the Group. • Held a bi-annual review of talent development and succession planning. • Acted on the results of the employee pulse surveys; introduced more regular communications and listening workshops.	• Agreed the award of free shares to eligible employees under the Share Incentive Plan for the third year running. • Discussed how reward should link to performance. • Invited senior executives to Board meetings to gain a deeper understanding of each business and our culture.
Governance and risk Governance to support our strategy	• Reviewed our risk appetite and tolerance levels and thresholds against the strategy. • Received frequent business and regulatory updates. • Considered and approved the Group's modern slavery policy and statement.	• Approved the Audit Committee's recommendation to appoint external auditors and sign off financial crime policies. • Approved tax, environmental, health and safety and communication policies, matters reserved for the Board and Committees' terms of reference. • Participated in an externally facilitated Board and Committee evaluation exercise, which included a review of the previous year's action plans.

The Board's responsibilities

- Strategic direction of the Group.
- Setting values and standards (in accordance with the 'keep doing' ethos –see page 16).

The Nomination Committee's responsibilities

- Providing recommendations on the size, structure and composition of the Board.
- Succession planning.
- Evaluating the skills, knowledge, independence and diversity of the Board.
- Identifying and nominating candidates to fill Board vacancies.
- Reviewing Board performance evaluation results in relation to Board composition.

+ Read the Nomination Committee Report on **p66**

The Audit Committee's responsibilities

- Monitoring the integrity of financial statements and reporting procedures.
- Reviewing internal and external audit work plans.
- Determining the remuneration, terms of engagement and independence of the external auditor.
- Monitoring, reviewing and challenging the effectiveness of the Internal Audit and Treasury functions.
- Assessing the adequacy and effectiveness of the Company's internal controls and external audits.
- Reviewing Saga's annual and half year financial statements and accounting policies.
- Considering and approving the terms of engagement of external auditors.
- Monitoring the scope of the annual audit and the extent of non-audit work undertaken by external auditors.
- Ensuring that whistleblowing and anti-fraud systems are in place within Saga.

+ Read the Audit Committee Report on **p74**

The Executive Committee reports directly to the Board via the Group Chief Executive Officer and Group Chief Financial Officer and is responsible for:

- Implementing strategy as determined by the Board.
- Executive management – monitoring trading against strategy.
- Cultural leadership and people development, day to day operational management.

- Considering the needs of our stakeholders, including shareholders, employees and customers.
- Ensuring compliance with statutory and regulatory obligations.
- Managing risk and control.

The Risk Committee's responsibilities

- Advising the Board on the Group's overall risk appetite, tolerance and strategy.
- Overseeing and advising the Board on current risk exposures and future risk strategy.
- Reviewing risk assessment and management procedures.
- Monitoring principal business risks.
- Reviewing the adequacy and effectiveness of risk management and identification systems and of the compliance function.
- Reviewing and monitoring management's response to the Chief Risk and Compliance Officer's findings and recommendations.
- Providing qualitative and quantitative advice to the Remuneration Committee on risk weightings.
- Reviewing (on an annual basis) reports received from the Money Laundering Reporting Officer relating to the adequacy and effectiveness of the Company and its subsidiaries' anti-money laundering systems and controls.

+ Read the Risk Committee Report on **p78**

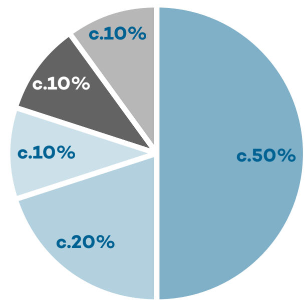
The Remuneration Committee's responsibilities

- Setting and monitoring the Remuneration Policy for senior executives, considering relevant legal and regulatory requirements.
- Recommending and monitoring remuneration packages for Executive Directors, the Chairman and senior management.
- Determining all aspects of share-based incentive arrangements.
- Reviewing and administering employee share schemes.
- Setting key performance indicators for the Annual Bonus Plan and long-term incentives.
- Preparing an Annual Remuneration Report.

+ Read the Remuneration Committee Report on **p83**

- Managing risk and conduct, reviewing Group risk and internal audit and compliance plans.
- Reporting any potential or actual breaches of regulation or policy to the Board.

Board responsibilities – allocation of time



- Strategy and business performance
- Financial reporting and controls (including dividend policy)
- Oversight of risk and management
- People, culture and Board effectiveness
- Corporate governance

Andrew Goodsell
Chairman

Appointed:
Non-Executive Chairman in July 2015
Chief Executive and Chairman in 2004
Skills, competencies and experience:
Andrew has brought a wealth of executive management, product and industry expertise, stemming from a career of over 26 years at Saga. He joined Saga in 1992 and progressed through a number of senior roles before becoming Deputy Group Chief Executive in 2001 and Chief Executive and Chairman in 2004. He has led two management buyouts at Saga. The second, in 2007, brought together Saga and the AA under the holding company Acromas Holdings. Andrew was Executive Chairman of the AA from 2007 until Acromas Holdings sold it in 2014; and Executive Chairman of Saga from 2007 until he became Non-Executive Chairman on 1 July 2015. Andrew has an established track record of driving growth. His in-depth knowledge of Saga and his well-established relationship with Saga's regulators has been invaluable to the Group. Andrew will retire from the Board on 30 April 2018.

Lance Batchelor
Group Chief Executive Officer

Appointed:
Group Chief Executive Officer in March 2014
Skills, competencies and experience:
Lance has worked in consumer-facing businesses and brand-centric roles throughout his career, focusing on creating products that are tailored to the customer. He holds an MBA from Harvard Business School and began his career as a Royal Navy submarine officer. He went on to hold senior marketing positions at Procter & Gamble, Amazon.com and Vodafone, before becoming CEO of Tesco Mobile between 2008–2011 and CEO of Domino's Pizza Group plc between 2011-2014. Lance brings a wealth of senior operational experience in listed companies to his role at Saga. Since he joined as Chief Executive Officer in 2014, the business has grown its underlying core profits, invested in the growth of passengers and policies, commissioned the build of two new ships, introduced a motor broking panel, launched its membership programme, Possibilities, and replaced most of its key IT systems.
Other roles:
Lance is a Trustee of the National Gallery and White Ensign Association. He is also a Vice Patron of the Royal Navy & Royal Marines Charity.

Jonathan Hill
Group Chief Financial Officer

Appointed:
Group Chief Financial Officer in April 2015
Skills, competencies and experience:
Jonathan is a chartered accountant with over 26 years' experience across multiple market industry sectors, including senior roles within TUI Travel and Centrica. Jonathan, who joined Saga from Bovis Homes Group plc where he was Group Finance Director, has a significant amount of experience in strategic planning and development, and delivery of large corporate projects. He brings this and a wealth of senior financial, operational and listed company experience to his role and the Board at Saga. Jonathan resigned from his position in March 2018 and will work six month's notice. A search for his successor has commenced.

Patrick O'Sullivan
Incoming Chairman

Proposed appointment:
Chairman with effect from 1 May 2018
Skills, competencies and experience:
Patrick has a wealth of experience in the financial and insurance industry gained from a number of senior roles he held at the Bank of America, Goldman Sachs, Financial Guaranty Insurance Company and Barclays/BZW. Patrick spent 12 years at Zurich Insurance Group, where he held positions including CEO of Eagle Star Insurance Company, CEO of UK General Insurance, Group Chief Financial Officer and Vice Chairman of the Management Board. Previous non-executive roles have included Chairman of the UK's Shareholder Executive, Deputy Governor of the Bank of Ireland, Senior Independent Director at Man Group plc and Chairman of the Audit Committee at Collins Stewart plc and Cofra Group AG. Patrick is an experienced chairman having been Chairman of the UK's Shareholder Executive and is current Chairman of the FTSE 100 diversified financial services conglomerate, Old Mutual plc.
Other roles:
Patrick will continue in his role as Chairman of Old Mutual plc until the separation process has concluded. He is also Chairman of ERS (syndicate 218), a Lloyd's market specialist motor insurer.

More information on the Chairman search, suitability and appointment process can be found in the Nomination Committee Report on page 67.

Key to Committees

(A) – Audit Committee
(E) – Executive Committee
(N) – Nomination Committee
(R) – Remuneration Committee
(RI) – Risk Committee
● – Committee Chair

Orna NiChionna
Senior Independent Non-Executive Director

Appointed:
Senior Independent Non-Executive Director in March 2017
Independent Non-Executive Director in May 2014

Skills, competencies and experience:
Orna, who has significant experience in strategy and new concept development and launch, business turnaround, logistics redesign and supply change management, joined the Company in May 2014, on listing. She was subsequently appointed as Senior Independent Non-Executive Director for Saga in March 2017. Previously, Orna was Senior Independent Non-Executive Director of HMV plc, Northern Foods plc and Bupa and a Non-Executive Director of the Bank of Ireland UK Holdings plc and Bristol & West plc. She is a former Partner at McKinsey & Company, where her client portfolio included many consumer-facing clients. Orna brings a wealth of varied and valued skills to the Board along with her considerable experience in other Non-Executive Director roles.

Other roles:
Orna is currently Senior Independent Non-Executive Director and Chair of the Remuneration Committee of Royal Mail plc, Non-Executive Director and Chair of the Remuneration Committee at Burberry plc, the Deputy Chair of the National Trust, Trustee of Sir John Soane's Museum and Chair of Client Service at Eden McCallum.

Ray King
Independent Non-Executive Director

Appointed:
Non-Executive Director in March 2014

Skills, competencies and experience:
Ray has a strong background in business and financial management. He has led a business similar to Saga, as Group Chief Executive of Bupa from 2008 - 2012 and as Chief Financial Officer from 2001 - 2008. His earlier executive roles included Director of Group Finance and Control of Diageo plc, Group Finance Director of Southern Water plc and senior roles at ICI plc. Ray has previously been a Non-Executive director at The Financial Reporting Council, Infinis Energy plc and Friends Provident plc and a Reporting Panel Member of the Competition and Markets Authority. Ray's significant financial experience and his Non-Executive Director experience (including that of chairing audit committees), are all immensely helpful and valued by the Board.

Other roles:
Ray is currently a Non-Executive Director of Rothesay Holdco UK Ltd and of its regulated subsidiary, Rothesay Life plc.

Bridget McIntyre
Independent Non-Executive Director

Appointed:
Non-Executive Director in January 2016

Skills, competencies and experience:
Bridget brings to the Board a wealth of insurance experience coupled with considerable general and financial experience gained from her previous roles as Chief Executive of the RSA UK business, Director of RSA Insurance Group plc, and a variety of senior roles at Aviva (and pre-merger Norwich Union). Bridget, who is an associate with the Chartered Institute of Management Accountants, has a strong understanding of how retail businesses work and a track record in improving business performance. Her contributions to Saga and the Board, drawn from her previous experiences, are valued immensely.

Other roles:
Bridget is currently a Non-Executive Director of Adnams plc and Jarrold & Sons Limited, and is founder of her own social enterprise organisation 'dream on', a Suffolk-based community interest company focused on improving the lives of women.

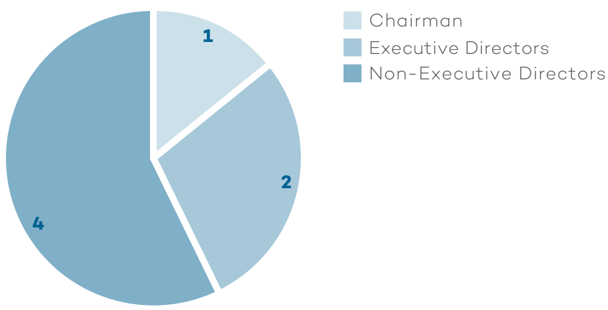
Gareth Williams
Independent Non-Executive Director

Appointed:
Non-Executive Director in May 2014

Skills, competencies and experience:
Gareth's expertise is in all aspects of human resource and people strategy which he gained from his previous positions including Human Resources Director of Diageo plc (where he also had oversight responsibility for corporate relations) and a series of key positions in human resources at Grand Metropolitan plc. Gareth's contributions to the Board and its Committees bring a unique perspective to discussions, drawn from his experience of working at Director level in a consumer-facing organisation and his knowledge of corporate relations, management development and resourcing.

Other roles:
Gareth is currently a Non-Executive Director of WNS (Holdings) Limited.

Composition of the Board



The members of the Board

The Board considers its overall size and composition to be appropriate, having regard in particular to the independence of character, integrity, differences of approach and experience of all the Directors. We give due regard to the benefits of diversity in its widest sense for the current and future Board composition, recognising that this is essential for effective engagement with our key stakeholders.

We consider that the skills and experience of our individual members, particularly in the areas of insurance, financial services, consumer services, brand management, corporate finance, mergers and acquisitions, and risk management are fundamental to the pursuit of our strategic objectives. In addition, the quoted company experience of members of the Board in a variety of sectors and markets is invaluable to Saga.

Independence of Non-Executive Directors

The Board considers four of the current Non-Executive Directors to be independent of Saga's executive management and free from any business or other relationships that could materially interfere with the exercise of their independent judgement or objective challenge of management. These Directors are Ray King, Bridget McIntyre, Orna NiChionna and Gareth Williams. Philip Green resigned from the Company on 31 March 2017 and was considered independent up to the point of his resignation.

Changes to the Board

Philip Green resigned from the Board and his position as Senior Independent Director on 31 March 2017. He was replaced as Senior Independent Director by Orna NiChionna, one of our current Non-Executive Directors, who was selected due to her experience (as Senior Independent Non-Executive Director and Chair of the Remuneration Committee of Royal Mail plc, Chair of Client Service at Eden McCallum, Deputy Chair of the National Trust and within the Group). The Board was of the opinion that Orna had a good feel for what we do as a business, our values, and what is right for our customers, and had made a strong contribution during her time on the Board.

Whilst we did not make any appointments to the Board during the year, the Nomination Committee did discuss how the Company would ensure that there is the right level of oversight of the regulated businesses within the Group and that those companies had senior leaders with the right experience in place. More details can be found in the Nomination Committee report on pages 66-68.

In October 2017, we announced that Andrew Goodsell intended to retire from the Board and step down from his position as Chairman. The process to recruit a new Chairman, led by Orna NiChionna as Senior Independent Director and overseen by the Nomination Committee, began immediately. On 19 February 2018, we announced that the Board had approved the Nomination Committee's recommendation to appoint Patrick O'Sullivan as Non-Executive Director and Chairman with effect from 1 May 2018. Further details of the process can be found in the Nomination Committee report on page 67.

Patrick was selected due to his breadth of experience and leadership in growing businesses in the financial services and insurance industry.

We continue to comply with the Code's recommendation that at least half of our Board members are independent Non-Executive Directors. For full details of Board composition see pages 62-64.

Appointment of Directors

The terms of reference of our Nomination Committee explain the recruitment process used in identifying and recommending the appointment of Director and Chairman candidates to the Board. Open advertising or the services of external advisers are used to facilitate our search for the best possible candidates from a wide range of backgrounds.

Ongoing training and induction of Non-Executive Directors

All Non-Executive Directors attend meetings with subsidiary directors and their direct reports to ensure that they fully understand the performance and strategic direction for each of our businesses, our culture and values, strategy, sustainability and governance. They continue to visit areas of the business to gain first-hand experience of how Saga works.

Our induction process was reviewed to ensure that it provides new Directors with an overview of our strategy, the competitive environment, Group structure and governance and risk profile and appetite. Training is available on an ongoing basis to meet any particular needs.

A structured programme has been put in place for Patrick O'Sullivan to ensure that he:

- receives strategic and business information, including our five year plan;
- gains an understanding of the Group structure and our risk profile;
- meets members of the Group Executive and senior management;
- spends time in all business areas, to experience the culture and listening to calls in our call centres; and
- receives feedback from shareholders, analysts and brokers.

Annual re-election

The Directors are standing for re-election at the AGM, with the exception of Andrew Goodsell who retires from the Group on 30 April 2018. The Board's view is that each of the Directors standing for re-election should be re-appointed and that Patrick O'Sullivan who is standing for election should be appointed. We believe that they have the skills required for the Board to discharge its responsibilities, as outlined in each of their biographies set out on pages 62-63.

Board effectiveness review

The effectiveness of the Board is vital to the success of the Group. The Board undertakes an evaluation process each year to assess how it, its Committees and individual directors are performing.

Last year the Board and its Committees undertook the first externally facilitated evaluation of their performance. The evaluation was conducted by Independent Audit Limited which reviewed Board and Committee papers, observed Board and Committee meetings and held interviews with Directors and Committee members and attendees.

Key findings from the 2016/2017 review

- Governance had developed well since the Company had listed and there was a healthy culture of transparency.
- A strong and stable management team was in place.
- There was good coverage of the principal risks and subsidiary level governance.
- The interests of a wide group of stakeholders were considered and attention was given to the Group's people strategy.

The action plan arising from the 2016/17 evaluation included:

- The development of a forward thinking annual planner.
- A key focus of Board meetings on strategic discussions.
- Increased use of executive summaries of papers submitted to the Board, so that key messages were highlighted and Non-Executive Directors were clear on the purpose of the discussion.

2017/18 review

The Board agreed that the 2017/2018 review should also be carried out by Independent Audit Limited, as this would provide a consistent approach and allow for effective tracking against the previous year's action plan. Independent Audit Limited does not have any other connection to the Company.

This took a more limited approach than in the previous year and was based on Independent Audit Limited's analysis of a self-assessment. This was focused on assessing progress in the areas identified during last year's review as opportunities for further development. Independent Audit Limited circulated a questionnaire to all Directors so that they could express their views on areas such as:

- discussion of performance relating to initiatives for driving growth;
- information and reporting on KPIs, issues and risks;
- customer strategy and focus;
- delivery of the technology strategy and solutions;
- communication of the strategy and performance to shareholders;
- risk evaluation; and
- getting a picture of behaviours and culture.

A report prepared by Independent Audit Limited was presented to the Board. As a result of this in-depth discussion, a Board development plan was agreed and discussed further with Independent Audit Limited.

The review concluded that progress has been made in numerous development areas, particularly in relation to Board information and the way issues are brought to the Board to provide the right opportunity for discussion. There remains scope for further strengthening of:

- the structure of the information provided to make sure a clear picture of how performance links to key drivers is brought to the Board; and
- board papers, so that these consistently benefit from good summaries, positioning and analysis to help the Board ensure that growth and initiatives are on track.

The Senior Independent Director and the Non-Executive Directors also evaluated the Chairman's performance and the Senior Independent Director provided feedback to the Chairman.

Board development plan for 2018/19

The Board will continue to ensure that the content of all Board meetings remains aligned to strategy and the key drivers of performance. Risk management will continue to link directly to strategic drivers and principal risks and uncertainties. Off-site strategy days are used to set and reflect on progression of the Company's strategy. These sessions also allow the Board to discuss the strategic priorities for the year ahead.

Process for Board and Committee evaluation

Questionnaire prepared by Independent Audit Limited (based on actions identified from last year's evaluation and recent trading performance) and circulated to Directors

Report produced by Independent Audit Limited

Review/discussion with Chairman and Committee Chairs

Discussed at Board

Action plans prepared

Dear Shareholder,
I am pleased to present this report from the Nomination Committee on what has been a busy and important year for Saga. I became Chair of the Committee and Senior Independent Director of the Company when Philip Green resigned from the Board in March 2017.

The demands being placed on the Nomination Committee are increasing in terms of regulatory and public scrutiny. Succession planning is part of this, as are Board evaluation and diversity in its myriad forms – all reflected in the FRC's proposed enhancements to the UK Corporate Governance Code that will crystallise over the coming year.

In October, our Chairman, Andrew Goodsell, announced his intention to retire from the Board in 2018 and I led the process to appoint a new Chairman for the Group. I am pleased to report that this resulted in the appointment of Patrick O' Sullivan who will join the Company as Non-Executive Director and Chairman on 1 May 2018. Patrick fitted our brief particularly well due to his combination of strong leadership qualities and deep experience in insurance and we were delighted to secure him as our next Chairman.

We have devoted a considerable amount of our attention this year to succession planning and talent development, not only of the Board, but also of the breadth and depth of executive talent below Board level. We also considered the composition of the Board with Philip and Andrew's departure and when Patrick joins we will draw on his views on the composition of the Board to support delivery of the strategy.

Orna NiChionna
Chair, Nomination Committee

Role of the Committee
Our role is to review Board composition, consider succession planning and evaluate the skills required in Board candidates.

Until Philip Green resigned, the Committee members consisted of five independent Non-Executive Directors and the Chairman. From 31 March 2017, there have been four independent Non-Executive Directors and the Chairman forming the Committee.

Attendance
During the year, the Committee met on five occasions.

Member	Attendance
Orna NiChionna (Chair)[1]	5
Philip Green (Chair)[1]	1
Andrew Goodsell[2]	3
Ray King	5
Bridget McIntyre	5
Gareth Williams	5

Notes:
1 Orna NiChionna was appointed Chair, Nomination Committee, on 31 March 2017, when Philip Green resigned as a Director of the Company
2 Andrew Goodsell did not attend meetings at which his proposed successor was discussed

The Company Secretary, Vicki Haynes, attends all meetings as secretary to the Committee. The Group Chief Executive Officer, Lance Batchelor, and Group HR Director, Karen Caddick, attend by invitation.

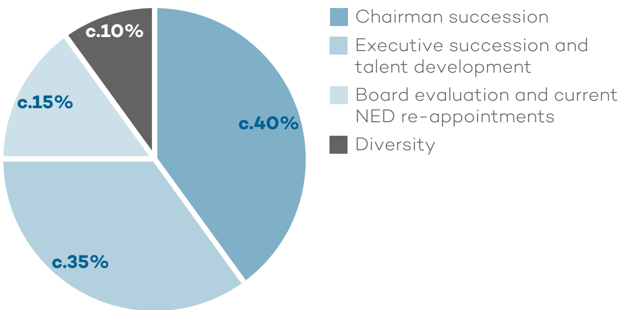
Our terms of reference
Our terms of reference were reviewed by the Committee and subsequently approved by the Board on 20 September 2017. These explain our role and the authority delegated by the Board and are available on the Saga website at http://corporate.saga.co.uk/corporate-information/corporate-governance and from the Company Secretary at Saga's registered office.

A summary of our remit

- To review the structure, size and composition (including the skills, knowledge, independence, experience and diversity) of the Board and to make recommendations with regard to any changes.
- To prepare a description of the role, capabilities and expected time commitment required for appointments.
- To consider succession planning and talent development for Directors and other senior executives, to ensure a progressive refresh of the Board.
- To review the results of the Board performance evaluation process that relate to the composition of the Board.

What we have done during the year

Time spent on matters



Appointment process for Chairman

Our terms of reference set out how we recruit and appoint Directors to the Board. They stipulate that we will use open advertising or the services of external advisers to facilitate a search for the best possible candidates from a wide range of backgrounds.

MWM Consulting was appointed by the Committee to support us in searching for a new Chairman. MWM Consulting has been involved in appointing other Executive and Non-Executive Directors of the Group and has no other connection with the Company.

A rigorous process was followed including careful reflection on the leadership needs of the Group at this time, an appraisal of the skills and experience required in a Chairman and the time commitment needed for the role. The Committee felt that insurance experience was important and a detailed job specification and timetable were produced to assist with the search.

Internal and external searches were conducted, and a shortlist was developed. A series of interviews with all independent members of the Committee and the Group CEO followed, references were obtained and terms of appointment were considered.

In accordance with the Group's diversity and dignity policy and the Code, candidates were assessed against their strategic skill set, experience in leading large organisations, listed company experience and personality and fit. Consideration was also given to diversity and whether individuals met the independence criteria set out in the Code.

Following best practice as recommended by the Code, the Chairman did not participate in the interviews or the discussions regarding terms of appointment or recommendations to the Board.

Succession planning and talent development

The Committee has continued to oversee the development of Group Executive Committee members and of the 'Top Team' (mainly direct reports to members of the Executive Committee). We have been pleased with the progress that has been made since our last report, there is a sound talent review framework which is now well-established, the leadership training programme continues to receive strong feedback and there is a strengthened pipeline of candidates for the Executive and a much stronger succession planning process.

The Committee maintains a continuous review of the performance of individuals, plans for future roles, the structure of the Executive Committee, the succession plan and relevant priorities, whilst keeping front of mind the strategic trajectory of the Group. Part of this involves considering the rotation of 'Top Team' players through appropriate roles to prepare them for succession.

Many of the actions arising from this aspect of our work fall to Lance Batchelor as Group CEO, and to Karen Caddick as Group HR Director, either together or individually, along with the wider Executive Team. In some circumstances, individual Committee members are directly involved when their particular skills and experience are relevant. For example, Ray King is working with candidates in the pipeline for financial, risk and internal control roles.

Not only does this approach provide an opportunity for the Committee to have oversight of the talent planning process and its integration with the strategy, it also allows us to engage with Executive Team members, to meet potential internal successors and to get involved in mentoring likely candidates for promotion.

Board composition

At the heart of our remit is a detailed understanding of the Board's and the Board Committees' structure, size and composition.

Current Non-Executive Director reappointments and renewal of three year terms

During the year but prior to the publication of the last Annual Report, the Committee considered the profiles of the Directors being put forward for re-election. We decided that all those who wished to stand were suitable and had performed well during the year and recommended to the Board that all should be put forward. We also paid special attention to those NEDs at the end of their first three year term (Ray King, Gareth Williams and I) and recommended that they should be reappointed for a further three years. Individuals did not participate in the discussion when their own reappointment was being considered.

After the year end, but prior to the publication of this Annual Report, the Committee considered each Director's contribution and the time commitment necessary to perform their duties. A recommendation was made to the Board that all Directors be put forward for re-election.

Diversity

The Company has a diversity and dignity policy in place to provide equal opportunity for all individuals and the same employment conditions in relation to any protected characteristic of any individual. This policy applies to the Group, including the Board of Directors.

The policy does not set specific targets. Individuals (including executives and Board members) are selected, promoted and treated according to their ability, merits and the requirements of the relevant position. This equal opportunities policy entails taking practical steps to promote a working environment in which all employees are treated with dignity and respect, free from discrimination and harassment.

The diversity and dignity policy was reissued to all staff in November 2017 and is available on the staff intranet. All employees are expected to co-operate in making this policy effective and to adhere to it and report any breaches of the policy, whether actual or perceived, to their line manager or to Human Resources.

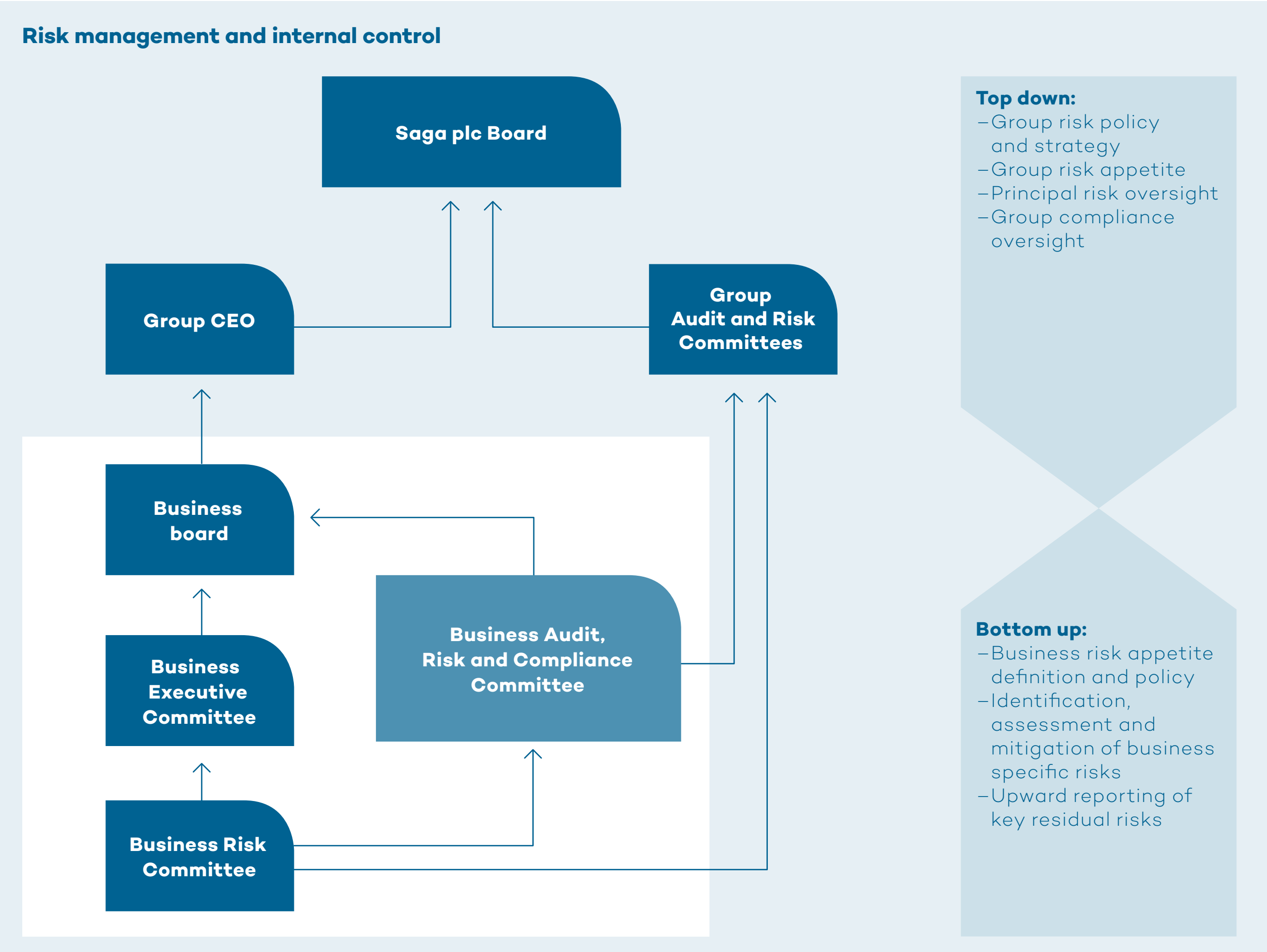
Board evaluation

The Board evaluation process is outlined on page 65. Committee members discussed the findings of the report produced by Independent Audit Limited in relation to the composition of the Board. Based on the self assessment, it was felt that the Directors worked well together and that the skills required to ensure that the Board was effective had been considered as part of the search process for a Chairman and on an ongoing basis.

Effectiveness of the Nomination Committee

An external evaluation of the Committee's effectiveness took place during the year, as part of the Board effectiveness review (for details see page 65). This was completed by Independent Audit Limited. The review indicated that the Committee is taking a thorough approach to succession planning and talent development. It was felt that the search for a new Chairman had run smoothly and that there had been good discussion throughout. Looking ahead, the Committee will continue to focus on the need to factor in expertise that links with the strategic direction of the business.

Orna NiChionna
Chair, Nomination Committee



Board assessment of risk management and internal control

The Board has ultimate responsibility for the Group's risk management and internal control, including setting the risk appetite. In accordance with section C 2.3 of the Code, the Board is responsible for reviewing the effectiveness of risk management and control systems, ensuring that:

- there is an ongoing systematic process for identifying, evaluating and managing the principal risks faced by the Company;
- this system has been in place for the year under review and up to the date of approval of the Annual Report and Accounts;
- the system is regularly reviewed by the Board; and
- the system accords with the FRC guidance on risk management, internal control and related financial and business reporting.

During 2017, the Board has directly, or through delegated authority to the Risk and Audit Committees, overseen and reviewed the development and performance of risk management activities and practices and internal control systems in the Group. Specific details regarding the involvement of the Risk and Audit Committees' in the development and review of risk management and internal control systems can be found in the Risk and Audit Committee reports on pages 78-81 and 74-77 respectively.

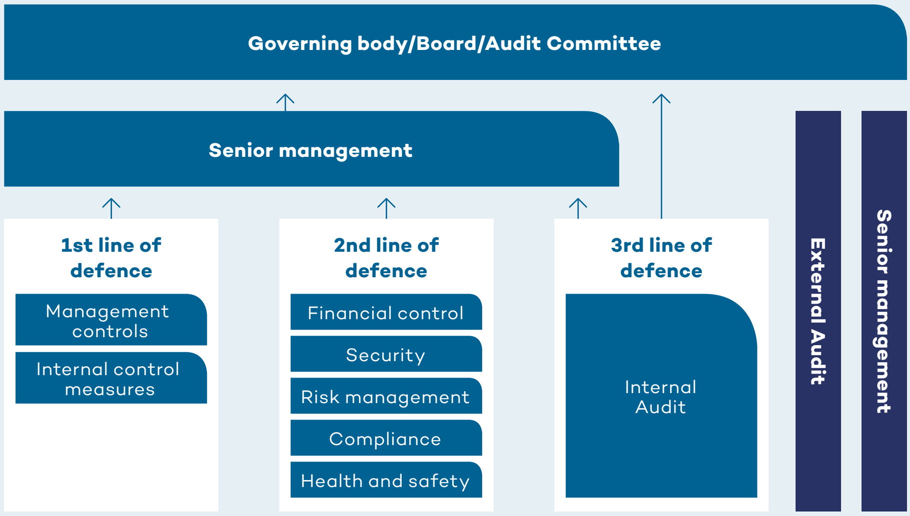
As a result of its consideration and contribution to risk management and internal control activities, the Board is satisfied that the risk management and internal control systems in place remain effective.

Risk management and control is achieved through application of the 'three lines of defence' model as follows:

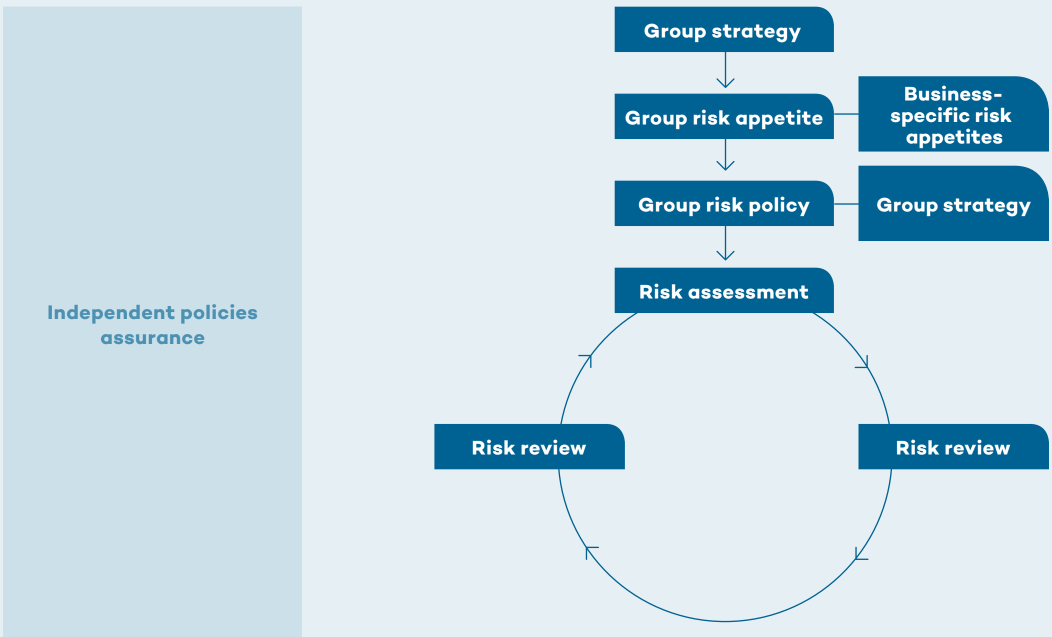
1st line of defence – Risk taking by management, in line with agreed risk appetite, risk policies and procedures. Various governance forums in each business review all risk exposures and risk mitigation activities on a regular basis, supported by the 2nd line of defence oversight functions. Consideration of business risks is a standing agenda item at each executive meeting within the Group.

2nd line of defence – Independent oversight provided by the various control functions, including risk, compliance and health and safety. Specific duties include advice on Group and business risk appetites, independent review of both the rating of key risks, and

Saga's 'three lines of defence' risk governance model



Group risk management cycle



approach and adequacy of business risk management strategies. The 2nd line of defence is also responsible for reporting on the management of principal risks and uncertainties to the Risk Committee and Board.

3rd line of defence – Independent assurance on the operation and effectiveness of internal control throughout the Group, including consideration of the effectiveness of the risk management process. The 3rd line of defence reports to the Board by way of the Audit Committee.

Saga's spread and variety of business operations require risk and internal control issues to be considered at both specialist business level and aggregated Group level. Risk and internal control oversight is provided by all Committees and key concerns are raised to the Audit and Risk Committees and ultimately to the Board, if required.

The Financial Crime, Data and Information Security Committee provides an additional forum to consider specialist risks arising in these areas.

Risk management cycle

Group risk management is an iterative cycle of activities, comprising the following:

Identification of risk appetite

Saga defines risk appetite as the amount and sources of risk which we are willing to accept in aggregate in pursuit of our objectives. Group risk appetite is derived from our strategic objectives and is used as a measure against which all of our current and proposed activities can be tested. Group risk appetites and tolerances are further defined within the principal risks and uncertainties section (pages 24-29).

Business risk appetites are separately crafted, complementary to Group appetites but customised to reflect the specific needs and characteristics of each business. Business risk appetites may be different to Group appetites but cannot exceed them.

Group and business risk appetites are reviewed at least annually to ensure they are aligned with any changes in strategy or specific strategic initiatives.

Risk policies

Saga has a Group risk policy that defines our risk management strategy, framework, governance structures, and detailed assessment and mitigation processes. Beneath this Group document, individual business policies are created. These are customised to reflect specific business characteristics but are still consistent with the overall risk management framework. All risk policies are reviewed at least annually and approved at business or Group boards as appropriate.

Risk assessment and risk registers

All Saga businesses assess each risk for likelihood and impact. Most use a common risk assessment matrix, although several have a customised impact scale which reflects their size or the highly specialist nature of their risks.

Each business creates appropriate controls to manage such risks. Risks are rated on both an inherent and a residual basis and are graded on a red, amber, yellow and green scale. Risk assessments are reviewed at business risk committees and the principal risks are subject to independent review by the Risk Committee. Explicit consideration is also given as to whether risks lie within or outside of risk appetite. Any risk close to appetite limits on a residual basis is further examined to ensure that our desired risk/reward balance is maintained.

Risk registers have been created for each business to capture their key risks, associated controls and incidents. The registers are typically sub-divided by function or business area. The highest-rated residual risks in terms of impact and probability for each business are aggregated at Group level to produce a list of principal risks and uncertainties, assessed at residual level against Group risk appetite.

All business CEOs certified compliance with the risk management framework at the year end.

Risk review

Reports on key risks and controls, and incidents, are presented to each governance forum meeting specified in the risk governance chart on page 69. In addition, checks against control effectiveness, and any exceptions or overdue actions are also considered. Each of these governance meetings is attended by key 1st and 2nd line of defence managers and the actions are minuted and followed up at the next meeting. Significant control weaknesses or failures are escalated to the individual business board in question or, if of sufficient scale and seriousness, to the Risk Committee. Each Group risk committee also considers cross-Group risks and incidents to ensure the risk of contagion is minimised.

Risk oversight
Independent oversight of the risk management process, including key risks and their associated management, incidents and compliance, is provided by the Chief Risk and Compliance Officer and the risk team, the compliance team, the Risk Committee and, ultimately, the Board.

Risk monitoring
All risk registers are independently reviewed by the risk team on an ongoing basis to test for completeness of risk and control capture, effective testing of key control measures, and recording and reporting of any exceptions and overdue actions.

Risk information
All risk data, including risks, controls, control tests and incidents, is captured in an internet-enabled risk portal. This portal produces risk reports for all governance meetings.

Independent process assurance
Saga's Internal Audit function provides independent assurance of the effectiveness of the risk management procedures at both Group and business levels.

Process feedback
Outputs from the risk management cycle are fed back to the Risk Committee to assist with necessary revision of the Group risk management policy and framework. They may also be used to inform future iterations of the Group's strategy.

A statement confirming that the Board has carried out a robust assessment of risks is contained on page 54.

Internal control
Internal Audit acts as the 3rd line of defence within Saga's three lines of defence risk management framework. The objective of Internal Audit is to help protect the assets, reputation and sustainability of the organisation by providing independent, reliable, valued and timely assurance to the Board and executive management. To preserve the independence of Internal Audit, the Head of Internal Audit's primary reporting line is to the Chair of the Audit Committee, and the Internal Audit team is prohibited from performing operational duties for the business.

All activities of the Group fall within the scope of Internal Audit's remit and there are no restrictions on the scope of Internal Audit's work. Internal Audit fulfills its role and responsibilities by delivering the annual, risk-based audit plan. Each audit within the plan provides an opinion on the control environment and details of issues found. Internal Audit works with the businesses to agree remedial actions necessary to improve the control environment, and these are tracked to completion. The Head of Internal Audit submits reports to, and/or attends, Board and Audit Committee meetings for the subsidiary Saga businesses, as well as meetings of the Audit Committee.

Financial reporting
The Group maintains a control environment that is regularly reviewed by the Board. The principal elements of the control environment include comprehensive management and financial reporting systems and processes, defined operating controls and authorisation limits, regular Board meetings, clear subsidiary board and operating structures, and an Internal Audit function.

Internal control and risk management systems relating to the financial reporting process and the process for preparing consolidated accounts ensure the accuracy and timeliness of internal and external financial reporting.

The Group undertakes an annual strategy process which updates the plan for the next five years and produces a detailed budget for the next financial year. Detailed reforecasts are performed by each area of the Group every month and are consolidated to provide an updated view of expected performance for the current year. Each reforecast covers the income statement and cash flow and balance sheet positions, phased on a monthly basis through to the end of the financial year.

Regular weekly and monthly reporting cycles allow management to assess performance and identify risks and opportunities at the earliest opportunity. Trading performance is formally reviewed on a weekly basis by the management of the trading subsidiaries, and monthly by the management of the Group. Performance is reported to the Board at each Board meeting. Performance is assessed against budget and against the latest forecast.

The Group has an established and well-understood management structure with documented levels for the authorisation of business transactions and clear bank mandates to control the approval of payments. Control of the Group's cash resources is operated by a centralised Treasury function.

Internal management reporting and external statutory reporting timetables and delivery requirements are well established and documented. Control of these is maintained centrally and communicated regularly.

The Group maintains computer systems to record and consolidate all of its financial transactions. These ledger systems are used to produce the information for the monthly management accounts, and for the annual statutory financial statements. The trading subsidiaries within the Group prepare their accounts under Financial Reporting Standard (FRS) 101.

The accounts production process ensures that there is a clear audit trail from the output of the Group's financial reporting systems, through the conversion and consolidation processes, to the Group's financial statements.

Viability statement

An assessment period of five years was selected. This is consistent with our long-term financial planning horizon and importantly it embraces the construction of our new cruise ships which will become operational in 2019 and 2020.

Our list of principal risks and uncertainties (PRUs) derived from our robust review of risks (as described on pages 71-73) was reviewed with risk owners, Group Finance and Group Risk to consider which risks might threaten the Group's ongoing viability. These PRUs are given in the Strategic Report on pages 26-29. All of the PRUs have been considered and severe but plausible outcomes for each have been identified. The financial impact in terms of both profit and cash of each outcome has been quantified along with their likelihood of occurrence. Assessments of potential financial impact were derived from both internal calculation and examples of similar incidents in the public domain. A key assumption made in this assessment was that it is reasonable to believe that debt funding to replace the existing senior bank facilities when they mature will be available in all plausible market conditions.

The three largest sensitivities in terms of financial impact were identified as the following:

1. A failure to deliver the expected cumulative effect of value-adding projects in Saga Services Limited.
2. A severe one-off data breach.
3. A failure to drive passenger and per diem growth in our Cruise business following delivery of the new ships.

Three scenarios were then modelled for the assessment period: the three largest sensitivities in terms of financial impact as if each were certain to occur independently; the estimated financial impact for a reasonably possible combination of these sensitivities occurring at the same time; and a reverse stress test considering what PRU, or combination of PRUs, might lead to breach of performance and cash flow solvency thresholds.

The outcome of this modelling confirmed that none of the top three PRUs would compromise the Group's viability either in isolation or in combination, even if they were all certain to occur. The reverse stress test demonstrated that the likelihood of a combination of PRUs causing us to breach performance and insolvency thresholds was remote.

As set out in the Audit Committee report on pages 74-77, the Directors have reviewed and discussed the rationale and conclusions of management's viability testing. The Director's viability statement is made on page 54.

Statement of review

The Board's statement of review of the effectiveness of Saga's risk management and internal control systems is contained on page 54.

Dear Shareholder,
I am pleased to report on the Audit Committee's activities during the year to January 2018. Throughout the year, we monitored the integrity of the financial statements of the Group, reviewed and reported to the Board on significant financial reporting issues and judgements, and reviewed and assessed the adequacy and effectiveness of the Company's internal financial controls and other internal control systems. In performing our work, we liaised closely with the Group's auditors KPMG and Saga's Internal Audit team.

I am pleased to confirm that the Committee believes that it has fully discharged its responsibilities for the reporting year under its terms of reference. These terms were reviewed by the Committee and subsequently approved by the Board on 18 September 2017. Some minor changes were made to our remit, notably to reflect the authority given by shareholders at the AGM for the Committee to approve the external auditors' fees. The Committee's terms of reference are available on the Saga website at http://corporate.saga.co.uk/corporate-information/corporate-governance and from the Company Secretary at Saga's registered office.

Ray King
Chair, Audit Committee

Committee composition and attendance
All members are independent Non-Executive Directors. The Board is satisfied that I have recent and relevant financial experience and competence in accounting reflecting my professional qualification as a chartered accountant and relevant experience during my career. The Board is also satisfied that the Committee as a whole has competence relevant to the sector in which the Company operates.

During the year, the Committee met on four occasions.

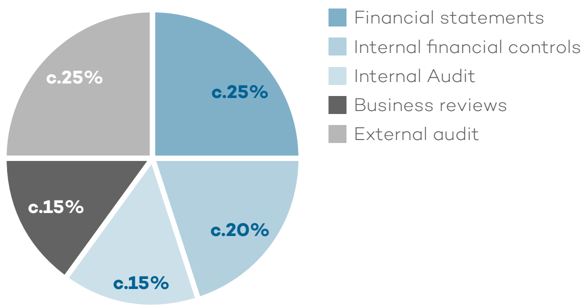
Member	Attendance
Ray King (Chair)	4
Philip Green[1]	1
Bridget McIntyre	4
Orna NiChionna	4
Gareth Williams	4

Note:
1 Philip Green resigned on 31 March 2017

The Company Secretary acts as secretary to the Committee and attends all meetings. In addition, the Chairman, Group Chief Executive Officer, Group Chief Financial Officer, Group Financial Controller, Chief Risk and Compliance Officer, Head of Internal Audit and representatives from our external auditors attend by invitation. During the year, the Committee held private meetings with the external auditors and Head of Internal Audit; I also had regular update meetings with them.

A summary of our remit
- To monitor the integrity of financial statements of the Company and provide an opinion to the Board that the Annual Report and Accounts, taken as a whole, is fair balanced and understandable.
- To review and report to the Board on significant financial reporting issues and judgements.
- To review and assess the adequacy and effectiveness of the Company's internal financial controls and other internal control systems.
- To monitor and review the effectiveness of the Company's Internal Audit function, in the context of the Company's overall risk management system.
- To assess the independence and effectiveness of the external auditors and review the external audit work plan and findings of their audit.

What we have done during the year
Time spent on matters



Reporting
Interim and full year results
The interim and full year results were reviewed, together with papers from management summarising the process of preparing the financial statements, the appropriateness and application of key accounting policies, and the areas of significant judgement, including how those judgements were made. Reports were also received from KPMG at the conclusion of their work on the interim and full year results and during the process of their audit. The reports on the full year results included specific focus on those areas identified as having significant audit risk or other audit emphasis.

Judgements
We considered the following key areas of significant judgement and issues:

- Valuation of insurance contracts liabilities and associated reinsurance assets, including the funds withheld quota share contract for the motor insurance book
  - The Committee considered the level of actuarial best estimate held for outstanding case reserves and claims incurred but not yet reported (IBNR), and the level of reserve margin held for uncertainty over and above that best estimate in the financial statements for the Group, as proposed and monitored by the AICL Reserving Committee.
- Valuation of goodwill and the Parent Company's investment in subsidiaries, and impairment testing thereof, including sensitivity analysis and stress testing.
  - The Committee considered management's impairment review of goodwill and gained an understanding of the level of headroom in that calculation and the sensitivity of that headroom to changes in key drivers, such as the Group's cash flow forecasts for each cash generating unit (CGU) and the discount rate used.
  - The Committee considered the existence of any indicators of impairment of the Parent Company investment in subsidiaries and a subsequent appraisal of the asset's recoverable amount.
  - In both instances, the Committee considered alternative measures of enterprise value to help validate the outcome of the impairment assessment.
- Valuation of pension scheme obligations.
  - The Committee reviewed the period-on-period movements in the value of the Group's defined benefit pension scheme obligations. We gained insight into the assumptions used and how these compared to industry benchmarks, to ensure that those obligations were valued appropriately.

The Committee supported the key accounting judgements and noted that the insurance reserve margin was consistently prudent and within an appropriate range.

As a result of this process, the Committee was satisfied that the key accounting choices and judgements were appropriate and served to provide a true and fair view of the Company's financial statements and advised the Board in order for the appropriate statement to be made (page 54).

Fair, balanced and understandable
At the request of the Board, the Committee has considered whether, in its opinion, this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

We advised the Board that we supported the statement made on page 54 after considering whether:

- key messages were given suitable prominence;
- the report clearly described business performance and presented a balanced view of the opportunities and challenges;
- the reporting on the business segments, significant issues and key judgements in the narrative was consistent with the disclosures in the financial statements;
- the key performance indicators were disclosed at an appropriate level; and
- the definitions were provided, the basis for their use was explained and reconciliations made of alternative performance measures to the closest IFRS measure in the financial statements.

Viability statement

The Group's methodology for production of its viability statement is set out on page 73. The viability statement itself is made on page 54.

We considered the list of principal risks and uncertainties which had been reviewed and approved by the Risk Committee (see pages 26-29) and the methodology used to provide for an assessment of ongoing viability. We specifically considered:

- the relevant assessment time period;
- the list of principal risks and uncertainties and associated severe but plausible potential outcomes; and
- the appropriateness of the scenarios modelled.

We confirmed to the Board that we considered that it was reasonable for the Directors to make the viability statement on page 54.

Audit and control

Financial controls

A description of Saga's internal financial controls is presented on page 69.

As part of our ongoing oversight, key internal controls were included in the internal audit programme and reviewed by the Committee. The Group Financial Controller provided an update on accounting issues, key aspects of financial controls and risk management at every meeting.

The Committee examined the preparation work for the adoption of the new IFRS 9 (Financial Instruments) and IFRS 15 (Revenue Recognition) accounting standards for the next financial year (2018/19) and IFRS 16 (Leases) for 2019/20. The Committee agreed that IFRS 9 did not have any material impact on the Group and that it would not be adopted early. It was noted that the Group had undertaken a review of its contracts with customers and applied the five-step model prescribed by IFRS 15 to each of these. It was also noted that IFRS 16 could impact the leasing contracts for the river cruises business, for any lease contracts longer than 12 months. In such instances, the Group would be required to recognise a right-of-use asset on its balance sheet and corresponding lease liability. The Committee will consider the requirements of IFRS 17 (Insurance Contracts, expected implementation date 2021/22) in due course. The Committee concluded that the Group was taking necessary steps for the implementation of the new standards.

Financial crime

We reviewed policies covering financial crime (including anti-bribery, anti-corruption and anti-fraud) and whistleblowing. As part of our oversight procedures, we reviewed the minutes of the Financial Crime, Data and Information Security Committee. Consideration and discussion of a Financial Crime Report is now a standing feature of the Committee's activities. We noted that there had been a significant improvement in the detection and management of fraud, particularly in regard to credit card and insurance fraud, which is attributable to increased resource and awareness.

Whistleblowing

We received a whistleblowing report at each meeting. Consistent with enhanced communication of the whistleblowing procedure, there was an increase in the number of cases reported during the year. After review, it was clear that nearly all incidents were of a minor nature. We were comfortable that cases had been handled and investigated appropriately and that the communication and escalation processes were working well.

Internal Audit

Oversight of the Internal Audit department is a key part of our work. Its work is risk based, covers both financial and non-financial controls and includes consideration of risk culture and the level of engagement by the business area being audited. We monitored the responsiveness of management to the internal auditor's findings and recommendations. The Committee also considered whether the assurance provided by Risk, Compliance and Internal Audit teams provided satisfactory coverage of the Group's risk environment. This included reviewing the results of the internal auditor's work and the assurance from Internal Audit on its 3rd line of defence review of the functioning of the risk management framework.

The department consists of eight people with a broad range of skills; we also source audit skills externally for specialised audits. Taking the internal audits conducted throughout the year, the hours required to complete these and implementation of the internal audit plan into account, we are satisfied that the Internal Audit function had appropriate resources throughout the year.

In line with the recommendations of the IIA Standards, last year we carried out an external review of the effectiveness of the Internal Audit function, facilitated by KPMG (prior to their appointment as external auditor and the associated tender process). They concluded that the function was competent, effective, well led, and strongly aligned to principal risks. Areas of development were identified as the need to focus on emerging risks and more use of third-party specialists where appropriate. The audit plan and audit process now includes greater emphasis on emerging risks and identification of areas for specialist technical input as a result.

We approved the Internal Audit Charter. This is available on the Saga website at http://corporate.saga.co.uk/about-us/governance/.

Subsidiary committees

At each meeting, we reviewed minutes from subsidiary Audit, Risk and Compliance Committee meetings. We also received an annual update on activities from the independent non-executive directors who chair the Saga Services, Saga Personal Finance and AICL audit committees.

External audit

KPMG were appointed for the first time as our statutory auditors at our AGM, in June 2017, following an open tender process. The current audit partner is Stuart Crisp, who has been in place since the appointment of KPMG. We considered the external auditor's (KPMG) engagement terms (including the fee proposal) for 2017/18, and made recommendations to the Board. The Company has complied with the Statutory Audit Services Order for the financial year under review.

Audit planning

KPMG presented an audit plan for the financial year, together with an outline of their risk assessments, materiality thresholds and planned approach. The key aspects of the plan are set out in the Independent Auditor's Report on pages 128-134.

The Committee considered the audit scope and coverage, areas of audit focus and KPMG's planned response to identified significant audit risks, taking size, complexity and susceptibility to fraud/error into account.

Audit quality and effectiveness of external auditors

To assess the effectiveness of the external auditors, we considered:

- the external audit firm's own quality control procedures and the audit firm's annual transparency report;
- our perception of the external auditor's understanding and insights into the Group's business model;
- how KPMG approached key areas of judgement and the extent of challenge;
- the quality of the external auditor's reporting to the Committee and their overall efficiency; and
- feedback from management, who were asked to complete an evaluation survey on the audit process and their interaction with the audit team and audit partners during the year.

We discussed the FRC Audit Quality Review 2016/17 and KPMG's relative position across the 'Big 4' firms. We were reassured to hear that KPMG was undertaking a significant quality improvement plan. The Committee is satisfied that the audit continues to be effective and provides an appropriate independent and objective challenge to the Group's senior management.

Auditor independence and non-audit services

The objectivity and independence of KPMG was reviewed by the Committee and confirmed by the auditor throughout the year in a letter to the Committee.

A robust non-audit fee policy is in place and is adhered to. This includes a list of non-audit services where we are satisfied the external auditor can carry out those services without affecting their role as external auditor. There are clear approval levels where the Committee Chair (or the whole Committee) is required to authorise assignments. Competitive tendering is used for substantial work.

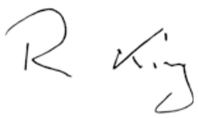
A policy on employment of former employees of the external auditor was also reviewed during the year and approved on 4 December 2017. This policy complies with the Financial Reporting Council's Guidance on Audit Committees and Revised Ethical Standard.

The audit fees payable to KPMG in respect of the year ended 31 January 2018 were £1.0m (2017: £1.0m) and non-audit service fees incurred were £0.2m (2017: £0.2m). Fees in relation to 2017 were paid to the previous external auditor. This equates to a non-audit to audit fee ratio of 0.20 (2017: 0.20). A summary of fees paid to the external auditor is set out in note 4 to the consolidated financial statements on page 162.

Effectiveness of the Committee

Evaluation

An evaluation of the Committee's effectiveness took place during the year, as part of the Board effectiveness review (for details see page 65). The review indicated that the Committee is working well, with an appropriate focus on external reporting and accounting judgements. There were no significant development points requiring action identified.



Ray King
Chair, Audit Committee

Dear Shareholder,
I am pleased to present a report of the work done by the Risk Committee during the year, to ensure that risk processes were aligned with strategy, risk tolerance levels were monitored and the impact of risk on each of our businesses and on an aggregate basis was considered. As the Group invested for growth and, sought to become increasingly customer-centric and to continue to develop its people, whilst maintaining an efficient operating model, the Committee played an important role in considering and monitoring the associated risks.

Looking forward, we will continue to focus on developing our approach to assessing the effectiveness of risk management and will look at the impact our risk management approach has on the way the business is run.

Orna NiChionna
Chair, Risk Committee

Role of the Committee
Our role is to monitor the Group's risk and compliance management procedures (described on pages 69-73) and to review principal business risks and compliance matters regularly on behalf of the Board. We seek to consider the risks on both an individual and an aggregated basis across our businesses.

All Committee members are independent Non-Executive Directors.

Attendance
The Committee met on four occasions during the year.

Member	Attendance
Orna NiChionna (Chair)	4
Philip Green[1]	1
Ray King	4
Bridget McIntyre	4
Gareth Williams	4

Note:
1 Philip Green resigned on 31 March 2017

The Company Secretary acts as secretary to the Committee and attends all meetings. The following personnel attend by invitation: Chairman; Group Chief Executive Officer; Group Chief Financial Officer; Chief Risk and Compliance Officer; and Group Head of Internal Audit. We also invite other executives and consultants. During the year the Committee and its Chair held private meetings with the Chief Risk Officer.

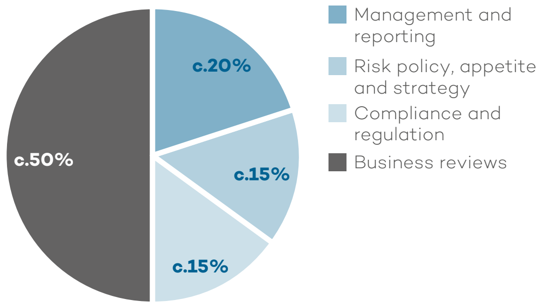
Our terms of reference
Our terms of reference were reviewed by the Committee and subsequently approved by the Board on 18 September 2017. These explain our role and the authority delegated to us by the Board and are available on the Saga website at http://corporate.saga.co.uk/corporate-information/corporate-governance and from the Company Secretary at Saga's registered office.

Our remit
- To advise the Board on the Group's overall risk appetite, tolerance and strategy.
- To consider the nature and extent of the principal risks the Group is willing to take in achieving strategic objectives and to communicate this to the Board.
- To review the Group's overall risk assessment processes that inform the Board's decision making, ensuring that both qualitative and quantitative metrics are used, and to review these measures regularly.
- To consider the effectiveness of the Group's risk management systems and operations.
- To ensure that a supportive risk management culture is embedded and maintained throughout the Group, in conjunction with the Audit and Remuneration Committees (including how risk should be

recognised when setting performance objectives for executive remuneration).
- To review the Group's capability to identify and manage new risk types.
- To review reports on any material breaches of risk limits and the adequacy of proposed action.
- To monitor and review management's responsiveness to the findings and recommendations of the Chief Risk and Compliance Officer.
- To review the performance of Group compliance and assess the adequacy and effectiveness of the various compliance functions. To consider any breaches and/or required notifications to compliance authorities and how these have been rectified.
- To explore risks identified within each of our major business areas and the mitigation processes that are in place.

What we have done during the year

Time spent on matters



Management and reporting

At each meeting, we considered detailed reports and discussed the issues raised. These reports included a summary of each business's management monitoring and a review of incidents, particularly relating to significant control failures or weaknesses. We reviewed and discussed these incidents in order to identify causes, necessary actions, lessons learned and monitoring requirements.

We also worked with the Chief Risk and Compliance Officer to consider each business area's strategies in the context of its risk framework to ensure that all forward-looking risks had been identified and considered. All business CEOs certified compliance with the risk management framework at the year end.

We reviewed the robust assessment of the principal risks facing the Group, including those that would threaten the business model, future performance, solvency or liquidity and recommended to the Board that the appropriate statement could be made (see page 54).

In coordination with the Audit Committee, a review of the effectiveness of the risk management framework took place during the year, as part of the wider review of risk management and internal control. This was considered by the Committee. The review and the Committee concluded that a robust risk management framework was in place throughout the year, that a good risk and control culture was evident across the Group and that there was a continuous improvement approach. The Committee recommended to the Board that the appropriate part of the statement could be made (see page 54).

Last year, we considered the insurance programme for the Group including cost, management of brokers and advisers and summary of cover. We discussed whether any additional cover was required, specifically in relation to the threat of financial crime or cybercrime. We noted that the cover for this year was the same as the previous year, but at a lower premium, due to a positive claims history.

Risk strategy, policy and appetite

We have approved the development of the risk reporting framework to provide for a holistic approach that is clearly linked to the Company's strategy and is also reconciled with the viability statement. Throughout the year we reviewed our principal risks and uncertainties against the changing context of the markets in which we operate (see pages 24-29 for the market overview) and against a Group risk horizon landscape that focuses on environmental, social, political, economic, technological and regulatory/legal issues. Consideration of conduct risk forms an essential part of our discussions. We reviewed how our business decisions and behaviour could impact our customers, affect our reputation or undermine the integrity of the financial markets.

Changes and additions to the principal risks and uncertainties list were scrutinised and the results of this process are shown in the Strategic Report on pages 26-29 and our risk management processes on pages 69-73. These are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Risk appetites and tolerances are reviewed on a continuous basis. As we have discussed before, this involves considering risks that are outside of agreed risk appetite. We concluded that where this was the case, the probability of occurrence was very low and that existing mitigating actions were appropriate to the scenarios. We remain satisfied that controls are in place which mean that the risk of significant failing across the business model is remote.

The mitigation of the risk resulting from the pension shortfall was considered in detail and we were comfortable that sufficient work is being done to manage current and future liabilities. The Group risk policy was reviewed during the year and no changes were proposed.

We discussed the internal project risk assessment, noted that a review of resources allocated to key change management projects was in progress and challenged management on the potentially reactive nature of the approaches being taken. We were assured that the projects were planned in advance and that the majority of risks were, therefore, subject to appropriate mitigation and management. The Committee noted that where acceptable risk was taken in order to adapt projects as they progressed, it was carefully monitored. We concluded that there are no systemic issues with any change management projects and that the Committee has a good oversight in terms of roles and planning.

IT risk and protection of data are important areas of focus for us to consider as a Committee, both in terms of cyber-risk and regulatory compliance. We discussed how IT operations had been restructured to form dedicated teams for operational infrastructure management, internal service delivery and change. These were noted as being structured around business processes and project delivery.

The IT team has strategies in place to deal with malware and ransomware threats and these are kept under constant review and development as the threat evolves. Our disaster recovery plan is regularly reviewed at divisional executive and risk committees.

We continued to monitor how the General Data Protection Regulation will affect how we do business, as we identified last year. Updates on work undertaken by the Data Protection Strategy Group were provided and the Committee was assured that all necessary steps will be taken before the regulation comes into force in May 2018. The ability to cross-sell impacts other projects, so we were keen to understand and gain insight into what is being done to proactively manage the risks presented by these regulations by obtaining positive affirmation and consent from customers.

Following on from last year's discussions, supplier risk management is an ongoing process, with contracts above a certain threshold being reviewed, resulting in enhancement to due diligence processes and a focus on larger suppliers and those that carry reputational risk. It was clear to us that there are a few suppliers that have received significant investment 'upfront' or where a significant amount of profit could be lost in the event of failure. Reputational risk was mitigated through issuing appropriate contracts, with ongoing monitoring and oversight; and by applying lessons learned from past experiences.

Compliance

At every meeting, we received a Group regulation report, which included the status of the Group compliance monitoring plan for the regulated businesses (financial services, travel and healthcare). The relationships of individual businesses with regulators, management of incidents and the impact of the Financial Conduct Authority's annual business plan were considered and discussed. Material changes to compliance regulations were noted.

Areas of particular importance included the Company's approach to the Modern Slavery Act, an unannounced Care Quality Commission (CQC) visit to Saga Healthcare, and a review of compliance at Bennetts.

We were pleased to note that a robust framework had been put in place to evidence steps taken to confirm that neither slavery nor human trafficking are present within the Company and its supply chains, and that a process was in place to make appropriate statements on relevant websites.

The CQC visit involved conversations with customers and carers and a review of paperwork. The initial feedback on site was positive and the formal report resulted in a 'Good' rating.

As a result of the compliance review at Bennetts, which also involved benchmarking against Saga Services' best practices, controls and procedures, it has benefited from various enhancements.

Business reviews

Each of our meetings included a presentation from one or two of the divisional CEOs and senior members of the team to discuss in detail the risk and compliance issues in their business, prioritised according to risk ratings in the Group's risk register.

Reviews of individual businesses during the year included the following:

Saga Services Limited (regulated business)

- Considered key risks and opportunities for this business.
- Discussed how business decisions included consideration of customer outcomes, to ensure these were fair and protected our market integrity.
- Looked carefully at this business's performance in the challenging trading situation that arose in the final quarter of the year and discussed how key risk indicators should be a mix of predictive and lagging measures and aligned with strategy and stress tested.
- Received updates on the insurance platform replacement project and assurance by PwC that the planning, timeline, architecture and technical integration plans were fit for purpose.
- Noted PwC's opinion that the right culture and team were in place.
- Reviewed a blueprint to show how the programme would change the business and provide a baseline for design and scope decisions made during the project.

Travel

- Discussed the structure of the division, its governance, and issues of transformation and change.
- Considered the top risks and noted that Brexit was having a short-term impact on currency rates.
- Reviewed customer health, safety and emergency procedures and lessons learned from travel-related terrorist incidents.
- Discussed the implications of the Modern Slavery Act 2015 as some obligations are vague and the division has a long supply chain.
- We noted that 93% of suppliers had been assessed in relation to their approach to modern slavery and categorised with respect to risk, and that policies, procedures and plans were in place to address regulatory requirements.
- We concluded that a new IT system would help to mitigate the risks presented by competitors' pricing agility.
- We concluded that the Travel business remains good at looking after its customers with appropriate levels of ongoing support as required and robust health and safety policies, and noted that the number of low-rated incidents was due to the stringent procedures in place.

Cruise

- Reviewed the 'Beyond Compliance' programme and noted its progress and that it was now the operational standard.
- Discussed crew resource for Spirit of Discovery, covering transfer, retention and recruitment to mitigate the risk of not having the right crew in place.
- Considered Saga's relationship with V.Ships and Saffron Maritime, and noted that the relationships were close; with Saga actively involved in their processes and their alignment with our 'Beyond Compliance' programme. We noted that staff turnover rates were low.
- Concluded that the transition to the new ship was progressing satisfactorily and to plan, with appropriate product development and adoption of suitable new procedures.

Saga Money

- Considered the business model, product portfolio, governance framework, performance and key priorities.
- Reviewed product offerings (to ensure any risks associated were in line with risk appetite and tolerance) and considered how risk interacted with the strategic direction of the business.
- Were advised that focus on the post-retirement sector provided an opportunity to grow relationships for those with fixed income.

AICL and CHMC Limited

- Discussed the strategic direction of the businesses and terms of the quota share arrangement.
- Reviewed the approach to management of investment assets.
- Considered the risks associated with these entities, including uncertainties about the Ogden rate change and Brexit; the approach to claims of damage as a result of a terrorist act; and the possible impact in the future of an increase in the use of autonomous vehicles.
- Heard how the governance framework would help support management in identifying key risk management priorities and agreeing a prioritised plan of action.

Effectiveness of the Risk Committee

Evaluation

An external evaluation of the Committee's effectiveness took place during the year, as part of the Board effectiveness review (for details see page 65). This was completed by Independent Audit Limited. The review indicated that the Committee is satisfied that it is working well, and that there is good discussion of risk exposures, in particular through the business reviews. Looking ahead, the Committee will focus on systemic issues and trends in key risks and areas of uncertainty.

Orna NiChionna
Chair, Risk Committee

Relations with shareholders

We plan a shareholder communication strategy for the year, to ensure that we maintain a relationship with our shareholders based on trust and to help them understand how we plan to grow the business and the effect of decisions made.

We understand the importance of maintaining open and regular dialogue with our shareholders – many of whom are our loyal customers. We welcome feedback at any time during the year and the AGM provides the opportunity for our shareholders to meet the Board and senior management of the Group.

Lance Batchelor, Group Chief Executive Officer, and Jonathan Hill, Group Chief Financial Officer, lead communications with our shareholders assisted by our Director of Investor Relations. In addition, the Chairman and Senior Independent Director met with major shareholders and provided feedback to the Board.

Saga has a diverse shareholder register which is formed of both institutional and retail ownership, the latter numbering over 170,000, and a number of analysts who follow the Company. We set ourselves the target of providing information to our shareholders that is timely, clear and concise. This includes a clear explanation of key strategic events and developments, results and announcements of acquisitions.

Shareholder communication

In addition to the AGM, we:

- have regular meetings with key shareholders;
- arrange face-to-face presentations of full year and half year results by the Group Chief Executive Officer and Group Chief Financial Officer;
- hold telephone briefings in conjunction with key financial announcements;
- publish live and post-event webcasts of key presentations;
- add presentations to our website to allow shareholders to gain an insight into how our trading performance links to strategy;
- hold investor 'road shows', investor days, briefings and ad hoc meetings on request, where calendar and regulatory requirements allow;
- conduct tours of Saga's operations;
- notify our shareholders of key financial calendar information;
- publish details of live webcasting services for key presentations; and
- make past key presentations available via our corporate website.

Wider communication

We also:

- arrange face-to-face presentations of full year and half year results at which the Group Chief Executive Officer and management team are available for discussions;
- hold telephone briefings for analysts in conjunction with key financial announcements;
- organise face-to-face and telephone meetings for analysts with the management team;
- hold presentations with bank sales teams; and
- conduct tours of Saga's operations for analysts.

The Director of Investor Relations reports on all shareholder and wider market matters and provides regular updates to the Chairman and Non-Executive Directors by way of face-to-face briefings, email updates and an Investor Relations Report, which is discussed at each Board meeting. This includes reference to the views of key shareholders, including their concerns. The Board is provided with analyst and broker briefings.

We recognise that our brokers play an important part in communicating our message to our shareholders. Our corporate brokers, J.P. Morgan Cazenove and Numis Securities Limited, attend Board meetings twice a year to discuss market sentiment towards the Company from both an institutional investor and competitor perspective. J. P. Morgan Cazenove is a joint financial adviser with Goldman Sachs International, which also has direct access to the Board and provides regular feedback.

The Board is kept fully up to date on the views of shareholders and analysts through:

- broker attendance at Board meetings to provide honest feedback;
- composition of the shareholder register;
- share price performance monitoring;
- feedback from investor meetings, including key questions and concerns;
- recommendations and expectations of sell-side analysts;
- peer group news; and
- feedback from our professional and other external advisers and market participants.

Annual General Meeting

The AGM will be held on 21 June 2018 at 11am at Enbrook Park, Sandgate, Folkestone, Kent CT20 3SE. The incoming Chairman and Chairs of all Committees will be available to answer questions during the formal business of the meeting.

The notice of the AGM contains an explanation of business to be considered at the meeting. A copy will be available on Saga's website, http://corporate.saga.co.uk, in due course.

Dear Shareholder,
This has been a year of both operational progress and disappointment on the prospects for short-term profitability. The decisions taken by management in the second half of the year will benefit the delivery of sustainable growth and performance, but the Trading Update issued on 6 December 2017, which set out the revised profit expectations for 2017 and 2018, had a material negative impact on the share price of the Company. This in turn has framed decisions and outcomes on both current and future remuneration and these are detailed in this summary and the body of the Remuneration Report itself.

Our current Remuneration Policy was approved at the AGM in June 2015. This Report includes the proposed Policy which will be subject to shareholder approval at the AGM in June this year. In arriving at our proposed Policy, the Committee has discussed the developments in legislative and governance matters relating to remuneration. We believe that the proposed Policy reflects the intent of these developments, but we will continue to monitor the regulatory framework after June 2018 and consider any further policy adjustments that might be appropriate.

This report also lays out the activities and decisions of the Remuneration Committee over the past 12 months. We believe these take full account of our actual performance and the desire to deliver sustainable, long term value creation in the business.

Proposed Policy

This report lays out the proposed Directors' Remuneration Policy for the next three years which will be subject to shareholder approval at our AGM and our practice over the past year, based on the current Policy. I trust we have done this with a transparency and clarity that aid your understanding of both our intent and our activity. There are few material changes from our current and proposed Policy (see pages 89-91 for an overview).

The Company's core principles of remuneration are to support:

- sustainable long-term value creation;
- profitable growth and strong cash generation; and
- attraction and retention of high calibre individuals.

Further evolution in our performance conditions for the LTIP in 2018

Our strategy is evolving along with our operating model, and we have been keen to avoid a disconnection between the basis for the earnings per share (EPS) target established at IPO and the strategy now driving underlying growth.

To support our evolving strategy, we introduced an Organic earnings per share (Organic EPS) measure last year which allows the significant acceleration of growth which is called for over and above that which has been delivered since IPO to be recognised and targeted. The Group has worked hard to build and develop the Travel business since IPO to provide a diversified profit stream from a range of products and services in addition to the Insurance business. An assessment of Organic EPS allows the Company to reward and incentivise the Executive Directors and the Executive Team (together defined as the Group Executive as detailed on page 11 of this Annual Report and Accounts) to deliver this step change in growth.

We are now proposing a change in respect of the implementation of the Policy for 2018/19 to further increase the focus of the LTIP in supporting the strategy over the next period. The change is a replacement of the Basic earnings per share (Basic EPS) performance condition with Return on Capital Employed (ROCE). The rationale for this change is:

- The ROCE metric will ensure that the Executive Directors are focused on generating an appropriate level of return on the investments being made over the next period.
- The dynamic tension between ROCE and the Organic EPS growth targeted will ensure that the Executive Directors are focused on both growing earnings and the quality of those earnings.
- The ROCE metric will ensure that the Executive Directors have an equal focus on ROCE, Organic EPS and TSR (Total Shareholder Return). We felt that once ROCE was included, operating two EPS performance conditions did not provide any additional benefit to the Company or shareholders.
- When looking at the current two EPS measures, we felt that Organic EPS, which excludes insurance reserve releases, is an appropriate long-term measure of profit for the Company and is more closely aligned to the medium and long-term strategy of the business, as it focuses management on accelerating operating performance and growth.

The targets have been set with reference to our internal business plan and we are satisfied that they are sufficiently stretching. Our view is that these changes to the operation of the LTIP in 2018 will ensure that the Executive Directors are rewarded for delivering a balanced and sustainable set of results across the profit, capital efficiency and shareholder return of the Company over the next critical period in the implementation of the Company's strategy.

The following table shows the performance conditions and targets currently operated and those proposed:

Performance measures	2017 LTIP weightings and targets	Proposed 2018 LTIP weightings and targets
Basic EPS	Weighting: 30% Threshold: 5% p.a. Maximum: 12% p.a.	Removed from 2018 LTIP
Organic EPS	Weighting: 30% Threshold: 12% p.a. Maximum: 21% p.a.	Unchanged
Relative total shareholder return (TSR)	Weighting: 40% Measured against FTSE 250 (excluding investment trusts) Threshold: median Maximum: upper quartile	Unchanged
Return on capital employed (ROCE)	New for 2018 LTIP	Weighting: 30% Threshold: 10.5% p.a. Max: 11.5% p.a.

Company performance for the 2017/18 financial year (audited)

The implementation of our strategy (as outlined on pages 1-51) has been substantiated through the key performance outcomes of the year:

- Continued strong performance in Travel and growth in written profits in Insurance, which has led to a stable level of underlying profits for the Group.
- Group profit before tax from continuing operations decreased by 7.6% to £178.7m (2017: £193.3m), on revenue of £860.1m (2017: £871.3m).
- Underlying Profit Before Tax (which excludes derivatives, restructuring costs, debt issue costs and the Ogden impact in the prior year) increased by 1.4% to £190.1m (2017: £187.4m). For the purpose of setting management bonus targets, debt issue costs were included, so the profit before tax measure for bonus purposes was £185.8m (2017: £187.4m).
- Continued high levels of cash conversion meant that the Group has continued its deleveraging. The net debt to Trading EBITDA ratio is now 1.7x (2017: 1.9x).
- Dividend payments to our shareholders of 5.8p per share in respect of 2017 and an interim dividend of 3.0p in respect of 2018 that reflect the strong cash generative performance of the business.
- Demonstrated confidence in the growth and potential of our Cruise business by exercising the option for a second new cruise ship to be delivered in August 2020.
- Launched the membership programme 'Possibilities' which supports the attraction, retention and growth of High Affinity Customers (HACs).
- Strengthened our insurance operating model with a significant information technology upgrade, a new broking platform in the final stages of testing and a new claims platform which is now live.

Impact of Company performance for 2017/18 on remuneration for the year (unaudited)

We issued a Trading Update on 6 December 2017 (full details are on the Company's website).

The Trading Update setting out the revised profit expectations for 2017 and 2018 had a material negative impact on the share price of the Company. We took into account that 2017 has been a challenging year for the Company and its shareholders. Recognising the broader picture:

- 2018 salaries – salaries will be frozen for the Executive Directors this year.
- 2017 bonus outcome – the formulaic outcome under the bonus would have resulted in a bonus payout of 47.4% and 39.5% of salary for the CEO and CFO respectively. The Executive Directors felt that, taking into account this broader picture and looking in a holistic way at the performance of the business and the experience of shareholders, it would be appropriate to waive their 2017 bonuses. The Committee accepted the offer of the Executive Directors given its view that the formulaic outcome from the bonus would not entirely reflect the performance of the business over the period nor the impact on near-term profitability.

Full details of the bonus are set out on pages 107-108.

2015 LTIP vesting (audited)

It is currently anticipated that 26.0% of the 2015 LTIP will vest on 29 June 2018. The EPS performance condition resulted in 52.0% of this proportion of the award vesting. No element is currently expected to vest in respect of the TSR performance of the Company over this performance period. The Committee is comfortable that this level of vesting is consistent with the underlying performance of the business and has therefore not exercised any discretion to depart from the formulaic outcomes.

What we have done during the year – matters discussed, decisions made and actions taken

- Made grants in May 2017 under the Saga Long Term Incentive plan (LTIP) for the Executive Committee and senior management of the Company. Grant levels were consistent with our normal award policy.
- Approved the award of free shares to all eligible employees in July 2017.
- Reviewed the governance and processes of the three Saga Share Schemes in operation in the Company and confirmed that they met the necessary standards and were well communicated.
- Supported base salary increases of 2.0% (average) for the employee population. As explained above, Executive Director salaries will be frozen at their current level. The Board concurrently agreed that Non-Executive fees would remain at their current level.
- Reviewed and approved the bonus outcomes for 2017 as detailed above.
- Reviewed a risk evaluation for the subsidiary regulated businesses, Saga Personal Finance Limited, Saga Services Limited and AICL, and considered whether they highlighted any material adverse activities, decisions or outcomes that should impact subsidiary or Group bonus calculations. We concluded that these evaluations were robust and that there were no risk issues to consider in determining bonus outcomes for any of the regulated entities.
- Approved the business and personal objectives for 2018/19. These were considered in light of both overall performance expectations for 2018 and our medium-term business strategy. Details of the personal objectives for the Executive Directors are on page 107.
- Noted the voting results on our Remuneration Report at the 2017 AGM. Despite overall support being at 94.46%, the Committee wanted to understand the concerns of those who had voted against the report, or who had not voted at all. The views of those who responded to our subsequent approach were discussed as part of our review of the Remuneration Policy.
- Reviewed in great depth our existing Remuneration Policy. Given the strong support for the Policy in 2015, we considered it largely fit for purpose. However, we believe that a number of changes are appropriate:
  - Reduce the maximum pension entitlement for existing Executive Directors to 15% of salary; and limit it to 10% for new Executive Directors.
  - Increase the shareholding requirement for the CEO and CFO to 250% and 200% of salary respectively.
  - Eliminate the existing provision of sign-on compensation for new Executive Directors.
- We have also given significant consideration to the performance measures in the LTIP. See above.

Changes to the Executive Directors

On 28 March 2018, the Company announced that Jonathan Hill, Chief Financial Officer, informed the Board of his decision to resign from Saga to join Paddy Power Betfair Plc as Chief Financial Officer. Jonathan will remain with Saga until September. The Board and the management team are extremely grateful for the contribution Jonathan has made to Saga over the last three years, and wish him every success in the future.

Following Jonathan Hill's resignation he will continue to remain employed until the end of his notice in September 2018 during which period he will receive his current salary, benefits and pension contribution. He will not be eligible for a bonus for the 2018/19 financial year.

Jonathan Hill has a number of subsisting share awards under the following discretionary Company share plans:

- The Saga plc Long Term Incentive Plan;
- The Saga plc Deferred Bonus Plan.

He will not be granted any awards under these Plans in respect of the 2018/19 financial year. Any awards which have not vested by the date of his cessation of employment will lapse. In addition, he has awards under the Saga plc Short Term Incentive Plan, the Company's all employee arrangement; these awards will be treated in accordance with the HMRC approved rules of the Plan.

Jonathan Hill will receive no payments for loss of office.

A summary of our remit

- To review the broad Remuneration Policy for the senior executives.
- To recommend and monitor the level and structure of remuneration for senior management.
- To govern all share schemes.
- To review any major changes in employee benefit structures throughout the Company or Group.

Attendance

All Committee members are independent Non-Executive Directors. We held four meetings during the year.

Member	Attendance
Gareth Williams (Chair)	4
Philip Green[1]	1
Ray King	4
Bridget McIntyre	4
Orna NiChionna	3

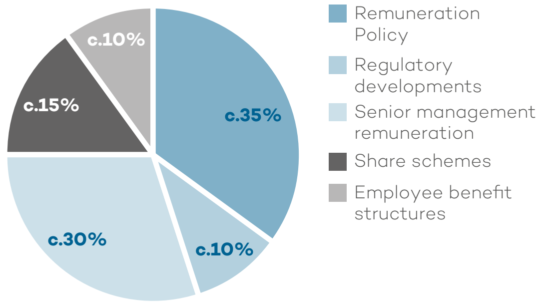
Note:
1 Philip Green resigned on 31 March 2017

The Committee receives assistance from Karen Caddick, Group HR Director and Vicki Haynes, Company Secretary. Our adviser (PwC) attends by invitation, as do Lance Batchelor, Group Chief Executive Officer, Jonathan Hill, Group Chief Financial Officer, and Andrew Goodsell, Chairman, except when issues relating to their own remuneration are being discussed.

Our terms of reference

Our terms of reference were reviewed by the Committee and subsequently approved by the Board on 18 September 2017. They are available on our website, http://corporate.saga.co.uk/corporate-information/corporate-governance and from the Company Secretary at Saga's registered office.

Time spent on matters



Structure of the report

- Remuneration Committee Chair's Annual Statement (pages 83-87).
- Summary Report (pages 88-99).
- Fairness, diversity and wider workforce considerations (pages 100-105).
- Annual Report on Remuneration (pages 106-111).
- Proposed Remuneration Policy (pages 112-121).

New elements to this report

Saga is committed to creating an inclusive working environment and to rewarding its employees throughout the organisation in a fair manner. In making decisions on executive pay, the Remuneration Committee considers wider workforce remuneration and conditions. We believe that employees should be able to share in the success of the Company through ownership. We have enabled this via a Share Incentive Plan (SIP) through which people can buy shares. We also provide all employees with more than a year's service free shares every year. We also believe that employees should have the opportunity to save for their future and to this end we have in place an open defined benefit scheme which operates on a career average basis. The Company also has a matched contributions defined contribution scheme, which allows people up to 10% of their base salaries as pension benefits. This is aligned with the proposed Policy for our Executive Directors.

As part of our commitment to fairness, we have introduced a new section to this report (see pages 100-105 which sets out more information on the pay conditions of our wider workforce, the cascade of incentives throughout our business, our CEO to employee pay ratio, our gender pay statistics, and our diversity policy). Whilst we recognise there is much work still to do, we believe that transparency is an important first step towards making improvements in relation to these important issues.

Effectiveness of the Remuneration Committee

An evaluation of the Committee's effectiveness took place during the year, as part of the Board effectiveness review (for details see page 65). The review found that the Committee feels it is working effectively, and that it has good support from management and external advisers and that sound solutions and outcomes are identified.

Looking ahead

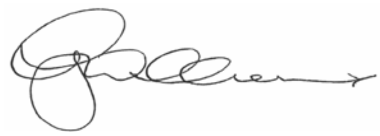
We will keep our work under review including assessing the scope of our involvement in remuneration deliberations and how we work with executives on such matters. We will also be watching developments in the evolution of the corporate governance environment and the impact of the new Code on widening the remit of the Committee. Given that we have now disclosed our gender pay data we will be working closely with executives on action planning for reducing the gender pay gap by proactively addressing the demographic and non-demographic reasons for the gap.

Shareholder consultation

The Committee consulted its major shareholders and the main shareholder representative bodies IA, ISS and Glass Lewis on the proposed new Remuneration Policy. The Committee is grateful for the time taken to consider the Committee proposals and provide feedback. At the end of the consultation the majority of shareholders consulted indicated they were supportive of the new Remuneration Policy.

Conclusion

I hope you find the information contained in this report helpful, thoughtful and clear. I welcome any feedback from the Company's shareholders and you can contact me at gareth.williams@saga.co.uk if you have any questions or comments on this report. I look forward to hearing your views and will be available to answer any questions at the Company's AGM, where we will ask our shareholders to approve the Directors' Remuneration Report and Policy.



Gareth Williams
Chair, Remuneration Committee

This report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the current Code and the Listing Rules.

In this section, we summarise:

- the Remuneration Policy which applied for the 2017/18 financial year; how it was operated; the proposed changes under the new Remuneration Policy and its proposed application in 2018/19;
- the actual performance and remuneration outcomes for the 2017/18 financial year; and
- the link between our strategy for 2018/19 and the proposed new Remuneration Policy.

The proposed new Remuneration Policy will be put to a binding vote at the AGM on 21 June 2018. Pages 112-121 set out full details of the proposed Policy.

Further information on this year's outcomes is given in the Annual Report on Remuneration on pages 106-111.

Overall summary

The table on pages 89-91 summarises the following information:

- the current Remuneration Policy and the Proposed Remuneration Policy; and
- the operation of the current Policy in 2017/18 and the proposed operation of the new Policy in 2018/19.

Remuneration philosophy

This remains unchanged between the current Policy and the new Policy.

The Remuneration Policy and strategy are designed to stimulate sustainable, value creating growth and performance for the business and to reward Executives' performance accordingly.

The Company's core principles of remuneration are to support:

- sustainable long-term value creation;
- profitable growth and strong cash generation; and
- attraction and retention of high-calibre individuals.

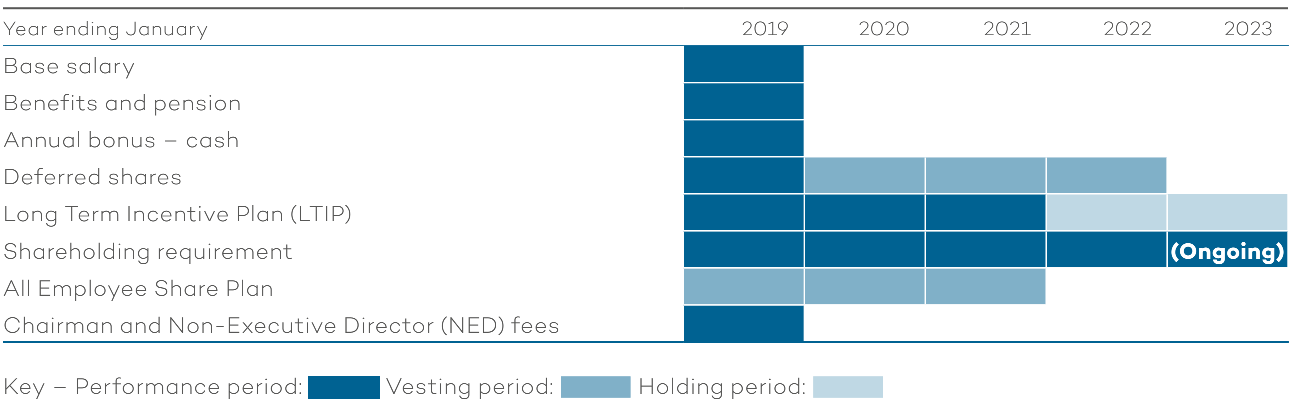
The Committee will review the remuneration arrangements for the Executive Directors and the Executive Team annually drawing on trends and adjustments made to all employees across the Group and taking into consideration:

- our business strategy;
- overall corporate performance;
- market conditions affecting the Company;
- the recruitment market in which Saga competes for talent;
- broader remuneration practices within the Company; and
- changing views of institutional shareholders and their representative bodies.

Long-term nature of our proposed Remuneration Policy

The graphic below illustrates the time horizons for each of the key elements of our Policy:

Key elements of the Policy and time horizon



Details of each of these elements and any proposed changes are included in the table below:

Summary table

Base salary

Current Policy	The Remuneration Committee ensures that maximum salary levels are positioned in line with companies of a similar size to Saga in the comparator group. The companies in the comparator group are the constituents of the FTSE 250. In general, salary increases for Executive Directors will be in line with the increase for employees.
Proposed Policy	No change.
Operation in 2017/18	Executive Directors received a 2% increase on 1 February 2017 (all employee rise 2%). As a result, the salaries for the Executive Directors are: • Lance Batchelor: £689,785 • Jonathan Hill: £424,483
Proposed operation in 2018/19	Executive Directors will not receive an increase on 1 February 2018 (all employee rise 2%). As a result, the salaries for the Executive Directors remain as: • Lance Batchelor: £689,785 • Jonathan Hill: £424,483

Benefits

Current Policy	The Executive Directors receive family private health cover, death in service life assurance, a car allowance, subsistence expenses and staff discounts in line with other employees.
Proposed Policy	No change.
Operation in 2017/18	Standard benefits.
Proposed operation in 2018/19	No change.

Pension

Current Policy	The maximum contribution to an Executive Director's pension or salary supplement is 20% of gross basic salary. A salary supplement would not itself be pensionable or form part of salary for the purposes of determining the extent of participation in the Company's incentive arrangements.
Proposed Policy	The maximum value of the pension contribution allowance is 15% of gross basic salary for current Executive Directors and limited to 10% of salary for newly appointed Executive Directors.
Operation in 2017/18	Executive Directors received the following: • Lance Batchelor: 15% of salary supplement in lieu of pension; • Jonathan Hill: 15% of salary supplement in lieu of pension.
Proposed operation in 2018/19	No change.

Annual Bonus (Cash and Deferred Shares)

Current Policy	The Remuneration Committee will determine the maximum annual participation in the Annual Bonus Plan for each year, which will not exceed 150% of salary. The Remuneration Committee can determine that part of the bonus earned under the Annual Bonus Plan is provided as an award of shares under the DBP. The maximum value of deferred shares is 50% of the bonus earned. The main terms of these awards are: • minimum deferral period of three years; and • the participant's continued employment at the end of the deferral period unless he/she is a good leaver.
Proposed Policy	Normal maximum bonus opportunity as a percentage of salary is unchanged: • Group Chief Executive Officer – 150% • Group Chief Financial Officer – 125%
Operation in 2017/18	The annual bonus is paid in cash and deferred shares. Two thirds of the total bonus to be paid immediately in cash and one third deferred into shares for three years. Performance measures were: • Group PBT[1] – 55% • Group cash flow[2] – 15% • Personal objectives – 30% (See page 107 for the FY17/18 targets).
Proposed operation in 2018/19	No change in policy. Performance measures are: • Group PBT[3] – 55% • Group cash flow[2] – 15% • Personal objectives – 30%

Long Term Incentive Plan (LTIP)

Current Policy	LTIP maximum grant is 200% of salary p.a. Awards will vest at the end of three years subject to the achievement of: • EPS performance which ensures the achievement of the annual profit performance targeted by the Annual Bonus Plan flows through to long-term sustainable EPS growth; and • TSR performance of the Company compared to the FTSE 250 (excluding real estate and equity investment trusts) which measures the success of the implementation of the Company's strategy in delivering an above market level of return.
Proposed Policy	LTIP awards will be subject to a two year holding period post vesting.
Operation in 2017/18	2017 LTIP award: • No change in the LTIP grant levels and no change to the type of performance measures from the 2016 LTIP award. • Introduction of a new additional measure of Organic EPS[4]. • A reweighting of the performance measures to reflect the new EPS component as follows: – 30% Basic EPS – growth of 5% p.a. for 25% of this element of the award to vest with full vesting occurring for EPS growth of 12% p.a; – 30% Organic EPS[4] – growth of 12% p.a. for 25% of this element of the award to vest with full vesting occurring for EPS growth of 21% p.a; – 40% Comparative TSR performance – the relative TSR comparator group and the vesting schedules for this element are unchanged from the 2016 award.
Proposed operation in 2018/19	2018 LTIP award: • No change in the LTIP grant levels. • Performance measures for the 2018 LTIP will be: Comparative TSR (40%), Organic EPS[4] (30%) - growth of 12% p.a. for 25% of this element of the award to vest with full vesting occurring for EPS growth of 21% p.a., ROCE[5] (30%) – 10.5% p.a. for 25% of this element of the award to vest with full vesting at 11.5% p.a. See page 92 for rationale behind the change. • Straight line vesting to take place from 25% to 100% of the award. • Introduction of a new two year holding period after vesting for Executive Directors.

Shareholding Requirement

Current Policy	The Remuneration Committee has adopted formal shareholding guidelines that will encourage the Executive Directors to build up over a five-year period, and then subsequently hold, a shareholding equivalent to a percentage of base salary. • Group Chief Executive Officer – 200% of salary • Group Chief Financial Officer – 150% of salary
Proposed Policy	Increase to the minimum shareholding requirements. • Group Chief Executive Officer – 250% of salary • Group Chief Financial Officer – 200% of salary
Operation in 2017/18	• Group Chief Executive Officer – 200% of salary • Group Chief Financial Officer – 150% of salary
Proposed operation in 2018/19	• Group Chief Executive Officer – 250% of salary • Group Chief Financial Officer – 200% of salary

All Employee Share Plan

Current Policy	The Company operates a HMRC Share Incentive Plan.
Proposed Policy	No change.
Operation in 2017/18	Saga continued to operate the Share Incentive Plan for all employees in 2017, with a free share award of up to £300 in July 2017 to all eligible employees.
Proposed operation in 2018/19	Saga will continue to provide eligible employees the opportunity to participate in employee equity arrangements.

Chairman & NED Fees

Current Policy	The fees for Non-Executive Directors are set at broadly the median of the comparator group. In general the level of fee increase for the Non-Executive Directors will be set taking account of any change in responsibility and will take into account the general rise in salaries across the UK workforce.
Proposed Policy	No change.
Operation in 2017/18	2% rise (in line with Group employees) for the Chairman fee and Board fee (no change in Committee Chair fee or Senior Independent Director fee). Chairman and Non-Executive fees with effect from 1 June 2017 were: • Chairman fee: £286,110 • Board fee: £63,672 • Committee Chair fee: £10,000 • Senior Independent Director fee: £20,000
Proposed operation in 2018/19	No increase in the Board fee, Committee Chair fee or Senior Independent Director fee. Non-Executive fees will remain from 1 June 2018 as: • Chairman fee: £325,000[6] • Board fee: £63,672 • Committee Chair fee: £10,000 • Senior Independent Director fee: £20,000

Notes:
1 Measured as profit before tax excluding derivatives and the Ogden impact (see page 83 of the 2016/17 annual report)
2 Defined as net available cash generation
3 Defined as profit before tax excluding derivatives
4 Defined as post-tax profit excluding the effect of reserve releases divided by the fully diluted number of shares in issue
5 Defined as earnings before interest and tax divided by the carrying value of shareholders' equity plus long-term liabilities (debt)
6 This is the fee for the newly appointed Chairman who was appointed after a full market search. There are no other benefits apart from the fee

2018 LTIP performance conditions and targets

As part of the strategic business review conducted in the year, the Remuneration Committee considered the performance conditions and targets for the 2018 LTIP award to ensure that they aligned with, and supported, the strategic business plan.

Following the findings of this review, the following changes were proposed:

- The current weighting of the performance condition for comparative TSR be retained at 40% of the total award. Maintain the current comparator group (FTSE 250) and the vesting schedule.
- That the Organic EPS target be maintained at 30% of the award. This is the EPS element calculated on underlying EPS growth excluding the impact of reserve releases. We are also proposing that the target range for this metric be maintained at 12% - 21% cumulative growth from Threshold to Maximum.
- Removal of the Basic EPS metric in favour of replacing this with ROCE metric which we believe is more aligned with our strategy including heavy investments over the next few years as we invest in systems and ships, for which we expect superior returns. We propose that the payment range for this ROCE condition be 10.5% - 11.5% between Threshold and Maximum. The definition of ROCE is the ratio of earnings before interest and tax to shareholders' equity plus long-term liabilities (debt), expressed as a percentage. This is a measure of how well a company uses all its sources of long-term financing to generate a profit (before tax and interest).
- Implementation of a two year holding period for the LTIP grant in 2018 and thereafter.

Actual performance and remuneration outcomes for 2017/18

How we have performed in 2017/18

KPIs	Threshold	Target	Maximum	Actual	Percentage of target bonus earned/current potential LTIP vesting	Percentage of maximum bonus earned
Annual Bonus Plan						
Group PBT[1]	£185.7m	£191.3m	£195.1m	£185.8m	0%	0%
Group cash flow[2]	59.8%	65.8%	69.8%	73.4%	0%	0%
Personal objectives	See pages 107-108 for details of the measures and performance for the year.					
2015 LTIP Award as at year end 31 January 2018						
EPS growth (p.a.)	7%	–	12%	8.8%	52.0%	
TSR	Median	–	Upper quartile	Below median	0%	
2016 LTIP Award as at year end 31 January 2018						
EPS growth (p.a.)	5%	–	12%	4.5%	0%	
TSR	Median	–	Upper quartile	Below median	0%	
2017 LTIP Award as at year end 31 January 2018						
Basic EPS growth (p.a.)	5%	–	12%	5.1%	26.1%	
Organic EPS[3] growth (p.a.)	12%	–	21%	7.2%	0%	
TSR	Median	–	Upper quartile	Below median	0%	

Notes:
1 Defined as underlying profit before tax excluding derivatives, restructuring costs and the Ogden impact in the prior year, but after deducting debt issue costs. The actual amount shown is above Threshold; however, Executive Directors have offered to waive their bonus which has been accepted by the Committee (see Remuneration Committee Chair's Annual Statement on page 84)
2 Defined as net available cash generation. The actual amount show is above Maximum; however, Executive Directors have offered to waive their bonus which has been accepted by the Committee (see Remuneration Committee Chair's Annual Statement on page 84)
3 Defined as post-tax profit excluding the effect of reserve releases divided by the fully diluted number of shares in issue

The 2015 LTIP will vest on 29 June 2018. The indications for the LTIP performance in the table on page 92 are as at 31 January 2018. The relative TSR target for the 2015 LTIP is substantially (but not fully) completed as at 31 January 2018. The EPS target is complete.

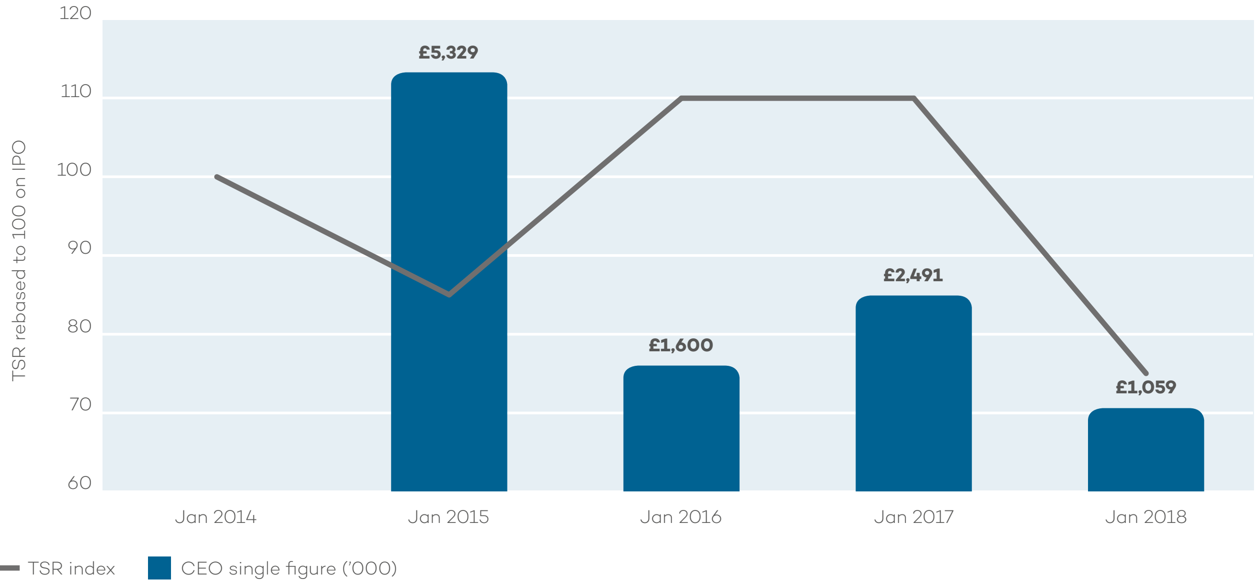
The Committee has included the current position for the 2016 and 2017 LTIP awards to allow shareholders to see the potential value in the long-term remuneration over the next three years.

The final level of performance and corresponding level of vesting of the LTIP awards will be dependent on the performance at the end of the relevant performance period.

See the Remuneration Committee Chair's Annual Statement on pages 83-87 for additional details on bonus and LTIP outcomes.

Long-term performance

The following chart shows the single figure of remuneration for the Group CEO since IPO compared to the Company's TSR over the same period. The chart demonstrates that if the one-off buyout award made to the Group CEO on recruitment is excluded, there has been strong correlation between returns to shareholders and the remuneration paid to our Group CEO.



Single total figure of remuneration for Executive Directors for the 2017/18 financial year

Executive Directors	Period	Salary £	Taxable benefits £	Bonus £	LTIP[1] £	Pension[2] £	Total £
Lance Batchelor	2017/18	689,785	32,346	0	233,270	103,468	1,058,869
(Group Chief Executive Officer)	2016/17	676,260	30,403	684,455	965,275	134,224	2,490,617
Jonathan Hill	2017/18	424,483	24,243	0	107,663	63,672	620,061
(Group Chief Financial Officer)	2016/17	416,160	24,185	351,003	0	80,876	872,224

Notes:

1 Values shown for 2017/18 represent the indicative vesting of the 2015 award. As per regulations, the value of the award was calculated based on quarterly average share price up to the reporting date. The three month average share price to 31/01/2018 was 146.8p. The performance period of the TSR element of the award is due to be tested in June 2018. The value in the table above assumes zero vesting under the TSR element based on performance to year end. For 2016/17 the final value of the 2014 LTIP award as at vesting date is shown which has been restated from the 2016/17 annual report. The share price at vesting date of 30/06/2017 was 209.4p

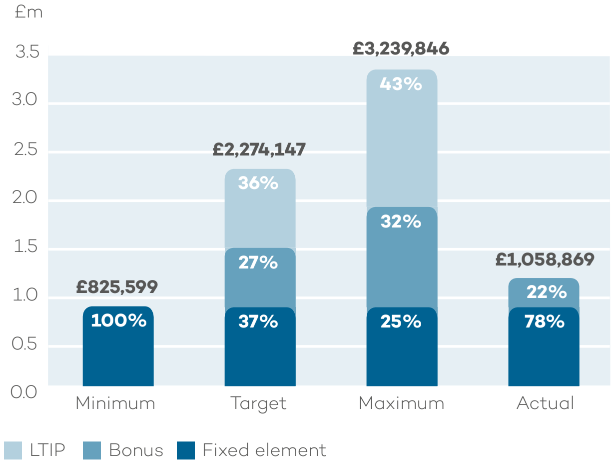
2 Reflects the value of the defined benefit pension accrual in the year and the pension cash supplement. Pension salary supplement paid to Executive Directors is the difference between the employer contribution into the Saga Pension Scheme and 15% of the Executive Director's base salary

For the full single figure table, please see page 106 in the Annual Report on Remuneration.

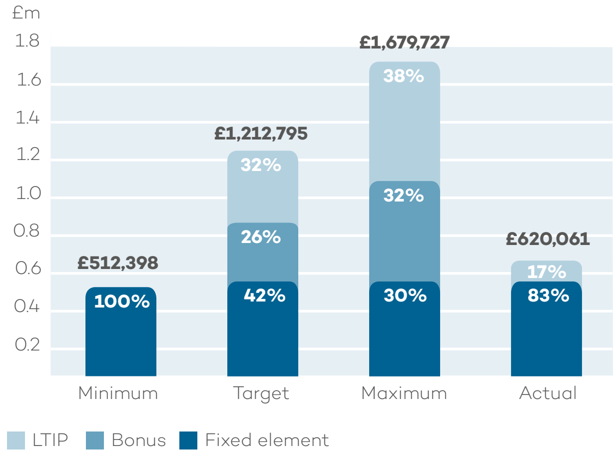
Illustration and application of current Remuneration Policy in 2017/18

The following charts show the 2017/18 actual remuneration against the current Policy levels of remuneration for the Executive Directors.

Group Chief Executive Officer (Lance Batchelor)



Group Chief Financial Officer (Jonathan Hill)



Under the Policy, the remuneration payable to each of the Executive Directors is based on salaries at the start of 2017/18, under three different performance scenarios: (i) Minimum; (ii) Target; and (iii) Maximum. The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual Bonus; and (iii) LTIP. In addition, for the purposes of comparison we have included the actual single figure remuneration paid in 2017/18. The following table outlines the elements included in the illustration above:

Element	Description	Minimum	Target	Maximum
Fixed	Salary, benefits and pension[1]	Included	Included	Included
Annual Bonus	Annual bonus (including deferred shares)	No annual variable	60% of maximum bonus	100% of maximum bonus[2]
LTIP	Award under the LTIP	No multiple year variable	60% of the maximum award	100% of the maximum award[3]

Notes:
1 Based on 2017/18 financial year salary, benefit payments and pension
2 Equating to 150% for the Group Chief Executive Officer and 125% for the Group Chief Financial Officer
3 Equating to 200% for the Group Chief Executive Officer and 150% for the Group Chief Financial Officer
4 Participation in the SIP has been excluded given the relative size of the opportunity levels

In accordance with the regulations share price growth has not been included for the Policy scenarios. In addition, dividend equivalents have not been added to deferred share bonus and LTIP share awards.

Pay at risk

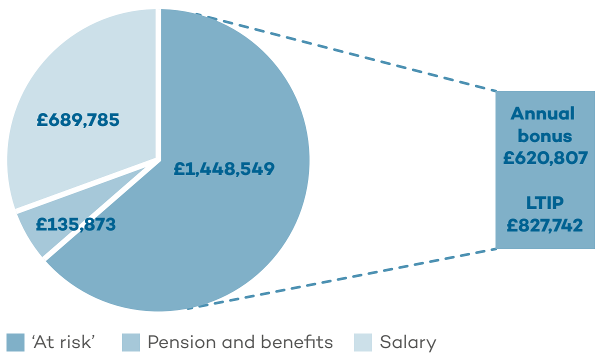
The charts below set out the elements of the remuneration provided under the Policy which remain 'at risk'. For example:

- payment is subject to continuing employment for a period (deferred shares and LTIP awards);
- performance conditions must still be satisfied (LTIP awards); or
- elements are subject to clawback or malus for a period, over which the Company can recover sums paid or withhold vesting.

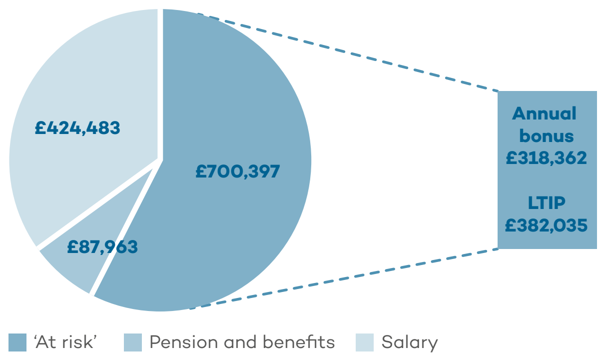
Figures have been calculated based on target performance (fixed elements plus 60% of maximum annual bonus and 60% of the maximum LTIP). The charts have been based on the same assumptions as set out on page 94 in 'Illustration and application of the current Remuneration Policy in 2017/18.

Malus is the adjustment of unvested awards in specific circumstances. Clawback is the recovery of vested awards or payments in specific circumstances.

Group Chief Executive Officer (Lance Batchelor)



Group Chief Financial Officer (Jonathan Hill)



Strategic Report

Governance

Financial Statements

Equity exposure of the Board (audited)

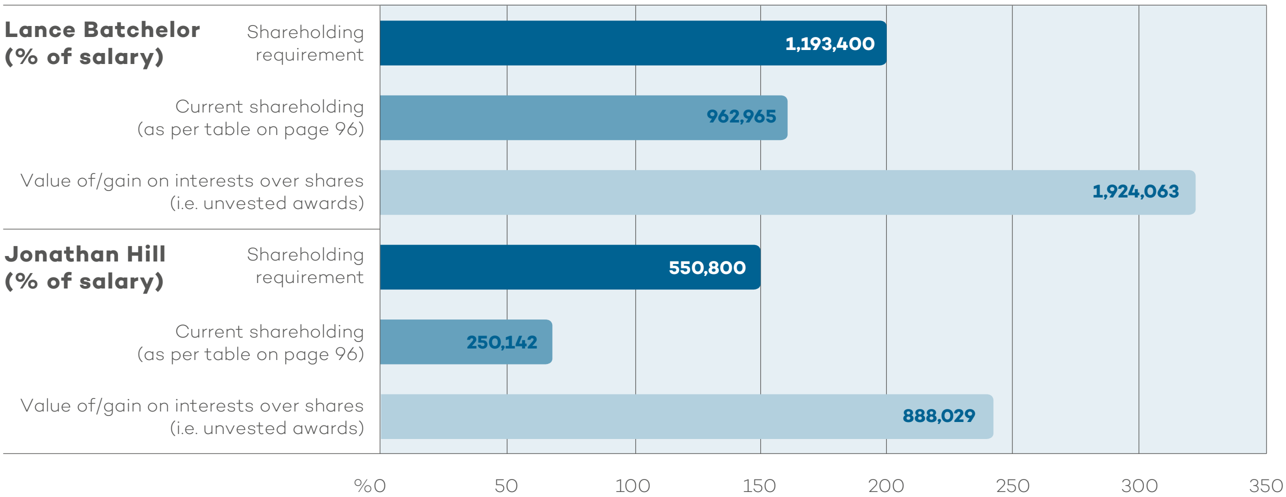
The following table and chart sets out all subsisting interests in the equity of the Company held by the Executive and Non-Executive Directors:

	Shares held directly			Other shares held			Options[4]			
Director	Shareholding requirement (% salary)[1]	Current shareholding (% salary)[2]	Beneficially owned[3]	Deferred shares not subject to performance conditions	LTIP interests subject to performance conditions	LTIP interests vested but not yet exercised	Vested	Unvested	Outstanding interests in the Share Incentive Plan	Shareholding requirement met?
Executive Directors										
Lance Batchelor[5]	200%	161%	161,169	338,891	1,924,063	460,972	540,540	1,621,622	1,933	No
Jonathan Hill[5]	150%	68%	139,749	108,097	888,029	–	–	–	2,296	No
Non-Executive Directors										
Andrew Goodsell[6]	–	–	5,379,805	150,882	–	137,841	–	–	–	n/a
Ray King	–	–	27,027	–	–	–	–	–	–	n/a
Bridget McIntyre	–	–	7,245	–	–	–	–	–	–	n/a
Orna NiChionna	–	–	27,690	–	–	–	–	–	–	n/a
Gareth Williams	–	–	32,433	–	–	–	–	–	–	n/a

Notes:
1 Shareholding requirements are those that were in existence throughout the course of the year and as at 31 January 2018
2 Values not calculated for Non-Executive Directors as they are not subject to shareholding requirements
3 Lance Batchelor – 31,458 shares owned by his spouse. Jonathan Hill – 89,954 shares owned by his spouse
4 Lance Batchelor – these represent IPO Options with an exercise price of £1.85. 540,540 options vested on 29 May 2017. 540,540 options vest on 29 May 2018, and the remaining 1,081,082 options vest on 29 May 2019
5 Since the year end, Lance Batchelor and Jonathan Hill have bought an additional 261 shares and 1,551 shares respectively through the SIP. There have been no other changes to the shareholdings above
6 Deferred bonus shares and LTIP in relation to his service as Executive Chairman

Executive Directors are required to build up their shareholdings over a reasonable amount of time, which would normally be five years, and then subsequently hold a shareholding equivalent to a percentage of base salary.

The number of shares of the Company in which current Executive Directors had a beneficial interest and details of long-term incentive interests as at 31 January 2018 are set out below.



Notes:

- The mid-market quoted share price of 115.6p as at 31 January 2018 has been used for the purpose of calculating the current shareholding and value of/gain on interests over shares as a percentage of salary
- Value of/gain on interests over shares comprises unvested 2015, 2016 and 2017 LTIP awards. The one-off IPO share option award for the Group Chief Executive Officer has an exercise price of 185.00p hence there was no gain on this award at 31 January 2018
- Unvested LTIP shares and options do not count towards satisfaction of the shareholding guidelines

Overall link to remuneration, equity and wealth of the Executive Directors

It is the Committee's view that it is important when considering the remuneration paid in the year under the single figure to take a holistic view of the Director's total wealth linked to the performance of the Company. In the Committee's opinion, the impact on the total wealth of the Director is more important than the single figure in any one year; this approach encourages Directors to take a long term view of the sustainable performance of the Company; this is critical in a cyclical business. The ability for the Directors to gain and lose is dependent on the share price performance of the Company at a level which is material to their total remuneration is a key facet of the Company's Remuneration Policy.

The following table sets out the single figure for 2017/18, the number of shares held by the Executive at the beginning and end of the financial year and the impact on the value of these shares taking the opening price and closing price for the year. Shares held includes those owned outright as well as nil-cost options currently held under incentive plans which have not yet vested.

	2017/18 Single Figure	Shares held at start of year	Shares held at end of year	Value of shares at start of year	Value of shares at end of year	Difference
Lance Batchelor	1,058,869	2,286,009	2,887,028	£4,224,545	£3,337,404	- £887,141
Jonathan Hill	620,061	780,865	1,138,171	£1,443,039	£1,315,726	- £127,313

The loss in value of the shareholding at the end of the year demonstrates that a meaningful amount of management's wealth is tied to the share price of the Company aligning management with the ownership experience of other shareholders during the period.

The link between our strategy for 2018/19 and the proposed new Remuneration Policy

The table below summarises the purpose of our new Remuneration Policy and its linkage to our corporate strategic objectives. The Group's strategy is laid out on pages 1-51 of the Strategic Report.

Remuneration policy	Becoming increasingly customer-centric	Growing our Retail Insurance and Travel businesses
Fixed remuneration (salary, benefits and pension) The Company provides competitive levels to attract and retain talent required to successfully deliver on our business strategy.	Delivered enhanced digital capabilities. Enhanced understanding of our High Affinity Customer base.	Delivered profit growth across all key insurance lines. Increased passengers in our tour operating business.
Annual bonus metrics Maximum annual bonus opportunity is 150% of salary: • two thirds of the total bonus to be paid immediately in cash; and • one third deferred into shares subject to a three year vesting period.	Targeting the growth in number of HACs, products they hold and customer loyalty will support the long-term growth of the business.	Profit before tax growth. An incentive to grow in the core markets is provided in the short term through the profit before tax (PBT) growth and cash flow targets in the Annual Bonus Plan.
LTIP metrics Maximum annual award is 200% of salary. Awards will vest at the end of three years subject to the achievement of: • stretching EPS conditions which provide alignment to our core strategic priorities; • relative total shareholder returns (TSR) performance of the Company which provides alignment to the success of our business in delivering value to our shareholders compared with relevant comparator companies; and • return on capital employed (ROCE) which tests for the quality of investments made by management.		Total shareholder returns, earnings per share and return on capital employed. The generation of cash and PBT growth targeted by the annual bonus will help enhance the value of the Company which will be measured through the success of the Company's TSR performance against its comparators (a performance condition under the LTIP). The ROCE element tests for the quality of earnings growth.
Minimum shareholding requirements • Group Chief Executive Officer 250% of salary. • Group Chief Financial Officer 200% of salary.		
All employee share plan		

	Strategic priorities		
	Investing for future growth	Maintaining our efficient operating model	Developing our people
	Started the build of new ship.	Started the investment in a new insurance platform.	Continued to build engagement levels. Continued to promote employee share ownership.
		Group cash flow. The success in maximising operational excellence will be reflected through increased profitability and cash flow.	Equity ownership. Encouraged through bonus deferral and shareholding requirements.
	An incentive to grow in these markets in the longer term is provided through both ROCE and EPS growth targeted by the LTIP.	The success in maximising operational excellence will be measured through the long-term EPS growth targeted by the LTIP. In addition, sustained value generation will be reflected in the share price of the Company which will be measured through the Company's TSR performance under the LTIP. The efficiency of use of capital will be reflected in the ROCE measure.	A good incentive will aid the retention of key people. Careful selection of measures ensures management are incentivised to deliver the Company strategy and be fairly rewarded for its successful implementation.
			Encouraged through the alignment of interests with shareholders by Executive Directors becoming locked-in shareholders.
			Encourages all employees to become shareholders in the Company providing a focus on growth and long-term shareholder value creation.

Fairness, diversity and wider workforce considerations

Saga is committed to creating an inclusive working environment and to rewarding our employees throughout the organisation in a fair manner. In making decisions on executive pay, the Remuneration Committee considers wider workforce remuneration and conditions. We believe that employees throughout the Company should be able to share in the success of the Company. To this end we have a Share Incentive Plan in place that employees can contribute to annually or monthly. We also issue free shares to employees on an annual basis as part of our overall approach to reward and recognition. We also believe that employees should have the opportunity to save for their future and to this end we recently carried out a full review of our pension arrangements following which we retained an open defined benefit scheme, though restructured to ensure affordability, and significantly enhanced defined contribution arrangements. We also introduced a monthly savings product to enable our employees to save through payroll.

As part of our commitment to fairness, we have introduced this section which sets out more information on our wider workforce pay conditions, our Group CEO to employee pay ratio, our gender pay statistics, and our diversity policy. Whilst we recognise there is much work still to do, we believe that transparency is an important first step towards making improvements in relation to these important issues.

Competitive pay and cascade of incentives

Organisational level	Number of employees[1]	Maximum bonus percentage of salary	Maximum proportion of bonus payable in cash	Maximum proportion of bonus deferrable in shares	Maximum LTIP award	SIP
Group Chief Executive Officer	1	150%	67%[2]	33%[2]	200%	✓
Group Chief Financial Officer	1	125%	67%[2]	33%[2]	150%	✓
Executive Team	6	100%	67%[2]	33%[2]	100%	✓
Directors[3]	14	60%	100%	0%	60%	✓
Senior leadership	56	40%	100%	0%	40%	✓
Other bonused employees	2,525	20%	100%	0%	n/a	✓
Non-bonused employees	1,666	n/a	n/a	n/a	n/a	✓

Notes:
1 Employees of the Group as at 31 January 2018
2 The maximum level of deferral of bonus in shares for these employees is 50%. Minimum deferral has been set at 33%
3 Director defined as a statutory executive director of any board of the Group other than Executive Directors of the Company or members of the Executive Team

Area and considerations

Informing the Committee on wider workforce

Each year, prior to reviewing the remuneration of the Executive Directors and the members of the Executive Team, the Remuneration Committee considers a report prepared by the Group HR Director detailing base pay and share scheme arrangements in place across the business. As part of its evolving remit the Remuneration Committee will in the future review all remuneration policies across the Group.

While the Company does not currently directly consult with employees as part of the process of reviewing executive pay and formulating the Remuneration Policy, the Company does receive an update and feedback from the broader employee population on an annual basis using an engagement survey which includes a number of questions relating to remuneration.

The Group aims to provide a remuneration package for all employees that is market competitive and operates the same core structure as for the Executive Directors. The Group operates employee share and variable pay plans, with pension provisions for all Executive Directors and employees. In addition, any salary increases for Executive Directors are expected to be generally in line with those for UK-based employees.

Communication with employees

The Group's employees are kept informed of its activities and performance through a series of Director-led staff briefings at key points during the year and the circulation of corporate announcements and other relevant information to staff which is supplemented by updates on the intranet. These briefings also serve as an informal forum for employees to ask questions about the Company.

Share schemes

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, all employees are invited to participate in the Company's SIP.

Equal opportunities

The Company is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion. All decisions relating to employment practices are objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. We are an organisation which uses everyone's talents and abilities, where diversity is valued. The Company remains supportive of the employment and advancement of disabled persons and ensures its promotion and recruitment practices are fair and objective. The Company encourages the continuous development and training of its employees and the provision of equal opportunities for the training and career development of all employees.

Retirement benefit provision

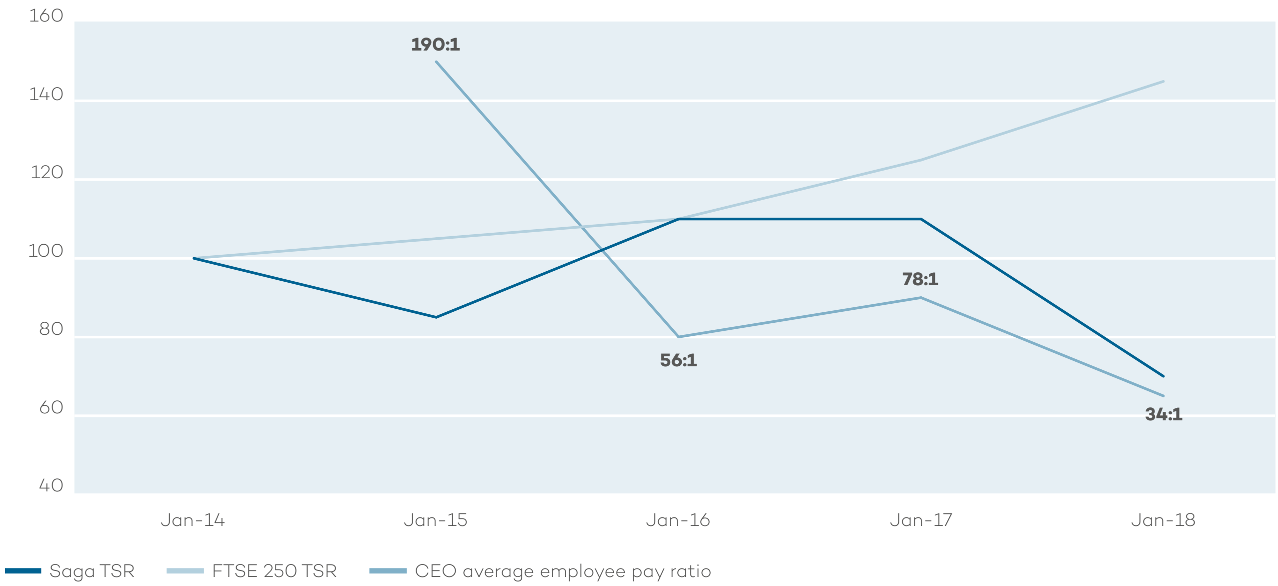
The Group provides retirement benefits for the majority of its employees. The Group's commitment with regard to pension contributions, is to provide employees with an option to either contribute to a defined benefit pension scheme after three years of employment, or to benefit from a defined contribution scheme with matched contributions up to a maximum of 10% of base salary dependent upon service. The defined contribution scheme is open to all employees in accordance with the new Government auto enrolment rules. The defined benefit scheme is open to new members after three years of service. Individuals in the defined benefit scheme can also flex up their contributions through a better accrual scheme that is age dependent.

Pay comparisons

CEO Ratio

- Our Group CEO to average employee pay ratio for 2017/18 is 34:1. This is measured as the ratio of CEO single figure pay realised in the year to average (mean) employee pay. To give context to this ratio, we have set out below a chart tracking the CEO to average employee pay ratio since 2014/15 alongside Saga's TSR performance since IPO.
- Our Group CEO to average Executive Committee pay ratio for 2017/18 is 2:1. This is measured as the ratio of CEO single figure pay realised in the year to average (mean) Executive Committee pay. To give context to this ratio, we have set out a table on page 102 tracking CEO pay and average Executive Committee pay over time.

The TSR graph shows the value of £100 invested in the Company's shares since listing compared with the FTSE 250 index. The graph shows the TSR generated by both the movement in share value and the reinvestment over the same period of dividend income. The Remuneration Committee considers that the FTSE 250 is the appropriate index because the Company has been a member of this since listing. This graph has been calculated in accordance with the regulations. It should be noted that the Company listed on 23 May 2014 and therefore only has a listed share price for the period from 23 May 2014 to 31 January 2018.



Employee & Executive Committee Ratios

The table below sets out the total remuneration delivered to the Group Chief Executive Officer using the methodology applied to the single total figure of remuneration. The Remuneration Committee believes that the remuneration payable in its earlier years as a private company to the Executive Chairman does not bear comparative value to that which has been and will be paid to the Group Chief Executive Officer, and has therefore chosen only to disclose remuneration for the Group Chief Executive Officer:

Group Chief Executive Officer	2017/18	2016/17	2015/16	2014/15
Total single figure	£1,058,869	£2,490,617[1]	£1,600,287	£5,328,702[2]
Annual bonus payment level achieved (percentage of maximum opportunity)	0%	67.5%	78.6%	80.7%
LTIP vesting level achieved (percentage of maximum opportunity)	26.0%[3]	65.6%	n/a	n/a
Ratio of single total remuneration figure shown to employees as a whole[4]				
• to employee mean	34:1	78:1	56:1	190:1
• to employee median	48:1	95:1	78:1	258:1
Ratio of single total remuneration figure shown to Executive Committee members				
• to member mean	2:1	4:1	2:1	3:1
• to member median	3:1	4:1	2:1	3:1

Notes:
1 For 2016/17 the final value of the 2014 LTIP award as at vesting date is shown which has been restated from the 2016/17 annual report. The share price at vesting date of 30/06/2017 was 209.4p
2 The Group Chief Executive Officer joined the Company on 24 March 2014. The remuneration shown is therefore not for the full financial year. Included within the single figure is a cash award of £4m with vesting based on continued employment. 25% immediately on the IPO, 25% on the first anniversary of the award and 50% on the second anniversary; this was part of the buyout on the recruitment of the Group Chief Executive Officer to compensate for awards lapsing on his ceasing employment with his former employer
3 Based on indicative vesting as at 31 January 2018. The award will vest on 29 June 2018. The final vesting outcome will be stated in the 2018/19 annual report
4 The fall in this ratio in 2017/18 is due to the forfeiture of bonus by the CEO and the relatively low payout on the LTIP. This reflects the fact that shareholders want Executive Directors to have a higher proportion of pay at risk and this is reflected in the volatility in the chart on page 101. The percentage change in CEO remuneration set out in the table below shows that year on year when the volatility of payouts from equity based awards is excluded that the changes in remuneration for the CEO and average employee are broadly in line. This demonstrates that the underlying compensation ratio is not increasing year on year

There was no long-term incentive plan or share option plan operated prior to listing.

Percentage change in Group CEO remuneration

The following table sets out the change in the remuneration paid to the Group Chief Executive Officer from 2016/17 to 2017/18 compared to the average percentage change for employees.

The Group Chief Executive Officer's remuneration disclosed in the table below has been calculated to take into account base salary, taxable benefits excluding pension, and annual bonus (including any amount deferred).

The employee pay has been calculated using the following elements: annual salary – base salary and standard monthly allowances; taxable benefits – car allowance and private medical insurance premiums; and annual bonus – Company bonus, management bonus, commission and incentive payments.

	Salary			Taxable benefits			Bonus		
	2017/18	2016/17	Percentage change	2017/18	2016/17	Percentage change	2017/18	2016/17	Percentage change
Group Chief Executive Officer	£689,785	£676,260	2.0%	£32,346	£30,403	6.4%	£0	£684,455	-100%
Average per employee	£28,064	£27,380	2.5%	£927	£714	29.8%	£1,813	£3,259	-44.4%

Gender pay

Background

Gender pay reporting legislation which came into force in April 2017 requires all UK employers with 250 or more employees to publish annual information illustrating pay differences between male and female employees. At Saga, we are passionate about equality, diversity and inclusion and are committed to addressing our gender pay gap. We therefore welcome the new legislation and have embraced this as an opportunity to drive our focus on diversity forward.

Definitions

Difference between gender pay and equal pay:

- A gender pay gap is the difference between average male and female pay across an organisation, regardless of nature of work. This means that gender distribution across grades will be a significant driver of any gap.
- An equal pay gap, on the other hand, refers to an unlawful pay gap between male and female employees carrying out the same roles with the same experience and skills.
- The 'gender pay gap' is a metric that measures the difference in average hourly pay across all men and women across an organisation, by reference to both the mean and median figures.
- The mean is an arithmetic average of a set of numbers. The mean calculation considers basic average pay/bonus across all of our employees.
- The median is the number in the middle of a set of ordered numbers. The median calculation focuses on those employees in the middle of pay/bonus ranges, thereby reducing the impact of our highest and lowest paid employees. The median calculation reduces the very significant impact of our most senior male employees, in order to provide a gender pay gap figure which is much more representative of the majority of our employees.

Gender distribution across salary quartiles

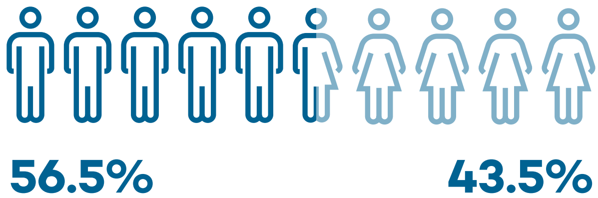
Saga's demographic (i.e. the gender makeup of our employee population across the grades) has a significant impact on our gender pay and bonus gaps. The charts below show the gender makeup of the Saga Group workforce in each of our four salary quartiles. If we lined up every employee from the lowest paid to the highest paid and split them into four equal sized groups this gives us our salary quartiles.

Lower quartile

Upper middle quartile

Lower middle quartile

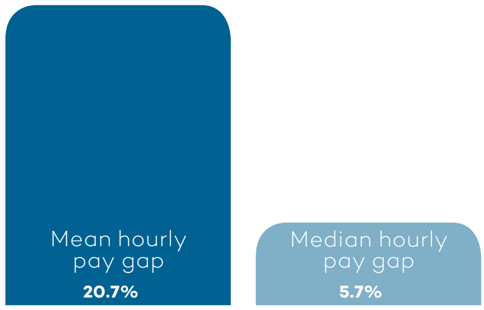
Upper quartile

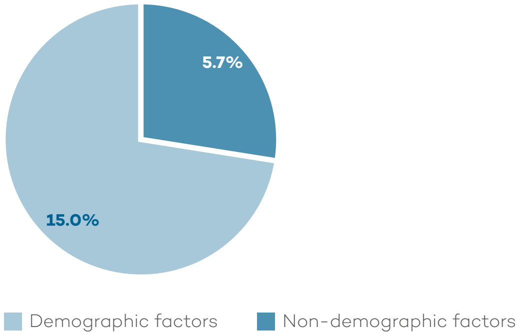


Overall, 56.4% of our employees across the Group are female (as at April 2017). The quartiles above show that we have proportionally more women at the lower end of the pay spectrum, and more men at the upper end. This gender imbalance is a key driver of our gender pay and bonus gaps shown below, and is something that we are working hard to address through our focus on the development and progression of talented individuals of all genders and backgrounds.

Saga Group gender pay gaps

This chart shows our mean and median hourly pay gaps, based on April 2017 payroll data.





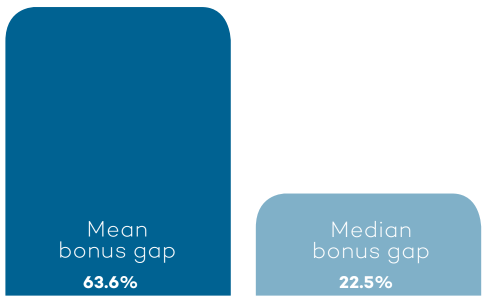
As shown above, our median hourly pay is much lower than the mean gaps. This is easily explained, as the median calculation reduces the significant impact of our most senior male employees in order to provide a gender pay gap figure which is much more representative of the majority of our employees. We wanted to fully understand the impact of Saga's gender demographic on our pay gaps, so we carried out further analysis which showed that around three quarters of our overall gap was due to demographic factors, i.e. having more male employees in senior roles. When looking at the gap amongst employees at similar levels, the gap significantly reduced to 5.7%. This is the same as our median gap, which reinforces the fact that our most senior male employees have a major impact on our figures. It is purely coincidental that our non-demographic percentage is the same as our median hourly pay gap.

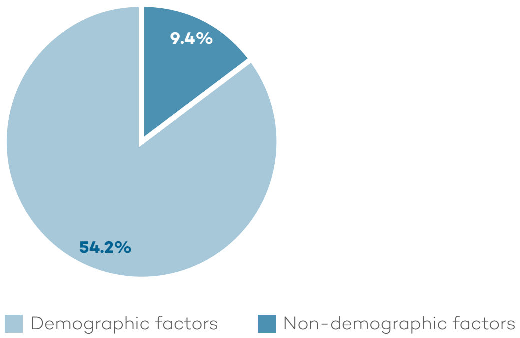
Our 5.7% median hourly pay gap is lower than the national average median pay gap of 18.4%* across all sectors, as well as the national averages for the financial and insurance activities sector (31%) and the retail trade sector (17%)**. However, we want to equalise gender representation across our grades and thereby reduce our gaps further, so will continue to proactively review and address pay and diversity on an ongoing basis.

* Based on Office for National Statistics Annual Survey of Hours and Earnings 2017
** Based on PwC's Women In Work Index 2018

Saga Group gender bonus gaps

This chart shows our mean and median bonus gaps, based on data from April 2016 to March 2017. As required by law, we have included annual bonus, commission and equity payments in these calculations.





While men and women are offered the same opportunities to receive bonuses, our bonus gaps are larger than our pay gaps. This is expected for a number of reasons and can be explained.

Demographic gaps in both pay and bonus are caused by an overrepresentation of male employees in our senior roles, which has the impact of increasing the average male salary across Saga (and therefore driving the overall pay gaps). The majority of our bonus rates, and share awards are also linked to a percentage of salary, and so our bonus gap is further increased by the presence of more men in the higher-paying upper quartiles. The buyout award made on IPO to the Group CEO as part of his recruitment to compensate for awards lapsing on his ceasing employment with his previous employer had a significant impact on our overall mean bonus gap because part of the deferred portion was paid during this gender pay reporting period.

In order to understand this gap further, we completed additional analysis on our bonus gap. As you can see from the chart on page 104 the vast majority of our mean bonus gap (63.6%) was caused by our gender imbalance, for the reasons outlined above.

Our non-demographic gap is something that we will review in more detail. However, this could be attributed to a number of factors that are not part of the calculation, for example performance, experience or our broad grading structure. We are proud to support and promote flexible working at Saga and as a result a large number of our employees work part-time. However, as we are required to use actual bonus amounts in our calculations (rather than full-time equivalent amounts), this was a key contributor to our 22.5% 'median' bonus gap figure, particularly as the majority of our employees who work part-time are female.

Proportion of employees receiving a bonus

Across all Saga Group employees, 68.3% of men and 75.9% of women received a bonus in the 12 months prior to April 2017. This difference is due to a number of factors, such as the inclusion of commission payments in the calculation and the fact that we have a higher proportion of female employees in those roles which are able to earn commission. Given the nature of both our bonus and commission schemes being linked directly to performance this will also contribute to the percentage of entitled employees receiving a bonus.

What we are doing to close the gap

We are passionate about providing a fair and transparent workplace which welcomes and celebrates difference. We are a diverse organisation and want to ensure that our workforce and employment practices reflect this.

We are committed to continually developing and improving our gender pay position. Our demographic analysis has shown that the key driver of our gaps is a lack of female representation in our most senior roles. This is therefore a crucial area of focus for us, and one which we are confident that the initiatives below will help to tackle:

- Review of our grading structure and introduction of published salary banding for all roles across Saga.
- The promotion of flexible working opportunities and part-time roles across all roles at Saga regardless of seniority.
- The provision of on-site childcare for head office employees.
- Targeted development programmes for high performers of all backgrounds, including mentorships, executive shadowing, internal and external training.

Diversity policy

Creating a thriving and diverse workforce is a high priority for our business. A diverse workforce means we are attracting the best people and that the business is benefiting from broad experience and a range of different backgrounds and skill sets.

Saga employs enthusiastic, committed and well-trained people. We recognise the benefits of diversity of skills, knowledge and independence, as well as gender, ethnicity and sexual orientation and are fully committed to an active equal opportunities policy covering recruitment and selection, training and development, performance reviews and promotion. All decisions relating to employment practices are objective, free from bias and based solely upon work criteria and individual merit.

See Strategic Report for more information on pages 1-51.

Single total figure of remuneration (audited)

Executive and Non-Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Director in respect of the 2017/18 financial year. Comparative figures for the 2016/17 financial year have also been provided. Figures provided have been calculated in accordance with the UK disclosure requirements: the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Schedule 8 to the Regulations).

	Period	Salary/ fees £	Taxable benefits[1] £	Bonus £	LTIP[2] £	Pension[3] £	Total £
Executive Directors							
Lance Batchelor (Group Chief Executive Officer)	2017/18	689,785	32,346	–	233,270	103,468	1,058,869
	2016/17	676,260	30,403	684,455	965,275	134,224	2,490,617
Jonathan Hill (Group Chief Financial Officer)	2017/18	424,483	24,243	–	107,663	63,672	620,061
	2016/17	416,160	24,185	351,003	–	80,876	872,224
Non-Executive Directors							
Andrew Goodsell[4] (Chairman)	2017/18	284,240	45,488	–	–	–	329,728
	2016/17	278,667	45,373	–	288,639	–	612,679
Philip Green[5] (Non-Executive Director)	2017/18	15,404	–	–	–	–	15,404
	2016/17	91,616	–	–	–	–	91,616
Ray King (Non-Executive Director, Audit Committee Chair)	2017/18	73,256	–	–	–	–	73,256
	2016/17	71,883	–	–	–	–	71,883
Bridget McIntyre[5] (Non-Executive Director)	2017/18	136,512	–	–	–	–	136,512
	2016/17	98,026	–	–	–	–	98,026
Orna NiChionna[6] (Senior Independent Non-Executive Director, Nomination and Risk Committee Chair)	2017/18	95,756	–	–	–	–	95,756
	2016/17	71,883	–	–	–	–	71,883
Gareth Williams (Non-Executive Director, Remuneration Committee Chair)	2017/18	73,256	–	–	–	–	73,256
	2016/17	71,883	–	–	–	–	71,883

Notes:
1 The types of benefits provided are set out in the Remuneration Policy section of the report
2 Values shown for 2017/18 represent the indicative vesting of the 2015 award. As per regulations, the value of the award was calculated based on quarterly average share price up to the reporting date. The three month average share price to 31/01/2018 was 146.8p. The performance period of the TSR element of the award is due to be tested in June 2018. The value in the table above assumes zero vesting under the TSR element based on performance to year end. For 2016/17 the final value of the 2014 LTIP award as at vesting date is shown which has been restated from the 2016/17 annual report. The share price at vesting date of 30/06/2017 was 209.4p
3 Reflects the value of the defined benefit pension accrual in the year and the pension cash supplement. Pension salary supplement paid to Executive Directors is the difference between the employer contribution into the Saga Pension Scheme and 15% of the Executive Director's base salary
4 Andrew Goodsell continues to receive taxable benefits which are legacy arrangements from his employment as Executive Chairman and comprise a leased car with associated fuel, and healthcare
5 Bridget McIntyre has been a member of the Board throughout the year, and is the Chair of a subsidiary company, Saga Services Limited, for which she receives £72,424 per annum
6 Orna NiChionna replaced Philip Green as Senior Independent Non-Executive Director and Nomination Committee Chair when he left the Board on 31 March 2017

Annual bonus

The details of the targets and outcomes against the targets for the annual bonus in respect of the 2017/18 financial year are shown in the table below.

Performance condition	Weighting	Threshold performance required	Target performance required	Maximum performance required	Actual performance	Annual bonus value for Threshold and Maximum performance (% of max)	Percentage of Target performance achieved	Percentage of Maximum performance achieved	Annual bonus value achieved (% of salary) Lance Batchelor	Annual bonus value achieved (% of salary) Jonathan Hill
Group PBT[1]	55%	£185.7m	£191.3m	£195.1m	£185.8m	20%-100%	97.1%	20.1%	16.6%	13.8%
Group cash flow[2]	15%	59.8%	65.8%	69.8%	73.4%	20%-100%	111.6%	100.0%	22.5%	18.7%
Personal objectives	30%	See below for details of the 2017/18 personal objectives and their achievement				0%-100%	50% achievement of personal objectives			
Total	100%								47.4%	39.5%
Total £ (calculated)[4]									£327,109	£167,748
Total £ (payable)									–	–

Notes:
1 Defined as underlying profit before tax excluding derivatives, restructuring costs and the Ogden impact in the prior year, but after deducting debt issue costs
2 Defined as net available cash generation as a percentage of underlying profit before tax as defined in note 1 above
3 Under the terms of the Annual Bonus Plan, 20% for each element (PBT and cash flow) is payable for achieving the Threshold performance increasing to 60% for target performance and 100% for achieving Maximum performance. Achievements between these points are calculated on a straight-line basis
4 These are the formulaic outcomes on PBT and cash as per the Bonus Plan. As stated in the Remuneration Committee Chair's Annual Statement, the Executive Directors waived their right to a bonus

The following table sets out the details of the personal objectives for the Group Chief Executive Officer and Group Chief Financial Officer:

Name	Weighting	Objective	Details	Achievement of objective
Lance Batchelor Group Chief Executive Officer	6%	High and Potential High Affinity Customers (HACs)	Increase product holdings of HACs by 2% by growing HACs or average product holding.	Not achieved
	6%	Launch Membership	Launch to all customers by 31/7/17 with 3 iconic and 3 other partners.	Achieved - 6%
	6%	Deliver new cross-sales in core products	Achieve 110,000 policies, Threshold 55,000 policies.	Partially achieved - 3%
	6%	Deliver pipeline sales for new ship	Achieve 8,000 advance registrations and 13,000 booked passengers.	Achieved - 6%
	6%	Group-wide employee engagement	Achieve 2% increase in sustainable employee engagement.	Not achieved
Jonathan Hill Group Chief Financial Officer	6%	High and Potential High Affinity Customers (HACs)	Increase product holdings of HACs by 2% by growing HACs or average product holding.	Not achieved
	6%	Launch Membership	Launch to all customers by 31/7/17 with 3 iconic and 3 other partners.	Achieved - 6%
	6%	Deliver new cross-sales in core products	Achieve 110,000 policies, Threshold 55,000 policies.	Partially achieved - 3%
	6%	Deliver efficiency savings	Achieve £10m of efficiency savings, Threshold £6m.	Achieved - 6%
	6%	Group-wide employee engagement	Achieve 2% increase in sustainable employee engagement.	Not achieved

The formulaic outcome under the bonus would have resulted in a bonus pay out of 47.4% and 39.5% of salary for the Group CEO and Group CFO respectively. The Executive Directors felt that, looking in a holistic way at the performance of the business and the experience of shareholders over the year, it would be appropriate to waive their 2017 bonuses. The Committee accepted the offer of the Executive Directors given its view that the formulaic outcome from the bonus did not entirely reflect both the underlying performance of the business over the period and the impact on near term profitability. See the Remuneration Committee Chair's Annual Statement on pages 83–87 for further information.

Long-term incentives vested in 2017/18 (audited)
The LTIP awards granted on 30 June 2014 vested on 30 June 2017. The final vesting percentage was 65.6%, compared to 50.0% estimated in the 2016/17 annual report. This increase represents the improvement in the relative TSR performance between 31 January 2017 and 30 June 2017. The TSR element resulted in Saga's ranking giving a TSR vesting of 31.2%.

The table confirms the vesting of the 2014 LTIP award for Lance Batchelor and Andrew Goodsell, who was awarded the LTIP as Executive Chairman in 2014 (prior to his change in role to Non-Executive Chairman). The final vesting percentage of 21.9% for Andrew Goodsell reflects the pro rating of his award up to the date he ceased to be an Executive Director on 30 June 2015.

Name	Award level (% of salary	Portion of EPS vesting	Portion of TSR vesting	Total vesting (as % of award)	LTIP value for single figure
Lance Batchelor	200%	100%	31.2%	65.6%	£965,275
Andrew Goodsell	150%	100%	31.2%	21.9%	£288,639

For the 2016/17 annual report, the average share price for the final quarter of 2016/17 of 192.5p was used to estimate the value of the award. Now that the share price on vesting as well as final number of awards vesting is known, the LTIP value above and in the single figure table have been restated. The value of the award has been calculated using the share price at vesting date of 209.4p.

No discretion has been exercised by the Committee in determining the level of LTIP vesting.

Long-term incentives vesting in respect of 2017/18 performance (audited)
The LTIP awards granted on 30 June 2015 have not yet vested but as performance was substantially completed during the 2017/18 financial year, an estimate of the vesting and the indicative value of the awards has been provided below. This figure will be updated in the 2018/19 Annual Report on Remuneration to reflect the final vesting outcome and the actual share price on the date of vesting (currently, in line with the regulations, the average share price for the last quarter of the financial year has been used).

The 2015 LTIP is equally weighted between EPS and relative TSR performance conditions. The EPS growth is measured to the 2017/18 year end and the three year TSR condition concluding on 29 June 2018.

The EPS over the period has grown by 8.8% p.a. against the range of 7-12% p.a. equating to a vesting of 52.0% of the EPS element.

The Company has assessed relative TSR performance against the FTSE 250 (excluding real estate and investment trusts) to 31 January 2018. Saga ranked below the median equating to an indicative vesting of 0%.

The table presents the indicative vesting of the 2015 LTIP award for Lance Batchelor and Jonathan Hill.

Name	Award level (% of salary)	Portion of EPS vesting	Estimate of TSR vesting[1]	Estimate of total vesting (as % of award)	Indicative LTIP value for single figure[2]
Lance Batchelor	200%	52.0%	0%	26.0%	£233,270
Jonathan Hill	150%	52.0%	0%	26.0%	£107,663

Notes:
1 Based on TSR performance against the peer group to 31 January 2018
2 Value based the Company's final quarter average share price to 31 January 2018 of 146.8p

Long-term incentives awarded in 2017/18 (audited)

The table below sets out the details of the long-term incentive awards granted in the 2017/18 financial year where vesting will be determined according to the achievement of performance conditions that will be tested in future reporting periods:

Name	Award type	Basis on which award made	Face value of award	Shares awarded	Percentage of award vesting at Threshold performance (%)	Maximum percentage of face value that could vest (%)	Performance conditions
Lance Batchelor	LTIP	Annual	£1,379,570	658,348	25%	100%	Relative TSR 40% and EPS 60%
Jonathan Hill	LTIP	Annual	£636,725	303,853	25%	100%	Relative TSR 40% and EPS 60%

The awards were granted on 1 May 2017; the face value is calculated with reference to the share price on 28 April 2017 of 209.55p. The performance conditions are set out on page 90 of the Summary Report. The awards will vest, subject to the level of performance achieved, on 1 May 2020.

Pension entitlements (audited)

Pension benefits were provided to Executive Directors through the Saga Pension Scheme (a defined benefit scheme) and a salary supplement.

Employer contributions were made into the Saga Pension Scheme until the Executive Directors opted to cease further accrual under the Scheme on 31 March 2016. The Executive Directors were also provided a pension salary supplement calculated as the difference of the employer contribution into the Saga Pension Scheme and 15% of each Executive Director's base salary.

The table below outlines the accrued pension amounts for the Executive Directors, the valuation of the defined benefit accruals made in the financial year calculated in accordance with the reporting guidelines and the pensions salary supplement, to derive a pensions benefit value for the single total figure of remuneration.

			Accrued pension		Single figure numbers		Extra information disclosed under 2013 Directors' Remuneration Regulations	
Name	Age at 31/01/2018	Pensionable service at 31/01/2018	01/02/2017	31/01/2018	Pension salary supplement[1]	Value x 20 over year[2]	Total pension benefits	Normal retirement age
Lance Batchelor	54	2 years, 9 months	£6,213	£6,213	£103,468	£0	£103,468	65
Jonathan Hill	49	1 year, 10 months	£3,156	£3,156	£63,672	£0	£63,672	65

Notes:

1 Pension salary supplement paid is the difference between the employer contribution into the Saga Pension Scheme and 15% of the Executive Director's base salary

2 Reflects the growth in the Executive Director's pension accrued in the Saga Pension Scheme over the year multiplied by 20, less the contributions by the Executive Director in the year

The maximum employer pension contribution or salary supplement in lieu of pension as per the Remuneration Policy is 20% of salary. The Executive Directors can choose to opt out of the pension scheme and receive a cash allowance on their full base salary.

Having opted out of further accruals under the Saga Pension Scheme, Lance Batchelor and Jonathan Hill will receive a 15% salary supplement in lieu of pension for the 2018/19 financial year.

Payments to past Directors/payments for loss of office (audited)
There were no payments to past Directors or payments for loss of office during the financial year.

Directors' share interests
Directors' share interests are discussed in the Summary Report on page 96.

Performance graph and table
The TSR performance graph and single figure of remuneration for the Group CEO are set out in the section of the report headed Fairness, diversity and wider workforce considerations on page 101.

Percentage change in remuneration of Director undertaking the role of Chief Executive Officer
This information is set out in the section of the report headed Fairness, diversity and wider workforce considerations on page 102.

Fees retained for external non-executive directorships
Executive Directors may hold positions in other companies as Non-Executive Directors and retain the fees.

Lance Batchelor is a trustee of the charity White Ensign Association and is a Trustee of the National Gallery. He does not receive a fee for either position. Jonathan Hill holds no external directorships.

Implementation of policy
Implementation of policy is discussed in the Summary Report on page 88.

Relative importance of the spend on pay
The table below sets out the relative importance of spend on pay in the 2017/18 financial year and 2016/17 financial year compared with other disbursements. All figures provided are taken from the relevant company accounts.

	Disbursements from profit in 2017/18 financial year (£m)	Disbursements from profit in 2016/17 financial year (£m)	Percentage change
Profit distributed by way of dividend	98.5	86.1	14.4%
Total tax contributions[1]	75.1	74.9	0.3%
Overall spend on pay including Executive Directors	130.5	131.2	-0.5%

Note:
1 Total tax contributions include corporation tax, national insurance contributions, VAT and Air Passenger Duty

Shareholder voting at general meeting

The Directors' Remuneration Policy was put to a binding vote at the AGM on 23 June 2015. The Remuneration Committee Chair's Annual Statement and the Annual Report on Remuneration were subject to an advisory vote at the AGM on 22 June 2017. Below we outline the voting outcomes in respect of approving the Directors' Remuneration Report and approving the Directors' Remuneration Policy. Based on the positive level of support received from shareholders both on the Policy and its implementation the Committee is comfortable that only minor changes were required in respect of the new Remuneration Policy which will be subject to shareholder approval at the AGM of the Company on 21 June 2018.

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Votes cast in total	% of issued share capital voted	Votes withheld
To approve the Directors' Remuneration Report	701,600,314	94.46	41,146,035	5.54	744,835,005	66.62	2,088,656
To approve the Directors' Remuneration Policy	824,261,354	99.63	3,031,154	0.37	827,292,508	74.00	1,631,155

Advisers to the Remuneration Committee

Following a selection process carried out by the Board prior to the IPO of the Company, the Committee has engaged the services of PwC as independent remuneration adviser.

During the financial year, PwC advised the Remuneration Committee on all aspects of the Remuneration Policy for Executive Directors and members of the Executive Team. PwC also provided the Company with tax and assurance work during the year. The Remuneration Committee reviewed the nature of the services provided and was satisfied that no conflict of interest exists or existed in the provision of these services.

PwC is a member of the Remuneration Consultants Group and the voluntary code of conduct of that body is designed to ensure objective and independent advice is given to remuneration committees. Fixed fees of £51,250 (2017: £45,000) were provided to PwC during the year in respect of remuneration advice received.

This section of the Report sets out the Company's proposed new policy on remuneration for Executive and Non-Executive Directors, to be approved by shareholders at the AGM on 21 June 2018. The structure of incentives remain largely unchanged from that approved by shareholders in 2015, but include a number of key enhancements. Once approved, the Policy may operate for up to three years.

The Remuneration Policy has been prepared in accordance with the requirements of the UK's Companies Act 2006 (the Act) and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations), the Listing Rules of the UK Listing Authority and the UK Corporate Governance Code.

As previously, the Committee has built in a degree of flexibility to ensure the practical application of the Policy over this period. Where such discretion is reserved, the extent to which it may be applied is described. The Remuneration Policy remains to attract, retain and motivate its leaders and ensure they are focused on delivering business priorities within a framework designed to promote the long-term success of Saga, aligned with shareholder interests.

Changes to the Policy

Element	Changes to Policy	Rationale
Pension	Reduce maximum from 20% to 15% of salary. Maximum for new joiners reduced to 10% of salary.	Unchanged for current Executive Directors. Changes bring benefits into line with wider employees for new Executive Directors. CEO: 15% of salary; CFO: 15% of salary.
Annual bonus	Formally introduce minimum level of deferral of one third of the bonus.	The current Policy allows for deferral of up to 50% of the bonus with no minimum level of deferral. This change ensures that the current operation of one third deferral remains in place for the duration of the proposed Policy.
LTIP	Introduction of two year post-vesting holding period.	Whilst the current Policy contains discretion to apply a two year post-vesting holding period, this has not been applied for past awards. To ensure greater and sustained alignment of incentives to shareholder value a two year holding period will now be applied to future LTIP grants.
Shareholding requirements	Increase shareholding requirements for executives by 50% of salary: CEO: 250% of salary. CFO: 200% of salary.	The Committee recognises the importance of aligning the long-term interests of Executive Directors with shareholders.
Recruitment policy	Removal of provision of sign-on compensation in exceptional circumstances.	This change ensures that the Policy continues to be in line with corporate governance best practice.

Proposed Remuneration Policy table

Element and link to strategy	Operation	Maximum	Performance conditions and recovery provisions
Salary			
Provides a base level of remuneration to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Group's strategy.	An Executive Director's basic salary is set on appointment and reviewed annually or when there is a change in position or responsibility. When determining an appropriate level of salary, the Committee considers: • pay increases to other employees; • remuneration practices within the Group; • any change in scope, role and responsibilities; • the general performance of the Group and each individual; • the experience of the relevant Director; and • the economic environment. Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.	The Committee ensures that maximum salary levels are positioned in line with companies of a similar size to Saga and validated against an appropriate comparator group, so that they are competitive against the market. The Committee intends to review the comparators each year and will add or remove companies from the groups as it considers appropriate. In general salary increases for Executive Directors will be in line with the increase for employees. However, larger increases may be offered if there is a material change in the size and responsibilities of the role (which covers significant changes in Group size and/or complexity). The Company will set out in the section headed Implementation of Remuneration Policy, in the following financial year, the salaries for that year for each of the Executive Directors.	A broad assessment of individual and business performance is used as part of the salary review. No recovery provisions apply.
Pension			
Provides a minimum level of benefits to support a low fixed cost and a performance-based Remuneration Policy.	The Company provides a pension contribution allowance in line with practice relative to its comparators to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Group's strategy. This allowance will be a non-consolidated allowance and will not impact any incentive calculations.	The maximum value of the pension contribution allowance is 15% of basic salary p.a. for current Executive Directors and limited to 10% of salary for newly appointed Executive Directors. The Company will set out in the section headed Implementation of Remuneration Policy, in the following financial year the pension contributions for that year for each of the Executive Directors.	No performance or recovery provisions applicable.

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Element and link to strategy	Operation	Maximum	Performance conditions and recovery provisions
Benefits			
Provides a minimum level of benefits to support a low fixed cost and a performance-based Remuneration Policy.	Benefits include family private health cover, death in service life assurance, a car allowance, subsistence expenses and staff discounts in line with other employees. The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Additional benefits which are available to other employees on broadly similar terms may therefore be offered such as relocation allowances on recruitment.	The maximum is the cost of providing the relevant benefits set out adjacent.	No performance or recovery provisions applicable.
Annual Bonus			
The Annual Bonus Plan provides a significant incentive to the Executive Directors linked to achievement in delivering goals that are closely aligned with the Company's strategy and the creation of value for shareholders. In particular, the Annual Bonus Plan supports the Company's objectives allowing the setting of annual targets based on the businesses' strategic objectives at that time, meaning that a wider range of performance metrics can be used that are relevant and achievable.	The Remuneration Committee will determine the maximum annual participation in the Annual Bonus Plan for each year, which will not exceed 150% of salary. The Company will set out in the section headed Implementation of Remuneration Policy, in the following financial year, the nature of the targets and their weighting for each year. Details of the performance conditions, targets and their level of satisfaction for the year being reported on will be set out in the Annual Report on Remuneration. The Remuneration Committee can determine that part of the bonus earned under the Annual Bonus Plan is provided as an award of shares under the DBP. The maximum value of deferred shares is 50% of the bonus earned and the minimum will be one third of the bonus earned. The main terms of these awards are: • minimum deferral period of three years; • the participant's continued employment at the end of the deferral period unless he/she is a good leaver. The Remuneration Committee may award dividend equivalents on those shares to Plan participants to the extent that they vest. The Remuneration Committee has the discretion to apply a holding period of two years post vesting for deferred bonus shares.	The Remuneration Committee will determine the maximum annual participation in the Annual Bonus Plan for each year, which will not exceed 150% of salary. Percentage of bonus maximum earned for levels of performance: • Threshold 20%; • Target 60%; • Maximum 100%.	The Annual Bonus Plan is based on a mix of financial and strategic/operational conditions and is measured over a period of one financial year. The financial measures will account for no less than 50% of the bonus opportunity. The Remuneration Committee retains discretion in exceptional circumstances to change performance measures and targets and the weightings attached to performance measures part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate. Discretion may also be exercised in cases where the Remuneration Committee believes that the bonus outcome is not a fair and accurate reflection of business performance. The exercise of this discretion may result in a downward or upward movement in the amount of bonus earned resulting from the application of the performance measures. Any adjustments or discretion applied by the Remuneration Committee will be fully disclosed in the following year's Remuneration Report. The Remuneration Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the annual bonus, disclosing precise targets for the Annual Bonus Plan in advance would not be in shareholder interests. Actual targets, performance achieved and awards made will be published at the end of the performance periods so shareholders can fully assess the basis for any payouts under the annual bonus. Both the Annual Bonus Plan and the DBP contain malus provisions. In addition, the Annual Bonus Plan contains clawback provisions.

Element and link to strategy	Operation	Maximum	Performance conditions and recovery provisions
LTIP			
Awards are designed to incentivise the Executive Directors over the longer-term to successfully implement the Company's strategy.	Awards are granted annually to Executive Directors in the form of a conditional share award or nil cost option. These will vest at the end of a three year period subject to: • the Executive Director's continued employment at the date of vesting; and • satisfaction of the performance conditions. A two year holding period will apply following the three year vesting period for LTIP awards granted to the Executive Directors. Upon vesting, sufficient shares can be sold to pay tax. The Remuneration Committee may award dividend equivalents on awards to the extent that these vest.	Maximum value of 200% of salary p.a. based on the market value at the date of grant set in accordance with the rules of the Plan. 25% of the award will vest for Threshold performance. 100% of the award will vest for maximum performance. Straight-line vesting between these points.	Awards vest based on performance against stretching targets, measured over a three year performance period. The Committee will review and set weightings and targets before each grant to ensure they remain appropriate. The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate. No material change will be made to the type of performance conditions without prior shareholder consultation. The Remuneration Committee retains discretion in exceptional circumstances to change performance measures and targets and the weightings attached to performance measures part-way through a performance period if there is a significant and material event which causes the Remuneration Committee to believe the original measures, weightings and targets are no longer appropriate. Discretion may also be exercised in cases where the Remuneration Committee believes that the outcome is not a fair and accurate reflection of business performance. The exercise of this discretion may result in a downward or upward movement in the amount of the LTIP vesting resulting from the application of the performance measures. Details of the performance conditions for grants made in the year will be set out in the Annual Report on Remuneration and for future grants in the section headed Implementation of Remuneration Policy, in the future financial year. The LTIP contains clawback and malus provisions.

Minimum shareholding requirement

The Committee has adopted formal shareholding requirements that will encourage the Executive Directors to build up over a five year period and subsequently hold a shareholding equivalent to a percentage of base salary. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned.

In addition, Executive Directors will be required to retain 50% of the post-tax amount of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained. The following table sets out the minimum shareholding requirements:

Role	Shareholding requirement (percentage of salary)
Group Chief Executive Officer	250%
Other Executive Directors	200%

The Committee retains the discretion to increase the shareholding requirements.

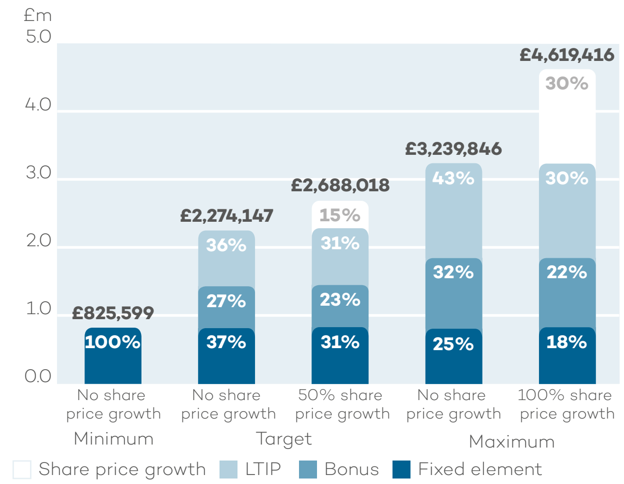
Element and link to strategy	Operation	Maximum	Performance conditions and recovery provisions
Non-Executive Director fees			
Provides a level of fees to support recruitment and retention of Non-Executive Directors with the necessary experience to advise and assist with establishing and monitoring the Group's strategic objectives.	The Board is responsible for setting the remuneration of the Non-Executive Directors. The Remuneration Committee is responsible for setting the Chairman's fees. Non-Executive Directors are paid an annual fee and additional fees for chairmanship of committees. The Company retains the flexibility to pay fees for the membership of committees. The Chairman does not receive any additional fees for membership of committees. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. Non-Executive Directors and the Chairman do not participate in any variable remuneration or benefits arrangements.	The fees for Non-Executive Directors and the Chairman are broadly set at a competitive level against the comparator group. In general the level of fee increase for the Non-Executive Directors and the Chairman will be set taking account of any change in responsibility and will take into account the general rise in salaries across the UK workforce. The aggregate fee for the Non-Executive Directors and the Chairman will not exceed £2,000,000. The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chairman and may settle any tax incurred in relation to these.	No performance or recovery provisions applicable.

Illustration of application of Remuneration Policy

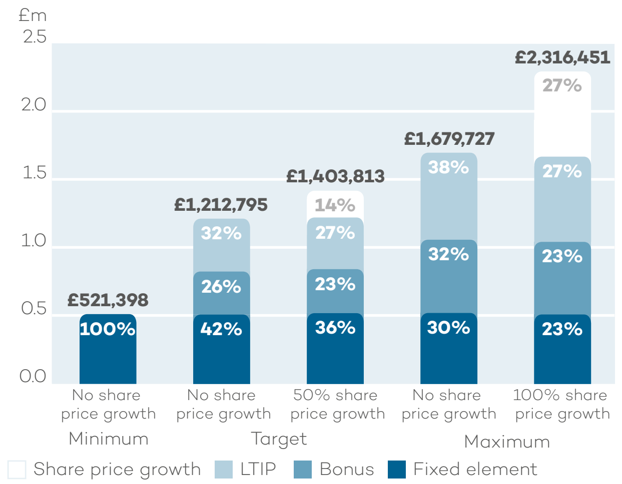
The charts below show an estimate of the remuneration that could be received by Executive Directors under the proposed new Policy set out in this Report.

Assumptions used in determining the level of pay out under given scenarios are as follows:

Group Chief Executive Officer (Lance Batchelor)



Group Chief Financial Officer (Jonathan Hill)



Element	Minimum	On-Target	Maximum
Fixed Elements	Base salary for FY 2018 Benefits paid for FY 2017 Pension in line with Policy at 15% of salary		
Annual Bonus	Nil	60% of Maximum being 90% of salary for the Group CEO and 75% of salary for the Group CFO.	100% of the Maximum being 150% of salary for the Group CEO and 125% of salary for the Group CFO.
LTIP	Nil	60% of Maximum being 120% of salary for the Group CEO and 90% of salary for the Group CFO. For the additional scenario, a 50% share price growth assumption over 3 years has been shown.	100% of the Maximum being 200% of salary for the Group CEO and 150% of salary for the Group CFO. For the additional scenario, a 100% share price growth assumption over 3 years has been shown.

Scenario charts show "Minimum", "Target" and "Maximum" scenarios in accordance with the regulations with no share price growth assumed. For illustrative purposes additional scenarios are shown with various share price growth assumptions for the vesting of the LTIP. Dividend equivalents have not been added to deferred share bonus and LTIP share awards for any scenario.

Discretion within the Directors' Remuneration Policy

The Committee has discretion in several areas of Policy as set out in this Report. The Committee may also exercise operational and administrative discretions under relevant plan rules as set out in those rules. In addition, the Committee has the discretion to amend Remuneration Policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

Malus and clawback

Malus is the adjustment of the annual bonus payments or unvested LTIP awards because of the occurrence of one or more circumstances listed below. The adjustment may result in the value being reduced to nil.

Clawback is the recovery of payments made under the annual bonus or vested LTIP awards as a result of the occurrence of one or more circumstances listed below.

Clawback may apply to all or part of a participant's payment under the annual bonus or LTIP award and may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards or bonuses.

The circumstances in which malus and clawback could apply are as follows:

- the discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company;
- the assessment of any performance condition or condition in respect of an annual bonus payment or LTIP award was based on error, or inaccurate or misleading information;
- the discovery that any information used to determine the annual bonus payment or LTIP award was based on error, or inaccurate or misleading information;
- action or conduct of a participant which amounts to fraud or gross misconduct; or
- events or the behaviour of a participant have led to the censure of a Group company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group company provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to the participant.

	Annual Bonus (cash)	Annual Bonus (deferred shares)	LTIP
Malus	Up to the date of the cash payment.	To the end of the 3 year vesting period.	To the end of the 3 year vesting period.
Clawback	2 years post the date of any cash payment.	n/a	2 years post vesting.

The Committee believes that the rules of the Plans provide sufficient powers to enforce malus and clawback where required.

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Loss of office policy

When considering compensation for loss of office, the Committee will always seek to minimise the cost to the Company whilst applying the following philosophy:

Remuneration element	Treatment on cessation of employment
General	The Committee will honour Executive Directors' contractual entitlements. Service contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. There are no contractual arrangements that would guarantee a pension with limited, or no abatement on, severance or early retirement. There is no agreement between the Company and its Directors or employees, providing for compensation for loss of office or employment that occurs because of a takeover bid. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.
Salary, benefits and pension	These will be paid over the notice period. The Company has discretion to make a lump sum payment in lieu.

	Good leaver reason	Other reason	Discretion
Cash bonus	Performance conditions will be measured at the bonus measurement date. Bonus will normally be pro-rated for the period worked during the financial year.	No bonus payable for year of cessation.	The Committee has the following elements of discretion: • to determine that an Executive Director is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; and • to determine whether to pro-rate the bonus to time. The Remuneration Committee's normal policy is that it will pro-rate bonus for time. It is the Remuneration Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders.

	Good leaver reason	Other reason	Discretion
Deferred share awards	All subsisting deferred share awards will vest.	Lapse of any unvested deferred share awards.	The Committee has the following elements of discretion: • to determine that an Executive Director is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; • to vest deferred shares at the end of the original deferral period or at the date of cessation. The Remuneration Committee will make this determination depending on the type of good leaver reason resulting in the cessation; and • to determine whether to pro-rate the maximum number of shares to the time from the date of grant to the date of cessation. The Remuneration Committee's normal policy is that it will not pro-rate awards for time. The Remuneration Committee will determine whether or not to pro-rate based on the circumstances of the Executive Directors' departure.

	Good leaver reason	Other reason	Discretion
LTIP	Pro-rated to time and performance in respect of each subsisting LTIP award.	Lapse of any unvested LTIP awards.	The Committee has the following elements of discretion: • to determine that an Executive Director is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; • to measure performance over the original performance period or at the date of cessation. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation; • to determine to vest shares at the end of the original performance period or at the date of cessation. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation; • to determine whether to apply the holding period post cessation at all, in part or in full; and • to determine whether to pro-rate the maximum number of shares to the time from the date of grant to the date of cessation. The Remuneration Committee's normal policy is that it will pro-rate awards for time. It is the Remuneration Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders.
Other contractual obligations	There are no other contractual provisions other than those set out above agreed prior to 27 June 2012.		

The following definition of leavers will apply to both the Annual Bonus and the LTIP. A good leaver reason is defined as cessation in the following circumstances:

- death;
- ill-health;
- injury or disability;
- retirement;
- employing company ceasing to be a Group company;
- transfer of employment to a company which is not a Group company; and
- at the discretion of the Committee (as described above).

Cessation of employment in circumstances other than those set out above is cessation for other reasons.

Change of control policy

Name of Incentive Plan	Change of control	Discretion
Cash awards	Pro-rated to time and performance to the date of the change of control.	The Committee has discretion regarding whether to pro-rate the bonus to time. The Committee's normal policy is that it will pro-rate the bonus for time. It is the Committee's intention to use its discretion to not pro-rate in circumstances only where there is an appropriate business case which will be explained in full to shareholders.
Deferred share awards	Subsisting deferred share awards will vest on a change of control.	The Committee has discretion regarding whether to pro-rate the award to time. The Committee's normal policy is that it will not pro-rate awards for time. The Committee will make this determination depending on the circumstances of the change of control.
LTIP	The number of shares subject to subsisting LTIP awards will vest on a change of control, pro-rated to time and performance.	The Committee has discretion regarding whether to pro-rate the LTIP awards to time. The Committee's normal policy is that it will pro-rate the LTIP awards for time. It is the Committee's intention to use its discretion to not pro-rate in circumstances only where there is an appropriate business case which will be explained in full to shareholders.

Recruitment and promotion policy

The Company's principle is that the remuneration of any new recruit will be assessed in line with the same principles as for the Executive Directors, as set out in the Remuneration Policy table. The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure a preferred candidate with the appropriate calibre and experience needed for the role. In setting the remuneration for new recruits, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments as well as giving consideration for the appropriateness of any performance measures associated with an award. The Company's detailed policy when setting remuneration for the appointment of new Directors is summarised in the table below:

Remuneration element	Recruitment policy
Salary, benefits and pension	Salary and benefits will be set in line with the policy for existing Executive Directors. Maximum pension contribution will be 10% of salary.
Annual bonus	Maximum annual participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 150% of salary.
LTIP	Maximum annual participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 200% of salary.
Maximum variable remuneration	The maximum variable remuneration which may be granted is 350% of salary (excluding the value of any buy-outs).
"Buy Out" of incentives forfeited on cessation of employment	Where the Committee determines that the individual circumstances of recruitment justify the provision of a buyout, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following: • the proportion of the performance period completed on the date of the Executive Director's cessation of employment; • the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and • any other terms and conditions having a material effect on their value (lapsed value); The Committee may then grant up to the same value as the lapsed value, where possible, under the Company's incentive plans. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.
Relocation policies	In instances where the new Executive Director is required to relocate or spend significant time away from their normal residence, the Company may provide one-off compensation to reflect the cost of relocation for the Executive Director. The level of the relocation package will be assessed on a case by case basis but will take into consideration any cost of living differences/housing allowance and schooling.

Where an existing employee is promoted to the Board, the policy set out above would apply from the date of promotion but there would be no retrospective application of the policy in relation to subsisting incentive awards or remuneration arrangements. Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the ongoing remuneration of the person concerned. These would be disclosed to shareholders in the remuneration report for the relevant financial year.

The Company's policy when setting fees for the appointment of new Non-Executive Directors is to apply the policy which applies to current Non-Executive Directors.

Service contracts and letters of appointments

The Remuneration Committee's policy for setting notice periods is that a six month period will apply for Executive Directors unless the Remuneration Committee determines that 12 months would be more appropriate in the circumstances. The Remuneration Committee may in exceptional circumstances arising on recruitment, allow a longer period, which would in any event reduce to either six or 12 months following the first year of employment. The Non-Executive Directors of the Company do not have service contracts. The Non-Executive Directors are appointed by letters of appointment. Each independent Non-Executive Director's term of office runs for a three year period.

The Company follows the UK Corporate Governance Code's recommendation that all directors of FTSE 350 companies be subject to annual re-appointment by shareholders.

Executive Directors

Name	Date appointed	Nature of contract	Notice periods From Company	Notice periods From Director	Compensation provisions for early termination
Lance Batchelor	2 May 2014	Rolling	6 months	6 months	None
Jonathan Hill	7 April 2015	Rolling	6 months	6 months	None

Non-executive Directors

Name	Original appointment	Appointment of current term	Arrangement	Notice period/ unexpired term
Andrew Goodsell	05/12/2003 (transitioned to Non-Executive 01/07/2015)	05/07/2015	Letter of appointment	3 months/ 3 months
Ray King	29/05/2014	29/05/2017	Letter of appointment	3 months/ 26 months
Bridget McIntyre	01/01/2016	plc 01/01/2016 SSL 01/09/2016	Letter of appointment	3 months/ 26 months (plc) 3 months/17 months (SSL)
Orna NiChionna	29/05/2014	29/05/2017	Letter of appointment	3 months/ 26 months
Gareth Williams	29/05/2014	29/05/2017	Letter of appointment	3 months/ 26 months

The Board allows Executive Directors to accept appropriate outside Non-Executive Director appointments provided the aggregate commitment is compatible with their duties as Executive Directors. The Executive Directors concerned may retain fees paid for these services, which will be subject to approval by the Board.

Consideration of employment conditions elsewhere in the Group

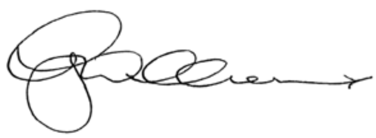
Each year, prior to reviewing the remuneration of the Executive Directors and the members of the Executive Team, the Remuneration Committee considers a report prepared by the Group HR Director detailing base pay and share schemes practice across the Company. The report provides an overview of how employee pay compares to the market and any material changes during the year, and includes detailed analysis of basic pay and variable pay changes within the UK.

While the Company does not directly consult with employees as part of the process of reviewing executive pay and formulating the Remuneration Policy, the Company does receive an update and feedback from the broader employee population on an annual basis using an engagement survey which includes a number of questions relating to remuneration. The Company does not use remuneration comparison measurements.

The Group aims to provide a remuneration package for all employees that is market competitive and operates the same core structure as for the Executive Directors. The Group operates employee share and variable pay plans, with pension provisions provided for all Executive Directors and employees. In addition, any salary increases for Executive Directors are expected to be generally in line with those for UK-based employees. See pages 100-105 for our new section on fairness, diversity and wider workforce considerations.

Consideration of shareholder views

The Remuneration Committee takes the views of the shareholders seriously and these views are taken into account in shaping remuneration policy and practice. Shareholder views are considered when evaluating and setting remuneration strategy and the Remuneration Committee welcomes an open dialogue with its shareholders on all aspects of remuneration. The Committee consulted its major shareholders and the main shareholder representative bodies IA, ISS and Glass Lewis on the proposed new Remuneration Policy. The Committee is grateful for the time taken to consider the Committee proposals and provide feedback. At the end of the consultation the majority of shareholders consulted indicated they were supportive of the new Remuneration Policy.



Gareth Williams
Chair, Remuneration Committee
11 April 2018

Management report

The Directors' Report, together with the Strategic Report set out on pages 1-51 form the Management Report for the purposes of Disclosure Guidance and Transparency Rule (DTR) 4.1.5R.

Statutory information contained elsewhere in the Annual Report

Information required to be part of this Directors' Report can be found elsewhere in the Annual Report as indicated in the table below and is incorporated into this report by reference.

Information	Location in Annual Report
Likely future developments in the business of the Company or its subsidiaries	Pages 1-51
Corporate social responsibility	Pages 20-21
Greenhouse gas emissions	Pages 22-23
Employees (employment of disabled persons, employee engagement and policies)	Pages 20-21
Corporate Governance Statement	Pages 52-82
Directors' details (including changes made during the year)	Pages 62-64
Related party transactions	Note 34 on page 199
Diversity	Pages 20 and 68
Share capital	Note 28 on page 194
Going concern and viability statement	Page 54
Fair, balanced and understandable statement	Page 54
Employee share schemes (including long-term incentive schemes)	Note 31 on page 196
Financial instruments: information on the Group's financial instruments and risk management objectives and policies, including our policy for hedging	Notes 2.3, 17 and 18 on pages 141-153, 172-176 and 177-182
Additional information	Pages 208-211

Disclosure table pursuant to Listing Rule (LR) 9.8.4C

The following table provides references to where the information required by Listing Rule 9.8.4C R is disclosed:

Listing Rule	Listing Rule requirement	Disclosure
9.8.4(1)	Interest capitalised by the Group and any related tax relief	Note 16 on page 171
9.8.4(2)	Unaudited financial information (LR 9.2.18R)	Group Chief Financial Officer's Review, page 51
9.8.4(4)	Long-term incentive schemes (LR 9.4.3R)	Directors' Remuneration Report, pages 83-121
9.8.4(5)	Directors' waivers of emoluments	Directors' Remuneration Report, pages 83-121
9.8.4(6)	Directors' waivers of future emoluments	Directors' Remuneration Report, pages 83-121
9.8.4(7)	Non pre-emptive issues of equity for cash	Directors' Report on page 125
9.8.4(8)	Non pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking	Not applicable
9.8.4(9)	Parent Company participation in a placing by a listed subsidiary	Not applicable
9.8.4(10)	Contract of significance in which a director is or was materially interested	Note 34 on page 199
9.8.4(11)	Contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder	Not applicable
9.8.4(12)	Waiver of dividends by a shareholder	Directors' Report on page 126 (under paragraph 'Rights attaching to shares')
9.8.4(13)	Waiver of future dividends by a shareholder	Directors' Report on page 126 (under paragraph 'Rights attaching to shares')
9.8.4(14)	Board statement in respect of relationship agreement with the controlling shareholder	Not applicable

Results and dividends
The Group made a profit after taxation of £137.5m for the financial year ended 31 January 2018. The Board paid an interim dividend of 3.0p per share and proposes to pay, subject to shareholder approval at the 2018 AGM, a final dividend of 6.0p net per share in respect of the year ended 31 January 2018.

The Directors have adopted a long-term sustainable dividend policy (which is reviewed by the Board on an annual basis). This will reflect the growth of the business while retaining sufficient profits to fund investment and ensure that there are sufficient capital reserves. Any decision to declare and pay dividends is made at the discretion of the Directors and depends on, among other things, applicable law, regulation, restrictions, the Group's financial position, regulatory capital requirements, working capital requirements, finance costs, general economic conditions and other factors the Directors deem significant from time to time.

Political donations
No political donations were made during the year.

Directors' interests
A list of the Directors, their interests in the long-term performance share plan, contracts and ordinary share capital of the Company are given in the Directors' Remuneration Report on pages 83-121.

Rules on appointment and replacement of Directors
All Directors will seek re-election at the AGM in accordance with the Company's articles of association and the recommendations of the Code, with the exception of Andrew Goodsell, who has resigned from the Board with effect from 30 April 2018, and Patrick O'Sullivan whose election will be put to the shareholders at the AGM.

A Director may be appointed by ordinary resolution of the shareholders in a general meeting following nomination by the Board or a member (or members) entitled to vote at such a meeting. In addition, the Directors may appoint a Director to fill a vacancy or as an additional Director, provided that the individual retires at the next AGM.

A Director may be removed by the Company in certain circumstances set out in the Company's articles of association or by an ordinary resolution of the Company.

Directors' indemnities and insurance
As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by law and the Company's articles of association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company or any of its subsidiaries. No amount was paid under any of these indemnities or insurances during the year other than the applicable insurance premiums. Directors' and officers' liability insurance is in place as at the date of this report, at an amount which the Board considers adequate. This is subject to an annual review.

Share capital and interests in voting rights
The Company's share capital (including movements during the year) is set out on page 194. At the date of this report the Company's issued share capital comprised a single class of share capital which is divided into ordinary shares of 1p each. As at 31 January 2018, 1,120,295,419 ordinary shares of 1p each have been issued, are fully paid up and quoted on the London Stock Exchange.

In accordance with DTR 5.1, the Company has been notified of the following interests in the Company's total voting rights as at 31 January 2018:

Name	Date of disclosure to Company[1]	Ordinary shares	Percentage of capital	Nature of holding
Pelham Long/Short Master Fund Ltd	14/05/2015	69,056,048	6.22%	Equity swaps
Majedie Asset Management Limited (owned by Majedie UK Income Fund, Majedie Asset Management UK Income Fund, Majedie Asset Management UK Equity Fund, Majedie UK Equity Fund, Majedie Institutional Trust and Discretionary Clients)	03/12/2015	68,956,717	6.17%	Indirect
Royal London Asset Management Limited (owned by HSBC Global Custody Nominees (UK) Ltd)	01/11/2016	56,154,560	5.0227%	Direct
Artemis Investment Management LLP on behalf of discretionary funds under management	23/03/2017	111,601,253	9.98%	Indirect
Aggregate of Standard Life Aberdeen plc affiliated investment management entities with delegated voting rights on behalf of multiple managed portfolios	09/01/2018	56,279,151	5.02%	Indirect
(The above includes, Aberdeen Asset Investments Limited, Standard Life Investments Limited, Aberdeen Asset Managers Limited and Ignis Investment Services Limited)				

Note:
1 Since the date of disclosure to the Company, the interest of any person listed above in ordinary shares may have increased or decreased. No requirement to notify the Company of any increase or decrease arises unless the holding passes a notifiable threshold in accordance with DTR 5.1

Information regarding other interests in voting rights provided to the Company pursuant to the FCA DTRs is published on the Company's website and a Regulatory Information Service. Notification was also received by the Company during the year that Legal & General Group plc and Janus Henderson Group plc (previously Henderson Group plc) had notifiable interests but these ceased to be notifiable interests and are not included in the table above.

As at 11 April 2018, the Company had been notified, in accordance with the UK Listing Authority's Disclosure Guidance and Transparency Rules that the following shareholders held, or were beneficially interested in, 3% or more of the voting rights in the Company's issued share capital:

Name	Date of disclosure to Company	Ordinary shares	Percentage of capital	Nature of holding
Deutsche Bank AG	20/03/18	78,359,162	6.99%	Direct, right to recall and swaps
J P Morgan Chase & Co. (owned by J P Morgan Securities plc)	22/03/18	58,599,782	5.23%	Indirect and cash-settled equity swaps
Setanta Asset Management Ltd	10/04/18	38,172,845	3.4074%	Indirect

Change of control – significant agreements

A number of agreements take effect, alter or terminate upon a change of control of the Company including following a takeover bid, for example: insurance, commercial contracts and distribution agreements. There are a number of contracts and arrangements throughout the Group for which the legal risk arising out of a change of control is closely managed as part of the contractual governance process. Inevitably, there may be certain operational contracts that could provide for a period of disruption or higher operational charges if a change of control clause was invoked. However, at the current time, we are not aware of any critical or material contracts that pose such a threat.

The Group's corporate debt is unsecured and in place for general purposes. It consists of a £250m, seven year public listed bond at 3.375%, a five year, £300m term loan and a £150m five-year revolving credit facility, which may be extended by up to two years.

12-year Export Credit Agency backed funding is in place to finance 80% of the cost of the Group's two new ships. These facilities will be drawn as ship builds complete and are secured by way of a charge over the assets financed. In the event of a change of control, the facilities would either require repayment or renegotiation. Further details on banking facilities are shown in note 26 to the consolidated financial statements on page 192.

The rules of the Company's employee share plans generally provide for the accelerated vesting and/or release of share awards in the event of a change of control of the Company.

The Company does not have any agreements with Directors or employees which would pay compensation in the event of a change of control.

Conflict of interest

Each Director is obliged to disclose any potential or actual conflict of interest in accordance with the Company's conflict of interest policy. The policy and declarations made are subject to annual review and Directors are required to update any changes to declarations as they occur. Internal controls are in place to ensure that any related party transactions are conducted on an arm's length basis.

Authority to allot/purchase own shares

A shareholders' resolution was passed at the AGM on 22 June 2017 which authorised the Company to make market purchases within the meaning of section 693(4) of the Companies Act 2006 (the 'Act') (up to £1,118,005.41 representing 10% of the aggregate nominal share capital of the Company following Admission). This is subject to a minimum price of 1p and a maximum price of the higher of 105% of the average mid-market quotations for five business days prior to purchase or the price of the last individual trade and highest current individual bid as derived from the London Stock Exchange trading system.

The Company did not exercise this authority during the year ended 31 January 2018. The above authority will expire at the forthcoming AGM and a special resolution to authorise the Company to make market purchases representing 10% of current nominal share capital will be proposed. The authority to repurchase the Company's ordinary shares in the market will be limited to £1,120,295.41 and will set out the minimum and maximum price which will be paid.

The Directors of the Company were also granted authority at the 2017 AGM to allot relevant securities up to a nominal amount of £3,722,958. This authority will apply until the conclusion of the 2018 AGM, at which shareholders will be asked to grant the Directors authority (for the purposes of section 551 of the Act) to allot relevant securities (i) up to an aggregate nominal amount of £3,730,583; and, (ii) comprising equity securities (as defined in the Act) up to an aggregate nominal amount of £7,461,167 (after deducting from such limit any relevant securities issued under (i) in connection with a rights issue). These amounts will apply until the conclusion of the AGM to be held in 2019 or, if earlier, 31 July 2019.

In July 2017, the Company issued 2,290,014 new ordinary shares of 1p each for transfer into an employee benefit trust to satisfy employee incentive arrangements. The new shares were admitted to trading on 10 July 2017. This increased the Company's issued share capital to 1,120,295,419 ordinary shares of 1p, of which no shares are held in treasury.

Special resolutions will also be proposed to give the Directors authority to make non pre-emptive issues wholly for cash in connection with rights issues and otherwise up to an aggregate nominal amount of £560,147.70 and to make non pre-emptive issues wholly for cash in connection with acquisitions or specified capital investments up to an aggregate amount of £560,147.70.

Rights attaching to shares

The Company has a single class of ordinary shares in issue. The rights attached to the shares are governed by applicable law and the Company's articles of association (which are available at http://corporate.saga.co.uk/media/1195/saga-plc-articles-of-association.pdf).

Ordinary shareholders have the right to receive notice, attend and vote at general meetings; and receive a copy of the Company's report and accounts and a dividend when approved and paid. On a show of hands, each shareholder present in person, or by proxy (or an authorised representative of a corporate shareholder), shall have one vote. In the event of a poll, one vote is attached to each share held.

The notice of the AGM (Notice) states deadlines for exercising voting rights and for appointing a proxy/proxies.

No shareholder owns shares with special rights as to control.

The Saga Employee Benefit Trust is an Employee Benefit Trust (the 'Trust') which holds property (the 'Trust Fund') including inter-alia money and ordinary shares in the Company in trust in favour or for the benefit of employees of the Saga Group. The Trustee of the Trust has the power to exercise the rights and powers incidental to, and to act in relation to, the Trust Fund in such manner as the Trustee in its absolute discretion thinks fit. The Trustee has waived its rights to dividends on ordinary shares held by the Trust. Details of employee share schemes are set out in note 31 to the consolidated financial statements.

Restrictions on the transfer of shares

Other than where imposed by law or regulation, or where the Listing Rules require certain persons to obtain clearance before dealing, there are no restrictions regarding the transfer of shares in the Company. The Company is not aware of any agreement which would result in a restriction on the transfer of shares or voting rights.

Articles of association

Any amendment to the Company's articles of association may only be made by passing a special resolution of the shareholders of the Company.

Research and development

The Group does not undertake any material activities in the field of research and development.

Branches outside the UK

The Company does not have any branches outside the UK.

Post-balance sheet events

There were no post-balance sheet events.

Auditor

KPMG LLP has confirmed its willingness to continue in office as auditor of the Company and resolutions for its re-appointment and for the Audit Committee to determine its remuneration will be proposed at the forthcoming AGM.

Disclosure of information to the auditor

Having made the requisite enquiries, so far as each of the Directors is aware, there is no relevant audit information (as defined by section 418(3) of the Act) of which the Company's auditor is unaware and the Directors have taken all the steps they ought to have taken as Directors to make themselves aware of any relevant audit information and to ensure that the Company's auditor is aware of that information.

Annual General Meeting

The AGM will be held on 21 June 2018 at 11am at Enbrook Park, Sandgate, Folkestone, Kent CT20 3SE. The Notice contains an explanation of special business to be considered at the meeting.

A copy of the Notice will be available on our website, http://corporate.saga.co.uk, in due course.

Directors' responsibilities

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and hence to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, who were in office at the date of this report, whose names and responsibilities are listed on pages 58 and 62-63, confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

V Haynes
Company Secretary
11 April 2018
Saga plc Company no. 08804263

1. Our opinion is unmodified

We have audited the financial statements of Saga plc (the Company) for the year ended 31 January 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows, Parent Company statement of financial position, Parent Company statement of changes in equity, and the related notes, including the accounting policies notes.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 January 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the shareholders on 22 June 2017 and therefore this is the first period that we are engaged as auditor for the Group. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Group financial statements as a whole	£9.0m 5% of profit before tax from continuing operations
Coverage	98% of total profits and losses that made up Group profit before tax
Risks of material misstatement	Valuation of claims outstanding (gross and net)
	Recoverability of Group goodwill and of Parent's investment in subsidiaries

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Valuation of claims outstanding (gross and net) (Gross £467.0 million; 2017: £517.0 million, Net £272.8 million; 2017: £367.7 million) Refer to page 74 (Audit Committee Report), page 151 (accounting policy) and page 188 (financial disclosures).	**Subjective valuation:** Claims outstanding represent the largest liability for the Group. Valuation of these liabilities is highly judgemental, and requires a number of assumptions to be made that have high estimation uncertainty and can have material impacts on the valuation. Key assumptions include expected loss ratios and estimates of the frequency and severity of claims, used to value the liabilities, particularly those relating to the amount and timing of future claims. Certain areas of the claims outstanding balance contain greater uncertainty, for example third party bodily injury claims exhibit greater variability and are more long tailed than the damage classes. In particular the allowance made for the current and potential propensity change following the Ogden rate change on Periodic Payment Order (PPO) reserves are very uncertain and have a high reserving risk. Similar judgements are required in establishing the reinsurers share of insurance provisions, in particular share of Incurred but not Reported (IBNR) claims. A margin is added to the actuarial best estimate of insurance liabilities to make allowance for specific risks and uncertainties that are not specifically allowed for in establishing the actuarial best estimate. The appropriate margin to recognise is a subjective judgement and estimate taken by the directors, based on the perceived uncertainty and potential for volatility in the underlying claims.	Our controls procedures included: • **Control design and operation:** testing, with the support of our IT specialists, the design, implementation and operating effectiveness of key controls over claims and premiums data entry and model processing for the calculation of IBNR claims to assess completeness and accuracy of data; • **Data comparisons:** reconciliations between the claims data recorded in the policy administration systems and the data used in the actuarial reserving calculations to assess the integrity of the data used in the actuarial reserving process; and • **Assessing application:** We also compared samples of claims case reserves, including large loss reserves, to appropriate documentation, such as reports from loss adjusters, solicitors and medical experts in order to validate that the valuation of individual claims reserves followed the prescribed reserving methodology. We involved our actuarial specialists to perform the following procedures: • **Independent re-performance:** Performing independent re-projections on a sample of the less certain classes at year end. This exercise focused on re-projecting, using our own models, the best estimate of reserves held for the third party bodily injury peril of business underwritten by the Group, being the most significant and more uncertain element of the reserves held at the balance sheet date. Our reprojections did not include the reserves held for other perils or smaller classes such as Caravan or Van or business introduced through the Automobile Association and Direct Choice; • **Benchmarking assumptions:** challenging the assumptions, such as claim frequency and severity, in the valuation of claims outstanding (gross and net). This was achieved by benchmarking against market data; • **Historical comparisons and our experience:** Evaluating the track record of assumptions used, in particular previous claims experience and loss ratios, against the Company's historical data and our market experience; • **Testing application:** Analysing a targeted sample of case reserves to identify and test the application of significant assumptions applied in determining the level of reported reserves.

	The risk	Our response
Valuation of claims outstanding (gross and net) (continued)		• **Margin evaluation:** Evaluating the appropriateness of the management recommended margin that is held in addition to the actuarial best estimate for additional risk and uncertainty not specifically allowed for. In order to do this, we assessed the Director's approach to, and analysis performed, in setting the margin, having regard to the allowance for uncertainties inherent in the data and assumptions in developing the actuarial best estimate. We then considered the relative strength of the margin held versus the prior period to be satisfied that no additional prudence had been recognised in the level of margin held; • **Tests of detail:** Assessed the risk transfer elements of the reinsurance contracts and the accuracy of a sample of reinsurance recoveries recorded, including reinsurance recoveries related to IBNR, against the terms of relevant reinsurance agreements; and • **Assessing transparency:** Assessing whether the Group's disclosures about the sensitivity of the balance to changes in key assumptions reflected the risks inherent in the valuation of claims outstanding. **Our results** • We found the valuation of claims outstanding to be acceptable.
Recoverability of Group goodwill and of Parent's investment in subsidiaries (Group goodwill: £1,485.0 million; 2017: £1,485.0 million; Parent investment in subsidiaries: £2,104.2 million; 2017: £2,102.7 million) Refer to page 74 (Audit Committee Report), pages 145 and 204 (accounting policy) and pages 167 and 206 (financial disclosures).	**Forecast-based valuation:** Goodwill in the Group and the carrying amount of the Parent Company's investment in subsidiaries are significant and at risk of irrecoverability if forecast business performance for the Group's retail insurance broking and travel businesses, in particular, were to fall significantly short of business plans. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. This is an area of additional focus at the year end in light of the fall in the Group's share price, resulting in the market capitalisation of the Group to be significantly lower than the net assets in the Parent Company.	Our procedures included: • **Control design:** Evaluating the design and implementation of the Group's impairment assessment procedures, including budgeting and forecasting, including as applied to the Parent Company; • **Historical comparisons:** assessing the reasonableness of cash flow projections against the historical performance; • **Benchmarking assumptions:** Comparing the Group and Parent Company's assumptions to externally derived data in relation to key inputs such as projected economic growth, competition, cost inflation and discount rates with the help of our valuation specialists; • **Comparing valuations:** In response to the low market capitalisation, we compared the Value in Use for both the Group's cash generating units as a whole and for the Parent Company with external, financial-market analysts' valuation ranges for the Group's shares, including comparison of those analysts' assumptions underlying their valuations and the assumptions used in the Value in Use. • **Sensitivity analysis:** Using our analytical tools to assess the sensitivity of the goodwill headroom to changes in key assumptions, both individually and collectively; and • **Assessing transparency:** Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill. **Our results** • We found the Group's assessment of the recoverability of Group goodwill and of the Parent Company's investment in subsidiaries, as well as the disclosures around the sensitivities of goodwill to the key assumptions, to be acceptable.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £9.0m, determined with reference to a benchmark of Group profit before tax from continuing operations, of £178.7m, of which it represents 5%.

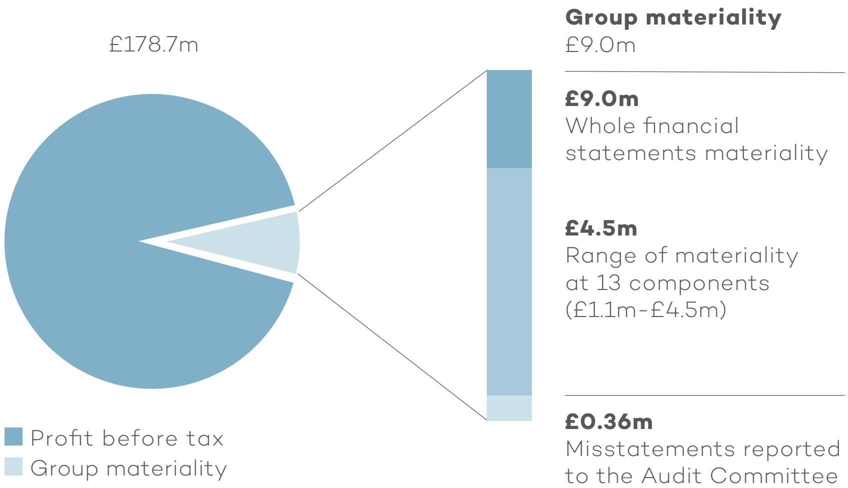
Materiality for the Parent Company financial statements as a whole was set at £2.5m by reference to component materiality, which represents 0.1% of total assets. This is lower than the materiality we would otherwise have determined by reference to Company total assets.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.36m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

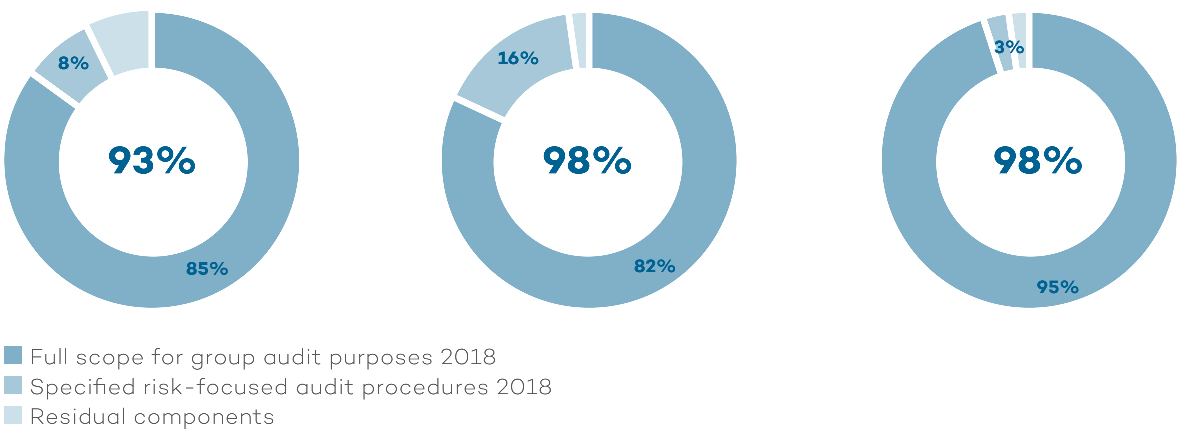
Of the Group's 13 reporting components, we subjected 4 to full scope audits for Group purposes and 3 to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The components within the scope of our work accounted for the percentages illustrated below.

Profit before tax from Continuing Operations



Group revenue | **Total profits and losses that made up Group profit before tax** | **Group total assets**



The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £1.1m to £4.5m, having regard to the mix of size and risk profile of the Group across the components. The work on 3 of the 13 components was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team.

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement on page 54 of the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 54 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report and Accounts

The directors are responsible for the other information presented in the Annual Report and Accounts together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on page 54 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks and uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 126, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities–ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. We identified relevant areas of laws and regulations from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital, regulatory compliance, recognising that there are operations of the Group authorised and regulated by the Financial Conduct Authority (FCA), and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at Group level, with a request to report on any indications of potential existence of irregularities in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Stuart Crisp (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

11 April 2018

Consolidated income statement
for the year ended 31 January 2018

	Note	2018 £'m	2017 £'m
Revenue	3	**860.1**	871.3
Cost of sales	3	**(412.8)**	(422.7)
Gross profit		**447.3**	448.6
Administrative and selling expenses	4	**(254.5)**	(251.6)
Investment income	5	**7.4**	5.0
Finance costs	6	**(20.8)**	(18.6)
Finance income	7	**1.5**	11.3
Share of loss of joint ventures	36	**(2.2)**	(1.4)
Profit before tax from continuing operations		**178.7**	193.3
Tax expense	9	**(33.6)**	(36.0)
Profit for the year from continuing operations		**145.1**	157.3
Loss after tax for the year from discontinued operations	33	**(7.6)**	–
Profit for the year		**137.5**	157.3
Attributable to:			
Equity holders of the parent		**137.5**	157.3
Earnings per share:			
Basic	11	**12.3p**	14.1p
Diluted	11	**12.2p**	14.0p
Earnings per share for continuing operations:			
Basic	11	**13.0p**	14.1p
Diluted	11	**12.9p**	14.0p

The notes on pages 140-201 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 January 2018

	Note	**2018 £'m**	2017 £'m
Profit for the year		**137.5**	157.3
Other comprehensive income			
Other comprehensive income to be reclassified to income statement in subsequent years			
Exchange differences on translation of foreign operations		**–**	0.7
Net (losses)/gains on hedging instruments during the period		**(3.6)**	43.4
Recycling of previous gains to income statement on matured hedges		**(18.8)**	(11.4)
Total net (loss)/gain on cash flow hedges		**(22.4)**	32.0
Associated tax effect		**3.8**	(5.3)
Net (losses)/gains on available for sale (AFS) assets during the period		**(0.3)**	1.0
Recycling of previous gains to income statement on sale of AFS assets during the year		**(4.4)**	–
Total net (loss)/gain on available for sale financial assets		**(4.7)**	1.0
Associated tax effect		**0.8**	(0.1)
Total other comprehensive (losses)/gains with recycling to income statement		**(22.5)**	28.3
Other comprehensive income not to be reclassified to income statement in subsequent years			
Re-measurement gains on defined benefit plans	23	**10.2**	4.6
Associated tax effect		**(1.7)**	(1.1)
Total other comprehensive gains without recycling to income statement		**8.5**	3.5
Total other comprehensive (losses)/income		**(14.0)**	31.8
Total comprehensive income for the year		**123.5**	189.1
Attributable to:			
Equity holders of the parent		**123.5**	189.1

The notes on pages 140-201 form an integral part of these consolidated financial statements.

Consolidated statement of financial position
as at 31 January 2018

	Note	**2018 £'m**	2017 £'m
Assets			
Goodwill	13	**1,485.0**	1,485.0
Intangible fixed assets	14	**61.2**	53.8
Investment in joint ventures	36	**–**	1.4
Property, plant and equipment	16	**163.4**	131.5
Financial assets	17	**514.5**	600.3
Deferred tax assets	9	**13.7**	16.3
Reinsurance assets	24	**100.2**	97.5
Inventories		**5.8**	5.6
Trade and other receivables	20	**210.0**	198.7
Assets held for sale	33	**6.8**	–
Cash and short-term deposits	21	**83.2**	108.7
Total assets		**2,643.8**	2,698.8
Liabilities			
Retirement benefit scheme obligations	23	**7.0**	13.7
Gross insurance contract liabilities	24	**582.0**	642.3
Provisions		**4.7**	4.0
Financial liabilities	17	**469.2**	489.8
Deferred tax liabilities	9	**16.3**	21.5
Current tax liabilities		**15.2**	14.9
Other liabilities	25	**140.9**	134.9
Trade and other payables	22	**185.0**	182.5
Total liabilities		**1,420.3**	1,503.6
Equity			
Issued capital	28	**11.2**	11.2
Share premium		**519.3**	519.3
Retained earnings		**662.8**	607.8
Share-based payment reserve		**11.4**	15.6
Available for sale reserve		**(0.6)**	3.3
Hedging reserve		**19.4**	38.0
Total equity		**1,223.5**	1,195.2
Total equity and liabilities		**2,643.8**	2,698.8

The notes on pages 140-201 form an integral part of these consolidated financial statements.

Signed for and on behalf of the Board on 11 April 2018 by

L H L Batchelor
Group Chief Executive Officer

J S Hill
Group Chief Financial Officer

Consolidated statement of changes in equity

for the year ended 31 January 2018

	Attributable to the equity holders of the parent							
	Issued capital £'m	Share premium £'m	Retained earnings £'m	Share-based payment reserve £'m	Foreign currency translation reserve £'m	Available for sale reserve £'m	Hedging reserve £'m	Total £'m
At 1 February 2017	11.2	519.3	607.8	15.6	–	3.3	38.0	1,195.2
Profit for the year	–	–	137.5	–	–	–	–	137.5
Other comprehensive income/(losses) excluding recycling	–	–	8.5	–	–	(0.3)	(3.0)	5.2
Recycling of previous gains to income statement	–	–	–	–	–	(3.6)	(15.6)	(19.2)
Total comprehensive income	–	–	146.0	–	–	(3.9)	(18.6)	123.5
Dividends paid (note 10)	–	–	(98.5)	–	–	–	–	(98.5)
Share-based payment charge (note 31)	–	–	–	4.0	–	–	–	4.0
Exercise of share options	–	–	7.5	(8.2)	–	–	–	(0.7)
At 31 January 2018	**11.2**	**519.3**	**662.8**	**11.4**	**–**	**(0.6)**	**19.4**	**1,223.5**
At 1 February 2016	11.2	519.3	527.0	17.7	(0.7)	2.4	11.3	1,088.2
Profit for the year	–	–	157.3	–	–	–	–	157.3
Other comprehensive income excluding recycling	–	–	3.5	–	0.7	0.9	36.2	41.3
Recycling of previous gains to income statement	–	–	–	–	–	–	(9.5)	(9.5)
Total comprehensive income	–	–	160.8	–	0.7	0.9	26.7	189.1
Dividends paid (note 10)	–	–	(86.1)	–	–	–	–	(86.1)
Share-based payment charge (note 31)	–	–	–	4.9	–	–	–	4.9
Exercise of share options	–	–	6.1	(7.0)	–	–	–	(0.9)
At 31 January 2017	**11.2**	**519.3**	**607.8**	**15.6**	**–**	**3.3**	**38.0**	**1,195.2**

The notes on pages 140-201 form an integral part of these consolidated financial statements.

	Note	2018 £'m	2017 £'m
Profit before tax from continuing operations		**178.7**	193.3
Loss before tax from discontinued operations		**(7.8)**	–
Profit before tax		**170.9**	193.3
Depreciation, impairment and loss on disposal of property, plant and equipment		**20.0**	21.6
Amortisation and impairment of intangible assets		**18.5**	18.1
Share-based payment transactions		**3.0**	4.0
Accelerated amortisation of debt issue costs		**4.3**	–
Impairment of investment in joint venture		**1.9**	–
Impairment of financial assets		**6.6**	–
Finance costs		**16.5**	18.6
Finance income		**(1.5)**	(11.3)
Share of loss of joint ventures		**0.5**	1.4
Interest income from investments		**(7.4)**	(5.0)
Movements in other assets and liabilities		**(61.8)**	(58.8)
		171.5	181.9
Interest received		**7.4**	5.0
Interest paid		**(10.9)**	(15.8)
Income tax paid		**(32.8)**	(32.6)
Net cash flows from operating activities		**135.2**	138.5
Investing activities			
Proceeds from sale of property, plant and equipment		**0.4**	0.2
Purchase of property, plant and equipment and intangible assets		**(82.5)**	(43.9)
Net disposal of financial assets		**93.1**	124.7
Investment in joint venture		**(1.0)**	(1.3)
Net cash flows from investing activities		**10.0**	79.7
Financing activities			
Proceeds from exercise of share options		**0.3**	–
Payment of finance lease liabilities		**(1.1)**	(0.5)
Proceeds from borrowings	26	**485.0**	65.0
Repayment of borrowings	26	**(520.0)**	(140.0)
Debt issue costs		**(5.1)**	–
Dividends paid		**(98.8)**	(86.3)
Net cash flows used in financing activities (note 27)		**(139.7)**	(161.8)
Net increase in cash and cash equivalents		**5.5**	56.4
Net foreign exchange differences		**–**	0.7
Cash and cash equivalents at the start of the year		**221.5**	164.4
Cash and cash equivalents at the end of the year	21	**227.0**	221.5

The notes on pages 140-201 form an integral part of these consolidated financial statements.

1 Corporate information

Saga plc (the 'Company') is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (registration number 08804263). The Company is registered in England and its registered office is located at Enbrook Park, Folkestone, Kent CT20 3SE.

The consolidated financial statements of Saga plc and the entities controlled by the Company (its subsidiaries, collectively 'Saga Group' or the 'Group') for the year ended 31 January 2018 were approved for issue by the Board of Directors on 11 April 2018.

Saga Group offers a wide range of products and services to its customer base which include general insurance products, package and cruise holidays, personal finance products, domiciliary care services and a monthly subscription magazine. Accordingly, the Group segments its business into three trading segments – Insurance, Travel and Emerging Businesses and Central Costs (see note 3).

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and adopted by the European Union, and with the Companies Act 2006.

The consolidated financial statements have been prepared on a going concern basis and on a historical cost basis except as otherwise stated.

The Group's consolidated financial statements are presented in pounds sterling which is also the parent company's functional currency, and all values are rounded to the nearest hundred thousand (£'m), except when otherwise indicated. Each company in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

IFRSs require the Directors to adopt accounting policies that are the most appropriate to the Group's circumstances. In determining and applying accounting policies, Directors and management are required to make judgements in respect of items where the choice of specific policy, accounting estimate or assumption to be followed could materially affect the Group's reported financial position, results or cash flows; it may later be determined that a different choice may have been more appropriate. A discussion on the Group's significant accounting judgements and key sources of estimation uncertainty is detailed in note 2.5. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The principal accounting policies adopted, which have been applied consistently, unless otherwise stated, are set out in note 2.3 below.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 January each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with an investee entity and has the ability to affect those returns through its power over the investee entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

2.2 Basis of consolidation (continued)
Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are identified and measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. The interest of non-controlling shareholders is stated at the non-controlling interest's proportion of the fair values of the assets and liabilities recognised. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to non-controlling interests, even if this results in non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where a subsidiary which constituted a major line of business is disposed of or otherwise meets the requirements of IFRS 5 to be held for sale, it is disclosed as a discontinued operation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.3 Summary of significant accounting policies
a. Revenue recognition
Revenue represents amounts receivable from the sale or supply of goods and services provided to customers in the ordinary course of business, and is recognised to the extent that it is probable that the future economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is received. The recognition policies for the Group's various revenue streams by segment are as follows:

i) Insurance
Revenue is recognised in the income statement over the period matching the Group's obligation to provide services. Where the Group has no remaining contractual obligations, revenue is recognised immediately.

Insurance premiums received for risks underwritten by the Group are recognised on a straight-line time-apportioned basis over the period of the policy. Any changes to premium arising as a result of adjustments to the underlying risk notified by the policyholders are recognised over the remaining period of the policy from the effective date of notification.

Revenue received in connection with insurance policies not underwritten by the Group is recognised at the commencement of the period of risk. The portion of insurance premiums received for risks which are not underwritten by the Group that is passed to a third party insurer is not recognised in the income statement.

2.3 Summary of significant accounting policies (continued)

a. Revenue recognition (continued)

i) Insurance (continued)

Insurance premiums and sales revenues received in advance of the inception date of a policy are treated as advanced receipts and included as other liabilities in the statement of financial position.

Premiums and sales revenue in respect of insurance policies underwritten by the Group that are live at the reporting date and which relate to the period after the reporting date are treated as unearned and included in insurance contract liabilities in the statement of financial position.

Income from credit provided to customers to facilitate payment of their insurance premiums over the life of their policy is treated as part of the revenue from insurance operations and recognised over the period of the policy in proportion to the outstanding premium balance.

Profit commissions due under coinsurance or reinsurance arrangements are recognised and valued in accordance with the contractual terms to which they are subject and on the same basis, where appropriate, as the related reinsured liabilities.

ii) Travel

Revenue from tour operations and cruise holidays where the Group does not operate the cruise ship is recognised in full on the passenger's date of departure, which represents the date upon which the revenue becomes fully non-refundable. Revenue in respect of cruise holidays where the Group operates the cruise ship is recognised on a per diem basis over the duration of the cruise reflecting the often longer durations of cruise holidays, and to facilitate more accurate matching of revenue with costs as they arise.

Revenue from sales in resort, for example for optional excursions, or on board a cruise ship operated by the Group, for example bar sales or optional excursions, is recognised as and when earned.

Revenue from tour operations received in advance of the date of departure, and the unearned element of cruise revenues not yet recognised on a per diem basis, are included as other liabilities in the statement of financial position.

iii) Emerging Businesses and Central Costs

Personal finance

Revenue from personal finance products is recognised when the customer contracts with the provider of the relevant personal finance product where the revenue comprises a one-off payment by the provider of the product.

Where the personal finance product is one that delivers a recurring income stream, for example ongoing investment, savings or lending products, revenues are recognised over the life of the product.

Healthcare

Revenue from healthcare operations is recognised when services are provided to customers. The point of supply is generally defined as the point at which a service user has received care services from the Group and which are usually provided on an hourly basis.

Magazine subscriptions

Magazine subscription revenue is recognised on a straight-line basis over the period of the subscription. Revenue generated from advertising within the magazine is recognised when the magazine is provided to the customer. The element of subscriptions and advertising revenue relating to the period after the reporting date is treated as unearned and included within other liabilities in the statement of financial position.

Retirement Villages

Sales commission from Retirement Villages is recognised on the legal completion of a property. Revenue is recognised to the extent that the economic benefits will flow to the Group and the revenue can be reliably measured.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

2.3 Summary of significant accounting policies (continued)

b. Cost recognition

i) Direct costs

Costs directly associated with the revenues generated by the Group's principal activities (excluding insurance underwriting) are recognised in the income statement on a basis consistent with the relevant revenue recognition policy.

ii) Acquisition costs

Acquisition costs arising from the selling or renewing of insurance policies underwritten by the Group are recognised on a straight-line time-apportioned basis over the period of the policy in which the related revenues are earned. The proportion of acquisition costs relating to premiums treated as unearned at the reporting date are deferred and included as other receivables in the statement of financial position.

iii) Claims costs

Claims costs incurred in respect of insurance policies underwritten by the Group include claims made for losses reported as occurring during the period together with the related handling costs, any adjustments to claims outstanding from previous periods, and a provision for the estimated cost of claims incurred during the period but not reported at the reporting date. Further detail is provided in note 24.

iv) Reinsurance costs

The Group undertakes a programme of reinsurance in respect of the policies which it underwrites. Outward reinsurance premiums are accounted for in the same accounting period as the related inward insurance premiums and are presented as a deduction from earned premium.

v) Finance costs

Finance costs comprise interest paid and payable which is calculated using the effective interest rate method and recognised in the income statement as it accrues. Accrued interest is included within the carrying value of the interest bearing financial liability in the statement of financial position. Finance costs also include debt issue costs which are initially recognised in the statement of financial position and amortised over the life of the debt.

vi) Other expenses

Other expenses are taken to the income statement as incurred and exclude intra-group transactions.

c. Recognition of other income statement items

i) Investment income

Investment income in the form of interest is recognised in the income statement as it accrues and is calculated using the effective interest rate method. Fees and commissions which are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

Investment income in the form of dividends is recognised when the right to receive payment is established. For listed securities, this is the date the security is listed as ex-dividend.

ii) Gains and losses on financial investments at fair value through profit or loss

Realised and unrealised gains and losses on financial investments are recorded as finance income or finance costs in the income statement. Realised gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on the date of sale. Unrealised gains and losses arising on financial assets measured at fair value through profit and loss, which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or the purchase value for investments acquired during the year, net of the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

iii) Non-trading items

Items which derive from events or transactions that are not representative of the underlying financial performance and which are material, or if of a similar type are material in aggregate, are treated as non-trading. Non-trading items are charged or credited to the income statement as appropriate, and are not separated from the line item to which they relate on the face of the income statement. Amounts attributable to non-trading items are identified separately in the segmental information provided in note 3 and further detail as to what these comprise is provided in note 4b.

2.3 Summary of significant accounting policies (continued)

d. Taxes

i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax relating to items recognised in other comprehensive income and directly in equity is recognised in equity and not in the income statement.

ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is recognised in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

e. Foreign currencies

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value are translated using the exchange rate at the date when the fair value is determined. The gains or losses arising on translation of non-monetary items measured at fair value are treated in line with the recognition of gains or losses arising on a change in the fair value of the item (i.e. the translation differences on items whose fair value gain or loss is recognised in other comprehensive income or the income statement are also recognised in other comprehensive income or the income statement respectively).

ii) Group companies

The assets and liabilities of foreign operations are translated into pounds sterling at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recycled to the income statement.

2.3 Summary of significant accounting policies (continued)

f. Intangible assets

Intangible assets acquired are measured on initial recognition at cost. Intangible assets acquired in a business combination are measured at their fair value at the date of acquisition and, following initial recognition, are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding internally developed software, are not capitalised and the related expenditure is reflected in the income statement in the period in which the expenditure is incurred.

The useful lives of intangible assets and goodwill are assessed as either finite or indefinite. Estimated useful lives are as follows:

Goodwill	Indefinite
Brands	10 years
Customer relationships	over the life of the customer relationship
Contracts acquired	over the life of the contract
Software	3-10 years

Intangible assets with finite lives are amortised over their useful economic life on a basis appropriate to the consumption of the asset and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category that is consistent with the function of the intangible assets.

Intangible assets and goodwill with indefinite useful lives are not amortised but are tested for impairment annually, either individually or at the cash generating unit (CGU) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

g. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date at fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' is measured at fair value with the changes in fair value recognised in the income statement.

Any excess of the cost of acquisition over the fair values of the identifiable assets and liabilities is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable assets and liabilities of the acquired business, the difference is recognised directly in the income statement in the year of acquisition.

Acquisition-related costs are expensed as incurred and included in administrative expenses.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to CGUs at the point of acquisition and is reviewed annually for impairment.

2.3 Summary of significant accounting policies (continued)

h. Impairment of non-financial assets

The Group undertakes a full impairment review of the carrying value of goodwill at each reporting date. The Group also assesses at each reporting date whether there is any indication that any other non-financial assets may be impaired. If such an indication exists, the recoverable amount is estimated and compared to the carrying amount. If the recoverable amount is less than the carrying amount, the asset is considered impaired and is written down to its recoverable amount and the impairment loss is recognised immediately in the income statement.

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Group bases its impairment calculations on detailed budgets, plans and long-term growth assumptions, which are prepared separately for each of the Group's CGUs to which individual assets are allocated.

i. Joint arrangements

The Group participates in joint arrangements where control of the arrangement is shared with another party. A joint arrangement is classified as a joint operation or joint venture, depending on management's assessment of the legal form and substance of the arrangement.

The Group's share of assets, liabilities, revenue, expenses and cash flows of joint operations are included in the consolidated financial statements on a line-by-line basis, whereas the Group's investment and share of results of joint ventures are shown within single line items in the consolidated statement of financial position and the consolidated income statement respectively.

j. Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Assets in the course of construction at the balance sheet date are classified separately. These assets are transferred to other asset categories when they become available for their intended use.

Depreciation is charged to the income statement on a straight-line basis so as to write off the depreciable amount of property, plant and equipment over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Land and assets in the course of construction are not depreciated. Estimated useful lives are as follows:

Buildings, properties and related fixtures:	
Buildings	50 years
Related fittings	3-20 years
Leasehold properties	over the period of the lease
Cruise ships	2-15 years
Computers	3-6 years
Plant, vehicles and other equipment	3-10 years

Costs relating to cruise ship mandatory dry-dockings are capitalised and depreciated over the period up to the next dry-docking where appropriate. All other repairs and maintenance costs are recognised in the income statement as incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

Estimated residual values and useful lives are reviewed annually.

2.3 Summary of significant accounting policies (continued)

k. Non-current assets held for sale and discontinued operations

The Group classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. To be classified as held for sale, an asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets, and the sale must be highly probable. Sale is considered to be highly probable when management is committed to a plan to sell an asset and an active programme to locate a buyer and complete the plan has been initiated at a price that is reasonable in relation to its current fair value, and there is an expectation that the sale will be completed within one year from the date of classification. Non-current assets classified as held for sale are carried on the Group's statement of financial position at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount of profit or loss after tax from discontinued operations in the income statement.

l. Financial instruments

i) Financial assets

Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available for sale financial assets. The Group determines the classification of its financial assets at initial recognition and they are accounted on a trade date basis. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at FVTPL are assets:

- which upon initial recognition are designated at fair value through the income statement to eliminate or significantly reduce a measurement recognition inconsistency; or
- which are acquired principally for the purpose of selling in the near term or forming part of the portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

Derivative financial instruments not designated as hedging instruments and hedge funds are classified as FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised through the income statement. The fair values are quoted market prices (where there is an active market) or are based on valuation techniques (where there is no active market or the securities are unlisted). Valuation techniques include the use of recent arm's length transactions, discounted cash flow analysis and other commonly used valuation techniques.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

Available for sale financial investments

Available for sale financial investments include debt securities and money market funds. After initial measurement, available for sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available for sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available for sale reserve. Interest income on available for sale debt securities is calculated using the EIR and is recognised in the income statement.

2.3 Summary of significant accounting policies (continued)

l. Financial instruments (continued)

i) Financial assets (continued)

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or when the Group has transferred substantially all the risks and rewards relating to the asset to a third party.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors are experiencing significant financial difficulty, or where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or other factors that correlate with defaults.

Loans and receivables

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets, discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are assessed individually where significant, or collectively for assets that are not individually significant.

Impairment losses are recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

Available for sale financial investments

When a decline in the fair value of a financial asset classified as available for sale has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss is reclassified to the income statement. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on available for sale equity instruments are not reversed through the income statement, but those on available for sale debt instruments are reversed if there is an increase in fair value that is objectively related to a subsequent event. Subsequent increases in the fair value of available for sale debt instruments are all recognised in other comprehensive income.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at FVTPL, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

2.3 Summary of significant accounting policies (continued)

l. Financial instruments (continued)

ii) Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at FVTPL

Derivative financial instruments not designated as hedging instruments are classified as FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised through the income statement.

Loans and borrowings and other payables

After initial recognition, interest bearing loans and borrowings and other payables are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

iii) Derivatives

Derivatives are measured at fair value both initially and subsequent to initial recognition. All changes in fair value of non-designated derivatives are recognised in the income statement immediately. Changes in fair value of derivatives designated as hedges are initially recognised in other comprehensive income until maturity when any gain or loss is recognised in the income statement. Derivatives are presented as assets when the fair values are positive and as liabilities when the fair values are negative. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

iv) Fair values

The Group measures financial instruments, such as derivatives and financial instruments not designated as a hedge classified as available for sale and at FVTPL, at fair value at each reporting date.

Fair value is the price that would be required to sell an asset or to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market accessible by the Group for the asset or liability or, in the absence of a principal market, in the most advantageous market accessible by the Group for the asset or liability.

The fair values are quoted market prices where there is an active market or are based on valuation techniques when there is no active market or the instruments are unlisted. Valuation techniques include the use of recent arm's length market transactions, discounted cash flow analysis and other commonly used valuation techniques. An analysis of the fair values of financial instruments and further details as to how they are measured are provided below.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.3 Summary of significant accounting policies (continued)

l. Financial instruments (continued)

v) Hedge accounting

The Group designates certain derivative financial instruments as cash flow hedges of certain forecast transactions. These transactions are highly probable to occur and present an exposure to variations in cash flows that could ultimately affect amounts determined in profit or loss.

Where a derivative financial instrument is designated as a hedge, the effective part of any fair value gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the fair value gain or loss is recognised immediately within the income statement.

When a hedged forecast transaction subsequently results in the recognition of a financial asset or a financial liability, any associated cumulative gain or loss is removed from the hedging reserve and reclassified into the income statement in the same period in which the asset or liability affects profit or loss. When a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, any associated cumulative gain or loss is removed from the hedging reserve and is included in the initial cost or other carrying amount of the non-financial asset or liability.

For foreign currency hedges, prospective hedge effectiveness testing is performed at the inception of the hedging relationship, and subsequently at each balance sheet date, through comparison of the projected fair values of the hedged forecast transaction and the hedging instrument using a combination of the hypothetical derivative approach and sensitivity analysis, as part of the dollar-offset method. Retrospective hedge testing is also performed at each reporting date using the dollar-offset method, by comparing the cumulative changes in the fair values of the forecast hedged transaction and the hedging instrument.

For fuel oil hedges, prospective hedge effectiveness testing is performed at the inception of the hedging relationship, and subsequently at each balance sheet date, using regression analysis. This method involves calculating the strength of the correlation between the price of the derivative and the price of the fuel oil being purchased. Retrospective hedge testing is also performed at each reporting date using the same technique.

When a hedging instrument no longer meets the criteria for hedge accounting, through maturity, sale, other termination, or the revoking of the designated hedging relationship, hedge accounting is discontinued prospectively. If the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss remains in the hedging reserve and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealised gain or loss is recognised in the income statement immediately.

m. Leases

Leases under which substantially all of the risks and rewards of ownership are transferred to the Group are finance leases. All other leases are operating leases.

Assets held under finance leases are recognised at the lower of the fair value of the asset and the present value of the minimum lease payments within property, plant and equipment on the statement of financial position and depreciated over the shorter of the lease term or their expected useful lives. The interest element of finance lease payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

Income arising from operating leases where the Group acts as lessor is recognised on a straight-line basis over the lease term and is included in operating income.

n. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.3 Summary of significant accounting policies (continued)

o. Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with a maturity of three months or less from their inception date.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash, short-term deposits as defined above and short-term highly liquid investments (including money market funds) with original maturities of three months or less which are subject to an insignificant risk of change in value, net of outstanding bank overdrafts.

p. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs include all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

q. Insurance contract liabilities

Insurance contract liabilities include an outstanding claims provision, a provision for unearned premiums and, if required, a provision for premium deficiency.

Outstanding claims provision

The provision for outstanding claims is set on an individual claim basis and is based on the ultimate cost of all claims notified but not settled less amounts already paid by the reporting date, together with a provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported at the statement of financial position date, which is set using statistical methods. The outstanding claims provision is not discounted for the time value of money with the exception of claims settled as periodical payment orders (PPOs).

The amount of any anticipated reinsurance, salvage or subrogation recoveries is separately identified and reported within reinsurance assets and insurance contract liabilities respectively.

Differences between the provisions at the reporting date and settlements and provisions in the following year (known as 'run off deviations') are recognised in the income statement as they arise.

Provision for unearned premiums

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Provision for premium deficiency

At each reporting date, the Group reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the income statement by setting up a provision for premium deficiency.

r. Reinsurance assets

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on insurance contracts issued are classified as reinsurance contracts. A contract is only accounted for as a reinsurance contract where there is significant insurance risk transfer between the insurer and reinsurer.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions in accordance with the relevant reinsurance contract.

The Group assesses its reinsurance assets for impairment at each balance sheet date. For assets that are directly exposed to long-tail PPO liabilities a general provision for impairment is provided, calculated on a wholesale basis by reference to published credit rating default curves. For all other reinsurance assets, the carrying value is written down to its recoverable amount only if there is objective evidence of impairment.

2.3 Summary of significant accounting policies (continued)

r. Reinsurance assets (continued)

The amount of any anticipated reinsurance recoveries is presented as a reduction in claims costs. Where this amount is material, it is reported separately in the statement of financial position, except where the contractual terms of the reinsurance arrangement necessitates the set-off of its associated financial assets and liabilities.

IFRS 4 prohibits the offsetting of reinsurance assets against the related insurance liabilities, unless the appropriate legal requirements are met. Financial assets and liabilities arising under quota share agreements must be offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the associated amounts and there is an intention to settle on a net basis, or realise both the asset and settle the liability simultaneously. The contractual terms of the funds-withheld quota share agreement in motor insurance requires such a set-off of associated amounts.

s. Share-based payments

The Group provides benefits to employees (including Directors) in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is measured by reference to the fair value on the grant date and is recognised as an expense over the relevant vesting period, ending on the date on which the employee becomes fully entitled to the award.

Fair values of share-based payment transactions are calculated using Black-Scholes and Monte-Carlo modelling techniques. In valuing equity-settled transactions, assessment is made of any vesting conditions to categorise these into market performance conditions, non-market performance conditions and service conditions.

Where the equity-settled transactions have market performance conditions (that is, performance which is directly or indirectly linked to the share price), the fair value of the award is assessed at the time of grant and is not changed, regardless of the actual level of vesting achieved, except where the employee ceases to be employed prior to the vesting date.

For service conditions and non-market performance conditions, the fair value of the award is assessed at the time of grant and is reassessed at each reporting date to reflect updated expectations for the level of vesting. No expense is recognised for awards that ultimately do not vest.

At each reporting date prior to vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and, in the case of non-market conditions, the best estimate of the number of equity instruments that will ultimately vest or, in the case of instruments subject to market conditions, the fair value on grant adjusted only for leavers. The movement in the cumulative expense since the previous reporting date is recognised in the income statement, with the corresponding increase in share-based payments reserve.

Upon vesting of an equity instrument, the cumulative cost in the share-based payments reserve is reclassified to retained earnings in equity.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

t. Retirement benefit schemes

During the year, the Group operated a defined benefit pension plan that requires contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit valuation method.

Actuarial gains and losses arising in the year are credited/charged to other comprehensive income and comprise the effects of changes in actuarial assumptions and experience adjustments due to differences between the previous actuarial assumptions and what has actually occurred. In particular, the difference between the interest income and the actual return on plan assets is recognised in other comprehensive income.

2.3 Summary of significant accounting policies (continued)

t. Retirement benefit schemes (continued)

Other movements in the net surplus or deficit, which include the current service cost, any past service cost and the effect of any curtailment or settlements, are recognised in the income statement. Past service costs are recognised in the income statement on the earlier of the date of plan curtailment and the date that the Group recognises restructuring-related costs. The interest cost less interest income on assets held in the plans is also charged to the income statement.

The defined benefit schemes are funded, with assets of the schemes held separately from those of the Group, in separate trustee administered funds. Scheme assets are measured using market values and scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. Full actuarial valuations are obtained at least triennially and are updated at each reporting date. The resulting defined benefit asset or liability is presented separately after other net assets and liabilities on the face of the statement of financial position. The value of a pension benefit asset is restricted to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

For defined contribution schemes, the amounts charged to the income statement are the contributions payable in the year.

u. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

v. Equity

The Group has ordinary shares that are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

2.4 Standards issued but not yet effective

The following is a list of standards and amendments to standards that are in issue but are not effective or adopted as at 31 January 2018.

a. IFRS 9 'Financial Instruments'

In July 2014, the IASB issued IFRS 9 'Financial Instruments' that will essentially replace IAS 39. The classification and measurement of financial assets and liabilities will be directly linked to the nature of the instrument's contractual cash flows and the business model employed by the holder of the instrument. The standard is effective for annual periods beginning on or after 1 January 2018, and was endorsed by the EU on 22 November 2016.

The Group has undertaken an exercise to consider the adoption of IFRS 9 and the impact that it would have on the Group's financial statements. Each of the issues is dealt with here in turn:

2.4 Standards issued but not yet effective (continued)

a. IFRS 9 'Financial Instruments' (continued)

Classification and measurement

An assessment of changes to the classification of the Group's financial assets based on investments held at 31 January 2018 has been completed, including an assessment of business models across various portfolios, and a review of contractual cash flow features for material financial assets. The changes required are not significant for the Group and are summarised as follows:

- The available for sale (AFS) category is now replaced by two fair value through other comprehensive income (FVOCI) categories, with recycling to P&L for non-equity instruments, but without recycling for equity instruments. Instruments currently classified under AFS will simply map to these new categories with the same recognition and measurement treatments as under IAS 39 currently. The only exception to this is that the fair value movement of any equity funds classified as AFS will no longer be able to be recycled to P&L in the future. The balance of such instruments accumulated in reserves as at 31 January 2018 is £1.4m.
- Amounts invested in money market funds that are currently classified as AFS will now have to be classified as fair value through profit or loss. This will have no impact on the recognition and measurement of these assets, other than to switch their carrying values between categories. The amount held in such investments as at 31 January 2018 is £153.2m.
- The loans and receivables (L&R) category will now be renamed Amortised Cost. Instruments currently held in L&R will still meet the classification criteria of Amortised Cost, and the recognition and measurement criteria are the same.

Impairment

IFRS 9 introduces a revised impairment model that requires entities to recognise expected credit losses based on unbiased forward-looking information. This replaces the existing IAS 39 incurred loss model, and will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

It is expected to have an immaterial financial impact, although impairment charges could be more volatile. The expected increase in the accounting impairment provision has been estimated at £0.2m as at 31 January 2018, which would serve to reduce the carrying value of the Group's financial assets measured at amortised cost.

Hedge accounting

IFRS 9 contains revised requirements on hedge accounting, which are more closely aligned with an entity's risk management strategies and risk management objectives. The new rules replace the current quantitative effectiveness test with a simpler version, and only require that an economic relationship exists between the hedged item and the hedging instrument. Under the new rules, voluntary hedge de-designations would not be allowed.

Saga will be adopting the hedge requirements of IFRS 9 rather than electing to continue with the accounting requirements of IAS 39. The P&L impact of this in the financial year ended 31 January 2018 is a £0.1m loss on derivatives which, under IFRS 9, can be held in reserves to be matched to operating cash flows as they are incurred in subsequent periods. Profit before tax for the twelve months to 31 January 2018 would therefore increase by this amount.

Under IFRS 9, Saga will also be able to designate all of its commodity swaps, purchased to mitigate the risk of oil price volatility, as hedges for hedge accounting purposes. This will have the effect of significantly reducing the level of fair value gains and losses on derivatives recognised in the income statement during the life of the derivative. Instead, those gains and losses will be accumulated in the Group's hedging reserve and recycled to the income statement, and matched with the hedged item when it is determined in the income statement. This can only be applied to new hedge designations prospectively, but if IFRS 9 had been in place for all such derivatives affecting profit and loss for the year ended 31 January 2018, the effect would have been to increase the fair value loss on derivatives by £1.8m. This movement would have been taken through the statement of other comprehensive income to accumulate in the hedging reserve, thus increasing reported profit before tax by this amount.

2.4 Standards issued but not yet effective (continued)

b. IFRS 15 'Revenue from Contracts with Customers'

The objective of IFRS 15 is to establish the principles that an entity should apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after 1 January 2018, and was endorsed by the EU on 22 September 2016.

The Group has undertaken a review of its contracts with its customers and has applied the five-step model prescribed by the standard to each of these. The impact of this has been quantified for the year ended 31 January 2018 as set out in the following table:

	Note	As at 1 February 2017			**As at 31 January 2018**		
		Reported £'m	Adjusted £'m	Restated £'m	**Reported £'m**	**Adjusted £'m**	**Restated £'m**
Deferred revenue							
Insurance broking	1	(17.4)	(0.8)	(18.2)	**(18.9)**	**(0.1)**	**(19.0)**
Tour operations	2	(82.4)	(0.9)	(83.3)	**(77.6)**	**(0.7)**	**(78.3)**
Cruise	3	(32.7)	0.3	(32.4)	**(42.0)**	**0.3**	**(41.7)**
Other businesses	4	(2.4)	0.0	(2.4)	**(2.4)**	**(0.3)**	**(2.7)**
		(134.9)	(1.4)	(136.3)	**(140.9)**	**(0.8)**	**(141.7)**
Deferred costs							
Insurance broking	1	18.3	4.0	22.3	**17.9**	**4.3**	**22.2**
Tour operations	2	10.9	2.3	13.2	**9.4**	**2.4**	**11.8**
Cruise	3	5.6	0.0	5.6	**11.0**	**0.0**	**11.0**
Other businesses	4	3.2	0.0	3.2	**5.2**	**0.1**	**5.3**
		38.0	6.3	44.3	**43.5**	**6.8**	**50.3**
Net asset impact		(96.9)	4.9	(92.0)	**(97.4)**	**6.0**	**(91.4)**
Profit before tax from continuing operations							
Insurance broking	1				**209.4**	**1.0**	**210.4**
Tour operations	2				**10.3**	**0.3**	**10.6**
Cruise	3				**7.9**	**0.0**	**7.9**
Other businesses	4				**(48.9)**	**(0.2)**	**(49.1)**
					178.7	**1.1**	**179.8**

Notes:

1. Under IAS 18 currently, the Group recognises the revenue received in connection with insurance policies not underwritten by the Group at the commencement of the period of risk. However, the Group does have some performance obligations that exist beyond this date, namely the provision of claims first notification and other customer services, and the invitation to renew policies before their renewal date. Under IFRS 15, it is appropriate to defer a proportion of revenue and associated direct cost in line with when these obligations are discharged. This has been calculated using a costs-incurred input model
2. Under IAS 18 currently, revenue from tour operations and cruise holidays where the Group does not operate the cruise ship is recognised in full on the passenger's date of departure. Under IFRS 15, it is necessary to allocate this revenue in line with the various performance obligations that are included in a package holiday, namely the provision of flights, hotel accommodation, transfers and travel insurance. Under IFRS 15, it is therefore appropriate to defer a proportion of revenue and associated direct cost in line with when these obligations are discharged. This has been calculated using a costs-incurred input model. Revenue from sales in resort is to be recognised as and when earned, which remains unchanged under IFRS 15
3. Under IAS 18 currently, revenue in respect of cruise holidays where the Group operates the cruise ship is recognised on a per diem basis over the duration of the cruise. Under IFRS 15, this is still appropriate for the provision of the actual cruise itself; however, the arrangement of inclusive travel insurance and the provision of a car service before and after the cruise require a proportion of revenue and cost to be matched against when these services are provided. The required adjustment has been calculated using observable market prices to allocate the ticket revenue. Revenue from sales on board the cruise ship is to be recognised as and when earned, which remains unchanged under IFRS 15
4. Other businesses include the personal finance, healthcare, retirement villages and media businesses, and the Saga Membership Scheme. The adoption of IFRS 15 has no material impact on these businesses

2.4 Standards issued but not yet effective (continued)

c. IFRS 16 'Leases'

IFRS 16 specifies how to recognise, measure, present and disclose leases, and will essentially replace IAS 17. It requires all leased assets to be recognised in the statement of financial position with exception to leases of low value or with a term of 12 months or less. The majority of assets disclosed in note 32a will be affected. The impact of this standard on the Group's financial statements is still being assessed but the impact is unlikely to be material. The standard was issued in January 2016 and was endorsed by the EU on 9 November 2017. It is effective for annual reporting periods beginning on or after 1 January 2019.

d. IFRS 17 'Insurance Contracts'

IFRS 17 was issued in May 2017 and established a principles based accounting approach for insurance contracts and will replace IFRS 4. The impact of this standard on the Group's financial statements is still being assessed. The standard is effective for annual reporting periods beginning on or after 1 January 2021, although this is yet to be endorsed by the EU.

e. Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions'

The amendments to IFRS 2 clarify the accounting for the effects of vesting and non-vesting conditions on cash-settled share-based payments, the classification of share-based payment transactions with net settlement features for withholding tax obligations and the accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after 1 January 2018, with earlier application being permitted, and were endorsed by the EU on 26 February 2018. The amendments will have no effect on the Group's financial statements.

f. Amendments to IFRS 9 'Prepayment Features with Negative Compensation'

The amendments to IFRS 9 address concerns about how IFRS 9 classifies particular prepayable assets and clarify the accounting for financial liabilities following a modification. The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application being permitted although this is yet to be endorsed by the EU. The effect on the Group's financial statements has been considered above in (a).

g. Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures'

The amendments to IAS 28 clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investments in the associate or joint venture but to which the equity method is not applied. The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application being permitted, although this is yet to be endorsed by the EU and will have no effect on the Group's financial statements.

h. Amendments to IAS 40 'Transfers of Investment Property'

The amendments to IAS 40 clarify that an entity can only reclassify a property to/from investment property when, and only when, there is evidence that a change in the use of the property has occurred. The amendments are effective for annual periods beginning on or after 1 January 2018, with earlier application being permitted, although this is yet to be endorsed by the EU and will have no effect on the Group's financial statements.

2.4 Standards issued but not yet effective (continued)

i. Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement'

The amendments to IAS 19 are if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendments are effective for annual periods beginning on or after 1 January 2019, although this is yet to be endorsed by the EU and will have no effect on the Group's financial statements.

j. IFRIC 22 'Foreign Currency Transactions and Advance Consideration'

This interpretation of IAS 21 addresses foreign currency transactions where consideration is denominated in a foreign currency and a non-monetary prepayment asset or deferred income liability is recognised in respect of that consideration in advance of the recognition of the related asset, expense or income. The interpretation is effective for annual periods beginning on or after 1 January 2018, with earlier application being permitted, although this is yet to be endorsed by the EU and will have no effect on the Group's financial statements.

k. IFRIC 23 'Uncertainty over Income Tax Treatments'

This interpretation of IAS 12 sets out how to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates where there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after 1 January 2019, with earlier application being permitted, although this is yet to be endorsed by the EU and will have no effect on the Group's financial statements.

2.5 Significant accounting judgements, estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a. Valuation of insurance contract liabilities

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. For some types of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is primarily analysed by accident year, geographical area, significant business line and peril. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all of the uncertainties involved.

The ultimate cost of claims is not discounted except for those in respect of PPOs. The valuation of these claims involves making assumptions about the rate of inflation and the expected rate of return on assets to determine the discount rate. Due to the size of PPO claims, the ultimate cost is highly sensitive to changes in these assumptions. The assumptions are reviewed at each reporting date.

Similar judgements, estimates and assumptions are employed in the assessment of the adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

2.5 Significant accounting judgements, estimates and assumptions (continued)

b. Goodwill impairment testing

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the CGUs to which goodwill is allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs at a suitable discount rate in order to calculate present value.

c. Valuation of pension benefit obligation

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

3 Segmental information

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

- *Insurance*: the segment primarily comprises general insurance products. Revenue is derived primarily from insurance premiums and broking revenues. This segment is further analysed into four product sub-segments:
  - Motor broking
  - Home broking
  - Other insurance broking
  - Underwriting
- *Travel*: the segment primarily comprises the operation and delivery of package tours and cruise holiday products. The Group owns and operates two cruise ships. All other holiday products are packaged together with third party supplied accommodation, flights and other transport arrangements.
- *Emerging Businesses and Central Costs*: the segment comprises the Group's other businesses and its central cost base. The other businesses primarily include the financial services product offering, the domiciliary care services offering, the sale of retirement village properties where the Group acts as an agent only, a monthly subscription magazine product and the Group's internal mailing house.

Segment performance is primarily evaluated using the Group's key performance measure of Underlying Profit Before Tax. Items not allocated to a segment relate to transactions that do not form part of the ongoing segment performance or which are managed on a Group basis.

Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expenses and results include transfers between business segments which are then eliminated on consolidation.

Current taxes, deferred taxes and bank loans are not allocated to segments as they are also managed on a Group basis.

3 Segmental information (continued)

2018	Insurance Motor broking £'m	Insurance Home broking £'m	Insurance Other insurance broking £'m	Insurance Under-writing £'m	Insurance Total £'m	Travel £'m	Emerging Businesses and Central Costs £'m	Adjustments £'m	Total £'m
Revenue	**121.4**	**85.0**	**76.2**	**98.8**	**381.4**	**448.8**	**36.7**	**(6.8)**	**860.1**
Cost of sales	(2.5)	–	(11.9)	(27.7)	(42.1)	(356.2)	(14.5)	–	(412.8)
Gross profit	**118.9**	**85.0**	**64.3**	**71.1**	**339.3**	**92.6**	**22.2**	**(6.8)**	**447.3**
Administrative and selling expenses	(76.5)	(28.4)	(33.1)	(2.3)	(140.3)	(72.4)	(43.8)	6.8	(249.7)
Investment income	–	–	–	10.4	10.4	0.2	(3.2)	–	7.4
Finance costs	–	–	–	–	–	–	(14.2)	–	(14.2)
Finance income	–	–	–	–	–	–	1.5	–	1.5
Share of loss of joint venture	–	–	–	–	–	–	(2.2)	–	(2.2)
Underlying Profit Before Tax	**42.4**	**56.6**	**31.2**	**79.2**	**209.4**	**20.4**	**(39.7)**	**–**	**190.1**
Net fair value loss on derivative financial instruments	–	–	–	–	–	(2.3)	–	–	(2.3)
Accelerated amortisation of debt issue costs	–	–	–	–	–	–	(4.3)	–	(4.3)
Restructuring costs	–	–	–	–	–	–	(4.8)	–	(4.8)
Profit before tax from continuing operations	**42.4**	**56.6**	**31.2**	**79.2**	**209.4**	**18.1**	**(48.8)**	**–**	**178.7**
Total assets less liabilities					**1,763.5**	**135.1**	**(225.4)**	**(449.7)**	**1,223.5**

All revenue is generated solely in the UK.

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

3 Segmental information (continued)

2017	Insurance: Motor broking £'m	Insurance: Home broking £'m	Insurance: Other insurance broking £'m	Insurance: Under-writing £'m	Insurance: Total £'m	Travel £'m	Emerging Businesses and Central Costs £'m	Adjustments £'m	Total £'m
Revenue	**127.5**	**89.8**	**80.4**	**112.3**	**410.0**	**432.0**	**36.5**	**(7.2)**	**871.3**
Cost of sales	(3.1)	–	(17.0)	(43.6)	(63.7)	(344.0)	(15.0)	–	(422.7)
Gross profit	**124.4**	**89.8**	**63.4**	**68.7**	**346.3**	**88.0**	**21.5**	**(7.2)**	**448.6**
Administrative and selling expenses	(79.2)	(28.6)	(31.8)	(2.8)	(142.4)	(73.3)	(43.1)	7.2	(251.6)
Investment income	–	–	–	7.2	7.2	0.2	(2.4)	–	5.0
Finance costs	–	–	–	–	–	–	(18.6)	–	(18.6)
Finance income	–	–	–	–	–	–	1.4	–	1.4
Share of loss of joint venture	–	–	–	–	–	–	(1.4)	–	(1.4)
Underlying Profit Before Tax	**45.2**	**61.2**	**31.6**	**73.1**	**211.1**	**14.9**	**(42.6)**	**–**	**183.4**
Net fair value gain on derivative financial instruments	–	–	–	–	–	9.9	–	–	9.9
Profit before tax from continuing operations	**45.2**	**61.2**	**31.6**	**73.1**	**211.1**	**24.8**	**(42.6)**	**–**	**193.3**
Total assets less liabilities					**1,758.0**	**141.1**	**(222.0)**	**(481.9)**	**1,195.2**

All revenue is generated solely in the UK.

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

3 Segmental information (continued)

Total assets less liabilities detailed as adjustments relates to the following unallocated items:

	2018 £'m	2017 £'m
Bank loans (note 26)	**(443.0)**	(475.2)
Deferred tax – non-pension scheme related	**(6.7)**	(6.7)
	(449.7)	(481.9)

a. Analysis of insurance revenue

	2018 £'m	2017 £'m
Gross earned premiums on insurance underwritten by the Group	**259.6**	292.4
Less: ceded to reinsurers	**(139.9)**	(123.1)
Net earned premiums on insurance underwritten by the Group		
– Motor broking	**30.4**	54.3
– Home broking	**3.6**	12.2
– Other insurance broking	**1.5**	1.4
– Underwriting	**84.2**	101.4
	119.7	169.3
Other income from insurance products not underwritten by the Group	**261.7**	240.7
	381.4	410.0

b. Analysis of insurance cost of sales

	2018 £'m	2017 £'m
Gross claims incurred on insurance underwritten by the Group	**156.1**	149.4
Less: ceded to reinsurers	**(127.1)**	(103.8)
Net claims incurred on insurance underwritten by the Group		
– Motor broking	**2.5**	3.1
– Underwriting	**26.5**	42.5
	29.0	45.6
Other cost of sales	**13.1**	18.1
	42.1	63.7

4 Administrative and selling expenses

	2018 £'m	2017 £'m
Staff costs (excluding restructuring costs)	**108.2**	109.1
Marketing and fulfilment costs	**64.1**	63.7
Lease rentals	**1.4**	1.4
Auditors' remuneration	**1.2**	1.2
Other administrative costs	**50.0**	48.8
Depreciation (note 16)	**5.2**	8.0
Amortisation of intangible assets (note 14)	**17.9**	17.5
Restructuring costs	**4.8**	–
Non-trading items	**1.7**	1.9
	254.5	251.6

4 Administrative and selling expenses (continued)

a. Auditors' remuneration

	2018 £'m	2017 £'m
Audit of the parent company and consolidated financial statements	**0.3**	0.3
Audit of subsidiary financial statements	**0.7**	0.7
Audit-related assurance services	**0.2**	0.2
Total auditors' remuneration	**1.2**	1.2

b. Non-trading items

	2018 £'m	2017 £'m
Share-based payment costs (note 31)	**0.3**	0.5
Flotation and other costs	**–**	0.3
Redundancy costs	**1.4**	1.8
Insurance claims	**–**	(0.7)
Non-trading items included within administrative and selling expenses	**1.7**	1.9
Impairment of joint venture	**1.7**	–
Non-trading items included within share of loss of joint venture	**1.7**	–
Total non-trading costs	**3.4**	1.9

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

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

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

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

5 Investment income

	2018 £'m	2017 £'m
Investment income from insurance underwriting	**10.4**	7.2
Elimination of intra-group property rental income	**(3.7)**	(3.7)
Interest income from other segments	**0.7**	1.5
	7.4	5.0

6 Finance costs

	2018 £'m	2017 £'m
Interest and charges on debt and borrowings	**13.5**	17.6
Net fair value loss on derivative financial instruments	**2.3**	–
Dividends paid by subsidiaries to non-controlling interests	**0.2**	0.3
Net finance expense on pension schemes	**0.2**	0.5
Net finance charges on finance leases and hire purchase contracts	**0.3**	0.2
Accelerated amortisation of debt issue costs	**4.3**	–
	20.8	18.6

7 Finance income

	2018 £'m	2016 £'m
Net fair value gain on derivative financial instruments	**–**	9.9
Unwinding of discount rates	**1.5**	1.4
	1.5	11.3

8 Directors and employees

Amounts charged to the income statement for the year are as follows:

	2018 £'m	2017 £'m
Wages and salaries	**110.0**	111.0
Social security costs	**11.2**	11.2
Pension costs (note 23)	**15.5**	10.8
Total staff costs	**136.7**	133.0

Staff costs (including restructuring and redundancy costs) have been allocated £22.3m (2017: £22.1m) to cost of sales and £114.4m (2017: £110.9m) to administrative and selling expenses.

Average monthly number of employees

	2018	2017
Insurance	**2,206**	2,362
Travel	**2,266**	2,092
Emerging Businesses and Central Costs	**857**	815
Total staff numbers	**5,329**	5,269

The number of employees in the travel segment includes 839 (2017: 848) crew who are employed indirectly via a manning agency.

Directors' remuneration

The information required by the Companies Act 2006 and the Listing Rules of the Financial Conduct Authority is contained on pages 83-99 in the Directors' Remuneration Report.

8 Directors and employees (continued)

Compensation of key management personnel of the Group

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and comprise the Directors of the Company and the Chief Executive Officers of the major businesses within the trading segments.

The amounts recognised as an expense during the financial year in respect of key management personnel are as follows:

	2018 £'m	2017 £'m
Short-term benefits	**4.9**	8.6
Share-based payments	**1.3**	1.7
Post-employment benefits	**0.1**	0.1
	6.3	10.4

9 Tax

The major components of the income tax expense are:

	2018 £'m	2017 £'m
Consolidated income statement		
Current income tax		
Current income tax charge	**34.3**	36.2
Adjustments in respect of previous years	**(1.0)**	(3.6)
	33.3	32.6
Deferred tax		
Relating to origination and reversal of temporary differences	**0.3**	3.0
Effect of tax rate change on opening balance	**–**	0.4
Tax expense in the income statement	**33.6**	36.0

Reconciliation of tax expense to profit before tax multiplied by the UK corporation tax rate:

	2018 £'m	2017 £'m
Profit before tax	**178.7**	193.3
Tax at rate of 19.17% (2017: 20.0%)	**34.3**	38.7
Adjustments in respect of previous years	**(1.0)**	(3.6)
Effect of tax rate change on opening balance	**–**	0.4
Expenses not deductible for tax purposes:		
– Other non-deductible expenses/non-taxed income	**0.3**	0.5
Tax expense in the income statement	**33.6**	36.0

The Group's tax expense for the year was £33.6m (2017: £36.0m) representing a tax effective rate of 18.8% (2017: 18.6%).

Adjustments in respect of previous years includes an adjustment for the over provision of tax charge in previous years of £1.0m (2017: £0.6m).

The expense for the prior year includes benefits of £2.7m and £0.3m from the utilisation under the group relief rules of tax losses from Nestor Primecare Services Limited and Saga Investment Services Limited (see note 36) respectively. The tax losses for Nestor Primecare Services Limited arose when it formed part of the Group in the prior year. Excluding the impact of the Nestor Primecare Services Limited and Saga Investment Services Limited tax losses, the underlying tax effective rate was 20.2%.

9 Tax (continued)

Deferred tax

	Consolidated statement of financial position		Consolidated income statement	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m
Excess of depreciation over capital allowances	**5.4**	5.2	**0.2**	0.5
Intangible assets	**(1.6)**	(3.5)	**1.9**	1.1
Retirement benefit scheme liabilities	**1.2**	2.3	**0.6**	0.2
Effect of tax rate change	**–**	–	**–**	(0.4)
Short-term temporary differences	**(7.6)**	(9.2)	**(3.0)**	(4.8)
Deferred tax credit/(charge)			**(0.3)**	(3.4)
Net deferred tax (liabilities)	**(2.6)**	(5.2)		

Reflected in the statement of financial position as follows:

	2018 £'m	2017 £'m
Deferred tax assets	**13.7**	16.3
Deferred tax liabilities	**(16.3)**	(21.5)
Net deferred tax (liabilities)	**(2.6)**	(5.2)

Reconciliation of net deferred tax assets/(liabilities)

	2018 £'m	2017 £'m
At 1 February	**(5.2)**	4.7
Tax credit recognised in the income statement	**(0.3)**	(3.4)
Tax charge/(credit) recognised in other comprehensive income	**2.9**	(6.5)
At 31 January	**(2.6)**	(5.2)

Measures were enacted in the Finance Act 2015 to reduce the corporation tax rate from 20% to 19% from 1 April 2017, and to 18% from 1 April 2020. A further reduction to 17% from 1 April 2020 was announced on 16 March 2016 and has been enacted at the balance sheet date. As a result, the closing deferred tax balances have been reflected at 17%. We expect net deferred tax liabilities to be normally settled within 12 months.

The Group has tax losses which arose in the UK of £4.2m (2017: £4.2m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group. They have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future. If the Group were able to recognise all unrecognised deferred tax assets, the profit would increase by £0.7m (2017: £0.7m).

10 Dividends

Declared during the year:	2018 £'m	2017 £'m
Final dividend for the year ended 31 January 2017: 5.8 pence per share (2016: 5.0 pence per share)	**64.8**	55.9
Interim dividend for the year ended 31 January 2018: 3.0 pence per share (2017: 2.7 pence per share)	**33.6**	30.2
	98.4	86.1

Proposed after the end of the reporting period and not recognised as a liability:		
Final dividend for the year ended 31 January 2018: 6.0 pence per share (2017: 5.8 pence per share)	**67.2**	64.8

The proposed dividend for the year ended 31 January 2018 is subject to approval by shareholders at the Annual General Meeting on 21 June 2018 and would be paid on 29 June 2018.

11 Earnings per share

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

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

The calculation of basic and diluted EPS is as follows:

	2018 £'m	2017 £'m
Profit attributable to ordinary equity holders	**137.5**	157.3
Profit from continuing operations	**145.1**	157.3

Weighted average number of ordinary shares	m	m
Shares in issue at 1 February	**1,114.0**	1,110.7
IPO share options exercised	**3.1**	3.2
LTIP share options exercised	**0.9**	–
Other share options exercised	**0.1**	0.1
Weighted average number for basic EPS	**1,118.1**	1,114.0
Dilutive options		
IPO share options not yet exercised	**0.4**	3.5
Other share options not yet vested	**–**	0.1
LTIP share options not yet vested	**4.7**	4.4
Deferred Bonus Plan	**0.4**	0.3
Weighted average number for diluted EPS	**1,123.6**	1,122.3
Basic EPS	**12.3p**	14.1p
Basic EPS for continuing operations	**13.0p**	14.1p
Diluted EPS	**12.2p**	14.0p
Diluted EPS for continuing operations	**12.9p**	14.0p

12 Business combinations and acquisition of non-controlling interests

a. Acquisitions during the year ended 31 January 2018

There were no acquisitions in the year ended 31 January 2018.

13 Goodwill

Goodwill has been allocated to CGUs on initial recognition and for subsequent impairment testing, and is allocated to the insurance and travel segments.

	Goodwill £'m
Cost	
At 1 February 2016	1,485.0
At 31 January 2017 and 31 January 2018	1,485.0
Impairment	–
At 31 January 2017 and 31 January 2018	–
Net book value	
At 31 January 2018	1,485.0
At 31 January 2017	1,485.0

Goodwill deductible for tax purposes amounts to £nil (2017: £nil).

14 Intangible fixed assets

	Contracts £'m	Brands £'m	Customer relationships £'m	Software £'m	Total £'m
Cost					
At 1 February 2016	5.8	17.9	11.3	74.0	109.0
Additions – internally developed	–	–	–	19.6	19.6
Disposals	–	–	–	–	–
At 31 January 2017	5.8	17.9	11.3	93.6	128.6
Additions – internally developed	–	–	–	25.9	25.9
Disposals	–	–	–	–	–
At 31 January 2018	**5.8**	**17.9**	**11.3**	**119.5**	**154.5**
Amortisation and impairment					
At 1 February 2016	0.8	2.9	5.3	47.7	56.7
Amortisation	1.3	1.8	3.4	11.6	18.1
Disposals	–	–	–	–	–
At 31 January 2017	2.1	4.7	8.7	59.3	74.8
Amortisation	1.2	1.8	1.7	13.8	18.5
Disposals	–	–	–	–	–
At 31 January 2018	**3.3**	**6.5**	**10.4**	**73.1**	**93.3**
Net book value					
At 31 January 2018	**2.5**	**11.4**	**0.9**	**46.4**	**61.2**
At 31 January 2017	3.7	13.2	2.6	34.3	53.8

Contracts, brands and customer relationships assets acquired through business combinations have been reviewed for indicators of impairment (see note 15b).

The amortisation charge for the year is analysed as follows:

	2018 £'m	2017 £'m
Cost of sales	**0.6**	0.6
Administrative and selling expenses (note 4)	**17.9**	17.5
	18.5	18.1

15 Impairment of intangible assets

a. Goodwill

Goodwill acquired through business combinations has been allocated to CGUs on initial recognition. The carrying value of goodwill by CGU is as follows:

	2018 £'m	2017 £'m
Insurance, excluding Bennetts	**1,398.6**	1,398.6
Insurance, Bennetts	**13.6**	13.6
Travel, excluding Destinology	**59.8**	59.8
Travel, Destinology	**13.0**	13.0
	1,485.0	1,485.0

The Group has tested all goodwill for impairment at 31 January 2018. The impairment test compares the recoverable amount of the goodwill of each CGU to its carrying value. The goodwill associated with the Bennetts and Destinology businesses have been considered separately, as these businesses represent separate CGUs.

The recoverable amount of each CGU has been determined based on a value-in-use calculation using cash flow projections from the Group's Board approved five year plan to 2022/23. Terminal values have been included using 2.1% as the expected long-term average growth rate of the UK economy, and calculated using the Gordon growth model.

The pre-tax cash flows of each CGU have been discounted considering the weighted average market cost of capital. For the insurance excluding Bennetts CGU, the pre-tax discount rate has been assessed to be 9.7% (2017: 7.6%); for the Bennetts CGU it has been assessed to be 10.6% (2017: 7.6%); and for the travel and Destinology CGUs, it has been assessed to be 10.1% (2017: 10.0%). The methodology used to derive the discount rates has been further refined to reflect CGU-specific size premiums and more extensive industry benchmarking.

The value-in-use calculation is most sensitive to the assumptions used for growth and for the discount rate. Accordingly, stress testing has been performed on these key assumptions as part of the impairment test to determine whether any reasonably foreseeable change in any of the key assumptions would cause the recoverable amount of the CGU to be lower than its carrying amount.

In addition to the base case, four stress case scenarios were considered recalculating the terminal values using 1.05% growth and nil growth, increasing the relevant post-tax discount rate by 3% and reducing cash flows to 90%.

The headroom for each of the CGUs against carrying value in the base case scenario is as follows:

	Headroom £'m
Insurance, excluding Bennetts	639.2
Insurance, Bennetts	38.4
Travel, excluding Destinology	486.3
Travel, Destinology	42.2

The headroom calculated above is before taking into account any allocation of the Group's central cost base to any of the CGUs.

Consequently, no impairment of goodwill has been recognised.

The headroom calculated is most sensitive to the discount rate assumed. A quantitative sensitivity analysis for the pre-tax discount rate as at 31 January 2018 and its impact on the headroom against goodwill carrying values is as follows:

	Pre-tax discount rate	
	+1.0% £'m	-1.0% £'m
Insurance, excluding Bennetts	(247.5)	323.8
Insurance, Bennetts	(6.5)	8.2
Travel, excluding Destinology	(133.1)	174.6
Travel, Destinology	(8.6)	11.1

15 Impairment of intangible assets (continued)

a. Goodwill (continued)

In order for the headroom in each of the CGUs to decrease to zero, the pre-tax discount rate or cash flows per the Group's Board approved five year plan must increase/decrease by the following amounts:

	Pre-tax discount rate	Cash flows per five year plan
Insurance, excluding Bennetts	3.3%	(19.9%)
Insurance, Bennetts	15.0%	(58.8%)
Travel, excluding Destinology	5.8%	(35.0%)
Travel, Destinology	10.1%	(57.2%)

In addition to the above impairment testing on each CGU, the recoverable amount of the Group as a whole has been determined based on a value-in-use calculation using cash flow projections, including the Group's central cost base from the Group's Board approved five year plan to 2022/23 which was compared to the carrying value of the Group's net assets and against the net assets of the Parent Company. No impairments were considered necessary.

b. Other intangible assets

Separately identifiable intangible assets are valued and their appropriate useful lives established at the time of acquisition. The carrying values of these assets and their remaining useful lives are reviewed annually for indicators of impairment.

The Group has assessed the recoverable amount of intangible assets as at 31 January 2018 and concluded that no impairment is required.

16 Property, plant and equipment

	Freehold land & buildings £'m	Long leasehold land & buildings £'m	Cruise ships £'m	Assets in the course of construction £'m	Plant & equipment £'m	Total £'m
Cost						
At 1 February 2016	58.2	8.6	91.9	13.1	54.1	225.9
Additions	–	–	4.8	2.0	5.8	12.6
Disposals	(5.7)	–	–	–	(1.3)	(7.0)
At 31 January 2017	52.5	8.6	96.7	15.1	58.6	231.5
Additions	–	0.8	7.3	45.3	5.8	59.2
Disposals	–	–	–	–	(10.5)	(10.5)
Assets held for sale (note 33)	(7.5)	–	–	–	–	(7.5)
At 31 January 2018	**45.0**	**9.4**	**104.0**	**60.4**	**53.9**	**272.7**
Depreciation and impairment						
At 1 February 2016	13.0	1.7	34.0	–	36.6	85.3
Provided during the year	0.9	0.4	11.6	–	8.7	21.6
Disposals	(5.7)	–	–	–	(1.2)	(6.9)
At 31 January 2017	8.2	2.1	45.6	–	44.1	100.0
Provided during the year	0.9	0.1	12.4	–	6.7	20.1
Disposals	–	–	–	–	(10.1)	(10.1)
Assets held for sale (note 33)	(0.7)	–	–	–	–	(0.7)
At 31 January 2018	**8.4**	**2.2**	**58.0**	**–**	**40.7**	**109.3**
Net book value						
At 31 January 2018	**36.6**	**7.2**	**46.0**	**60.4**	**13.2**	**163.4**
At 31 January 2017	44.3	6.5	51.1	15.1	14.5	131.5

The net book value of plant and equipment includes £3.3m (2017: £2.9m) in respect of plant and machinery held under finance lease agreements. The accumulated depreciation on these assets is £2.5m (2017: £1.3m).

The depreciation charge for the year is analysed as follows:

	2018 £'m	2017 £'m
Cost of sales	**14.9**	13.6
Administrative and selling expenses (note 4)	**5.2**	8.0
	20.1	21.6

During the year, the Group disposed of assets with a net book value of £0.4m (2017: £0.1m). Profit arising on disposal was £nil (2017: £0.1m).

During the year, borrowing costs of £0.8m (2017: £0.5m) have been capitalised in property, plant and equipment and £0.2m (2017: £nil) has been capitalised in software in intangible assets, which represents 3.1% (2017: 3.3%) of borrowing costs eligible for capitalisation.

17 Financial assets and financial liabilities

a. Financial assets

	2018 £'m	2017 £'m
Fair value through profit or loss		
Foreign exchange forward contracts	**0.8**	3.7
Fuel oil swaps	**1.8**	1.3
Loan funds	**6.4**	6.5
Hedge funds	**7.5**	22.7
	16.5	34.2
Fair value through the hedging reserve		
Foreign exchange forward contracts	**35.3**	47.3
Fuel oil swaps	**1.3**	1.2
	36.6	48.5
Loans and receivables		
Deposits with financial institutions	**115.6**	309.5
	115.6	309.5
Available for sale investments		
Debt securities	**159.5**	79.5
Money market funds	**153.2**	122.1
Equities	**31.4**	–
Unlisted equity shares	**1.7**	1.3
Loan notes	**–**	5.2
	345.8	208.1
Total financial assets	**514.5**	600.3
Current	**230.4**	310.5
Non-current	**284.1**	289.8
	514.5	600.3

Debt securities, money market funds and deposits with financial institutions relate to monies held by the Group's insurance business and are subject to contractual restrictions and are not readily available to be used for other purposes within the Group.

17 Financial assets and financial liabilities (continued)

b. Financial liabilities

	2018 £'m	2017 £'m
Fair value through profit or loss		
Foreign exchange forward contracts	**1.5**	1.0
Fuel oil swaps	**0.1**	0.3
	1.6	1.3
Fair value through hedging reserve		
Foreign exchange forward contracts	**11.6**	1.0
Fuel oil swaps	**0.2**	–
	11.8	1.0
Loans and borrowings		
Bond and bank loans (note 26)	**443.0**	475.2
Obligations under finance leases and hire purchase	**3.4**	3.0
Bank overdrafts	**9.4**	9.3
	455.8	487.5
Total financial liabilities	**469.2**	489.8
Current	**35.5**	12.5
Non-current	**433.7**	477.3
	469.2	489.8

c. Fair values

Financial instruments held at fair value are valued using quoted market prices or other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, and comparison to similar instruments for which market observable prices exist. Assumptions and market observable inputs used in valuation techniques include foreign currency exchange rates and future oil prices.

The objective of using valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date which would have been determined by market participants acting at arm's length.

Observable prices are those that have been seen either from counterparties or from market pricing sources including Bloomberg. The use of these depends upon the liquidity of the relevant market.

The fair value and carrying value of financial assets and financial liabilities are materially the same. Financial instruments held at fair value have been categorised into a fair value measurement hierarchy as follows:

i) Level 1

These are valuation techniques that are based entirely on quoted market prices in an actively traded market and are the most reliable. All money market funds and debt securities are categorised as Level 1 as the fair value is obtained directly from the quoted market price.

ii) Level 2

These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets. The models incorporate various inputs including the credit quality of counterparties, interest rate curves and forward rate curves of the underlying instrument.

17 Financial assets and financial liabilities (continued)

c. Fair values (continued)

ii) Level 2 (continued)

All the derivative financial instruments are categorised as Level 2 as the fair values are obtained from the counterparty, brokers or valued using observable inputs. Where material, CVA/DVA risk adjustment is factored into the fair values of these instruments. As at 31 January 2018, the marked-to-market values of derivative assets are net of a credit valuation adjustment attributable to derivative counterparty default risk.

The fair values are periodically reviewed by the Group's treasury committees.

iii) Level 3

These are valuation techniques for which any one or more significant inputs are not based on observable market data.

The following tables provide the quantitative fair value hierarchy of the Group's financial assets and financial liabilities:

	As at 31 January 2018				As at 31 January 2017			
	Level 1 £'m	**Level 2 £'m**	**Level 3 £'m**	**Total £'m**	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
Financial assets measured at fair value								
Foreign exchange forwards	–	36.1	–	**36.1**	–	51.0	–	51.0
Fuel oil swaps	–	3.1	–	**3.1**	–	2.5	–	2.5
Loan funds	6.4	–	–	**6.4**	–	6.5	–	6.5
Equities	31.4	–	–	**31.4**	–	–	–	–
Hedge funds	7.5	–	–	**7.5**	–	22.7	–	22.7
Debt securities	159.5	–	–	**159.5**	79.5	–	–	79.5
Money market funds	153.2	–	**–**	**153.2**	–	122.1	–	122.1
Unlisted equity shares	–	–	1.7	**1.7**	–	–	1.3	1.3
Loan notes	–	–	–	**–**	–	–	5.2	5.2
Financial liabilities measured at fair value								
Foreign exchange forwards	–	13.1	–	**13.1**	–	2.0	–	2.0
Fuel oil swaps	–	0.3	–	**0.3**	–	0.3	–	0.3
Financial assets for which fair values are disclosed								
Deposits with institutions	–	115.6	–	**115.6**	–	309.5	–	309.5
Financial liabilities for which fair values are disclosed								
Bond and bank loans	–	443.0	–	**443.0**	–	475.2	–	475.2
Finance leases and hire purchase obligations	–	3.4	–	**3.4**	–	3.0	–	3.0
Bank overdrafts	–	9.4	–	**9.4**	–	9.3	–	9.3

17 Financial assets and financial liabilities (continued)

c. Fair values (continued)

iii) Level 3 (continued)

Following a review of the Group's investment portfolio during the year, loan funds, hedge funds and money market funds have been transferred from Level 2 to Level 1 in the hierarchy. There have been no non-recurring fair value measurements of assets and liabilities during the year (2017: none).

The value of the debt securities, money market funds, loan funds and equities are based upon publicly available market prices. Hedge funds are valued based upon a market value, which is not otherwise publicly available, provided by the hedge fund manager.

The unlisted equity shares represent the Group's investment in 'K' ordinary shares of Lyons Davidson LLP and have been valued considering the cost of the initial investment of £0.2m and discounted future cash flows. Future cash flows available for distribution of £2.3m have been discounted at the Group's post-tax weighted average cost of capital (WACC) adjusted for the insurance segment of 8.5%.

The loan notes have been impaired to £nil during the year. They represent two notes with a face value of £3.5m each which attract uncompounded interest at a rate of 5% and mature on 30 May 2018 and 30 May 2019. These notes are not actively traded in any market. Following a valuation using a market-participant discount rate including a credit valuation adjustment to allow for counterparty default risk these loan notes are no longer considered receivable. See note 33 for more details.

Foreign exchange forwards are valued using current spot and forwards rates discounted to present value. They are also adjusted for counterparty credit risk using CDS curves. Fuel oil swaps are valued with reference to the valuations provided by third parties, which use current Platts index rates, discounted to present value.

d. Cash flow hedges

i) Forward currency risk

During the year ended 31 January 2018, the Group designated 575 foreign exchange forward currency contracts as hedges of highly probable foreign currency cash expenses in future periods. These contracts are entered into to minimise the Group's exposure to foreign exchange risk.

	Designated in the year		**At 31 Jan 2018**		At 31 Jan 2017	
Foreign currency cash flow hedging instruments	Volume	£'m	**Volume**	**£'m**	Volume	£'m
Euro (EUR)	151	(5.4)	**188**	**28.6**	119	38.8
US dollar (USD)	145	(3.6)	**181**	**(4.3)**	96	5.2
Other currencies	279	(0.3)	**330**	**(0.6)**	189	2.3
Total	575	(9.3)	**699**	**23.7**	404	46.3

Hedging instruments for other currencies are in respect of Australian dollars, Canadian dollars, Swiss francs, Japanese yen, New Zealand dollars, Norwegian krone, Swedish krona, Thai baht and South African rand.

ii) Commodity price risk

The Group uses derivative financial instruments to mitigate the risk of adverse changes in the price of fuel. The Group enters into fixed price contracts (swaps) in the management of its fuel price exposures. These contracts are expected to reduce the volatility attributable to price fluctuations of fuel and are designated as cash flow hedges. Hedging the price volatility of forecast fuel purchases is in accordance with the risk management strategy outlined by the Board of Directors.

	Designated in the year		**At 31 Jan 2018**		At 31 Jan 2017	
Commodity cash flow hedging instruments	Volume	£'m	**Volume**	**£'m**	Volume	£'m
Hedging instruments	59	1.0	**123**	**3.9**	103	1.2

17 Financial assets and financial liabilities (continued)

d. Cash flow hedges (continued)

ii) Commodity price risk (continued)

The table below summarises the present value of the highly probable forecast cash flows that have been designated in a hedging relationship as at 31 January 2018. These cash flows are expected to become determined in profit or loss in the same period in which the cash flows occur.

Determination period	EUR £'m	USD £'m	Other currencies £'m	Currency hedges £'m	Fuel hedges £'m	Total £'m
1 February 18 to 31 July 18	55.5	22.2	11.9	89.6	1.2	90.8
1 August 18 to 31 January 19	50.6	18.2	9.4	78.2	1.1	79.3
1 February 19 to 31 July 19	282.1	11.5	6.8	300.4	0.5	300.9
1 August 19 to 31 January 20	23.7	6.2	2.2	32.1	–	32.1
1 February 20 to 31 July 20	–	2.0	–	2.0	–	2.0
1 August 20 to 31 January 21	156.9	–	–	156.9	–	156.9
Total	568.8	60.1	30.3	659.2	2.8	662.0

The foreign currency hedge which will be determined in July 2019 of £250.0m and August 2020 of £156.9m relates to the delivery of the ships (note 32).

During the year, the Group recognised net losses of £2.8m (2017: £11.1m gains) on cash flow hedging instruments through other comprehensive income into the hedging reserve. Additionally, the Group recognised net losses of £1.1m (2017: £34.2m gains) through other comprehensive income into the hedging reserve, in relation to the specific hedging instrument for the acquisition of two new ships (note 31). The overall net losses of £3.9m are offset by a net £0.3m gain on forecast transactions recognised in the financial statements. The Group recognised a £0.2m loss (2017: £0.8m loss) through the income statement in respect of the ineffective portion of hedges measured during the year.

Eleven hedges have been de-designated during the year ended 31 January 2018 as a result of cash flows forecast that are no longer expected to occur. During the year, the Group recognised an £18.8m gain through the income statement in respect of matured hedges, which has been recycled from other comprehensive income. No amounts have been removed from the hedging reserve to be included in the carrying value of non-financial assets and liabilities.

18 Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include debt securities, deposits with financial institutions, money market funds, equity funds, loan funds and hedge funds. The Group also enters into derivative transactions such as foreign exchange forward contracts, fuel and gas oil swaps and interest rate swaps to manage its exposures to various risks.

The Group is exposed to market risk, credit risk, liquidity risk, insurance risk and operational risk. The Group's senior management oversees the management of these risks, supported by the Group Treasury function and treasury committees within the key areas of the Group that advise on financial risks and the appropriate financial risk governance framework for the Group. These functions and committees ensure that the Group's financial risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities are for risk management purposes and are carried out by the Group's Treasury function. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

The Group manages concentration risk on its financial assets through a policy of diversification that is outlined in the Group Treasury Policy and approved by the Board. The policy defines the exposure limit by asset class and to third party institutions based on the credit ratings of the individual counterparties, combined with the views of the Board. On a monthly basis, exposure to each asset class and counterparty is calculated and reported, and compliance with the policy is monitored.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

a. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group is exposed to the following market risk factors:

- foreign currency risk;
- commodity price risk;
- equity prices; and
- interest rate risk.

The Group has policies and limits approved by the Board for managing the market risk exposure. These set out the principles that the business should adhere to for managing market risk and establishing the maximum limits the Group is willing to accept considering strategy, risk appetite and capital resources.

The Group has the ability to monitor market risk exposure on a daily basis and has established limits for each component of market risk.

The Group uses derivatives for hedging its exposure to foreign currency, fuel oil prices and interest rate risks. The market risk policy explicitly prohibits the use of derivatives for speculative purposes.

Equity exposures are managed within allocation parameters agreed by the Board and with reference to agreed benchmarks.

i) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial asset or liability will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

The Group uses foreign exchange forward contracts to manage the majority of its transaction exposures. The foreign exchange forward contracts, some of which are formally designated as hedging instruments, are entered into for periods consistent with the foreign currency exposure of the underlying transactions, generally from one to 24 months. The foreign exchange forward contracts vary with the level of expected foreign currency sales and purchases.

18 Financial risk management objectives and policies (continued)

a. Market risk (continued)

i) Foreign currency risk (continued)

The following table demonstrates the sensitivity of the fair value of forward exchange contracts to a 5% change in US dollar and Euro exchange rates, with all other variables held constant. The Group's exposure to foreign currency changes for all other currencies is not material. The impact is shown net of tax at the current rate.

	Sensitivity of +/- 5% rate change in	Effect on profit after tax and equity
2018	**EUR – Trading**	**+/– £4.2m**
	EUR – New ships	**+/– £18.1m**
	USD	**+/– £2.3m**
2017	EUR – Trading	+/– £4.9m
	EUR – New ship	+/– £14.4m
	USD	+/– £3.2m

ii) Commodity price risk

The Group is affected by the price volatility of certain commodities. Its operating activities require the ongoing purchase of fuel and gas oil to sail its cruise ships and therefore require a continuous supply of fuel and gas oil. The volatility in the price of fuel and gas oil has led to the decision to enter into commodity fuel and gas oil swap contracts. These contracts are expected to reduce the volatility attributable to price fluctuations of fuel and gas oil. Managing the price volatility of forecast oil purchases is in accordance with the risk management strategy outlined by the Board of Directors.

The Group manages the purchase price using forward commodity purchase contracts based on a 24 month forecast of the required fuel oil supply.

The following table shows the sensitivity of the fair value of fuel oil swaps to changes in the US dollar exchange rate with all other variables held constant. The impact is shown net of tax at the current rate.

	Sensitivity of +/- 5% rate change in	Effect on profit after tax and equity
2018	**USD – Fuel oil price**	**+/– £0.1m**
2017	USD – Fuel oil price	+/– £0.8m

iii) Interest rate risk

Interest rate risk arises primarily from medium and long-term investments in fixed interest securities. The market value of these investments is affected by the movement in interest rates. This is managed by a policy of holding the majority of investments to maturity by closely matching asset and liability duration.

It is also ensured that the investment portfolio has a diversified range of investments such that there is a combination of fixed and floating rate securities, as well as other types of investments such as RPI linked securities.

Interest rate risk also arises in respect of the Group's borrowings where the interest rate attaching to those borrowings is not fixed. Where the Group perceives there to be a significant interest rate risk, it manages its exposure to such risks by purchasing interest rate caps to limit the risk.

The following table shows the sensitivity of financial assets and liabilities to changes in the LIBOR rate. The impact is shown net of tax at the current rate.

	Sensitivity of +/- 0.25% rate change in	Effect on profit after tax and equity
2018	**LIBOR**	**+/– £0.1m**
2017	LIBOR	+/– £0.8m

18 Financial risk management objectives and policies (continued)

b. Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk in relation to its financial and reinsurance assets, outstanding derivatives and trade and other receivables. The Group assesses its counterparty exposure in relation to the investment of surplus cash, fuel oil and foreign currency contracts, and undrawn credit facilities. The Group primarily uses published credit ratings to assess counterparty strength and therefore to define the credit limit for each counterparty in accordance with approved treasury policies.

The credit risk in respect of trade and other receivables is limited as payment from customers is generally required before services are provided. At 31 January 2018, the maximum exposure to credit risk for trade receivables by operating segment was as follows:

	2018 £'m	2017 £'m
Insurance	**136.5**	132.8
Travel	**4.0**	4.7
Emerging Businesses and Central Costs	**4.4**	4.7
	144.9	142.2

Amounts past due but not impaired by operating segment was as follows:

	2018 £'m	2017 £'m
Insurance	**11.3**	9.2
Travel	**0.8**	2.1
Emerging Businesses and Central Costs	**2.0**	2.3
	14.1	13.6

Management believes that the unimpaired amounts that are current and past due by more than 30 days are still collectable in full, based on historical payment behaviour.

Credit risk in relation to deposits and derivative counterparties is managed by the Group's Treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed on a regular basis, and updated throughout the year subject to approval by the Group Board. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through any potential counterparty failure.

The Group is exposed to the risk of default on the reinsurance arrangements in its insurance business when amounts recoverable under those arrangements become due. Credit risk in respect of reinsurance arrangements is assessed at the time of entering into a reinsurance contract. The Group's reinsurance programme is only placed with reinsurers which meet the Group's financial strength criteria.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 January 2018 and 31 January 2017 is the carrying amount except for derivative financial instruments. The Group's maximum exposure for financial guarantees and financial derivative instruments is noted under liquidity risk. None of the financial assets were impaired at the reporting date.

18 Financial risk management objectives and policies (continued)

b. Credit risk (continued)

The Group's financial assets and reinsurance assets are analysed by Moody's rating as follows:

Ratings analysis

31 January 2018

£'m	AAA	AA	A	< A	Unrated	Total
Debt securities	28.9	119.1	11.5	–	–	159.5
Money market funds	153.2	–	–	–	–	153.2
Deposits with financial institutions	–	60.8	54.8	–	–	115.6
Derivative assets	–		38.6	0.6	–	39.2
Loan funds	–	–	–	–	6.4	6.4
Hedge funds	–	–	–	–	7.5	7.5
Equities	–	–	–	–	31.4	31.4
Unlisted equity shares	–	–	–	–	1.7	1.7
	182.1	179.9	104.9	0.6	47.0	514.5
Reinsurance assets	–	54.6	44.8	–	0.8	100.2
Total	**182.1**	**234.5**	**149.7**	**0.6**	**47.8**	**614.7**

31 January 2017

£'m	AAA	AA	A	< A	Unrated	Total
Debt securities	79.5	–	–	–	–	79.5
Money market funds	122.1	–	–	–	–	122.1
Deposits with financial institutions	30.0	90.9	188.6	–	–	309.5
Derivative assets	–	50.0	3.5	–	–	53.5
Loan notes	–	–	–	–	5.2	5.2
Loan funds	–	–	–	–	6.5	6.5
Hedge funds	–	–	–	–	22.7	22.7
Unlisted equity shares	–	–	–	–	1.3	1.3
	231.6	140.9	192.1	–	35.7	600.3
Reinsurance assets	–	57.5	46.7	–	1.0	105.2
Total	231.6	198.4	238.8	–	36.7	705.5

c. Liquidity risk

Liquidity risk is the risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The Group's approach to managing liquidity risk is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash or availability on its revolving credit facility. The Group manages its obligations to pay claims to policyholders as they fall due by matching the maturity of investments to the expected maturity of claims payments.

18 Financial risk management objectives and policies (continued)

c. Liquidity risk (continued)

The table below analyses the maturity of the Group's financial liabilities and insurance contract liabilities on contractual undiscounted payments. The analysis of non-derivative financial liabilities is based on the remaining period at the reporting date to the contractual maturity date. The analysis of claims outstanding is based on the expected dates on which the claims will be settled.

31 January 2018 £'m	On demand	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Loans and borrowings	5.5	35.0	20.0	140.0	250.0	450.5
Interest on loans and borrowings	–	12.1	11.6	31.4	12.7	67.8
Insurance contract liabilities	–	183.1	95.6	143.7	128.3	550.7
Other liabilities	140.9	–	–	–	–	140.9
Trade and other payables	185.0	–	–	–	–	185.0
Derivative liabilities	–	4.5	4.9	4.0	–	13.4
	331.4	**234.7**	**132.1**	**319.1**	**391.0**	**1,408.3**

31 January 2017 £'m	On demand	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Loans and borrowings	9.4	–	–	480.0	–	489.4
Interest on loans and borrowings	0.1	13.3	13.1	3.2	–	29.7
Insurance contract liabilities	–	193.0	129.1	182.7	120.1	624.9
Other liabilities	138.9	–	–	–	–	138.9
Trade and other payables	182.5	–	–	–	–	182.5
Derivative liabilities	–	2.1	0.2	–	–	2.3
	330.9	208.4	142.4	665.9	120.1	1,467.7

The amounts included above do not include the financing arrangements for the purchase of two new cruise ships as detailed in note 32.

d. Insurance risk

Insurance risk arises from the inherent uncertainties as to the occurrence, cost and timing of insured events that could lead to significant individual or aggregated claims in terms of quantity or value. This could be for a number of reasons, including weather-related events, large individual claims, changes in claimant behaviour patterns such as increased levels of fraudulent activities, the use of PPOs, prospective or retrospective legislative changes, unresponsive and inaccurate pricing or reserving methodologies and the deterioration in the Group's ability to effectively and efficiently handle claims while delivering excellent customer service.

The Group manages insurance risk within its risk management framework as set out by the Board. The key policies and processes of mitigating these risks have been implemented which include underwriting partnership arrangements, reinsurance and excess of loss contracts, pricing policies and claims management, and administration policies.

i) Underwriting and pricing risk

The Group primarily underwrites motor insurance for private cars in the UK. The book consists of a large number of individual risks which are widely spread geographically which helps to minimise concentration risk. The Group has controls in place to restrict access to its products to only those risks it wishes to underwrite.

The Group has management information to allow it to monitor underwriting performance on a continuous basis and the ability to make pricing and underwriting changes quickly. The Group undertakes detailed statistical analyses of underwriting experience for each rating factor and combinations of rating factors to enable it to adjust pricing for emerging trends.

18 Financial risk management objectives and policies (continued)

d. Insurance risk (continued)

ii) Reserving risk

Reserving risk is the risk that insufficient funds have been set aside to settle claims as they fall due. The Group undertakes regular internal actuarial reviews and commissions external actuarial reviews at least once a year. These reviews estimate the future liabilities in order to consider the adequacy of the provisions.

Claims which are subject to PPOs are a significant source of uncertainty in the claims reserves. Cash flow projections are undertaken for PPO claims to estimate the gross and net of reinsurance provisions required. PPO provisions are discounted to reflect expectations of future investment returns and cost inflation.

iii) Reinsurance

The Group purchases reinsurance to reduce the impact of individual large losses or accumulations from a single catastrophe event. During 2016, the Group entered into a funds-withheld quota share reinsurance contract that reinsures 75% of the Group's motor claim risks limited by a loss ratio cap of 120%, effective for three years from 1 February 2016. A new quota share reinsurance contract has been entered into that reinsures 80% of the Group's motor claims risks, effective from 1 February 2019. Prior to this, the Group had quota share reinsurance in place for third party branded motor business for drivers aged under 50. The Group also purchases individual excess of loss protections for the motor portfolio to limit the impact of a single large claim. Similar protections are in place for all years for which the Group has written motor business.

Reinsurance recoveries on individual excess of loss protections can take many years to collect, particularly if a claim is subject to a PPO. This means that the Group has exposure to reinsurance credit risk for many years. Reinsurers are therefore required to have strong credit ratings and their financial health is regularly monitored.

iv) Sensitivities

The following table demonstrates the impact on profit and loss and equity of a 1 percentage point variation in the recorded loss ratio at 31 January 2018 and 31 January 2017. The impact of a 1% change in claims outstanding is also shown at the same dates. The impact is shown net of reinsurance and tax at the current rate.

	2018	2017
Impact of 1 percentage point change in loss ratio	**+/– £1.0m**	+/– £1.4m
Impact of 1% change in claims outstanding	**+/– £2.2m**	+/– £2.9m
Impact of a 0.25 percentage point change in discount rate for PPOs	**+/– £1.7m**	+/– £2.7m

e. Operational risk

Effective operational risk management requires the Group to identify, assess, manage, monitor, report and mitigate all areas of exposure. The Group operates across a range of segments and operational risk is inherent in all of the Group's products and services, arising from the operation of assets, from external events and dependencies, and from internal processes and systems.

The Group manages its operational risk through the risk management framework agreed by the Board, and through the use of risk management tools which together ensure that operational risks are identified, managed and mitigated to the level accepted, and that contingency processes and disaster recovery plans are in place. Regular reporting is undertaken to segment boards and includes details of new and emerging risks, as well as monitoring of existing risks. Testing of contingency processes and disaster recovery plans is undertaken to ensure the effectiveness of these processes.

All of the Group's operations are dependent on the proper functioning of its IT and communication systems; on its properties and other infrastructure assets; on the need to adequately maintain and protect customer and employee data and other information; and on the ability of the Group to attract and retain staff. Specific areas of operational risk by segment include:

i) Insurance

The Insurance segment is required to comply with various operational regulatory requirements primarily in the UK but also within Gibraltar for its underwriting business. To the extent that significant external events could increase the incidence of claims, these would place additional strain on the claims handling function but any financial impact of such an event is considered to be an insurance risk.

18 Financial risk management objectives and policies (continued)

e. Operational risk (continued)

ii) Travel

The travel segment operates two cruise ships which are the Group's largest trading assets. Risk to the operation of these cruise ships arises from the impact of mechanical or other malfunction, non-compliance with regulatory requirements, and from global weather and socio-economic events. The tour holidays operated by the segment are also affected by global weather and socio-economic events which impact either the Group directly or its suppliers. The travel segment is in operation with multiple suppliers which minimises the impact of any socio-economic events affecting its suppliers.

iii) Emerging Businesses and Central Costs

The financial services product business is required to comply with various operational regulatory requirements in the UK.

The healthcare business provides a range of domiciliary services. Risk to the operation of this service arises mainly from the availability of appropriately skilled staff to deliver the level and standard of care required, and from the oversight of the delivery of these services.

19 Interests in unconsolidated structured entities

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual agreements. The Group has interests in unconsolidated structured entities in the form of investment funds comprising:

- hedge funds;
- bank loan funds; and
- money market funds.

The nature and purpose of the hedge and bank loan funds is to diversify the investment portfolio and enhance the overall yield, whilst maintaining an acceptable level of risk for the portfolio as a whole.

The primary activity of the hedge funds is to invest in a wide range of securities and markets, and the funds may take a variety of positions in these markets. Bank loan funds invest in secured loans to companies rated below investment grade.

The nature and purpose of the money market funds is to provide maximum security and liquidity for the funds invested whilst also providing an adequate return. The money market funds used by the Group are all members of the Institutional Money Market Funds Association. They are thus required to maintain specified liquidity and diversification characteristics of their underlying portfolios which comprise investment grade investments in financial institutions.

The Group invests in unconsolidated structured entities as part of its investment activities. The Group does not sponsor any of the unconsolidated structured entities.

At 31 January 2018, the Group's total interest in unconsolidated structured entities was £167.1m analysed as follows:

	Carrying value £'m	Interest income £'m	Fair value gains £'m
Loan funds	**6.4**	**0.2**	**–**
Hedge funds	**7.5**	**–**	**0.3**
Money market funds	**153.2**	**0.3**	**–**

These investments are typically managed under credit risk management as described in note 18. The Group's maximum exposure to loss on the interests presented above is the carrying amount of the Group's investments. No further loss can be made by the Group in relation to these investments. For this reason, the total assets of the entities are not considered meaningful for the purposes of understanding the related risks and so have not been presented.

20 Trade and other receivables

	2018 £'m	2017 £'m
Trade receivables	**144.9**	142.2
Other receivables	**17.5**	15.1
Prepayments	**25.8**	20.1
Deferred acquisition costs	**17.7**	17.8
Other taxes and social security costs	**4.1**	3.5
	210.0	198.7

The ageing of trade receivables is as follows:

			Past due				
	Total £'m	Neither past due nor impaired £'m	< 30 days £'m	30-60 days £'m	61-90 days £'m	91-120 days £'m	> 120 days £'m
2018	**144.9**	**130.9**	**4.5**	**1.8**	**1.0**	**3.7**	**3.0**
2017	142.2	128.6	4.1	2.2	1.3	1.2	4.8

As at 31 January 2018, impairment provisions totalling £10.7m (2017: £9.2m) were made against trade receivables with an initial value of £155.6m (2017: £151.4m). The movements in the provision for impairment of receivables are as follows:

	Individually impaired £'m	Collectively impaired £'m	Total £'m
At 1 February 2016	0.3	8.2	8.5
Charge for the year	1.4	8.1	9.5
Utilised in the year	(1.3)	(7.4)	(8.7)
Unused amounts reversed	–	(0.1)	(0.1)
At 31 January 2017	0.4	8.8	9.2
Charge for the year	2.1	9.4	11.5
Utilised in the year	(1.4)	(8.5)	(9.9)
Unused amounts reversed	–	(0.1)	(0.1)
At 31 January 2018	**1.1**	**9.6**	**10.7**

See note 18 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired. We expect trade and other receivables to be normally settled within 12 months.

21 Cash and cash equivalents

	2018 £'m	2017 £'m
Cash at bank and in hand	**33.4**	55.5
Short-term deposits	**49.8**	53.2
Cash and short-term deposits	**83.2**	108.7
Money market funds	**153.2**	122.1
Bank overdraft	**(9.4)**	(9.3)
Cash and cash equivalents in the cash flow statement	**227.0**	221.5

Included within cash and cash equivalents are amounts held by the Group's travel and insurance businesses which are subject to contractual or regulatory restrictions. These amounts held are not readily available to be used for other purposes within the Group and total £214.0m (2017: £206.4m).

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

22 Trade and other payables

	2018 £'m	2017 £'m
Trade and other payables	**130.1**	123.6
Other taxes and social security costs	**13.5**	12.1
Assets in the course of construction	**2.8**	2.8
Accruals	**38.6**	44.0
	185.0	182.5

All trade and other payables are current in nature.

23 Retirement benefit schemes

The Group operates retirement benefit schemes for the employees of the Group consisting of defined contribution plans and a defined benefit plan.

a. Defined contribution plans

There are a number of defined contribution schemes in the Group. The total charge for the year in respect of the defined contribution schemes was £0.9m (2017: £0.8m).

The assets of these schemes are held separately from those of the Group in funds under the control of Trustees.

b. Defined benefit plan

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

The scheme is governed by the employment laws of the UK. The level of benefits provided depends on the member's length of service and average salary whilst a member of the scheme. The scheme requires contributions to be made to a separately administered fund which is governed by a Board of Trustees, and consists of an equal number of employer and employee representatives. The Board of Trustees is responsible for the administration of the plan assets and for the definition of the investment strategy.

The long-term investment objectives of the Trustees and the Group are to limit the risk of the assets failing to meet the liabilities of the scheme over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of the scheme. To meet those objectives, the scheme's assets are invested in different categories of assets, with different maturities designed to match liabilities as they fall due. The investment strategy will continue to evolve over time and is expected to match the liability profile increasingly closely. The pension liability is exposed to inflation rate risks and changes in the life expectancy of members. As the plan assets include investments in quoted equities, the Group is exposed to equity market risk. The Group has provided a super security to the Trustees of the Saga scheme, which ranks before any liabilities under the senior facilities agreement (as detailed in note 26). The value of the security is capped at £32.5m.

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

	2018 £'m	2017 £'m
Fair value of scheme assets	**307.3**	276.8
Present value of defined benefit obligation	**(314.3)**	(290.5)
Defined benefit scheme liability	**(7.0)**	(13.7)

The present values of the defined benefit obligation, the related current service cost and any past service costs have been measured using the projected unit credit method.

23 Retirement benefit schemes (continued)

b. Defined benefit plan (continued)

The following table summarises the components of the net benefit expense recognised in the income statement and amounts recognised in the statement of financial position for the schemes for the year ended 31 January 2018:

	Fair value of scheme assets £'m	Defined benefit obligation £'m	Defined benefit scheme liability £'m
1 February 2017	276.8	(290.5)	**(13.7)**
Pension cost charge to income statement			
Current service cost paid in cash during the period	–	(9.3)	**(9.3)**
Non-cash current service cost uplift	–	(5.3)	**(5.3)**
Total current service cost	–	(14.6)	**(14.6)**
Net interest	8.2	(8.4)	**(0.2)**
Included in income statement	8.2	(23.0)	**(14.8)**
Benefits paid	(6.8)	6.8	**–**
Return on plan assets (excluding amounts included in net interest expense)	17.2	–	**17.2**
Actuarial changes arising from changes in demographic assumptions	–	4.0	**4.0**
Actuarial changes arising from changes in financial assumptions	–	(6.1)	**(6.1)**
Experience adjustments	–	(4.9)	**(4.9)**
Sub-total included in other comprehensive income	10.4	(0.2)	**10.2**
Total contributions by employer	11.9	(0.6)	**11.3**
31 January 2018	**307.3**	**(314.3)**	**(7.0)**

The following table summarises the components of the net benefit expense recognised in the income statement and amounts recognised in the statement of financial position for the schemes for the year ended 31 January 2017:

	Fair value of scheme assets £'m	Defined benefit obligation £'m	Defined benefit scheme liability £'m
1 February 2016	218.6	(237.4)	**(18.8)**
Pension cost charge to income statement			
Current service cost paid in cash during the period	–	(9.0)	**(9.0)**
Non-cash current service cost uplift	–	(1.0)	**(1.0)**
Total current service cost	–	(10.0)	**(10.0)**
Net interest	8.2	(8.7)	**(0.5)**
Included in income statement	8.2	(18.7)	**(10.5)**
Benefits paid	(11.2)	11.2	**–**
Return on plan assets (excluding amounts included in net interest expense)	49.7	–	**49.7**
Actuarial changes arising from changes in demographic assumptions	–	29.5	**29.5**
Actuarial changes arising from changes in financial assumptions	–	(78.8)	**(78.8)**
Experience adjustments	–	4.2	**4.2**
Sub-total included in other comprehensive income	38.5	(33.9)	**4.6**
Total contributions by employer	11.5	(0.5)	**11.0**
31 January 2017	**276.8**	**(290.5)**	**(13.7)**

23 Retirement benefit schemes (continued)

b. Defined benefit plan (continued)

The major categories of assets in the Saga scheme are as follows:

	2018 £'m	2017 £'m
Equities	**61.4**	63.7
Bonds	**160.3**	135.9
Property	**17.9**	25.7
Hedge funds	**63.0**	50.5
Insured annuities	**3.5**	–
Cash and other	**1.2**	1.0
Total	**307.3**	276.8

Equities and bonds are all quoted in active markets whilst property and hedge funds are not.

The principal assumptions used in determining pension benefit obligations for the Saga scheme are shown below:

	2018	2017
Real rate of increase in salaries	**0.00%**	0.00%
Real rate of increase of pensions in payment	**2.95%**	3.15%
Real rate of increase of pensions in deferment	**2.90%**	3.15%
Discount rate – pensioner	**2.60%**	2.85%
Discount rate – non pensioner	**2.60%**	2.95%
Inflation – pensioner	**3.10%**	3.40%
Inflation – non pensioner	**3.05%**	3.40%
Life expectancy of a member retiring in 20 years' time — Male	**27.8 yrs**	28.0 yrs
Life expectancy of a member retiring in 20 years' time — Female	**29.8 yrs**	30.3 yrs

Mortality assumptions are set using standard tables based on specific experience where available and allow for future mortality improvements. The Saga scheme assumption is that a member currently aged 60 will live on average for a further 27 years if they are male and on average for a further 29 years if they are female.

A quantitative sensitivity analysis for significant assumptions as at 31 January 2018 and their impact on the net defined benefit obligation is as follows:

Assumptions	Discount rate		Future inflation		Life expectancy		Future salary
Sensitivity	+/– 0.25%		+/– 0.25%		+/– 1 year		+/– 0.5%
	Increase	Decrease	Increase	Decrease	Increase	Decrease	
Impact £'m	(15.4)	17.2	13.2	(10.9)	9.9	(9.1)	0.0

Note: a positive impact represents an increase in the net defined benefit liability.

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of financial position.

The expected contribution to the Saga scheme for the next year is £10.6m and average duration of the defined benefit plan obligation at the end of the reporting period is 21 years.

Formal actuarial valuations take place every three years for the scheme. The assumptions adopted for actuarial valuations are determined by the Trustees and are agreed with the Group and are normally more prudent than the assumptions adopted for IAS 19 purposes, which are best estimate. Where a funding deficit is identified, the Group and the Trustees may agree a deficit recovery plan to pay additional contributions above those needed to fund new pensions accruing in the scheme.

23 Retirement benefit schemes (continued)

b. Defined benefit plan (continued)

The latest valuation of the Saga scheme was at 31 January 2017. Further to this valuation, a recovery plan is in place for the scheme. Under the agreed recovery plan, the Group made an additional payment of £2.0m during the year ended 31 January 2018, and will make payments totalling a further of £30.7m over the next seven years, with the last payment being made by 29 February 2024. The total expected contributions in the year ending 31 January 2019 are £10.6m, inclusive of a £2.5m additional payment. No additional liabilities are required to be accrued in relation to the recovery plan since the employer has the right to a refund if a surplus is recognised and the Trustees of the scheme are unable to wind up the scheme before any refund is made. Alongside the valuation process, the Group has reviewed the design of its range of employee retirement benefits such that the cash contributions into the Saga defined benefit pension scheme are expected to reduce by circa £2m per annum.

24 Insurance contract liabilities and reinsurance assets

The analysis of gross and net insurance liabilities is as follows:

	2018 £'m	2017 £'m
Gross		
Claims outstanding	**467.0**	517.0
Provision for unearned premiums	**115.0**	125.3
Total gross liabilities	**582.0**	642.3

	2018 £'m	2017 £'m
Recoverable from reinsurers		
Claims outstanding	**94.0**	93.8
Provision for unearned premiums	**6.2**	3.7
Total reinsurers' share of insurance liabilities (as presented on the face of the statement of financial position)	**100.2**	97.5
Amounts recoverable under funds — withheld quota share agreements recognised within trade payables:		
– Claims outstanding	**100.2**	55.5
– Provision for unearned premiums	**63.2**	66.1
Total reinsurers' share of insurance liabilities after funds — withheld quota share	**263.6**	219.1
Analysed as:		
Claims outstanding	**194.2**	149.3
Provision for unearned premiums	**69.4**	69.8
Total reinsurers' share of insurance liabilities after funds — withheld quota share	**263.6**	219.1

	2018 £'m	2017 £'m
Net		
Claims outstanding	**373.0**	423.2
Provision for unearned premiums	**108.8**	121.6
Total net insurance liabilities	**481.8**	544.8
Amounts recoverable under funds — withheld quota share agreements recognised within trade payables:		
– Claims outstanding	**(100.2)**	(55.5)
– Provision for unearned premiums	**(63.2)**	(66.1)
Total net insurance liabilities after funds — withheld quota share	**318.4**	423.2
Analysed as:		
Claims outstanding	**272.8**	367.7
Provision for unearned premiums	**45.6**	55.5
Total net insurance liabilities after funds — withheld quota share	**318.4**	423.2

24 Insurance contract liabilities and reinsurance assets (continued)

Reconciliation of movements in claims outstanding	2018 £'m	2017 £'m
Gross claims outstanding at 1 February	**517.0**	561.6
Less: reinsurance claims outstanding	**(149.3)**	(101.6)
Net claims outstanding at 1 February	**367.7**	460.0
Gross claims incurred	**156.1**	149.4
Less: reinsurance recoveries	**(127.1)**	(103.8)
Net claims incurred (note 3b)	**29.0**	45.6
Gross claims paid	**(206.1)**	(194.0)
Less: received from reinsurance	**82.2**	56.1
Net claims paid	**(123.9)**	(137.9)
Gross claims outstanding at 31 January	**467.0**	517.0
Less: reinsurance claims outstanding	**(194.2)**	(149.3)
Net claims outstanding at 31 January	**272.8**	367.7

Reconciliation of movements in the provision for net unearned premiums	2018 £'m	2017 £'m
Gross unearned premiums at 1 February	**125.3**	141.7
Less: unearned reinsurance premiums	**(69.8)**	(4.8)
Net unearned premiums at 1 February	**55.5**	136.9
Gross premiums written	**249.3**	276.0
Less: outward reinsurance premium	**(139.5)**	(188.1)
Net premiums written	**109.8**	87.9
Gross premiums earned	**(259.6)**	(292.4)
Less reinsurance premium earned	**139.9**	123.1
Net premiums earned (note 3a)	**(119.7)**	(169.3)
Gross unearned premiums at 31 January	**115.0**	125.3
Less: unearned reinsurance premiums	**(69.4)**	(69.8)
Net unearned premiums at 31 January	**45.6**	55.5

The loss on purchasing reinsurance in 2018 was £19.5m (2017: £16.5m loss).

On 27 February 2017, the UK Government announced its decision to reduce the Ogden discount rate from 2.5% to -0.75%. The insurance liabilities presented here and on the face of the Group's balance sheet incorporate the effect of this change.

a. Discounting

Claims outstanding provisions are calculated on an undiscounted basis, with the exception of PPOs made by the courts as part of a bodily injury claim settlement. Claims outstanding provisions for PPOs are discounted at a rate of -1.5% (2017: -1.5%) representing the Group's view on long-term carer wage inflation less the expected return on holding the invested financial assets associated with these claims.

The value of claims outstanding before discounting was £550.7m (2017: £624.9m) gross of reinsurance and £302.8m (2017: £410.0m) net of reinsurance.

The period between the balance sheet date and the estimated final payment date was calculated using Ogden life expectancy tables, with appropriate adjustments where necessary for impaired life. The average life expectancy from PPO settlement date to the final PPO payment was 37 years (2017: 39 years) and the rate of investment return used to determine the discounted value of claims provisions was 2.0% (2017: 2.0%).

24 Insurance contract liabilities and reinsurance assets (continued)

b. Analysis of claims incurred: claims development tables

The following tables detail the Group's initial estimate of ultimate gross and net claims incurred over the past ten years and the re-estimation at subsequent financial period ends.

The following table analyses the gross incurred claims (before deducting reinsurance recoveries) on an accident year basis:

	Financial year ended 31 January												
Analysis of claims incurred	2009 £'m	2010 £'m	2011 £'m	2012 £'m	2013 £'m	2014 £'m	2015 £'m	2016 £'m	2017 £'m	2018 £'m	Total £'m	Claims paid £'m	Gross claims outstanding £'m
Accident year													
2009 and earlier	235.8	(7.8)	(5.3)	(7.6)	(10.0)	1.6	(6.6)	(10.4)	(4.4)	0.4			38.7
2010		285.0	(0.1)	(6.9)	(4.0)	(5.5)	(3.6)	(1.1)	(5.2)	(3.6)	255.0	(246.8)	8.2
2011			307.0	(0.7)	(7.6)	(4.6)	(18.8)	(9.0)	(1.3)	(4.7)	260.3	(241.9)	18.4
2012				330.3	(25.6)	(33.8)	(7.3)	(19.5)	(10.5)	(9.4)	224.2	(214.1)	10.1
2013					321.2	(14.2)	(45.2)	(22.1)	(13.4)	(5.6)	220.7	(197.8)	22.9
2014						281.9	(18.9)	(25.7)	(7.6)	(11.1)	218.6	(173.0)	45.6
2015							271.3	(6.0)	(6.2)	(8.2)	250.9	(186.1)	64.8
2016								280.4	4.1	(19.3)	265.2	(182.3)	82.9
2017									197.2	4.7	201.9	(131.1)	70.8
2018										194.9	194.9	(100.7)	94.2
	235.8	277.2	301.6	315.1	274.0	225.4	170.9	186.6	152.7	138.1			456.6
Claims handling costs	8.1	9.0	10.1	15.6	17.4	17.2	18.0	21.5	20.6	20.9			10.4
	243.9	**286.2**	**311.7**	**330.7**	**291.4**	**242.6**	**188.9**	**208.1**	**173.3**	**159.0**			467.0

The development of the associated loss ratios on the same basis is as follows:

	Financial year ended 31 January									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Accident year										
2009	75%	75%	75%	73%	72%	72%	68%	68%	67%	67%
2010		79%	79%	77%	76%	75%	74%	73%	72%	71%
2011			80%	80%	78%	77%	72%	70%	69%	68%
2012				77%	71%	63%	62%	57%	55%	52%
2013					76%	72%	62%	56%	53%	52%
2014						75%	70%	63%	61%	58%
2015							81%	80%	78%	75%
2016								87%	88%	82%
2017									68%	69%
2018										75%

24 Insurance contract liabilities and reinsurance assets (continued)

b. Analysis of claims incurred: claims development tables (continued)

The following table analyses the net incurred claims (after deducting reinsurance recoveries) on an accident year basis:

	Financial year ended 31 January												
Analysis of claims incurred	2019 £'m	2010 £'m	2011 £'m	2012 £'m	2013 £'m	2014 £'m	2015 £'m	2016 £'m	2017 £'m	2018 £'m	Total £'m	Claims paid £'m	Net claims outstanding £'m
Accident year													
2009 and earlier	187.4	(5.5)		(9.2)	(11.0)	(1.2)	(3.2)	(3.0)	(3.6)				16.4
2010		202.1		(4.3)	(4.0)	(5.5)	(3.1)	(2.1)	(5.4)	(3.3)	174.4	(167.5)	6.9
2011			266.0	(2.8)	(5.2)	(4.6)	(13.3)	(7.2)	(7.4)	(5.6)	219.9	(206.6)	13.3
2012				302.3	(25.6)	(31.1)	(0.6)	(17.3)	(11.9)	(6.4)	209.4	(201.3)	8.1
2013					315.4	(14.6)	(22.9)	(19.8)	(14.6)	(10.2)	233.3	(220.1)	13.2
2014						276.8	(14.7)	(23.4)	(11.0)	(9.8)	217.9	(183.0)	34.9
2015							219.1	5.3	(9.2)	(11.1)	204.1	(156.8)	47.3
2016								220.9	3.2	(15.1)	209.0	(143.8)	65.2
2017									94.0	1.5	95.5	(81.2)	14.3
2018										78.5	78.5	(35.7)	42.8
	187.4	196.6	266.0	286.0	269.6	219.8	161.3	153.4	34.1	18.5			262.4
Claims handling costs	8.1	9.0	10.1	15.6	17.4	17.2	18.0	21.5	11.5	10.5			10.4
	195.5	**205.6**	**276.1**	**301.6**	**287.0**	**237.0**	**179.3**	**174.9**	**45.6**	**29.0**			272.8

The development of the associated loss ratios on the same basis is as follows:

	Financial year ended 31 January									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Accident year										
2009	71%	71%	71%	70%	68%	68%	67%	67%	66%	66%
2010		73%	73%	72%	70%	68%	67%	66%	64%	63%
2011			78%	78%	76%	75%	71%	69%	67%	65%
2012				76%	70%	62%	62%	57%	54%	53%
2013					75%	72%	66%	62%	58%	56%
2014						75%	71%	65%	62%	59%
2015							67%	69%	66%	63%
2016								70%	71%	66%
2017									56%	56%
2018										66%

Favourable claims development over the year has resulted in a £60.0m (2017: £59.9m) reduction in the net claims incurred in respect of prior years.

25 Other liabilities

	2018 £'m	2017 £'m
Advance receipts	**131.2**	123.4
Deferred revenue	**9.7**	11.5
	140.9	134.9
Current	**125.6**	133.8
Non-current	**15.3**	1.1
	140.9	134.9

Advance receipts comprises amounts received within the travel segment for holidays and cruises with departure dates after the reporting date, and insurance premiums and sales revenues received in the insurance segment in respect of insurance policies which commence after the reporting date.

Deferred revenue represents the unearned elements of revenue relating to the media business. The amount comprises subscriptions for magazines to be delivered after the reporting date and revenue for advertising to be included after the reporting date.

26 Loans and borrowings

	2018 £'m	2017 £'m
Bond	**250.0**	–
Bank loans	**180.0**	380.0
Revolving credit facility	**15.0**	100.0
Accrued interest payable	**2.2**	0.1
	447.2	480.1
Less: deferred issue costs	**(4.2)**	(4.9)
	443.0	475.2

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

At 31 January 2018, the Group had drawn £15.0m of its £100.0m revolving credit facility and since the refinancing £20.0m of the term loan has been repaid.

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

During the period, the Group charged £13.5m (2017: £17.6m) to the income statement in respect of fees and interest associated with the bonds, term loan and revolving credit facility. In addition, finance costs recognised in the income statement includes £0.7m (2017: £1.0m) relating to interest on finance lease liabilities, net finance expense on pension schemes and other interest costs, £2.3m (2017: £nil) of net fair value losses on derivatives and £4.3m (2017: £nil) of accelerated amortisation of debt issue costs in relation to previous debt held.

27 Reconciliation of liabilities arising from financing activities

The following tables analyse the cash and non-cash movements for liabilities arising from financing activities:

			Non-cash changes				
	2017 £'m	Cash flows £'m	Acquisition £'m	Foreign exchange movement £'m	Fair value changes £'m	Other £'m	**2018 £'m**
Finance lease liabilities (note 32)	3.0	(1.1)	1.5	–	–	–	**3.4**
Bank loans (note 26)	380.0	(200.0)	–	–	–	–	**180.0**
Revolving credit facility (note 26)	100.0	(85.0)	–	–	–	–	**15.0**
Bond (note 26)	–	250.0	–	–	–	–	**250.0**
Deferred issue costs (note 26)	(4.9)	(5.1)	–	–	–	5.8	**(4.2)**

			Non-cash changes				
	2016 £'m	Cash flows £'m	Acquisition £'m	Foreign exchange movement £'m	Fair value changes £'m	Other £'m	2017 £'m
Finance lease liabilities (note 32)	2.2	(0.5)	1.3	–	–	–	3.0
Bank loans (note 26)	480.0	(100.0)	–	–	–	–	380.0
Revolving credit facility (note 26)	75.0	25.0	–	–	–	–	100.0
Deferred issue costs (note 26)	(7.9)	–	–	–	–	3.0	(4.9)

Included within 'Other' is the amortisation of deferred issue costs of £1.5m (2017: £3.0m) and debt write-off costs of £4.3m following the refinancing of debt as described in more detail in note 26.

28 Called up share capital

	Ordinary shares		
	Number	Nominal value £	Value £'m
Allotted, called up and fully paid			
As at 31 January 2016	1,118,005,405	0.01	11.2
As at 31 January 2017	1,118,005,405	0.01	11.2
Issue of shares	2,290,014	0.01	0.0
As at 31 January 2018	**1,120,295,419**	**0.01**	**11.2**

On 5 July 2017, Saga plc issued 2,290,014 new ordinary shares of 1p each for transfer into an Employee Benefit Trust to satisfy employee incentive arrangements.

a. Employee Benefit Trust

The Employee Benefit Trust purchased 13,408,108 shares at their nominal value of £134,000 during the year ended 31 January 2015. There were no associated transaction costs.

During the year, employees exercised options over 3,077,349 (2017: 3,154,051; 2016: 5,973,991) of these shares which were transferred from the Employee Benefit Trust into the direct ownership of the employee. The remaining 387,699 shares have been treated as treasury shares at 31 January 2018.

29 Reserves

Share-based payment reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. More detail is provided in note 31.

Available for sale reserve

The available for sale reserve comprises the unrealised gains or losses of available for sale financial assets pending subsequent recognition in profit or loss once the investment is derecognised.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

30 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

For the purposes of the Group's capital management, capital comprises total equity of £1,223.5m (2017: £1,195.2m) as shown on the consolidated statement of financial position. The Group operates in a number of regulated markets and includes subsidiaries which are required to comply with specific requirements in respect of capital or other resources.

The Group's financial services businesses are regulated primarily by the Financial Services Commission (FSC) in Gibraltar and by the Financial Conduct Authority (FCA) in the UK; and the capital requirements of its travel businesses are regulated by the Civil Aviation Authority (CAA) in the UK. It is the Group's policy to comply with the requirements of these regulators in respect of capital adequacy or other similar tests at all times. The Group has complied with all regulatory requirements during the year.

No changes were made to the objectives, policies or processes for managing capital during the years ended 31 January 2018 or 31 January 2017.

The Group's regulated underwriting business is based in Gibraltar and regulated by the FSC. The underwriting business is required to comply with various tests to ensure that it has a sufficient level of capitalisation in accordance with Solvency II.

(The amounts set out in the following three paragraphs are unaudited)

The Group monitored its ability to comply with the requirements of Solvency II throughout the year to 31 January 2018, having previously received approval from the FSC for the Undertaking of Specific Parameters route prior to the effective date. Under Solvency II, AICL remained well capitalised, and at 31 January 2018 available capital was £137.0m against a Solvency Capital Requirement of £79.7m, giving 171% coverage. As at 31 January 2017, available capital was £146.7m against a Solvency Capital Requirement of £102.9m, giving 143% coverage.

The Group's regulated insurance distribution business is based in the UK and regulated by the FCA. Due to the nature of the business, the capital requirements are significantly less than the underwriting business but the Group is required to comply with the Adequate Resources requirements of Threshold Condition 4 of the FCA Handbook. The Group undertakes a rigorous assessment against the requirements of this Condition on an annual basis and, as a consequence of this, calculates and holds an appropriate amount of capital in respect of the insurance distribution business. The Minimum Regulatory Capital requirement of these businesses at 31 January 2018 was £6.4m (2017: £6.1m).

The regulated travel businesses are required to comply with two main tests based on liquidity and leverage and are measured against agreed covenants on the last day of each quarter in respect of these tests. The Group monitors its compliance with these tests on a monthly basis including forward-looking compliance using budgets and forecasts. For the year ended 31 January 2018, the CAA has given the travel businesses special dispensation to comply with decreased covenants due to the investment in the new ships. At 31 January 2018 and 31 January 2017, the travel businesses had good coverage against both covenants.

31 Share-based payments

The Group has granted a number of different equity-based awards to employees and customers which it has determined to be share-based payments:

a. Share options and free shares offer granted at the time of the IPO

- On 29 May 2014, share options over 13,132,410 shares were granted to certain Directors and employees with no exercise price and no service or performance vesting conditions. There are no cash settlement alternatives.
- Eligible customers and employees who acquired their shares under the Customer or Employee Offers in the Prospectus received one bonus share for every twenty shares they acquired and held continuously for one year to 29 May 2015. As these were bonus shares, there was no exercise price and no cash settlement alternative.

b. Long-Term Incentive Plan (LTIP) and Deferred Bonus Plan (DBP)

- The LTIP is a discretionary executive share plan under which the Board may, within certain limits and subject to applicable performance conditions, grant options over shares in Saga plc. Up to 31 January 2017, these options are 50% linked to a non-market vesting condition, EPS, and 50% linked to a market vesting condition, TSR. From 1 February 2017, these options are 60% linked to non-market vesting conditions (30% linked to basic EPS and 30% linked to organic EPS) and 40% linked to a market vesting condition, TSR.

  – On 1 May 2017, options over 3,449,200 shares were issued which vest and become exercisable on the third anniversary of the grant date.
  – On 26 May 2017, options over 317,710 shares were issued under the DBP to the Executive Directors reflecting their deferred bonus in respect of 2016/17, which vest and become exercisable on the third anniversary of the grant date.
  – On 2 October 2017, options over 258,500 shares were issued which vest and become exercisable on the third anniversary of the grant date.

c. Other share options

- On 29 May 2014, share options over 2,162,162 shares were issued to the Chief Executive Officer. Vesting occurs 25% on the third anniversary of the IPO, 25% on the fourth anniversary of the IPO and 50% on the fifth anniversary of the IPO, subject to continuing employment. The award will be equity settled and has no cash alternative. The exercise price of the share options is £1.85.
- On 29 April 2015, options over 101,932 shares were issued to the Chief Financial Officer which vest in two equal tranches on the first and second anniversary of his appointment, subject to continuing employment.
- On 2 December 2015, options over 99,552 shares were issued to the Chief Marketing Officer at the time which were to vest on the second anniversary of his appointment, subject to continuing employment. Following the cessation of his employment, the vesting period has been extended to 1 May 2020.

d. Employee free shares

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

31 Share-based payments (continued)

The table below summarises the movements in the number of share options outstanding for the Group and their weighted average exercise price:

	IPO Options	LTIP	DBP	Other options	Employee free shares	Total
At 1 February 2017	3,465,048	8,965,971	590,615	2,312,680	761,039	16,095,353
Granted	–	3,707,700	317,710	–	488,583	4,513,993
Forfeited	–	(1,120,923)	–	–	(63,270)	(1,184,193)
Exercised	(3,077,349)	(916,598)	(41,596)	(50,966)	(16,740)	(4,103,249)
At 31 January 2018	387,699	10,636,150	866,729	2,261,714	1,169,612	15,321,904
Exercise price	£nil	£nil	£nil	£1.77	£nil	£0.24
Exercisable at 31 January 2018	387,699	1,850,007	73,931	–	44,053	2,355,690
Average remaining contractual life	6.3 years	1.1 years	1.4 years	0.8 years	1.5 years	1.3 years
Average fair value at grant	£1.85	£2.06	£2.09	£1.86	£2.08	£2.03

The following information is relevant in the determination of the fair value of options granted during the year under the equity- and cash-settled share-based remuneration schemes operated by the Group.

	LTIP – EPS tranche	LTIP – TSR tranche	Employee free shares
Model used	Black-Scholes	Monte-Carlo	Black-Scholes
Dividend yield (%)	n/a	n/a	n/a
Risk-free interest rate (%)	0.13%	0.13%	n/a
Expected life of share option	3 years	3 years	3 years
Weighted average share price (£)	£2.10	£2.10	£2.09
Share price volatility	23.6%	32.1%	n/a

As only limited historical data for the Group's share price is available, the Group has estimated the Company's share price volatility as an average of the volatilities of its TSR comparator group over a historical period commensurate with the expected life of the award immediately prior to the date of the grant.

For future valuations, at a date when sufficient Saga share price data becomes available, the Group intends to estimate the Company volatility directly from this data.

The total amount charged to the income statement in the year ended 31 January 2018 is £3.8m (2017: £4.7m). This has been charged to administrative and selling expenses £3.5m (2017: £4.2m) and non-trading items £0.3m (2017: £0.5m) (note 4b).

The Group did not enter into any share-based payment transactions with parties other than employees during the current period.

32 Commitments and contingencies

a. Operating lease commitments – Group as lessee

The Group has entered into commercial leases on certain land and buildings and plant and machinery. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 January are as follows:

	Land and buildings		Plant and machinery	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m
Within one year	**1.2**	1.0	**0.6**	0.7
Between one and five years	**3.5**	2.8	**0.9**	0.8
After five years	**6.7**	4.4	**–**	–
	11.4	8.2	**1.5**	1.5

b. Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have terms of renewal and no purchase options. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance leases and hire purchase contracts together with the present values of the net minimum lease payments are as follows:

	2018 £'m	2017 £'m
Within one year	**1.5**	1.0
Between one and five years	**2.3**	2.3
Total minimum lease payments	**3.8**	3.3
Less amounts representing finance charge	**(0.4)**	(0.3)
Present value of minimum lease payments	**3.4**	3.0

c. Commitments

On 21 December 2015, the Group contracted with Meyer Werft GmbH & Co. KG to purchase Spirit of Discovery for delivery in July 2019, with an option to purchase a second similar cruise ship for delivery in 2021. On 24 April 2017, the Group signed an agreement with the shipyard to bring forward the delivery date by one month to June 2019. On 20 September 2017, the Saga plc Board approved the purchase of the second cruise ship, Spirit of Adventure, with an earlier delivery date of August 2020, and the Group exercised the option in December 2017.

The first three stage payments for Spirit of Discovery were made between February 2016 and January 2018. One further stage payment will be made 11 months prior to delivery, funded via cash resources of the Group. The remaining element of the contract price is due on delivery of the ship, and the Group entered into appropriate financing for this on 21 December 2015.

The first stage payment for Spirit of Adventure was made in December 2017. Three similar stage payments will be made during the construction period (24 months, 18 months, and 12 months prior to delivery), funded via cash resources of the Group. The remaining element of the contract price is due on delivery of the ship, and the Group entered into appropriate financing for this on 20 September 2017.

As at 31 January 2018, the capital amount contracted but not provided for in the financial statements in respect of the ships amounted to £583.8m (2017: £280.1m).

The financing for Spirit of Discovery represents a 12 year fixed rate sterling loan, backed by an export credit guarantee. The loan value of approximately £245m will be repaid in 24 broadly equal instalments, with the first payment 6 months after delivery. On the date the finance was entered into, the Group purchased Euro currency forwards totalling £273.2m to lock the cost of the ship.

The financing for Spirit of Adventure represents a 12 year fixed rate sterling loan, backed by an export credit guarantee. The loan value of approximately £295m will be repaid in 24 broadly equal instalments, with the first payment due 6 months after delivery. On the date the finance was entered into, the Group purchased Euro currency forwards totalling £211.5m, which represents 72% of the cost of the ship.

Both hedges have been designated as cash flow hedges and remain outstanding as at 31 January 2018 (note 17d).

32 Commitments and contingencies (continued)

d. Contingent liabilities

The Association of British Travel Agents regulates the Group's UK tour operating business and requires the Group to put in place bonds to provide customer protection.

On 17 February 2017, certain entities in the Group were served with legal proceedings by the broker engaged in the committed purchase of Spirit of Discovery (see note 32c). The claimant has brought a claim alleging that these Saga companies are liable to pay commission on the first ship, plus interest and legal costs and, separately, commission on Spirit of Adventure now that the option has been exercised. The amount of the claim is up to €7 million. A trial date of 9-13 July 2018 has been set and Saga is contesting the claim.

It is too early in the litigation process to evaluate Saga's position on liability and quantum. As such, no amounts have been provided for this in the financial statements. Furthermore, in the event the claim is successful, the commission will be capitalised as part of assets in the course of construction within property, plant and equipment.

On 4 May 2017, the Group was notified about legal proceedings against Nestor Primecare Services Limited by the CPS in relation to a breach of the Health and Safety at Work etc. Act 1974. Under an indemnity included in the sales agreement following the disposal of Nestor Primecare Services Limited, certain entities in the Group may be liable for any penalties incurred.

It is too early in the litigation process to evaluate Saga's position on liability and quantum. As such, no amounts have been provided for this in the financial statements.

During the year, a former subsidiary of the Group, Saga Property (St Lucia) Limited, was served with a tax assessment from the St Lucian tax authorities to the sum of £2.0m. Due to certain indemnities granted to the purchaser on sale of the subsidiary, Saga plc is responsible for any liabilities arising prior to sale. A tax free period was agreed with the Ministry of Tourism in St Lucia for a 10 year period commencing from 2007 and therefore the Group does not believe that the tax liability is payable.

33 Discontinued operations and assets held for sale

The loss after tax from discontinued operations is in relation to the sale of Allied Healthcare in the year ended 31 January 2016. The Group received deferred consideration in the form of two loan notes, with face value of £3.5m each, which attract uncompounded interest at a rate of 5% due to mature on 30 May 2018 and 30 May 2019. In the year to 31 January 2018, following an impairment review, management no longer considers the loan notes to be recoverable and, as such, an impairment charge of £6.6m through discontinued operations has been recognised which resulted in the loan notes being impaired to £nil.

During the year, management made the decision to sell one of the Group's freehold properties, Buckingham Gate. Immediately before the classification of the property as held for sale, the recoverable amount was ascertained and the carrying value is considered to be below fair value less costs to sell and hence no revaluation at the point of reclassification was required. The property is presented within the insurance segment of the Group, is being actively marketed and the sale is expected to be completed within 12 months of the end of the financial year. No gains or losses have been recognised with respect to the asset.

34 Related party transactions

G Williams, an independent Non-Executive Director of Saga plc, serves on the board of WNS (Holdings) Limited, the parent company of WNS Global Services (UK Limited) and WNS Assistance Limited, both of which Acromas Insurance Company Limited and PEC Services Limited, subsidiaries of Saga plc, traded with during the year. These subsidiaries of WNS (Holdings) Limited provided claim handling management services to Acromas Insurance Company Limited and PEC Services Limited, and during the year ended 31 January 2018 earned total fees of £2.6m (2017: £3.6m); further payments to these subsidiaries of WNS (Holdings) Limited in respect of repair costs on claims handled totalled £35.0m (2017: £37.2m). As at 31 January 2018, amounts owing to these subsidiaries of WNS (Holdings) Limited for fees and repair costs totalled £1.4m (2017: £2.2m).

35 Subsidiaries

The entities listed below are subsidiaries of the Company or Group. All of the undertakings are wholly owned and included within the consolidated financial statements. The registered office address for all entities registered in England is Enbrook Park, Sandgate, Folkestone, Kent CT20 3SE. The registered office address of Acromas Insurance Company Limited is 57/63 Line Wall Road, Gibraltar. The registered office address of Saga Cruises GmbH is Industriegebiet Süd, 26871, Papenburg, Niedersachsen, Germany.

Name	Country of registration	Nature of business
Saga Personal Finance Limited (formerly Acromas Financial Services Limited)	England	Regulated investment products
ST&H Limited	England	Tour operating
Acromas Insurance Company Limited	Gibraltar	Insurance underwriting
Saga Cruises Limited	England	Cruising
ST&H Transport Limited	England	Tour operating
CHMC Limited	England	Motor accident management
PEC Services Limited	England	Repairer of automotive vehicles
Saga Retirement Villages Limited	England	Marketing of retirement villages
Destinology Limited	England	Tour operating
Enbrook Cruises Limited	England	Cruising
MetroMail Limited	England	Mailing house
Saga Cruises IV Limited	England	Cruising
Saga Cruises V Limited	England	Cruising
Saga Cruises VI Limited	England	Cruising
Saga Cruises GmbH	Germany	Cruising
Saga Healthcare Limited	England	Provision of domiciliary care
Saga Mid Co Limited	England	Debt service provider
Saga Publishing Limited	England	Publishing
Saga Services Limited	England	Insurance services
Titan Transport Limited	England	Tour operating
Saga Membership Limited (formerly Saga Communications Limited)	England	Customer loyalty scheme
Driveline Group Limited	England	Holding company
CHMC Holdings Limited	England	Holding company
Saga 200 Limited	England	Holding company
Saga 300 Limited	England	Holding company
Saga 400 Limited	England	Holding company
Saga Group Limited	England	Holding company
Saga Holdings Limited	England	Holding company
Saga Leisure Limited	England	Holding company
Saga Properties Limited	England	Holding company
ST&H Group Limited	England	Holding company
Saga Cruises I Limited	England	Dormant company
Confident Services Limited	England	Dormant company

35 Subsiduaries (continued)

Name	Country of registration	Nature of business
Country Cousins (Horsham) Limited	England	Dormant company
Driveline Europe Limited	England	Dormant company
Driveline Travel Limited	England	Dormant company
Patricia White's Personal Home Care Limited	England	Dormant company
Saga 500 Limited	England	Dormant company
Saga Coach Holidays Limited	England	Dormant company
Saga Cruises BDF Limited	England	Dormant company
Saga Cruises II Limited	England	Dormant company
Saga Cruises III Limited	England	Dormant company
Saga Flights.com Limited	England	Dormant company
Saga Holidays Limited	England	Dormant company
Saga Independent Living Limited	England	Dormant company
Saga Funding Limited (formerly Saga Personal Finance Limited)	England	Dormant company
Saga Communications Limited (formerly Saga Property Management Limited)	England	Dormant company
Saga Radio (North West) Limited	England	Dormant company
Saga Shipping Company Limited	England	Dormant company
Spirit Of Adventure Limited	England	Dormant company
Titan Aviation Limited	England	Dormant company
Titan Travel Holdings Limited	England	Dormant company
Titan Travel Limited	England	Dormant company

36 Investment in joint ventures

During the current and prior year, the Group's interests in joint ventures were:

a. Saga Investment Services Limited

The Group holds a 50% interest in Saga Investment Services Limited, a company registered in England and Wales. This is accounted for using the equity method in the consolidated financial statements. The joint venture contributed a share of a loss of £2.2m after tax (2017: £1.4m loss after tax). During the year, the carrying value of the joint venture was impaired to £nil (2017: £1.4m) following the decision to replace the current legal structure with a new, more cost-efficient structure.

The registered office address for Saga Investment Services Limited is Enbrook Park, Sandgate, Folkestone, Kent CT20 3SE.

Company financial statements of Saga plc balance sheet

	Note	2018 £'m	2017 £'m
Non-current assets			
Investment in subsidiaries	2	**2,104.2**	2,102.7
Current assets			
Debtors	3	**152.4**	1.9
Creditors – amounts falling due within one year	4	**(217.2)**	(206.2)
Net current liabilities		**(64.8)**	(204.3)
Creditors – amounts falling due after more than one year	5	**(248.0)**	–
Net assets		**1,791.4**	1,898.4
Capital and reserves			
Called up share capital	6	**11.2**	11.2
Share premium account		**519.3**	519.3
Profit and loss reserve		**1,249.2**	1,352.1
Other reserves		**11.7**	15.8
Total shareholders' funds		**1,791.4**	1,898.4

The Company has not presented its own profit and loss account as permitted by section 408(3) of the Companies Act 2006 (the 'Act'). The loss included in the financial statements of the Company, determined in accordance with the Act, was £11.8m (2017: £6.9m loss).

Company number: 08804263

The notes on pages 204-207 form an integral part of these financial statements.

Signed for and on behalf of the Board on 11 April 2018 by

L H L Batchelor
Group Chief Executive Officer

J S Hill
Group Chief Financial Officer

	Called up share capital £'m	Share premium account £'m	Retained earnings £'m	Share-based payment reserve £'m	Total equity £'m
At 31 January 2016	11.2	519.3	1,439.0	17.9	1,987.4
Loss for the financial year	–	–	(6.9)	–	(6.9)
Dividends	–	–	(86.1)	–	(86.1)
Share-based payment charge	–	–	–	4.9	4.9
Exercise of share options	–	–	6.1	(7.0)	(0.9)
At 31 January 2017	11.2	519.3	1,352.1	15.8	1,898.4
Loss for the financial year	–	–	(11.8)	–	(11.8)
Dividends	–	–	(98.5)	–	(98.5)
Share-based payment charge	–	–	–	4.1	4.1
Exercise of share options	–	–	7.4	(8.2)	(0.8)
At 31 January 2018	**11.2**	**519.3**	**1,249.2**	**11.7**	**1,791.4**

1 Accounting policies

a. Accounting convention

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards. The financial statements are prepared under the historical cost convention, as modified by derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The Company's financial statements are presented in sterling and all values are rounded to the nearest hundred thousand (£'m) except when otherwise indicated.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2018.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of IFRS 7 'Financial Instruments: Disclosures'.
- The requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement'.
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1.
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B-D, 40A-D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements'.
- The requirements of IAS 7 'Statement of Cash Flows'.
- The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.
- The requirements of paragraph 17 of IAS 24 'Related Party Disclosures'.
- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between
- two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned
- by such a member.
- The requirements of paragraphs 45(b) and 46-52 of IFRS 2 'Share-based Payment.'

b. Investments

Investments in subsidiaries are accounted for at the lower of cost and net realisable value and reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

c. Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, can be utilised.

1 Accounting policies (continued)

c. Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is dealt with in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

d. Share-based payments

The Company provides benefits to employees (including Directors) of Saga plc and its subsidiary undertakings, in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is measured by reference to the fair value on the grant date and is recognised as an expense over the relevant vesting period, ending on the date on which the employee becomes fully entitled to the award.

Fair values of share-based payment transactions are calculated using Black-Scholes modelling techniques. In valuing equity-settled transactions, assessment is made of any vesting conditions to categorise these into market performance conditions, non-market performance conditions and service conditions.

Where the equity-settled transactions have market performance conditions (that is, performance which is directly or indirectly linked to the share price), the fair value of the award is assessed at the time of grant and is not changed, regardless of the actual level of vesting achieved, except where the employee ceases to be employed prior to the vesting date.

For service conditions and non-market performance conditions, the fair value of the award is assessed at the time of grant and is reassessed at each reporting date to reflect updated expectations for the level of vesting. No expense is recognised for awards that ultimately do not vest.

At each reporting date prior to vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and, in the case of non-market conditions, the best estimate of the number of equity instruments that will ultimately vest or, in the case of instruments subject to market conditions, the fair value on grant adjusted only for leavers. The movement in the cumulative expense since the previous reporting date is recognised in the income statement, with the corresponding increase in share-based payments reserve.

Upon vesting of an equity instrument, the cumulative cost in the share-based payments reserve is reclassified to reserves.

e. Financial liabilities

i) Initial recognition and measurement

Financial liabilities are classified as financial liabilities at FVTPL, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities comprise loans and borrowings.

1 Accounting policies (continued)

e. Financial liabilities (continued)

ii) Subsequent measurement

After initial recognition, interest bearing loans and borrowings and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

2 Investment in subsidiaries

	£'m
Cost	
At 31 January 2016	4,127.0
Capital contributions arising from share-based payments	2.1
At 31 January 2017	4,129.1
Capital contributions arising from share-based payments	1.5
At 31 January 2018	4,130.6
Amounts provided for	
At 31 January 2016	2,026.4
Amounts provided in the year	–
At 31 January 2017	2,026.4
Amounts provided in the year	–
At 31 January 2018	2,026.4
Net book value	
At 31 January 2018	2,104.2
At 31 January 2017	2,102.7

See note 33 to the consolidated financial statements for a list of the Company's investments.

An impairment review was undertaken during the year ended 31 January 2018. The impairment test compares the recoverable amount of each subsidiary to the carrying value of the investment. No evidence of impairment was seen and consequently, no impairment has been recognised. See note 15a to the consolidated financial statements for more detail of the work undertaken.

3 Debtors

	2018 £'m	2017 £'m
Deferred tax asset	**1.0**	0.7
Other debtors	**1.8**	1.2
Amounts due to Group undertakings	**149.6**	–
	152.4	1.9

All amounts above are due in less than one year.

4 Creditors – amounts falling due in less than one year

	2018 £'m	2017 £'m
Amounts owed to Group undertakings	**214.3**	204.4
Other creditors	**1.1**	1.8
Accrued interest payable	**1.8**	–
	217.2	206.2

5 Creditors – amounts falling due in more than one year

	2018 £'m	2017 £'m
Bond	**250.0**	–
Unamortised issue costs	**(2.0)**	–
	248.0	–

6 Called up share capital

	Ordinary shares		
	Number	Nominal value £	Value £'m
Allotted, called up and fully paid			
At 31 January 2016	1,118,005,405	0.01	11.2
As at 31 January 2017	1,118,005,405	0.01	11.2
Issue of shares	2,290,014	0.01	0.0
As at 31 January 2018	1,120,295,419	0.01	11.2

Financial calendar
2018 Annual General Meeting – 21 June 2018

Final dividend dates
Announcement date – 10 May 2018
Ex-dividend date – 17 May 2018
Record date – 18 May 2018
Last day for DRIP elections – 4 June 2018
Payment date – 29 June 2018

Shareholder information online
The Company will publish annual reports, notices of shareholder meetings and other documents which we are required to send to shareholders (shareholder information) on a website. Consenting shareholders will be notified either by post or email, if preferred, each time the Company publishes shareholder information. This allows us to increase speed of communication, reduce our impact on the environment and keep costs to a minimum.

You can change your communication preference via the Saga Shareholder Services Portal www.sagashareholder.co.uk or by contacting Saga Shareholder Services. In order to register on the portal, you require your 11-digit investor code (IVC). You can find your IVC on communications such as your share certificate. The Saga Shareholder Services Portal allows you to manage your shareholding easily and securely online. You can also change your personal details; view your holding and get an indicative valuation; view dividend information; register proxy voting instructions; reinvest your dividends to buy additional Saga plc shares; buy and sell shares; and register bank details so that dividends can be paid directly to your account.

Shareholder fraud
Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post or by email. If any such unsolicited communication is received; please check the company or person contacting you is properly authorised by the Financial Conduct Authority (FCA) before getting involved. Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way; you may lose your money. 5,000 people contact the FCA about share fraud each year, with victims losing an average of £20,000. For more information, or if you are approached by fraudsters, please visit the FCA website www.fca.org.uk/consumers/scams, where you can report and find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters; you should contact Action Fraud on 0300 123 2040.

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Canary Wharf
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Information for investors
Information for investors is provided on the internet as part of the Group's corporate website which can be found at www.corporate.saga.co.uk.

Registrars
Link Asset Services

For shareholder enquiries contact:
Saga Shareholder Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Shareholder Helpline: 0800 015 5429 – calls to Freephone numbers will vary by provider. If you are outside the UK, call +44 (0)333 300 1581 – calls outside the UK will be charged at the applicable international rate. Lines are open 9am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

enquiries@sagashareholder.co.uk

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Corporate websites
Information made available on the Group's websites does not, and is not intended to, form part of these Results.

Alternative Performance Measures

The Group uses a number of Alternative Performance Measures (APMs), which are not required or commonly reported under International Financial Reporting Standards, the Generally Accepted Accounting Principles (GAAP) under which the Group prepares its financial statements, but which are used by the Group to help the user of the accounts better understand the financial performance and position of the business.

Definitions for the primary APMs used in this report are set out below. APMs are usually derived from financial statement items and are calculated using consistent accounting policies to those applied in the financial statements, unless otherwise stated.

APMs may not necessarily be defined in a consistent manner to similar APMs used by the Group's competitors. They should be considered as a supplement rather than a substitute for GAAP measures.

Underlying Profit Before Tax

Underlying Profit Before Tax represents profit before tax from continuing operations excluding unrealised fair value gains and losses on derivatives, the one-off costs associated with the unamortised facility fees of the previous banking facilities, the one-off restructuring costs and the Ogden rate change impact in the prior year.

It is reconciled to statutory profit before tax within the Chief Financial Officer's Review on page 37.

This measure is the Group's key performance indicator and is useful for presenting the Group's underlying trading performance, as it excludes non-cash derivative adjustments and one-off financial impacts that are not expected to recur.

Trading EBITDA

Trading EBITDA is defined as earnings before interest payable, tax, depreciation and amortisation, excluding amortisation of acquired intangibles. It has also been restated to exclude the non-cash impact of IAS19R current service costs, which have increased notably in the year, in line with the Group's latest debt covenants.

It is reconciled to statutory profit before tax within the Chief Financial Officer's Review on page 37.

This measure has been presented by the Group in every annual report since it became a listed Group in 2014. It is presented due to it being linked to the Group's debt covenants, as it is the denominator in the Group's leverage ratio calculation.

Trading Profit

Trading Profit is defined as Trading EBITDA less depreciation and amortisation, excluding amortisation of acquired intangibles and has also been restated to exclude IAS19R current service costs.

It is reconciled to statutory profit before tax within the Chief Financial Officer's Review on page 37.

This measure has been presented by the Group since the annual report published for the year ended 31 January 2016 and was used as part of the Group's transition from Trading EBITDA to Underlying Profit Before Tax as its key performance indicator. Although it is no longer one of the Group's key performance indicators, it has been provided to ensure reporting consistency with previous periods.

Underlying earnings per share from continuing operations

Underlying earnings per share from continuing operations represents basic earnings per share from continuing operations excluding the post-tax effect of unrealised fair value gains and losses on derivatives, the post-tax effect of the one-off non-cash costs associated with the unamortised facility fees of the previous banking facilities, the post-tax effect of the one-off restructuring costs and the post-tax effect of the Ogden rate change impact in the prior year.

This measure is linked to the Group's key performance indicator Underlying Profit Before Tax and represents what management considers to be the underlying shareholder value generated in the period.

Customer spend

Customer spend represents the total amount that customers spent on products provided by the Saga Group of companies, including gross written premiums, ancillary income and Insurance Premium Tax for all of the core policies and add-ons sold in the period.

Available operating cash flow

Available operating cash flow is net cashflow from operating activities after capital expenditure, but before tax, interest paid and non-trading items, which is available to be used by the Group as it chooses and is not subject to regulatory restriction. It is reconciled to statutory net cash flow from operating activities within the Chief Financial Officer's Review on page 40.

ABC1 households social grading based on a system of demographic classification used in the UK, as defined by Experian Mosaic data

Accident year the financial year in which an insurance loss occurs

Add-on an insurance policy that is actively marketed and sold as an addition to a core policy

AGM Annual General Meeting

AICL Acromas Insurance Company Limited

Available cash cash held by subsidiaries within the Group that is not subject to regulatory restrictions, net of any overdrafts held by those subsidiaries

Board Saga plc Board of Directors

Claims frequency the number of claims incurred divided by the number of policies earned in a given period

Claims reserves accounting provisions that have been set to meet outstanding insurance claims, IBNR and associated claims handling costs

Code the UK Corporate Governance Code published by the UK Financial Reporting Council setting out guidance in the form of principles and provisions to address the principal aspects of corporate governance

Combined operating ratio 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

Companies Act the UK Companies Act 2006, as amended from time to time

Company Saga plc

Continuing operations operations that are not classified as discontinued

Core policy an insurance policy that is actively marketed and sold on its own

Cruise passenger days the total number of days passengers have travelled on a ship, or ships, in a given period

Cruise passengers the number of passengers that have travelled on a Saga cruise in a given period

DBP Deferred Bonus Plan

Discontinued operations operations divested or those that have been classified as held for sale whose trading activities relate to a separate line of business or geographical area

Debt ratio (Leverage) the ratio of net debt to Trading EBITDA

DTRs (Disclosure and Transparency Rules) rules published by the UK Financial Conduct Authority relating to the disclosure of information by a company listed in the UK

Earned premium insurance premiums that are recognised in the income statement over the period of cover to which the premiums relate, deferred on a 365ths basis

Earnings per share from continuing operations (basic) profit after tax from continuing operations attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period

Executive Director executive director of Saga plc

Expense ratio the ratio of expenses incurred to underwrite insurance (numerator) to the revenue earned by AICL (denominator) in a given period

Financial Conduct Authority (FCA) the independent UK body that regulates the financial services industry, which includes general insurance

GHG Protocol a global standard for how to measure, manage, and report greenhouse gas emissions

GWP (Gross written premiums) the total premium charged to customers for a core insurance product, excluding Insurance Premium Tax but before the deduction of any outward reinsurance premiums, measured with reference to the cover start date of the policy

Group the Saga plc group

Holidays passengers the number of passengers that have travelled on a Saga, Titan or Destinology holiday in a given period

IASB International Accounting Standards Board

IBNR (incurred but not reported) a claims reserve provided to meet the estimated cost of claims that have occurred, but have not yet been reported to the insurer

IFRS International Financial Reporting Standards

IPO (Initial Public Offering) the first sale of shares by a previously unlisted company to investors on a securities exchange

Leverage ratio the ratio of net debt to Trading EBITDA

LIBOR London inter-bank offered rate

Loss ratio a ratio of the claims costs (numerator) to the net earned premium (denominator) in a given period

LR (Listing Rules) a set of mandatory regulations of the UK Financial Conduct Authority and applicable to a company listed in the UK

LTIP Long Term Incentive Plan

Malus an arrangement that permits the forfeiture of unvested remuneration awards in circumstances the Company considers appropriate

Mosaic classifications Mosaic is a consumer classification system, owned by Experian, that classifies UK households into 15 main social-economic groups, each of which have specific consumer and societal trends

Net claims the cost of claims incurred in the period less any claims costs recovered under reinsurance contracts and after the release of any claims reserves

Net debt bank debt and borrowings, excluding any overdrafts held by restricted trading subsidiaries, net of available cash

Net earned premium earned premium net of any outward earned reinsurance premium paid

Net interest expense finance costs less finance income

Non-Executive Director (NED) non-executive director of Saga plc

Ogden discount rate the discount rate set by the relevant government bodies, the Lord Chancellor and Scottish Ministers, and used to calculate lump sum awards in bodily injury cases

Operating margin is a measurement of the proportion of revenue which is left over after paying for all business costs

PBT profit before tax

PMI private medical insurance

Policies sold the number of core and add-on insurance policies sold to customers in a given period, measured by reference to the cover start date of the policy

Reinsurance contractual arrangements where an insurer transfers part or all of the insurance risk written to another insurer, in exchange for a share of the customer premium

RMM (required minimum margin) a measure used to assess the minimum level of solvency capital an insurance underwriter must retain under Solvency I

RPI Retail Price Index

Saga Way the internal framework that guides the behaviours of our employees

SCR Solvency capital requirement as calculated under Solvency II rules

SIP Share Incentive Plan

Solvency capital/Solvency II insurance regulations designed to harmonise European Union insurance regulation. Primarily this concerns the amount of capital that European insurance companies must hold under a measure of capital and risk

tCO_2e tonnes of carbon dioxide equivalent, which is a measure that allows comparison of the emissions of other greenhouse gases relative to one unit of CO_2

Trading EBITDA earnings before interest payable, tax, depreciation and amortisation, non-trading items and fair value gains and losses on derivative financial instruments

Trading profit Trading EBITDA less depreciation and amortisation, excluding amortisation of acquired intangibles

TSR (total shareholder return) the theoretical growth in value of a shareholding over a period, by reference to the beginning and ending share price, and assuming that dividends, including special dividends, are reinvested to purchase additional units of the equity

Unearned premium an amount of insurance premium that has been written but not yet earned

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SAGA
keep doing