



Building on our
momentum

Saga plc
Annual Report and Accounts
for the year ending 31 January 2016

Welcome to Saga plc's annual report and accounts.

Saga exists to make the lives of retired people better. In the 65 years since Saga was founded, we have become the leading provider of services for customers aged 50 and over. We have achieved this by listening carefully to them, and by understanding their specific needs better than anyone else. We try to put our customers first in everything we do.

We want to do the same in this annual report. It tells you what we've been busy with in the past year, where the business is today, and where we are going next. By listening to our customers and meeting their needs, we believe we will grow Saga and deliver real value to our shareholders.

In this report



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Achievements in the past year



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Delivering our priorities

Delivering for our customers through strategic priorities



Financial highlights from continuing operations

Trading Profit

£211.0m ↑ 5.2%

Profit before tax

£176.2m ↑ 54.8%

Basic earnings per share

13.3p ↑ from 8.6p

Available operating cash flow

£178.1m ↑ 9.3%

Debt ratio (net debt to EBITDA)

2.3x ↓ from 2.6x

Dividend per share

7.2p ↑ from 4.1p

Operational highlights

Contactable people on the database

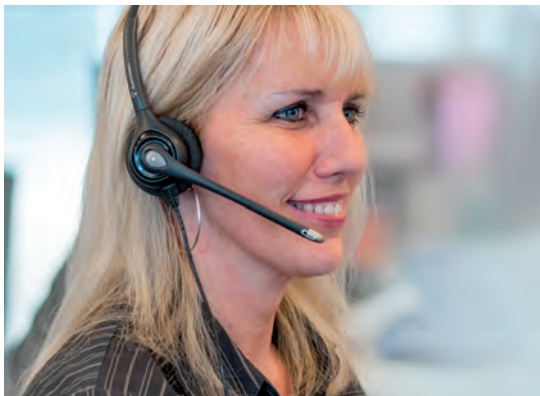
11.2m ↑ from 10.8m

Active customers

2.66m ↑ from 2.63m

Average number of products per customer

2.51 ↓ from 2.63



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Our culture drives our performance

The importance of good corporate governance in the business

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A year of progress

We delivered both customer and profit growth during the year.



14.9% ↑

Core motor policies sold

→ Read more on page 34



8.5% ↑

Core insurance policies sold

→ Read more on page 34





2.3% ↑

Core home insurance policies sold
→ Read more on page 35



Anne Ware, Travel Sales Adviser, Saga Holidays



9.9% ↑

Number of holidays passengers
→ Read more on page 36



3.5pts ↓

Motor combined operating ratio
→ Read more on page 34

339k ↑

Ship passenger days delivered on our award winning cruise ships
→ Read more on page 36

Saga celebrates its 65th anniversary this year, and has become the UK's leading business focusing purely on the over 50s.

Business areas



Insurance

Our award winning insurance business is the largest part of the Group, providing tailored products and services ranging from motor to pet insurance to over 2m customers per year.

Operations

- Insurance
- Underwriting

→ [Read more on page 34](#)



Travel

Our award winning travel business is at the heart of the Saga brand, taking over 250,000 passengers a year all over the world on package holidays, escorted tours and cruises.

Operations

- Saga Cruises
- Saga Holidays
- Titan
- Destinology

→ [Read more on page 36](#)



Emerging businesses

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

Operations

- Personal finance
- Saga Investment Services
- Homecare: Saga Homecare, Patricia White's, Country Cousins, Saga SOS
- Saga Publishing
- MetroMail
- Retirement villages

→ [Read more on page 37](#)

The Saga Model

What differentiates Saga and what makes customers choose us over other providers. The Saga Model drives our ongoing success:

A great brand: a trusted brand with 97% recognition amongst the UK's over 50s, allowing us to provide added value, fairly priced products across multiple categories.

Differentiated products: we listen to our 2.7m customers and the 11.2m people on our database to gain insight and tailor products and services specifically for them.

Unique route to market: direct access to 11.2m individuals through our database across multiple channels.

Outstanding service: our customers know what good service looks like, expect the best, and recognise it when they get it.

Investment case

Targeting a growth demographic

The over 50s are the fastest growing demographic in the UK. In 2013 there were 22.8m over 50s¹, a number that is forecast to grow by 27.6% to approximately 29.1m by 2033¹, meaning they will represent 40% of the UK's population¹. The 65-75 and 75+ segments are predicted to increase at an even greater rate over the same period, by approximately 34% and 70% respectively¹. This is important, as those aged 65 or over are particularly strong contributors to the success of the Group.

→ Go to page 11 for more information

A strong, capital efficient business model

Saga is focused on the development of products and services specifically for our customers. We then find the best way to create those products, be it in-house or teaming up with a best in class partner to produce them to our exacting standards.

In a majority of cases, Saga uses third party providers, meaning we have very little capital at risk and are afforded some protection against the impact of market conditions. In the year to January 2016, 77% of all our trading profit was generated by activities where we had no capital at risk.

→ Go to page 13 for more information

Consistent financial delivery and cash generation

Group profits have grown year-on-year for the past five years. Our capital efficient business model also means we are highly cash generative, with the majority of our profit after tax converted into cash after tax. This gives us the flexibility to continue to grow whilst paying down debt and growing long-term returns to shareholders via our progressive dividend policy.

→ Go to page 40 for more information

Growth potential in the core businesses of insurance and travel

Our award winning core businesses of insurance and travel are well placed to grow from relatively modest shares of the market for the UK's over 50s. We have delivered growth across our core business this year and have a clear strategy in place for growth in the future.

→ Go to page 34 for more information

Growth options for the future

We are continuing to identify and assess new development areas for the long-term growth of the business. Our activities include the development of our recently launched investment management business, Saga Investment Services, and our ongoing pilots in homecare and retirement villages.

→ Go to page 37 for more information

¹ ONS population projections, CEBR analysis.

Profit growth, cash generation and sustainable shareholder returns

Our strategy

1. Unlocking growth in core businesses of insurance and travel

→ Go to pages 8, 19 and 20 for more information

2. Investing in future growth

→ Go to pages 8, and 20 for more information

3. Maintaining our simple and efficient operating model

→ Go to page 8 for more information

Strategic priorities for the coming year

1. Becoming an ever more customer-centric organisation

→ Go to page 18 for more information

2. Growing our insurance businesses

→ Go to page 19 for more information

3. Growing our travel businesses

→ Go to page 20 for more information

4. Investing for future growth

→ Go to page 20 for more information

5. Developing our people

→ Go to page 21 for more information

Strategic and financial delivery leading to enhanced shareholder returns



Andrew Goodsell
Chairman

I am delighted to present a strong set of results in an important year in the history of Saga. This year marks the 65th anniversary of the foundation of our business when Sidney De Haan, the owner of the Rhodesia Hotel in Folkestone, started offering off-peak holidays to retired people. His insight into our customers' needs was the start of the Company you see today.

During all of our 65 years our focus on customer needs has been the driving force behind the growth of the business. They remain at the heart of everything we do and our model is underpinned by the provision of exceptional levels of customer service.

We benefit from a diverse and supportive shareholder base. I am delighted that many of our customers extended their affinity with the brand through their continued ownership of the Company. We have also been fortunate to attract a broad range of high-profile, long-term institutions to our share register. This combination supports our ability to deliver long-term sustainable returns and I would like to thank our shareholders for their ongoing support.

I am very pleased to announce that we have taken the decision to increase shareholder distributions through our progressive dividend policy. This is an important decision and one that reflects the Board's confidence in the sustainability of our dividend policy given our continued strong profit and cash performance, the evolution of our capital efficient model, and our plans to generate additional free cash flow.

Governance highlights

Our proposed total dividend for the year of 7.2p equates to a payout ratio of 57% of net earnings¹, an increase on last year and higher than market expectations. We are also increasing our target payout range going forward from 40%-60% to 50%-70% of net earnings. The dividend will be paid on 30 June 2016 to holders of ordinary shares on the register at the close of business on 13 May 2016.

The new team members we have welcomed during the past twelve months, both to the plc Board and our Executive Team, have had a marked impact on the thinking and leadership within the business. I would like to take this opportunity to thank them all for their input so far and to thank the entire plc Board for their invaluable contribution throughout the year.

Finally, I would like to thank all of our employees. The energy and commitment of the whole team at Saga, led so effectively by our Group Chief Executive Officer, Lance Batchelor, is the driving force behind our ongoing success and without them we could not maintain the exacting standards our customers expect on a day to day basis.



Andrew Goodsell
Chairman
18 April 2016

¹ 57% of net earnings excluding the one-off benefit of tax losses acquired from Acromas.

- We built on the governance structure established last year – our governance framework supports and sets the tone for the strategic direction of the business.
- Our processes ensure good stewardship whilst allowing us to grow.
- First AGM held in June 2015 – all resolutions passed with a significant majority and all directors standing for re-election re-appointed.
- We now comply with the Corporate Governance Code 2014 ('the Code') recommendation that half of the Board are independent Non-Executive Directors.
- We conducted our first Board and Committee evaluation exercise and agreed action plans to focus on areas of development.

→ *Go to page 50 for more information on our governance.*

Hazel Matthius, Cruise Adviser, Saga Holidays



Implementing our clear strategy for growth

Overview

In our second set of preliminary results, I am again pleased to be able to report that we have succeeded in delivering on our objectives of growing customer numbers and profits.

Growing customer numbers across all core areas of the business is a key element in our long-term success. Sustainable growth of our customer base enables us to build long-term relationships and we know that the longer customers spend with us, the more they benefit from our growing range of products and services.

Financially, we have grown Trading Profit by 5.2% to £211.0m, profit before tax by 54.8% to £176.2m and basic earnings per share by 54.7% to 13.3p. Furthermore, our available operating cash flow is up by 9.3% to £178.1m and our net debt to EBITDA ratio has reduced to 2.3x.

“We have continued to grow our core businesses and invest in future growth whilst maintaining our efficient operating model.”

This performance, alongside our plans to generate additional free cash flow in the future, has enabled us to propose a significant increase in the dividend paid to shareholders and increased the range for future dividends. This is a meaningful change, and one that signals our commitment to driving shareholder returns through sustainable dividends going forward.

Clear strategy and delivery

Everything we have achieved this year has been a result of the successful implementation of the clear strategy for growth we laid out in early 2015. Put simply we have continued to grow our core businesses and invest in future growth whilst maintaining our efficient operating model.

1. Unlocking growth in our core businesses of insurance and travel

- We have delivered customer growth across all of our key insurance lines, supported by our expanded insurance footprint through the motor panel launch.
- We have increased passengers in our tour operating business and increased passenger days on our ships.
- We have put the right team in place to make more of our database and deliver our multi-channel marketing activities.

2. Investing in future growth

- We have announced our investment in new shipping capacity which will significantly change the profit trajectory of our travel business once delivered.
- Our investment management joint venture, Saga Investment Services, was up and running ahead of the key end of tax year period.
- We have successful pilots ongoing in new product areas.

3. Maintaining our simple and efficient operating model

- Our model continues to generate strong cash flows.
- We have undertaken a review of the capital allocated to our underwriting business.
- We have disposed of a non-core asset, Allied Healthcare.

Generating additional free cash flow

During the year we carried out a full review of our approach to pricing underwriting risk and the deployment of capital within our underwriter, AICL. The review looked at pricing and capital allocated to AICL when placed against the Group's ongoing aim of balancing short-term earnings growth, investment for future growth and generating additional free cash flow to enable enhanced returns to shareholders. As a result of this, we:

- launched a panel in our motor business to allow us to offer competitive products to a broader range of customers without putting additional capital at risk;
- entered into a quota share arrangement with NewRe, a subsidiary of Munich Re, the world's biggest reinsurance group, to allow capital to be gradually released from the underwriter; and
- priced underwriting risk to better reflect our excellent underwriting performance, increasing competitiveness in our core market and accelerating cash and profit generation.

As a result of these changes we will generate additional free cash flow

in the future, enabling us to continue to deleverage and increase returns to shareholders through dividends more quickly than we had previously indicated.

Strategic priorities for the coming year

To deliver long-term, sustainable value for our shareholders we aim to achieve the right balance between short-term earnings growth, medium-term customer growth, capital allocation and returns to shareholders via dividends. To continue to deliver this, our strategic objectives for the coming year are:

- 1. Becoming an ever more customer-centric organisation**
→ Go to page 18 for more information.
- 2. Growing our insurance businesses**
→ Go to page 19 for more information.
- 3. Growing our travel businesses**
→ Go to page 20 for more information.
- 4. Investing for future growth**
→ Go to page 20 for more information.
- 5. Developing our people**
→ Go to page 21 for more information.

Lance Batchelor
Group Chief Executive Officer



GROUP CHIEF EXECUTIVE OFFICER'S STRATEGIC REVIEW CONTINUED

Strong senior team

During the year we completed a number of new senior hires including: Jonathan Hill, Group Chief Financial Officer; Matt Atkinson, Group Chief Marketing Officer; Karen Caddick, Group Human Resources Director; and Nici Audhlam-Gardiner, Managing Director of Saga Investment Services.

The skills brought to the business by these new team members, combined with the existing talent across the Group, have allowed us to apply new thinking to our operating model, look for new opportunities and attain deeper customer understanding.

I welcome them all to the business and I am confident that we now have in place the right team to delever our plans for future growth.

Conclusion

I am pleased that we have grown customer numbers, profits and dividends whilst continuing to delever.

With increasing insurance customer numbers supported by the motor panel and the ongoing growth of our travel businesses, we expect to continue to deliver steady growth in Group earnings

before the delivery of our new ship in 2019. Additionally, as our model evolves, with increased free cash flow resulting from lower capital in our underwriter, we expect to be able to pay higher dividends combined with ongoing reductions in our leverage.

The continued evolution of our model will position us to generate high quality and more resilient earnings, further supporting our enhanced dividend policy going forward.

In light of the ongoing debate surrounding the result of the UK's forthcoming referendum on membership of the European Union, because of the Group's diverse nature, we believe the result of the

EU referendum is unlikely to have a material impact on the business. We are, however, continuing to monitor the situation closely.

We have a clear strategy in place to continue to grow our underlying businesses and we have made a positive start to the current year.



Lance Batchelor
Group Chief Executive Officer
18 April 2016

The right mix Introducing our Executive Management Team

- 1. Karen Caddick**
Group HR Director
- 2. Jules Christmas**
Group IT Director
- 3. Roger Ramsden**
Chief Executive, Insurance
- 4. Andrew Button**
Chief Executive, AICL
- 5. Jonathan Hill**
Group Chief Financial Officer
- 6. Lance Batchelor**
Group Chief Executive Officer
- 7. Matt Atkinson**
Group Chief Marketing Officer
- 8. Nici Audhlam-Gardiner**
Managing Director, Saga Investment Services
- 9. Andrew Strong**
Chief Executive, Travel and Wealth Management



Overview of our target market

As pointed out in the investment case on page 5, the over 50s are the fastest growing demographic in the UK.

The over 50s are also the most affluent and influential individuals in the UK with varied, complex and evolving needs and a very clear view on what good customer service looks like. They own 68%¹ of the UK's household wealth and account for nearly 40%¹ of the UK's household expenditure.

We work constantly to understand and cater for this group and provide products and services across multiple categories including insurance, travel, personal finance and publishing.

Macro conditions

While the over 50s are not immune to macro events, they tend to be more resilient during times of economic stress. This is because they tend to rely on pensions, savings and pools of acquired assets. This is especially true for the ABC1 households, which form the core of Saga's target customer base.

Factors which further enhance this economic resilience include:

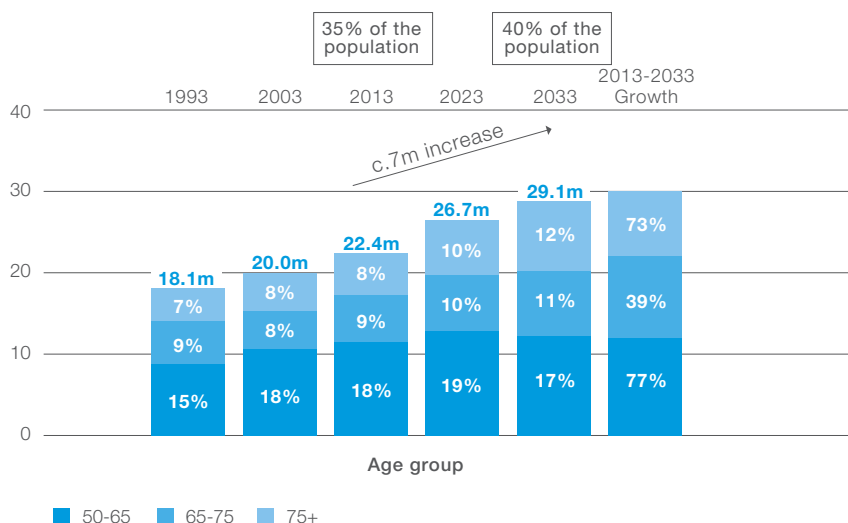
- Low debt levels
- Fewer fixed costs
- Younger members of this group benefiting from inheritance from the older ones

Our core businesses of insurance and travel are, however, linked to the economic cycle, and there is a possibility for altered behaviour amongst our customers depending on the stage of the cycle.

In suppressed economic conditions for example, the frequency and severity of motor insurance claims have a tendency fall as people drive less. Whilst we have not seen this from our customer base in the past twelve months, the opposite can also be true, with increasing economic activity and lower fuel prices leading to more miles being driven and an increase in the frequency and severity of motor insurance claims. During a longer downturn, as consumers come under increasing pressure, some may choose to downgrade their level of insurance cover, or withdraw from certain insurance products entirely.

In the travel sector, consumers may choose to travel less or purchase cruises and holiday packages with lower price tags. Given its entirely discretionary nature, some consumers may cease to take cruises or holidays altogether.

Projected growth of the UK's over 50s



Source: CEBR (Centre for Economic and Business Research), based on the ONS wealth and assets survey (WAS), Ipsos MORI and ONS, Cebr Analysis.

¹ CEBR (Centre for Economic and Business Research), based on the ONS wealth and assets survey (WAS), Ipsos MORI.

MARKET OVERVIEW

CONTINUED

During a period of strong economic activity, demand for discretionary style products, such as all our travel products, and some insurance products, such as private medical and home insurance, may increase. Consumers' appetite for more sophisticated products with superior levels of cover may also increase. Similarly, consumers will tend to opt for more expensive holidays, or take more holidays on an annual basis.

Regulatory and political change

The over 50s in the UK are highly influential politically, as they tend to form a larger proportion of the active electorate than other segments of the population.

We aim help our customers by engaging on the issues that impact them most. Where relevant, we aim to provide new products and services that support them following times of regulatory change, such as Saga Investment Services.

Saga as a regulated business

Saga operates in regulated sectors, notably in financial services and travel. The regulatory environment is continuously evolving and Saga maintains excellent relationships with its regulators in order to ensure that we remain abreast of any changes that could impact our operations.

We take our responsibility towards our customers seriously and strive to go the extra mile for them. We recognise that some may need extra help. This additional support ranges from contacting those who haven't changed their policy details for a number of years, in order to make sure their insurance needs haven't changed, to identifying vulnerable customers and providing them with a dedicated team to assist with any claim they might make.

The competition for customers

Saga operates across multiple sectors, but we have modest market shares in all of our sectors and compete with multiple providers. Whilst we have a strong position and are growing customer numbers, we do not have a monopoly when it comes to the UK's over 50s, whose substantial buying power is attractive to all market participants.

Saga however does have the advantage of only focusing on serving the needs of the over 50s, allowing us to differentiate our offering from competitors who need to provide products and services that work for customers of all ages.

This, in combination with our focus on growth across the Group, means we are in a strong position to leverage our model to continue to grow profitably our market share throughout all our operating divisions, and capitalise on the new opportunities we identify.

The Saga Model

The Saga Difference

Saga exists to make the lives of retired people better. At the heart of our business model, therefore, is our drive to know more about our customers' wants and needs than anyone else so we are best placed to serve them.

Based on our insight, we design the products and services that our customers want. We then decide the best way to produce them, either in-house or through a third party provider. This decision is based upon a number of factors including: the best outcome for the customer, how best to access specialist skills and knowledge, and the best use of capital.

Where third parties are used, our partners sign up to provide a Saga product, designed and tailored specifically for our customers and delivered to Saga specified levels of customer service.

In a majority of cases, Saga uses third party providers, meaning we do not have any capital at risk.

One of our core skills is the ability to manage our partners' provision of products and services to Saga customers. We constantly monitor customer service feedback and quality and will, where necessary, change providers to ensure customers receive the Saga experience however they interact with us.

These products and services are delivered, through **The Saga Model**, the things that define our business:

A great brand: a trusted brand with 97% recognition amongst the UKs over 50s, allowing us to provide added value, fairly priced products across multiple categories.

Differentiated products: we listen to our 2.7m customers and the 11.2m people on our database to gain insight and tailor products and services specifically for them.

Unique route to market: direct access to 11.2m individuals through our database across multiple channels.

Outstanding service: our customers know what good service looks like, expect the best, and recognise it when they get it.

Saga's flexible and capital efficient model has a strong track record of resilience and growth.

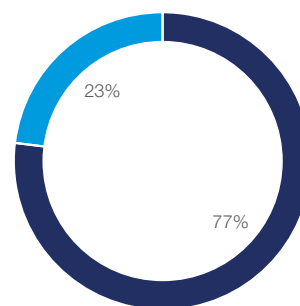
It allows us to access the very best providers of products and services in any given market, to enter new markets very quickly and, with no capital at risk in the majority of cases, provides some protection against the impact of market conditions.

The breadth of our offering also provides protection against product specific risks, allowing us to focus our resources on the areas of the business that have the most potential for growth.

Our capital efficient business model also means we are highly cash generative, with the majority of our profit after tax converted into cash. This gives us the flexibility to continue to grow whilst paying down debt and growing long-term returns to shareholders via our progressive dividend policy.

Source of Trading Profit¹

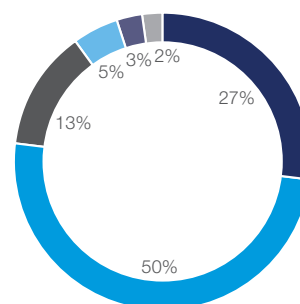
- Broked and other – 77%
- Manufactured – 23%



¹ Manufactured is Trading Profit from AICL Underwriting, Cruising, Healthcare, Media and Central Costs, broked and other is Trading Profit from all other operations.

Trading Profit by Division²

- Home insurance – 27%
- Motor insurance – 50%
- Other insurance – 13%
- Holidays – 5%
- Cruising – 3%
- Emerging businesses – 2%



² Excluding Central Costs.

Clear strategy

KPIs

Strategic delivery

Year ending 31 January 2016



1. Unlocking growth in our core businesses of insurance and travel

2. Investing in future growth

3. Maintaining our simple and efficient operating model

Active customers

2.66m ↑ 2.63m

Average number of products

2.51 ↓ 2.63m

Trading Profit

£211.0m ↑ 5.2%

Profit before tax

£176.2m ↑ 54.8%

Earnings per share

13.3p ↑ from 8.6p

Dividend per share

7.2p ↑ 75.6%

Available operating cash flow

£178.1m ↑ 9.3%

Debt ratio

2.3x ↓ from 2.6x

1. Unlocking growth in our core businesses of insurance and travel

- Delivered customer growth across all of our key insurance lines, supported by our expanded insurance footprint through the motor panel launch.
- Increased passengers in our tour operating business and increased the utilisation of our ships.
- Put the right team in place to make more of our database and deliver our multi-channel marketing activities.

2. Investing in future growth

- Announced our investment in new shipping capacity which will significantly change the profit trajectory of our travel business once delivered.
- Saga Investment Services up and running ahead of the key end of tax year period.
- Successful pilots are ongoing in new product areas.

3. Maintaining our simple and efficient operating model

- Model continues to generate strong cash flows.
- Undertaken a review of the capital allocated to our underwriting business.
- Disposed of a non-core asset, Allied Healthcare.

Measuring success



Core insurance policies sold

2,908k ↑ 8.5%

Holiday passenger days

189k ↑ 9.9%

Core trading profit from insurance and travel

£230.3m ↑ 9.1%

SIS up & running by key tax season

Announced investment in new shipping capacity

Motor panel launched
5 underwriters in place

Quota share signed post year end
75% of risk in AICL reinsured

Sale of Allied Healthcare

Strategic priorities

Year ending 31 January 2017



1. Becoming an ever more customer-centric organisation

→ *Read more on page 18*

2. Growing our insurance businesses

→ *Read more on page 19*

3. Growing our travel businesses

→ *Read more on page 20*

4. Investing for future growth

→ *Read more on page 20*

5. Developing our people

→ *Read more on page 21*

Delivering our

priorities





Our strategy has been developed to deliver long-term shareholder value through growth in the core businesses and capitalising on the long-term value identified in our new business opportunities.

These are our strategic priorities for the coming year. They build on our achievements so far and are the next step in the long-term delivery of our strategy.



SAGA CRUISES
BEST VALUE FOR MONEY
CRUISE LINE

1.

Becoming an ever more customer- centric organisation

Over 65 years, we have built up a very deep understanding of our customers and our target demographic. Traditionally, this insight has been used to develop products and gauge important characteristics of the customer, such as propensity to buy travel products and renewal dates for insurance policies.

With our new marketing team in place, we have the capability to do much more with the data we have at our disposal. Our aim is to make Saga a truly customer-centric organisation, allowing us to respond even more effectively to our customers' wants and needs and help them to put more of Saga in their lives.

At the heart of these plans is an understanding of how our customers are changing and how we are adapting to meet their needs. By focusing on the way a customer's life changes up to and in retirement, we have an opportunity to build on our current strong position to



ensure our relevance and appeal to our target market in the future.

Our plan for delivery is multi-faceted and includes:

- **Customer insight:** as the meaning of retirement changes for our customers, we need to understand that change more than anyone else and remain relevant to the changing needs of our customers and differentiate accordingly.
- **The customer journey:** moving from a very successful, direct marketing model to a multi-channel model that simplifies the customer journey. We can personalise the customer experience, develop a deeper understanding and deliver more efficient and personalised communications.
- **Helping the customer to 'put more of Saga in their lives':** We will work to create a customer view of relationships with Saga to help identify and reward those who

engage with Saga on multiple levels, improving the average product holding per customer.

- **The brand:** the Saga brand is a vital part of the Saga business with 97% recognition amongst the UK's over 50s. We will continue to increase our relevance to our target customers and help shift recognition and awareness into conversion.

Understanding the customer has always been at the heart of what we do in order to provide leading products and services. Our renewed focus on the customer's journey towards retirement gives us the opportunity to enhance this approach to help ensure Saga remains the UK's chosen provider for customers that are in, or thinking about, retirement, well into the future.



Ashleigh Hatton,
Performance Consultant,
Performance Support Team,
Saga Holidays

2. Growing our insurance businesses

As the largest part of the business by customer numbers and earnings, our insurance operations play a vital role in the delivery of growth across the Group.

Our business model provides us with the flexibility to balance growth in customer numbers and profit across our insurance business, depending on market conditions or our strategic aims. To deliver long-term growth for the Group, we have targeted growth in customer numbers and have delivered policy growth across all of our major insurance lines in the past year.

We will continue to build our insurance customer base and encourage loyalty amongst these customers with the aim of increasing the average number of products held, both within our insurance business and across the Group.

Much of this growth will be driven by the development of the motor insurance panel, allowing us to provide competitive quotes for a broader range of customers than we could in the past. Additionally, we will continue to improve our product propositions through enhanced customer insight and understanding, allowing us to further differentiate our products from the broader marketplace.

Finally, we are focusing on engaging with our customers on a multi-channel basis to ensure our customers receive the same Saga experience regardless of how we interact. We are therefore working across the Group to ensure a joined up, easy, personal and engaging customer experience through whichever channel (in person, by phone, by letter or digitally) our customers are most comfortable with.



3.

Growing our travel businesses

Our travel business lies at the heart of our brand. It enables customers to experience Saga levels of service and dedication in a unique way that many of our competitors are unable to replicate.

Growth across the travel business will come from the delivery of more targeted and sophisticated products, making Saga's travel offerings more contemporary through the development of new and differentiated propositions.



Matt Shearman, Holiday Sales Adviser, Saga Holidays

We will work to leverage these new propositions through marketing initiatives that help to attract new customers, particularly through the enhanced use of digital channels as our target customers become more digitally active.

Within our cruising business, we will maintain the highest possible standards of customer experience on both the Saga Sapphire and the Saga Pearl II.

4.

Investing for future growth

The majority of our short-term growth will come from continuing to unlock the potential in our core businesses of insurance and travel. At the same time, however, we are putting in place the building blocks that will support Saga's long-term growth plans.

Some of these opportunities are well progressed; others are potentially exciting but may not progress beyond the pilot stage. As always, we monitor progress extremely carefully to ensure that we can deliver a product or service that fits within The Saga Model and surprises and delights our customers.

New ships: In September 2015 we announced our decision to enhance our excellent cruise business by updating our shipping capacity. In the year ahead we will be working alongside our partner Meyer Werft to finalise the design of the ship to ensure its delivery in 2019. The new ship will be transformative for the operating efficiency and profitability of our cruising business. We expect cruises on the new ship to be on sale from 2017.

Saga Investment Services: With high street banks and independent financial advisers continuing to withdraw from the advisory space in the face of increased regulatory pressures, we identified a significant gap in the market for quality financial advice from a trusted provider.

In November 2015 we launched Saga Investment Services, our investment management joint venture with Tilney BestInvest, to fill this gap. The business offers everything from SIPPs to a personal advisory relationship, with all products transparently and fairly priced.

Our aim is to grow Saga Investment Services to become, in time, a meaningful contributor to our earnings.

New opportunities: We continue to identify gaps in the market where the UK's over 50s could be better served through the implementation of the Saga Model. We test these opportunities through a series of pilots such as the ones we are currently running in private pay homecare and retirement villages. This allows us to gauge their potential before slowly scaling the business up into a meaningful profit contributor. In the coming year we will continue to assess our current pilots and, subject to them proving their viability on a larger scale, start to expand them further.



5. Developing our people

Our people are central to everything we do and as such, their ongoing development plays a key role in the successful delivery of our strategy.

We now have a strong team in place throughout the business and last year we started to put in place the tools we need to support their development and enhance their engagement, ensuring we maximise the talent we have.

The implementation of 'The Saga Way' will continue, making it a key responsibility for every leader within the business. We will also increase our investment in leadership and management capability across our Executive Team, our top team and all senior leaders within the business.



Mackenzie Carne, Service Delivery Development Team Assistant, Saga Insurance

Our culture drives our performance

Our values inform who we are and how we work – they are brought to life every day by our people. There are a number of key assets, beyond the financial, which are vital to the functioning of our business and the delivery of our strategy.

Brand

65 years ago our founder, Sidney De Haan, identified that retired people had different travel needs. Ever since, Saga has continued to focus on understanding their wants and needs. We have used this insight to create a range of high-quality products and services, which have delivered sustained growth. This is aided by the high regard and warmth felt for the Saga brand.

Saga is now one of the UK's most recognised and trusted consumer brands and is synonymous with the over 50s market. We are known for quality products and services, and excellence in customer service. We achieve high levels of repeat business and acquire new customers without needing to rely heavily on costly third party advertising.

Our focus on a personal, more direct approach is appreciated by our customers, as is the fact that people can deal with us in the way that suits them.

**Rebecca Johncock,
Cruise Adviser,
Saga Holidays**



People

Saga's success relies upon having highly engaged employees committed to delivering exceptional service to our customers. Building exceptional engagement requires a positive high-performing culture and at Saga we see this as a key priority of leadership. In 2015 we were delighted to see a significant improvement in our employee engagement levels which are now over 80%, above the UK norm, and we have plans to improve this further. We made big strides forward in 2015 in building a comprehensive employee communication strategy. We have a suite of two-way communication forums to ensure we are really listening to the views and opinions of our people on how we can continue to improve Saga for staff and customers. We also made significant improvements to our employee benefits with an issue of free shares to all of our people in July 2015 to enable them to share in our success and also to align them with our continued growth and profitability. We also launched a new Share Incentive Plan and we are delighted with participation levels. Strong alignment of our employees with our business success is really important to us.

In 2015 we also launched the 'Saga Way', which crystallises the culture we want at Saga with a strong emphasis on exceptional customer care and giving our people a strong voice in ensuring that we consistently deliver. Our culture is focused on allowing people to be brave, challenging ourselves to deliver the best customer service throughout



Julie Birchmore, Holiday Sales Adviser, Saga Holidays

our business and supporting each other to do our best work. Building this high-performance and high-support culture is a key part of every leader's responsibility at Saga.

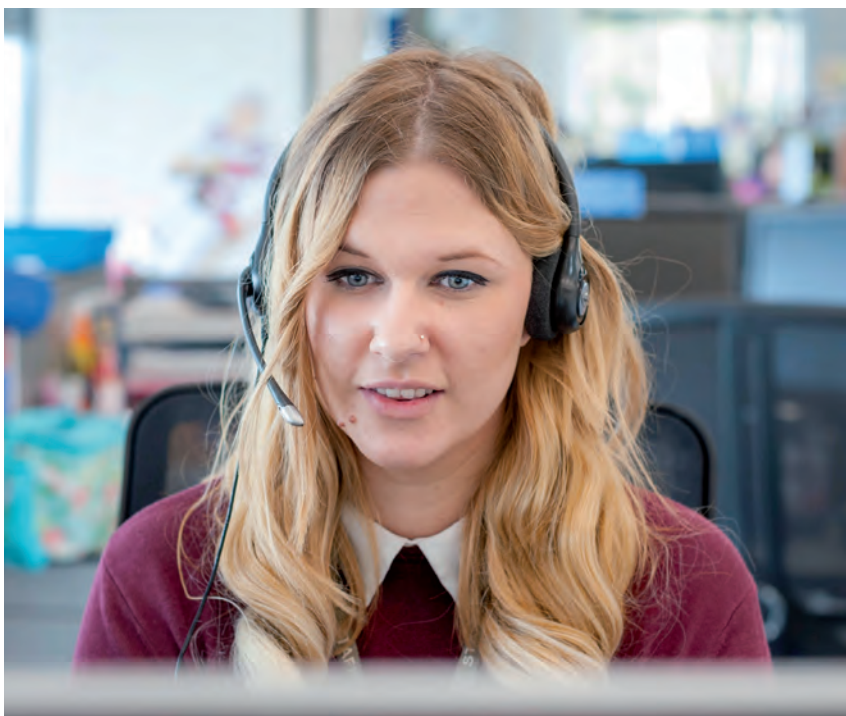
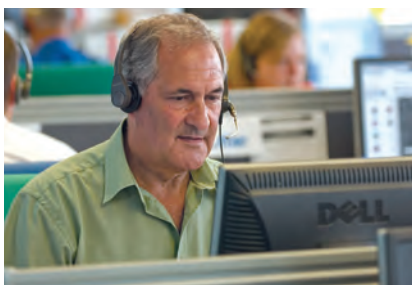
We continue to invest in our leadership and management capability. In 2015 we improved our approach to reviewing talent at all levels of our business. We have clear plans in every team to accelerate development and allow people to fulfil their potential. We are also focused on enabling people to develop across different parts of our Group, because we know that this diversity of experience is great for our people and our customers. The Saga Way Academy continues to deliver high-quality training, linked to our business plans, for all of our employees.

Diversity and having an employee base that brings different perspectives, backgrounds and ways of thinking is very important to our business and we aim to make this easier to deliver by providing flexible working. We help people to grow through biannual performance development reviews and career planning discussions – the latter have just been introduced this year. Our open and supportive culture also encourages people to speak up if they have issues that they want to raise, and we support this with whistleblowing arrangements that are regularly communicated.

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

**OUR RESOURCES
AND RELATIONSHIPS**
CONTINUED

**John Freeman, Sales Adviser,
Retirement Villages**



Keely Berwick, Holiday Sales Adviser, Saga Holidays

Gender diversity January 2016

	Male		Female		Total
	Actual	%	Actual	%	
Board ¹	7	78%	2	22%	9
Senior managers ²	95	65%	51	35%	146
Employees ³	1,980	44%	2,499	56%	4,479

¹ Directors of the Company including executive and non-executive.

² All divisional Board Directors, and employees with strategic input and influence.

³ All Saga employees (including Directors and senior managers).

Human rights

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

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.

Community and social

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

We have made donations to Safer Kent, a local crime prevention charity, and provided raffle prizes for local community groups. The Saga Pavilion is used by local organisations, which this year have included the Children's Trust, the MS Society, orchestral and choral societies and sports associations. At the weekend the Enbrook Park HQ car park is open for those visiting local shops, and the farmers' market uses the site twice a month.

The grounds and woods at our sites are well maintained and open to the public. A new public footpath has been created through Enbrook Park and a local Scout group has established various habitats to encourage wildlife.

Saga has a strong social commentary and campaigning aspect to its brand reflecting and giving voice to the concerns of the nation's over 50s. This is achieved through a mix of published research, public policy campaigns and news commentary. This builds a reputation for being an insightful and trusted voice with the media and policy makers for the concerns of those approaching or in retirement. During the 2015 General Election, all party leaders were interviewed in Saga Magazine and the Prime Minister launched his manifesto for older people at an event for Saga customers at our Hastings office.

The Saga Respite for Carers Trust provides holidays for family carers, and the Saga Charitable Trust, which celebrated its 30th anniversary in 2015, supports projects in countries that our holiday customers visit.

Our people and customers also donated significant sums towards helping victims of the Nepal Earthquake in April 2015 and Saga Charitable Trust provided matching funding. A £50,000 donation to the Gurkha Welfare Trust was made by Saga Charitable Trust at last year's AGM.

As one of the inaugural signatories of the Ministry of Defence's Corporate Covenant, Saga has shown a strong commitment to staff who are in the reserve forces and for service families. We also support local air, sea and army cadets and hold an Annual Armed Forces Day staff BBQ that has raised money for: the Royal British Legion; the Soldiers, Sailors, Airmen and Families Association; and Help for Heroes.

Our contact centres were used for both Comic Relief and Children in Need – which saw teams from around the Company manning the phones to take donations.

Supplier partnerships

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

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

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

Database and technology

Our multiple customer interactions across a broad range of products and services over many years have enabled us to develop a sophisticated proprietary Group Marketing Database.



This database now contains highly relevant data for 11.2m people and 9.1m households, covering over 50% of over 50s households and over 60% of over 50s ABC1 households in the UK.

Saga has a consistent focus on data collection and we are constantly re-confirming the data we gather through over 128m interactions per year. By selling products and services directly to customers, we capture information at every point of contact and build a view of the customer and changes in behaviour over time.

Our data analysts are then able to perform sophisticated analysis such as customer segmentation and propensity modelling, resulting in targeted marketing. This allows us to introduce appropriate products and services to customers in a highly efficient manner with relatively low customer acquisition costs. Importantly, our database is exclusive to us: we do not share the information with third parties for marketing purposes.

Our main IT systems are developed, supported and maintained in-house, as many of the systems are a key source of our competitive advantage.

Most of our operating systems are adapted to each business segment, so application support is administered by decentralised segment-specific support functions. In contrast, most of our IT infrastructure, such as telephony switches, data networks and server rooms, are maintained by centralised support functions.

Data security and the threat of cybercrime are key issues and these are covered in the Principal Risks and Uncertainties section on pages 28-32.

Ships

Our ships are subject to an ongoing programme of refurbishment and refits to ensure a continued safe and efficient operation and an environment that meets our customers' exacting standards and expectations. The cruise experience is the embodiment of Saga's focus on the needs of our customers and gives us an opportunity to connect with customers in a way that none of our financial services competitors can hope to achieve.

Environment

The Group is sensitive to its environmental impact and aims to operate in a manner that minimises negative impact, such as waste sent to landfill, and invests in activities which have a positive impact on the environment, such as improved energy efficiency. We strive for continuous improvement of our operations to reduce any potential impact our business may have on the environment. Saga promotes green travel options and has a network of Saga minibuses that take people to and from its sites, and we also promote a cycle to work scheme.

**OUR RESOURCES
AND RELATIONSHIPS**
CONTINUED

Greenhouse gas emissions report

This section has been prepared as per Section 7 of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

During the the year ending 31 January 2016, the Group emitted a total of 102,261 tCO₂e from fuel combustion (Scope 1 direct) and electricity purchased for our own use (Scope 2 indirect). This is equivalent to 106.2 tCO₂e per £m revenue. We voluntarily report Scope 3 emissions arising from business travel, which contribute 1,637 tCO₂e.

The table below shows our greenhouse gas (GHG) emissions for the year ended 31 January 2016.

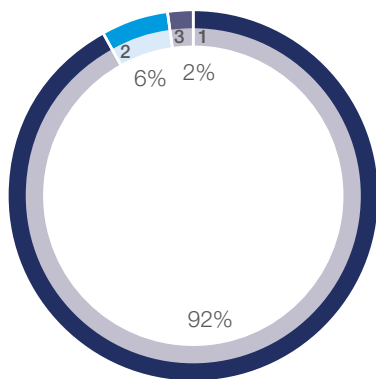
Greenhouse gas emissions in tonnes of carbon dioxide (tCO₂) or carbon dioxide equivalent (tCO₂e)

Emissions source	2015/16 Emissions	2014/15 Emissions
Scope 1	96,026 tCO ₂ e	104,734 tCO ₂ e
Scope 2 (location-based)	6,235 tCO ₂ e	7,038 tCO ₂ e
Total Scope 1 & 2	102,261 tCO ₂ e	111,772 tCO ₂ e
tCO ₂ e per £m revenue	106.2	124.1
Scope 2 (market-based)*	1,078 tCO ₂	n/a
Scope 3	1,637 tCO ₂ e	1,694 tCO ₂ e

* Employee FTE 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 tCO₂ rather than tCO₂e due to the availability of emission factors.

Total location-based emissions (2015/16)

- 1. Scope 1 – 92%
- 2. Scope 2 – 6%
- 3. Scope 3 – 2%



Methodology

We quantify and report our organisational greenhouse gas emissions in alignment with the GHG Protocol, which includes alignment with the new Scope 2 Guidance.

The UK Government 2015 Conversion Factors for Company Reporting have been utilised in order to calculate Scope 1, Scope 2 (Location-based) and Scope 3 emissions from corresponding activity data.

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. Due to poor data accuracy and a lack of operational control, emissions from non-owned buildings fall outside of the organisational boundary and are reasonably estimated to fall below the 5% materiality threshold. Similarly, emissions from diesel combustion within building generators are reasonably estimated to be less than 5% of our total footprint and have not been included in our disclosure.

The GHG sources that constitute our operational boundary for the 2015-16 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

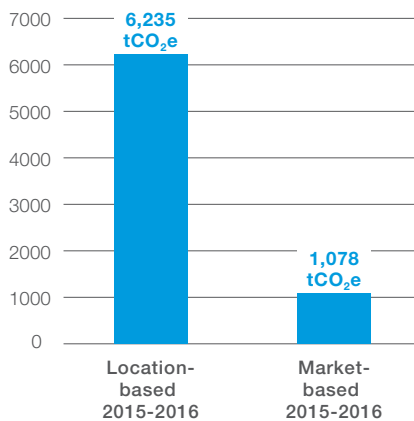
Assumptions and estimations

During the year Bennett's was acquired and Allied Healthcare was sold. Emissions have been calculated for these entities pro rata.

In some cases, where data is missing, values have been estimated by extrapolation of available data from the reporting period or data from 2014 as a proxy.

- No data was available for Allied Healthcare's business travel, so an estimate has been calculated from the previous year's data.
- Where the fuel type information was not available, it has been assumed to be diesel for the purpose of emissions calculations.

Scope 2 emissions by methodology



Dual reporting of Scope 2 emissions

The new Scope 2 Guidance in the GHG Protocol requires that we quantify and report Scope 2 emissions from purchased electricity consumption for our own use using two different methodologies: the location-based method, using average emissions factors for the country in which the reported operations take place, and the market-based method, which uses the actual emissions factors of the energy procured. This is known as dual reporting. Please see below for further details of these methodologies.

The graph below shows the Group's Scope 2 emissions from purchased electricity, which have been calculated using the two different methodologies.

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

Improving performance

We have continued to monitor and measure our carbon impact in 2015-16 following our first annual emissions

report last year. In 2015, Saga was short-listed by the Carbon Disclosure Project (CDP) in the category of 'Best first time responder' and we aim to further improve our score.

We have taken steps to improve our energy and carbon performance: as part of compliance with the UK Energy Savings Opportunities Scheme (ESOS), we have identified a number of measures to further reduce energy use in buildings and ships in particular and are in the process of implementing the next steps to realise these savings.

Total emissions for the year ending 31 January 2016 have reduced compared with the year ending 31 January 2015 by approximately 8%. This is largely due to an 8% reduction in the emissions associated with Marine Fuel, which contribute over 87% of Saga's Scope 1, 2 & 3 total emissions. Within the two cruise ships that we own and operate, Saga have been implementing a number of fuel efficiency measures, these include designing itineraries at lower speeds, reducing the use of stabilisers, and replacing lightbulbs with LEDs.

There has also been an annual reduction in building energy consumption, which can partly be attributed to the sale of Allied Healthcare, as well as a reduction in the use of road fuel.



Strong risk management at the heart of our approach

Risk governance

We have agreed with the Board systems and processes to govern our approach to risk management. These systems specifically encompass: ensuring an effective risk assessment and management system is in place; agreeing the principal risks and uncertainties the business should accept in pursuit of its strategic objectives and regularly reviewing the status of these; ensuring a suitable risk culture is embedded throughout Saga; and frequently assessing the effectiveness of the Group's risk management systems, including essential levels of internal and external risk communication. Our approach and these processes are set out in more detail in the Accountability section of our Corporate Governance Statement on pages 66-69 of this annual report.

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

Risk appetite

Our risk appetite, reviewed annually, defines the amount and sources of risk which we are willing to accept in 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 low appetite for volatile earnings and have established limits representing the maximum amount of acceptable variation in earnings during our planning cycle.

Conduct/reputation

We recognise that our continued success depends on maintenance of our brand, and reputation for quality service. We therefore have zero appetite and a very low tolerance for brand and reputation risks and will look wherever possible to eliminate them. We have zero appetite and very low tolerance for systemic unfair customer outcomes as a result of failures in the product, marketing, sales or service delivery systems and processes, or cultural shortcomings.

Customer growth

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

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

Market risk

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

Credit risk

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

Liquidity risk

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

Insurance risk

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

Strategic risk

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

Mergers and acquisitions risk

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

Operational risk

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

Health and safety

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

Cyber security

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

Separate risk appetite statements and risk tolerance thresholds have also been created for each business in Saga, customised to their business needs and complementary to the Group's tolerances. Risk appetite statements and risk tolerances are central to our decision making processes and are a point of reference for all significant investment decisions.

“Our risk appetite, reviewed annually, defines the amount and sources of risk which we are willing to accept in pursuit of our objectives.”

**OUR PRINCIPAL RISKS
AND UNCERTAINTIES**
CONTINUED

Principal risks and uncertainties	Strategic priorities linkage and risk movement	Specific concerns	Response/mitigation
IT systems and processes	1, 2, 3, 4 ↔	Failure of our core IT systems to deliver required performance stability and resilience	We have allocated specific investment for refreshing our IT Infrastructure and strengthened our core IT team and processes
		Inability to develop digital offerings sufficient to drive innovation and growth	We have made a significant investment in digital innovations at Group and business levels
Cybercrime	1, 2, 3, 4 ↔	Cybercrime attacks prevent achievement of objectives	We have strengthened our Cybercrime team during 2015. There has been significant expenditure over the past two years to ensure the IT network is well protected and cyber awareness and information security training has been rolled out to all staff
Database	1, 2, 3, 4 ↔	Breach/loss of sensitive data assets	Extensive investment has been made in improving information security countermeasures in 2015. An external review/benchmarking of information security plans has been undertaken, and further budget has been allocated for continuous improvement in 2016
		Breach of data protection legislation	We have dedicated data protection resources, processes and systems in place to ensure data is stored securely and handled correctly. We have contingency processes in place in the unlikely event of a data breach. We are also preparing to make any further improvements necessary to comply with the new European Union data protection regulations
People	5 ↓	Our culture does not deliver the Saga brand we aspire to	We have redefined our brand and cultural values and cascaded these throughout the Group
		We do not attract and/or retain the right people to achieve our objectives	Our people strategy has been further developed to enhance our management of attraction and retention issues and to develop further our pipeline for future talent at all levels.

Strategic objectives

1. Becoming an ever more customer-centric organisation (read more information on page 18)
2. Growing our insurance businesses (read more information on page 19)
3. Growing our travel businesses (read more information on page 20)
4. Investing for future growth (read more information on page 20)
5. Developing our people (read more information on page 21)

Principal risks and uncertainties	Strategic priorities linkage and risk movement	Specific concerns	Response/mitigation
Operational efficiency/change	1, 2, 3, 4, 5 ↔	Failure to accrue expected benefits from operational/change initiatives	Operational and change initiatives are reviewed at all governance and trading meetings and mitigating steps taken where appropriate. Specific governance structures have been established for key change projects such as delivery of our new ship and our recently introduced motor panel
		Failure to maintain shipping fleet at a level to meet both customer expectations and plan	We have developed a 'beyond compliance' maintenance programme covering all aspects of our ships overseen at Group level and reported weekly via our governance structure. Regular refits and overhauls ensure our ships are resilient and offer the quality of product our customers expect
		Key innovation projects do not deliver expected results	We have created a dedicated change management function in 2015 to ensure change is managed consistently and effectively. We are also allocating senior management to key innovation projects to ensure speedy delivery of essential change
		New ship is delivered late or outside of budget	We have appointed a class-leading shipyard to complete the build and recruited an experienced New Build Director to ensure appropriate project control and governance
Business interruption	1, 2, 3, 4 ↔	Reputational damage arising from ineffective mishandling of interruption incidents	We have fully tested and documented business continuity plans in place to address all aspects of potential interruption scenarios
		3 ↔	Loss arising from shipping technical failure or maritime incident
External regulatory landscape/political change	1, 2, 3, 4 ↔	Breach of regulation governing our operations	Dedicated Compliance teams are embedded in all regulated businesses and are responsible for monitoring compliance performance. Teams exist at Group level to ensure Group compliance with key legislation such as the Health and Safety at Work etc. Act 1974
		Inability to respond to regulatory change affecting our business	Saga has a diversified business model to lessen the potential impact of changes affecting one product or service. Emerging and horizon compliance risks are tracked by the dedicated Business Compliance teams and raised at all governance forums
		Political changes negatively impact our business models	Political policy is constantly monitored for impact and active lobbying is undertaken to influence proposed change wherever appropriate

**OUR PRINCIPAL RISKS
AND UNCERTAINTIES**
CONTINUED

Principal risks and uncertainties	Strategic priorities linkage and risk movement	Specific concerns	Response/mitigation
Counterparty	1, 2, 3, 4 ↔	Financial failure of key partner	We have agreed selection, monitoring and due diligence processes in place for all key partners/suppliers
	1, 2, 3, 4 ↔	Inability of key partner to provide appropriate service leading to reputational damage	Saga controls its third party supply quality through contractual terms and agreed service level agreements. Adherence to these documents is monitored through internal and external audits, customer 'moments of truth' surveys and customer complaint review
	1, 2, 3, 4 ↔	Key partnerships fail to produce anticipated benefits	We have established governance structures with our key suppliers and joint venture partners to ensure performance to meet our own and our customers' expectations are achieved
Insurance landscape	1, 2 ↔	Inability to compete with insurance competitors	Saga controls the underwriting process for both broking and insurance operations, thereby allowing them to compete on policy terms where appropriate
		Rates in the motor insurance market do not move as expected	We have introduced a motor panel arrangement, increasing competitiveness and reducing risk, and we have also conducted a reappraisal of AICL risk appetite to consider non-standard risks where they are understood
		Claims experience is adverse compared with current best-estimate assumptions	We adopt strict underwriting criteria to price our risks, and review our claims and reserve development frequently. We also purchase reinsurance to reduce claims volatility
Conduct/customers	1, 2, 3, 4, 5 ↔	Our behaviour results in poor/unacceptable outcomes for customers	Saga's governance structure is built on the premise of customer dedication with regular consideration of customer satisfaction throughout the organisation
Macroeconomic climate	1, 2, 3, 4 ↔	Changes in the macroeconomic climate impact our customers' inclination/capability to purchase our products and services	The impact of external economic factors on costs and customer demand are closely monitored throughout the Group and necessary changes are made to products and services regularly
	1, 2, 3, 4 ↔	Investments do not yield expected returns	Saga manages its investment portfolio through an investment committee which ensures a spread of risk and optimal returns
Travel landscape	3 NEW	Increased product commoditisation prevents us from both meeting customer needs and achieving expected margins	Significant work has been undertaken in 2015 to create customisable products to meet customers' needs. A review has been undertaken to identify further efficiencies in our business model
		Failure to create expected customer demand for future shipping capacity	Our 'beyond compliance programme aims to ensure that our existing ships meet current customer requirements and engender future customer loyalty

We have continued to build strong momentum across all of our divisions



Insurance

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Travel

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Emerging businesses

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Insurance

At a glance

Our award winning insurance business is the largest part of the Group, providing tailored products and services ranging from motor to pet insurance to over 2m customers per year.

Motor Insurance: Core policies sold

1,238k

Performance

↑ 14.9%

Motor Insurance: Trading Profit

£118.3m

Performance

↑ 17.8%

Motor Underwriting: Combined Operating Ratio

74.4%

Performance

↓ 3.5pts

Insurance

Our insurance model allows our retail broker, Saga Services, access to the highest quality and most cost-efficient source of underwriting available in the market, whether that be AICL, a panel of providers or a solus relationship with a third party. This flexibility provides us with a number of levers to operate effectively across our full portfolio of products to capitalise on, or protect against, market conditions. This year, this has allowed us to deliver both profit and customer growth across all of our major product lines.

Motor insurance

The UK motor insurance market remains very competitive. Our experience across the book supports the market view that premiums continued to fall during the first quarter of 2015 but, since then, there have been sustainable increases in market premiums, particularly from the fourth quarter of 2015 onwards.

We have worked to capitalise on our competitive advantages within the motor insurance market to continue to grow the business. These include: a low cost of acquisition due to our brand and database covering 11.2m of the UK's over 50s; a differentiated retailer, Saga Services, with access to our newly launched panel of underwriters; the participation on the panel of our own experienced in-house underwriter, AICL, with a clear focus and data-driven insight into a relatively low risk section of the market; and an efficient and effective claims management function.

We have grown our core motor policies to 1,238k (2015: 1,077k), with 3.1% underlying policy growth and 128k policies added through our Bennetts acquisition. We delivered a 17.8% increase in Trading Profit to £118.3m (2015: £100.4m).

In particular, this customer and profit growth has been driven by two factors:

1. Our approach to pricing risk in AICL: By better reflecting our excellent underwriting performance in AICL's risk pricing our retail broker has been able to be more competitive, particularly in a rising premium environment.
2. The successful launch of our motor panel: Access to the panel has allowed our retail broker to increase its competitiveness outside of AICL's traditional target market of lower risk drivers. The panel, launched in late summer, has five underwriters and we expect to add a further two

during this year. The panel will continue to increase in efficiency as new underwriters join. However, we are already starting to see the benefits with around one quarter of net premium being underwritten by the panel during January 2016.

Overall, we are pleased with the balance we have achieved between profit growth and customer growth in the year, and, with the enhanced supply chain provided by the panel, our retail broker remains well placed to capitalise on its competitive advantages.

Motor underwriting

Within our underwriter, AICL, we continue to see a relatively stable claims frequency and personal injury claims cost. This claims experience has contributed strongly to our combined operating ratio, which has improved by 3.5pts to 74.4% (2015: 77.9%).

Given this positive underwriting performance, we have been able to price risk from AICL very competitively in a rising price environment, while maintaining our prudent approach to underwriting. This more competitive approach to pricing means that in future more profit will be realised in the current year, while historic reserve releases will reduce over time.

AICL remains a critical part of our business. Its clear focus and data-driven insight in a relatively low risk section of the market has made a significant contribution to the Group's earnings since its formation. Equally, our ongoing ability to act as underwriter and participate on our motor panel is a vital element of delivering the motor panel's long-term success.

Following a review of the use of capital in AICL, we entered into a quota share arrangement with NewRe, a subsidiary of Munich Re, the world's biggest reinsurance group. This covers 75% of the risk of the motor policies within AICL, from 1 February 2016 for a period of three years with the option of a further three years. The terms of the arrangement, with a market-leading reinsurer, are testament to the quality of the Saga underwritten book, and our historic performance.

**Home Insurance:
Core policies sold**

1,287k

Performance
↑ 2.3%
**Home Insurance:
Trading Profit**

£64.1m

Performance
↑ 3.2%
**Other Insurance:
Core policies sold**

383k

Performance
↑ 11.3%
**Other Insurance:
Trading Profit**

£30.7m

Performance
↓ 12%

The arrangement is with NewRe, a subsidiary of Munich Re, the world's biggest reinsurance group, and will cover 75% of the risk of new policies written by AICL, from 1 February 2016 for a period of three years with the option of a further three years. The terms of the arrangement we have signed, with a market-leading reinsurer, is testament to the quality of the Saga underwritten book, and our historic performance.

With the expected reduction in policies written by AICL with the future growth in the motor panel, our previously announced lower risk investment policy going forward and our quota share arrangements, we expect the amount of capital within AICL to reduce gradually over time.

Importantly, capital that will be gradually released from the underwriter will allow us to increase our free cash flow and reduce the capital at risk, while increasing the resilience of earnings by increasing the percentage that comes from broking activities.

Home insurance

The market for home insurance continues to be highly competitive and we have seen the same fall in average premiums that the wider market has experienced.

The increasing competitive tension provided by our panel and our use of the 'Saga Factor', has led to a reduction in the net rate at which we can source underwriting for these policies, enabling us to maintain our margin in this area despite falling market rates. This has allowed us to increase our competitiveness and grow core policy numbers.

We saw a limited number of claims in relation to the flooding that took place in the UK this winter and our focus was on working with our partners on the panel to support any customers who were affected during a difficult time. However, it is worth reiterating that our insurance model in home, with the use of the panel and co-insurance/re-insurance of the risk underwritten by AICL, means our short-term earnings are protected in situations such as this.

As a result, we have grown both profits and core policy numbers within our home insurance business. Our core home policies have grown by 2.3% to 1,287k (2015: 1,258k) and we have delivered a 3.2% increase in Trading Profit to £64.1m (2015: £62.1m).

Other insurance

Within other insurance we have continued to deliver a strong performance through growing customer numbers in this segment's core products of private medical insurance ('PMI') and travel insurance.

PMI remains an important area for us and we continue to grow policy numbers by evolving and enhancing our product to ensure its relevance to our target customer base.

Our travel insurance product has again performed very strongly in the past year, partly as a result of developing new routes to market. This is an important source of income for the Group and as importantly, it remains a key source of new names onto the database, adding more than 158k names during the period.

During the course of the year, our external Saga Legal Services partner, Parabis Law LLP, filed for insolvency. While disruptive to our business, our focus throughout has been on ensuring that any impact on our customers was minimised. We have established relationships with new partners, which will enable us to continue to develop an offering in this area.

Investment in marketing for Saga Legal Services at the start of the year and the negative financial impact of the Parabis insolvency resulted in Trading Profit in Other Insurance reducing to £30.7m (2015: £34.9m).

Current trading

Trading across the insurance businesses has started well and is in line with our expectations.

Our experience suggests that recent strong price increases in the UK motor market appear to be sustainable and our claims experience has continued to be positive. With the continued development of our motor panel and competitive pricing from AICL, we are well placed to grow customer numbers and profit in the current market conditions during the coming year. We are mindful of the impact of Insurance Premium Tax increases and the effect on market churn.

While the UK home insurance market remains highly competitive, our proactive management of the home insurance panel leaves us well placed in this area despite there being limited signs of premium increases across the market.

Within other insurance, we have seen continued strong performance in private medical insurance. Recent geopolitical turbulence in traditional winter sun destinations has had an impact on demand for our single trip travel insurance policies in the early part of the year. However, demand for our annual travel insurance policies remains strong and we expect a continued robust operating performance within our other insurance business.



Travel

At a glance

Our award winning travel businesses is at the heart of the Saga brand, taking over 250,000 passengers a year all over the world on package holidays, escorted tours and cruises.

Holidays passengers:

189k

Performance

↑ **9.9%**

Ship passenger days:

339k

Performance

↑ **0.9%**

Travel: Trading Profit

£17.2m

Performance

↑ **26.5%**

Our travel business has continued to focus on growing profitability. We have delivered customer and profit growth across our tour operating and cruising businesses with overall revenue growing by 11.0% to £423.1m (2015: £381.3m) and Trading Profit up by 26.5% to £17.2m (2015: £13.6m). The business continues to be on track to deliver its objectives.

During 2015, our travel businesses were awarded 65 awards ranging from Saga's best specialist tour operator, award from the Times and Sunday Times to Destinology's Gold award for best medium sized luxury holiday company, in the British Travel Awards.

Tour operating

Within our tour operating businesses we have seen a shift in the mix of sales to longer-haul, higher-value products where we can provide our customers with both security and a highly differentiated product. The success of this shift is attributable to our ability to know more about our customers' wants and needs than any other provider, and to create affordable packages underpinned by excellent service.

We have grown customer numbers with a 9.9% increase in holiday passengers to 189k (2015: 172k).

Cruising

Cruising remains a vital part of our travel offering through our two ships, the Saga Sapphire and Saga Pearl II. The business had another good year with load factors of 84.4% (2015: 84.9%) across both ships and a 0.9% increase in the number of ship passenger days to 339k (2015: 336k).

Whilst the announcement of the purchase of the new ship has caused much excitement amongst our customers, our immediate focus is on ensuring the maintenance of the customer experience and the high levels of satisfaction with customers' overall holiday experience which we have seen reach historic highs this year.

As part of this ongoing process, the Saga Sapphire will be in wet dock during the coming year for scheduled maintenance. As with the refit of Saga Pearl II last year, this will enhance our service capability and the proposition to customers on board. It will, however, mean we have one ship out of service for two months during the year, which, whilst budgeted, will hold back the total profit growth in the travel business for the coming year.

Current trading

Trading in Tour Operating for the year ending 31 January 2017 has been positive and we are around three quarters sold for the year. As expected our cruise revenue is lower than last year's position, given the Sapphire wet dock. As we are over 90% sold, we have good visibility on the outturn for the year.

Trading to week ending 9 April 2016

Departure year	2016/ 2017	Growth	2015/ 2016
Tour operating revenue	£269.4m	5.0%	£256.5m
Cruise revenue	£71.2m	(2.2%)	£72.8m

Emerging businesses



At a glance

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

Saga Investment Services

We launched Saga Investment Services, our investment management joint venture with Tilney Bestinvest, in November 2015 to support those customers who have previously been ignored by the investment management industry. It has been quite an achievement by the team to get the business up and running with such a strong proposition in less than a year.

Other personal finance

Our high quality personal finance business also continues to make good progress. We have 130k savings account customers, provided 10k new Saga Credit Cards and £227m was spent on our cards by 167k customers.

Homecare and retirement villages

Our private homecare trial continues to make progress in Hertfordshire. During the year we have focused on ensuring the offer is right for customers, as well as testing the economics before we expand it further. We are continuing to assess the opportunity around retirement villages in the UK.

Strong financial performance



Jonathan Hill
Group Chief Financial Officer

Trading Profit

£211.0m

Available operating cash flow

£178.1m

I am pleased to be able to report that the Group has delivered a strong financial performance, with a 5.0% growth in Trading EBITDA and a 5.2% growth in Trading Profit. Robust cash flows have enabled us to further deleverage to 2.3x from 2.6x at the start of the year. Based on these results and our future expectations for the business, we have significantly increased our dividend to 7.2p per share for the full year.

Revenue from continuing operations increased by 7.0% to £963.2m (2015: £900.5m), Trading EBITDA grew by 5.0% to £238.8m (2015: £227.4m) and Trading Profit by 5.2% to £211.0m (2015: £200.6m).

Profit before interest, tax and IPO costs increased by 2.2%, reflecting several factors: amortisation of acquired intangibles increased by £4.1m as a result of the full year impact of Destinology, acquired part way through 2014, and the acquisition of Bennetts on 1 July 2015; a £4.1m decrease in year-on-year derivative fair value movements taken to profit and loss; offset by a £2.2m reduction in non-trading costs.

The non-trading costs recognised by the Group in the year comprised £4.7m of costs relating to the administration of our legal services provider (Parabis Law LLP), £3.8m associated with the write-down of the carrying value of the Bel Jou hotel, £0.7m of restructuring costs and £0.5m of costs incurred with the acquisition of Bennetts. These were offset by a £2.6m positive settlement of

Income Statement

Group Income Statement	12m to Jan 2016	Growth	12m to Jan 2015
Revenue	£963.2m	7.0%	£900.5m
Trading EBITDA	£238.8m	5.0%	£227.4m
Depreciation & amortisation (excluding acquired intangibles)	(£27.8m)		(£26.8m)
Trading Profit	£211.0m	5.2%	£200.6m
Non-trading costs	(£0.2m)		(£2.4m)
Amortisation of acquired intangibles	(£6.3m)		(£2.2m)
Net fair value gains / (losses) on derivatives	(£1.2m)		£2.9m
Profit before interest, tax and IPO costs	£203.3m	2.2%	£198.9m
Finance costs	(£24.0m)		(£23.0m)
IPO expenses	(£3.1m)		(£50.0m)
Exceptional debt costs	–		(£12.1m)
Profit before tax from continuing operations	£176.2m	54.8%	£113.8m
Tax expense	(£28.1m)	2.6%	(£27.4m)
Loss after tax for the year from discontinued operations	(£6.9m)	(96.9%)	(£220.2m)
Profit / (loss) after tax	£141.2m	205.5%	(£133.8m)
Basic earnings per share:			
Earnings per share from continuing operations	13.3p	54.7%	8.6p
Earnings / (loss) per share	12.7p	195.5%	(13.3p)

a legal dispute related to one of the ships and a £7.1m release of the contingent consideration associated with the acquisition of Destinology.

While Destinology has delivered solid profits, the results for the year are below those expected at the time of acquisition, due to significantly more competition in the Middle East market (a major destination for Destinology) and slower development of customer growth, with new marketing initiatives yet to fully deliver. A new Managing Director and strengthened marketing resource are in place to enhance returns from Destinology.

Profit before tax from continuing operations for the year was £176.2m, an increase of 54.8%, due in part to the material one-off IPO and exceptional debt costs incurred in the previous year.

Finance costs

Finance costs in the year were £24.0m, which comprised £18.7m of interest costs on debt and borrowings, £3.2m of amortisation of debt issue costs, £1.1m of finance charge associated with pension schemes and a £1.0m charge associated with the unwinding of the discount on the deferred consideration associated with Destinology. This compares with £23.0m in the previous year, which comprised £20.1m of interest costs on debt and borrowings, £2.4m of amortisation of debt issue costs and £0.5m finance charge associated with pension schemes.

Tax expense

The Group's tax expense for the year was £28.1m (2015: £27.4m) representing a tax effective rate of 15.9%. This included a £7.6m benefit from the utilisation under the group relief rules of tax losses from Acromas, which arose when Saga was a part of the Acromas Group. Excluding the impact of the Acromas tax losses, the underlying tax effective rate was 20.3% (2015: 24.1%).

Earnings per share

Group basic earnings per share were 12.7p (2015: loss per share of 13.3p) with Group basic earnings per share from continuing operations for the same period of 13.3p (2015: 8.6p). The earnings performance for the previous year was impacted by the Group's IPO and exceptional debt costs.

**GROUP CHIEF FINANCIAL
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Dividends

The Directors have proposed a final dividend of 5.0p per share, which, combined with the interim dividend of 2.2p per share, will deliver a total dividend for the financial year ending 31 January 2016 of 7.2p per share (2015: 4.1p). This equates to a payout ratio of 57% compared with the Group's basic earnings per share from continuing operations (excluding the one-off benefit of Acromas tax losses) (2015: 49.5% pro rata for the period post IPO).

Saga offers a share alternative in the form of a dividend re-investment plan ('DRIP') for those shareholders who wish to elect to use their dividend payments to purchase additional Shares in the Group, rather than receive a cash payment. The last date for shareholders to elect to participate in the DRIP will be 5 June 2016.

Cash flow and liquidity

The Group maintained a strong cash flow performance in the year to 31 January 2016, achieving an available operating cash flow of £178.1m, 74.6% of Trading EBITDA. This cash flow increased by £15.1m on the previous period, which was driven by a higher payout from increased profits in the travel and AICL restricted businesses.

	12m to Jan 2016	<i>Growth</i>	12m to Jan 2015
Available Cash Flow			
Trading EBITDA	£238.8m	5.0%	£227.4m
Less Trading EBITDA relating to restricted businesses	(£95.8m)	21.6%	(£78.8m)
Intra-group dividends paid by restricted businesses	£59.0m	122.6%	£26.5m
Working capital and non-cash items	(£3.7m)	(408.3%)	£1.2m
Capital expenditure funded with available cash	(£20.2m)	51.9%	(£13.3m)
Available operating cash flow	£178.1m	9.3%	£163.0m
<i>Available operating cash flow %</i>	<i>74.6%</i>	<i>2.9%</i>	<i>71.7%</i>

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

	12m to Jan 2016	12m to Jan 2015
Net cash flow from operating activities (reported)	£150.4m	£155.3m
Exclude cash impact of:		
Trading of restricted divisions	(£61.5m)	(£53.2m)
Trading of discontinued operation	–	(£11.4m)
Cash released from restricted divisions	£59.0m	£26.5m
Non-trading costs	£13.4m	£7.2m
Interest paid	£21.6m	£19.7m
Tax paid	£15.4m	£9.6m
Debt issue costs	–	£22.6m
	£47.9m	£21.0m
Include capital expenditure funded from available cash	(£20.2m)	(£13.3m)
Available operating cash flow	£178.1m	£163.0m

Financing

Continued strong cash flows have enabled the Group to reduce its debt ratio to 2.3x from 2.6x. As at 31 January 2016, net debt was £547.7m, comprising £480.0m of gross debt and £75.0m of drawn revolving credit facility, offset by £7.3m of available cash. This compared with net debt as at 31 January 2015 of £582.4m, comprising £700.0m of gross debt offset by £117.6m of available cash.

As communicated at the time of the interim results, it is the Group's intention to reduce the debt ratio (net debt to Trading EBITDA) to between 1.5x and 2.0x in the medium term. The delivery of the new ship is expected in mid-2019 and the intention is to target the lower end of this range before any debt associated with the ship is drawn down, with the Group remaining within this target range after the delivery of the new ship.

Pensions

Over the year, the valuation of the Group's pension scheme has improved on an IAS19 basis by £21.6m to a deficit of £18.8m (January 2015: deficit £40.4m):

Saga Scheme	12m to Jan 2016	12m to Jan 2015
Fair value of scheme assets	£218.6m	£212.3m
Present value of defined benefit obligation	(£237.4m)	(£252.7m)
Defined benefit scheme liability	(£18.8m)	(£40.4m)

The improvement has been driven by a £15.3m reduction in the present value of obligations to £237.4m (January 2015: £252.7m) and a £6.3m increase in the fair value of the scheme assets. The significant decrease in the present value of future obligations has been driven by an increase in the discount rate applied reflecting an increase in corporate bond yields.

Net assets

Since 31 January 2015, total assets and liabilities have reduced by £49.9m and £154.0m respectively, increasing overall net assets by £104.1m.

Total assets have reduced as a result of a decrease in cash and short-term deposits of £92.3m, a reduction in other financial assets (predominantly the investment portfolio) of £14.9m and the removal of £47.7m of assets held for sale as at 31 January 2015 resulting from the sale of the Allied Healthcare business on 30 November 2015. Offsetting this is an increase in reinsurance of assets of £43.0m due to large personal injury claims experience caused by a rise in the average cost of Periodical Payment Orders, an increase in trade and other receivables of £24.3m driven by insurance trading, and increased goodwill and acquired intangible fixed assets of £31.1m primarily relating to the acquisition of Bennetts.

The reduction in total liabilities reflects a £131.2m reduction in financial liabilities following the repayment of debt during the period, the removal of £47.7m of liabilities held for sale as at 31 January 2015 resulting from the sale of the Allied Healthcare business, and a £21.6m reduction in retirement benefit scheme obligations. Trade and other payables have increased by £32.9m reflecting accruals for initial costs relating to the build of the new ship, insurance trading and the acquisition of Bennetts.

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Segmental performance

Segmental Performance Summary		12m to Jan 2016	Growth	12m to Jan 2015
Revenue	Motor insurance	£318.7m	2.1%	£312.0m
	Home insurance	£99.8m	8.7%	£91.8m
	Other insurance	£91.6m	6.4%	£86.1m
		£510.1m	4.1%	£489.9m
	Travel	£423.1m	11.0%	£381.3m
	Emerging businesses and central costs	£30.0m	2.4%	£29.3m
		£963.2m	7.0%	£900.5m
Trading Profit	Motor insurance	£118.3m	17.8%	£100.4m
	Home insurance	£64.1m	3.2%	£62.1m
	Other insurance	£30.7m	(12.0%)	£34.9m
		£213.1m	8.0%	£197.4m
	Travel	£17.2m	26.5%	£13.6m
	Emerging businesses and central costs	(£19.3m)	85.6%	(£10.4m)
		£211.0m	5.2%	£200.6m

Total revenue for the insurance businesses increased by 4.1% to £510.1m (2015: £489.9m), driven by strong growth in home insurance and the inclusion of Bennetts. Travel revenue increased by 11.0% to £423.1m, largely driven by a full year contribution from Destinology, which contributed £32.8m.

The insurance and travel businesses saw increases in Trading Profit of 8.0% and 26.5% respectively. These were partially offset by an additional £8.9m Trading Loss in emerging businesses and central costs, £5.5m of which reflects the increased central administrative costs as a result of becoming a plc, with part of the balance being the Group's ongoing investment in the newly launched Saga Investment Services.

Motor insurance

	12m to Jan 2016					Growth	12m to Jan 2015			
	Core UW	Ancillary	Broking / Other	Total Motor	Core UW		Ancillary	Broking / Other	Total Motor	
Revenue	£237.7m	£35.0m	£46.0m	£318.7m	2.1%	£240.8m	£35.2m	£36.0m	£312.0m	
Gross profit	£103.7m	£31.9m	£31.6m	£167.2m	18.0%	£99.5m	£31.1m	£11.1m	£141.7m	
Operating expenses	(£34.5m)	(£6.0m)	(£22.3m)	(£62.8m)	10.4%	(£40.0m)	(£8.2m)	(£8.7m)	(£56.9m)	
Investment return	£13.6m	£0.3m	–	£13.9m	(10.9%)	£15.6m	–	–	£15.6m	
Trading Profit	£82.8m	£26.2m	£9.3m	£118.3m	17.8%	£75.1m	£22.9m	£2.4m	£100.4m	
Number of policies sold:										
– core	950k	26k	262k	1,238k	14.9%	947k	22k	108k	1,077k	
– add-ons	n/a	1,195k	280k	1,475k	4.8%	n/a	1,324k	83k	1,407k	
	950k	1,221k	542k	2,713k	9.2%	947k	1,346k	191k	2,484k	
Gross written premiums	£226.1m	£39.6m	£62.2m	£327.9m	7.5%	£235.0m	£37.9m	£32.0m	£304.9m	

The prior period has been restated to reclassify certain overhead costs as cost of sales on a consistent basis with the current period. The total Trading Profit of £100.4m is unchanged.

The motor market remained highly competitive, with average premiums continuing to fall at the start of year before increasing from the second quarter of 2015. Against this backdrop, we have grown both customer numbers and profits by increasing our

competitiveness through capitalising on our underwriting performance and the initial impact of the new motor panel. Underlying core policy volumes excluding Bennetts were up 3.1% in the year.

Overall motor revenue grew by 2.1% to £318.7m (2015: £312.0m). Revenue and gross written premiums from core underwritten policies decreased during the year as a whole, reflecting the fact that premiums were falling or only starting to recover when a number of these policies were written. This was offset by a £10m increase in revenue from Broking and Other due to the inclusion of Bennetts from 1 July 2015 and the initial impact of the motor panel.

Overall, the positive claims experience within the core business has enabled a growth in Trading Profit of 17.8% despite ongoing challenging market conditions.

Motor underwriting

The profitability of the core underwritten motor business has improved, as lower net earned premiums are more than offset by improved claims experience, increases in other income streams and lower operating expenses.

Motor Core Underwriting P&L		12m to Jan 2016	Growth	12m to Jan 2015
Net earned premium	A	£226.5m	(2.7%)	£232.8m
Instalment income		£4.4m	22.2%	£3.6m
Other income		£6.8m	54.5%	£4.4m
Revenue		£237.7m	(1.3%)	£240.8m
Claims costs	B	(£179.8m)	(3.6%)	(£186.6m)
Reserve releases	C	£64.6m	3.2%	£62.6m
Claims handling and regulatory fees	D	(£18.8m)	8.7%	(£17.3m)
Total cost of sales	E	(£134.0m)	(5.2%)	(£141.3m)
Gross profit		£103.7m	4.2%	£99.5m
Total expenses	F	(£34.5m)	(13.8%)	(£40.0m)
Investment return		£13.6m	(12.8%)	£15.6m
Trading Profit		£82.8m	10.3%	£75.1m
Reported loss ratio	(B+C)/A	50.9%	(2.4%)	53.3%
Expense ratio	(D+F)/A	23.5%	(1.1%)	24.6%
Reported COR	(E+F)/A	74.4%	(3.5%)	77.9%
Pure COR	(E+F-C)/A	102.9%	(1.9%)	104.8%

The prior period has been restated to reclassify £10.0m of prior year reserve releases from current year claims costs following a review during the period, and to align the presentation of costs between claims, claims handling and total expenses on a consistent basis with the current period.

Net earned premiums were 2.7% lower due to falling or flat premiums during part of the year and a reduction in underwriting for the AA motor business. This was partially offset by a £2.4m increase in other income from the introduction of broker arrangement fees and a limited increase in administrative charges.

The Group has not seen the increase in claims frequency that is being reported elsewhere in the market, with frequency being broadly flat across accidental damage, third party damage and personal injury claims. As previously reported, this is largely a result of the characteristics of the Group's current customer base, with the majority of customers being retired, therefore lessening the impact of recent falls in fuel costs and economic growth.

Claims severity during 2015 has also been broadly stable across accidental damage and small personal injury claims, with the Group not currently experiencing the inflation in personal injury claims costs reported elsewhere. The Group has continued to maintain strong levels of retention within the Ministry of Justice Portal, in addition to its significant and ongoing focus on effective management of these types of claims.

The Group has seen a marginal increase in third party damage severity, chiefly driven by increases in at-fault repair costs that have been seen across the market following the Coles v Hetherington judgment.

**GROUP CHIEF FINANCIAL
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The combined operating ratio, at 74.4% has improved by 3.5 percentage points, partially as a result of the £2.0m increase in reserve releases reflecting an improvement of claims experience on large and small personal injury claims. The pure combined operating ratio improved by 1.9 percentage points as a result of a reduction in operating expenses as a greater share of indirect costs were allocated to the home and other insurance segments during the year to reflect the relative revenues of the businesses.

Investment return decreased by 12.8%, which was driven primarily by lower returns on mark-to-market elements of the portfolio as a result of the recent turmoil in global markets.

Home insurance

	12m to Jan 2016				12m to Jan 2015		
	Ancillary UW	Core Broking / Coinsured	Total Home	Growth	Ancillary UW	Core Broking / Coinsured	Total Home
Revenue	£18.2m	£81.6m	£99.8m	8.7%	£15.8m	£76.0m	£91.8m
Gross profit	£13.2m	£80.8m	£94.0m	7.7%	£12.5m	£74.8m	£87.3m
Operating expenses	(£3.8m)	(£26.2m)	(£30.0m)	18.1%	(£0.8m)	(£24.6m)	(£25.4m)
Investment return	£0.1m	–	£0.1m	(50.0%)	£0.2m	–	£0.2m
Trading Profit	£9.5m	£54.6m	£64.1m	3.2%	£11.9m	£50.2m	£62.1m
Number of policies sold:							
– core	n/a	1,287k	1,287k	2.3%	n/a	1,258k	1,258k
– add-ons	546k	n/a	546k	(7.0%)	587k	n/a	587k
	546k	1,287k	1,833k	(0.7%)	587k	1,258k	1,845k
Gross written premiums	£21.4m	£153.8m	£175.3m	(3.7%)	£22.1m	£159.9m	£182.0m

The home insurance market has remained highly competitive over the last year, as continuing benign weather conditions have reduced claims costs across the industry resulting in a third consecutive year of falling premiums.

Despite these market conditions, the efficiency of the home panel has allowed the Group to continue to improve the net rates it receives from its underwriters to grow core policy numbers, increase revenue by 8.7% to £99.8m (2015: £91.8m) and Trading Profit by 3.2% to £64.1m (2015: £62.1m).

Operating expenses were up £4.6m as improved revenues relative to motor resulted in a greater proportion of indirect costs being allocated to home.

Other insurance

	12m to Jan 2016				12m to Jan 2015		
	Core UW	Core Broking / Other	Total Other Insurance	Growth	Core UW	Core Broking / Other	Total Other Insurance
Revenue	£37.3m	£54.3m	£91.6m	6.4%	£39.9m	£46.2m	£86.1m
Gross profit	£4.2m	£54.1m	£58.3m	7.8%	£7.9m	£46.2m	£54.1m
Operating expenses	(£2.3m)	(£25.9m)	(£28.2m)	28.8%	(£2.0m)	(£19.9m)	(£21.9m)
Investment return	£0.5m	–	£0.5m	(66.7%)	£1.5m	–	£1.5m
Joint venture	–	£0.1m	£0.1m	(91.7%)	–	£1.2m	£1.2m
Trading Profit	£2.4m	£28.3m	£30.7m	(12.0%)	£7.4m	£27.5m	£34.9m
Number of policies sold:							
– core	28k	355k	383k	11.3%	34k	310k	344k
– add-ons	n/a	1k	1k	(80.0%)	n/a	5k	5k
	28k	356k	384k	10.0%	34k	315k	349k
Gross written premiums	£6.0m	£119.0m	£125.0m	3.6%	£6.6m	£114.1m	£120.7m

Revenue in other insurance lines grew by 6.4% to £91.6m (2015: £86.1m), driven by an increase in travel insurance volumes and improved margins on private medical.

Trading Profit was down £4.2m due to an increased allocation of indirect costs in line with relative revenues across the Insurance business, an increase in marketing investment in Legal Services and the impact of the administration of Parabis Law LLP.

Insurance underwriting

Reserving

	12m to Jan 2016	Growth	12m to Jan 2015
Reserve releases			
Motor insurance:			
Core UW	£64.6m	3.2%	£62.6m
Ancillary	£2.1m	250.0%	£0.6m
	£66.7m	5.5%	£63.2m
Home insurance	£0.2m	(87.5%)	£1.6m
Other insurance	£1.1m	(63.3%)	£3.0m
Total	£68.0m	0.3%	£67.8m

The prior period has been restated to reclassify £10.0m of prior year reserve releases from current year claims costs following a review during the period.

Favourable claims development experience during the twelve months to 31 January 2016 has resulted in a reduction in the reserves required in respect of prior year claims. This has been driven by large and small personal injury claims and by other classes and resulted in a materially consistent level of reserve releases totalling £68.0m during the year. There has been no deterioration in the reserve margin year-on-year.

**GROUP CHIEF FINANCIAL
OFFICER'S REVIEW**
CONTINUED

Analysis of insurance contract liabilities at 31 January 2016 and 31 January 2015 is as follows:

	12m to Jan 2016			12m to Jan 2015		
	Gross	Reinsurance Assets	Net	Gross	Reinsurance Assets	Net
Reported claims	£341.5m	(£70.7m)	£270.8m	£330.6m	(£45.9m)	£284.7m
Incurred but not reported*	£209.2m	(£30.9m)	£178.3m	£211.5m	(£14.3m)	£197.2m
Claims handling provision	£10.9m	–	£10.9m	£10.3m	–	£10.3m
Total claims outstanding	£561.6m	(£101.6m)	£460.0m	£552.4m	(£60.2m)	£492.2m
Unearned premiums	£141.7m	(£4.8m)	£136.9m	£152.3m	(£3.2m)	£149.1m
Total	£703.3m	(£106.4m)	£596.9m	£704.7m	(£63.4m)	£641.3m

* 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 £44.4m as at 31 January 2016 from the previous year end, driven by an £18.9m reduction in IBNR claims reserves, £13.9m less reported claims reserves and a £12.2m reduction in unearned premium reserve.

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 £29.2m compared with the previous year, from £654.0m as at 31 January 2015 to £624.8m as at 31 January 2016. As at 31 January 2016, 92% of the financial assets held by the Group were invested with counterparties with a risk rating of A or above, which is up 10 percentage points on the previous year and reflects the improved credit risk rating of the Group's counterparties.

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

At 31 January 2015	AAA	AA	A	<A	Unrated	Total
Underwriting investment portfolio:						
Deposits with financial institutions	£30.0m	£180.3m	£213.6m	£55.5m	–	£479.4m
Debt securities	£71.9m	–	–	–	–	£71.9m
Money market funds	£40.6m	–	–	–	–	£40.6m
Hedge funds	–	–	–	–	£33.8m	£33.8m
Loan funds	–	–	–	–	£19.6m	£19.6m
Equities	–	–	–	–	£8.7m	£8.7m
Total invested funds	£142.5m	£180.3m	£213.6m	£55.5m	£62.1m	£654.0m
Amounts owed by related undertakings under the previous group structure	–	–	£5.6m	–	–	£5.6m
Total financial assets	£142.5m	£180.3m	£219.2m	£55.5m	£62.1m	£659.6m

Solvency capital

	12m to Jan 2016
Undertaking-specific parameters	
Solvency Capital Requirement (SCR)	£128.8m
Available capital	£219.6m
Surplus	£90.8m
Coverage	170%

The Group had its use of the Undertaking Specific Parameters route for Solvency II approved by its regulator, the Financial Services Commission in Gibraltar, during the year. Under Solvency II the Group had an SCR of £128.8m at 31 January 2016 and available capital is £219.6m, giving a coverage ratio of 170% and retaining its strong capital position.

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

Sensitivities	
Base Solvency II coverage	170%
Interest rates +1% / -1%	+3%/-3%
Equities -15%	-2%
Credit spreads + 50bps/-50bps	-6%/+6%
3 large losses of £10m each	-6%

**GROUP CHIEF FINANCIAL
OFFICER'S REVIEW**
CONTINUED

Travel

The travel business has had another strong year of trading, supported by the acquisition of Destinology in August 2014.

	12m to Jan 2016	Growth	12m to Jan 2015
Revenue:			
Holidays	£336.9m	13.3%	£297.3m
Cruising	£86.2m	2.6%	£84.0m
	£423.1m	11.0%	£381.3m
Gross profit:			
Holidays	£68.6m	16.4%	£58.9m
Cruising	£17.3m	(2.8%)	£17.8m
	£85.9m	12.0%	£76.7m
Operating expenses	(£69.1m)	9.0%	(£63.4m)
Investment income	£0.4m	33.3%	£0.3m
Trading Profit	£17.2m	26.5%	£13.6m
Number of holidays passengers	189k	9.9%	172k
Number of ship passenger days	339k	0.9%	336k

The holidays businesses generated a 13.3% increase in revenue to £336.9m (2015: £297.3m), £32.8m of which was attributable to the impact of Destinology being included for a full year. Gross profit increased by 16.4% to £68.6m (2015: £58.9m), around half of which was due to Destinology, and the number of passengers travelling increased by 9.9%, largely driven by the impact of Destinology.

The Saga Holidays and Titan businesses both delivered increases in revenue and gross profit, driven by a shift in product mix towards higher-value, higher-margin long-haul and third party cruise products.

Saga Cruising delivered revenue of £86.2m, 2.6% above the previous year (2015: £84.0m), driven primarily by improved yields. Ongoing investment in the ships and the Saga cruise customer experience resulted in a marginal decrease in gross profit of 2.7% to £17.3m (2015: £17.8m).

An overall 12.0% increase in gross profit was partially offset by a 9.0% increase in operating expenses, driven by the full year impact of Destinology. The Travel segment as a whole delivered a 26.5% increase in Trading Profit to £17.2m (2015: £13.6m).

Emerging businesses and central costs

	12m to Jan 2016	Growth	12m to Jan 2015
Revenue	£30.0m	2.4%	£29.3m
Gross profit	£13.6m	1.5%	£13.4m
Operating expenses	(£31.7m)	31.5%	(£24.1m)
Investment income	£0.2m	(33.3%)	£0.3m
Joint venture	(£1.4m)	n/a	–
Trading Loss	(£19.3m)	85.6%	(£10.4m)

Revenue from emerging businesses (which includes personal finance, continuing healthcare services, the media businesses and the retirement villages pilot) was up 2.4% to £30.0m (2015: £29.3m). These businesses delivered a 1.5% increase in gross profit to £13.6m (2015: £13.4m).

The overall Trading Loss from this segment was £19.3m (2015: £10.4m). £5.5m of the increase was due to the normalisation of listed company costs, with the balance being made up of additional Group costs, including the investment in the newly launched Saga Investment Services.

Discontinued operations

	12m to Jan 2016	Growth	12m to Jan 2015
Revenue	£206.2m	(27.2%)	£283.2m
Gross profit	£57.0m	(31.7%)	£83.4m
Operating expenses	(£58.4m)	(24.4%)	(£77.2m)
Trading (Loss) / Profit	(£1.4m)	(122.6%)	£6.2m
Exceptional items	(£6.4m)	(23.8%)	(£8.4m)
Net finance expense on pension schemes	(£0.4m)	33.3%	(£0.3m)
Loss before tax	(£8.2m)	228.0%	(£2.5m)
Tax expense	£0.3m	(86.4%)	£2.2m
Loss after tax, before amortisation	(£7.9m)	2,533.3%	(£0.3m)
Gain on disposal of discontinued operations	£1.0m		–
Amortisation of associated intangible assets	–		(£10.4m)
Loss on re-measurement of disposal group to fair value	–		(£209.5m)
Loss after tax for the year from discontinued operations	(£6.9m)	(96.9%)	(£220.2m)

On 30 November 2015, the Group completed the sale of the local authority section of the healthcare business, Allied Healthcare, resulting in a £1.0m gain on disposal. This was offset against a loss after tax for the period up to this date of £7.9m, resulting in a loss after tax for the year from discontinued operations of £6.9m.

Financial outlook and guidance

During the year ending 31 January 2017 insurance profitability is expected to benefit from higher policy numbers, the positive impact of the panel and the ongoing benefits of efficiency improvements. This will be partially offset by the impact of the recently announced quota share arrangement. Reserve releases are expected to contribute materially during the year, but at a reduced level from the year ending 31 January 2016.

Growth in our four operating businesses will be largely offset by the impact of the two-month wet dock for Saga Sapphire in the cruise business. Therefore, profitability for the travel business will be relatively flat year on year.

Subject to market conditions remaining materially consistent, the Group is therefore targeting PBT growth of between 5% and 7% for the year ending 31 January 2017. At the same time, the Group expects to delever further, benefiting from its strong solvency position in AICL, the initial benefits of the quota share arrangement and our prudent investment strategy.

The additional capital released gradually over the next few years from AICL will provide additional free cash flow and enable an increase in the dividend payout ratio to between 50% and 70% of net earnings, whilst retaining the Group's target debt range of 1.5x to 2.0x Trading EBITDA.



Jonathan Hill
Group Chief Financial Officer
18 April 2016

The Strategic Report was approved by the Board and signed on its behalf by Lance Batchelor, Group Chief Executive Officer on 18 April 2016.



Governance to support our strategy



Andrew Goodsell
Chairman

During our second year as a public company, we have agreed a clear plan and operating model for the future (as outlined on pages 13-15). This year is about ensuring that our governance framework supports and sets the tone for the strategic direction of the business.

This corporate governance report explains how our processes not only ensure good stewardship and control, but also allow us to grow. The Audit, Risk, Remuneration and Nomination Committees (the 'Committees') have played an important role in allowing this to happen. Orna NiChionna became Risk Committee chair in June 2015, taking over from Ray King, who remains a Risk Committee member and chair of the Audit Committee.

The Group's risk management processes have been reviewed by the Risk Committee, which discussed our risk appetite and tolerance levels, and considered how these would affect our strategic direction. The principal risks and uncertainties analysis played an important part in the formulation of the viability statement (see page 69). The Audit Committee considered the approach taken and the viability statement itself (see page 53), and provided assurance that the relevant systems and processes were in place to ensure that the annual report as a whole is 'fair, balanced and understandable'. Details can be found in the Audit Committee Report on pages 70-73.

Our brand and reputation

In the spirit of the Saga Way (see page 23), the Board is committed to ensuring that our brand and reputation for excellent customer service are never compromised. We are also focused on delivering the best service to our

Key features – corporate governance report

- A clear and concise review of how governance fits with strategy.
- An explanation of how our governance framework supports the Saga Way and the Saga Model.
- The findings of our first Board evaluation exercise.

Our Board regularly discusses:

- Our customers' needs.
- Strategy.
- Financial performance.
- Talent management and succession planning.
- Risk appetite.
- Brand and reputation.

“This year is about ensuring that our governance framework supports and sets the tone for the strategic direction of the business.”

shareholders and it is vital that our corporate governance procedures allow us to implement strategic decisions effectively. The composition of the Board will continue to support this.

There have been changes to the Board during the year and the Nomination Committee played an important role in helping us to identify the skill set we needed to achieve the right balance. This Committee also considered how we manage our talent and succession planning – for more details see pages 64-65.

Last year, I reported that Stuart Howard intended to retire at the Company's first AGM on 23 June 2015. In order for an effective handover to take place, Jonathan Hill joined as Group Chief Financial Officer Designate in April 2015, was appointed a Director on 29 April 2015, and took up the role of Group Chief Financial Officer following Stuart's retirement at the AGM. Jonathan's wealth of experience in senior financial operational and listed roles makes him a valuable addition to our leadership team. Since joining, Jonathan has demonstrated a passion for growth whilst focusing on a capital efficient model and high levels of cash generation. As projected at the time of listing, and following a 16 month handover period with Lance Batchelor, Group Chief Executive Officer, I transitioned from Executive to Non-Executive Chairman on 1 July 2015.

On 2 December 2015, as a result of the share placing undertaken by Acromas Bid Co Limited, Non-Executive Directors Charles Sherwood and Pev Hooper resigned from the Board. This was in accordance with the Relationship Agreement dated 8 May 2014 which required their resignation once the level of indirect shareholding of the Private

Equity Investor they represented fell below 10%.

Bridget McIntyre was appointed as an independent Non-Executive Director on 1 January 2016. Bridget has considerable insurance, management and financial management experience and I was delighted to welcome her to the Board. Her appointment enhances our insurance expertise and also brings a wealth of industry experience that I am sure will prove to be of great value to us.

These changes mean that we 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 page 62.

Board evaluation

We conducted our first Board and Committee evaluation during the year to ensure that our independent Non-Executive Directors had gained a good understanding of our business and our short and long-term strategic goals. I am pleased to say that the evaluation confirmed that this was the case. The exercise also identified areas on which to focus over the forthcoming year, including how we can ensure that Board meetings are structured to allow maximum time for debate and strategic discussion. A full explanation of the evaluation exercise can be found on page 63.

The Remuneration Policy was approved by our shareholders at our AGM: over 99% voted in favour. The full Remuneration Report can be found on pages 78-100.

UK Corporate Governance Code

The Board reviews our governance framework against best practice and regulatory requirements every year.

A summary of how we have complied with the Code is set out overleaf. Our approach to leadership and effectiveness is detailed on page 56-59 and 62-63 respectively, accountability on pages 66-69, and relations with shareholders on page 77.

Governance is integral to the success of our business. It is not just a case of 'ticking the box', but is viewed as a way of exploring opportunities and acting as a check and balance for decisions made.

This approach will support the Saga Model (outlined on page 13) and will allow us to provide differentiated products that our customers want, in a way they like, with outstanding service.

Our shareholders and our AGM

During the year, we introduced a Dividend Reinvestment Plan for those shareholders who wish to turn cash dividends into more shares. We also awarded eligible employees with free shares under the 2014 Share Incentive Plan to reward their hard work and allow them to share in our journey.

At our first AGM at our head office in Folkestone, Kent on 23 June 2015, all resolutions were passed with a significant majority and all Directors standing for re-election were re-appointed. I look forward to this year's AGM – and also welcome comments from our shareholders at any time.



Andrew Goodsell
Chairman
18 April 2016

Compliance Statement

The Board is committed to high standards of corporate governance and manages Saga's operations in accordance with the UK Corporate Governance Code 2014 (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 complied with all of the provisions of the Code throughout the year, except for provisions A.3.1 and E.1.1.

Explanations

A.3.1 The Code recommends that the chairman of the board should meet the independence criteria set out in the Code on appointment.

Andrew Goodsell acts as Chairman and was not independent on appointment, having previously been the Group Chief Executive and Executive Chairman. Andrew is responsible for the leadership and overall effectiveness of the Board and setting the Board's agenda. During the year, Andrew's responsibilities were aligned with those normally undertaken by a Non-Executive Chairman, as recommended by the Code. During the period that Andrew was Executive Chairman, Philip Green, our Senior Independent Director, had certain responsibilities which went beyond those contemplated in the Code, notably in relation to the appointment of independent Non-Executive Directors to the Committees.

The division of responsibilities between the Chairman, Group Chief Executive Officer and role of Senior Independent Director were reviewed and approved by the Board on 8 December 2015. This document is reviewed annually.

E.1.1 The Code recommends that the senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of their issues and concerns.

Most contact with major shareholders has taken place via the Chairman, Group Chief Executive Officer and Group Chief Financial Officer and we consider this appropriate for this year. The Senior Independent Director has been available for meetings with our major shareholders but has not attended any during the year. Notwithstanding this, we have maintained an ongoing dialogue with our major shareholders and ensured their views are communicated to the Board. Details can be found on page 77 of this report.

Viability statement

The Directors have considered the viability of the Group over the five year period to January 2021 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 2021 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; and
- b) includes the refinancing of the senior bank facilities and the delivery of the contracted new ship – the Group's two major future financing transactions which both occur in the year ending January 2020.

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 Directors have considered each of the Group's principal risks and uncertainties detailed on pages 28-32 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 28-32; Group Chief Financial Officer's review pages 38-49; accountability pages 66-69; Audit Committee report pages 70-73; Risk Committee report pages 74-76); and notes 17, 18 and 28.

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, together with 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 page 68, 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.

Statement of review

The risk management process detailed on pages 66-69 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.

Compliance Statement continued

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 was reviewed on 24 September 2015. There is a 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 Group Chief Executive Officer, as set out in the Explanations section above.

A3 The Chairman

The Chairman sets the agendas 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 Non-Executive Director acts as a sounding board for the Chairman and led an evaluation on the Chairman's performance.

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 skills, knowledge and experience required in 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, but with regard for diversity. Further details of the activities of the Nomination Committee can be found on pages 64-65.

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 annual evaluation of its own performance and that of its Committees and individual Directors, as set out on page 63.

B7 Re-election of Directors

All Directors are subject to shareholder annual re-election.

C. Accountability

C1 Financial and business reporting

The Strategic Report is set out on pages 01-49 (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 74-76.

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 auditors.

The Chairmen 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 Remuneration Policy can be found in the Directors' Remuneration Report on pages 78-100 (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.

E2 Constructive use of general meetings

The Board see the AGM as an important opportunity to meet with 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 77.

Leadership

It is important that our leadership team supports the Saga Model, which helps deliver growth in our target markets. Our brand remains at the core of the Saga Model (see page 13). We recognise that to provide differentiated products via unique routes to market with outstanding levels of service we must empower our leaders.

Lance Batchelor, Group Chief Executive Officer, regularly hosts events with all senior management who either report to him or his direct reports. This group was instrumental in helping to develop the Saga Model and the Saga Way (see page 23). Culturally, the journey is shared across all employees, with clear and consistent messages set at executive level, to filter throughout the Group.

All Directors, members of the Group Executive Committee and persons discharging managerial responsibilities receive training on an ongoing basis, to ensure they remain aware of regulatory and statutory responsibilities. In addition, all independent Non-Executive Directors visit business areas so that they remain close to what Saga does, see how strategy works in action and how the discussion in the boardroom translates to the front line of the business. All Directors have visited all business areas, including our call centres and cruise ships.

The Board of Directors

The Board is responsible for, and provides, the overall direction for management, debating what our priorities are and setting Saga's values and standards. A fundamental part of this role is considering the balance of interests between our shareholders, our customers, our employees and the communities in which we work.

We also provide oversight and supervision of Saga's operations ensuring:

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

Our Board

The Board has a clearly articulated set of matters which are specifically reserved to it and this is reviewed annually (the last review being 24 September 2015). These 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 expenditures, outside pre-determined tolerances or beyond the delegated authorities
- major capital projects, corporate action or investment by Saga that will have, or are likely to have, a financial cost greater than the amount set out in the relevant contract approval processes from time to time
- any material contract or joint venture and material arrangements with customers or suppliers.

A review of our strategic objectives and financial performance takes place at each Board Meeting.

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

Board attendance during the year

The Board is scheduled to meet at least six times a year and then meets on an ad hoc basis as necessary. During the year it met formally on six occasions. In addition, meetings were convened as necessary to approve strategic matters, and a strategy event was held in November where annual and five year plans for each of the businesses were presented to the Board and discussed.

Member	Role	Attendance at Board meetings
Andrew Goodsell	Chairman (Board governance, performance and shareholder engagement)	6/6
Lance Batchelor	Group Chief Executive Officer (strategy and Group performance)	6/6
Jonathan Hill ¹	Group Chief Financial Officer (Group financial performance)	4/4
Stuart Howard ²	Retired Group Chief Financial Officer	3/3
Non-Executive Directors:		
James Arnell	Private Equity Investor appointed	4/6
Pev Hooper ³	Resigned (Private Equity Investor appointed)	5/5
Charles Sherwood ³	Resigned (Private Equity Investor appointed)	5/5
Independent Non-Executive Directors:		
Philip Green		6/6
Ray King		5/6
Bridget McIntyre ⁴	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	n/a
Orna NiChionna		6/6
Gareth Williams		6/6

¹ Jonathan Hill was appointed on 29 April 2015.

² Stuart Howard retired at the AGM on 23 June 2015.

³ Pev Hooper and Charles Sherwood resigned on 2 December 2015.

⁴ Bridget McIntyre was appointed on 1 January 2016 and therefore did not attend any scheduled meetings during the year.

Leadership continued

The Company Secretary attends all meetings as secretary to the Board. In addition, we also invite other executives and directors from around the Group, and external advisers, to provide insight into key strategic areas.

The Board is responsible for:

- strategic direction of the Group
- leadership and management
- setting values and standards (the Saga Model and the Saga Way – see pages 13 and 23 respectively)
- considering the needs of our shareholders, employees and customers
- ensuring compliance with statutory and regulatory obligations
- managing risk and control.

The Nomination Committee is responsible for:

- providing recommendations on size, structure and composition of the Board
- succession planning
- evaluating skills, knowledge, independence and diversity of the Board
- identifying and nominating candidates to fill Board vacancies
- reviewing Board performance and Chairman evaluation results.

See pages 64-65 for the Nomination Committee report.

The Audit Committee is responsible for:

- monitoring the integrity of financial statements
- reviewing internal and external audit work plans
- assessing the adequacy and effectiveness of the Company's internal and external audits and controls
- reviewing Saga's annual and half year financial statements and accounting policies
- considering and making recommendations for the engagement of external auditors
- monitoring the scope of the annual audit and the extent of the non-audit work undertaken by external auditors
- ensuring whistleblowing and anti-fraud systems are in place within Saga.

See pages 70-73 for the Audit Committee report.

The Risk Committee is responsible for:

- advising on the Group's 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 systems and the compliance function
- reviewing and monitoring management response to the Chief Risk Officer's findings and recommendations.

See pages 74-76 for the Risk Committee report.

The Remuneration Committee is responsible for:

- setting and monitoring the Remuneration Policy for senior executives
- recommending and monitoring remuneration packages for Executive Directors, the Chairman and senior management
- reviewing and administering employee share schemes
- setting key performance indicators for the Annual Bonus Plan and long-term incentives
- preparing an annual remuneration report.

The Remuneration Committee Report is contained within the Directors' Remuneration Report on pages 78-100 and is incorporated into this Corporate Governance Statement by reference.

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
- day to day operational management
- managing risk and conduct.

Board activities during the year

1. Strategy

Board structured to support growth

- Discussion of capital structure and dividend policy.
- Review and formal approval of key decisions including:
 - acquisition of Bennetts
 - launch of Saga Investment Services
 - decision to proceed with building new ship
 - Saga Healthcare pilot
 - launch of the motor panel
 - Sale of Allied Healthcare
- Strategy offsite allows for detailed review of each business's annual and long-term plans.

2. Customers

Every Board decision involves discussion on how it will affect our customers

- Discussion regarding brand values.
- Development of the Saga Way and the Saga Model.
- Review of customer engagement – how we innovate our communication, give our customers the products they want and continue to provide excellent service.

3. Shareholder engagement

Listening to our shareholders

- Listening to our shareholders before, during and after the AGM.
- Share issue in connection with the Customer Offer (one share awarded to Eligible Customers for every twenty held).
- Introduction of Dividend Reinvestment Plan to allow cash dividends to be turned into shares.



5. Governance and risk

Governance to support our strategy

- Reviewed our approach to risk appetite and tolerance levels/thresholds.
- Ensured our risk policy met UK Corporate Governance Code requirements.
- Identified risks and referred to Risk Committee for consideration e.g. threat of cybercrime.
- Regular business and regulatory updates presented to the Board.
- Approved Audit Committee's recommendation to re-appoint 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.
- Board and Committee evaluation exercise, reports, feedback and action plans.

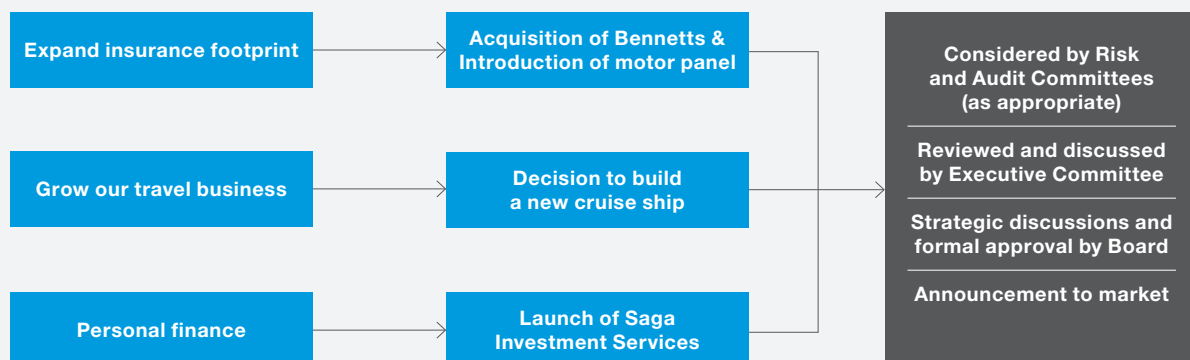
4. Leadership and employees

Importance of creating one culture recognised

- Board composition (appointment of Jonathan Hill and Bridget McIntyre).
- Extensive work on creating a unified culture – the Saga Way.
- Full review of talent development and succession planning.
- Employees participated in employee engagement survey.
- Share issue in connection with the Employee Offer (one share awarded to Eligible Employees for every twenty held).
- Free shares awarded to eligible employees under Share Incentive Plan.

Governance in action

Our governance framework exists to support our strategy.



Board of Directors



1 Andrew Goodsell Chairman

Andrew joined Saga in 1992 as Business Development Manager, Saga Services. He became Saga Group Business Development Director in 1995, Chief Executive of Saga Services and Saga Investment Direct in 1999, 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. He brings great experience of the Group to his Board role.

Committee membership:
Nomination.

2 Lance Batchelor Group Chief Executive Officer

Lance joined Saga as Group Chief Executive Officer in March 2014. Prior to that he was CEO of Domino's Pizza Group plc from 2011-2014 and CEO of Tesco Mobile from 2008-2011. His earlier experience includes senior marketing roles at Procter & Gamble, Amazon.com and Vodafone. Lance's first career was as a Royal Navy submarine officer. He holds an MBA from Harvard Business School, and is a Trustee of the National Gallery. Lance has a wealth of senior operational experience in listed companies which he brings to his role at Saga.

Committee membership:
Executive.

3 Jonathan Hill Group Chief Financial Officer

Jonathan joined Saga in April 2015 from Bovis Homes Group plc where he was Group Finance Director. Prior to that, he held various senior roles within TUI Travel and Centrica. Jonathan qualified as a Chartered Accountant at Price Waterhouse in London. He brings a wealth of senior financial operational and listed company experience to his role at Saga.

Committee membership:
Executive.

4 Philip Green CBE

Senior Independent
Non-Executive Director

Philip is currently Chairman of Carillion plc. He is also Chairman of BakerCorp, a US industrial services company owned by Permira, and Chairman Designate of Williams & Glyn. Previously, Philip was Chairman of Clarkson plc, Chief Executive of United Utilities Group plc and Chief Executive of Royal P&O Nedlloyd NV. His earlier business experience includes serving as Chief Operating Officer of Reuters Group plc and Chief Operating Officer of DHL for Europe and Africa. Philip is also the UK Prime Minister's adviser on corporate responsibility and Chairman of Sentebale, a charity set up by HRH Prince Harry. Philip was awarded a CBE in the 2014 Queen's Birthday Honours List. This was for services to business and to charity in the UK and South Africa. Philip brings his experience of running a variety of complex international organisations and acting as an Executive and Non-Executive Director of many public companies to the Board.

Committee membership:
Nomination (Chairman), Audit, Remuneration and Risk.

5 Ray King

Independent
Non-Executive Director

Ray is currently Chairman of Rothesay Holdco UK Ltd and of its regulated subsidiary, Rothesay Life plc. He is also a Non-Executive Director of the Financial Reporting Council where he is a member of the Codes and Standards Committee and chairs the Audit and Assurance Council. Previously, he was Chief Executive of Bupa from 2008-2012, after serving as Group Finance Director from 2001-2008. Before Bupa, Ray was a Non-Executive Director of Friends Provident plc, Deputy Chief Executive of Parity Group plc, Director of Group Finance and Control at Diageo plc and Group Finance Director of Southern Water plc. In 2015, Ray resigned as a Reporting Panel Member of the Competition and Markets Authority and as a Non-Executive Director of Infinis Energy Plc. His financial experience

coupled with his knowledge of running a business similar to Saga, and his Non-Executive Director experiences including that of chairing audit committees, are all immensely helpful to the Board.

Committee membership:
Audit (Chairman), Nomination, Remuneration and Risk.

6 Bridget McIntyre

Independent
Non-Executive Director

Bridget is currently a Non-Executive Director of Adnams plc. Previously, she was Chief Executive of the RSA UK business and a Director of RSA Insurance Group plc having held senior roles at Aviva (and pre-merger Norwich Union). Bridget is also an associate with the Chartered Institute of Management Accountants. Bridget brings in-depth insurance expertise as well as considerable general and financial management experience to the Board.

Committee membership:
Audit, Nomination, Remuneration and Risk.

7 Orna NiChionna

Independent
Non-Executive Director

Orna is currently Senior Independent Non-Executive Director of Royal Mail plc. Previously, she 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. Orna is also currently the Deputy Chairman of the National Trust and a former Partner at McKinsey & Company. Whilst at McKinsey & Company, Orna's client portfolio included many consumer facing clients and she brings these skills to the Board along with her considerable experience in other Non-Executive Director roles.

Committee membership:
Risk (Chairman), Audit, Nomination and Remuneration.

8 Gareth Williams

Independent
Non-Executive Director

Gareth is currently a Non-Executive Director of YSC Limited and WNS (Holdings) Limited. Previously, he was Human Resources Director of Diageo plc and held a series of key positions in human resources at Grand Metropolitan plc. Gareth's contributions to the Board are on all aspects of human resources and his experience of working at Director level in a consumer facing organisation also allows him to contribute to all other subjects of debate.

Committee membership:
Remuneration (Chairman), Audit, Nomination and Risk.

9 James Arnell

Non-Executive Director

James has been a Partner at Charterhouse Capital Partners LLP since 1998. He was involved in the acquisition of Saga by the Charterhouse Funds in 2004 and in Charterhouse's investment in the Acromas Group in 2007. He has been a member of the Saga and Acromas Boards throughout the period of Charterhouse's investment. He is also a Non-Executive Director of various other companies and has been involved in Charterhouse's investments in the UK, France and Germany. James's role on the Board is to represent the views of Charterhouse, but his professional and business experiences also ensure that he makes a very valuable contribution.

Effectiveness

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 five of the 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. These directors are Philip Green, Ray King, Bridget McIntyre, Orna NiChionna and Gareth Williams. Although Philip Green serves on the Board of BakerCorp (a Permira portfolio company), the other Directors have concluded that he is of independent character and judgement (taking into account Philip's judgement, experience and challenging approach) and should be regarded as an independent director for the purposes of the Code.

Chairman

Following a 16 month handover to Lance Batchelor, the Chairman transitioned to a Non-Executive Director on 1 July 2015. The Chairman was appointed a member of the Nomination Committee on 24 September 2015.

Selection of an additional Non-Executive Director

MWM Consulting, an external search agency, assisted in the recruitment process for an additional Non-Executive Director. A role description was developed to set out the capabilities required. After MWM Consulting had identified a list of potential candidates, a shortlist was selected for interview. After detailed interviews, thorough referencing and careful consideration of the skillset required to balance the Board and complement existing competencies Bridget McIntyre was selected and put forward for Board approval. Bridget was also appointed as a member of the Audit, Nomination, Remuneration and Risk Committees.

MWM Consulting has no other relationship with the Company.

Pursuant to the Relationship Agreement entered into between the Company and each of the Private Equity Investors (as defined and explained further on page 102) each Private Equity Investor appointed one Non-Executive Director to the Board. On 2 December 2015, Charles Sherwood and Pev Hooper resigned as Directors (as the interest of each of the Private Equity Investors who had appointed them fell below 10%).

Group Chief Financial Officer

Stuart Howard, our Group Chief Financial Officer, retired at the Company's first AGM, on 23 June 2015.

As explained in last year's annual report, external search consultant, Russell Reynolds Associates, was engaged to conduct a confidential search for candidates after a competitive pitch process. We reviewed and developed a role description for the position and agreed the critical competencies required.

A wide range of candidates from a variety of national and multi-national companies, both publicly and privately owned, were put forward by Russell Reynolds Associates for consideration and a shortlist was agreed upon for interview. Detailed interviews and thorough referencing took place and the experiences and backgrounds of the potential candidates were considered against the key responsibilities and critical competencies. The recommendation was to appoint Jonathan Hill as Stuart's replacement. Jonathan joined the Group as Group Chief Financial Officer Designate on 7 April 2015, was appointed as a Director of the Board on 29 April 2015 and assumed the position of Group Chief Financial Officer at the close of the AGM on 23 June 2015.

Russell Reynolds Associates is a signatory to the Voluntary Code of Conduct for executive search firms and has no other connection to the Company.

Induction of the current Non-Executive Directors

All independent Non-Executive Directors attended strategy sessions for each of our businesses to understand the short and long-term goals of the Group. They continue to visit all areas of the business to gain first-hand experience of how Saga works, including listening to calls during visits to our call centres.

As Bridget McIntyre has recently joined the Board, this served as an opportunity to refresh our induction process. So that Bridget could familiarise herself with our strategy, competitive and industry environment, Group structure, governance and risk profile/appetite, we arranged for one-to-one sessions with chief executive officers and managing directors of all business areas, our Chief Marketing Officer, Company Secretary, General Counsel, Head of Compliance, Head of Internal Audit, Chief Risk Officer and Group HR Director. In addition, Bridget was provided with a comprehensive pack including Board and Committee meeting minutes, terms of reference, strategy papers, presentations on the Saga Way and the Saga Model, recent analyst and broker reports, and our policies and procedures.

Board effectiveness review

The Board and its Committees undertook their first evaluation of their performance during the year. The evaluation was conducted internally with the support of Independent Audit Limited, using their online service, Thinking Board, which was used to bring rigour and an expert external perspective to the internal review. Independent Audit does not have any other connection to the Company.



The online tailored questionnaires were structured to provide Directors/ Committee members and attendees with an opportunity to express their views about:

- the performance of the Board and its Committees, including how the Directors work together as a whole
- the balance of skills, experience, independence and knowledge of the Directors
- our culture, level of strategic and risk discussion
- individual performance and whether each Director continues to make an effective contribution
- organisation of meetings, including agenda setting, time spent on each item and quality of papers
- corporate governance and regulatory compliance support.

The responses to the evaluation of the Board and its Committees were reviewed with the Chairman and then thorough reports prepared by the Company Secretary were considered by each Committee and the Board. Separate meetings were also held between the Chairman and individual Directors to discuss the Board's effectiveness and individual performance. The results of the evaluation indicated that the Board had now established a good understanding of the Group during the second year as a listed company, and that Directors had a good grasp of the business and subject knowledge. There are no significant concerns among the Directors about the Board's effectiveness although it was felt that more time could be spent on discussing strategic issues. It was agreed that the strategy awayday provided a very useful insight into each business area.

Board Committees were viewed positively. These were considered to be well chaired and organised, with the right level of strategic discussion and challenge at each. Each Committee agreed action points for 2016/17.

Board action plan for 2016/17:

Looking ahead, the Board will:

- allow more time for strategic debate
- continue to monitor the skills required in terms of Board composition (recognising that the Board will change further when the remaining Private Equity Investor appointed Director resigns)
- build on the high levels of interaction between Non-Executive Directors and the business and use their experience to full advantage
- consider the impact of reward systems on risk attitudes, decision making and reporting, to link continuously risk appetite to decision making and reporting.

The results of the evaluation of the Chairman's performance were considered by the Senior Independent Director and the Non-Executive Directors and were discussed between the Senior Independent Director and the Chairman.

In accordance with the Code, the Board will be undertaking an externally facilitated evaluation in 2016/17. This will include a review of progress made in the above areas.

Annual re-election

The Directors are standing for election or re-election and at the AGM. Our view is that each of the Directors standing for election or re-election should be appointed, as 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 60-61.

Nomination Committee Report



Philip Green
Chairman, Nomination Committee

Dear Shareholder,

We have seen further changes to our Board composition this year. As communicated in last year's report, Jonathan Hill became Group Chief Financial Officer Designate on 7 April 2015 and a Board Director on 29 April 2015. Following Stuart Howard stepping down at the Company's 2015 AGM, Jonathan became Group Chief Financial Officer. Jonathan brings a wealth of senior financial, operational and listed company experience to his role.

I am also pleased to welcome Bridget McIntyre as an additional independent Non-Executive Director, following a comprehensive search. Bridget brings considerable general and financial management experience, gained within some of the UK's largest general insurers. She was also appointed as a member of the Audit, Risk, Remuneration and Nomination Committees. Andrew Goodsell was appointed as a Committee member with effect from 24 September 2015.

We have continued to engage with senior management and the business throughout the year.

Role of the Committee

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

Committee members consist of five independent Non-Executive Directors and Andrew Goodsell. Bridget McIntyre was appointed as a Committee member with effect from 1 January 2016 so did not attend any meetings during the financial year.

Attendance

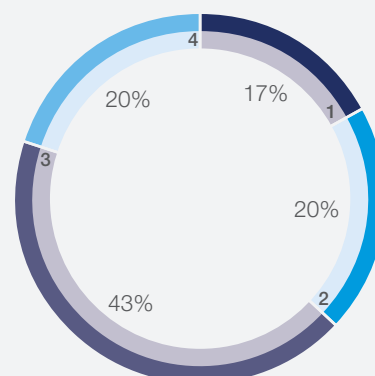
During the year, the Committee met on four occasions and has also met twice since the year end.

Member	Attendance
Philip Green (Chairman)	4/4
Ray King	4/4
Orna NiChionna	4/4
Andrew Goodsell	2/2
Gareth Williams	4/4

The Company Secretary attends all meetings as secretary to the Committee. In addition, the Group Chief Executive Officer and Group HR Director attend by invitation.

Main responsibilities and allocation of time spent on matters:

- Regularly reviewing the structure, size and composition (including the skills, knowledge, independence, experience and diversity) of the Board and making recommendations with regard to any changes.
- Giving full consideration to succession planning for Directors and other senior executives, to ensure progressive refreshing of the Board.
- Evaluating the balance of skills, knowledge, independence, experience and diversity on the Board and, in light of this evaluation, preparing a description of the role and capabilities required for a particular appointment and its expected time commitment.
- Reviewing the results of the Board performance evaluation process that relate to the composition of the Board.



Key:

1. Board composition
2. Succession skills planning
3. Board skills
4. Board evaluation

Our terms of reference

Our terms of reference were reviewed by the Committee and subsequently approved by the Board on 24 September 2015. 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 the registered office.

What we have done during the year

Board composition

At the centre of our remit is a detailed understanding of the Board's and the Board Committees' structure, size and composition. Changes to the Board composition throughout the year are explained in the Effectiveness section of the Corporate Governance Statement on pages 62-63.

Andrew Goodsell became Non-Executive Chairman on 1 July 2015, as projected when the Company listed and following a 16 month handover with Lance Batchelor. This change did not impact on the business. The 'Division of responsibilities between Chairman, Group Chief Executive Officer and Role of Senior Independent Director' document was amended and approved by the Board on 8 December 2015.

Appointment of Directors

Our terms of reference say how we recruit and appoint Directors to the Board. We use open advertising or the services of external advisers to facilitate our search for the best possible candidates from a wide range of backgrounds, as appropriate.

We actively participated in the search for an additional Non-Executive Director. We were involved in the drafting of the role description (taking into account the balance of skills, time commitment, knowledge and experience required and

considering diversity), timetable, interviews, shortlist and final recommendation in relation to the appointment.

We used MWM Consulting, an external consultant, to assist with the search. MWM Consulting has no other connection with the Company.

An overview of the Director induction process has been included in the Effectiveness section of the Corporate Governance Statement on pages 62-63.

Diversity

We believe it is in the very nature of Saga to recognise the benefits that diversity brings. With this in mind our policy is to appoint the best possible candidate, who will be considered on merit and against objective criteria, rather than to set quotas for a particular aspect that may deflect us from achieving this fundamental target every time. At the date of this report, 22% of the Board is female.

Succession planning and talent management

Since the year end, a comprehensive talent review mapping exercise took place, which identified opportunities and recorded succession planning, including emergency successors, for executive and key roles across the business.

Effectiveness of the Nomination 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 63). This was an internal review with the support of Independent Audit Limited. Members felt that the Committee worked well, with decisions being well thought through after robust discussion.

We also contributed to the Board evaluation in terms of Board composition. A full summary of the Board evaluation and action points is provided on page 63. A fully externally facilitated review will take place this year.

Actions for 2016/17

Looking ahead, we will:

- continue to review succession plans for executive and key roles across the business
- continue to identify our future talent pipeline
- ensure that the structure, size and composition (including the skills, knowledge, independence and experience and diversity) of the Board is right, conducting skills gap analysis where necessary
- review executives' roles within crisis management procedures.

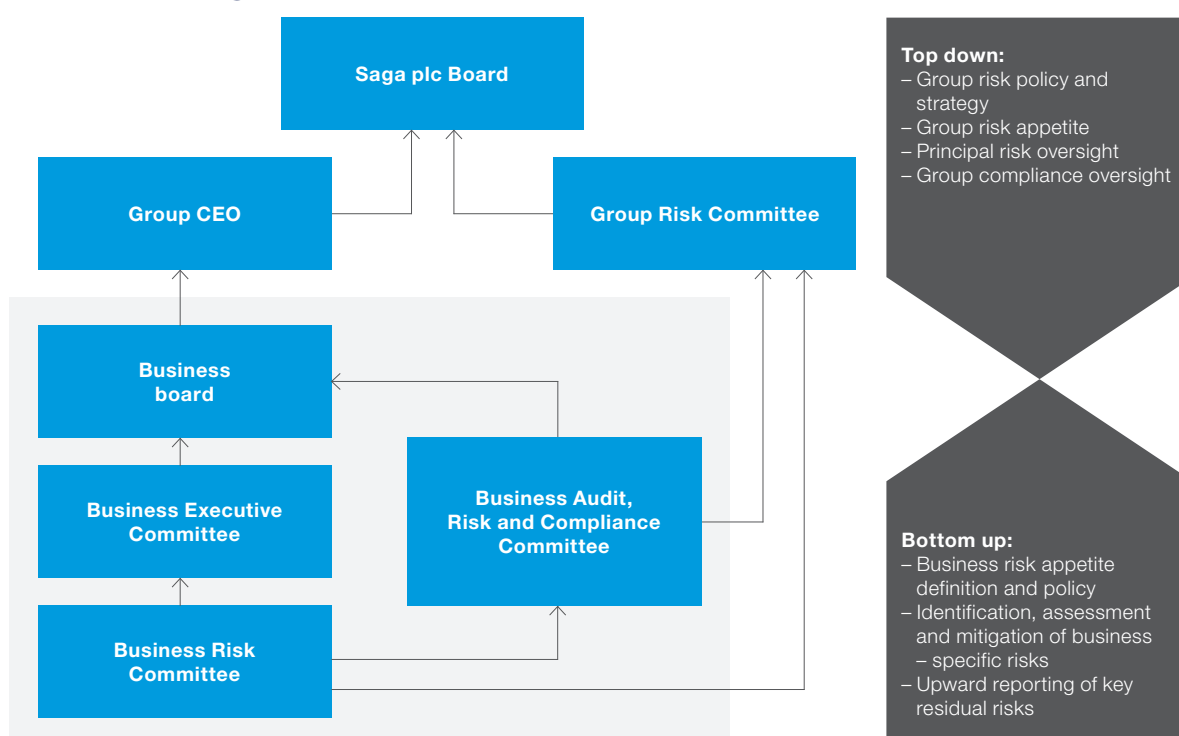


Philip Green

Chairman, Nomination Committee

Accountability

Risk management and internal control



Board assessment of risk management and internal control

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

- There is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company.

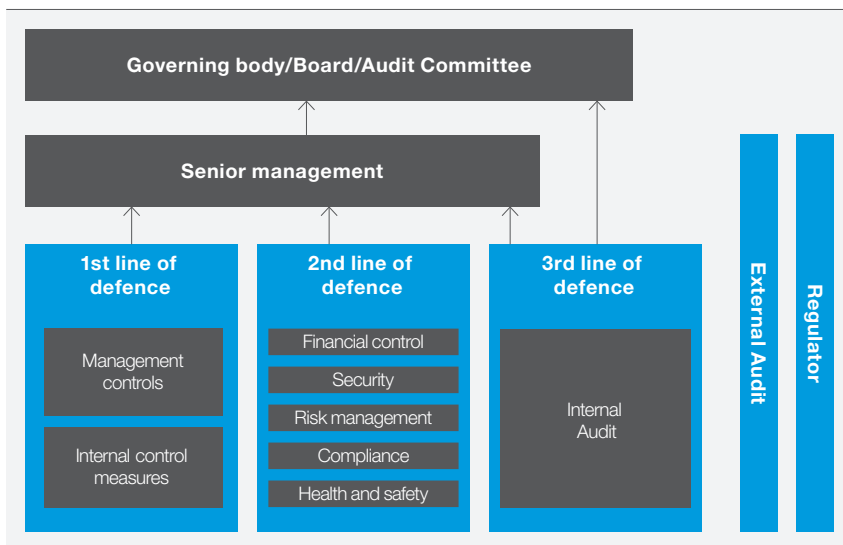
- Systems have been in place for the year under review and up to the date of approval of the annual report and accounts.
- Such systems are regularly reviewed by the Board.
- The systems accord with the FRC guidance on risk management, internal control and related financial and business reporting.

During 2015 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 Risk and Audit Committees' involvement in the development and review of risk management and internal control systems are provided in the Risk and Audit Committee reports on pages 74-76 and 70-73 respectively.

As a result of their 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.

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



The three lines of defence work 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.

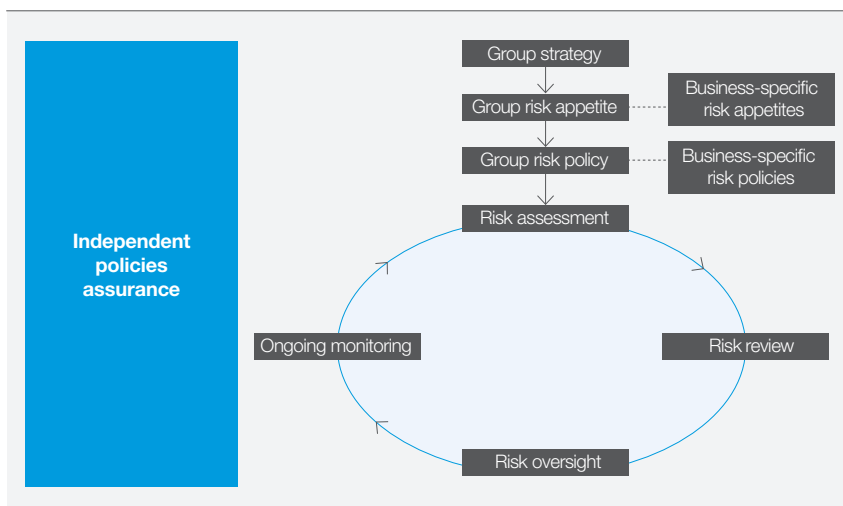
2nd line of defence – Independent oversight provided by the various control functions, including risk, compliance and health and safety. Specific duties include advice on Group and business risk appetites, independent review of both the rating of key risks, and approach and adequacy of business risk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

Group risk management cycle



Accountability continued

Risk management cycle

The Group risk management cycle 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 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 are tested. Group risk appetites and tolerances are further defined within the Principal risks and uncertainties section (pages 28-32).

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 that they are aligned with any changes in strategy or specific strategic initiatives.

Risk policies

Saga has a Group risk policy, defining our risk management strategy, framework, governance structures, and detailed assessment and mitigation processes. Beneath this Group document, individual business policies are created, customised to reflect specific business characteristics but 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 to reflect their size or the

highly specialist nature of their risks. Each business then creates appropriate controls to manage such risks. Risks are rated on both an inherent and a residual basis and are rated 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.

Risk registers have been created for each business to capture their key risks, associated controls and incidents. These 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 Committee structure, flow of risk, compliance and internal control information chart on page 66. 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 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 at least quarterly 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 ('Internal Audit') 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 is able to confirm that they have carried out a robust assessment of risks is contained on page 53.

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 Chairman 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 fulfils 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 the Audit Committee meetings.

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. Throughout each year, detailed reforecasts are performed by each area of the Group each month and are consolidated to provide an updated view of expected performance for the current year. Each reforecast covers the income statement, 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 expectations.

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.

Creation of the 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 ship which will become operational in 2019.

Our list of principal risks and uncertainties ('PRUs') derived from our robust review of risks 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 28-32. 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 and a probability of occurrence assigned to it. Assessments of potential financial impact were derived from both internal calculation and examples of similar incidents in the public domain.

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

1. A failure to deliver the expected cumulative effect of operational efficiency projects in Saga Services Limited
2. A severe one-off data breach
3. Impact on AICL's investment portfolio due to default of the largest credit institution.

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 expected financial impact for all sensitivities combined drawing on the assigned probability for each one; 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. The reverse stress test demonstrated that the likelihood of one or any combination of PRUs causing us to breach performance and insolvency thresholds was extremely remote.

As set out in the Audit Committee report on pages 70-73, the Directors have reviewed and discussed the rationale and conclusions of management's viability testing. The Director's viability statement is contained on page 53.

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 53.

Audit Committee Report



Ray King
Chairman,
Audit
Committee

Dear Shareholder,

I am pleased to report on the activities of the Audit Committee during the Company's second year as a FTSE listed company. This report includes a summary of our work during the financial year, including the formulation of the new viability statement. We continue to work closely with the Risk Committee and refer matters to them for consideration where appropriate.

Role of the Committee

Our role is to monitor the integrity of the financial statements of the Group, review and report to the Board on significant financial reporting issues and judgements, and review and assess the adequacy and effectiveness of the Company's internal financial controls and other internal control systems.

All members are independent Non-Executive Directors. The Board is satisfied that I have recent and relevant financial experience. Bridget McIntyre was appointed as a Committee member with effect from 1 January 2016 so did not attend any meetings during the financial year.

Attendance

During the year, the Audit Committee met on four occasions. It has also met twice since the year end and Bridget McIntyre attended both meetings.

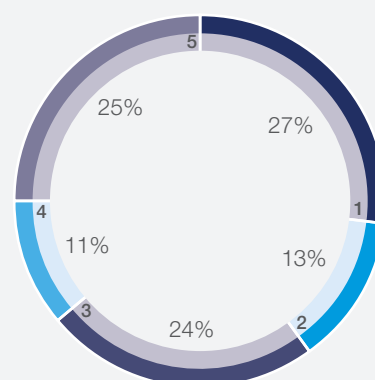
Member	Attendance
Ray King (Chairman)	3/4
Orna NiChionna	4/4
Philip Green	4/4
Gareth Williams	4/4

The Company Secretary acts as secretary to the Committee and attends all meetings. In addition the Group Chief Executive Officer, Group Chief Financial Officer, Group Financial Controller, Chief Risk Officer ('CRO'), Head of Internal Audit and representatives from our external auditors attend by invitation. During the year, the Committee and I held private meetings with the Auditors and Head of Internal Audit.

Main responsibilities and allocation of time spent on matters:

- Monitoring the integrity of financial statements of the Company.
- Reviewing and reporting to the Board on significant financial reporting issues and judgements.
- Reviewing and assessing the adequacy and effectiveness of the Company's internal financial controls and other internal control systems (including whistleblowing, fraud detection and the prevention of bribery).
- Approving the internal audit charter, budget and work plan and receiving regular reports.
- Monitoring and reviewing the effectiveness of the Company's Internal Audit function, in the context of the Company's overall risk management system.

- Receiving reports from the audit committees of subsidiaries.
- Considering and making recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditors.
- Ensuring that at least once every ten years the audit services contract is put out to tender.
- Monitoring, reviewing and assessing the external auditors' independence, effectiveness and reviewing the external audit work plan.
- Reviewing the findings of the audit with the external auditors.



Key:

1. Financial statements
2. Internal financial controls
3. Internal Audit
4. Business reviews
5. External audit

Our terms of reference

Our terms of reference were reviewed by the Committee and subsequently approved by the Board on 24 September 2015. 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 the registered office.

What we have done during the year

- Considered resourcing within the Internal Audit team, received regular reports on the work of the function and approved the Internal Audit Charter and work plans for 2016/17.
- Considered a report from Internal Audit (as a 3rd line of defence review) on the effectiveness of the Group's risk management (2nd line of defence) systems.
- Considered the external auditors' (EY) engagement terms for 2015/16, including the fee proposal, and made recommendations to the Board.
- Considered the annual report planning process and the significant risks and other areas of audit emphasis identified by EY through their planning work, and their intended approach to auditing these areas.
- Considered the Group's main accounting policies.
- Reviewed insurance reserving methodology.
- Discussed with EY their main observations following the interim and full year audit.
- Considered the effectiveness review of the external audit process and external auditors' performance.
- Considered our approach to the viability statement and the underpinning tests performed by management.
- Reviewed the interim and full year results before their consideration by the Board and considered the annual report as a whole.
- Considered the impact and requirements of Solvency II (the European Union Insurance Directive which came into force on 1 January 2016) on capital requirements.
- Continued to work in co-operation with the Risk Committee on key areas of business risk, for example the threat of cybercrime.
- Reviewed policies covering financial crime (including anti-bribery,

- anti-corruption and anti-fraud), whistleblowing and non-audit fees.
- Received a report at each meeting in relation to whistleblowing and the proceedings of the Group financial crime, data and information security committee.

Our work, up to the date of this annual report in accordance with the revised Turnbull Guidance on Internal Control, published by the FRC, confirmed that no significant failings or weaknesses were identified. Where areas for improvement were identified, processes are in place to ensure that the necessary action is taken and that progress is monitored.

During the year we received presentations from the following business areas:

Saga Services/Direct Choice (regulated business):

- Received an update on activities from the independent non-executive director who chairs the audit committee.
- Received confirmation that the 1st and 2nd lines of defence were effective and that Internal Audit were efficient.
- Considered the threat of cybercrime.

AICL:

- Received feedback from the independent non-executive director and chair of the audit committee.
- Considered impact of Solvency II and reviewed insurance reserving methodology.

Process to review the interim and full year results

The interim and full year results were assessed, 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.

Key areas of significant judgement which we discussed were:

- Valuation of insurance contract liabilities £596.9m. We considered the actuarial processes for valuing these liabilities, the level of liabilities by accident year and by heads of damage, and the conclusions of the insurance reserving committee. We received the views of EY from their work on the assessment of reserves, and concluded that the valuation of insurance contract liabilities was appropriate.
- Valuation of goodwill £1,485.0m. We considered the methodology for performing impairment reviews on the carrying value of goodwill, and considered the output of each review, and concluded that no impairments were necessary.

Audit Committee Report continued

Reports were received from EY 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.

Fair, balanced and understandable

At the request of the Board, the Committee has considered whether, in its opinion, this annual report and accounts is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

When forming our opinion we considered whether:

- the report was clear with an understandable layout, with key messages given suitable prominence
- the report was fair and presented a balanced picture
- the reporting on the business segments in the narrative was consistent with the reporting in the financial statements
- the key performance indicators were disclosed at an appropriate level
- statutory and adjusted measures were explained clearly
- the significant issues and key judgements referred to in the narrative reporting were consistent with the disclosures set out in the financial statements and that these matched the risks that EY were planning on including in their report.

We advised the Board that we supported the statement made on page 53.

Viability statement

The Group's methodology for production of its viability statement is shown on page 69 and the viability statement itself on page 53.

Jointly with the Risk Committee we considered and approved the list of principal risks and uncertainties (see pages 30-32) 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
- the appropriateness of the scenarios modelled.

On the basis of this, we confirmed to the Board that we felt it was reasonable for the Directors to make the viability statement on page 53.

Internal control and Internal Audit

A key part of our work is the oversight of the Internal Audit function. This includes 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. We also review and monitor management's responsiveness to the internal auditor's findings and recommendations. The function consists of 12 people with a broad range of skills; we also purchase audit skills externally for specialised audits.

We are satisfied that the Internal Audit function had the appropriate resources throughout the year.

Where Internal Audit reviews identify significant areas of business risk these are considered by the Risk Committee. Details of these can be found in the Risk Committee Report on pages 74-76.

Since the year end, KPMG has reviewed the effectiveness of the Company's Internal Audit function. The conclusion was that the function was competent, effective and well led, with strong alignment to principal risks. Focus on strategy for a period of longer than 12 months and more use of third party specialists where appropriate, were areas noted for development.

Auditor independence and non-audit services

The independence of EY is reviewed by the Committee and confirmed by the Auditor throughout the year.

A robust non-audit fee policy is in place and is adhered to. This is reviewed annually and was last reviewed on 21 September 2015. This includes a list of non-audit services where we are satisfied EY can carry out those services without jeopardising their role as Auditor. There are clear approval levels where the Committee Chairman (or the whole Committee) is required to authorise assignments. Competitive tendering is used for substantial work.

The audit fees payable to EY in respect of the year ended 31 January 2016 were £1,055,000 (2015: £1,110,000) and non-audit service fees incurred were £176,200 (2015: £930,900). This equates to a non-audit to audit fee ratio of 0.17 (2015: 0.84). The 2015 fees include work necessary for listing the Company.

A summary of fees paid to the Auditor is set out in note 4a to the consolidated financial statements on page 137.

Effectiveness of external auditors

We discussed management's interactions with the audit partner during the year and impressions gained. We considered:

- our perception of the Auditor's understanding and insights into the Group's business model
- how EY approached key areas of judgement and the extent of challenge
- the quality of the Auditor's reporting to the Committee and their overall efficiency
- input from management via a questionnaire on the efficiency and conduct of the audit.

During the year, a review of EY's 2015 audit of the Company was completed by the Audit Quality Review team of the FRC. No significant issues were noted. The results of this review were discussed and minor improvements to the external audit process for future years were subsequently agreed.

The Committee is satisfied that the audit continues to be effective and provides an appropriate independent challenge to the Group's senior management.

External audit re-appointment and tendering

Auditor re-appointment

At the AGM last year EY were re-appointed as our statutory auditors. The Committee believes the independence and objectivity of EY and the effectiveness of the audit process remain strong, and recommends the re-appointment of EY for the 2016/17 financial year. The Board has accepted and endorsed this recommendation.

External audit tendering

EY were appointed as auditors of the principal trading companies within the Acromas group in September 2007 following a competitive audit tender process. They were then appointed as auditors of the Company on 24 September 2014. In accordance with the Competition and Markets Authority's order which requires FTSE 350 companies to tender the audit at least every ten years, the Group intends to undertake its next competitive tender process later this year for the financial year ending 31 January 2018.

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 63). This was an internal review with the support of Independent Audit Limited. The Committee received very positive feedback and it was felt that there was a strong relationship between the Executive Team and the Committee. A fully externally facilitated review will take place this year.

Actions for 2016/17

Looking ahead, we will focus on:

- the audit tender process
- reviewing the implications of the Audit Regulation and Directive effective from June 2016, including the impact on non-audit services
- continuing to review the effectiveness of the Group's internal controls and assurance procedures
- reviewing levels of resource within the finance function, to ensure that all business areas benefit from a strong finance resource
- ensuring that Internal Audit continue to be involved in projects at the outset to ensure strategic input at an early stage.



Ray King

Chairman, Audit Committee

Risk Committee Report



Orna NiChionna
Chairman,
Risk Committee

Dear Shareholder,

In June 2015 I took over from Ray King as Chairman of the Risk Committee and am pleased to present a summary of our work during the financial year to January 2016 to drive the further development of the Group's risk management systems. This year we focused on both enhancing our risk appetite statements and providing further granularity in our assessment of principal risks, and also looked at each of the various Group businesses in isolation, to understand and challenge their key risks, controls and mitigations. This consideration of risk at both business and Group level has provided us with the assurance that principal risks to strategy have been identified and are being managed appropriately.

Role of the Committee

Our role is to monitor the Group's risk and compliance management procedures (described on pages 66-69) and review principal business risks and compliance matters regularly on behalf of the Board. We seek to consider our risks on an individual and aggregated basis across our businesses.

All Committee members are independent Non-Executive Directors.

Attendance

The Committee met four times during the year with members attending as shown below.

Member	Attendance
Orna NiChionna (Chairman)	4/4
Philip Green	4/4
Ray King	3/4
Gareth Williams	4/4

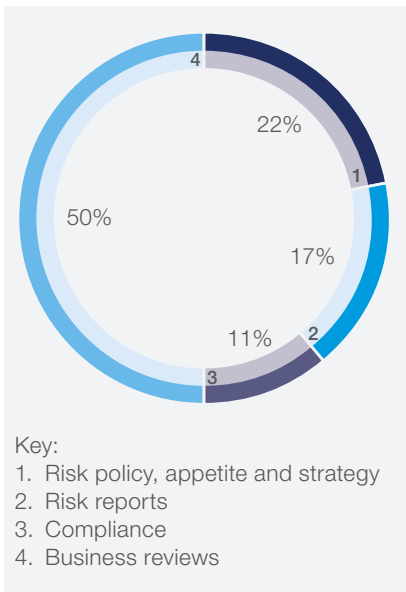
Bridget McIntyre was appointed as a Committee member with effect from 1 January 2016 so did not attend any meetings during the financial year.

The Company Secretary acts as secretary to the Committee and attends all meetings. The Group Chief Executive Officer, Group Chief Financial Officer, CRO and Head of Internal Audit attend by invitation. During the year the Committee and Chairman held private meetings with the CRO.

Main responsibilities and allocation of time spent on matters:

- Advising the Board on the Group's overall risk appetite, tolerance and strategy.
- Considering and recommending to the Board the nature and extent of the principal risks the Group is willing to take in achieving strategic objectives.
- Keeping under review the Group's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used, and reviewing these measures regularly.
- Keeping under review the effectiveness of the Group's risk management systems.

- Reviewing the Group's capability to identify and manage new risk types and ensuring that a supportive risk management culture is embedded and maintained throughout the Group in conjunction with the Audit and Remuneration Committees.
- Where appropriate, agreeing with the Remuneration Committee how risk should be recognised when setting performance objectives for executive remuneration.
- Reviewing reports on any material breaches of risk limits and the adequacy of proposed action.
- Reviewing reports on the effectiveness of risk management operations.
- Reviewing and monitoring management's responsiveness to the findings and recommendations of the CRO.
- Reviewing Group compliance performance, assessing the adequacy and effectiveness of the various compliance functions and giving particular consideration to any breaches and/or required notifications to compliance authorities and how these have been rectified.
- In depth review of business areas.



Our terms of reference

Our terms of reference were reviewed by the Committee and subsequently approved by the Board on 24 September 2015. 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 the registered office.

What we have done during the year Risk strategy, policy and appetite

We reviewed risk management structures to ensure these met the needs of each business and fitted with the risk policy, appetite and monitoring procedures.

We carried out a robust assessment of the principal risks facing the Group, including those that would threaten our business model, future performance, solvency or liquidity.

We recognise the need to continually define risk appetites and tolerances. An evaluation of internal projects, activities, uncertainties and emerging risks concluded that the risk associated with the travel landscape needed to be added to the list of principal risks. Risk appetite and tolerance thresholds were reviewed to reflect individual probabilities over time more closely and to align these with the strategic timeframe.

The Group risk policy was changed to reflect the revised thresholds, likelihood and impact of incidents and we reviewed and approved this before it was signed off by the Board in December 2015. The revised policy was subsequently circulated to all directors and board attendees of all subsidiary companies and made available to all staff via the intranet.

An Internal Audit review on the effectiveness of the risk management framework took place in October 2015. This concluded that there is a well-established risk framework, with risk appetite clearly defined within risk policies and specific to each business area. Effective communication channels are in place and this is supplemented by comprehensive and consistent Board reports.

We have reviewed and approved the description of principal risks and the explanation as to how these are managed or mitigated is contained within this report. See:

- pages 28-32 for a summary of principal risks
- pages 66-69 for further information on our risk management processes.

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.

Management and reporting

At each meeting, we considered a detailed risk report. This included a summary of each business's management monitoring. We worked with the CRO to facilitate each business area considering their strategies in the context of their 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.

Review of incidents, particularly failures or weaknesses

Incidents are included in the risk reports. We reviewed and discussed these in order to identify causes, necessary action, lessons learned and monitoring requirements.

Compliance

At each meeting, we review the status of the Group compliance monitoring plan for the regulated businesses (in financial services, travel and healthcare). We considered how risk would play a part in projects being considered, so that input in terms of risk appetite, policy and governance was received when it was needed. The new corporate governance requirements were discussed.

Review of individual businesses

Each of our meetings includes a presentation from one or two of the business CEOs and key functional managers to discuss in detail the risk and compliance issues in their business, on a rotational basis and prioritised according to risk ratings in the Group's risk register.

Risk Committee Report continued

The actions we took within reviews of individual businesses during the year were:

Saga Services/Direct Choice (regulated business):

- Considered the risk and assurance framework and approach to incident management – all in the context of doing what is right for our customers.
- Reviewed the reporting structure, noting that an audit, risk, regulation and compliance committee exists.
- Looked at the impact on risk caused by the creation of the motor panel.
- Discussed a report prepared by Milliman, consulting actuaries, who had undertaken a review of the risk management framework, held a workshop with key members of staff and recommended five strategic risks and associated scenarios, which were checked against risk registers.
- Concluded that there were no serious incidents to consider.

AICL:

- Assessed the risk governance structure.
- Considered the impact of the introduction of the motor panel.
- Discussed compliance and reporting requirements for Solvency II.

Shipping:

- Looked at principal risks, incident and accident statistics and action taken to reduce the risk via the ‘beyond compliance’ programme, which is aligned to the top five risks.
- Noted that the shipping risk committee meets quarterly and is chaired by an independent non-executive director who is experienced in shipping.

Group insurance arrangements:

- Considered the insurance programme for the Group including cost, management of brokers and advisers and summary of cover.
- Discussed specialist cover, for example marine insurance cover, which is arranged at the highest possible level with the lowest possible deductibles.
- Considered how insurance risk was managed and discussed whether business decisions were challenged at renewal stage.

IT:

- Discussed our approach to the risk management of threat of cybercrime, cyber security and cyber strategy.
- Considered threats, current projects, staff training and the strategic roadmap.
- Talked about how data communications are monitored.
- Took steps to benchmark our performance against peers.
- Considered the role of the Information Security Forum.

Since the year end, we have received presentations from AICL and regarding our insurance renewal, insurance platform and shipping.

Effectiveness of the Risk 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 63). This was an internal review with the support of Independent Audit Limited. The Committee received very positive feedback from Committee members and attendees and it was acknowledged that good progress had been made in

identifying key risks and establishing good reporting and relationships. A fully externally facilitated review will take place this year.

Actions for 2016/17

Looking ahead, we will remain focused on the risk processes within the business, with particular focus on:

- analysing our corporate strategy, scenario/stress testing and cost implications when considering risk strategy
- measuring the effectiveness of the risk management approach
- agreeing how risks approaching our appetite limit will be monitored and reported
- the role of the Committee when considering major investment decisions in new products or services
- reviewing lessons learned from project implementation
- continuing to record and monitor IT risks
- working with the Remuneration Committee to link behavioural risk to personal objectives and strategy.



Orna NiChionna
Chairman, Risk Committee

Relations with shareholders

We understand the importance of maintaining open and regular dialogue with our shareholders – many of whom are our loyal customers. We work hard to develop a relationship built on trust and welcome feedback throughout the year. We plan a shareholder communications strategy for the year. 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. Lance and Jonathan are assisted by the shareholders relations team led by our Director of Corporate Affairs.

We attach significant importance to the effectiveness of our communications with all of our shareholders and set ourselves the target of providing information that is timely, clear and concise.

Saga has a diverse shareholder register which is formed of both institutional and retail ownership, the latter numbering over 187,000. Saga also has a number of analysts following the Company so we arrange for a clear explanation of key strategic events and developments, including results and acquisitions announcements.

We communicate in the following ways:

Shareholder communication

In addition to the AGM, we arranged for:

- regular meetings with key shareholders
- face-to-face presentations of full year and half year results by the Group Chief Executive Officer and Group Chief Financial Officer
- telephone briefings in conjunction with key financial announcements

- live and post-event webcasts of key presentations
- presentations added to our website to allow shareholders to gain an insight into how our trading performance links to strategy
- investor ‘road shows’
- investor days, briefings and ad hoc meetings on request, where calendar and regulatory requirements allow
- conducted tours of Saga’s operations
- notification of key financial calendar information
- notification of the provision of live webcasting services for key presentations
- notification of availability of past key presentations via our corporate website.

Wider communication:

- Face-to-face presentations of full year and half year results where the Group Chief Executive Officer and management team were available for discussions.
- Telephone briefings for analysts in conjunction with key financial announcements.
- Face-to-face and telephone meetings for analysts with the management team.
- Face-to-face presentations with bank sales teams.
- Conducted tours of Saga’s operations for analysts.

The Director of Corporate Affairs 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, along with any new analyst research.

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

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

Annual General Meeting

The AGM will be held on Tuesday 21 June 2016 at 11am at Enbrook Park, Sandgate, Folkestone, Kent CT20 3SE. The Chairman and Chairs of all Committees will be available to answer questions during the formal business of the meeting.

The Notice contains an explanation of business to be considered at the meeting. A copy is available on our website, <http://corporate.saga.co.uk>.

Remuneration Committee Chairman's Annual Statement



Gareth Williams
Chairman,
Remuneration
Committee

Dear Shareholder,

In the first full year of being a listed organisation, we have continued our momentum both in our financial performance and in the implementation of the strategic initiatives that we announced on IPO and in our first annual report.

Our goal as a Remuneration Committee last year was to formulate a Remuneration Policy and strategy which stimulates sustainable, value creating growth and performance for the business and rewards management accordingly. The Policy we put forward at last years' AGM received over 99% support (98.8% by independent shareholders) for which I would like to thank shareholders.

Even though there was strong support for the Remuneration Policy, the Committee reviews it annually to ensure that it still meets our goals. As a result of our review this year, we believe the policy continues to be fit for purpose and therefore will remain unchanged.

This report lays out the core principles of our Directors' Remuneration Policy and our practice over the past year. I trust we have done this with the transparency and clarity that aid your understanding of both our intent and our activity.

Our core principles of remuneration

- Sustainable long-term value creation.
- Profitable growth and strong cash generation.
- Attraction, retention and motivation of a talented leadership cadre to deliver the business strategy.

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

Attendance

Member	Attendance
Gareth Williams (Chairman)	5/5
Philip Green	5/5
Ray King	5/5
Orna NiChionna	5/5

Bridget McIntyre joined the Committee on 1 January 2016. No meetings were held following her appointment during the financial year.

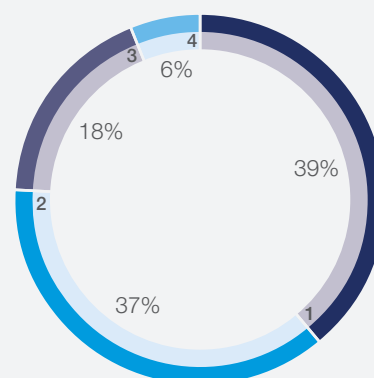
The Committee receives assistance from the Group HR Director and Company Secretary, who attend meetings by invitation, except when issues relating to their own remuneration are being discussed. The Group Chief Executive Officer, Group Chief Financial Officer and the Chairman attend by invitation.

Structure of the report

- Annual Statement (pages 78-79)
- Directors' Remuneration Report 'at a glance' (pages 80-81)
- Directors' Remuneration Policy (pages 82-91)
- Annual Report on Remuneration (pages 92-100)

Main responsibilities and allocation of time spent on matters:

- Reviewing the broad remuneration policy for the senior executives.
- Recommending and monitoring the level and structure of remuneration for senior management.
- Administering all aspects of share schemes.
- Reviewing any major changes in employee benefit structures throughout the Company or Group.



- Key:
1. Remuneration policy
 2. Senior management remuneration
 3. Share schemes
 4. Employee benefit structures

Our terms of reference

Our terms of reference were reviewed by the Committee and subsequently approved by the Board on 11 November 2015. They are available on our website, <http://corporate.saga.co.uk/corporate-information/corporate-governance> and from the Company Secretary at the registered office.

Company highlights for the 2015/16 financial year

The implementation of our strategy (as outlined on pages 14-15) has been substantiated in the key performance highlights of the year:

- Continued strong performance in the core business areas of financial services and travel, which has led to strong results across all of the Group's operations.
- Group Profit before tax increased by 54.8% to £176.2m (2015: £113.8m), on revenue of £963.2m (2015: £900.5m).
- Strong profit delivery and continued high levels of cash conversion meant the Group continued its deleveraging with net debt to Trading EBITDA ratio now 2.3x (2015: 2.6x).
- Dividend payments to our shareholders of 4.1p per share in respect of 2015 and an interim dividend of 2.2p in respect of 2016, reflecting our confidence in meeting market expectations for the full year and continuing to deliver sustainable profit growth.
- Investment in our cruise ships, demonstrating our commitment to continued excellence and service to our customers.
- Destinology and Bennetts now embedded within the Group.
- Introduction of the panel in motor insurance to make the most of our competitive advantage in this market.
- Launch of Saga Investment Services which strengthened our financial services offering.
- Divestment of the Allied Healthcare business.

What we have done during the year

We reviewed the key components of remuneration.

Decisions made/actions taken

- Reviewed base salary levels of the Executive Committee and the level of bonus payments.

- Made awards under the Saga Long Term Incentive Plan ('LTIP') for the Executive Committee and senior management of the Company. Grant levels are consistent with our normal award policy.
- Reviewed the performance targets for the 2016 LTIP award (further details are provided on page 89).
- Approved the continued operation of the Saga Share Incentive Plan ('SIP') and award of free shares to all eligible employees in July 2015.
- Approved the Executive Pension Policy and Directors' Expenses Policy.
- Reviewed the fees for the Non-Executive Directors (see page 89).
- Reaffirmed the appointment of PwC as advisers.
- On 1 January 2016, Bridget McIntyre joined the Remuneration Committee. We welcome Bridget, who brings with her considerable experience gained through senior roles within some of the UK's largest general insurers, most recently as the Chief Executive of RSA's UK business.

Since the year end, we approved:

- base salary increases of 2% in line with the rises provided for the employees of the Group for the Group Chief Executive Office and the Group Chief Financial Officer, bringing their salaries to £676,260 and £416,160 respectively to apply for the 2016/17 financial year.
- 2015/16 annual bonus for the Executive Directors, which was 78.6% of their maximum opportunity, equating to 117.9% of salary for the Group Chief Executive Officer and 97.4% of salary for the Group Chief Financial Officer. The payouts reflect strong performance of the Group over the year. Further detail of the annual bonus is provided on pages 93-94.

- Performance targets for the 2016 LTIP award, the details of which are provided on page 89.

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 pages 62-63). This was an internal review with the support of Independent Audit Limited. The evaluation was very positive and the conclusion was that the Committee had worked at the right level of challenge and independence. A fully externally facilitated review will take place this year.

Actions for 2016/17

Looking ahead we will focus on:

- Our core principles of remuneration ensuring they are deployed in all of our considerations and decisions on remuneration practice.

I hope that 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.



Gareth Williams

Chairman, 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 UK Corporate Governance Code (the 'Code') and the Listing Rules.

At a glance

Introduction

In this section, we summarise the purpose of our Remuneration Policy and its linkage to our corporate strategic objectives. We highlight the performance and remuneration outcomes for the 2015/16 financial year. More detail can be found in the Remuneration Policy Report and Annual Report on Remuneration.

Our Remuneration Policy and its link to our Group strategy

The Group's strategy is laid out on pages 14-15. The key elements of the Company's strategy and how its successful implementation is linked to the Company's remuneration are set out in the following table.

Remuneration Policy	Strategic priorities				Retain and reward Executive Team to deliver the strategy
	Unlocking growth in our core businesses of insurance and travel	Investing in future growth	Continued growth and long-term shareholder value creation	Equity ownership and retention of shares	
<p>Fixed remuneration (salary, benefits and pension)</p> <p>The Company provides competitive levels to attract and retain talent required to successfully deliver on our business strategy.</p>	<ul style="list-style-type: none"> Delivered customer growth across all key insurance lines. Increased passengers in tour operating business. Right team put in place to deliver multichannel. 	<ul style="list-style-type: none"> Announced our investment in new shipping capacity. Saga Investment Services up and running. Successful pilots ongoing in new product areas. 	<ul style="list-style-type: none"> Model continues to generate strong cash flows. Undertaken a review of the capital allocated to our underwriting business. Disposed of Allied Healthcare. 		✓
<p>Annual bonus metrics</p> <p>Maximum annual bonus opportunity is 150% of salary:</p> <ul style="list-style-type: none"> two thirds of the total bonus to be paid immediately in cash one third deferred into shares subject to a three year vesting period. 	<p>✓</p> <p>Profit before tax growth.</p> <p>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.</p>	<p>✓</p> <p>Group cash flow.</p> <p>The success in maximising operational excellence will be reflected through increased profitability and cash flow.</p>		<p>✓</p> <p>Equity Ownership.</p> <p>Encouraged through bonus deferral and shareholding requirements.</p>	✓

Remuneration Policy	Strategic priorities				
	Unlocking growth in our core businesses of insurance and travel	Investing in future growth	Continued growth and long-term shareholder value creation	Equity ownership and retention of shares	Retain and reward Executive Team to deliver the strategy
<p>LTIP metrics</p> <p>Maximum annual award is 200% of salary.</p> <p>Awards will vest at the end of three years subject to the achievement of:</p> <ul style="list-style-type: none"> — stretching EPS conditions which provides alignment to our core strategic priorities — relative total shareholder return ('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. 	✓	✓	✓	✓	✓
<p>Minimum shareholding requirements</p> <ul style="list-style-type: none"> — Group Chief Executive Officer 200% of salary. — Group Chief Financial Officer 150% of salary. 				✓	Encouraged through the alignment of interests with shareholders by Executives becoming locked-in shareholders.
<p>All employee share plan</p>				✓	Encourages all employees to become shareholders in the Company providing a focus on growth and long-term shareholder value creation.

Directors' Remuneration policy

The Remuneration Policy and strategy is designed to stimulate sustainable, value creating growth and performance for the business and rewards 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, retention and motivation of a talented leadership cadre to deliver the business strategy.

The Committee will review annually the remuneration arrangements for the Executive Directors and the Executive Team 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 where Saga competes for talent; and
- changing views of institutional shareholders and their representative bodies.

Remuneration Policy table summary

A summary of the approved Remuneration Policy is outlined below. There are no changes from the approved Policy. The full Policy as approved by shareholders on 23 June 2015 is available on our website at <http://www.corporate.saga.co.uk>.

Element	Operation of element
Salary	The Remuneration Committee ensures that maximum salary levels are positioned in line with companies of a similar size to Saga in the FTSE 250.
Benefits	
Pension	<p>When determining an appropriate level of salary, the Remuneration Committee considers:</p> <ul style="list-style-type: none"> – remuneration practices within the Group; – the general performance of the Group; – salaries within the ranges paid by the companies in the comparator group used for remuneration benchmarking; and – the economic environment. <p>In general salary rises to Executive Directors will be in line with the rise to employees.</p> <p>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.</p> <p>The maximum contribution to an Executive Director's pension or salary supplement is 20% of gross basic salary.</p>
Annual bonus	<p>The Remuneration Committee will determine the maximum annual participation in the Annual Bonus Plan for each year, which will not exceed 150% of salary.</p> <p>The maximum value of deferred shares is 50% of the bonus earned, which vest after a minimum deferral period of three years based on continued employment.</p>

Element	Operation of element
Long Term Incentive Plan ('LTIP')	<p>LTIP maximum grant is 200% of salary p.a.</p> <p>Awards will vest at the end of three years subject to the achievement of:</p> <ul style="list-style-type: none"> – 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. <p>The LTIP contains clawback and malus provisions.</p>
Share Incentive Plan ('SIP')	The purpose of the SIP is to encourage all employees to become shareholders in the Company and thereby align their interests with shareholders.
Minimum shareholding requirement	<p>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.</p> <ul style="list-style-type: none"> – Group Chief Executive Officer – 200% of salary; – Group Chief Financial Officer – 150% of salary.
Chairman & Non-Executive Director (NED) Fees	<p>The fees for the Chairman and Non-Executive Directors are set at broadly the median of the comparator group used for Executive Director remuneration.</p> <p>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.</p> <p>The Company will pay reasonable expenses incurred by the Chairman and Non-Executive Directors and may settle any tax incurred in relation to these.</p>

How have we performed?

KPIs	Threshold	Target	Maximum	Actual	Percentage of maximum bonus earned/current potential LTIP vesting
Annual Bonus Plan					
Group PBT	£166.0m	£172.9m	£177.4m	£176.2m	89.6%
Group cash flow ¹	77.3%	79.6%	81.1%	79.9%	69.3%
Personal objectives	See pages 93-94 for details of the measures and performance for the year				
2014 LTIP Award as at year end 31 January 2016					
EPS growth (p.a.)	7%	–	12%	16.4%	100%
TSR	Median	–	Upper quartile	Between Median and Upper quartile	61%
2015 LTIP Award as at year end 31 January 2016					
EPS growth (p.a.)	7%	–	12%	16.1%	100%
TSR	Median	–	Upper quartile	Between Median and Upper quartile	41%

Notes:

¹ Defined as net available cash generation.

The indications for the LTIP performance are to the end of the current financial year. The actual level of performance and corresponding level of vesting will be dependent on the performance at the end of the relevant performance periods. The Committee has included this information to allow shareholders to see the potential value in the long-term remuneration over the next 3 years.

DIRECTORS' REMUNERATION REPORT
DIRECTORS' REMUNERATION POLICY
CONTINUED

Single total figure of remuneration for Executive Directors for the 2015/16 financial year

Executive Directors ¹	Period	Salary £	Taxable benefits £	Bonus £	LTIP £	Pension £	Other ² £	Other ³ £	Total £
Lance Batchelor (Group Chief Executive Officer)	2015/16	663,000	28,095	781,678	–	127,514	–	–	1,600,287
	2014/15	556,667	13,225	655,958	–	102,852	–	4,000,000	5,328,702
Jonathan Hill (Group Chief Financial Officer)	2015/16	334,246	19,748	325,699	–	74,680	190,000	–	944,373
	2014/15	–	–	–	–	–	–	–	–
Andrew Goodsell (Former Executive Chairman)	2015/16	330,422	18,261	389,567	–	232,481	–	–	970,731
	2014/15	777,462	41,496	941,506	–	265,915	–	5,000,000	7,026,379
Stuart Howard (Former Group Chief Financial Officer)	2015/16	196,992	6,837	193,545	–	156,573	–	–	553,947
	2014/15	472,781	27,794	477,036	–	180,719	–	3,000,000	4,158,330

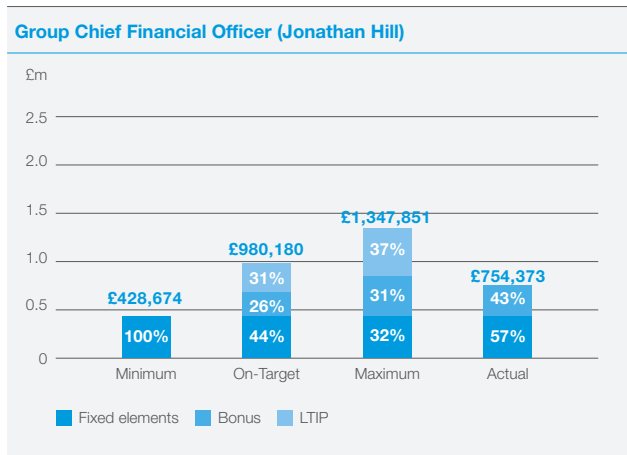
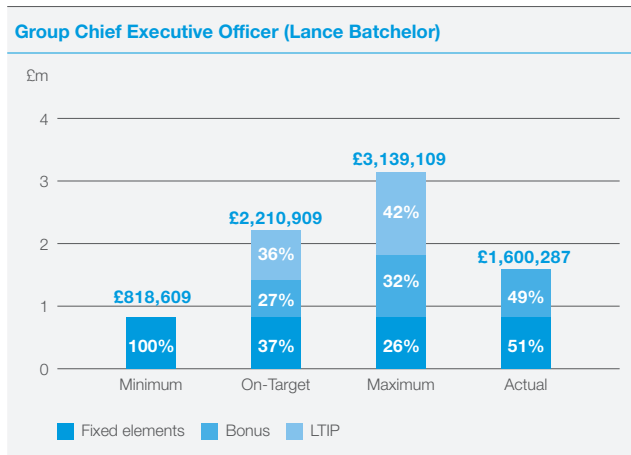
Notes:

- ¹ Lance Batchelor was appointed the Group Chief Executive on 24 March 2014. 2014/15 salary, taxable benefits and pension provision pro-rated in accordance to time in role. Jonathan Hill was appointed the new Group Financial Officer Designate and joined Saga on 7 April 2015. Salary, taxable benefits, pension provision and bonus have been pro-rated with respect to time in the role. Andrew Goodsell transitioned from his role as Executive Chairman to Non-Executive Chairman on 1 July 2015. Stuart Howard stepped down from Board of Directors of the Company on 23 June 2015. Salary, benefits, bonus and pension pro-rated for time served in financial year as Executive Directors.
- ² Buyout award of £190,000 was made to the Group Chief Financial Officer on recruitment in the form of Saga shares (101,932 based on Saga's closing share price on 7 April 2015 of 186.4p). The award will vest in two equal tranches on the first and second anniversary of the Group Chief Financial Officer's commencement of employment with Saga. In determining this amount the Committee applied the "buyout" element contained in the recruitment policy. The buyout of the outstanding Bovis awards held by the Group Chief Financial Officer were valued based on the publicly available information disclosed and took into account the vesting periods and probability of the performance conditions being satisfied at the date of cessation. This fair value was then discounted further to take into account the decreased probability of some of the longer term elements actually vesting. The discounted fair value was then converted in to a value of Saga shares which vest subject to continued employment. There are no further performance conditions attached to the vesting of these shares as the original performance conditions were taken into account in determining the buy-out value and therefore the imposition of additional performance conditions would in fact amount to a second set of performance conditions on vesting.
- ³ The former Executive Chairman and Group Chief Financial Officer were provided a one-off award on IPO ('IPO Award'). The shares under the IPO Awards were fully vested on IPO (with the sale restrictions on the shares lifted on 29 May 2015 in accordance with the lock up arrangements outlined in the IPO prospectus). The Group Chief Executive Officer was provided a share and cash award on IPO.
 - a. Share award consisted of a one-off award on IPO of market value share options (with an exercise price equal to Saga's share price on Admission of £1.85) with a face value of £4m. 25% will vest and become exercisable on the third anniversary of the award, 25% on the fourth anniversary and 50% on the fifth 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.
 - b. Cash award of £4m based on continued employment. 25% immediately on the IPO, 25% on the first anniversary of the award and 50% will be paid 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.

For the full notes accompanying the single figure table, please see page 92 in the Annual Report on Remuneration.

Illustration and application of Remuneration Policy

The following charts show the 2015/16 actual remuneration (excluding one-off entitlements set out in the 'Other' column of the single total figure table) against the proposed Policy levels of remuneration for the Executive Directors.



Under the Policy, the remuneration payable to each of the Executive Directors is based on salaries at the start of 2015/16, 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 (Deferred Bonus); and (iii) LTIP. In addition, for the purposes of comparison we have included the actual single figure remuneration paid in 2015/16 (excluding one-off entitlements set out in the 'Other' column of the single total figure table).

Element	Description	Minimum	Target	Maximum
Fixed ¹	Salary, benefits and pension ²	Included	Included	Included
Annual Bonus	Annual bonus (including deferred shares)	No annual variable	60% of maximum bonus	100% of maximum bonus ³
LTIP	Award under the LTIP	No multiple year variable	60% of the maximum award	100% of the maximum award ⁴

Notes:

- ¹ Group Chief Financial Officer's remuneration pro-rated for time served in role for the financial year has been used for the illustrations of actual provided.
- ² Based on 2015/16 financial year benefit payments and pension.
- ³ Equating to 150% for the Group Chief Executive Officer and 125% for the Group Chief Financial Officer.
- ⁴ Equating to 200% for the Group Chief Executive Officer and 150% for the Group Chief Financial Officer.
- ⁵ 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. In addition, dividend equivalents have not been added to deferred share bonus and LTIP share awards.

DIRECTORS' REMUNERATION REPORT

DIRECTORS' REMUNERATION POLICY

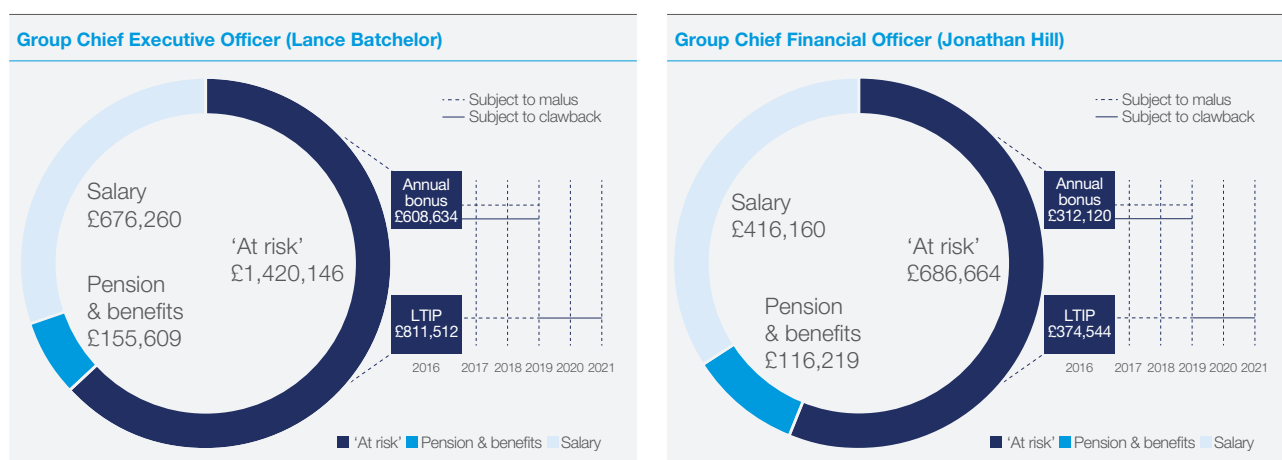
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Pay at risk

The charts below set out the single figure of each Executive Director based on whether the elements remain 'at risk'. For example:

- Payment is subject to continuing employment for a period (deferred shares and LTIP awards);
- Performance conditions have to 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 above for the illustrations of the application of the Remuneration Policy.



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

Service agreements and letters of appointment

Executive Directors

Name	Date of service contract	Nature of contract	Notice periods		Compensation provisions for early termination
			From Company	From Director	
Lance Batchelor	2 May 2014	Rolling	6 months	6 months	None
Jonathan Hill	7 April 2015	Rolling	6 months	6 months	None

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.

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:

Director	Shareholding requirement (% salary)	Current shareholding (% salary) ¹	Shares held directly		Other shares held	Options		Outstanding interests in the Share Incentive Plan	Shareholding requirement met?
			Beneficially owned ³	Deferred shares not subject to performance conditions	LTIP interests subject to performance conditions	Vested	Unvested		
Executive Directors									
Lance Batchelor	200%	36%	15,392	105,121	1,313,761	–	2,162,162	138	No
Jonathan Hill	150%	69%	40,142	101,932	282,027	–	–	1,027	No
Non-Executive Directors									
Jamie Arnell	–	–	–	–	–	–	–	–	n/a
Philip Green	–	–	32,433	–	–	–	–	–	n/a
Pev Hooper	–	–	–	–	–	–	–	–	n/a
Ray King	–	–	27,027	–	–	–	–	–	n/a
Orna NiChionna	–	–	10,810	–	–	–	–	–	n/a
Charles Sherwood	–	–	–	–	–	–	–	–	n/a
Gareth Williams	–	–	32,433	–	–	–	–	–	n/a
Bridget McIntyre	–	–	–	–	–	–	–	–	n/a
Andrew Goodsell ²	–	–	2,815,702	150,882	210,214	–	–	–	n/a

Note:

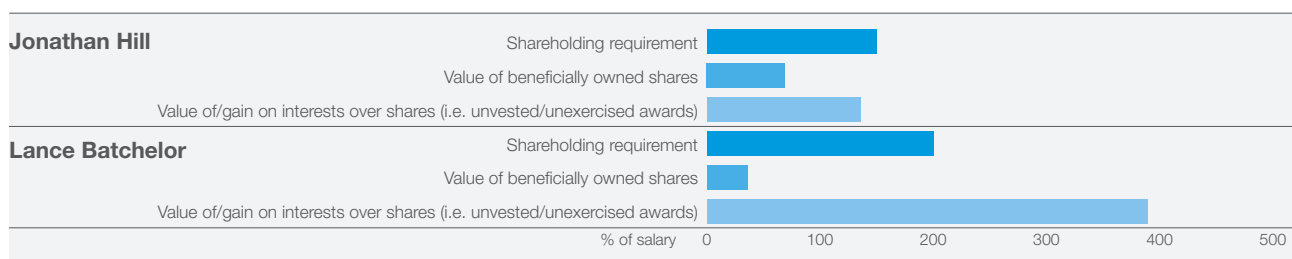
¹ Values not calculated for Non-Executive Directors as they are not subject to shareholding requirements.

² Outstanding deferred bonus shares and LTIP in relation to his service as Executive Chairman. See page 90 for further details.

³ 7,696 shares owned by Lance Batchelor's spouse. 7,747 shares owned by Jonathan Hill's spouse.

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 Directors had a beneficial interest and details of long-term incentive interests as at 31 January 2016 are set out below:



Notes:

- The closing share price of £1.961 as at 29 January 2016 has been taken for the purpose of calculating the current shareholding (i.e. value of beneficially owned shares and value of / gain on interests over shares) as a percentage of salary.
- Value of/gain on interests over shares comprises unvested 2014 and 2015 LTIP awards. The one-off IPO share option award for the Group Chief Executive Officer has an exercise price of £1.85, hence the gain on these awards on 31 January 2016 was £240,000.
- Unvested LTIP shares and options do not count towards satisfaction of the shareholding guidelines.

DIRECTORS' REMUNERATION REPORT
DIRECTORS' REMUNERATION POLICY
CONTINUED

Implementation of Remuneration Policy in the 2016/17 financial year

The Remuneration Committee proposes to implement the policy for the 2016/17 financial year as set out below:

Element of remuneration	Implementation in 2015/16	Implementation in 2016/17
Salary	<p>Lance Batchelor, Group Chief Executive Officer received a 2% increase 1 February 2015 (all employee rise 2.5%). As a result, his salary was £663,000.</p> <p>Jonathan Hill joined the Company on 7 April 2015 as the Group Chief Financial Officer Designate. He became Group CFO on 23 June 2015. His base salary on joining the Company was £408,000.</p>	<p>Executive Directors will receive a 2% increase on 1 February 2016 (all employee rise 2.5%). As a result, the salaries for the Executive Directors are:</p> <ul style="list-style-type: none"> – Lance Batchelor: £676,260 – Jonathan Hill: £416,160
Benefit and pensions	<p>The maximum employer pension contribution/salary supplement is 20% of salary.</p> <p>Executive Directors received the following:</p> <ul style="list-style-type: none"> – Lance Batchelor: 15% of salary comprising of the employer contribution into the Saga Pension Scheme (DB) and a salary supplement in lieu of pension. – Jonathan Hill: 15% of salary comprising of the employer contribution into the Saga Pension Scheme (DB) and a salary supplement in lieu of pension. 	<p>No change in policy or levels:</p> <ul style="list-style-type: none"> – Lance Batchelor: 15% of salary supplement in lieu of pension; – Jonathan Hill: 15% of salary supplement in lieu of pension.
Annual Bonus Plan and Deferred Bonus Plan	<p>The annual bonus is paid in cash and deferred shares.</p> <p>Two thirds of the total bonus to be paid immediately in cash and one-third deferred into shares for three years.</p> <p>Change in the performance measures from 2014/15 (Group Trading EBITDA and Leverage ratio) to:</p> <ul style="list-style-type: none"> – Group PBT – 60% – Group cash flow¹ – 20% – Personal objectives – 20% 	<p>No change in the annual bonus opportunities or deferral mechanics.</p> <p>No change in the annual bonus performance measures.</p>
<p>Maximum Annual Bonus Plan is 150% of salary.</p> <p>Normal maximum bonus opportunity as a percentage of salary:</p> <ul style="list-style-type: none"> – Group Chief Executive Officer – 150% – Group Chief Financial Officer – 125% 		

Element of remuneration	Implementation in 2015/16	Implementation in 2016/17
<p>Long-Term Incentive Plan</p> <p>Maximum value of LTIP grant is 200% of salary.</p> <p>Normal maximum LTIP award as a percentage of salary:</p> <ul style="list-style-type: none"> – Group Chief Executive Officer – 200% – Group Chief Financial Officer – 150% 	<p>No change in the LTIP grant levels and no change to the performance measures from 2014 award.</p> <p>2015 LTIP award:</p> <ul style="list-style-type: none"> – 50% EPS – EPS growth of 7% p.a. for 25% of this element of the award to vest with full vesting occurring for EPS growth of 12% p.a. – 50% Comparative TSR performance of the Company compared to the FTSE 250 (excluding real estate and equity investment trusts) – 25% of this element of the award vesting for median TSR comparative performance with full vesting at upper quartile. 	<p>2016 LTIP awards:</p> <ul style="list-style-type: none"> – No change in the LTIP grant levels. – No change to the performance measures or their weighting – 50% EPS growth and 50% relative TSR. – The relative TSR comparator group and the vesting schedule for this element will remain unchanged from the 2015 award. – The Committee has reviewed the EPS performance target range in light of the Company's strategic plan over the next period, general market conditions and the range set by its FTSE 350 insurance peers and other FTSE 250 companies (in general the range set by these companies is annual EPS growth of 5%-12%). Therefore, taking into account these factors the Committee has determined to set the EPS range for the 2016 LTIP grant at EPS growth of 5%p.a. (threshold 25% vesting) to 12%p.a. (full vesting). The Committee believes that these targets are challenging over the next period and that by extending the vesting range this ensures the grant retains its incentive and retentive impact. The Committee will review the targets for the 2017 LTIP grant.
<p>All employee share awards</p>	<p>Saga continued to operate the Share Incentive Plan for all employees in 2015, with a free share award made in July 2015 of £300 to all eligible full-time employees.</p>	<p>Saga will continue to provide all employees with the opportunity to participate in all employee equity arrangements.</p>
<p>Chairman & Non-Executive Fees</p>	<p>Chairman Fees £275,000</p> <p>Board Fee £61,200</p> <p>Committee Chair Fee £10,000</p> <p>Senior Independent Director Fee £20,000</p>	<p>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 will increase with effect from 1 June 2016:</p> <ul style="list-style-type: none"> – Chairman fees £280,500 – Board fee £62,424 – Committee Chair fee £10,000 – Senior Independent Director £20,000

Note:

¹ Defined as net available cash generation.

DIRECTORS' REMUNERATION REPORT
DIRECTORS' REMUNERATION POLICY
CONTINUED

Remuneration arrangements for our outgoing Executive Chairman

After 23 years with Saga, Andrew Goodsell retired from his role as Executive Chairman on 30 June 2015. Andrew was appointed Non-Executive Chairman of the Saga plc Board from 1 July 2015. He received no termination payments from the Company on his cessation of employment as the Executive Chairman. However, under the terms of the existing Deferred Annual Bonus Plan, Long Term Incentive Plan and Saga's policy around loss of office, as a good leaver he will receive the following:

Plan	Outstanding awards	Committee Determination
Deferred Annual Bonus Plan ("DBP")	2014/15 DBP 150,882 Shares	Andrew Goodsell has been treated as a good leaver under the terms of the Deferred Bonus Plan on his retirement from the Company as Executive Chairman. As a good leaver, all subsisting deferred share awards will vest in full on his ceasing to hold the office of Non-Executive Chairman or on the third anniversary of the date of grant of the awards whichever is the sooner.
Long Term Incentive Plan ("LTIP")	2014 210,124 Shares	Andrew Goodsell has been treated as a good leaver under the terms of the LTIP on his retirement from the Company as Executive Chairman. As a good leaver his award has been pro-rated to the amount of the vesting period completed on this date of cessation as Executive Chairman, the final payout will be based on Saga's achievement of the LTIP performance conditions at the end of the three year performance period.
IPO Award	2014 2,702,702 Shares	Andrew Goodsell has 12 months from the date of him ceasing to hold the office of Non-Executive Chairman to exercise these options, subject to the rules of the IPO Award. At the end of this period, any unexercised options would lapse.

Under the terms of the Saga Annual Bonus Plan for the financial year February 2015 to January 2016, Andrew Goodsell will receive a bonus pro-rated to the number of months that he remained as Executive Chairman paid in cash.

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.

Shareholder voting at general meeting

The Director Remuneration Policy was put to a binding vote at the AGM on 23 June 2015. The Chairman's Annual Statement and the Annual Report on Remuneration were subject to an advisory vote. Below we outline the voting outcomes in respect of approving the Director Remuneration Report and approving the Director Remuneration Policy. Based on the overwhelming support received by shareholders both on the Policy and its implementation the Committee is comfortable that no changes are required to the Policy or its implementation for 2016/17.

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	814,029,424	98.38	13,430,293	1.62	827,459,717	74.01	1,463,379
To approve the Directors' Remuneration Policy	824,261,354	99.63	3,031,154	0.37	827,292,508	74.00	1,631,155

Annual Report on Remuneration

Single total figure of remuneration (audited)

Executive Directors (audited)

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of the 2015/16 financial year. Comparative figures for the 2014/15 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).

Executive Directors ¹	Period	Salary £	Taxable benefits ² £	Bonus £	LTIP £	Pension ³ £	Other ⁴ £	Other ⁵ £	Total £
Lance Batchelor (Group Chief Executive Officer)	2015/16	663,000	28,095	781,678	–	127,514	–	–	1,600,287
	2014/15	556,667	13,225	655,958	–	102,852	–	4,000,000	5,328,702
Jonathan Hill (Group Chief Financial Officer)	2015/16	334,246	19,748	325,699	–	74,680	190,000	–	944,373
	2014/15	–	–	–	–	–	–	–	–
Andrew Goodsell (Former Executive Chairman)	2015/16	330,422	18,261	389,567	–	232,481	–	–	970,731
	2014/15	777,462	41,496	941,506	–	265,915	–	5,000,000	7,026,379
Stuart Howard (Former Group Chief Financial Officer)	2015/16	196,992	6,837	193,545	–	156,573	–	–	553,947
	2014/15	472,781	27,794	477,036	–	180,719	–	3,000,000	4,158,330

Notes:

- ¹ Lance Batchelor was appointed the Group Chief Executive on 24 March 2014. 2014/15 salary, taxable benefits and pension provision pro-rated in accordance to time in role. Jonathan Hill was appointed the new Group Financial Officer Designate and joined Saga on 7 April 2015. Salary, taxable benefits, pension provision and bonus have been pro-rated with respect to time in the role. Andrew Goodsell transitioned from his role as Executive Chairman to Non-Executive Chairman on 1 July 2015. Stuart Howard stepped down from Board of Directors of the Company on 23 June 2015. Salary, benefits, bonus and pension pro-rated for time served in financial year as Executive Directors. See page 93 for breakdown of bonus payments made in the year.
- ² The types of benefits provided are set out in the Remuneration Policy section of the report.
- ³ Reflects the value of the DB pension accrual in the year and the pension cash supplement – see table on page 95 for further details.
- ⁴ A buyout award of £190,000 was made to the Group Chief Financial Officer on recruitment in the form of Saga shares (101,932 based on Saga's closing share price on 7 April 2015 of 186.4p). The award will vest in two equal tranches on the first and second anniversary of the Group Chief Financial Officer's commencement of employment with Saga. In determining this amount the Committee applied the "buyout" element contained in the recruitment policy. The buyout of the outstanding Bovis Homes awards held by the Group Chief Financial Officer were valued based on the publicly available information disclosed and took into account the vesting periods and probability of the performance conditions being satisfied at the date of cessation. This fair value was then discounted further to take into account the decreased probability of some of the longer term elements actually vesting. The discounted fair value was then converted in to a value of Saga shares which vest subject to continued employment. There are no further performance conditions attached to the vesting of these shares as the original performance conditions were taken into account in determining the buy-out value and therefore the imposition of additional performance conditions would in fact amount to a second set of performance conditions on vesting.
- ⁵ The former Executive Chairman and Group Chief Financial Officer were provided a one-off award on IPO ('IPO Award'). The shares under the IPO Awards were fully vested on IPO (with the sale restrictions on the shares to be lifted on 29 May 2015 in accordance with the lock up arrangements outlined in the IPO prospectus). The Group Chief Executive Officer was provided a share and cash award on IPO.
 - ^a. Share award consisted of a one-off award on IPO of market value share options (with an exercise price equal to Saga's share price on Admission of £1.85) with a face value of £4m. 25% will vest and become exercisable on the third anniversary of the award, 25% on the fourth anniversary and 50% on the fifth 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.
 - ^b. Cash award of £4m based on continued employment: 25% immediately on the IPO, 25% on the first anniversary of the award and 50% will be paid 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.

Annual bonus

In respect of the 2015/16 financial year, the bonus awards payable to Executive Directors were agreed by the Remuneration Committee having reviewed the Company's results. Details of the targets used to determine bonuses in respect of the 2015/16 financial year and the extent to which they were satisfied are shown in the table below. These figures are included in the single figure table.

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 maximum performance achieved	Annual bonus value achieved (% of salary)			
								Lance Batchelor	Jonathan Hill	Andrew Goodsell	Stuart Howard
Group PBT	60%	£166.0m	£172.9m	£177.4m	£176.2m	20%-100%	89.6%	80.6%	66.6%	80.6%	67.2%
Group cash flow ¹	20%	77.3%	79.6%	81.1%	79.9%	20%-100%	69.3%	20.8%	17.2%	20.8%	17.3%
Personal objectives	20%	See below for details of the 2015/16 personal objectives and their achievement				0%-100%	55.0%	16.5%	13.6%	16.5%	13.8%
Total	100%						78.6%	117.9%	97.4%	117.9%	98.3%
Total £								781,678	325,699	389,567	193,545

Notes:

¹ Defined as net available cash generation.

² Under the terms of the Annual Bonus Plan, 20% for each element 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.

³ Bonus paid to Jonathan Hill is pro-rated for the number of months served in the performance year. The bonus paid for Andrew Goodsell and Stuart Howard pro-rated for the number of months served in the performance year as Executive Directors. Bonus as % of salary has been calculated based on pro-rated bonus received and the pro-rated base salaries.

The following table sets out the level of satisfaction of the personal objectives for the Group Chief Executive Officer and Group Chief Financial Officer as well as the former Group Chief Executive Officer and the former Group Chief Financial Officer:

Name	Weighting	Objective	Details	Notes
Lance Batchelor Group Chief Executive Officer	10%	Customer numbers (insurance plus passengers)	Total customer numbers including: — motor, home and other financial services insurance policy numbers — tour operator passenger numbers — shipping passenger days.	Objective was partially achieved (growth in absolute customer numbers of 1.1% from prior year from 2.63m to 2.66m).
	5%	Successful sale of Allied Healthcare	Successful completion of the sale to Aurelius on 30 November 2015 at above minimum value set.	The completion of the successful transaction results in the Committee viewing this objective as met.
	5%	Successful launch of Saga Investment Services	Successfully launched on time and on budget in November 2015. The proposition has received high indicative satisfaction scores from potential consumers based on surveys conducted. Compliance, audit and risk plans put in place which will ensure the robustness of the Company's governance structure.	The Committee views this objective as partially met.
The overall performance against these personal objectives equated to 55% of the bonus for this element being achieved.				

DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION
CONTINUED

Name	Weighting	Objective	Details	Notes
Jonathan Hill Group Chief Financial Officer	10%	Customer numbers (insurance plus passengers)	Total customer numbers including: — motor, home and other financial services insurance policy numbers — tour operator passenger numbers — shipping passenger days.	Objective was partially achieved (growth in absolute customer numbers of 1.1% from prior year from 2.63m to 2.66m).
	5%	Successful launch of Saga Investment Services	Successfully launched on time and on budget in November 2015. The proposition has received high indicative satisfaction scores from potential consumers based on surveys conducted. Compliance, audit and risk plans put in place which will ensure robustness of the Company's governance structure.	The Committee views this objective as being partially met.
	5%	Risk Management	Managing the risk identification and mitigation process ensuring that Group and Divisional risk plans are in place and managed within the overall risk appetite as set by the Risk Committee.	Process improvements made during the year and plans are in place resulting in a better balance of strategic and operational risk. The Committee views this objective as partially met.
The overall performance against these personal objectives equated to 55% of the bonus for this element being achieved.				
Andrew Goodsell Former Group Executive Chairman	10%	To support smooth hand-over to the new CEO to take over the leadership of the Saga business		The Committee views this objective as met.
	10%	To build an effective plc Board and effective Board Committees		The Committee views this objective as met.
The overall performance against these personal objectives equated to 55% of the bonus for this element being achieved.				
Stuart Howard Former Group Chief Financial Officer	10%	To support smooth hand-over to the new CFO to take over the CFO functions		The Committee views this objective as met.
	10%	To manage all external relationships effectively, ensuring the Company as a listed entity becomes firmly established with key parties		The Committee views this objective as met.
The overall performance against these personal objectives equated to 55% of the bonus for this element being achieved.				

The bonus of the 2015/16 financial year will be paid two thirds in cash and one third deferred in shares which will vest after three years based on continued employment.

Long-term incentives awarded in 2015/16 (audited)

The table below sets out the details of the long-term incentive awards granted in the 2015/16 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	£1,326,000	611,059	25%	100%	Relative TSR and EPS equally weighted
Jonathan Hill	LTIP	Annual	£612,000	282,027	25%	100%	Relative TSR and EPS equally weighted

The awards were granted on 30 June 2015; the face value is calculated with reference to the share price on 29 June 2015 of £2.17. The performance conditions are set out on page 89 in the Implementation of Remuneration Policy in the 2015/16 financial year. The awards will vest, subject to the level of performance achieved on 29 June 2018.

Pension entitlements (audited)

The following table provides the information required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations') and gives details for each Executive Director of:

- the annual accrued pension payable on retirement calculated as if he/she had left service at the year-end;
- the normal retirement ages;
- the value of the pension benefits at the start and end of the year, as calculated in accordance with the Regulations;
- the value of the pension benefits earned over the year, excluding any Director's contributions and any increases for inflation, calculated in accordance with the Regulations; and
- any payments in lieu of retirement benefits.

Neither of the Executive Directors has made additional voluntary contributions.

Executive Directors	Age at 31/01/2016	Pensionable service at 31/01/2016	Accrued pension		Single figure numbers		Extra information disclosed under 2013 Directors' Remuneration Regulations	
			01/02/2015	31/01/2016	Pension salary supplement ¹	Value x 20 over year (net of Director's contribution)	Total pension benefits	Normal retirement age
Lance Batchelor	52	1 year, 9 months	£1,939	£4,334	£79,614	£47,900	£127,514	65
Jonathan Hill	47	10 months	–	£2,000	£34,680	£40,000	£74,680	65

Notes:

¹ Pension salary supplement paid between the difference of the employer contribution into the Saga Pension Plan and 15% of the Executive Directors' base salary.

DIRECTORS' REMUNERATION REPORT
ANNUAL REPORT ON REMUNERATION
CONTINUED

Non-Executive Directors (audited)

The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director:

Non-Executive Director	2015/16			2014/15			Roles
	Fees	Taxable benefits	Total	Fees ¹	Taxable benefits	Total	
Philip Green	£91,050	–	£91,050	£60,692	–	£60,692	Senior Independent Non-Executive Director, Nomination Committee Chairman
Ray King	£74,983	–	£74,983	£53,949	–	£53,949	Non-Executive Director, Audit Committee Chairman, Risk Committee Chairman (to 24 June 2015)
Orna NiChionna	£66,650	–	£66,650	£40,462	–	£40,462	Non-Executive Director, Risk Committee Chairman (from 24 June 2015)
Gareth Williams	£70,816	–	£70,816	£47,205	–	£47,205	Non-Executive Director, Remuneration Committee Chairman
Bridget McIntyre	£5,933	–	£5,933	–	–	–	Non-Executive Director
Andrew Goodsell²	£160,416	£26,810	£187,226	–	–	–	Non-Executive Chairman
James Arnell³	£0	–	£0	£0	–	£0	
Charles Sherwood⁴	£0	–	£0	£0	–	£0	
Pev Hooper⁴	£0	–	£0	£0	–	£0	

Notes:

- ¹ Fees received for time served in financial year 2014/15.
- ² The fees for Andrew Goodsell relate to the period from 1 July 2015 to 31 January 2016. In addition, he receives the following taxable benefits which are legacy arrangements from his employment as Executive Chairman:
 - ^{a.} A leased car and the associated fuel arrangement;
 - ^{b.} Healthcare benefit.
- ³ James Arnell is a Non-Independent Non-Executive Director who does not receive a fee from Saga plc.
- ⁴ Charles Sherwood and Pev Hooper were Non-independent Directors who did not receive a fee from Saga plc and who left the Board on 2 December 2015.

Annual fees

Non-Executive Directors	2016/17 annual fee	2015/16 annual fee
Chairman's fee	£280,500	£275,000
Board fee	£62,424	£61,200
Committee Chairmanship (per committee)	£10,000	£10,000
Senior Independent Non-Executive Director fee	£20,000	£20,000

Notes:

Board fee to be increased from 1 June 2016.

Payments to past Director/payments for loss of office (audited)

Stuart Howard ceased employment with the Company on 30 June 2015. He received no termination payment from the Company on his cessation of employment.

He received an annual bonus, pro-rated for his time served during the 2015/16 financial year of £193,545 paid in cash – see page 94 for further details.

The table below provides details of the treatment of his outstanding and exercised share awards:

Plan	Outstanding awards/awards exercised	Committee determination
Deferred Annual Bonus Plan ('DBP')	2014/15 DBP 76,448 shares	Stuart Howard has been treated as a good leaver under the terms of the DBP on his retirement from the Company. As a good leaver, all subsisting deferred share awards vested in full on his cessation of employment. Stuart Howard exercised his Deferred Annual Bonus shares on 4 December 2015. He exercised 76,448 shares. The share price on exercise was £2.015 equating to a gain of £154,043.
Long Term Incentive Plan ('LTIP')	2014 106,482 shares	Stuart Howard has been treated as a good leaver under the terms of the LTIP on his retirement from the Company. As a good leaver his award has been pro-rated to the amount of the vesting period completed on this date of cessation as Group Financial Director; the final payout will be based on Saga's achievement of the LTIP performance conditions at the end of the three year performance period.
IPO Award	2014 1,621,621 shares	Stuart Howard has 12 months from 30 June 2015 in which to exercise these IPO Award options.

Statement of Directors' shareholding and share interests

See the tables on page 87.

Fees retained for external non-executive directorships

Executive Directors may hold positions in other companies as Non-Executive Directors and retain the fees.

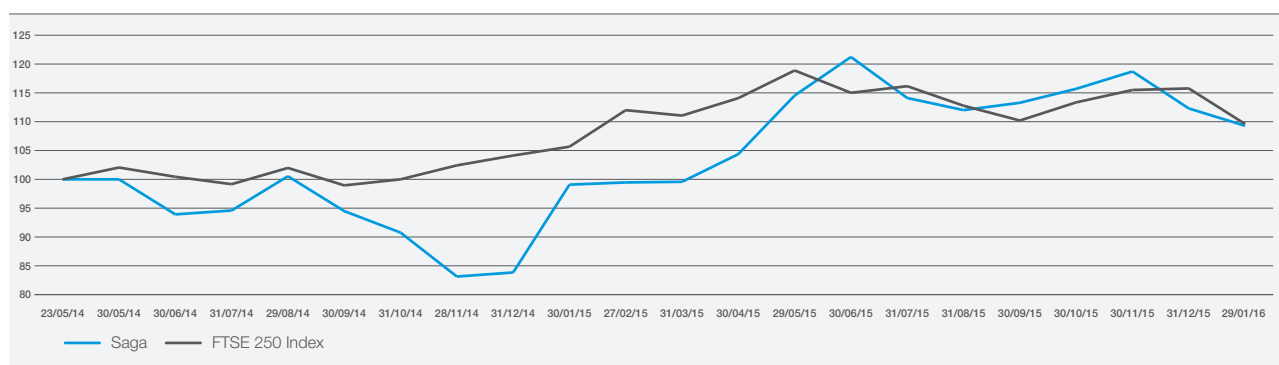
Lance Batchelor is a Trustee of the charity White Ensign Association and is a Trustee of the National Gallery; he does not receive a fee for either position.

DIRECTORS' REMUNERATION REPORT ANNUAL REPORT ON REMUNERATION CONTINUED

Comparison of overall performance and pay

The graph below 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 of 23 May 2014 to 31 January 2016.



Group Chief Executive Officer historical remuneration

The table below sets out the total remuneration delivered to the Group Chief Executive Officer last year valued using the methodology applied to the single total figure of remuneration. The Group Chief Executive Officer joined the Company on 24 March 2014 therefore the remuneration shown is not for the full financial year. 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. Therefore the Remuneration Committee has chosen to disclose remuneration for the Group Chief Executive Officer only for the two most recent financial years:

Group Chief Executive	2015/16	2014/15
Total single figure	£1,600,287	£5,328,702
Annual bonus payment level achieved (percentage of maximum opportunity)	78.6%	80.7%
LTIP vesting level achieved (percentage of maximum opportunity)	n/a	n/a
Option vesting level achieved (percentage of maximum opportunity)	n/a	n/a

There was no long-term incentive plan or share option plan operated prior to listing. It should be noted that £4m of the single total figure for 2014/15 related to the award granted on Admission, which was a one-off payment to compensate for awards lapsing on his ceasing employment with his former employer.

Relative importance of the spend on pay

The table below sets out the relative importance of spend on pay in the 2015/16 financial year and 2014/15 financial year compared with other disbursements. All figures provided are taken from the relevant company accounts.

	Disbursements from profit in 2015/16 financial year	Disbursements from profit in 2014/15 financial year	Percentage change
	(£m)	(£m)	
Profit distributed by way of dividend	70.4	Nil	100%
Total tax contributions ¹	61.6	51.6	19.4%
Overall spend on pay including Executive Directors	300.1	330.7	9.3%

Note:

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

Change in the Group Chief Executive Officer's remuneration compared with employees

The following table sets out the change in the remuneration paid to the Group Chief Executive Officer from 2014/15 to 2015/16 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 his 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; annual bonus – Company bonus, management bonus, commission and incentive payments.

It should be noted that the remuneration for 2014/15 has been annualised to allow a direct comparison with 2015/16 as the Group Chief Executive Officer was not appointed until 24 March 2014. The change in his taxable benefits is as a result of choosing to receive a Company car under the Car Policy instead of a cash based car allowance.

	Salary			Taxable benefits			Annual Bonus		
	2015/16	2014/15	Percentage change	2015/16	2014/15	Percentage change	2015/16 ²	2014/15 ²	Percentage change
Group Chief Executive Officer ¹	£663,000	£650,000	2%	£28,095	£15,870	77%	£781,678	£787,150	-0.7%
Average per employee ³	£24,865	£23,661	5%	£638	£543	17%	£3,293	£2,599	27%

Notes:

¹ The Group Chief Executive Officer was appointed on 24 March 2014 and was only in office for 10 months of 2014/15. His salary, taxable benefits, and bonus for 2014/15 have been included on an annualised basis to aid comparison.

² The Group Chief Executive Officer's bonus for both years includes cash awards of £1,000,000 as part of his recruitment as compensation for awards lapsing on his ceasing employment with his former employer.

³ All values for 2014/15 have been adjusted to exclude the Group Chief Executive Officer who was previously included as part of this population.

DIRECTORS' REMUNERATION REPORT

ANNUAL REPORT ON REMUNERATION

CONTINUED

Statement of conditions elsewhere in the Company

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 remuneration 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.

Cascade of incentives through our organisation

Organisational level	Employee #	Maximum bonus award – cash	Maximum bonus award – deferred shares	Maximum LTIP award	SIP
Executive Directors	2	100%	50%	200%	√
Executive Team	8	67%	33%	100%	√
Directors	16	60%	–	60%	√
Senior leadership	50	40%	–	40%	√
Rest of employee population	2,800	Up to 40%	–	–	√

Statement of implementation of the Remuneration Policy in financial year 2016/17

See the tables on pages 88-89.

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 £65,000 (2014/15: £57,500) were provided to PwC during the year in respect of remuneration advice received.



Gareth Williams

Chairman, Remuneration Committee
18 April 2016

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 31 January 2016 in accordance with section 415 of the Companies Act 2006 which were approved by the Board on 18 April 2016.

Management report

The Directors' Report, together with the Strategic Report set out on pages 01-49 form the Management Report for the purposes of Disclosure 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 01-49
Corporate social responsibility	Pages 24-25
Greenhouse gas emissions	Pages 26-27
Employees (employment of disabled persons, employee engagement and policies)	Page 23
Corporate Governance Statement	Pages 50-77
Directors' details (including changes made during the year)	Pages 57 and 60-63
Related party transactions	Note 34 on page 172
Employee share schemes (including long-term incentive schemes)	Note 31 on pages 168-169
Financial instruments: Information on the Group's financial instruments and risk management objectives and policies, including our policy for hedging	Note 2.3 on pages 119-130
Additional information	Pages 183-185

Results and dividends

The Group made a profit after taxation of £141.2m for the financial year ended 31 January 2016. The Board paid an interim dividend of 2.2p per share and proposes to pay, subject to shareholder approval at the 2016 AGM, a final dividend of 5.0p net per share in respect of the year ended 31 January 2016.

Going concern

The going concern statement required by the Listing Rules and the UK Corporate Governance Code (the 'Code') is set out in the Compliance Statement on page 53.

Fair balanced and understandable

The Board's statement regarding whether the information contained within the annual report is fair, balanced and understandable is contained on page 53.

Viability statement

The Directors' viability statement is set out on page 53.

Political donations

No political donations were made during the year.

Directors' interests

A list of the Directors, their interests in its long-term performance share plan, contracts and ordinary share capital of the Company are given in the Directors' Remuneration Report on pages 78-100.

Rules on appointment and replacement of Directors

All Directors will seek re-election or election at the AGM in accordance with the Company's articles of association and the recommendations of the Code.

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.

Pursuant to the Relationship Agreement entered into between the Company and each of the Private Equity Investors (as defined on page 103) each Private Equity Investor is entitled to appoint one Non-Executive Director to the Board for so long as it is entitled, either directly or indirectly through its voting rights in Acromas Bid Co Limited, to exercise or to control the exercise of the equivalent of 10% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company.

DIRECTORS' REPORT

CONTINUED

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 167. 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 2016, 1,118,005,405 ordinary shares of 1p each have been issued, are fully paid up and quoted on the London Stock Exchange.

During the year, 7,300,000 additional shares were issued in connection with the Customer Offer and Employee Offer detailed in the prospectus published on 8 May 2014 in connection with the Company's initial public offering (the 'Prospectus'). Under the offer Eligible Customers and Eligible Employees were eligible to receive one free share for every twenty held (subject to certain conditions). Such shares rank pari passu with existing shares in the Company.

In accordance with DTR5, the Company has been notified of the following interests in 3% or more of the Company's total voting rights:

Name	Ordinary shares	Percentage of capital	Nature of holding
Acromas Bid Co Limited ('ABCL')	352,674,283	31.54	Direct
HSBC Global Custody Nominees (UK Limited)	34,367,968	3.07	Direct
Majedie UK Income Fund, Majedie Asset Management UK Income Fund, Majedie Asset Management UK Equity Fund, Majedie UK Equity Fund, Majedie UK Trust, Discretionary Clients	68,956,717	6.17	Indirect
Pelham Long/Short Master Fund Limited	69,056,048	6.22	Equity swap

On 27 February 2015, the Company was notified that ABCL had sold 111,000,000 shares (in aggregate), pursuant to transactions which took place on 26 and 27 February 2015. Following such transactions, ABCL held 688,974,283 ordinary shares, representing 62.03% of capital.

On 13 May 2015, the Company was notified that ABCL had sold 122,500,000 shares. Following the sale, ABCL held 566,474,283 ordinary shares, representing 51.00% of capital at 13 May 2015.

On 28 July 2015, the Company was notified that ABCL had sold 68,800,000 shares. Following the sale, ABCL held 497,674,283 ordinary shares, representing 44.51% of capital at 28 July 2015.

On 2 December 2015, the Company was notified that ABCL had sold 145,000,000 shares. Following the sale, ABCL held 352,674,283 ordinary shares, representing 31.54% of capital at 2 December 2015.

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 Goldman Sachs had a notifiable interest but this ceased to be a notifiable interest and is not included in the table above.

Relationship Agreement

The Company has entered into an agreement with Acromas Bid Co Limited as its controlling shareholder as required under Listing Rule 9.2.2A R (2)(a), complies with the independence provisions set out in LR 6.1.4D R and has a constitution that allows for the election and re-election of independent Directors to be conducted in accordance with the election provisions set out in LR 9.2.2E R and LR 9.2.2F R.

As far as the Company is aware:

- The controlling shareholder and its associates have also complied with the independence provisions referred to above.
- The controlling shareholder has complied with its agreement to procure compliance with the independence provisions referred to above by another controlling shareholder and its associates.

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. The Group has a number of contracts and arrangements throughout the business where 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 Senior Facilities Agreement and the financing agreements in relation to the new ship provides the Group with loan and revolving credit facilities for general financing purposes. In the event of a change of control the facilities would either require repayment or re-negotiation. Further details on banking facilities are shown in note 28 to the consolidated financial statements.

The Relationship Agreement between the Company, Acromas Bid Co Limited (the 'Principal Shareholder') and certain funds managed or advised by Charterhouse Capital Partners, CVC Capital Partners and Permira (the 'Private Equity Investors') remains in force until the later of (i) each of the Private Equity Investors (together with its associates) ceases to be entitled to exercise or control the exercise, directly or indirectly, of 10% or more of the votes able to be cast on all or substantially all

matters at general meetings of the Company; and (ii) the Principal Shareholder (together with its associates) ceases to be entitled to exercise or control the exercise, directly or indirectly, of 30% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. There are also provisions that provide for the Relationship Agreement to be automatically terminated if the Company's shares cease to be listed on the premium listing segment of the Official List and traded on the London Stock Exchange plc's main market for listed securities. There are no provisions in the Relationship Agreement which allow the Principal Shareholder or the Private Equity Investor to terminate the agreement in the event of a change of control of the Company.

As a result of the share placing undertaken by ABCL on 2 December 2015, CVC Capital Partners and Permira's interests fell below 10% and the Private Equity Investment Directors nominated by them resigned from the Board.

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.

Conflicts 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 23 June 2015 which authorised the Company to make market purchases within the meaning of section 693 (4) of the Companies Act 2006 (the 'Act') (up to £1,110,705.41 representing 10% of aggregate nominal share capital of the share capital of the Company following Admission; 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 price of 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 2016. The above authority will expire at the forthcoming AGM and a resolution to authorise the Company to make market purchases representing 10% of current nominal share capital will be proposed.

The Directors of the Company were also granted authority at the 2015 AGM to allot relevant securities up to a nominal amount of £3,698,649. This authority will apply until the conclusion of the

2016 AGM, where 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 £3,722,958; and (ii) comprising equity securities (as defined in the Act) up to an aggregate nominal amount of £7,445,916 (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 2017, or, if earlier, 31 July 2017.

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 £1,118,005.41 and to make market purchases. The authority to repurchase the Company's ordinary shares in the market will be limited to £1,118,005.41 and will set out the minimum and maximum price which will be paid.

Rights attaching to shares

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/assets/downloads/corporate-governance/saga-plc-articles-of-association.pdf>).

Ordinary shareholders have the right to receive notice, attend and vote at general meetings; 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 (the 'Notice') states deadlines for exercising voting rights and for appointing a proxy/proxies.

No shareholder owns shares with special rights as to control.

Restrictions on the transfer of shares

Other than where imposed by law or regulations, 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.

Branches outside the UK

The Company does not have any branches outside of the UK.

Post-balance sheet events

There have been no important events affecting the Company or any of its subsidiary undertakings since 31 January 2016.

Auditor

A resolution to re-appoint Ernst and Young LLP (who have indicated their willingness to act) as our Auditor will be proposed at the 2016 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 Companies Act 2006) 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 Tuesday 21 June 2016 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

As required under the Financial Conduct Authority ('FCA') Disclosure Rules and Transparency Rules ('DTRs'), the following statements are made by the Board regarding the preparation of the financial statements.

The process for producing the Company's annual report and accounts starts with clear direction for all those involved, so that the final document represents a balanced picture of our activities throughout the year and so that shareholders are given the information they need to assess the performance, business model and strategy.

The Directors are responsible for preparing the annual report and accounts in accordance with applicable law and regulations. Company law requires the Directors to prepare Group financial statements for each financial year. Under that law, the Directors are required to prepare Group financial statements under IFRSs as adopted by the European Union and applicable law. Under company law the Directors must not approve the Group financial

statements unless they are satisfied that, to the best of their knowledge, they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the Group financial statements the Directors are required to:

- Present fairly the financial position, financial performance and cash flows of the Group.
- Select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Make judgements that are reasonable and prudent.
- Provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance.
- State whether the Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union.

The Directors are responsible for keeping adequate records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group

financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

The Directors are also responsible for preparing the Strategic Report, the Directors' Report, the Directors' Remuneration Report and the Corporate Governance Statement in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

Neither the Company nor the Directors accept (and hereby exclude) any liability to any person in relation to the annual report except to the extent that such liability is imposed by law and may not be validly excluded. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A and schedule 10A of the Financial Services and Markets Act 2000, as amended.

Each of the Directors, who were in office at the date of this report, whose names and responsibilities are listed on pages 57 and 60-61, confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group, and
- The Strategic Report contained on pages 01-49 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board



V Haynes
Company Secretary
18 April 2016

Saga plc
Company no. 08804263

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGA PLC

Our opinion on the financial statements

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 2016 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 ('IFRSs') as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'); 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.

What we have audited

We have audited the financial statements of Saga plc for the year ended 31 January 2016, which comprise:

Group	Company
<ul style="list-style-type: none"> – the consolidated income statement – the consolidated statement of other comprehensive income – the consolidated statement of financial position – the consolidated statement of changes in equity – the consolidated statement of cash flows – the related notes 1 to 36 to the consolidated financial statements. 	<ul style="list-style-type: none"> – the parent company balance sheet – the parent company statement of changes in equity – the related notes 1 to 6 to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union.

The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, FRS 101).

Overview of our audit approach

Materiality	Overall Group materiality of £9.0m (2015: £9.6m) which represents approximately 5% of profit before tax (2015: 5% of operating profit) from continuing operations.
Audit scope	The divisions and entities where we performed full audit procedures accounted for 89% of the Group's profit before tax, 93% of the Group's revenue and 96% of the Group's total assets.
Risk of material misstatement	<ul style="list-style-type: none"> – Valuation of insurance contract liabilities – Valuation of goodwill – Revenue recognition.
What has changed	Subsequent to the disposal of the Allied Healthcare business on 30 November 2015, we assigned the component a review scope given that 10 months of business performance has been consolidated in the Group's results. Destinology Limited was identified as a full scope component (specific scope in the prior period) as this is the first period in which the component has contributed 12 months' revenue to the Group.

Our assessment of risks of material misstatement

The table below shows the risks of material misstatement we identified that have had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Valuation of insurance contract liabilities (£460.0m, prior year comparative £492.2m)

Risk	Our responses to the risks	What we concluded to the Audit Committee
<p>Refer to the Audit Committee Report (page 71), accounting policy note 2.3(q) and disclosure note 25.</p> <p>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 at the reporting date ('IBNR'). It can take a significant period of time before the ultimate claims cost can be established with certainty. Management makes judgement in respect of the trends in the frequency and severity of bodily injury claims, the propensity for large claims to settle as Periodical Payment Orders ('PPOs'), the Ogden discount rate and other regulatory developments.</p> <p>Management sets reserves at a level that includes a margin over the actuarial best estimate to take account of uncertainty that may impact the value of the insurance contract liabilities ultimately settled.</p> <p>Note 18(d) 'Insurance risk' provides further detail of these uncertainties and the process for establishing insurance contract liabilities.</p>	<p>We understood, assessed and tested the design and operational effectiveness of key controls over the process applied by Management in establishing insurance contract liabilities, including controls over the completeness and accuracy of data used by the internal actuary to project the claims liabilities.</p> <p>Supported by our actuarial specialists, we:</p> <ul style="list-style-type: none"> — obtained an understanding of the methodology and key assumptions applied by Management; — challenged the methodology and key assumptions against our knowledge of the sector and the Group's own claims experience; — performed independent actuarial projections on the motor classes which account for 95% of the gross insurance contract liabilities; — reconciled the claims data supporting the actuarial projections to source systems and, on a sample basis, verified the accurate recording of data against the underlying policy and claims documentation; and — assessed the level of reserve margin compared to market practice and prior periods, in the context of areas of uncertainty for which the margin is held; and — tested on a sample basis that the reinsurance recoveries were recorded in line with the underlying reinsurance contracts. 	<p>Consistent with the prior period, our view is that the Saga best estimate is based on assumptions which are individually reasonable but contain degrees of caution when compared to our own assumptions.</p> <p>We consider that the recorded insurance contract liabilities as at 31 January 2016, including the margin and net of reinsurance, are within a reasonable range.</p> <p>In addition we consider that the disclosures made provide information that assists in understanding the uncertainty inherent in the valuation of insurance contract liabilities.</p>

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SAGA PLC**
CONTINUED

Valuation of goodwill (£1,485.0m, prior year comparative £1,471.4m)

Risk	Our responses to the risks	What we concluded to the Audit Committee
<p>Refer to the Audit Committee Report (page 71), accounting policy 2.3(g) and disclosure note 13.</p> <p>The goodwill recorded as at 31 January 2016 is £1,485m and is tested for impairment by Management by considering the recoverable amount of the goodwill as described in note 15.</p> <p>In determining the recoverable amount, judgement is applied by Management in deriving:</p> <ul style="list-style-type: none"> – the forecast cash flows expected to arise from the approved five year plan and the underlying assumptions in setting the five year plan; – the pre-tax discount rates that reflect the market assessment of the time value of money and the risks specific to the cash flow estimates; and – the growth rate used to extrapolate cash flow projections beyond the five year plan period. 	<p>Management's impairment assessment of the recorded goodwill value was performed as at 1 January 2016. We have evaluated and challenged this assessment, specifically:</p> <ul style="list-style-type: none"> – we validated that the goodwill is appropriately allocated to the operating segments; – we validated that the cash flows underpinning the calculation were consistent with the five year strategic plan approved by the Board; – we challenged the reasonableness of growth forecasts during the five year plan period, having regard to back testing performed by Management to support the robustness of the forecast process; – we compared the pre-tax discount rate to the Group's weighted average cost of capital and to discount rates used by similar UK companies that operate in the financial services and travel industries; – we compared the long-term growth rates to economic and industry forecasts; and – we assessed the adequacy of sensitivity analysis performed by Management, stressing each of the above assumptions in isolation and in combination to best reflect what we considered to be reasonably foreseeable changes in the key assumptions. 	<p>We have concluded that the recoverable amount of goodwill exceeds its carrying amount, with significant headroom remaining when key assumptions are stressed for what we considered to be cautious assumptions:</p> <ul style="list-style-type: none"> – the allocation of goodwill to operating segments was appropriate and in line with the requirements of IAS 36; – the forecasts used were a reasonable basis upon which to perform the impairment review; – the pre-tax discount rate assumptions used were within our view of an acceptable range, and are consistent with comparator groups; and – the assumption for long-term growth was consistent with comparator groups and appropriate.

Revenue recognition (£963.2m, prior year comparative £900.5m)

Risk	Our responses to the risks	What we concluded to the Audit Committee
<p>Refer to accounting policy 2.3(a) and disclosure note 3.</p> <p>ISAs (UK & Ireland) presume there may be pressures or incentives on Management to commit fraudulent financial reporting through inappropriate revenue recognition to meet budgeted performance measures.</p> <p>We have assessed the revenue streams in the insurance and travel segments as being most susceptible to manipulation through the application of inappropriate revenue recognition policies:</p> <ul style="list-style-type: none"> — The insurance segment revenue consists primarily of revenue earned by the insurance intermediary and the insurance underwriter. The intermediary revenue from both external underwriters and the Group underwriter is recognised upon commencement of the policy period of risk, whereas the Group underwriter recognises revenue on an earned basis over the term of the policy. For policies underwritten by the Group underwriter and placed via the Group intermediary, consolidation adjustments are processed to ensure that the overall revenue recorded in respect of risks underwritten by the Group is recognised in accordance with the Group policy 2.3(a). — In the travel segment, revenue from tour operations is recognised on the passenger's date of departure and for cruise holidays, where the Group operates the cruise ship, revenue is recognised on a per diem basis over the duration of the cruise. There is a risk that revenue recognition is accelerated and recognised when holidays are booked or cash in respect of those bookings is received. 	<p>We considered the accounting policies for the revenue streams in the insurance and travel segments, having regard to the requirements of applicable revenue recognition standards, being IAS 18 'Revenue' and IFRS 4 'Insurance Contracts'.</p> <p>We tested the design and operating effectiveness of the controls in operation over the insurance and travel revenue recognition and recording processes.</p> <p>For the insurance segment we:</p> <ul style="list-style-type: none"> — for a sample of contracts, re-performed earnings calculations to validate that insurance revenues were being recognised over the policy term; — inspected a sample of contracts with policyholders and underwriters to validate whether any contractual obligations to provide post-placement services were in place; — performed cut-off testing to confirm revenue had been recorded in the correct period; — reviewed the consolidation adjustments posted to eliminate the revenue transactions between the Group intermediary and Group underwriter; — challenged and corroborated reasons for variances from prior periods based on analytical procedures performed; and — tested a sample of manual journals for any indication of inappropriate revenue recognition. <p>For the travel segment we:</p> <ul style="list-style-type: none"> — performed detailed testing of a sample of transactions to confirm that the tour operator revenues and cruise holiday revenues were being recognised in line with the contract terms and applicable accounting policy; — performed cut-off testing to confirm revenue had been recorded in the correct period; — challenged and corroborated reasons for variances from prior periods based on analytical procedures performed; and — tested a sample of manual journals for any indication of inappropriate revenue recognition. 	<p>There have been no material changes to the revenue recognition policies applied by Management during the period, and the source and contribution of each revenue stream is consistent with the prior period.</p> <p>We are satisfied that the consolidation adjustments to align the revenue recognition policies across the Group are appropriate.</p> <p>We concluded that revenue has been recognised in the year in compliance with the Group's revenue recognition policies and relevant accounting standards.</p>

In the prior year, our auditor's report included a risk of material misstatement in relation to discontinued operations and assets held for sale for the Allied Healthcare business. In the current year, this risk is no longer applicable as the sale of the Allied Healthcare business was completed on 30 November 2015.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGA PLC CONTINUED

Overview of the scope of our audit

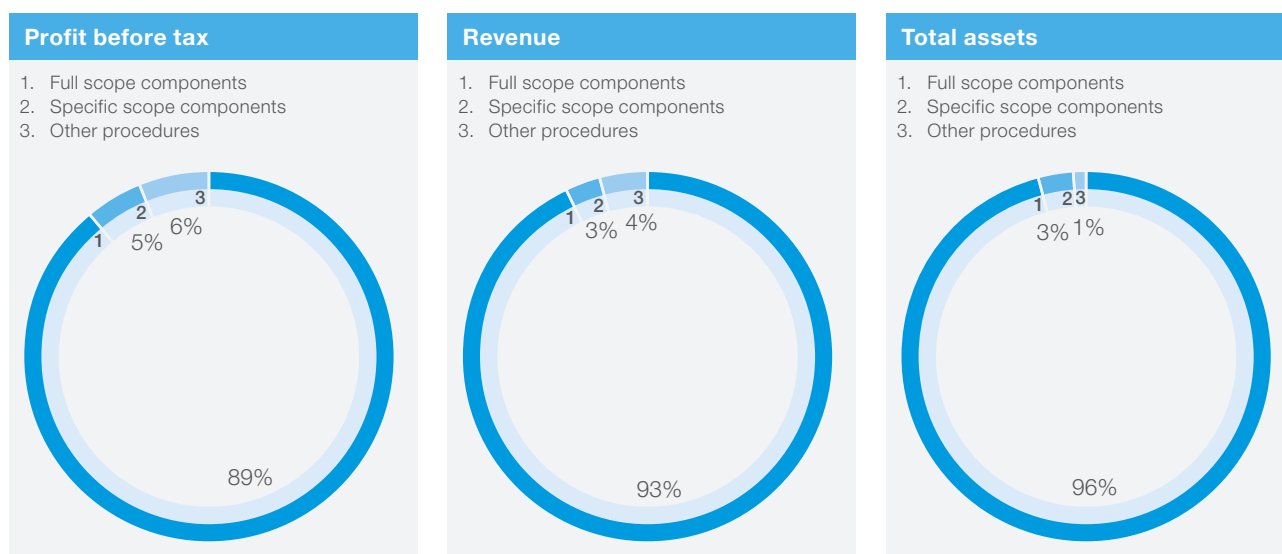
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile and changes in the business environment in assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 31 reporting components (being statutory entities) of the Group, we selected 12 components covering entities within the United Kingdom and Gibraltar, which represent the principal trading entities within the Group.

We audited the complete financial information of seven components ('full scope components'), for four components ('specific scope components') we audited specific accounts within those components and for the remaining one component ('review scope component'), relating to the discontinued operation, we performed analytical review procedures. Our selections were based on the size or risk characteristics within the components and accounts that we considered had the potential for the greatest impact on the significant accounts in the financial statements.

Of the remaining 19 components that together represent 3% of the Group's profit before tax; we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed on continuing operations:



Changes from the prior year

Subsequent to the disposal of the Allied Healthcare business on 30 November 2015, we assigned the component a review scope given that 10 months of business performance has been consolidated in the Group's results, contributing a loss equivalent to 5% of the Group profit before tax, and disclosed as a single item, 'loss from discontinued operations' on the face of the Consolidated Income Statement. Destinology Limited was identified as a full scope component (specific scope in the prior period) as this is the first period in which the component has contributed 12 months' revenue to the Group.

Involvement with component teams

Other than the independent actuarial projections on the motor classes performed by our UK actuarial specialists, full scope audit procedures related to the underwriting component were performed by EY Gibraltar operating under our instruction. We determined the appropriate level of our involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole. We reviewed the component team working papers and participated in their planning and execution of the audit in respect of the risks identified above. Audit procedures relating to the remaining components were performed directly by the primary audit team.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements, if any, on the financial statements and in forming our opinion in the Audit Committee Report.

Materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be £9m, which is approximately 5% of the Group's profit before tax from continuing operations. We have changed our basis of establishing materiality from operating profit in the prior year to profit before tax, as this is a key measure used by Management to reflect underlying segment performance in the current year; in the prior year profit before tax was distorted by the significant non-recurring expenses relating to the Initial Public Offering. During the course of our audit, we reassessed initial materiality and there was no change in final materiality from our original assessment at the planning stage.

Performance materiality

On the basis of our risk assessments, together with our assessment of the Group's overall control environment and reflecting the fact that the Group is recently listed, our judgement is that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50% of materiality, namely £4.5m.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.9m to £3.4m.

Reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.45m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Statements set out on page 104, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SAGA PLC**
CONTINUED

Matters on which we are required to report by exception

ISAs (UK and Ireland)	<p>We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:</p> <ul style="list-style-type: none"> — materially inconsistent with the information in the audited financial statements; or — apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or — otherwise misleading. <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they 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 entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.</p>	We have no exceptions to report.
Companies Act 2006 reporting	<p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> — 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 no exceptions to report.
Listing Rules review requirements	<p>We are required to review:</p> <ul style="list-style-type: none"> — the Directors' statement, set out on page 53, in relation to going concern; and — the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. 	We have no exceptions to report.

Statement on the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

ISAs (UK and Ireland) reporting	<p>We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:</p> <ul style="list-style-type: none"> — the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; — the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; — the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and — the Directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity 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. 	We have nothing material to add or to draw attention to.
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John Headley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
18 April 2016

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 JANUARY 2016

	Note	2016 £'m	2015 £'m
Revenue	3	963.2	900.5
Cost of sales	3	(544.2)	(525.1)
Gross profit		419.0	375.4
Administrative and selling expenses	4	(227.3)	(244.5)
Investment income	5	11.0	13.9
Finance costs	6	(25.2)	(35.1)
Finance income	7	–	2.9
Share of (loss)/profit of joint venture	36	(1.3)	1.2
Profit before tax from continuing operations		176.2	113.8
Tax expense	9	(28.1)	(27.4)
Profit for the year from continuing operations		148.1	86.4
Loss after tax for the year from discontinued operations	33	(6.9)	(220.2)
Profit/(loss) for the year		141.2	(133.8)
Attributable to:			
Equity holders of the parent		140.9	(134.2)
Non-controlling interests		0.3	0.4
		141.2	(133.8)
Earnings/(loss) per share:			
Basic	11	12.7p	(13.3p)
Diluted	11	12.6p	(13.3p)
Earnings per share for continuing operations:			
Basic	11	13.3p	8.6p
Diluted	11	13.2p	8.5p

The notes on pages 118-175 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 JANUARY 2016**

	Note	2016 £'m	2015 £'m
Profit/(loss) for the year		141.2	(133.8)
Other comprehensive income			
<i>Other comprehensive income to be reclassified to income statement in subsequent years</i>			
Exchange differences on translation of foreign operations		(1.2)	–
Net gain/(loss) on cash flow hedges		16.6	(3.0)
Associated tax effect		(3.0)	0.7
Net (loss)/gain on available for sale financial assets		(1.6)	3.8
Associated tax effect		0.4	(0.8)
		11.2	0.7
<i>Other comprehensive income not to be reclassified to income statement in subsequent years</i>			
Re-measurement gains/(losses) on defined benefit plans	24	26.6	(34.8)
Associated tax effect		(4.8)	6.9
		21.8	(27.9)
Total other comprehensive income/(losses)		33.0	(27.2)
Total comprehensive income/(loss) for the year		174.2	(161.0)
Attributable to:			
Equity holders of the parent		173.9	(161.4)
Non-controlling interests		0.3	0.4
		174.2	(161.0)

The notes on pages 118-175 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 JANUARY 2016

	Note	2016 £'m	2015 £'m
Assets			
Goodwill	13	1,485.0	1,471.4
Intangible fixed assets	14	52.3	34.8
Investment in joint ventures	36	1.6	1.2
Property, plant and equipment	16	140.6	133.2
Financial assets	17	644.7	659.6
Deferred tax assets	9	22.1	22.9
Reinsurance assets	25	106.4	63.4
Inventories	20	4.9	5.3
Trade and other receivables	21	188.0	163.7
Assets held for sale	33	–	47.7
Cash and short-term deposits	22	106.5	198.8
Total assets		2,752.1	2,802.0
Liabilities			
Retirement benefit scheme obligations	24	18.8	40.4
Gross insurance contract liabilities	25	703.3	704.7
Provisions	26	4.0	5.9
Financial liabilities	17	580.5	711.7
Current tax liabilities		15.0	14.0
Deferred tax liabilities	9	17.4	5.5
Other liabilities	27	133.3	129.3
Trade and other payables	23	191.6	158.7
Liabilities held for sale	33	–	47.7
Total liabilities		1,663.9	1,817.9
Equity			
Issued capital	29	11.2	11.1
Share premium		519.3	519.4
Retained earnings		527.0	410.7
Share-based payment reserve		17.7	40.7
Foreign currency translation reserve		(0.7)	0.5
Available for sale reserve		2.4	3.6
Hedging reserve		11.3	(2.3)
Equity attributable to equity holders of the parent		1,088.2	983.7
Non-controlling interest		–	0.4
Total equity		1,088.2	984.1
Total liabilities and equity		2,752.1	2,802.0

The notes on pages 118-175 form an integral part of these consolidated financial statements.

Signed for and on behalf of the Board on 18 April 2016 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 2016

	Attributable to the equity holders of the parent							Total £'m	Non- controlling interests £'m	Total equity £'m
	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			
At 1 February 2015	11.1	519.4	410.7	40.7	0.5	3.6	(2.3)	983.7	0.4	984.1
Profit for the year	–	–	140.9	–	–	–	–	140.9	0.3	141.2
Other comprehensive income	–	–	21.8	–	(1.2)	(1.2)	13.6	33.0	–	33.0
Total comprehensive income	–	–	162.7	–	(1.2)	(1.2)	13.6	173.9	0.3	174.2
Bonus shares issued	0.1	(0.1)	–	–	–	–	–	–	–	–
Dividends paid (note 10)	–	–	(70.4)	–	–	–	–	(70.4)	(0.7)	(71.1)
Share-based payment charge (note 31)	–	–	–	2.8	–	–	–	2.8	–	2.8
Exercise of share options	–	–	11.1	(12.9)	–	–	–	(1.8)	–	(1.8)
Issue of free shares (note 29)	–	–	12.9	(12.9)	–	–	–	–	–	–
At 31 January 2016	11.2	519.3	527.0	17.7	(0.7)	2.4	11.3	1,088.2	–	1,088.2
At 1 February 2014	–	–	1,118.7	–	0.5	0.6	–	1,119.8	–	1,119.8
Loss for the year	–	–	(134.2)	–	–	–	–	(134.2)	0.4	(133.8)
Other comprehensive losses	–	–	(27.9)	–	–	3.0	(2.3)	(27.2)	–	(27.2)
Total comprehensive losses	–	–	(162.1)	–	–	3.0	(2.3)	(161.4)	0.4	(161.0)
Corporate restructuring	8.0	–	1,516.1	–	–	–	–	1,524.1	–	1,524.1
Dividends paid	–	–	(2,063.0)	–	–	–	–	(2,063.0)	–	(2,063.0)
Issue of share capital	3.0	547.0	–	–	–	–	–	550.0	–	550.0
Costs associated with issue of share capital	–	(27.6)	–	–	–	–	–	(27.6)	–	(27.6)
Issue of treasury shares	0.1	–	–	(0.1)	–	–	–	–	–	–
Share-based payment charge	–	–	–	41.8	–	–	–	41.8	–	41.8
Exercise of share options	–	–	1.0	(1.0)	–	–	–	–	–	–
At 31 January 2015	11.1	519.4	410.7	40.7	0.5	3.6	(2.3)	983.7	0.4	984.1

The notes on pages 118-175 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS AS AT 31 JANUARY 2016

	Note	2016 £'m	2015 £'m
Profit before tax from continuing operations		176.2	113.8
Loss before tax from discontinued operations		(7.2)	(222.4)
Profit/(loss) before tax		169.0	(108.6)
Depreciation, impairment and loss on disposal of property, plant and equipment		23.4	20.1
Amortisation and impairment of intangible assets		14.1	22.1
Share-based payment transactions		1.1	41.8
Transactions relating to disposal group held for sale		7.3	209.5
Finance costs		25.2	35.1
Finance income		–	(2.9)
Share of post-tax loss/(profits) of joint ventures		1.3	(1.2)
Interest income from investments		(11.0)	(13.9)
Movements in other assets and liabilities		(56.5)	(3.7)
		173.9	198.3
Interest received		13.5	8.9
Interest paid		(21.6)	(19.7)
Debt issue costs		–	(22.6)
Income tax paid		(15.4)	(9.6)
Net cash flows from operating activities		150.4	155.3
Investing activities			
Proceeds from sale of property, plant and equipment		–	0.2
Purchase of property, plant and equipment		(33.8)	(26.4)
Net disposal/(purchase) of financial assets		64.3	(61.3)
Acquisition of subsidiaries	12	(26.7)	(14.3)
Disposal of subsidiaries		(8.2)	–
Investment in joint venture		(3.0)	–
Net cash flows used in investing activities		(7.4)	(101.8)
Financing activities			
Payment of finance lease liabilities		(0.5)	(0.6)
Proceeds from new borrowings	28	–	1,250.0
Net payment of borrowings	28	(145.0)	(550.0)
Proceeds from issue of share capital on flotation	29	–	550.0
Costs associated with issue of share capital on flotation		–	(26.2)
Net movement on balances with related undertakings		–	(4.1)
Net movement on balances with parent undertakings		–	774.9
Dividends paid		(70.0)	(2,063.0)
Net cash flows used in financing activities		(215.5)	(69.0)
Net decrease in cash and cash equivalents		(72.5)	(15.5)
Net foreign exchange differences		(1.0)	(0.2)
Cash and cash equivalents at the start of the period		237.9	253.6
Cash and cash equivalents at the end of the period	22	164.4	237.9

The notes on pages 118-175 form an integral part of these consolidated financial statements.

NOTES TO THE 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 8804263). 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 2016 were approved for issue by the Board of Directors on 18 April 2016.

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 functional currency for all group entities is pounds sterling (£'m). The consolidated financial statements are also stated in pounds sterling (£'m).

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.

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. 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
- 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.

Insurance premiums received for risks which are not underwritten by the Group are not recognised in the income statement, as these amounts are passed through directly to the relevant insurer. These amounts are, however, included in the calculation of Trading EBITDA %.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 which 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 costs 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.

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.

For the discontinued healthcare business, revenue for social care operations was recognised as a service user received care services, usually on a daily basis. For primary care operations, revenue was recognised on delivery of the contracted services, or on a time-elapsed basis for capacity-related contracts as the principal contractual obligation was to provide an agreed level of capacity over a fixed term. On longer-term contracts, revenue was recognised over the life of each contract in line with the pattern of delivery of the associated services.

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.

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 assets 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 25.

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 included as a deduction from earned premium, and therefore as a reduction in revenue.

The amount of any anticipated reinsurance recoveries is treated as a reduction in claims costs. Where this amount is material, it is reported separately in the statement of financial position.

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.

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

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.

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 directly in equity is recognised in equity and not in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2.3 Summary of significant accounting policies (continued)

d. Taxes (continued)

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 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.

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 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	3-6 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 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 treated as negative goodwill and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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. Likewise, when a major inspection or dry-docking of a cruise ship is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognised in the income statement as incurred.

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 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.

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 from 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2.3 Summary of significant accounting policies (continued)

I. Financial instruments (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 equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in 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 equity.

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.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

2.3 Summary of significant accounting policies (continued)

I. Financial instruments (continued)

ii) Financial liabilities (continued)

Subsequent measurement (continued)

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 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 are 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2.3 Summary of significant accounting policies (continued)

I. 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 risk 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 included in operating income due to its operating nature.

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 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 on a periodical payment orders ('PPOs') basis.

The amount of any anticipated reinsurance, salvage or subrogation recoveries is separately identified and reported within trade and other receivables 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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2.3 Summary of significant accounting policies (continued)

r. Share-based payments (continued)

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.

s. Retirement benefit schemes

During the year, the Group operated a number of defined benefit pension plans which require contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plans are 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.

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.

t. 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.

u. 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 2016. Comment on these new standards or amendments is as follows:

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 impact of this standard on the Group's financial statements is still being assessed. The standard is effective for annual periods beginning on or after 1 January 2018, although this is yet to be endorsed by the EU.

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 impact of this standard on the Group's financial statements is still being assessed. The standard is effective for annual periods beginning on or after 1 January 2018, although this is yet to be endorsed by the EU.

c. IFRS 16 'Leases'

IFRS 16 specifies how to recognise, measure, present and disclose leases, and will essentially replace IAS 17. The impact of this standard on the Group's financial statements is still being assessed. The standard was issued in January 2016 and is effective for annual reporting periods beginning on or after 1 January 2019, although this is yet to be endorsed by the EU.

d. Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'

These amendments to IAS 16 and IAS 38 provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. The requirements of IAS 16 and IAS 38 are amended to clarify that depreciation and amortisation methods that are based on revenue are not appropriate. The amendment is effective for annual periods beginning on or after 1 January 2016 and will have no effect on the Group's financial statements.

e. Amendments to IAS 27 'Equity Method in Separate Financial Statements'

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted and will have no effect on the Group's financial statements.

f. Amendments to IFRS 11 'Joint Arrangements'

The amendments state that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted and will have no effect on the Group's financial statements.

g. Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate'

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted and will have no effect on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 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 mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. 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.

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 three product sub-segments:
 - Motor insurance
 - Home insurance
 - Other insurance
- *Travel*: the segment primarily comprises the operation and delivery of package tours and cruise holiday products. The Group owns and operates two cruise ships and throughout the year owned and operated one hotel. 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 including the wealth management joint venture, the domiciliary care services offering, a monthly subscription magazine product and the Group's internal mailing house.

In previous periods, the Group reported its activities in four operating segments comprising Financial services, Travel, Healthcare services, and Media and central costs. During the year, the Group has moved its personal finance activities from Financial services to leave Insurance, and combined these activities with Healthcare services and Media and central costs to comprise the Emerging Businesses and Central Costs segment. The Travel segment is unchanged.

Segment performance is primarily evaluated using the Group's key performance measure of Trading Profit. Items not allocated to a segment relate to transactions that do not form part of the on going 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 includes transfers between business segments which are then eliminated on consolidation.

Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to segments as they are also managed on a Group basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Segmental information (continued)

	Insurance				Travel £'m	Emerging Businesses and Central Costs £'m	Adjustments £'m	Total £'m
	Motor insurance £'m	Home insurance £'m	Other insurance £'m	Total £'m				
2016								
Gross revenue	342.7	173.6	152.2	668.5	423.1	30.0	–	1,121.6
Inter-segment	–	–	–	–	–	7.1	(7.1)	–
Segment revenue	342.7	173.6	152.2	668.5	423.1	37.1	(7.1)	1,121.6
Third party premiums	(24.0)	(73.8)	(60.6)	(158.4)	–	–	–	(158.4)
Revenue	318.7	99.8	91.6	510.1	423.1	37.1	(7.1)	963.2
Cost of sales	(151.5)	(5.8)	(33.3)	(190.6)	(337.2)	(16.4)	–	(544.2)
Gross profit	167.2	94.0	58.3	319.5	85.9	20.7	(7.1)	419.0
Results								
Trading EBITDA	121.7	66.5	32.2	220.4	30.2	(11.8)	–	238.8
Depreciation	(1.9)	(1.0)	(0.8)	(3.7)	(10.0)	(6.3)	–	(20.0)
Amortisation of intangible assets	(1.5)	(1.4)	(0.7)	(3.6)	(3.0)	(1.2)	–	(7.8)
Trading profit/(loss)	118.3	64.1	30.7	213.1	17.2	(19.3)	–	211.0
Amortisation of acquired intangible assets				(2.5)	(3.7)	(0.1)	–	(6.3)
Exceptional expenses				(5.2)	9.5	(7.6)	–	(3.3)
Net fair value loss on derivative financial instruments				–	(1.2)	–	–	(1.2)
Net finance costs				–	–	–	(24.0)	(24.0)
Profit before tax from continuing operations				205.4	21.8	(27.0)	(24.0)	176.2
Total assets less liabilities				372.1	29.2	(242.6)	929.5	1,088.2

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). The costs of marketing, selling and administering the policies are deducted in arriving at Trading EBITDA.

3 Segmental information (continued)

	Insurance				Travel £'m	Emerging Businesses and Central Costs £'m	Adjustments £'m	Total £'m
	Motor insurance £'m	Home insurance £'m	Other insurance £'m	Total £'m				
2015								
Gross revenue	341.3	173.5	143.4	658.2	381.3	29.3	–	1,068.8
Inter-segment	–	–	–	–	–	8.3	(8.3)	–
Segment revenue	341.3	173.5	143.4	658.2	381.3	37.6	(8.3)	1,068.8
Third party premiums	(29.3)	(81.7)	(57.3)	(168.3)	–	–	–	(168.3)
Revenue	312.0	91.8	86.1	489.9	381.3	37.6	(8.3)	900.5
Cost of sales	(168.1)	(4.5)	(32.0)	(204.6)	(304.6)	(15.9)	–	(525.1)
Gross profit	143.9	87.3	54.1	285.3	76.7	21.7	(8.3)	375.4
Results								
Trading EBITDA	104.2	64.5	36.2	204.9	26.0	(3.5)	–	227.4
Depreciation	(1.5)	(0.6)	(0.5)	(2.6)	(9.3)	(5.4)	–	(17.3)
Amortisation of intangible assets	(2.3)	(1.8)	(0.8)	(4.9)	(3.1)	(1.5)	–	(9.5)
Trading profit/(loss)	100.4	62.1	34.9	197.4	13.6	(10.4)	–	200.6
Amortisation of acquired intangible assets				–	(2.0)	(0.2)	–	(2.2)
Exceptional expenses				(0.1)	(1.1)	(51.2)	–	(52.4)
Net fair value gain on derivative financial instruments				–	2.9	–	–	2.9
Net finance costs				–	–	–	(35.1)	(35.1)
Profit before tax from continuing operations				197.3	13.4	(61.8)	(35.1)	113.8
Total assets less liabilities				274.1	(7.0)	(62.9)	779.9	984.1

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). The costs of marketing, selling and administering the policies are deducted in arriving at Trading EBITDA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3 Segmental information (continued)

Total assets less liabilities detailed as adjustments relates to the following unallocated items:

	2016 £'m	2015 £'m
Goodwill (note 13)	1,485.0	1,471.4
Bank loans (note 28)	(547.7)	(692.2)
Deferred tax – non-pension scheme related	(7.8)	0.7
	929.5	779.9

a. Analysis of insurance revenue

	2016 £'m	2015 £'m
Net earned premiums on insurance underwritten by the Group		
– Motor insurance	260.9	270.0
– Home insurance	18.2	16.4
– Other insurance	36.6	39.3
	315.7	325.7
Other income from insurance products	194.4	164.2
	510.1	489.9

b. Analysis of insurance cost of sales

	2016 £'m	2015 £'m
Net claims incurred on insurance underwritten by the Group		
– Motor insurance	134.8	143.3
– Home insurance	7.0	4.5
– Other insurance	33.1	31.5
	174.9	179.3
Other cost of sales	15.7	25.3
	190.6	204.6

4 Administrative and selling expenses

	2016 £'m	2015 £'m
Staff costs (note 8)	103.7	86.9
Marketing and fulfilment costs	54.9	44.8
Lease rentals	1.1	0.8
Auditors' remuneration	1.4	2.0
Other administrative costs	39.5	38.5
Depreciation (note 16)	9.3	7.4
Amortisation of intangible assets (note 14)	14.1	11.7
Exceptional expenses	3.3	52.4
	227.3	244.5

4 Administrative and selling expenses (continued)

a. Auditors' remuneration:

	2016 £'m	2015 £'m
Audit of the parent company and consolidated financial statements	0.3	0.3
Audit of subsidiary financial statements	0.7	0.8
Audit of prior year subsidiary financial statements	0.2	–
Audit-related assurance services	0.2	0.2
Corporate finance services	–	0.6
Other non-audit services	–	0.1
Total auditors' remuneration	1.4	2.0

b. Exceptional expenses:

	2016 £'m	2015 £'m
Share-based payment costs (note 31)	0.3	40.8
Flotation and other costs	2.6	9.2
Restructuring costs	1.3	1.0
Acquisition of subsidiaries (note 12a)	0.5	0.3
Release of contingent consideration liability (note 12b)	(7.1)	–
Supplier insolvency	4.7	–
Impairment of property	3.8	–
Insurance claims	(3.1)	–
Other exceptional expenses	0.3	1.1
	3.3	52.4

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

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

During the year, a significant supplier of legal services to our customers and our partner in the Saga Law Limited joint venture became insolvent and went into administration; this represents all costs incurred as a consequence and includes legal fees to put in place new arrangements, the cost of re-doing work by a replacement law firm, and lost profits from the joint venture.

Impairment of property represents the write-down of the carrying value of the Group's hotel in St Lucia following the decision to dispose of this asset (note 16) and includes the expected costs of disposal.

During the year, the Group received two amounts under insurance policies towards the cost of cancelled or curtailed cruises; the costs of these operational issues were treated as exceptional in prior periods.

5 Investment income

	2016 £'m	2015 £'m
Investment income from insurance		
– Motor insurance	13.9	15.6
– Home insurance	0.1	0.2
– Other insurance	0.5	1.5
	14.5	17.3
Elimination of intra-group property rental income	(4.1)	(4.0)
Interest income from other segments	0.6	0.6
	11.0	13.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Finance costs

	2016 £'m	2015 £'m
Interest and charges on debt and borrowings	22.9	22.5
Exceptional debt and borrowings costs	–	12.1
Net fair value loss on derivative financial instruments	1.2	–
Net finance expense on pension schemes	1.1	0.5
	25.2	35.1

7 Finance income

	2016 £'m	2015 £'m
Net fair value gain on derivative financial instruments	–	2.9
	–	2.9

8 Directors and employees

Amounts charged to the income statement for the year are as follows:

	2016 £'m	2015 £'m
Continuing operations		
Wages and salaries	106.9	91.2
Social security costs	9.2	7.9
Pension costs (note 24)	9.8	6.6
	125.9	105.7
Discontinued operations		
Wages and salaries	164.2	211.7
Social security costs	9.6	12.9
Pension costs (note 24)	0.4	0.4
	174.2	225.0
Total staff costs	300.1	330.7

Staff costs in respect of continuing operations have been allocated £22.2m (2015: £18.8m) to cost of sales and £103.7m (2015: £86.9m) to administrative and selling expenses.

Average monthly number of employees

	2016	2015
Insurance	2,237	2,023
Travel	2,175	2,160
Emerging Businesses and Central Costs	735	677
Continuing operations	5,147	4,860
Employees attributable to discontinued operations	14,465	15,235
Total staff numbers	19,612	20,095

The number of employees in the travel segment includes 868 (2015: 848) crew who are employed indirectly via a manning agency.

8 Directors and employees (continued)

Directors' remuneration

The information required by the Companies Act 2006 and the Listing Rules of the Financial Conduct Authority is contained on pages 78-100 in the Directors' Remuneration Report.

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:

	2016 £'m	2015 £'m
Short-term benefits	6.9	6.9
Share-based payments	1.3	17.8
Post-employment benefits	0.1	0.1
	8.3	24.8

9 Tax

The major components of the income tax expense are:

	2016 £'m	2015 £'m
Consolidated income statement		
Current income tax		
Current income tax charge	32.7	29.9
Adjustments in respect of previous years	(8.4)	–
	24.3	29.9
Deferred tax		
Relating to origination and reversal of temporary differences	3.1	(2.0)
Effect of tax rate change on opening balance	1.0	–
Adjustments in respect of previous years	(0.3)	(0.5)
Tax expense in the income statement	28.1	27.4

Reconciliation of tax expense to profit before tax multiplied by the UK corporation tax rate:

	2016 £'m	2015 £'m
Profit before tax	176.2	113.8
Tax at rate of 20.2% (2015: 21.3%)	35.6	24.2
Adjustments in respect of previous years	(8.7)	(0.5)
Rate change adjustment on temporary differences	(0.5)	0.3
Effect of tax rate change on opening balance	1.0	–
Expenses not deductible for tax purposes:		
– Other non-deductible expenses/non-taxed income	0.7	3.4
Tax expense in the income statement	28.1	27.4

The Group's tax expense for the year was £28.1m (2015: £27.4m) representing a tax effective rate of 15.9%. This included a £7.6m benefit from the utilisation under the group relief rules of tax losses from Acromas, which arose when Saga was a part of the Acromas Group. Excluding the impact of the Acromas tax losses, the underlying tax effective rate was 20.3% (2015: 24.1%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9 Tax (continued)

Deferred tax

	Consolidated statement of financial position		Consolidated income statement	
	2016 £'m	2015 £'m	2016 £'m	2015 £'m
Excess of depreciation over capital allowances	5.0	6.5	(0.6)	(0.3)
Intangible assets	(4.9)	(4.6)	1.0	0.3
Retirement benefit scheme liabilities	3.4	8.1	(0.2)	(0.2)
Effect of tax rate change	–	–	(1.0)	–
Short-term temporary differences	1.2	7.3	(3.0)	2.9
Losses available for offsetting against future taxable income	–	0.1	–	(0.2)
Deferred tax (charge)/credit			(3.8)	2.5
Net deferred tax assets	4.7	17.4		

Reflected in the statement of financial position as follows:

	2016 £'m	2015 £'m
Deferred tax assets	22.1	22.9
Deferred tax liabilities	(17.4)	(5.5)
Net deferred tax assets	4.7	17.4

Reconciliation of net deferred tax assets/(liabilities)

	2016 £'m	2015 £'m
At 1 February	17.4	12.9
Tax credit recognised in the income statement	(3.8)	2.5
Tax credit recognised in other comprehensive income	(7.4)	6.8
Deferred taxes acquired in business combinations	(2.7)	(4.0)
Deferred tax charge attributable to discontinued operations	1.2	0.5
Transferred to assets held for sale	–	(1.3)
At 31 January	4.7	17.4

A reduction in the UK corporation tax rate from 21% to 20% took effect on 1 April 2015, and further reductions were enacted in the Finance Act 2015 to reduce the rate 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 but this has yet to be enacted. As a result, the closing deferred tax balances have been reflected at 18%.

The Group has tax losses which arose in the UK of £4.2m (2015: £4.9m) 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 £0.8m.

10 Dividends

	2016 £'m	2015 £'m
Declared during the year:		
Final dividend for the year ended 31 January 2015: 4.1 pence per share	45.8	–
Interim dividend for the year ended 31 January 2016: 2.2 pence per share	24.6	–
	70.4	–
Proposed after the end of the reporting period and not recognised as a liability:		
Final dividend for the year ended 31 January 2016: 5.0 pence per share	55.9	45.8

With the exception of corporate restructuring dividends, no dividends were declared by the Company during the year ended 31 January 2015. The proposed dividend for the year ended 31 January 2016 is subject to approval by shareholders at the Annual General Meeting on 21 June 2016 and would be paid on 30 June 2016.

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.

In accordance with the offer in the Prospectus, on 5 June 2015 the Group issued one free share for every twenty shares which were purchased in the IPO by Eligible Customers and Eligible Employees and held continuously for one year. No additional funds were raised through the issue of these shares and therefore they have been treated as if they existed in all prior periods; accordingly, the weighted average number of shares in these periods has been restated.

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:

	2016 £'m	2015 £'m
Profit/(loss) attributable to ordinary equity holders	140.9	(134.2)
Profit from continuing operations	148.1	86.4
Weighted average number of ordinary shares	'm	'm
Original shares	800.0	800.0
297.3 million shares issued on 29 May 2014	297.3	202.0
Free shares issued on 5 June 2015	7.3	6.6
IPO share options exercised	6.5	0.4
Weighted average number for basic EPS	1,111.1	1,009.0
Dilutive options		
IPO share options not yet exercised	6.6	8.6
Other share options not yet vested	2.4	0.0
Deferred Bonus Plan	0.2	0.0
Weighted average number for diluted EPS	1,120.3	1,017.6
Basic EPS	12.7p	(13.3p)
Basic EPS for continuing operations	13.3p	8.6p
Diluted EPS	12.6p	(13.3p)
Diluted EPS for continuing operations	13.2p	8.5p

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12 Business combinations and acquisition of non-controlling interests

a. Acquisitions during the year ended 31 January 2016

i) Bennetts Biking Services Limited

On 1 July 2015, the Group acquired a 100% shareholding in Bennetts Biking Services Limited ("Bennetts"), the UK's premier motorbike insurance specialist. Bennetts' customer base fits well with the core Saga demographic with the majority of customers being over 40 years of age, and significantly enhances Saga's existing portfolio of motorbike policies.

The acquisition cost of £26.3m was settled in cash. Transaction costs of £0.5m have been expensed and are included as part of the exceptional expenses within administrative and selling expenses. Cash of £0.4m was acquired with Bennetts, resulting in a net cash outflow of £25.9m.

The fair values of the identifiable assets and liabilities of Bennetts acquired on the date of acquisition were:

	£'m
Assets	
Brand	3.8
Customer relationships	3.9
Contracts	5.8
Software	1.6
Trade and other receivables (gross and expected to be received)	1.4
Cash	0.4
Total assets	16.9
Liabilities	
Trade and other payables	1.5
Deferred tax liability	2.7
Total liabilities	4.2
Total identifiable net assets at fair value	12.7
Goodwill arising on acquisition (note 13)	13.6
Purchase consideration transferred	26.3

The goodwill arising on acquisition of £13.6m represents the fair value arising from the acquired management structure, strategic knowledge, capability and other synergies arising on acquisition.

From the date of acquisition, Bennetts contributed £10.5m of revenue and £0.4m to the Group profit before tax for the year ended 31 January 2016. Had these acquisitions occurred at the beginning of the financial year, contribution to Group revenue and profit before tax for the full year would have been £19.3m and £1.5m respectively.

12 Business combinations and acquisition of non-controlling interests (continued)

b. Acquisitions in prior periods

i) Destinology Limited

On 13 August 2014, the Group acquired a 75% shareholding in Destinology Limited ('Destinology') with an option to acquire the remaining 25% shareholding at a later date. Accordingly, the subsequent purchase was considered to be a linked transaction and Destinology was consolidated as a 100% subsidiary.

The initial acquisition cost for the 75% shareholding of £23.0m was settled using £22.2m of cash held by the travel segment, with £0.8m deferred to be paid during the year ending 31 January 2016. The option to acquire the remaining 25% is effected by the Group and the other shareholders holding call and put options respectively, with the price to be paid determined by the profitability of Destinology in the 12 months ending 31 October 2015 or 31 October 2016.

The contingent consideration for the remaining 25% was valued upon a probability-weighted range of outcomes on acquisition at £6.2m, giving a total consideration of £29.2m:

Purchase consideration	£'m
Cash settled on acquisition date	22.2
Deferred for one year (paid during the year ended 31 January 2016)	0.8
Contingent consideration in respect of remaining 25% shareholding	6.2
Total consideration	29.2

The fair values of the identifiable assets and liabilities acquired totalled £16.2m generating goodwill on acquisition of £13.0m representing the fair value arising from the acquired management structure and their incumbencies along with their strategic knowledge and capability and other synergies arising on acquisition.

During the year, the range of outcomes for the price of the remaining 25% shareholding has been reassessed and the contingent consideration has been revalued at £1.

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 2014	1,636.2
Acquisition of a subsidiary (note 12b)	13.0
Reclassification to assets held for sale	(177.8)
At 31 January 2015	1,471.4
Acquisition of a subsidiary (note 12a)	13.6
At 31 January 2016	1,485.0
Impairment	
At 31 January 2015 and 31 January 2016	-
Net book value	
At 31 January 2016	1,485.0
At 31 January 2015	1,471.4

Goodwill deductible for tax purposes amounts to £nil (2015: £22.2m).

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS CONTINUED**

14 Intangible fixed assets

	Contracts £'m	Brands £'m	Customer relationships £'m	Software £'m	Total £'m
Cost					
At 1 February 2014	81.1	1.4	19.1	58.7	160.3
Additions	–	–	–	8.6	8.6
Acquisition of a subsidiary (note 12b)	–	12.7	7.4	0.7	20.8
Reclassification to assets held for sale	(81.1)	–	(19.1)	(6.7)	(106.9)
At 31 January 2015	–	14.1	7.4	61.3	82.8
Additions	–	–	–	16.5	16.5
Acquisition of a subsidiary (note 12a)	5.8	3.8	3.9	1.6	15.1
Disposals	–	–	–	(5.4)	(5.4)
At 31 January 2016	5.8	17.9	11.3	74.0	109.0
Amortisation and impairment					
At 1 February 2014	52.8	0.5	19.1	40.5	112.9
Amortisation	9.6	0.8	1.4	10.3	22.1
Reclassification to assets held for sale	(62.4)	–	(19.1)	(5.5)	(87.0)
At 31 January 2015	–	1.3	1.4	45.3	48.0
Amortisation	0.8	1.6	3.9	7.8	14.1
Disposals	–	–	–	(5.4)	(5.4)
At 31 January 2016	0.8	2.9	5.3	47.7	56.7
Net book value					
At 31 January 2016	5.0	15.0	6.0	26.3	52.3
At 31 January 2015	–	12.8	6.0	16.0	34.8

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:

	2016 £'m	2015 £'m
Administrative and selling expenses (note 4)	14.1	11.7
Discontinued operations	–	10.4
	14.1	22.1

15 Impairment of intangible assets

a. Goodwill

Goodwill acquired through business combinations has been allocated to CGUs on initial recognition. Additions to goodwill during the year relating to Bennetts have been allocated to a new CGU relating to the new subsidiary only. The carrying value of goodwill by CGU is as follows:

	2016 £'m	2015 £'m
Insurance, excluding Bennetts	1,398.6	1,398.6
Insurance, Bennetts	13.6	–
Travel, excluding Destinology	59.8	59.8
Travel, Destinology	13.0	13.0
	1,485.0	1,471.4

The Group has tested all goodwill for impairment at 31 January 2016. 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 however as these businesses become more integrated into the overall insurance and travel businesses respectively, it is likely to be necessary to consider them as part of the insurance and travel 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 five year plan to 2020/21. Terminal values have been included using 3% 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 cost of capital of a market participant capable of acquiring a similar business. For the insurance and Bennetts CGUs, the discount rate has been assessed to be 8.9%, and for the travel and Destinology CGUs, it has been assessed to be 11.8%.

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.

To undertake the stress testing, terminal values were separately recalculated using 1.5% growth and nil growth, and the relevant discount rate was separately increased by 3%. No evidence of any impairment was seen under any of these stress test scenarios. Consequently, no impairment of goodwill has been recognised.

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 2016 and concluded that no impairment is required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 or valuation						
At 1 February 2014	58.4	7.4	80.3	–	56.0	202.1
Additions	–	–	5.2	–	14.2	19.4
Disposals	(0.2)	–	–	–	(6.0)	(6.2)
Acquisition of a subsidiary (note 12b)	–	0.2	–	–	0.2	0.4
Reclassification to assets held for sale	–	–	–	–	(16.6)	(16.6)
At 31 January 2015	58.2	7.6	85.5	–	47.8	199.1
Additions	–	1.0	6.4	13.1	10.3	30.8
Disposals	–	–	–	–	(4.0)	(4.0)
At 31 January 2016	58.2	8.6	91.9	13.1	54.1	225.9
Depreciation and impairment						
At 1 February 2014	7.6	1.3	18.0	–	35.4	62.3
Provided during the year	1.1	0.2	7.5	–	11.3	20.1
Disposals	–	–	–	–	(6.0)	(6.0)
Reclassification to assets held for sale	–	–	–	–	(10.5)	(10.5)
At 31 January 2015	8.7	1.5	25.5	–	30.2	65.9
Provided during the year	0.9	0.2	8.5	–	10.4	20.0
Impairment (note 4)	3.4	–	–	–	–	3.4
Disposals	–	–	–	–	(4.0)	(4.0)
At 31 January 2016	13.0	1.7	34.0	–	36.6	85.3
Net book value						
At 31 January 2016	45.2	6.9	57.9	13.1	17.5	140.6
At 31 January 2015	49.5	6.1	60.0	–	17.6	133.2

The net book value of plant and equipment includes £2.2m (2015: £0.2m) in respect of plant and machinery held under finance lease agreements. The accumulated depreciation on these assets is £0.5m (2015: £0.3m).

The depreciation charge for the year is analysed as follows:

	2016 £'m	2015 £'m
Cost of sales	10.7	9.9
Administrative and selling expenses (note 4)	9.3	7.4
	20.0	17.3
Discontinued operations	–	2.8
	20.0	20.1

During the year the Group disposed of assets with a net book value of £nil (2015: £0.2m). There was no profit or loss arising on disposal (2015: £nil).

17 Financial assets and financial liabilities

a. Financial assets

	2016 £'m	2015 £'m
Fair value through profit or loss		
Foreign exchange forward contracts	3.3	1.5
Loan funds	19.3	19.6
Hedge funds	26.7	33.8
Equities	–	8.7
	49.3	63.6
Fair value through the hedging reserve		
Foreign exchange forward contracts	16.7	4.1
	16.7	4.1
Loans and receivables		
Deposits with financial institutions	413.6	479.4
	413.6	479.4
Available for sale investments		
Debt securities	85.2	71.9
Money market funds	75.9	40.6
Unlisted equity shares	0.2	–
Loan notes	3.8	–
	165.1	112.5
Total financial assets	644.7	659.6
Current	288.8	234.4
Non-current	355.9	425.2
	644.7	659.6

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Financial assets and financial liabilities (continued)

b. Financial liabilities

	2016 £'m	2015 £'m
Fair value through profit or loss		
Foreign exchange forward contracts	5.5	2.1
Fuel oil swaps	4.1	4.5
	9.6	6.6
Fair value through hedging reserve		
Foreign exchange forward contracts	1.2	4.6
Fuel oil swaps	1.9	2.5
	3.1	7.1
Loans and borrowings		
Bank loans (note 28)	547.7	692.2
Obligations under finance leases and hire purchase	2.2	–
Bank overdrafts	17.9	5.8
	567.8	698.0
Total financial liabilities	580.5	711.7
Current	27.8	21.1
Non-current	552.7	690.6
	580.5	711.7

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 2016, 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 Treasury Committee.

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 2016				As at 31 January 2015			
	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	–	20.0	–	20.0	–	5.6	–	5.6
Loan funds	–	19.3	–	19.3	–	19.6	–	19.6
Hedge funds	–	26.7	–	26.7	–	33.8	–	33.8
Equities	–	–	–	–	8.7	–	–	8.7
Debt securities	85.2	–	–	85.2	71.9	–	–	71.9
Money market funds	–	75.9	–	75.9	–	40.6	–	40.6
Unlisted equity shares	–	–	0.2	0.2	–	–	–	–
Loan notes	–	–	3.8	3.8	–	–	–	–
Financial liabilities measured at fair value								
Contingent consideration	–	–	–	–	–	–	6.2	6.2
Foreign exchange forwards	–	6.7	–	6.7	–	6.7	–	6.7
Fuel oil swaps	–	6.0	–	6.0	–	7.0	–	7.0
Assets for which fair values are disclosed								
Deposits with institutions	–	413.6	–	413.6	–	479.4	–	479.4
Liabilities for which fair values are disclosed								
Bank loans	–	547.7	–	547.7	–	692.2	–	692.2
Finance leases and hire purchase obligations	–	2.2	–	2.2	–	–	–	–
Bank overdrafts	–	17.9	–	17.9	–	5.8	–	5.8

There have been no transfers between Level 1 and Level 2 and no non-recurring fair value measurements of assets and liabilities during the year (2015: none).

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 and the post-investment trading profits.

The loan notes represent two notes with a face value of £3.5m each which attract un compounded 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 and have been valued by determining a market-participant discount rate including a credit valuation adjustment to allow for counterparty default risk, and discounting them to present value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Financial assets and financial liabilities (continued)

d. Cash flow hedges

i) Forward currency risk

During the year ended 31 January 2016, the Group designated 294 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 2016		At 31 Jan 2015	
	Volume	£'m	Volume	£'m	Volume	£'m
Foreign currency cash flow hedging instruments						
Euro (EUR)	76	12.2	90	11.9	63	(4.2)
US Dollar (USD)	76	2.9	93	4.4	50	4.0
Other currencies	142	(0.4)	173	(0.8)	113	(0.3)
Total	294	14.7	356	15.5	226	(0.5)

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 2016		At 31 Jan 2015	
	Volume	£'m	Volume	£'m	Volume	£'m
Commodity cash flow hedging instruments						
Hedging instruments	44	(1.9)	44	(1.9)	36	(2.5)

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 2016. 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	USD	Other	Currency	Fuel hedges	Total
	£'m	£'m	currencies £'m	hedges £'m	£'m	£'m
1 February 16 to 31 July 16	47.5	24.1	5.8	77.4	0.4	77.8
1 August 16 to 31 January 17	26.6	23.8	4.3	54.7	0.9	55.6
1 February 17 to 31 July 17	42.8	18.5	4.8	66.1	1.0	67.1
1 August 17 to 31 January 18	1.5	0.4	0.6	2.5	0.8	3.3
1 February 18 to 31 July 18	13.6	–	–	13.6	–	13.6
1 February 19 to 31 July 19	217.1	–	–	217.1	–	217.1
Total	349.1	66.8	15.5	431.4	3.1	434.5

The foreign currency hedge which will be determined in July 2019 of £217.1m relates to the delivery of the ship (note 32).

During the year, the Group recognised net gains of £6.3m (2015: £3.0m loss) on cash flow hedging instruments through other comprehensive income into the hedging reserve. Additionally, the Group recognised net gains of £10.3m through other comprehensive income into the hedging reserve, in relation to the specific hedging instrument for the acquisition of a new ship (note 32). The Group recognised a £0.3m loss (2015: £0.4m loss) through the income statement in respect of the ineffective portion of hedges measured during the period.

There has been no de-designation of hedges during the year ended 31 January 2016 as a result of cash flows forecast that are no longer expected to occur, or as a result of failed ineffectiveness testing. No amounts have been removed from the hedging reserve to be included in either profit or loss or 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, 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 and insurance 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. The treasury committee ensures 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 through a policy of diversification that is outlined in the Group Treasury Policy and approved by the Board. The policy defines the exposure limit 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 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
- 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.

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 presentation currency) and the Group's net investments in foreign subsidiaries.

The Group uses foreign exchange forward contracts to manage the majority of its transaction exposures. The foreign exchange forward contracts are not formally designated as hedging instruments and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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
2016	EUR – Trading	+/- £5.3m
	EUR – New ship	+/- £12.3m
	USD	+/- £3.6m
2015	EUR	+/- £3.7m
	USD	+/- £3.7m

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
2016	USD	+/- £0.8m
2015	USD	+/- £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 all 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 and property.

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. At 31 January 2016, interest caps are in place to cover a nominal value of interest payable of £510m, up to June 2016.

18 Financial risk management objectives and policies (continued)

a. Market risk (continued)

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
2016	LIBOR	+/- £0.6m
2015	LIBOR	+/- £0.7m

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 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, with the exception of the healthcare services products.

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 of 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, with no single reinsurer holding more than 20% of the programme.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 January 2016 and 31 January 2015 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.

The Group's financial assets are analysed by Moody's rating as follows:

Ratings analysis

31 January 2016

£'m	AAA	AA	A	< A	Unrated	Total
Debt securities	85.2	–	–	–	–	85.2
Money market funds	75.9	–	–	–	–	75.9
Deposits with financial institutions	30.0	140.3	243.3	–	–	413.6
Derivative assets	–	10.1	9.9	–	–	20.0
Loan notes	–	–	–	–	3.8	3.8
Loan funds	–	–	–	–	19.3	19.3
Hedge funds	–	–	–	–	26.7	26.7
Unlisted equity shares	–	–	–	–	0.2	0.2
	191.1	150.4	253.2	–	50.0	644.7
Reinsurance assets	–	57.9	47.3	–	1.2	106.4
Total	191.1	208.3	300.5	–	51.2	751.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18 Financial risk management objectives and policies (continued)

b. Credit risk (continued)

Ratings analysis (continued)

31 January 2015

£'m	AAA	AA	A	< A	Unrated	Total
Debt securities	71.9	–	–	–	–	71.9
Money market funds	40.6	–	–	–	–	40.6
Deposits with financial institutions	30.0	180.3	213.6	55.5	–	479.4
Derivative assets	–	–	5.6	–	–	5.6
Loan funds	–	–	–	–	19.6	19.6
Hedge funds	–	–	–	–	33.8	33.8
Equities	–	–	–	–	8.7	8.7
	142.5	180.3	219.2	55.5	62.1	659.6
Reinsurance assets	–	33.0	29.5	–	0.9	63.4
Total	142.5	213.3	248.7	55.5	63.0	723.0

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.

The table below analyses the maturity of the Group's financial 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 2016

£'m	On demand	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Loans and borrowings	17.9	–	–	555.0	–	572.9
Interest on loans and borrowings	0.6	16.9	17.0	21.0	–	55.5
Insurance contract liabilities	–	212.3	161.7	221.0	139.0	734.0
Other liabilities	129.7	–	–	–	–	129.7
Trade and other payables	191.6	–	–	–	–	191.6
Derivative liabilities	–	9.3	3.4	–	–	12.7
	339.8	238.5	182.1	797.0	139.0	1,696.4

31 January 2015

£'m	On demand	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Loans and borrowings	5.8	–	–	700.0	–	705.8
Interest on loans and borrowings	3.4	18.1	22.0	53.4	–	96.9
Insurance contract liabilities	–	187.5	186.7	236.2	125.7	736.1
Contingent consideration	–	6.2	–	–	–	6.2
Other liabilities	135.2	–	–	–	–	135.2
Trade and other payables	158.7	–	–	–	–	158.7
Derivative liabilities	–	12.0	1.7	–	–	13.7
	303.1	223.8	210.4	989.6	125.7	1,852.6

18 Financial risk management objectives and policies (continued)

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.

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 for future investment returns.

An important source of uncertainty is the risk of future legislative changes affecting bodily injury awards including the ongoing Ministry of Justice review of the discount rate.

iii) Reinsurance

The Group purchases reinsurance to reduce the impact of individual large losses or accumulations from a single catastrophe event. The Group 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. The Group has quota share reinsurance in place for third party branded motor business for drivers aged under 50.

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 2016 and 31 January 2015. 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.

	2016	2015
Impact of 1 percentage point change in loss ratio	+/- £2.5m	+/- £2.6m
Impact of 1% change in claims outstanding	+/- £4.6m	+/- £3.9m
Impact of a 0.25 percentage point change in discount rate for PPOs	+/- £5.7m	+/- £9.0m

18 Financial risk management objectives and policies (continued)

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.

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.

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 as described below:

- Investment funds in the form of hedge funds
- Investment funds in the form of bank loan funds
- Investment funds in the form of 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.

19 Interests in unconsolidated structured entities (continued)

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 2016, the Group's total interest in unconsolidated structured entities was £121.9m analysed as follows:

	Carrying value £m	Interest income £m	Fair value gains/ (losses) £m
Loan funds	19.3	0.3	(0.3)
Hedge funds	26.7	-	-
Money market funds	75.9	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 Inventories

	2016 £'m	2015 £'m
Raw materials	0.9	0.9
Work in progress	0.1	-
Finished goods	3.9	4.4
	4.9	5.3

21 Trade and other receivables

	2016 £'m	2015 £'m
Trade receivables	133.6	127.7
Other receivables	12.0	8.7
Prepayments	21.3	15.8
Deferred acquisition costs	16.6	9.3
Other taxes and social security costs	4.5	2.2
	188.0	163.7

The ageing of trade receivables is as follows:

	Total £'m	Neither past due nor impaired £'m	Past due				
			< 30 days £'m	30-60 days £'m	61-90 days £'m	91-120 days £'m	> 120 days £'m
2016	133.6	118.5	7.2	1.5	1.4	0.7	4.3
2015	127.7	116.7	3.8	1.5	1.0	0.8	3.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21 Trade and other receivables (continued)

As at 31 January 2016, impairment provisions totalling £8.5m (2015: £9.0m) were made against trade receivables with an initial value of £141.3m (2015: £136.7m). The movements in the provision for impairment of receivables are as follows:

	Individually impaired £'m	Collectively impaired £'m	Total £'m
At 1 February 2014	0.7	8.3	9.0
Charge for the year	0.2	8.0	8.2
Utilised in the year	–	(4.2)	(4.2)
Unused amounts reversed	–	(3.4)	(3.4)
	0.9	8.7	9.6
Reclassification to assets held for sale	(0.6)	–	(0.6)
At 31 January 2015	0.3	8.7	9.0
Charge for the year	0.2	7.5	7.7
Utilised in the year	(0.1)	(3.5)	(3.6)
Unused amounts reversed	(0.1)	(4.5)	(4.6)
At 31 January 2016	0.3	8.2	8.5

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.

22 Cash and cash equivalents

	2016 £'m	2015 £'m
Cash at bank and in hand	36.9	66.5
Short-term deposits	69.6	132.3
Cash and short-term deposits	106.5	198.8
Money markets funds	75.9	40.6
Bank overdraft	(18.0)	(5.8)
Cash held by disposal group	–	4.3
Cash and cash equivalents in the cash flow statement	164.4	237.9

Included within cash and short-term deposits 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 £92.1m (2015: £85.2m).

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.

23 Trade and other payables

	2016 £'m	2015 £'m
Trade payables	104.3	84.8
Other taxes and social security costs	12.2	9.2
Other payables	18.9	24.5
Assets in the course of construction	13.1	–
Accruals	43.1	40.2
	191.6	158.7

All trade and other payables are current in nature.

24 Retirement benefit schemes

The Group operates retirement benefit schemes for the employees of the Group consisting of defined contribution plans and defined benefit plans.

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 £1.3m (2015: £1.3m).

The assets of these schemes are held separately from those of the Group in funds under the control of Trustees.

b. Defined benefit plans

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 salary at retirement age. 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 to the liability profile increasingly closely. The pension liability is exposed to inflation rate risks and changes in the life expectancy for pensioners. As the plan assets include investments in quoted equities, the Group is exposed to equity market risk.

During the year, the Group operated two other funded defined benefit schemes, the Nestor Healthcare Group Retirement Benefits Scheme and the Healthcall Group Limited Pension Scheme ('Nestor schemes'), which provide benefits based on final salary and are closed to new members. Both of these schemes were part of the liabilities held for sale and were disposed of when the Group completed the sale of the local authority section of the healthcare business, Allied Healthcare, on 30 November 2015.

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

	Saga scheme £'m	Nestor schemes £'m	Total £'m
At 31 January 2016			
Fair value of scheme assets	218.6	–	218.6
Present value of defined benefit obligation	(237.4)	–	(237.4)
Defined benefit scheme liability	(18.8)	–	(18.8)
At 31 January 2015			
Fair value of scheme assets	212.3	54.0	266.3
Present value of defined benefit obligation	(252.7)	(68.7)	(321.4)
Defined benefit scheme liability	(40.4)	(14.7)	(55.1)
Reclassification to liabilities held for sale	–	14.7	14.7
	(40.4)	–	(40.4)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24 Retirement benefit schemes (continued)

b. Defined benefit plans (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 2016:

	Saga scheme			Nestor schemes			Total
	Fair value of scheme assets £'m	Defined benefit obligation £'m	Defined benefit scheme liability £'m	Fair value of scheme assets £'m	Defined benefit obligation £'m	Defined benefit scheme liability £'m	Defined benefit scheme liability £'m
1 February 2015	212.3	(252.7)	(40.4)	–	–	–	(40.4)
Pension cost charge to income statement							
Service cost	–	(8.8)	(8.8)	–	(0.1)	(0.1)	(8.9)
Net interest	6.7	(7.8)	(1.1)	1.3	(1.7)	(0.4)	(1.5)
Included in income statement	6.7	(16.6)	(9.9)	1.3	(1.8)	(0.5)	(10.4)
Benefits paid	(4.5)	4.5	–	(1.6)	1.6	–	–
Return on plan assets (excluding amounts included in net interest expense)	(7.0)	–	(7.0)	(1.9)	–	(1.9)	(8.9)
Actuarial changes arising from changes in demographic assumptions	–	(0.3)	(0.3)	–	1.2	1.2	0.9
Actuarial changes arising from changes in financial assumptions	–	27.5	27.5	–	5.3	5.3	32.8
Experience adjustments	–	0.3	0.3	–	1.5	1.5	1.8
Sub-total included in other comprehensive income	(11.5)	32.0	20.5	(3.5)	9.6	6.1	26.6
Contributions by employer	11.1	(0.1)	11.0	12.4	–	12.4	23.4
Movement in liabilities held for sale	–	–	–	(10.2)	(7.8)	(18.0)	(18.0)
31 January 2016	218.6	(237.4)	(18.8)	–	–	–	(18.8)

24 Retirement benefit schemes (continued)

b. Defined benefit plans (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 2015:

	Saga scheme			Nestor schemes			Total
	Fair value of scheme assets £'m	Defined benefit obligation £'m	Defined benefit scheme liability £'m	Fair value of scheme assets £'m	Defined benefit obligation £'m	Defined benefit scheme liability £'m	Defined benefit scheme liability £'m
1 February 2014	171.2	(186.1)	(14.9)	48.3	(57.7)	(9.4)	(24.3)
Pension cost charge to income statement							
Service cost	–	(5.6)	(5.6)	–	(0.1)	(0.1)	(5.7)
Net interest	7.6	(8.1)	(0.5)	2.1	(2.4)	(0.3)	(0.8)
Included in income statement	7.6	(13.7)	(6.1)	2.1	(2.5)	(0.4)	(6.5)
Benefits paid	(3.3)	3.3	–	(2.8)	2.8	–	–
Return on plan assets (excluding amounts included in net interest expense)	29.7	–	29.7	2.9	–	2.9	32.6
Actuarial changes arising from changes in demographic assumptions	–	(0.4)	(0.4)	–	(0.9)	(0.9)	(1.3)
Actuarial changes arising from changes in financial assumptions	–	(47.0)	(47.0)	–	(10.4)	(10.4)	(57.4)
Experience adjustments	–	(8.7)	(8.7)	–	–	–	(8.7)
Sub-total included in other comprehensive income	26.4	(52.8)	(26.4)	0.1	(8.5)	(8.4)	(34.8)
Contributions by employer	7.1	(0.1)	7.0	3.5	–	3.5	10.5
Reclassification to liabilities held for sale	–	–	–	(54.0)	68.7	14.7	14.7
31 January 2015	212.3	(252.7)	(40.4)	–	–	–	(40.4)

The major categories of assets in the Saga scheme are as follows:

	2016 £'m	2015 £'m
Equities	42.0	62.7
Bonds	117.1	117.0
Property	23.8	20.2
Hedge funds	33.7	–
Cash and other	2.0	12.4
Total	218.6	212.3

Equities, bonds and hedge funds are all quoted in active markets whilst property is not.

The main categories of assets in the Nestor schemes at 31 January 2015 were equities (£26.9m), bonds (£23.7m), insurance policies (£3.2m) and cash (£0.2m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24 Retirement benefit schemes (continued)

b. Defined benefit plans (continued)

The principal assumptions used in determining pension benefit obligations for the Saga scheme are shown below:

	2016	2015
Real rate of increase in salaries	0%	0%
Real rate of increase of pensions in payment	0%	0%
Real rate of increase of pensions in deferment	0%	0%
Discount rate – Pensioner	3.6%	2.9%
Discount rate – Non Pensioner	3.8%	3.2%
Inflation – Pensioner	3.0%	2.6%
Inflation – Non Pensioner	3.2%	2.9%

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 29 years if they are male and on average for a further 31 year if they are female.

A quantitative sensitivity analysis for significant assumptions as at 31 January 2016 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		
Impact £m	(13.6)	14.7	9.2	(9.4)	+/- 6.9	+/- 0.0

Note: a negative 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 £11.0m and average duration of the defined benefit plan obligation at the end of the reporting period is 22 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.

24 Retirement benefit schemes (continued)

b. Defined benefit plans (continued)

The latest valuation of the Saga scheme was at 31 January 2014. 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 2016, and will make further payments of £2.0m in each of the next nine years, with the last payment being made by 28 February 2024. The total expected contributions in the year ending 31 January 2017 are £11.0m.

25 Insurance contract liabilities and reinsurance assets

The analysis of gross and net insurance liabilities is as follows:

	2016 £'m	2015 £'m
Gross		
Claims outstanding	561.6	552.4
Provision for unearned premiums	141.7	152.3
Total gross liabilities	703.3	704.7

	2016 £'m	2015 £'m
Recoverable from reinsurers		
Claims outstanding	101.6	60.2
Provision for unearned premiums	4.8	3.2
Total reinsurers' share of insurance liabilities	106.4	63.4

	2016 £'m	2015 £'m
Net		
Claims outstanding	460.0	492.2
Provision for unearned premiums	136.9	149.1
Total net insurance liabilities	596.9	641.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25 Insurance contract liabilities and reinsurance assets (continued)

	2016 £'m	2015 £'m
Reconciliation of movements in claims outstanding		
Gross claims outstanding at 1 February	552.4	566.9
Less: reinsurance claims outstanding	(60.2)	(58.3)
Net claims outstanding at 1 February	492.2	508.6
Gross claims incurred	219.3	182.9
Less: reinsurance recoveries	(44.4)	(3.6)
Net claims incurred (note 3b)	174.9	179.3
Gross claims paid	(210.1)	(197.4)
Less: received from reinsurance	3.0	1.7
Net claims paid	(207.1)	(195.7)
Gross claims outstanding at 31 January	561.6	552.4
Less: reinsurance claims outstanding	(101.6)	(60.2)
Net claims outstanding at 31 January	460.0	492.2
Reconciliation of movements in the provision for net unearned premiums		
Gross unearned premiums at 1 February	152.3	161.4
Less: unearned reinsurance premiums	(3.2)	(4.2)
Net unearned premiums at 1 February	149.1	157.2
Gross premiums written	312.0	324.2
Less: outward reinsurance premium	(8.5)	(6.6)
Net premiums written	303.5	317.6
Gross premiums earned	(322.6)	(333.3)
Less reinsurance premium earned	6.9	7.6
Net premiums earned (note 3a)	(315.7)	(325.7)
Gross unearned premiums at 31 January	141.7	152.3
Less: unearned reinsurance premiums	(4.8)	(3.2)
Net unearned premiums at 31 January	136.9	149.1

The profit on purchasing reinsurance in 2016 was £37.5m (2015: £4.0m loss).

25 Insurance contract liabilities and reinsurance assets (continued)

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% (2015: -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 £734.0m (2015: £736.1m) gross of reinsurance and £539.0m (2015: £599.1m) 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 42 years (2015: 47 years) and the rate of investment return used to determine the discounted value of claims provisions was 2.0% (2015: 2.0%).

Analysis of net claims incurred: claims development tables

The following table details the Group's initial estimate of ultimate net claims incurred over the past five years and the re-estimation at subsequent financial period ends. The table details the net incurred claims (net of reinsurance recoveries) on an accident year basis.

	Financial Year ended 31 January							Total £'m	Claims paid £'m	Claims outstanding £'m
	2010 £'m	2011 £'m	2012 £'m	2013 £'m	2014 £'m	2015 £'m	2016 £'m			
Accident Year										
2009 and earlier	(5.5)	–	(9.2)	(11.0)	(1.2)	(3.2)	(3.0)			27.8
2010	202.1	–	(4.3)	(4.0)	(5.5)	(3.1)	(2.1)	183.1	(166.7)	16.4
2011		266.0	(2.8)	(5.2)	(4.6)	(13.3)	(7.2)	232.9	(200.9)	32.0
2012			302.3	(25.6)	(31.1)	(0.6)	(17.3)	227.7	(195.4)	32.3
2013				315.4	(14.6)	(22.9)	(19.8)	258.1	(200.4)	57.7
2014					276.8	(14.7)	(23.4)	238.7	(161.2)	77.5
2015						219.1	5.3	224.4	(138.8)	85.6
2016							220.9	220.9	(101.1)	119.8
	196.6	266.0	286.0	269.6	219.8	161.3	153.4			449.1
Claims handling costs	9.0	10.1	15.6	17.4	17.2	18.0	21.5			10.9
	205.6	276.1	301.6	287.0	237.0	179.3	174.9			460.0

The development of the associated loss ratios on the same basis is as follows:

	Financial Year ended 31 January						
	2010	2011	2012	2013	2014	2015	2016
Accident Year							
2010	73%	73%	72%	70%	68%	67%	66%
2011		78%	78%	76%	75%	71%	69%
2012			76%	70%	62%	62%	57%
2013				75%	72%	66%	62%
2014					75%	71%	65%
2015						67%	69%
2016							70%

Favourable claims development over the year has resulted in a £68.0m reduction in the net claims incurred in respect of prior years. Against this, the insolvency of a significant legal services supplier has required an increase in prior year net claims of £0.5m to be created; the cost of this has been included as part of the total exceptional expense (note 4b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Provisions

	2016 £'m	2015 £'m
Current	2.5	4.8
Non-current	1.5	1.1
At 31 January	4.0	5.9

Provisions primarily comprise amounts payable for the return of insurance commission in respect of policies cancelled mid-term after the reporting date, credit hire claims handling provision, and fleet insurance at the estimated cost of settling all outstanding incidents at the reporting date. These items are reviewed and updated annually.

27 Other liabilities

	2016 £'m	2015 £'m
Advance receipts	113.0	122.3
Deferred revenue	12.7	7.0
Group relief payable (note 9)	7.6	–
	133.3	129.3
Current	133.2	129.0
Non-current	0.1	0.3
	133.3	129.3

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.

28 Loans and borrowings

	2016 £'m	2015 £'m
Bank loans	480.0	700.0
Revolving credit facility	75.0	–
Accrued interest payable	0.6	3.4
	555.6	703.4
Less: deferred issue costs	(7.9)	(11.2)
	547.7	692.2

In April 2014, the Group entered into a Senior Facilities Agreement and drew £1,250.0m. At the end of May 2014, it used the receipt of £550.0m from the Group's flotation to reduce the outstanding principal to £700.0m.

The debt matures in April 2019, and interest is incurred at a variable rate of LIBOR plus 2.25%. Interest rate caps are in place which cap LIBOR at 3.0% on a notional debt of £510.0m through to June 2016. The Group is required to comply with a leverage covenant on a quarterly basis and had significant headroom against this covenant at 31 January 2016.

Under the facilities, the Group has access to a multi-currency revolving credit facility of £150.0m. During the year, the Group repaid £220.0m of its Senior Facilities Agreement, and at 31 January 2016 had drawn £75.0m of its £150.0m revolving credit facility. The Group incurs commitment fees on undrawn facilities and interest at a rate of LIBOR plus 2.25% on drawn facilities.

During the year, the Group charged £21.8m (2015: £34.6m) to the income statement in respect of fees and interest associated with the Senior Facilities Agreement.

29 Called up share capital

	Ordinary shares		
	Number	Nominal value £	Value £'m
Allotted, called up and fully paid			
At 1 May 2014	800,000,000	0.01	8.0
Issue of share capital on flotation	310,705,405	0.01	3.1
As at 31 January 2015	1,110,705,405	0.01	11.1
Free shares allotted – 5 June 2015	7,300,000	0.01	0.1
As at 31 January 2016	1,118,005,405	0.01	11.2

On 29 May 2014, Saga plc was admitted to the London Stock Exchange, and issued 297,297,297 shares, raising £550m of funds which were utilised to repay part of the Group's bank debt (note 28). The share premium arising on this transaction was £547.0m.

On the same date, the Group issued 13,408,108 shares into the associated Employee Benefit Trust predominantly in respect of the share options issued to certain Directors and employees on the same date (see note 31).

a. Bonus issue – free shares

As part of the IPO, an offer was made to customers and employees of the Group under which they would receive one free share for every twenty shares purchased in the IPO and held continuously for a period of one year following flotation. On 5 June 2015, 7,300,000 shares were issued in respect of this bonus offer.

b. 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 5,973,991 (2015: 539,320) of these shares which were transferred from the Employee Benefit Trust into the direct ownership of the employee. The remaining 6,619,099 shares have been treated as treasury shares at 31 January 2016.

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 includes issued capital, share premium and all other capital reserves attributable to the equity holders of the parent. 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.

No changes were made to the objectives, policies or processes for managing capital during the years ended 31 January 2016 or 31 January 2015, other than those driven from changes to the requirements of the various regulators, notably the European Union's Solvency II Directive for insurance companies.

The Group's regulated underwriting business is based in the 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. Under Solvency I, the FSC required the underwriting business to hold solvency capital of at least twice the required minimum margin ('RMM'), and at 31 January 2015, capital was approximately 277% of the RMM. The Group has monitored its compliance with this and other tests throughout the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

30 Capital management (continued)

Solvency II incorporates a fundamental change to the capital adequacy regime for the European insurance industry and establishes a revised set of capital requirements and risk management standards with the aim of increasing protection for policyholders. The new regime became effective on 1 January 2016.

The Group monitored its ability to comply with the requirements of Solvency II throughout the year and received approval from the FSC for the Undertaking of Specific Parameters route prior to the effective date. Under Solvency II AICL remains well capitalised, and at 31 January 2016, available capital was £219.6m against a Solvency Capital Requirement of £128.8m giving 170% coverage.

The Group's regulated insurance distribution businesses are based in the UK and regulated by the FCA. Due to the nature of these businesses, 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 these businesses. The Minimum Regulatory Capital requirement of these businesses at 31 January 2016 was £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. At 31 January 2016, 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 are 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. These options are 50% linked to a non-market vesting condition, EPS, and 50% linked to a market vesting condition, TSR.
 - On 30 June 2014 and 2 December 2014, options over 4,015,508 shares were issued which vest and become exercisable on the third anniversary of the grant date.
 - On 30 June 2015, options over 2,879,089 shares were issued which vest and become exercisable on the third anniversary of the grant date.
 - On 9 June 2015, options over 332,541 shares were issued under the DBP to the Executive Directors reflecting their deferred bonus in respect of 2014/15, which vest and become exercisable on the third anniversary of the grant date. Following cessation of employment of S M Howard on 30 June 2015, the options allocated to him became exercisable immediately.

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 which vest on the second anniversary of his appointment, subject to continuing employment.

d. Employee free shares

- On 8 July 2015, 398,774 shares were awarded to staff eligible on the anniversary of the IPO at £nil cost. These shares become beneficially owned over a three year period from allocation subject to continuing employment.

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 2015	12,593,090	3,884,866	–	2,162,162	–	18,640,118
Granted	–	2,879,089	332,541	201,484	398,774	3,811,888
Forfeited	–	(1,259,776)	–	–	(21,022)	(1,280,798)
Exercised	(5,973,991)	–	(76,448)	–	(3,542)	(6,053,981)
At 31 January 2016	6,619,099	5,504,179	256,093	2,363,646	374,210	15,117,227
Exercise price	£nil	£nil	£nil	£1.69	£nil	£0.25
Exercisable at 31 January 2016	6,619,099	–	–	–	4,209	6,623,308
Average remaining contractual life	8.3 years	1.9 years	2.4 years	2.5 years	2.3 years	5.0 years
Average fair value at grant	£1.85	£1.97	£2.10	£1.86	£2.16	£1.90

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.

	CFO options	CMO options	LTIP – EPS tranche	LTIP – TSR tranche	Employee free shares
Model used	Black-Scholes	Share price at date of grant	Black-Scholes	Monte-Carlo	Black-Scholes
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a
Risk-free interest rate (%)	n/a	n/a	0.96%	0.96%	n/a
Expected life of share option	0.97/1.97 years	2.81 years	3 years	3 years	3 years
Weighted average share price (£)	£1.89	£2.02	£2.20	£2.20	£2.16
Share price volatility	n/a	n/a	27.8%	27.8%	n/a

As historical data for the Group's share price is not 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 2016 is £2.8m (2015: £41.8m). This has been charged to administrative and selling expenses (£2.5m) and exceptional expenses (£0.3m) (note 4b).

The Group did not enter into any share-based payment transactions with parties other than employees during the current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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	
	2016 £'m	2015 £'m	2016 £'m	2015 £'m
Within one year	1.0	2.1	0.8	0.3
Between one and five years	3.3	6.2	1.6	1.8
After five years	4.8	7.2	–	–
	9.1	15.5	2.4	2.1

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:

	2016 £'m	2015 £'m
Within one year	0.5	0.1
Between one and five years	1.7	0.1
Total minimum lease payments	2.2	0.2
Less amounts representing finance charge	(0.4)	–
Present value of minimum lease payments	1.8	0.2

c. Commitments

On 21 December 2015, the Group contracted with Meyer Werft GmbH & Co. KG to purchase a new cruise ship for delivery in July 2019, with an option to purchase a second similar cruise ship for delivery in 2021. The new ship will replace one of the Group's existing two ships.

The first stage payment for the new ship is included within trade and other payables and will be made in February 2016. 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 21 December 2015.

As at 31 January 2016, the capital amount contracted but not provided for in the financial statements in respect of the ship amounted to £280.1m (2015: £nil).

The financing 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. The effective interest rate on the loan (including arrangement and commitment fees) is 4.29%.

On the date the finance was entered into, the Group purchased Euro currency forwards totalling £273.2m to lock the cost of the ship. These have been designated as cash flow hedges and remain outstanding as at 31 January 2016 (note 17d).

The Group has an option to purchase a second ship for the same price within the contract; the option must be exercised by 21 December 2017. The Group may be released from this option at any time although should the option to purchase not be exercised, a fee would become payable. The likelihood of incurring such a fee is considered extremely remote.

32 Commitments and contingencies (continued)

d. Contingent liabilities

At 31 January 2016, the Group had secured £31.8m (2015: £31.0m) of financial bonds and other guarantees on a revolving credit facility provided to Saga Mid Co Limited. If these bonds were called, the facility would be treated as drawn and recognised as a liability on the Group's balance sheet. The revolving credit facility is secured by a floating charge over the Group's assets.

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. These bonds are included within the financial bonds described above.

33 Discontinued operations and assets held for sale

On 30 November 2015, the Group completed the sale of the local authority section of the healthcare business, Allied Healthcare.

The impact of the discontinued operation on the profit for the year is as follows:

	2016 £'m	2015 £'m
Loss after tax, before amortisation of acquired intangibles	(7.9)	(0.3)
Amortisation of associated acquired intangible assets	-	(10.4)
Loss on re-measurement of disposal group to fair value	-	(209.5)
Gain on disposal of discontinued operations	1.0	-
	(6.9)	(220.2)

The impact of the discontinued operation on the reported earnings per share was as follows:

	2016	2015
Basic and diluted earnings per share from discontinued operations	(0.6p)	(21.9p)

The gain on disposal of Allied Healthcare is as follows:

	£'m
Cash consideration received	10.1
Fair value of other consideration receivable	3.8
Pension scheme contribution	(9.2)
Net assets disposed (including cash of £2.5m)	(3.1)
Costs of disposal not previously provided for	(0.6)
	1.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33 Discontinued operations and assets held for sale (continued)

The results of Allied Healthcare for the period are as follows:

	2016 £'m	2015 £'m
Revenue	206.2	283.2
Cost of sales	(149.2)	(199.8)
Gross profit	57.0	83.4
Administrative and selling expenses	(55.7)	(74.4)
Trading EBITDA	1.3	9.0
Depreciation and amortisation	(2.7)	(2.8)
Exceptional expenses	(6.4)	(8.4)
Net finance expense on retirement benefit schemes	(0.4)	(0.3)
Loss before tax	(8.2)	(2.5)
Tax expense	0.3	2.2
Loss for the period from discontinued operations	(7.9)	(0.3)
Attributable to:		
Equity holders of the parent	(8.2)	(0.7)
Non-controlling interest	0.3	0.4
	(7.9)	(0.3)

The net cash flows of Allied Healthcare during the period to disposal are as follows:

	2016 £'m	2015 £'m
Operating	(12.2)	3.6
Investing	0.1	(3.5)
Financing	8.4	–
Net cash (outflow)/inflow	(3.7)	0.1

34 Related party transactions

During the year ended 31 January 2016, the Saga Group agreed terms for the utilisation under the group relief rules of corporation tax losses from Acromas SPC Co Limited and Acromas Mid Co Limited, indirect investees in the Group, at a cost of 50% of the tax affected face value. Amounts payable by the Group in respect of the surrender of these tax losses of £7.6m were unpaid at 31 January 2016 (see note 9).

G Williams, an independent Non-Executive Director of Saga plc, serves on the board of WNS (Holdings) Limited, a company which Acromas Insurance Company Limited, a subsidiary of Saga plc, traded with during the year. WNS (Holdings) Limited provides claim handling management services to Acromas Insurance Company Limited and during the year ended 31 January 2016 earned fees of £3.5m (2015: £5.8m); further payments to WNS (Holdings) Limited in respect of repair costs on claims handled totalled £40.2m (2015: £41.9m). As at 31 January 2016, amounts owing to WNS (Holdings) Limited for fees and repair costs were £1.5m (2015: £3.7m).

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.

Name	Country of registration	Nature of business
Acromas Financial Services Limited	England	Regulated investment products
Acromas Holidays Limited	England	Tour operating
Acromas Insurance Company Limited	Gibraltar	Insurance underwriting
Acromas Shipping Limited	England	Cruising
Acromas Transport Limited	England	Tour operating
Bel Jou (St Lucia) Limited	St Lucia	Hotel operator
Bennetts Biking Services Limited	England	Insurance services
CHMC Limited	England	Motor accident management
Destinology Limited	England	Tour operating
Direct Choice Insurance Services Limited	England	Insurance services
Enbrook Cruises Limited	England	Cruising
MetroMail Limited	England	Mailing house
Premium Funding Limited	England	Insurance services
Saga Cruises IV Limited	England	Cruising
Saga Cruises Limited	England	Cruising
Saga Healthcare Limited	England	Provision of domiciliary care
Saga Mid Co Limited	England	Debt service provider
Saga Property Company (St Lucia) Limited	St Lucia	Property Investment
Saga Publishing Limited	England	Publishing
Saga Services Limited	England	Insurance services
Titan Transport Limited	England	Tour operating
Acromas Holidays (USA) Inc.	USA	Holding company
Allied Healthcare International LLC	USA	Holding company
Automobile Association Travel 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 Establecimientos Hoteleros, S.L.	Spain	Holding company
Saga Group Limited	England	Holding company
Saga Holdings Limited	England	Holding company
Saga Hotels (Caribbean) Limited	St Lucia	Holding company
Saga Leisure Limited	England	Holding company
Saga Overseas SL	Spain	Holding company
Saga Properties (Caribbean) Limited	St Lucia	Holding company
Saga Properties Limited	England	Holding company
Acromas Travel Limited	England	Dormant company
All Canada Limited	England	Dormant company
Canadian Connections Limited	England	Dormant company
Confident Services Limited	England	Dormant company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

35 Subsidiaries (continued)

Name	Country of registration	Nature of business
Connections Worldwide Holidays Limited	England	Dormant company
Country Cousins (Horsham) Limited	England	Dormant company
Driveline Europe Limited	England	Dormant company
Driveline Travel Limited	England	Dormant company
Enbrook Services Limited	England	Dormant company
Grand Touring Club (France) Limited	England	Dormant company
Grand Touring Club Limited	England	Dormant company
Grandstand Sports Tours Limited	England	Dormant company
Grandstand Worldwide Limited	England	Dormant company
Inter-Church Travel Limited	England	Dormant company
New Zealand Connections Limited	England	Dormant company
Patricia White's Personal Home Care Limited	England	Dormant company
PEC Services Limited	England	Dormant company
Saga (International) Holidays Limited	England	Dormant company
Saga 500 Limited	England	Dormant company
Saga Coach Holidays Limited	England	Dormant company
Saga Communications 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 Cruises V Limited	England	Dormant company
Saga Cruises VI Limited	England	Dormant company
Saga Digital Radio Limited	England	Dormant company
Saga Financial Limited	England	Dormant company
Saga Financial Planning Limited	England	Dormant company
Saga Flights.com Limited	England	Dormant company
Saga Holidays Limited	England	Dormant company
Saga Homes Limited	England	Dormant company
Saga Independent Living Limited	England	Dormant company
Saga Investments Limited	England	Dormant company
Saga Media Limited	England	Dormant company
Saga Personal Finance Limited	England	Dormant company
Saga Property Management Limited	England	Dormant company
Saga Radio (North West) Limited	England	Dormant company
Saga Retirement Housing Limited	England	Dormant company
Saga Rose Limited	England	Dormant company
Saga Ruby Limited	England	Dormant company
Saga Shipping Company Limited	England	Dormant company
Saga Tours Limited	England	Dormant company
Saga Ventures Limited	England	Dormant company

35 Subsidiaries (continued)

Name	Country of registration	Nature of business
Saga Vitamins Limited	England	Dormant company
Spirit Of Adventure Cruises Limited	England	Dormant company
Spirit Of Adventure Holidays Limited	England	Dormant company
Spirit Of Adventure Limited	England	Dormant company
Tailor-Made Travel Limited	England	Dormant company
Taylor Price Insurance Services Limited	England	Dormant company
The Classic Traveller Limited	England	Dormant company
Titan Aviation Limited	England	Dormant company
Titan Connections Limited	England	Dormant company
Titan Connections To Australia Limited	England	Dormant company
Titan Connections To Italy Limited	England	Dormant company
Titan Hitours Limited	England	Dormant company
Titan Investment Property Company Limited	England	Dormant company
Titan Music Productions Limited	England	Dormant company
Titan Personal Finance Limited	England	Dormant company
Titan Specialist Tours Limited	England	Dormant company
Titan Travel Holdings Limited	England	Dormant company
Titan Travel Limited	England	Dormant company

36 Investment in joint ventures

During the year, the Group held an interest in two joint ventures:

a. Saga Law Limited

The Group held a 49% interest in Saga Law Limited, a company registered in England and Wales, up to 23 November 2015. This was accounted for using the equity method in the consolidated financial statements. The joint venture contributed a share of profit of £0.1m after tax.

b. 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 £1.4m after tax. The investment has a carrying value of £1.6m as at 31 January 2016.

COMPANY FINANCIAL STATEMENTS OF SAGA PLC BALANCE SHEET

	Note	2016 £'m	2015 £'m
Non-current assets			
Investment in subsidiaries	2	2,100.6	2,099.2
Current assets			
Debtors	3	0.9	0.2
Creditors – amounts falling due within one year	4	114.1	33.8
Net current liabilities		(113.2)	(33.6)
Net assets			
Capital and reserves			
Called up share capital	5	11.2	11.1
Share premium account		519.3	519.4
Profit and loss reserve		1,439.0	1,494.3
Other reserves		17.9	40.8
Total shareholders' funds		1,987.4	2,065.6

Company number: 08804263

Signed for and on behalf of the Board on 18 April 2016 by



L H L Batchelor
Group Chief Executive Officer



J S Hill
Group Chief Financial Officer

The notes on pages 178-182 form an integral part of these financial statements.

COMPANY FINANCIAL STATEMENTS OF SAGA PLC
STATEMENT OF CHANGES IN EQUITY

	Called up share capital £'m	Share premium account £'m	Retained earnings £'m	Share- based payment reserve £'m	Total equity £'m
At 2 May 2014	8.0	–	3,531.6	–	3,539.6
Issue of share capital on flotation	3.0	547.0	–	–	550.0
Costs associated with issue of share capital	–	(27.6)	–	–	(27.6)
Issue of treasury shares	0.1	–	–	–	0.1
Loss for the period	–	–	(768.8)	–	(768.8)
Dividends paid	–	–	(1,269.5)	–	(1,269.5)
Share-based payment charge	–	–	–	41.8	41.8
Exercise of share options	–	–	1.0	(1.0)	–
At 31 January 2015	11.1	519.4	1,494.3	40.8	2,065.6
Loss for the financial year	–	–	(8.8)	–	(8.8)
Bonus shares issued	0.1	(0.1)	–	–	–
Dividends	–	–	(70.4)	–	(70.4)
Share-based payment charge	–	–	–	2.8	2.8
Exercise of share options	–	–	11.0	(12.8)	(1.8)
Issue of free shares (note 5)	–	–	12.9	(12.9)	–
At 31 January 2016	11.2	519.3	1,439.0	17.7	1,987.4

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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 million pounds (£'m) except when otherwise indicated.

The Company transitioned from previously extant United Kingdom Generally Accepted Accounting Practice ('UK GAAP') to FRS 101 for all periods presented. Transition reconciliations showing all material adjustments are disclosed in note 6. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2016.

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 £8.8m (2015: £768.8m).

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) The requirements of IFRS 7 'Financial Instruments: Disclosures'.
- b) The requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement'.
- c) 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.
- d) 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'.
- e) The requirements of IAS 7 'Statement of Cash Flows'.
- f) The requirements of paragraphs 30 and 31 of IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors".
- g) The requirements of paragraph 17 of IAS 24 'Related Party Disclosures'.
- h) 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.
- i) The requirements of IFRS 1.6 and IFRS 1.21 on the comparative period for first time adopters of IFRS.

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.

b. Investments

Investments in Group undertakings are stated at the lower of cost and net realisable value.

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.

NOTES TO THE COMPANY
FINANCIAL STATEMENTS CONTINUED

2 Investment in subsidiaries

	£'m
Cost	
At 2 May 2014	3,539.6
Additions	544.8
Capital contributions arising from share-based payments	41.2
At 31 January 2015	4,125.6
Capital contributions arising from share-based payments	1.4
At 31 January 2016	4,127.0
Amounts provided for	
At 2 May 2014	–
Amounts provided in the period	2,026.4
At 31 January 2015	2,026.4
Amounts provided in the year	–
At 31 January 2016	2,026.4
Net book value	
At 31 January 2016	2,100.6
At 31 January 2015	2,099.2

See note 35 to the consolidated financial statements for a list of the Company's investments.

3 Debtors

	2016 £'m	2015 £'m
Deferred tax asset	0.3	0.1
Other debtors	0.6	0.1
	0.9	0.2

All amounts above are due in less than one year.

4 Creditors – amounts falling due in less than one year

	2016 £'m	2015 £'m
Amounts owed to Group undertakings	109.7	31.1
Other creditors	4.4	2.7
	114.1	33.8

5 Called up share capital

	Ordinary shares		
	Number	Nominal value £	Value £'m
Allotted, called up and fully paid			
At 1 May 2014	800,000,000	0.01	8.0
Issue of share capital on flotation	310,705,405	0.01	3.1
As at 31 January 2015	1,110,705,405	0.01	11.1
Free shares allotted – 5 June 2015	7,300,000	0.01	0.1
As at 31 January 2016	1,118,005,405	0.01	11.2

On 29 May 2014, Saga plc was admitted to the London Stock Exchange, issuing 310,705,405 £0.01 shares, raising £550m of funds to clear existing bank debt (note 28 to the consolidated financial statements). The share premium arising on this transaction was £547.0m.

On 5 June 2015, the Company issued 7.3 million free shares as part of the offer during the IPO.

6 Transition to FRS 101

For all periods up to and including the year ended 31 January 2015, the Company prepared its financial statements in accordance with previously extant UK GAAP. These statements, for the year ended 31 January 2016, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 February 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 February 2014, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 February 2014 prepared under extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 January 2015.

NOTES TO THE COMPANY
FINANCIAL STATEMENTS CONTINUED

6 Transition to FRS 101 (continued)

Reconciliation of equity as at 31 January 2015

	Note	UK GAAP £'m	FRS 101 Re-classification/ re-measurements £'m	FRS 101 £'m
Fixed assets				
Investment in subsidiaries		2,099.2		2,099.2
Current assets				
Debtors		0.2		0.2
Creditors – amounts falling due within one year	(a)	(33.8)	–	(33.8)
Net current liabilities		(33.6)		(33.6)
Net assets		2,065.6		2,065.6
Capital and reserves				
Called up share capital		11.1		11.1
Share premium account		519.4		519.4
Retained earnings	(a)	1,494.3	–	1,494.3
Share-based payment reserve		40.8		40.8
Shareholders' funds		2,065.6		2,065.6

a. Employee benefits

Holiday pay accrual – On transition to FRS 101, a holiday pay accrual has been accounted for of £15,000 at 31 January 2015 (£nil at 1 February 2014).

SHAREHOLDER INFORMATION

Financial calendar

2016 Annual General Meeting –
21 June 2016

Final dividend dates

Announcement date – 19 April 2016
Ex-dividend date – 12 May 2016
Record date – 13 May 2016
Last day for DRIP elections – 5 June 2016
Payment date – 30 June 2016

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 recent 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 potentially 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 6758. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

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Goldman Sachs
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133 Fleet Street
London EC4A 2BB

Media relations advisers

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Aldersgate Street
London EC1A 4HD

Independent auditors

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London SE1 2AF

Legal advisers

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65 Fleet Street
London EC4Y 1HT

Information for investors

Information for investors is provided on the internet as part of the Group's corporate website which can be found at <http://corporate.saga.co.uk>.

Registrars

Capita Asset Services

For shareholder enquiries contact:
Saga Shareholder Services
The Registry
34 Beckenham Road
Beckenham
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Shareholder Helpline: 0800 015 5429 – calls to Freephone numbers will vary by provider. If you are outside the United Kingdom call +44 203 471 2272 – calls outside the United Kingdom 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.

GLOSSARY

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

Active customer a customer that has purchased an insurance policy in the last twelve months, or a holiday in the last three years, or has a live personal finance product or Saga Magazine subscription

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 operating cash flow net cash flow from operating activities after capital expenditure but before tax and interest paid and exceptional expenses, which is available to be used by the Group as it chooses and is not subject to regulatory restriction

Average number of products held the average number of Saga products held by each active customer as at a certain date. Active customers include those customers who hold an insurance product, have taken a holiday in the last three years or have a live personal finance or Saga Magazine product

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 from time to time 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 in selling and administering insurance underwritten (numerator) to the net earned premium (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

Contactable households the number of households that are recorded on the proprietary Group Marketing Database, with a household being defined as a single person or couple living at the same address

Contactable people the number of people that are recorded on the Group's proprietary marketing database that have not opted out of all marketing preferences

Continuing operations operations that are not classified as discontinued

Core policy an insurance policy that is actively marketed and sold on its own

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

DTRs (Disclosure Rules 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

Expense ratio the ratio of expenses incurred in selling and administering insurance underwritten (numerator) to the net earned premium (denominator) in a given period

Financial Conduct Authority (FCA) the independent UK body that regulates the financial services industry, which includes general insurance

FTE (Full Time Equivalent) the number of full-time and part-time employees expressed as an equivalent number of full-time employees

GHG Protocol a global standard for how to measure, manage, and report greenhouse gas emissions

Gross revenue statutory accounting revenue plus any net premiums paid to third party insurers who underwrite insurance sold by the Group

Gross written premiums the total premium charged to customers for an 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

Liquidated damages payments received in respect of the early termination of management and franchise contracts, where applicable

Load factor in relation to cruise ships, the number of passenger days travelled divided by the maximum number of passenger days that could be travelled, in a given period

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 set from time to time by 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

M&A Mergers and Acquisitions

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

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 profit profit before interest payable, tax, exceptional expenses and fair value gains and losses on derivative financial instruments

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

PPO (Periodical payment order) claims payments as awarded under the Courts Act 2003. PPOs are used to settle large personal injury claims, and they generally provide claimants who require long-term care with a lump sum award plus inflation-linked annual payments

RDR 1 and RDR 2 residence, domicile and the remittance basis UK tax rules

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 under Solvency I to assess the minimum level of solvency capital an insurance underwriter must retain

RPI Retail Price Index

Ship passenger days the total number of days passengers have travelled on a ship, or ships, in a given period

SIP Share Incentive Plan

SIPP self invested personal pension

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. Solvency II came into effect on 1 January 2016

TBI Tilney Bestinvest

tCO₂e tonnes of carbon dioxide equivalent, which is a measure that allows comparison of the emissions of other greenhouse gases relative to one unit of CO₂

Trading EBITDA earnings before interest payable, tax, depreciation and amortisation, exceptional expenses 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

UW underwriting



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