PRIVATE AND CONFIDENTIAL

16 December 2019

Dear Shareholder

Saga plc – Letter to shareholders following significant vote against our Directors' Remuneration Report resolution

Background

I am writing to you in my capacity as the Chair of the Remuneration Committee (the "Committee") of Saga plc. At its AGM on 19 June 2019 the Company obtained a vote in favour of 71.83% in respect of Resolution 2 - the non-binding resolution for approval of the Directors' Remuneration Report (DRR). Under the UK Corporate Governance Code 2018, this is considered to be a significant vote against this resolution and as such the Company is required to publish its response to the vote within 6 months of the AGM.

The purpose of this letter is to provide an update to our stakeholders with additional context regarding this resolution as well as the actions taken by the Remuneration Committee in response. This note outlines the consultation process that took place with shareholders following the AGM that allowed the Board to understand and explain the reasons behind the vote.

I had extensive interactions with shareholders before and immediately after the AGM and sought to understand their concerns regarding this resolution. Subsequently in October, I contacted shareholders who had voted against the Remuneration Report to both convey the key actions and decisions taken before and after the vote and to solicit any further perspectives they might have.

The content of this letter will therefore be familiar to shareholders who were involved in the post-October consultation process, and, for completeness, I am also conveying the steps taken to you.

Additional context and key concerns

I am aware through my various engagements with our shareholders that the concerns which resulted in the above voting outcome mainly related to the remuneration arrangements in respect of our Chief Executive, Lance Batchelor.

The two key areas of concern are in respect of the remuneration approach as set out in the DRR:

- the potential award of an LTIP at 200% of salary to the CEO in FY20 against the backdrop of the significant decline in share price; and
- the proposed CEO annual bonus pay out which was not considered to be aligned to Company performance.

Our response

In respect of the first point, you may recall that the Company released an RNS on 12 June 2019 which included the announcement that Lance Batchelor would be retiring from his role as CEO at the end of this financial year, and that as a result no LTIP award would be made to Lance in respect of the current financial year.

In respect of the second point, the Committee carefully considered the formulaic out-turn of the annual bonus plan for 2018/19 which would have resulted in a bonus pay out of 77.4% of salary for the CEO (£533,893).

The Committee then exercised its discretion taking the following three steps:

1. the Committee, with the support of the CEO, exercised its discretion to depart from the formulaic out-turn and decided to award the CEO a reduced bonus of 52.65% of salary (£363,171). The Committee made this decision based on its view that whilst the PBT targets for the Insurance business had been satisfied it was intended that they be met more through Retail Broking than reserve releases;
2. the Committee determined that there should be no cash bonus awarded and that the entire bonus should be awarded in shares which would be deferred for three years to increase the alignment of the CEO to shareholders and support a focus on the announced strategy and long-term shareholder value;
3. the Committee used a higher share price to determine the number of shares granted under the award which had the effect of reducing the value of the bonus on grant to 19.49% of salary (£134,422).

The Committee made the first two of these decisions prior to the publication of the DRR and these were therefore communicated in the DRR. The third step was taken after publication of the DRR following the subsequent deterioration of the Company's share price in March/April 2019.

The result of this third step of discretion is that the number of shares awarded with respect to the bonus was reduced. Normal practice would have been to award a bonus of £363,171 based on the share price at the date the deferred bonus was due to be awarded, which was 40.9p. This would have resulted in an award over 887,949 shares (£363,171 divided by 40.9p). However, the Committee instead determined that a share price of 110.5p would be used to determine the number of shares awarded. This was the share price at the time the bonus award was determined by the Committee and pre-dated the subsequent share price fall. As a result, an award over 328,661 shares was made to the CEO (£363,171 divided by 110.5p).

Taking these points together, the award value at the time the award was made had therefore been further reduced to £134,422 (328,661 shares at 40.9p). The net effect of these decisions was that a bonus valued at 19.49% of salary was awarded to the CEO in respect of 2018/19, reduced from the formulaic outcome of 77.4% of salary.

Conclusion

The Committee believes that given that the CEO will not be receiving an LTIP award in respect of 2019, and that the value of the CEO's annual bonus was significantly reduced from the value disclosed in the DRR that these two issues have been addressed.

I hope that this explanation including the above additional context provides a clear illustration that I and the Remuneration Committee are committed to operating our approved remuneration policy in a manner which is appropriate and aligned to the interests of our stakeholders.

Yours sincerely,

Gareth Williams
Chair of the Remuneration Committee