We're at the heart of our customers' world

Saga plc
Annual Report and Accounts for the year ending 31 January 2017


Welcome to Saga plc's annual report and accounts

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

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

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

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

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

Strategic report

Governance

Financial statements

Additional information

Financial highlights

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

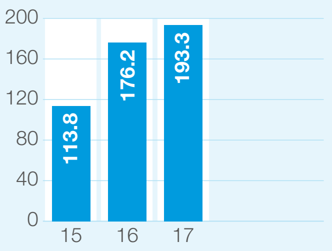
A renewed focus on our customers' journey allows us to understand their needs to improve their lives day to day.

See what we've learnt

p07

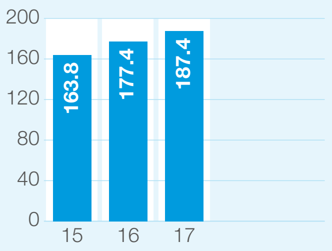
Profit before tax (£m)

↑ 9.7%



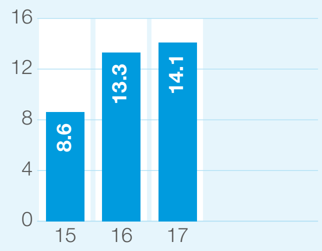
Underlying profit before tax[1] (£m)

↑ 5.6%



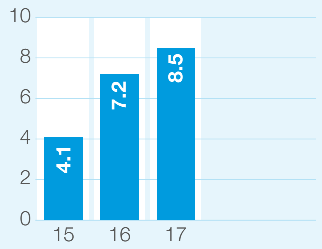
Basic earnings per share[2] (pence)

↑ 6.0%



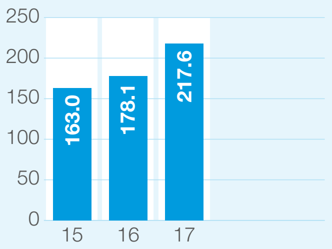
Dividend per share (pence)

↑ 18.1%



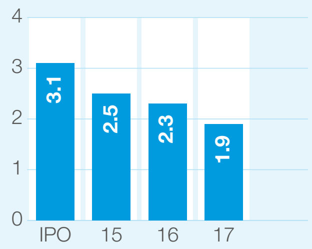
Available operating cash flow (£m)

↑ 22.2%



Debt ratio (net debt to EBITDA)

↓ 17.6%



High-affinity customers ('HACs')

483k

Product holding per HAC

2.1 core products

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

Strategic report
Governance
Financial statements

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

Insurance

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

Operations
- Retail broking
- Underwriting

To find out more go to p24-26

Travel

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

Operations
- Saga Cruises
- Saga Holidays
- Titan
- Destinology

To find out more go to p27

Emerging businesses

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

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

To find out more go to p29

Saga as an investment

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

Why invest in us?

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

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

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

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

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

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

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

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

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

I am delighted to present another strong set of results.

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

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

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

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

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

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

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

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

Andrew Goodsell
Chairman
28 March 2017

Our governance supports our strategic priorities

Governance highlights

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

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

p40

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

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

Same clear strategy

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

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

Customer work

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

1 Profit before tax excluding derivatives and Ogden impact.

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

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

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

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

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

So, what's next?

Strategic priorities for the coming year

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

1. **Becoming increasingly customer-centric**
   p14
2. **Growing profits in our retail insurance and travel businesses**
   p14
3. **Investing for future growth**
   p15
4. **Maintaining our efficient operating model**
   p15
5. **Developing our people**
   p15

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

Membership

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

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

Saga Possibilities will be structured around four key components:

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

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

Conclusion – the Saga investment case

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

How we are different:

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

The model works

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

Confidence in future delivery

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

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

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

Lance Batchelor
Group Chief Executive Officer
28 March 2017

Our Executive team

The right mix

Introducing our Executive Team (from left to right)

1. Jules Christmas
Group IT Director

2. Jeannette Linfoot
Managing Director, Tour Operations

3. Robin Shaw
Chief Executive, Saga Cruises

4. Jonathan Hill
Group Chief Financial Officer

5. Nici Audhlam-Gardiner
Managing Director, Saga Personal Finance

6. Lance Batchelor
Group Chief Executive Officer

7. Matt Atkinson
Group Chief Marketing Officer

8. Roger Ramsden
Chief Executive, Insurance Broking

9. Andrew Button
Chief Executive, AICL

10. Karen Caddick
Group HR Director

How we do it

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

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

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

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

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

Delivered through the Saga Model

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

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

Underpinned by our flexible capital efficient model

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

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

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

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

We are well positioned to serve a growing demographic

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

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

Macro conditions

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

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

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

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

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

Regulatory and political change

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

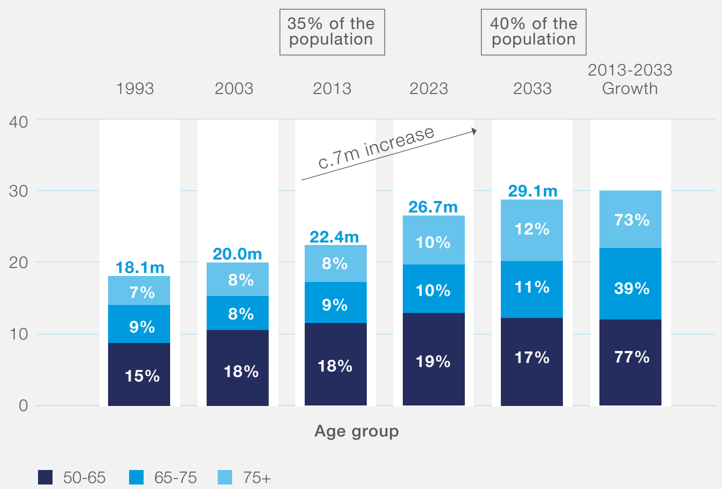
Saga as a regulated business

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

The competition for customers

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

Projected growth of the UK's over 50s



Source: Centre for Economic and Business Research.

Our strategy at a glance

Our strategy

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

KPIs

Profit before tax
£193.3m ↑ 9.7%
£176.2m

Earnings per share
14.1p ↑ 6.0%
13.3p

Dividend per share
8.5p ↑ 18.1%
7.2p

Available operating cash flow
£217.6m ↑ 22.2%
£178.1m

Debt ratio
1.9x ↓
2.3x

Number of HACs
483k

Core product holding per HAC
2.1

Strategic delivery

Becoming increasingly customer-centric

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

Growing profits in our retail insurance and travel businesses

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

Investing in future growth

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

Maintaining our efficient operating model

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

Developing our people

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

Measuring success

Number of HACs

Core product holding per HAC

Launch of the Saga membership scheme

Profit before tax from core businesses growing

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

Growth in our portfolio of Saga Money products

Continued success of the Saga Healthcare and Retirement Village pilots

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

Deliver cost and efficiency improvements

Continued improvement in sustained engagement

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

What's our plan?

Our strategic objectives for the coming year are:

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

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

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

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

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

1 Becoming increasingly customer-centric

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

Membership

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

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

Saga Possibilities will be structured around four key components:

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

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

2 Growing profits in our retail insurance and travel businesses

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

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

3 Investing for future growth

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

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

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

4 Maintaining our efficient operating model

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

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

5 Developing our people

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

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

People, culture and community

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

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

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

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

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

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

We are committed to:

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

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

Gender diversity January 2017

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

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

Employee engagement

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

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

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

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

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

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

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

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

Community and Social

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

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

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

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

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

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

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

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

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

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

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

Human rights

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

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

Health and safety

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

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

Greenhouse gas emissions

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

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

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

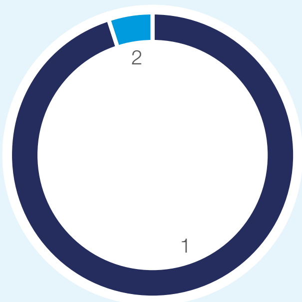
Greenhouse gas emissions in tonnes of carbon dioxide (tCO_2) or carbon dioxide equivalent (tCO_2e)

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

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

Total location-based emissions (2016/17)

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



Methodology

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

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

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

Reporting boundaries and limitations

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

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

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

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

Assumptions and estimations

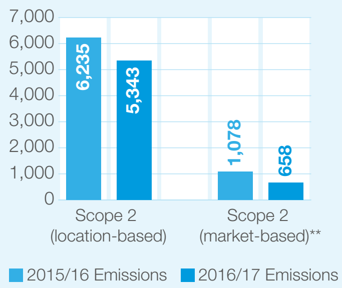
During this reporting year the Bel Jou hotel in St Lucia was sold on 20 July 2016. No data was available for Bel Jou's operations in 2016/17 due to the change in ownership. The emissions for the period of the year in which Bel Jou was part of the Group have been estimated using data from 2015.

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

Energy procurement decisions

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

Scope 2 electricity emissions by reporting type



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

Improving performance

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

Supplier partnerships

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

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

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

Our principal risks and uncertainties

Risk governance

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

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

Risk appetite

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

Financial strength

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

Earnings volatility

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

Liquidity

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

Conduct

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

Customer growth

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

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

Market risk

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

Credit risk

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

Liquidity risk

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

Insurance risk

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

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

Strategic risk

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

Mergers and acquisitions risk

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

Operational risk

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

Health and safety

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

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

Cyber security

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

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

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

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

Our principal risks and uncertainties continued

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

A busy year

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

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

Retail broking

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

Retail broking profit
£138.0m
+9.1%

Policy count
3.0m
+3.2%

Persistency rate – Motor
69.2%

Profit per core policy
£46.0
+5.7%

Persistency rate – Home
74.6%

Retail broking

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

Motor broking

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

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

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

Home broking

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

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

Other broking

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

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

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

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

Current trading in retail broking

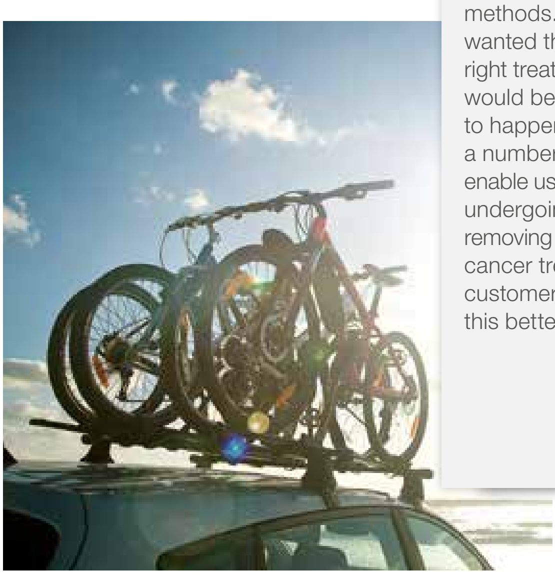
Given our varied retail broking product lines, we always experience varying market conditions in different businesses. Overall, we have seen a very positive start to the year on motor premiums, with strong upwards movement on new business. This is currently running in excess of claims inflation, and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

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

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

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

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



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

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

What this means for our customers

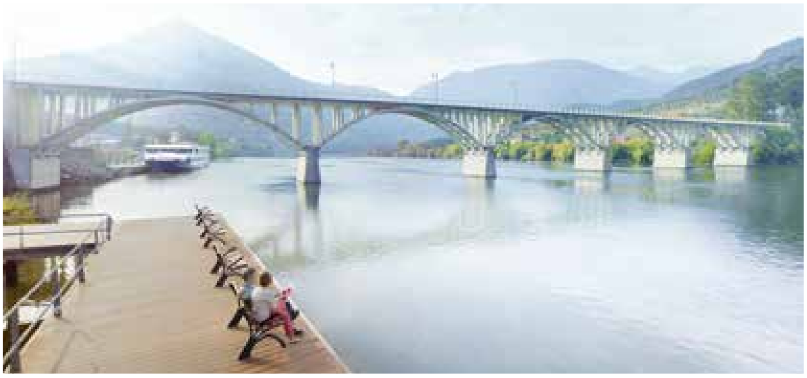
With no limits on outpatient cancer care, our customers can be assured that we're there to support them through the most challenging times, and that access to treatments that provide them with the best chance of recovery will be fully covered by their insurance. Having treatment at home, for example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

How this helps us deliver our strategy

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

Underwriting

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



Underwriting profit

£73.1m

-13.1%

Solvency II coverage ratio

143%

-27%

Pure COR

94.7%

-4.7%

Reserve releases

£59.9m

-7.4%

Insurance underwriting

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

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

Reserve releases

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

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

Ogden discount rate change

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

Travel

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

Revenue

£432.0m

+2.1%

Passengers – Holidays

190k

+0.5%

Passenger days – Cruising

301k

-11.2%

Operating margin

3.45%

+0.26%

Profit before tax excluding derivatives

£14.9m

+10.4%

Travel

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

Tour operating

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

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

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

Case study: New cruising capacity

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

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

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

Trading to week ending 18 March 2017

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

Cruising

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

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

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

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

Current trading

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

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

Emerging businesses

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

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

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

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

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

Group Chief Financial Officer's review

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

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

Income Statement

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

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

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

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

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

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

Net finance costs

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

Tax expense

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

Earnings per share

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

Dividends

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

Saga offers a share alternative in the form of a dividend re-investment plan ("DRIP") for those shareholders who wish to elect to use their dividend payments to purchase additional Shares in the Group, rather than receive a cash payment. The last date for shareholders to elect to participate in the DRIP will be 5 June 2017.

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

Cash flow and liquidity

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

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

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

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

Financing

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

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

Pensions

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

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

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

Net assets

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

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

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

Segmental performance

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

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

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

Retail broking

	12m to Jan 2017					12m to Jan 2016			
	Motor broking	**Home broking**	**Other broking**	**Total broking**	*Growth*	Motor broking	Home broking	Other broking	Total broking
Revenue	**£127.5m**	**£89.8m**	**£80.4m**	**£297.7m**	***13.7%***	**£89.5m**	**£90.0m**	**£82.4m**	**£261.9m**
Gross profit	**£124.4m**	**£89.8m**	**£63.4m**	**£277.6m**	*14.2%*	£87.0m	£89.7m	£66.3m	£243.0m
Operating expenses	**(£79.2m)**	**(£28.6m)**	**(£31.8m)**	**(£139.6m)**	*19.8%*	(£58.4m)	(£26.3m)	(£31.8m)	(£116.5m)
Profit before tax	**£45.2m**	**£61.2m**	**£31.6m**	**£138.0m**	***9.1%***	**£28.6m**	**£63.4m**	**£34.5m**	**£126.5m**
Number of policies sold:									
– core	**1,366k**	**1,254k**	**381k**	**3,001k**	*3.2%*	1,238k	1,287k	383k	2,908k
– add-ons	**1,619k**	**529k**	**9k**	**2,157k**	*6.7%*	1,475k	546k	1k	2,022k
	2,985k	**1,783k**	**390k**	**5,158k**	*4.6%*	2,713k	1,833k	384k	4,930k
GWP	**£320.5m**	**£155.7m**	**£128.1m**	**£604.3m**	*(3.8%)*	£327.9m	£175.3m	£125.0m	£628.2m

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

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

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

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

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

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

Insurance underwriting

Underwriting income statement

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

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

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

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

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

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

Reserving

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

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

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

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

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

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

Investment portfolio

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

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

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

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

Solvency capital

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

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

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

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

Travel

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

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

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

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

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

Emerging businesses and central costs

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

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

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

Financial outlook and guidance

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

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

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

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

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

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

Jonathan Hill
Group Chief Financial Officer
28 March 2017

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

Our internal governance procedures must support our strategic priorities

Key features – corporate governance report
- An explanation of how governance works to support our strategic priorities whilst supporting the Saga Way and the Saga Model.
- How performance is reviewed to ensure that our customers and shareholders are listened to and remain at the heart of what we do.
- The findings of our first externally facilitated Board and Committee evaluation exercise.

Board discussion topics:
- How to become more customer-centric.
- Strategy – how to grow our existing businesses and invest for future growth.
- Financial performance.
- How we can develop our people.
- Risk appetite.
- Brand and reputation.

During our third year as a public company, our strategic priorities for the future have evolved (as outlined on pages 01-39). This year is about ensuring that our governance framework supports growth in our businesses and our focus on becoming even more customer-centric, allowing our customers to live the life they want to lead.

The Board is structured to support the Group with its relentless desire to put the customer at the centre of everything it does. Every Board decision includes consideration of how it will affect our customers. Details of Board activities during the year and how the governance structure supported key decisions (such as the decision to build our new ship) can be found on page 47.

The Audit, Risk, Remuneration and Nomination Committees (the 'Committees') have also played an important role in setting the strategic direction. The Group's risk management processes were 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 57). The Audit Committee considered the approach taken and the viability statement itself (see page 42), 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'.

"This year is about ensuring that our governance framework supports growth in our businesses and our focus on becoming even more customer-centric, allowing our customers to live the life they want to lead."

Details can be found in the Audit Committee Report on pages 58-61.

Our brand and reputation

The Board is committed to ensuring that our brand and reputation for outstanding levels of customer service are never compromised. We also remain focused on delivering the best service to our shareholders and it is vital that our corporate governance procedures support our strategic direction.

Whilst there have been no changes to the Board during the year, the Nomination Committee did discuss how the Company would ensure that there is the right level of oversight of the regulated businesses and that those companies had senior leaders with the right experience in place. This Committee also considered how we manage our talent and succession planning – for more details see pages 52-53.

During the year, we announced that Philip Green will resign from the Board and his position as Senior Independent Director on 31 March 2017, to chair another business. He will be replaced as Senior Independent Director by Orna NiChionna, one of our current Non-Executive Directors. Orna will also become Chair of the Nomination Committee at this point.

I'd like to thank Philip very much for his contribution to the Board during the Company's first three years as a listed business. Given the opportunity that he has been offered, I fully understand the rationale for his decision and wish him continued success in the future. Orna has extensive experience within listed companies, sits on our Audit, Nomination and Remuneration Committees and chairs the Risk Committee. I am delighted that Orna has agreed to take over from Philip as Senior Independent Director. She has a good feel for what we do as a business, our values, and what's right for our customers, and she has made a strong contribution during her time on the Board.

On 22 April 2016, as a result of the share placing undertaken by Acromas Bid Co Limited, Non-Executive Director James Arnell resigned from the Board. This was in accordance with the Relationship Agreement dated 8 May 2014 which required his resignation once the indirect shareholding of the Private Equity Investor he represented ceased to exist. We comply with the recommendation in the UK Corporate Governance Code 2016 (the 'Code') that at least half of our Board members are independent Non-Executive Directors. For full details of Board composition see pages 48-50.

Our people

As well as setting the strategic direction of the Group, the Board has taken steps to support and develop leadership and management, recognising that our people are core to the success of delivery of our strategy. A key part of our Saga People Action Plan to address themes from Becoming the Best employee survey and to ensure we are embedding the Saga Way, was to develop a Leadership Development Programme – see page 16 for more details. We also awarded eligible employees with free shares for the second year running under the 2014 Share Incentive Plan to reward their hard work.

Board evaluation

We conducted our first externally facilitated Board and Committee evaluation during the year. The exercise identified that our governance has developed well and is sound and that there is a healthy culture of transparency, greater strategic clarity and good coverage of the main risks, The experience of the Directors, combined with a stable and strong senior management team, means that the interests of all stakeholders, including shareholders, are considered, A full explanation of the evaluation exercise can be found on page 51.

The Remuneration Report was approved by our shareholders at our AGM: over 90% voted in favour. The full Remuneration Report can be found on pages 67-89.

UK Corporate Governance Code

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

A summary of how we have complied with the Code is set out overleaf. Our approach to leadership and effectiveness is detailed on pages 45-46 and 50-51 respectively, accountability on pages 54-57, and relations with shareholders on page 66.

Governance continues to support our strategic priorities in a practical way. Having the right structure in place means that the decisions we make as a Board go through a rigorous procedure, allowing for discussion at the committees and at the Board, to enable us to grow, continue to pay down debt and enhance long-term returns to our shareholders through a progressive dividend policy.

Our shareholders and our AGM

We continue to offer a DRIP for those shareholders who wish to turn cash dividends into more shares. At our second AGM at our head office in Folkestone, Kent on 21 June 2016, 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 meeting our shareholders. I also welcome comments from shareholders at any time.

Andrew Goodsell

Andrew Goodsell
Chairman
28 March 2017

Compliance Statement

The Board is committed to high standards of corporate governance and manages Saga's operations in accordance with the Code. A full version of the Code can be found on the Financial Reporting Council's ('FRC') website www.frc.org.uk. The Company complied with all of the provisions of the Code throughout the year.

Viability statement

The Directors have considered the viability of the Group over the five-year period to January 2022 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 2022 to be an appropriate period over which to assess the Group's viability, as this period:

- is consistent with the planning horizon over which the Directors normally consider the strategic direction, future performance, capital and solvency requirements of the business;
- includes the delivery of the contracted new ship and the optional second ship in 2021; and
- includes the refinancing of the senior bank facilities that mature in April 2019.

In making this statement the Directors have considered the resilience of the Group, taking account of its current position and long-term strategic plan, 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 20-22 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 provides 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 20-22; Group Chief Financial Officer's review pages 30-39; accountability pages 54-57; Audit Committee report pages 58-61; Risk Committee report pages 62-65); and notes 17, 18, 23, 24 and 25.

The Group has access to sufficient cash and other financial resources together with a large renewing income stream from insurance policies and high-repeat purchase levels from customers of its other products, and long-term contracts with a number of suppliers across different industries. As a consequence, the Directors believe that the Group is well placed to successfully manage its business risks.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. It is therefore appropriate to adopt the going concern basis in preparing the financial statements.

Assessment of risk

Through the risk cycle detailed on pages 54-57, the Board is able to confirm that it has carried out a robust assessment of the principal risks facing the Company, including those which would threaten our business model, future performance, solvency or liquidity, in accordance with section C 2.1 of the Code.

Statement of review

The risk management process detailed on pages 54-57 was in place for the year under review and up to the date of approval of this report.

The Board has conducted a review of the effectiveness of Saga's risk management and internal control systems, including all material financial, operational and compliance controls, and concluded that these are acceptable.

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

A. Leadership

A1 The role of the Board

The Board met formally six times during the year. The schedule of matters reserved for the Board was reviewed on 20 September 2016. There is a clear governance structure throughout the Group, which sets out delegated authorities.

A2 Division of responsibilities

There is a clear division of responsibilities between the Chairman and the Group Chief Executive Officer. A document clarifying these and the role of the Senior Independent Director was reviewed and approved by the Board on 1 November 2016. This document is reviewed annually.

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 Director acts as a sounding board for the Chairman, led an evaluation on the Chairman's performance and is available for meetings with major shareholders.

B. Effectiveness

B1 The composition of the Board

The Nomination Committee is responsible for regularly reviewing the composition of the Board, considering succession planning and evaluating 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, and with due regard for the benefits of diversity. Further details of the activities of the Nomination Committee can be found on pages 52-53.

B3 Commitment

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

B4 Development

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

B5 Information and support

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

B6 Evaluation

The Board conducted an externally facilitated annual evaluation of its own performance and that of its Committees and individual Directors, as set out on page 51.

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 01-39 (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 62-65.

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. During the year, the Audit Committee oversaw a formal and thorough audit tender process. This is explained in the Audit Committee report on page 61.

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

D. Remuneration

D1 The level and components of remuneration

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

D2 Procedure

Details of the work of the Remuneration Committee and Remuneration Policy can be found in the Directors' Remuneration Report on pages 67-89 (inclusive).

E. Relations with shareholders

E1 Dialogue with shareholders

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

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 66.

A key part of our Saga People Action Plan to address themes from Becoming the Best employee survey and to ensure we are embedding the Saga Way, was to develop a Leadership Development Programme across a range of levels across the Group. This started with the Group Executive and was then cascaded to their direct reports, approximately 72 people. The programme is made up of three workshops, due to complete in November 2017. This investment in people is core to the success of our strategy and our aim is to filter this to all senior managers so that the leadership team are aligned in how growth is delivered. For more details, see page 16.

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

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 20 September 2016). 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 (including post investment reviews where not considered in detail by the Audit or Risk Committee or where the Board decide a full review is required), 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 47.

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. The Chairman meets regularly with the Senior Independent Director and Non-Executive Directors outside of the formal meetings.

Member	Role	Attendance at Board meetings
Andrew Goodsell	Chairman (Leadership, Board governance, setting tone for agenda and facilitating open Board discussions, performance and shareholder engagement)	6
Lance Batchelor	Group Chief Executive Officer (Developing strategy for Board approval and Group performance)	6
Jonathan Hill	Group Chief Financial Officer (Group financial performance, including creation of budget and five-year plans for recommendation to the Board)	6
Non-Executive Directors:		
James Arnell[1]	Private Equity Investor appointed	2
Independent Non-Executive Directors:		
Philip Green	Participate in, assess, challenge and monitor Executive Directors' delivery of the strategy (within risk and governance structures), financial controls and integrity of financial statements, and Board diversity. Evaluate and appraise the performance of Executive Directors and senior management.	6
Ray King		5
Bridget McIntyre		6
Orna NiChionna		5
Gareth Williams		6

Note:
1 James Arnell resigned on 22 April 2016 and attended all Board meetings prior to his resignation.

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

The Board's responsibilities

- Strategic direction of the Group.
- Leadership and management.
- Setting values and standards (in accordance with the Saga Model and the Saga Way – see pages 10 and 16 respectively).
- Considering the needs of our shareholders, employees and customers.
- Ensuring compliance with statutory and regulatory obligations.
- Managing risk and control.

The Nomination Committee's responsibilities

- 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 evaluation results in relation to Board composition.

See pages 52-53 for the Nomination Committee report.

The Audit Committee's responsibilities

- Monitoring the integrity of financial statements.
- Reviewing internal and external audit work plans.
- Monitoring and reviewing the effectiveness of the Internal Audit function.
- Assessing the adequacy and effectiveness of the Company's internal controls and external audits.
- Reviewing Saga's annual and half year financial statements and accounting policies.
- Considering and approving terms of 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 58-61 for the Audit Committee report.

The Risk Committee's responsibilities

- 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 62-65 for the Risk Committee report.

The Remuneration Committee's responsibilities

- 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 67-89 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 and cultural leadership and people development.
- Managing risk and conduct.

Board activities during the year

1 Strategy
Our Board is structured to support becoming a more customer-centric business

- Reviewed strategic initiatives:
  - Membership.
  - Brand proposition.
  - Adobe Marketing Cloud.
  - New holidays proposition.
  - The impact of the quota share arrangement.
- Performance of Saga Investment Services.
- Progress of building our new ship.
- The Saga Healthcare pilot; discussed how the business can be scaled.
- Discussed financing strategy and dividend policy – approved change in the target range from 40-60% to 50-70%.

2 Customers
Every Board decision includes consideration of how it will affect our customers

- Discussed how to re-position our brand and communicate brand values.
- Identified core group of (and discussed how to look after) our HACs.
- Reviewed customer engagement – identified how we can improve our customer journeys, and offer our customers differentiated products, whilst maintaining outstanding levels of service.

3 Shareholder engagement
Effective communication with our shareholders

- Listened to our shareholders before, during and after the AGM.
- DRIP allowed cash dividends to be turned into shares.

4 Leadership and employees
Ensuring our people are core to the success of our strategy and are aligned in how growth is delivered

- Introduced the Leadership Development Programme, to put the Saga Way at the centre of what we do and planned how to roll this out to all senior management.
- Annual review of talent development and succession planning.
- Acted on the results of the 'Becoming the Best' employee engagement survey – introduced better communications and reviewed the appraisal system.
- Free shares awarded to eligible employees under the Share Incentive Plan for the second year running.
- Discussed how reward should link to performance.
- Improved the recruitment process to help with finding, selecting and onboarding great Saga people.

5 Governance and risk
Governance to support our strategy

- Reviewed our risk appetite and tolerance levels/thresholds.
- Ensured our risk policy continued to meet Code requirements.
- Frequent business and regulatory updates presented to the Board.
- Introduced new share dealing codes following the introduction of the EU's Market Abuse Regulation.
- Approved the Audit Committee's recommendation to re-appoint external auditors and sign off financial crime policies.
- Approved tax, environmental, health and safety and communication policies, matters reserved for the Board and Committees' terms of reference.
- Externally facilitated Board and Committee evaluation exercise, which included a review of the previous year's action plans.

Governance in action

Becoming an ever more customer-centric organisation →	Membership/HACs/Brand	Detail considered by Risk and Audit Committees
Growing our insurance business →	Adobe Marketing Cloud/ new insurance platform	Reviewed by Executive Committee
Growing our travel business →	New holidays proposition/ monitoring progress of new ship build	Built in to senior executives' objectives (Remuneration Committee)
Investing for future growth →	Saga Money/ Saga Healthcare/ Saga Retirement Villages	Strategic discussion/ decision at Board
Developing our people →	Leading the Saga Way	Communicated to shareholders and the market

Board of Directors

1 Andrew Goodsell
Chairman
Skills, competencies and experience: 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. Andrew has an established track record of driving growth in the companies he has led. His in-depth knowledge of Saga and his well-established relationship with Saga's regulators are invaluable to the Group.
Other roles: Andrew is also Chairman of Age UK's Fundraising and Development Board.
Committee membership: Nomination.

2 Lance Batchelor
Group Chief Executive Officer
Skills, competencies and experience: 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. Lance has worked in consumer-facing businesses and brand-centric roles throughout his career, focusing on creating products that are tailored to the customer. Lance also has a wealth of senior operational experience in listed companies which he brings to his role at Saga.
Other roles: Lance is a Trustee of the National Gallery and White Ensign Association. He is also a Vice Patron of the Royal Navy & Royal Marines Charity.
Committee membership: Executive.

3 Jonathan Hill
Group Chief Financial Officer
Skills, competencies and experience: 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. Jonathan has experience in strategic planning and development, and delivery of large corporate projects. He brings this and a wealth of senior financial operational and listed company experience to his role at Saga.
Committee membership: Executive.

4 Philip Green CBE
Senior Independent, Non-Executive Director
Skills, competencies and experience: Philip joined the Company in May 2014, on listing. Philip was previously 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 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. Philip will retire from the Company with effect from 31 March 2017.
Other roles: Philip is currently Chairman of Carillion plc. He is also Chairman of BakerCorp, a US industrial services company owned by Permira and Chairman of Corsair Infrastructure Management, based in New York. Philip is also the UK Prime Minister's adviser on corporate responsibility and Chairman of Sentebale, a charity set up by HRH Prince Harry.
Committee membership: Nomination (Chair), Audit, Remuneration and Risk.

5 Ray King

Independent Non-Executive Director

Skills, competencies and experience: Ray joined the Company in May 2014, on listing. Previously, Ray 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. Ray's financial experience, his detailed knowledge of regulatory and compliance requirements and experience 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.
Other roles: 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.
Committee membership: Audit (Chair), Nomination, Remuneration and Risk.

6 Bridget McIntyre

Independent Non-Executive Director

Skills, competencies and experience: Bridget joined the Board in January 2016. Bridget was previously 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 an associate of the Chartered Institute of Management. In addition to her extensive insurance experience, Bridget has a strong understanding of how retail businesses work and a track record in improving business performance. She also brings considerable general and financial management experience to the Board. Bridget was recently appointed Senior Independent Director of Saga Services Limited.
Other roles: Bridget is currently a Non-Executive Director and Chair of the Audit Committee of Adnams plc, Director of Jarrold & Sons Limited and is founder of her own social enterprise organisation 'Dream On', a Suffolk-based community interest company focused on improving the lives of women. She is also a Trustee of The Health Foundation, where she chairs the Audit and Risk Committee, and a Trustee of The Blossom Charity.
Committee membership: Audit, Nomination, Remuneration and Risk.

7 Orna NiChionna

Independent Non-Executive Director

Skills, competencies and experience: Orna joined the Company in May 2014, on listing. Previously, Orna was Senior Independent Non-Executive Director of HMV plc, Northern Foods plc and Bupa and a Non-Executive Director of the Bank of Ireland UK Holdings plc and Bristol & West plc. She was a former Partner at McKinsey & Company, where her client portfolio included many consumer facing clients. Orna has significant experience in strategy and new concept development and launch, business turnaround, logistics redesign and supply change management. She brings these skills to the Board along with her considerable experience in other Non-Executive Director roles. Orna will assume the position of Senior Independent Director and Chair of the Nomination Committee of the Company with effect from 31 March 2017.
Other roles: Orna is currently Senior Independent Non-Executive Director and Chair of the remuneration committee of Royal Mail plc. Orna is also currently the Deputy Chair of the National Trust, Trustee of Sir John Soane's Museum and Chair of Client Service at Eden McCallum.
Committee membership: Risk (Chair), Audit, Nomination and Remuneration.

8 Gareth Williams

Independent Non-Executive Director

Skills, competencies and experience: Gareth joined the Company in May 2014, on listing. Previously, Gareth was Human Resources Director of Diageo plc (where he also had oversight responsibility for corporate relations) 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 people strategy and this, combined with his experience of working at Director level in a consumer facing organisation and his knowledge of corporate relations, management development and resourcing, brings a unique perspective to discussions with the Board and its Committees.
Other roles: Gareth is currently Chairman of YSC Limited and a Non-Executive Director of WNS (Holdings) Limited.
Committee membership: Remuneration (Chair), Audit, Nomination and Risk.

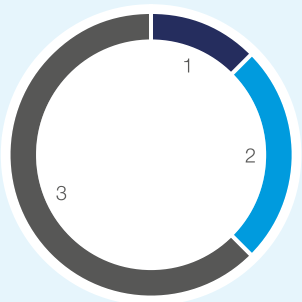
The members of the Board

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.

Composition of Board

1 Chairman **1**
2 Executive Directors **2**
3 Non-Executive Directors **5**



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. Philip will be resigning from the Company on 31 March 2017, as detailed below.

Changes to the Board

Whilst we did not make any appointments to the Board during the year, the Nomination Committee did discuss how the Company would ensure that there is the right level of oversight of the regulated businesses within the Group and that those companies had senior leaders with the right experience in place. More details can be found in the Nomination Committee report on pages 52-53.

During the year, we announced that Philip Green will resign from the Board and his position as Senior Independent Director on 31 March 2017, to chair another business. He will be replaced as Senior Independent Director by Orna NiChionna, one of our current Non-Executive Directors. Philip and Orna both joined the Board during the Company's IPO in 2014.

Orna was selected as the replacement Senior Independent Director due to her experience (as Senior Independent Non-Executive Director and Chair of the Remuneration Committee of Royal Mail plc, Chair of client service at Eden McCallum, and Deputy Chair of the National Trust) and within the Group. She sits on our Audit, Nomination and Remuneration committees and chairs the Risk Committee. The Board was of the opinion that Orna has a good feel for what we do as a business, our values, and what's right for our customers, and has made a strong contribution during her time on the Board.

On 22 April 2016, as a result of the share placing undertaken by Acromas Bid Co Limited, Non-Executive Director James Arnell resigned from the Board. This was in accordance with the Relationship Agreement dated 8 May 2014 which required his resignation once the indirect shareholding of the Private Equity Investor he represented fell below 10%.

We continue to comply with the Code's recommendation that at least half of our Board members are independent Non-Executive Directors. For full details of Board composition see pages 48-50.

Appointment of Directors

Our Nomination Committee terms of reference explain how we recruit and appoint Directors to the Board. We will 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.

Ongoing training and induction of Non-Executive Directors

All Non-Executive Directors attended meetings with senior management and subsidiary directors and 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.

Our induction process was reviewed to ensure that it will serve to familiarise new Directors with our strategy, competitive and industry environment, Group structure, governance and risk profile/appetite and provide for meetings with key members of senior management.

Board effectiveness review

The Board and its Committees undertook their first externally facilitated evaluation of their performance during the year. The evaluation was conducted by Independent Audit Limited. Independent Audit Limited does not have any other connection to the Company.

Independent Audit Limited's review consisted of a review of Board and Committee papers, observation of Board and Committee meetings, and interviews were held with Directors/Committee members and attendees to give them an opportunity to express their views about questions such as:

- whether the Board gets what it needs to facilitate a well-structured and focused discussion;
- how well the Board agenda and discussion is focused on strategy and the main market and competitive challenges;
- how the Board gets a picture of how our culture and risk are embedded;
- the line of sight Non-Executive Directors have into the way in which the Group is run and controlled;
- steps taken to develop a strong management team through succession planning and talent management;
- organisation of meetings, including agenda setting, time spent on each item and quality of papers; and
- corporate governance and regulatory compliance support.

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

The review concluded that governance had developed well since the Company had listed. Strengths identified included a stable and strong senior management team, a healthy culture of transparency, and a consistent and concerted effort to communicate openly with the Non-Executive Directors. There was good coverage of the principal risks and subsidiary level governance worked well, with appropriate escalation when necessary. Interests of a wide group of stakeholders, including shareholders, was considered and a lot of weight and attention was given to the 'people strategy' of the Group. It was now time for the Board to focus on successful execution of Group strategy.

Process for Board and Committee evaluation

Face to face meetings held to facilitate an open discussion between Independent Audit Limited and Directors/meeting attendees

Reports produced by Independent Audit Limited

Review/discussion with Chairman and Committee Chairs

Discussed at Board

Action plans

Board development plan for 2017/18

Looking ahead, the Board will continue to work on ensuring that the content of all Board meetings remains aligned to strategy and the key drivers of performance. Risk management will continue to link directly to strategic drivers, principal risks and uncertainties. The pre-read papers and time allocated for discussion at each Board will support this approach and will include forward thinking analysis, where appropriate.

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

Annual re-election

The Directors are standing for re-election at the AGM, with the exception of Philip Green, who is resigning on 31 March 2017. Our view is that each of the Directors standing for 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 48-49.

Nomination Committee

Dear Shareholder,
This year we have focused on ensuring that there was a structure in place that enabled appropriate challenge, checks and balances throughout the Group.

It was important that we had confidence that we have the right people in senior roles, with the appropriate skill set and that the appropriate strategic and operational discussions were taking place. We have held a number of unscheduled meetings to discuss how best to have a balanced Board and Executive Team that work well together and to identify how best to develop our Executive Team.

Philip Green
Chair, Nomination Committee

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 the Chairman.

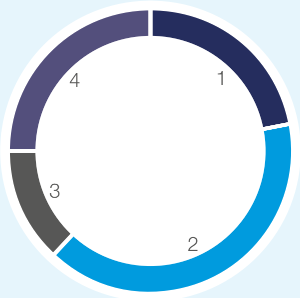
Attendance
During the year, the Committee met on five occasions.

Member	Attendance
Philip Green (Chair)	5
Andrew Goodsell	5
Ray King	5
Bridget McIntyre	5
Orna NiChionna	5
Gareth Williams	5

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.

Our remit
- 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.

Time spent on matters
1 Board composition **22%**
2 Succession planning **40%**
3 Board skills **13%**
4 Board evaluation **25%**



Our terms of reference
Our terms of reference were reviewed by the Committee and subsequently approved by the Board on 20 September 2016. These explain our role and the authority delegated by the Board and are available on the Saga website at http://corporate.saga.co.uk/corporate-information/corporate-governance and from the Company Secretary at Saga's registered office.

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 50-51.

The 'Division of responsibilities between Chairman, Group Chief Executive Officer and Role of Senior Independent Director' document was reviewed and approved by the Board on 1 November 2016.

On 19 December 2016, the Company announced my resignation from the Board and my position as Senior Independent Director with effect from 31 March 2017. Orna NiChionna will assume the position of Senior Independent Director and Chair of the Committee at this time.

Whilst we did not make any appointments to the Board during the year, we did discuss how the Company would ensure that there is the right level of oversight of the regulated businesses and that those companies had senior leaders with the right experience in place. We concluded that it was Important to have the right governance, leadership and independence for such roles. As a result of this discussion, Bridget McIntyre was appointed as Senior Independent Director for Saga Services Limited on 22 March 2017.

Appointment of Directors

Our terms of reference explain how we recruit and appoint Directors to the Board. We will 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.

Russell Reynolds Associates were approved as our search consultants and will map candidates against skills sets identified. Russell Reynolds Associates 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 50-51.

Diversity

We continue to believe that it is in the very nature of Saga to recognise the benefits that diversity brings. Our policy is to appoint the best possible candidate, considered on merit and against objective criteria (and in accordance with the Equality Act 2010), rather than to set quotas for a particular aspect that may deflect from achieving this fundamental target every time. At the date of this report, 25% of the Board is female. During the year, we agreed to refer to Chair rather than Chairman for all Committee Chairs.

Succession planning and talent management

The future directional structure of the executive team was a focal point in light of Andrew Strong's retirement at the end of the financial year and to strengthen the customer facing areas of the business – important due to the focus on customer-centricity.

We reviewed succession planning, noted short and long-term caretakers for each senior role and focused on removing key areas of vulnerability, executive team development and overall leadership development.

A framework for reviewing talent within the Group was put in place following an extensive talent mapping exercise. Whilst home-grown talent and external hires provide a strong skill base, a need to focus on leadership training was identified, to support the changes required within the Group. A leadership programme was developed to tailor training needs to individuals. Senior individuals were also encouraged to take on additional roles (in line with the One Saga approach outlined on page 17) and were invited to present to Committee and Board meetings.

Effectiveness of the Nomination Committee

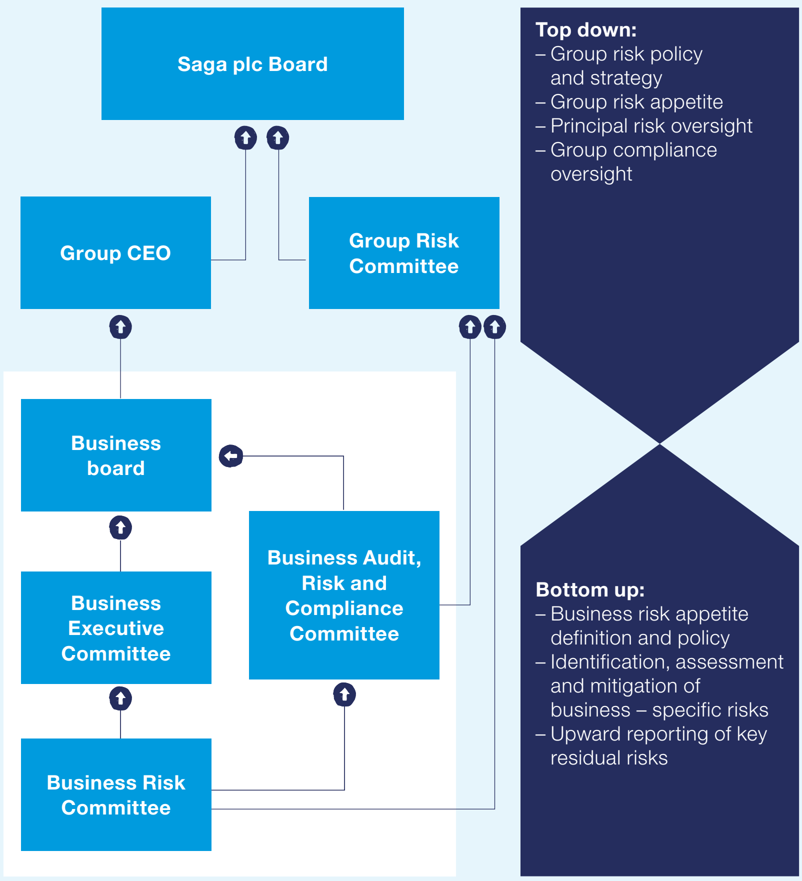
Evaluation

An external evaluation of the Committee's effectiveness took place during the year, as part of the Board effectiveness review (for details see page 51). This was completed by Independent Audit Limited. The review indicated that the Committee is working well in addressing the main issues it is having to cover and is taking a thorough approach to Director performance evaluation and succession planning.

Looking ahead, we will continue to respond to any issues that may arise during 2017 and will continue to identify our future talent pipeline, to 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.

Philip Green
Chair, Nomination Committee

Risk management and internal control



Board assessment of risk management and internal control

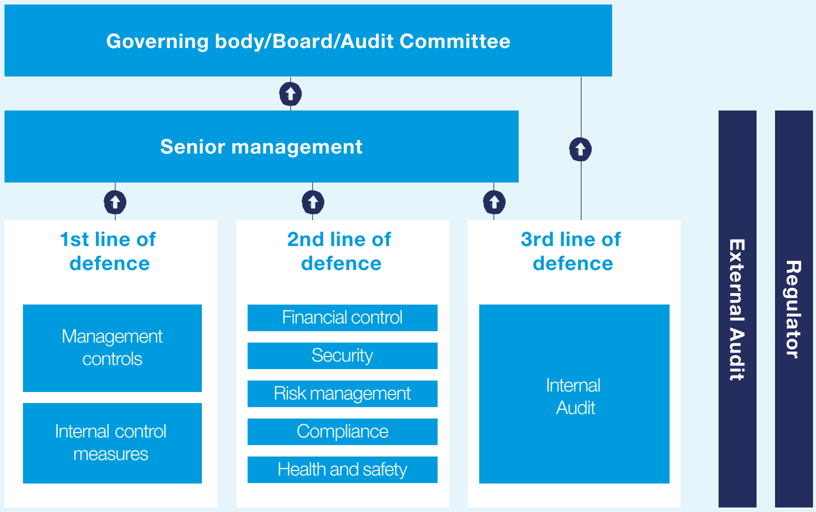
The Board has ultimate responsibility for the Group's risk management and internal control, including setting of risk appetite. In accordance with section C 2.3 of the Code the Board is responsible for reviewing the effectiveness of risk management and control systems, specifically that:

- There is an ongoing systemised process for identifying, evaluating and managing the principal risks faced by the Company.
- This system has been in place for the year under review and up to the date of approval of the annual report and accounts.
- The system is regularly reviewed by the Board.
- The system accords with the FRC guidance on risk management, internal control and related financial and business reporting.

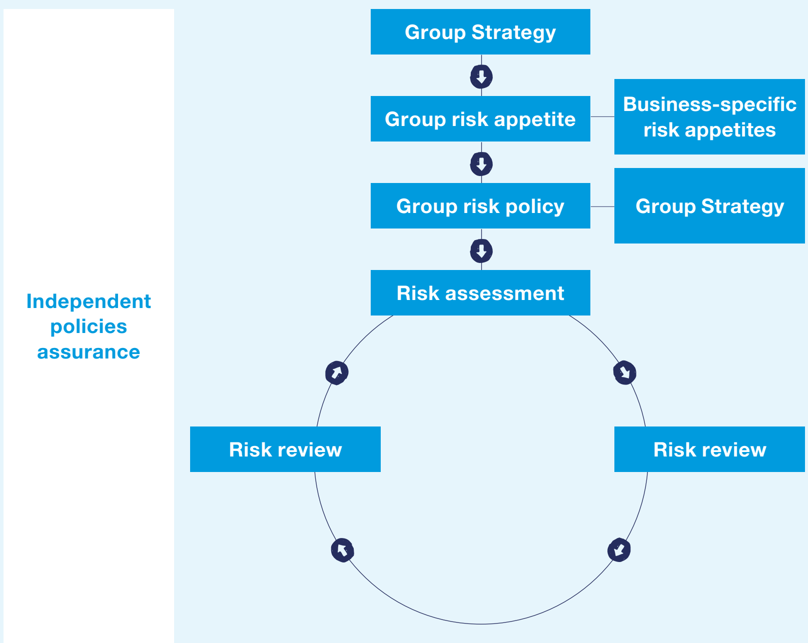
During 2016 the Board has directly, or through delegated authority to the Risk and Audit Committees, overseen and reviewed the development and performance of risk management activities and practices and internal control systems in the Group. Specific details regarding the Risk and Audit Committees' involvement in the development and review of risk management and internal control systems are provided in the Risk and Audit Committee reports on pages 62-65 and 58-61 respectively.

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

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



Group risk management cycle



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

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

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

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 aggregate in pursuit of our objectives. Group risk appetite is derived from our strategic objectives and is used as a measure against which all of our current and proposed activities are tested. Group risk appetites and tolerances are further defined within the Principal risks and uncertainties section (pages 20-22).

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. Explicit consideration is also given as to whether risks lie within or outside of risk appetite. Any risk close to appetite limits on a residual basis is further examined to ensure that our desired risk/reward balance is maintained.

Risk registers have been created for each business to capture their key risks, associated controls and incidents. 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 54. 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 on an ongoing basis to test for completeness of risk and control capture, effective testing of key control measures, and recording and reporting of any exceptions and overdue actions.

Risk information

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

Independent process assurance

Saga's internal audit function ('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 42.

Internal control

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

All activities of the Group fall within the scope of Internal Audit's remit and there are no restrictions on the scope of Internal Audit's work. Internal Audit 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.

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 and the option to purchase a second ship that would become operational in 2021.

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 and the achievement of its strategic plan. These PRUs are given in the Strategic Report on pages 20-22. 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. The cumulative impact of a repeated failure of management to deliver change, operational efficiencies, and supplier and pricing initiatives in the Group's largest insurance broker, 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 sensitivities 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 58-61, the Directors have reviewed and discussed the rationale and conclusions of management's viability testing. The Directors' viability statement is contained on page 42.

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 42.

Audit Committee

Dear Shareholder,
I am pleased to report on the Audit Committee's activities during the year to January 2017.

This has been another busy year in Saga, as the Group continues to develop its business processes to deliver growth and improvements in efficiency. A key part of our job as a Committee is to provide assurance that our internal controls remain strong as the Group develops and also to seek continuous improvement. Our deliberations have continued to benefit from significant stability since the IPO in the membership of the Committee and in the senior leadership team, including the heads of key control functions; I thank them for their contribution to our work.

Ray King
Chair, Audit Committee

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 and that the Committee as a whole has competence relevant to the sector in which the Company operates.

Attendance

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

Member	Attendance
Ray King (Chair)	5
Philip Green	5
Bridget McIntyre	4
Orna NiChionna	5
Gareth Williams	5

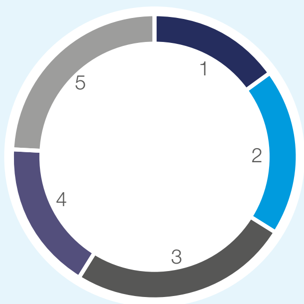
The Company Secretary acts as secretary to the Committee and attends all meetings. In addition, the Chairman, Group Chief Executive Officer, Group Chief Financial Officer, Group Financial Controller, Chief Risk Officer, Head of Internal Audit and representatives from our external auditors attend by invitation.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

Our remit

- Monitoring the integrity of financial statements of the Company and providing an opinion to the Board that the annual report and accounts, taken as a whole, is fair balanced and understandable.
- 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, but not limited to, 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 and re-appointment of the Company's external auditors, their remuneration and the services they provide.
- Ensuring that at least once every 10 years the audit services contract is put out to tender.
- Monitoring, reviewing and assessing the external auditors' independence of and effectiveness and reviewing the external audit work plan.
- Reviewing the findings of the audit with the external auditors.

Time spent on matters

1 Financial statements **15%**
2 Internal financial controls **19%**
3 Internal Audit **25%**
4 Business reviews **17%**
5 External audit **24%**



Our terms of reference

Our terms of reference were reviewed by the Committee and subsequently approved by the Board on 20 September 2016. These explain our role and the authority delegated to us by the Board and are available on the Saga website at http://corporate.saga.co.uk/corporate-information/corporate-governance and from the Company Secretary at Saga's registered office.

What we have done during the year

Internal Audit

- Approved the Internal Audit Charter, received regular reports on the work of the Internal Audit function during the year, considered resourcing within the Internal Audit team and approved the work plans for 2017/18.
- Engaged KPMG to carry out a review of the effectiveness of the Internal Audit function (in line with the Chartered Institute of Internal Auditors ('IIA') Standards recommendation).
- Reviewed an assurance map showing the controls in place at the first line of defence (management controls), second line of defence (quality assurance, financial, risk, compliance, health and safety and security controls) and third line of defence (internal audit). This showed that there were no material gaps.
- Considered an Internal Audit review which analysed audit findings during the year to provide an initial qualitative indicator of the risk and control culture in each of the businesses subject to audit.
- Considered a report from Internal Audit on the effectiveness of the Group's risk management framework, with particular focus on Saga Services Limited. This concluded that a robust risk management framework was in place, with a good risk and control culture evident across the Group.

External audit

- Considered the external auditors' (EY) engagement terms (including the fee proposal) for 2016/17, and made recommendations to the Board.
- Considered the annual report planning timetable and process and EY's intended approach to auditing areas where significant risks and other areas of audit emphasis were identified by them during their planning work.
- Discussed with EY their main observations following the interim and full year audit.
- Carried out an effectiveness review of the external audit process and external auditors' performance.

Reporting

- Considered the Group's key accounting policies and financial judgements.
- Agreed with management the arrangements for the introduction of IBM Cognos Controller, a new consolidation ledger tool to administer the statutory and management accounts.
- Reviewed the key areas of judgement, including insurance reserving methodology for the year, valuation of goodwill and the pension liability.
- Considered 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.

Other internal controls

- Continued to work in co-operation with the Risk Committee on key areas of business risk.
- 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 Code and FRC's revised Turnbull Guidance on Internal Control, confirmed that no significant failings or weaknesses were identified. Where areas for improvement were identified, processes are established to ensure that the necessary action is taken and that progress is monitored.

During the year we received presentations (focusing mainly on internal control) from the following business areas:

Saga Services/Direct Choice (regulated businesses)

We received an update on activities from the independent Non-Executive Director who chairs the Saga Services audit committee. This covered the work undertaken by Internal Audit, the compliance monitoring programme, the conduct risk framework and steps taken to address the threat of cybercrime.

Saga Money

Areas of focus included the product portfolio (particularly the innovative products for equity release, share dealing and retirement income) and the governance structure to ensure the appropriate level of oversight and a sufficient level of transparency were in place for Saga Investment Services Limited, the joint venture with Tilney BestInvest. The chair of the audit committee for this business confirmed that no major issues were identified during that committee's reviews of the first and second lines of defence or conflicts of interest process.

AICL

We received feedback from the chair of AICL's audit committee and the Chief Executive Officer of this business. We also reviewed the management process for examining reserving assumptions and considered the regulatory environment in Gibraltar, ongoing requirements of Solvency II capital requirements and possible impact of a change in the Ogden discount rate.

Destinology – post-acquisition review

It is Saga's normal practice to carry out post-acquisition reviews of acquired businesses, normally around 12 to 18 months post acquisition to ensure that we internalise any key learnings. We reviewed the acquisition rationale, our actions to integrate and manage the acquired business, its market and financial performance and future plans and prospects. This year we reviewed Destinology and supported management's plans to grow the business as an important part of the Group's overall travel offering.

Interim and full year results

The interim and full year results were reviewed, together with papers from management summarising the process of preparing the financial statements, the appropriateness and application of key accounting policies, and the areas of significant judgement, including how those judgements were made.

Key areas of significant judgement which we considered were as follows:

- Valuation of insurance contract liabilities £642.3m. 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. We also considered the accounting for the new quota share contract and the accounting policies, processes and procedures related to the new funds withheld reinsurance contract with NewRe. Since the year end, we have considered the impact of the government's announcement regarding the Ogden discount rate for Saga's insurance liabilities.
- Valuation of goodwill and intangibles £1,538.8m. 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.
- Retirement benefit scheme. We considered and supported the actuarial advice regarding the valuation of the assets and liabilities of the scheme and the key assumptions used in deriving those values.

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, taken as a whole, is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

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; and
- the significant issues and key judgements referred to in the narrative reporting were consistent with the disclosures set out in the financial statements.

We advised the Board that we supported the statement made on page 42.

Viability statement

The Group's methodology for production of its viability statement is shown on page 57 and the viability statement itself on page 42.

Jointly with the Risk Committee we considered and approved the list of principal risks and uncertainties (see pages 20-22) and the methodology used to provide for an assessment of ongoing viability. We specifically considered:

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

We confirmed to the Board that we considered that it was reasonable for the Directors to make the viability statement on page 42.

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 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 62-65.

In line with recommendations of the IIA Standards, it is our policy to carry out an external review of the effectiveness of the Internal Audit function at least every five years. Accordingly, we engaged KPMG to undertake this review during the year. The conclusion was that the function was competent, effective and well led, with strong alignment to principal risks. Areas of development were identified as the need to focus on emerging risks and more use of third party specialists where appropriate. As a result, the audit plan and audit process includes greater emphasis on emerging risks and further analysis has been completed to identify which audits will benefit from specialist technical input.

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 approved on 6 December 2016 following consideration of the requirements of the EU Audit Directive and Regulation which came into force on 17 June 2016. This includes a list of non-audit services where we are satisfied the Auditor can carry out those services without affecting their role as Auditor. There are clear approval levels where the Committee Chair (or the whole Committee) is required to authorise assignments. Competitive tendering is used for substantial work. A policy on employment of former employees of the Auditor was also approved during the year.

The audit fees payable to EY in respect of the year ended 31 January 2017 were £1m (2016: £1.1m) and non-audit service fees incurred were £0.2m (2016: £0.2m). This equates to a non-audit to audit fee ratio of 0.2 (2016: 0.17). A summary of fees paid to the Auditor is set out in note 4 to the consolidated financial statements on page 127.

Effectiveness of external auditors

We discussed our interaction with the audit team and 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; and
- input from management via a questionnaire on the efficiency and conduct of the audit.

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

External audit re-appointment and tendering

Auditor appointment and external audit tendering

At the AGM last year EY were re-appointed as our statutory auditors. During the year, in accordance with the Statutory Auditors and Third Country Auditors Regulations 2016 which require FTSE 350 companies to tender the audit at least every 10 years, a formal tender process took place, led by the Committee.

This was a structured process, where the Company initially considered the top 10 firms in the UK in 2016 according to Accountancy Age. Given that the Group is a conglomerate with significant presence in regulated industries, the auditor had to have sufficient depth specialist knowledge, resource and relevant experience. Three of the 'big four' firms, including EY, tendered for the audit. The process involved meetings with individual Committee members and management, review of key documents via a secure data room and formal presentations. As a result, the Committee recommended and the Board approved the proposed appointment of KPMG LLP as the Company's auditor for the year for the financial year ending 31 January 2018. This appointment is subject to approval by shareholders of the Company at the AGM to be held on 22 June 2017.

Effectiveness of the Committee

Evaluation

An external evaluation of the Committee's effectiveness took place during the year, as part of the Board effectiveness review (for details see page 51). This was completed by Independent Audit Limited. The review indicated that the Committee is working well and did not identify any significant development points requiring action.

Ray King
Chair, Audit Committee

Risk Committee

Dear Shareholder,
I am pleased to present a summary of our work during the financial year to January 2017.

Customers are at the heart of what we do, and during 2016 the Group launched many initiatives and projects as a direct result of work undertaken to align our business model more closely with customer needs and expectations. The Committee sought to ensure that these initiatives did not expose the Group to excessive risks – either operational, financial or reputational.

We received presentations from each of the various Group businesses, so that we could understand and challenge their identified major risks, review their key controls and mitigations and establish what this meant for the principal risks for the Group as a whole.

Orna NiChionna
Chair, Risk Committee

Role of the Committee

Our role is to monitor the Group's risk and compliance management procedures (described on pages 54-57) 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 five times during the year.

Member	Attendance
Orna NiChionna (Chair)	5
Philip Green	4
Ray King	5
Bridget McIntyre	5
Gareth Williams	5

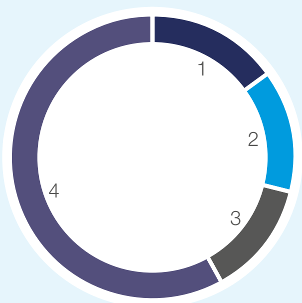
The Company Secretary acts as secretary to the Committee and attends all meetings. The Chairman, Group Chief Executive Officer, Group Chief Financial Officer, Chief Risk Officer and Head of Internal Audit attend by invitation. During the year the Committee and Chair held private meetings with the Chief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

Our remit

- 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 Chief Risk Officer.
- 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.
- Exploring sources of risk and mitigation processes in each of our major business areas.

Time spent on matters

1 Risk policy, appetite and strategy **15%**
2 Risk reports **14%**
3 Compliance **13%**
4 Business reviews **58%**



Our terms of reference

Our terms of reference were reviewed by the Committee and subsequently approved by the Board on 20 September 2016. These explain our role and the authority delegated to us by the Board and are available on the Saga website at http://corporate.saga.co.uk/corporate-information/corporate-governance and from the Company Secretary at Saga's registered office.

What we have done during the year

Risk strategy, policy and appetite

We reviewed our principal risks and uncertainties against strategy. This included those risks that would threaten our business model, future performance, solvency or liquidity. The principal risks and uncertainties assessment was also reconciled with the viability statement.

We discussed the possible impact of terrorism on travel as well as the effect of Brexit on the Group and considered the risks associated with internal projects and activities, in particular the new ship and new insurance platform. Developments in relevant industries, such as the emergence of autonomous vehicles and possible impact on the motor insurance industry, were also considered.

We recognise the need to review risk appetites and tolerances on a continuous basis. We considered risks outside of agreed risk appetite and concluded that where this is the case, the probability of occurrence was very low and existing mitigating actions were appropriate to the scenarios. Risk appetite was considered on an aggregate basis each quarter. We were satisfied that controls were in place which meant that the risk of significant failing across the business model was remote.

Management of third party suppliers was considered in detail, recognising the importance of this in light of the imminent modern slavery legislation (see page 18 for a summary of the steps being taken to ensure compliance). We considered the failure of Parabis Law LLP and the effect that this had had on our insurance business. Whilst we found that the risk to our business of relying on a single key supplier had not been fully appreciated, the response to the failure was managed well, with no disruption to customer service; and the lessons learned were used to design and implement a more rigorous approach to supplier selection and monitoring in future.

We considered investments made by asset/fund managers on our behalf and were reassured that these followed ethical guidelines.

The General Data Protection Regulation will affect how we do business. We considered the work undertaken by the Data Protection Strategy Group that was established to ensure that all necessary steps will be taken before the regulation comes into force in May 2018.

The Group risk policy was reviewed and we approved this before it was signed off by the Board. 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 during the year, with particular focus on Saga Services Limited, and was considered by the Audit Committee. This concluded that a robust risk management framework was in place, with a good risk and control culture evident across the Group. A continuous improvement approach will be taken to strengthen processes and drive consistent control standards within front line businesses and to build on second line of defence capabilities.

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 20-22 for a summary of principal risks; and
- pages 54-57 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 Chief Risk Officer to consider each business area's 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 relating to significant control 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 received a Group regulation report, which included the status of the Group compliance monitoring plan for the regulated businesses (in financial services, travel and healthcare). The relationships of individual businesses with regulators, management of incidents and the impact of the Financial Conduct Authority's annual business plan were considered and discussed. Material changes to compliance regulations were also noted.

Review of individual businesses

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

Reviews of individual businesses during the year included the following:

Saga Services Limited (regulated business)

- Noted the risk and assurance framework following the consolidation of Saga Services Limited, Direct Choice Insurance Services Limited and Bennetts Biking Services Limited.
- Discussed how to strengthen supplier relationships.
- Considered the impact of the FCA's regulatory changes on renewal documents.
- Discussed key risks and opportunities for this business and how these would evolve within the overall strategy for the Group.

Insurance platform replacement

- Considered the drivers for change and risks associated with the project.
- Discussed whether it was appropriate to introduce a home developed or package platform.
- Reviewed resource requirements, cost and implementation timetable.
- Conducted a review of third parties involved in the implementation.
- Assessed the proposed governance structure for the project.
- Asked that regular updates on the implementation be provided at each Board meeting.

AICL and CHMC Limited

- Noted the governance structure of both companies and requirements of the Financial Services Commission in Gibraltar.
- Discussed the claims process and considered the claims history.
- Noted how legislative events (such as the Courts Act 2003, Legal Aid Sentencing and Punishing of Offenders Act 2012 and possible changes to the Ogden discount rate) affected the business.
- Discussed how underwriting risk was managed.
- Considered the effect of the growing relevance of the motor panel.
- Reviewed the quota share reinsurance arrangement.

Saga Money

- Considered the governance structure, including the role of Internal Audit, Compliance and Risk.
- Reviewed supplier relationships (to ensure performance was in line with risk appetite and tolerance) and regulatory risk.
- Considered the risk associated with the joint venture, Saga Investment Services Limited.
- Reviewed the principal risks for this business.
- Noted that the horizon risks would be reviewed to assess how risk interacted with the strategic direction of the business.

Shipping

- Looked at the assurance structure and minimum standards required by each relevant Flag state.
- Reviewed the relationship with V Ships and our requirement for them to operate at 'beyond compliance' levels.
- Considered the programme of work on maintenance and resilience assurance for the ships.
- Assessed the current status of the new build, including a review of the governance structure, design timetable and how our customers' expectations would be included.

Group insurance arrangements

- Considered the insurance programme for the Group including cost, management of brokers and advisers and summary of cover.
- Discussed whether any additional cover was required, specifically in relation to the threat of financial crime or cybercrime.

IT

- Discussed our approach to security and encryption.
- Reviewed disaster recovery procedures and times.
- Received presentations on the quality and frequency of staff training in cybersecurity awareness and actions.
- Refreshed our understanding of the IT infrastructure and how IT support was managed throughout the Group.

Change management

- Reviewed the Group change strategy roadmap.
- Considered how projects were linked and how best practice and consistency levels were maintained across the Group with optimum utilisation of resource and people skills.
- Discussed how the health of change programmes was monitored by the use of five key indicators (schedule, resource, quality, scope and budget).
- Concluded that the change management team acted as risk mitigation and needed to improve the disciplines for change demand throughout the Group, so that change was made only when necessary.

Since the year end, a presentation has been received from the travel division.

Effectiveness of the Risk Committee

Evaluation

An external evaluation of the Committee's effectiveness took place during the year, as part of the Board effectiveness review (for details see page 51). This was completed by Independent Audit Limited. The review indicated that the Committee is working well and is well-supported by management.

Looking ahead, we will continue to ensure that risk processes are aligned with strategy, that risk tolerance levels are monitored and the impact of risk on our businesses and on an aggregate basis is considered. In particular, we will focus on developing our approach to assessing the effectiveness of risk management, looking at the impact our risk management approach has on the way the business is run and how decisions are taken. We will also ensure that we will bring in outside expertise should we feel that our oversight of any particular risk areas would benefit from independent specialist input.

Orna NiChionna
Chair, Risk Committee

Relations with shareholders

We plan a shareholder communication strategy for the year, to ensure that we maintain a relationship with our shareholders based on trust and to help them understand how we plan to grow the business and the effect of decisions made, for example, the introduction of the quota share arrangement and increasing our dividend target range. We understand the importance of maintaining open and regular dialogue with our shareholders – many of whom are our loyal customers. We welcome feedback at any time during the year and the AGM provides the opportunity for our shareholders to meet the Board and senior management of the Group.

Lance Batchelor, Group Chief Executive Officer and Jonathan Hill, Group Chief Financial Officer lead communications with our shareholders assisted by the shareholder relations team led by our Director of Corporate Affairs.

We set ourselves the target of providing information to our shareholders 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 180,000. 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:

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

Wider communication

In addition to the communication mentioned above, we:

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

The Director of 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.

We recognise that our brokers play an important part in communicating our message to our shareholders. During the year, we undertook a broker review and a result, the Board appointed J.P. Morgan Cazenove as joint Corporate Broker and joint Financial Adviser. Numis Securities Limited was appointed joint Corporate Broker and Goldman Sachs International was appointed joint Financial Adviser.

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

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

Annual General Meeting

The AGM will be held on 22 June 2017 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 of the AGM contains an explanation of business to be considered at the meeting. A copy will be available on Saga's website, http://corporate.saga.co.uk, in due course.

Remuneration Committee Chair annual statement

Remuneration Committee

Dear Shareholder,
This year, the business has made significant progress with our key strategic initiatives whilst delivering another robust financial performance. The strength of our core businesses and our operating model has again led to strong cash generation, enabling us to reduce further our debt ratio and giving us the confidence to increase our dividends offered to 8.5p.

Our strategy remains focused on becoming an even more customer driven business, growing our core insurance and travel businesses, investing in future growth, maintaining our operating model to generate strong cash flows and robust earnings and investing in our people.

The Remuneration Committee continues to review the Policy on an ongoing basis and is comfortable that it remains appropriate and effective heading into the 2017/18 financial year.

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.

Gareth Williams
Chair, Remuneration Committee

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

- 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.

Attendance

We held five meetings during the year.

Member	Attendance
Gareth Williams (Chair)	5
Philip Green	4
Ray King	5
Bridget McIntyre	5
Orna NiChionna	4

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

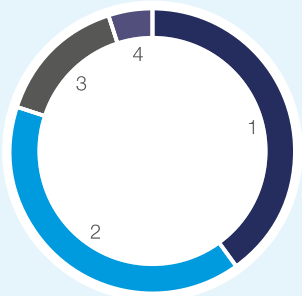
- Annual Statement (pages 67-69).
- Directors' Remuneration Report 'at a glance' (pages 70-71).
- Annual Report on Remuneration (pages 72-89).

Our remit

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

Time spent on matters

1 Remuneration Policy **40%**
2 Senior Management remuneration **40%**
3 Share schemes **15%**
4 Employee benefit structures **5%**



Our terms of reference

Our terms of reference were reviewed by the Committee and subsequently approved by the Board on 20 September 2016. They are available on our website, http://corporate.saga.co.uk/corporate-information/corporate-governance and from the Company Secretary at Saga's registered office.

Company highlights for the 2016/17 financial year

The implementation of our strategy (as outlined on pages 12-13) has been substantiated through the key performance highlights of the year:

- Continued strong performance in the core business areas of insurance and travel, which has led to strong results across all the Group's operations.
- Group profit before tax from continuing operations increased by 9.7% to £193.3m (2016: £176.2m), on revenue of £871.3m (2015: £963.2m).
- Underlying profit before tax (profit before tax excluding derivatives and the Odgen impact), the measure of profit performance in the annual bonus for management, grew by 5.6% to £187.4m (2016: £177.4m).
- Strong profit delivery and continued high levels of cash conversion meant the Group continued its deleveraging with net debt to Trading EBITDA ratio now 1.9x (2016: 2.3x).
- Dividend payments to our shareholders of 5.0p per share in respect of 2016 and an interim dividend of 2.7p in respect of 2017, reflecting our confidence in meeting market expectations for the full year and continuing to deliver sustainable profit growth.
- Introduction of the new funds-withheld quota share arrangement in motor insurance.
- Continued investment in our cruise ships, demonstrating our commitment to continued excellence and service to our customers.

Changes to our Remuneration Policy during the year

No changes to the Policy approved at our 2015 AGM are being proposed at the Group's next AGM.

What we have done during the year

We reviewed the key components of remuneration.

Decisions made/actions taken

- Made grants in May 2016 under the Saga Long Term Incentive Plan ('LTIP') for the Executive Committee and senior management of the Company. Grant levels were consistent with our normal award policy.
- Approved the award of free shares to all eligible employees in July 2016.
- Approved base salary increases of 2%, in line with the average rises to all employees, for the Group Chief Executive Officer and the Group Chief Financial Officer, bringing their salaries to £689,785 and £424,483 respectively to apply for the 2017/18 financial year.
- Approved the fees for the Chairman, which will increase by 2% from 1 June 2017 to an annual fee of £286,110.
- Reviewed the performance targets for the 2017 LTIP award. The strategy calls for an acceleration in organic profit growth (profit excluding historic insurance claims performance) over the next five years. That growth since IPO has been in high single digits.
  We considered it appropriate to modify the target architecture to incentivise management to pursue a more ambitious outcome which recognises the strategic shift the business is making in how it is growing profit.
  Consequently, we have:
  - introduced a second Organic EPS measure linked to organic profit growth. The performance range for the LTIP award will be 12-21%.
  - retained the existing Basic EPS measure with the existing range of 5-12%.
  - retained the existing TSR measure and target architecture.
  - rebalanced the proportions of the total award to 30% Basic EPS, 30% Organic EPS, 40% TSR.

  Further details of these changes can be found on pages 78-79.
- Reviewed and approved the 2016/17 bonus outcomes, both financial metrics and personal objectives, for the Executive Directors.
  One of the most significant considerations was the impact of the Ogden rate adjustment announced on 27 February 2017. The Remuneration Committee gave significant time to considering the impact of the post year end adjustment on the Group's 2016/17 financial results, which included a £4m adjustment to ensure that the full impact of the new rate is reflected in our 2016/17 claims liability provisions.

  We decided that the impact of this adjustment should not affect the bonus outcomes for Executive

Directors and the broader incentivised population for the following reasons:
- The announced Ogden rate adjustment was well beyond expected parameters.
- Management had been very prudent in its reserving for a potential adjustment as is evidenced by the relatively small additional provision that had to be made retrospectively to the 2016/17 results.
- There has been significant appreciation in the Saga share price post the Company's announcement of the relatively small profit impact of the Ogden rate adjustment.
- There is no negative impact on the Company's ability to pursue its stated dividend policy and the final payment for this year represents an 18.1% increase for our shareholders.

Further details on the impact of our decision can be found on page 83.

- Approved the bonus awards for personal objectives for Executive Directors and senior management following a detailed calibration of outcomes against stated targets. Full details of these can be found on page 84.
- Approved final annual bonus payments for the Executive Directors, which was 67.5% of their maximum opportunity, equating to 101.2% of salary for the Group Chief Executive Officer and 84.3% of salary for the Group Chief Financial Officer. The payouts reflect the strong performance of the Group over the year and reflect 100.1% achievement against the Group PBT target (measured as profit before tax excluding derivatives and the Odgen impact) and 137.3% achievement against the Group cash flow target. Full details of the payouts are provided on page 83.

Effectiveness of the Remuneration Committee

An external evaluation of the Committee's effectiveness took place during the year, as part of the Board effectiveness review (for details see page 51). This was completed by Independent Audit Limited and concluded that the Committee is working well, in part reflecting the effective support it is receiving from HR management.

Looking ahead we will keep our work under review including assessing the scope of our involvement in remuneration deliberations and how we work with executives on such matters. We will:

- focus on our core principles of remuneration in the context of our evolving and developing business, to ensure they remain fit for purpose and are deployed in all our considerations and decisions on remuneration practice; and
- review our Remuneration Policy as our current Policy comes to the end of its 3-year approved term. We will be conducting a full remuneration review and will be putting forward the revised policy to a binding vote at the 2018 AGM.

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
Chair, Remuneration Committee

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

At a glance

In this section, we summarise:

- Our Remuneration Policy which applied for the 2016/17 financial year;
- The actual performance and remuneration outcomes for the 2016/17 financial year;
- The link between our strategy for 2017/18 and the Remuneration Policy; and
- The proposed implementation of the Remuneration Policy for 2017/18.

More detail on the Remuneration Policy can be found on the website and further information on this year's outcomes is given in the Annual Report on Remuneration on pages 82-89.

Directors' Remuneration policy (applied in 2016/17)

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;
- our broader remuneration practices within the Company; 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://corporate.saga.co.uk.

Element	Operation of element
Salary **Benefits** **Pension**	The Remuneration Committee ensures that maximum salary levels are positioned in line with companies of a similar size to Saga in the FTSE 250. When determining an appropriate level of salary, the Remuneration Committee considers: • 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. In general, salary rises to Executive Directors will be in line with the rise to employees. The Executive Directors receive family private health cover, death in service life assurance, a car allowance and subsistence expenses. They also receive employee discounts in line with other employees. The maximum contribution to an Executive Director's pension or salary supplement is 20% of gross basic salary.

Element	Operation of element
Annual bonus	The Remuneration Committee will determine the maximum annual participation in the Annual Bonus Plan for each year, which will not exceed 150% of salary. The 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.
Long Term Incentive Plan (‘LTIP’)	LTIP maximum grant is 200% of salary p.a. Awards will vest at the end of three years’ subject to the achievement of: • EPS performance which ensures the achievement of the annual profit performance targeted by the Annual Bonus Plan flows through to long-term sustainable EPS growth; and • TSR performance of the Company compared to the FTSE 250 (excluding real estate and equity investment trusts) which measures the success of the implementation of the Company’s strategy in delivering an above market level of return. The LTIP contains clawback and malus provisions.
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	The Remuneration Committee has adopted formal shareholding guidelines that will encourage the Executive Directors to build up over a five-year period, and then subsequently hold, a shareholding equivalent to a percentage of base salary. • Group Chief Executive Officer – 200% of salary; • Group Chief Financial Officer – 150% of salary.
Chairman & Non-Executive Director fees	The fees for the Chairman and Non-Executive Directors are set at broadly the median of the comparator group used for Executive Director remuneration. 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 Saga workforce. The Company will pay reasonable expenses incurred by the Chairman and Non-Executive Directors and may settle any tax incurred in relation to these.

How have we performed in 2016/17?

KPIs	Threshold	Target	Maximum	Actual	Percentage of Target bonus earned/ current potential LTIP vesting	Percentage of Maximum bonus earned
Annual Bonus Plan						
Group PBT[1]	£181.9m	£187.3m	£190.8m	£187.4m	100.1%	60.8%
Group cash flow[2]	61.6%	64.4%	66.3%	88.4%	137.3%	100.0%
Personal objectives	See pages 83-84 for details of the measures and performance for the year. In addition, the Committee has set out its consideration of the Ogden judgement in relation to bonus outcomes.					
2014 LTIP Award as at year end 31 January 2017						
EPS growth (p.a.)	7%	–	12%	15.7%	50%	
TSR	Median	–	Upper quartile	Below Median	0%	
2015 LTIP Award as at year end 31 January 2017						
EPS growth (p.a.)	7%	–	12%	14.4%	50%	
TSR	Median	–	Upper quartile	Below Median	0%	
2016 LTIP Award as at year end 31 January 2017						
EPS growth (p.a.)	5%	–	12%	10.9%	44%	
TSR	Median	–	Upper quartile	Below Median	0%	

Notes:
1 Underlying profit before tax (profit before tax excluding derivatives and the Odgen impact).
2 Defined as net available cash generation.

The 2014 LTIP will vest on 30 June 2017. The indications for the LTIP performance in the table above are as at 31 January 2017. The relative TSR target for the 2014 LTIP is substantially (but not fully) completed as at 31 January 2017. The EPS target is complete.

The Committee has included the current position for the 2015 and 2016 LTIP awards to allow shareholders to see the potential value in the long-term remuneration over the next 3 years.

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

Single total figure of remuneration for Executive Directors for the 2016/17 financial year

Executive Directors	Period	Salary £	Taxable benefits £	Bonus £	LTIP £	Pension[1] £	Other[2] £	Total £
Lance Batchelor	2016/17	676,260	30,403	684,455	676,456[3]	134,224	–	2,201,798
(Group Chief Executive Officer)	2015/16	663,000	28,095	781,678	–	127,514	–	1,600,287
Jonathan Hill	2016/17	416,160	24,185	351,003	–	80,876	–	872,224
(Group Chief Financial Officer)	2015/16	334,246	19,748	325,699	–	74,680	190,000	944,373

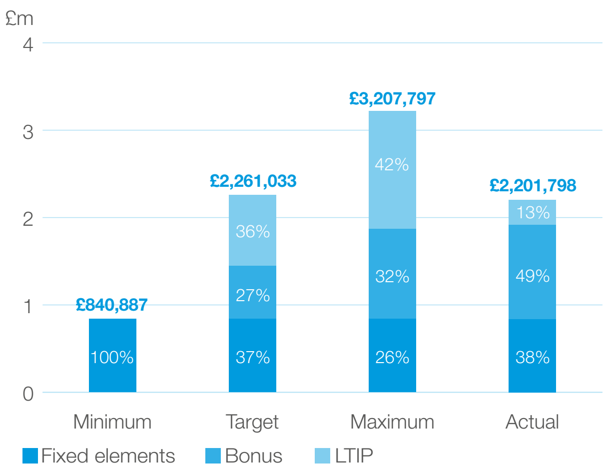
Notes:
1 This includes the pension salary supplement paid to the Executive Director being the difference between the employer contribution into the Saga Pension Scheme and 15% of the Executive Director's base salary. Further information is given on page 78.
2 Buyout award of £190,000 was made to Jonathan Hill on recruitment in the form of Saga shares (101,932 based on Saga's closing share price on 7 April 2015 of 186.4p). In determining this amount the Committee applied the 'buyout' element contained in the recruitment policy. Half of the award vested on 7 April 2016 with a value of £105,233; the remaining half vests on 7 April 2017. There are no further performance conditions.
3 The value of the 2014 LTIP is indicative as the award will vest on 30 June 2017. See page 85 for details of the indicative vesting for the 2014 LTIP which is 50% of the award. The share price used to derive the indicative value is the average share price over the last quarter of the financial year which was 192.53p. The final vesting value of the 2014 LTIP will be restated in the 2017/18 annual report.

For the full single figure table, please see page 82 in the Annual Report on Remuneration.

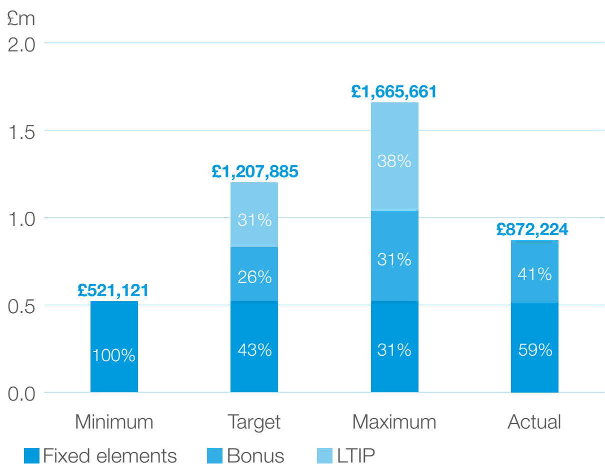
Illustration and application of Remuneration Policy 2016/17

The following charts show the 2016/17 actual remuneration against the proposed Policy levels of remuneration for the Executive Directors.

Group Chief Executive Officer (Lance Batchelor)



Group Chief Financial Officer (Jonathan Hill)



Under the Policy, the remuneration payable to each of the Executive Directors is based on salaries at the start of 2016/17, 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 2016/17. The following table outlines the elements included in the illustration above:

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

Notes:
1 Based on 2016/17 financial year salary, benefit payments and pension.
2 Equating to 150% for the Group Chief Executive Officer and 125% for the Group Chief Financial Officer.
3 Equating to 200% for the Group Chief Executive Officer and 150% for the Group Chief Financial Officer.
4 Participation in the SIP has been excluded given the relative size of the opportunity levels.

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

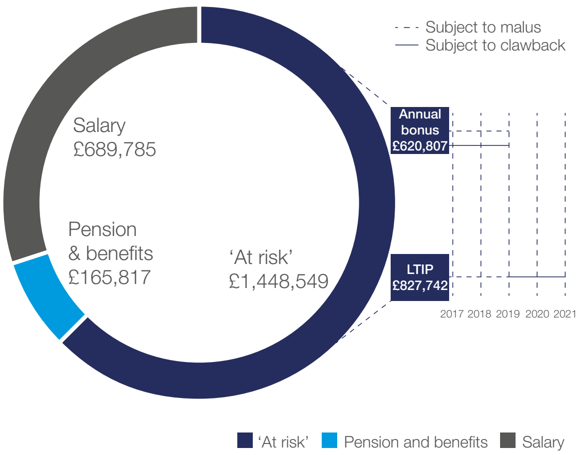
Pay at risk

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

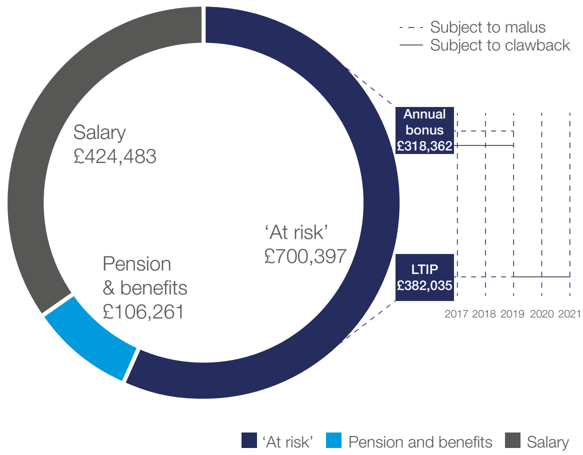
- Payment is subject to continuing employment for a period (deferred shares and LTIP awards);
- Performance conditions must still be satisfied (LTIP awards); or
- Elements are subject to clawback or malus for a period, over which the Company can recover sums paid or withhold vesting.

Figures have been calculated based on target performance (fixed elements plus 60% of maximum annual bonus and 60% of the maximum LTIP). The charts have been based on the same assumptions as set out above for the illustrations of the application of the Remuneration Policy.

Group Chief Executive Officer (Lance Batchelor)



Group Chief Financial Officer (Jonathan Hill)



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)

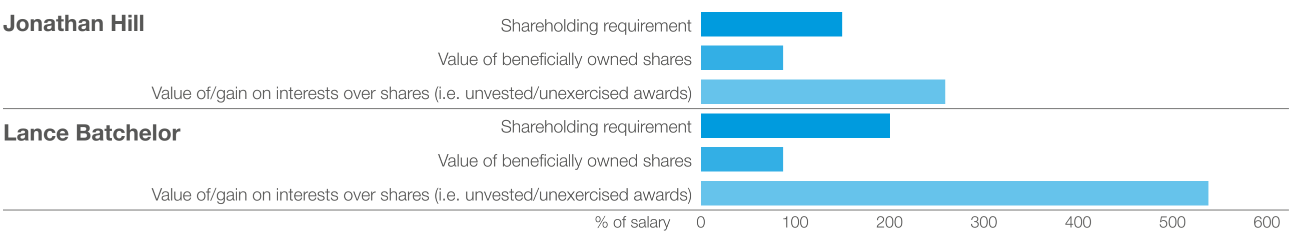
The following table and chart sets out all subsisting interests in the equity of the Company held by the Executive and Non-Executive Directors:

			Shares held directly		Other shares held	Options			
Director	Shareholding requirement (% salary)	Current shareholding (% salary)[1]	Beneficially owned[3]	Deferred shares not subject to performance conditions	LTIP interests subject to performance conditions	Vested	Unvested	Outstanding interests in the Share Incentive Plan	Shareholding requirement met?
Executive Directors									
Lance Batchelor	200%	87%	89,172	227,679	1,968,417	–	2,162,162	741	No
Jonathan Hill	150%	87%	92,601	102,032	584,176	–	–	2,056	No
Non-Executive Directors									
Philip Green	–	–	32,433	–	–	–	–	–	n/a
Ray King	–	–	27,027	–	–	–	–	–	n/a
Orna NiChionna	–	–	27,200	–	–	–	–	–	n/a
Gareth Williams	–	–	32,433	–	–	–	–	–	n/a
Bridget McIntyre	–	–	7,245	–	–	–	–	–	n/a
Andrew Goodsell[2]	–	–	5,379,805	150,882	210,214	–	–	–	n/a

Notes:
1 Values not calculated for Non-Executive Directors as they are not subject to shareholding requirements.
2 Outstanding IPO options, deferred bonus shares and LTIP in relation to his service as Executive Chairman, together with 2,564,103 shares owned by a family investment company.
3 Lance Batchelor – 31,458 shares owned by his spouse. Jonathan Hill – 60,206 shares owned by his spouse.
4 Since the year end, Lance Batchelor has bought an additional 155 shares through the SIP. There have been no other changes to the shareholdings above.

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 2017 are set out below:



Notes:
– The closing share price of 184.75p as at 31 January 2017 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, 2015 and 2016 LTIP awards. The one-off IPO share option award for the Group Chief Executive Officer has an exercise price of 185.00p hence there was no gain on these awards at 31 January 2017.
– Unvested LTIP shares and options do not count towards satisfaction of the shareholding guidelines.

Directors' Remuneration Policy continued

Our Remuneration Policy and its link to our Group strategy for the 2017/18 financial year

The table below summarises the purpose of our Remuneration Policy and its linkage to our corporate strategic objectives. The Group's strategy is laid out on pages 01-39. 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.

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

Investing in future growth	Maintaining our simple and efficient operating model	Developing our people
• Started the build of new ship. • Saga Investment Services up and running.	• Started the investment in a new insurance platform.	• Continued to build engagement levels. • Continued to promote employee share ownership.
	✓ Group cash flow. The success in maximising operational excellence will be reflected through increased profitability and cash flow.	✓ Equity Ownership. Encouraged through bonus deferral and shareholding requirements.
✓ An incentive to grow in these markets in the longer term is provided through EPS growth targeted by the LTIP.	✓ The success in maximising operational excellence will be measured through the long-term EPS growth targeted by the LTIP. In addition, sustained value generation will be reflected in the share price of the Company which will be measured through the Company's TSR performance under the LTIP.	✓ A good incentive will aid the retention of key people.
		✓ Encouraged through the alignment of interests with shareholders by Executives becoming locked-in shareholders.
		✓ Encourages all employees to become shareholders in the Company providing a focus on growth and long-term shareholder value creation.

Implementation of Remuneration Policy in the 2017/18 financial year

The Remuneration Committee proposes to implement the policy for the 2017/18 financial year as set out below:

Element of remuneration	Implementation in 2016/17	Implementation in 2017/18
Salary	Executive Directors received a 2% increase on 1 February 2016 (all employee rise 2.5%). As a result, the salaries for the Executive Directors are: • Lance Batchelor: £676,260. • Jonathan Hill: £416,160.	Executive Directors will receive a 2% increase on 1 February 2017 (all employee rise 2%). As a result, the salaries for the Executive Directors are: • Lance Batchelor: £689,785. • Jonathan Hill: £424,483.
Benefit and pensions	The maximum employer pension contribution / salary supplement is 20% of salary. Executive Directors received the following: • Lance Batchelor: 15% of salary comprising the employer contribution into the Saga Pension Scheme (DB) and a salary supplement in lieu of pension. • Jonathan Hill: 15% of salary comprising the employer contribution into the Saga Pension Scheme (DB) and a salary supplement in lieu of pension.	No change in policy. The current Executive Directors both opted to cease further accrual under the Saga Pension Scheme in 2016 and therefore will receive the following: • 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 Maximum Annual Bonus Plan is 150% of salary. Normal maximum bonus opportunity as a percentage of salary: • Group Chief Executive Officer – 150% • Group Chief Financial Officer – 125%	The annual bonus is paid in cash and deferred shares. Two thirds of the total bonus to be paid immediately in cash and one-third deferred into shares for three years. Performance measures were: • Group PBT[1] – 60% • Group cash flow[2] – 20% • Personal objectives – 20% (See page 83 for the FY16/17 targets).	No change in the annual bonus opportunities or deferral mechanics. The annual bonus performance measures and weightings have been amended to: • Group PBT – 55% • Group cash flow[2] – 15% • Personal objectives – 30%

Element of remuneration	Implementation in 2016/17	Implementation in 2017/18
Long-Term Incentive Plan Maximum value of LTIP grant is 200% of salary. Normal maximum LTIP award as a percentage of salary: • Group Chief Executive Officer – 200% • Group Chief Financial Officer – 150%	No change in the LTIP grant levels and no change to the performance measures and their weightings from 2015 award. 2016 LTIP award: • 50% EPS – EPS growth of 5% p.a. for 25% of this element of the award to vest with full vesting occurring for EPS growth of 12% p.a. • 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.	2017 LTIP award: • No change in the LTIP grant levels and no change to the type of performance measures. • Introduction of a new additional measure of Organic EPS. • A reweighting of the performance measures to reflect the new EPS component as follows: – 30% Basic EPS – growth of 5% p.a. for 25% of this element of the award to vest with full vesting occurring for EPS growth of 12% p.a. – 30% Organic EPS – growth of 12% p.a. for 25% of this element of the award to vest with full vesting occurring for EPS growth of 21% p.a. – 40% Comparative TSR performance – the relative TSR comparator group and the vesting schedules for this element remain unchanged from the 2016 award. • Further details of the rationale for the changes are outlined on the following page.
All employee share awards	Saga continued to operate the Share Incentive Plan for all employees in 2016, with a free share award made in July 2016 of £300 to all eligible full-time employees.	Saga will continue to provide all employees with the opportunity to participate in all employee equity arrangements.
Chairman & Non-Executive fees	Chairman fee £280,500 Board fee £62,424 Committee Chair fee £10,000 Senior Independent Director fee £20,000	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 2017: • Chairman fee £286,110 • Board fee £63,672 • Committee Chair fee £10,000 • Senior Independent Director £20,000

Notes:
1 Measured as profit before tax excluding derivatives and the Ogden impact.
2 Defined as net available cash generation.

2017 LTIP performance conditions and targets

As part of the strategic business review conducted in the year, the Remuneration Committee considered the performance conditions and targets for the 2017 LTIP award to ensure that they aligned with, and supported, the strategic business plan.

Following the findings of this review, the Remuneration Committee is proposing to make the changes set out below for the 2017 LTIP award:

- To ensure EPS growth is aligned with the strategic plan by introducing an additional performance measure of growth excluding historic claims performance ('Organic EPS') which will govern half of the EPS element of the award. The existing 'Basic EPS' measure will remain unchanged.
- Adjust the weighting of the performance conditions between EPS growth and comparative TSR, to increase the component subject to EPS from 50% to 60% to ensure sufficient focus is provided on the new EPS measure.

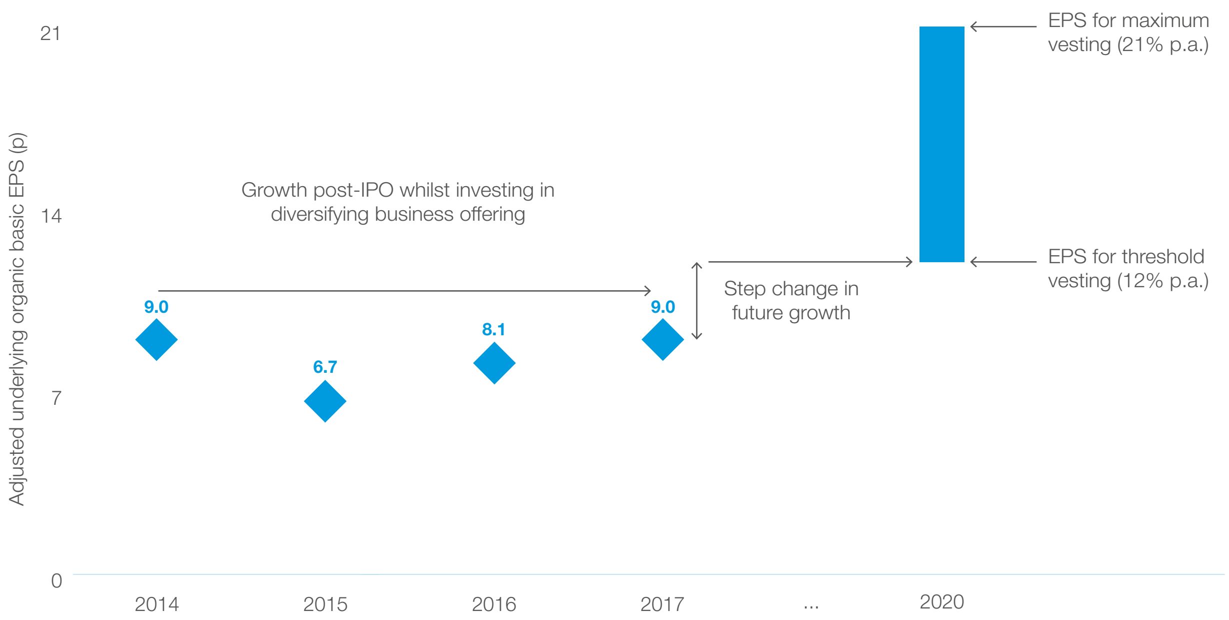
The introduction of the Organic EPS measure allows the significant acceleration of growth which is called for over and above that which has been delivered since the IPO to be recognised and targeted. The Group has worked hard to build and develop the travel business since the IPO to provide a diversified profit stream from a range of products and services in addition to the insurance business. An assessment of Organic EPS allows the Company to reward and incentivise the Executive Directors and the Executive Team to deliver this step change in growth. Whilst this growth is also reflected in the Basic EPS, the Committee felt that the material impact of historic insurance claims performance on the outturn dilutes the focus on this key strategic objective of delivering a step change in growth; and therefore, that a separate measure purely focusing on this was required.

The retention of the Basic EPS growth measure ensures that the Executive Directors and Executive Team continue to also be focused on delivering the total performance of the business. The targets for the two elements of EPS growth are as below:

EPS measure	Threshold (25% vesting)	Maximum (100% vesting)
Basic EPS	5% p.a.	12% p.a.
Organic EPS	12% p.a.	21% p.a.

In setting the targets for the Organic EPS performance condition, the Remuneration Committee has reviewed the target range against business forecasts and the historic Organic EPS growth of the Group since the IPO.

The chart below illustrates the proposed Organic EPS targets for the 2017 award and demonstrates a step change from the historic performance of the Company in line with the Company's strategic ambitions. The Remuneration Committee is comfortable that the range for the 2017 LTIP award is appropriately stretching and reflects the strong forecasted growth in the business performance.



The Committee is retaining the mechanics of the relative TSR element which will remain the same as the 2016 award with 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.

Single total figure of remuneration (audited)

Executive and Non-Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Director in respect of the 2016/17 financial year. Comparative figures for the 2015/16 financial year have also been provided. Figures provided have been calculated in accordance with the UK disclosure requirements: the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Schedule 8 to the Regulations).

	Period	Salary/fees £	Taxable benefits[2] £	Bonus £	LTIP £	Pension[3] £	Other[4] £	Total £
Executive Directors								
Lance Batchelor (Group Chief Executive Officer)	2016/17	676,260	30,403	684,455	676,456	134,224	–	2,201,798
	2015/16	663,000	28,095	781,678	–	127,514	–	1,600,287
Jonathan Hill[1] (Group Chief Financial Officer)	2016/17	416,160	24,185	351,003	–	80,876	–	872,224
	2015/16	334,246	19,748	325,699	–	74,680	190,000	944,373
Non-Executive Directors								
Philip Green (Senior Independent Non-Executive Director, Nomination Committee Chair)	2016/17	91,616	–	–	–	–	–	91,616
	2015/16	91,050	–	–	–	–	–	91,050
Ray King (Non-Executive Director, Audit Committee Chair)	2016/17	71,883	–	–	–	–	–	71,883
	2015/16	74,983	–	–	–	–	–	74,983
Orna NiChionna (Non-Executive Director, Risk Committee Chair)	2016/17	71,883	–	–	–	–	–	71,883
	2015/16	66,650	–	–	–	–	–	66,650
Gareth Williams (Non-Executive Director, Remuneration Committee Chair)	2016/17	71,883	–	–	–	–	–	71,883
	2015/16	70,816	–	–	–	–	–	70,816
Bridget McIntyre[5] (Non-Executive Director)	2016/17	98,026	–	–	–	–	–	98,026
	2015/16	5,933	–	–	–	–	–	5,933
Andrew Goodsell[6] (Chairman)	2016/17	278,667	45,373	–	202,363	–	–	526,403
	2015/16	490,838	45,071	389,567	–	232,481	–	1,157,957
James Arnell[7]	2016/17	–	–	–	–	–	–	–
	2015/16	–	–	–	–	–	–	–

Notes:

1 Jonathan Hill joined Saga on 7 April 2015 and his salary, taxable benefits, pension and bonus in respect of 2015/16 relate to his time in the role.

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 86 for further details.

4 Buyout award of £190,000 was made to Jonathan Hill on recruitment in the form of Saga shares (101,932 based on Saga's closing share price on 7 April 2015 of 186.4p). In determining this amount the Committee applied the 'buyout' element contained in the recruitment policy. Half of the award vested on 7 April 2016 with a value of £105,233; the remaining half vests on 7 April 2017. There are no further performance conditions.

5 Bridget McIntyre has been a member of the Board throughout the year, and was a Non-Executive Director of a subsidiary company, Acromas Insurance Company Limited, until 31 August 2016, for which she received £10,000 per annum. From 1 September, she attended Board meetings of another subsidiary company, Saga Services Limited (initially as an observer and then in her role as Senior Independent Director which she formally took up on 22 March 2017 following FCA approval), for which she receives £72,424 per annum.

6 The 2015/16 amounts for Andrew Goodsell relate to his period as Executive Chairman from 1 February 2015 to 30 June 2015 and his fees as Non-Executive Chairman for the period from 1 July 2015 to 31 January 2016 (£160,416). He continues to receive taxable benefits which are legacy arrangements from his employment as Executive Chairman and comprise a leased car with associated fuel, and healthcare.

7 James Arnell was a Non-Independent Non-Executive Director who did not receive any fee from Saga plc who left the Board on 22 April 2016.

Annual bonus

In respect of the 2016/17 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 2016/17 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 Target performance achieved	Percentage of Maximum performance achieved	Annual bonus value achieved (% of salary) Lance Batchelor	Annual bonus value achieved (% of salary) Jonathan Hill
Group PBT[1]	60%	£181.9m	£187.3m	£190.8m	£187.4m	20%-100%	100.1%	60.8%	54.7%	45.6%
Group cash flow[2]	20%	61.6%	64.4%	66.3%	88.4%	20%-100%	137.3%	100.0%	30.0%	25.0%
Personal objectives	20%	See below for details of the 2016/17 personal objectives and their achievement				0%-100%		55.0%	16.5%	13.8%
Total	100%							67.5%	101.2%	84.3%
Total £									£684,455	£351,003

Notes:
1 Underlying profit before tax (profit before tax excluding derivatives and the Ogden impact).
2 Defined as net available cash generation.
3 Under the terms of the Annual Bonus Plan, 20% for each element (PBT and cash flow) is payable for achieving the threshold performance increasing to 60% for target performance and 100% for achieving maximum performance. Achievements between these points are calculated on a straight-line basis.

Ogden rate change

The Committee considered very carefully whether the Group PBT should be adjusted for the additional £4m increase in insurance claims liabilities required as result of the change in the Ogden rate. In its discussions, the Committee considered the following:

- The Committee felt that the provisioning undertaken by the Executive Directors and Executive Team in anticipation of the change to the Ogden rate was to a very high standard; however, the totally unexpected rate announced resulted in a modest increase in the provision by £4m.
- Any adjustment would impact bonuses across the wider Executive Team, not just those involved in the insurance business, given Saga's diverse business outside insurance. The Committee did not believe this was proportionate.
- The announcement on 27 February 2017 fell outside the Company's 2016/17 financial year and therefore the Committee felt that this would be a retrospective change to performance targets at a point where the Executive Directors and Executive Team could feel justified in believing that the basis on which bonuses would be paid for the 2016/17 financial year had been determined.
- The Committee also considered the shareholder experience following the announcement which has seen the Company's share price rise. This gave the Committee comfort that shareholders felt that the Company had managed any impact well. Further, the Company has not changed its dividend payment plans because of the modest increase in the liabilities.

After careful consideration of the above factors the Committee determined to use the Group PBT, excluding the £4m cost of the Ogden rate change, to determine the bonus outcomes. The following table shows the impact on the level of bonus earned on the Group PBT element with and without adjustment for the additional £4m provision:

Group PBT elemet of bonus	Amount of bonus earned CEO	Amount of bonus earned CFO
Underlying profit before tax[1]	£369,994	£189,741
Profit before tax including Ogden impact	£278,233	£142,683
Difference	£91,761	£47,058

Note:
1 Profit before tax excluding derivatives and the Ogden impact.

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

Name	Weighting	Objective	Details	Achievement of objective
Lance Batchelor Group Chief Executive Officer	10%	Customer numbers (insurance plus passengers)	Total customer / policy count (insurance plus passengers) of 3,404,455. Achieve persistency rates of 76.4% home and 72.7% motor.	3% – Customer numbers were not achieved but persistency rates in home and motor were partially achieved.
	5%	Delivery of required customer outcomes	No significant regulatory or brand failures. Measured through regulatory intervention, assessment of how far we move outside of agreed risk tolerance, level of customer complaints and poor PR. A review of protection for vulnerable customers as part of the five year plan to reward customer loyalty.	5% – Achieved in full.
	5%	Group-wide employee engagement	Achieve employee engagement index score of 85% and response rate of above 80%.	3% – Response rate was above 80%, employee engagement index of 81% with 9/10 categories improving.
The overall performance against these personal objectives equated to 55% of the bonus for this element being achieved.				
Jonathan Hill Group Chief Financial Officer	10%	Customer numbers (insurance plus passengers)	Total customer / policy count (insurance plus passengers) of 3,404,455. Achieve persistency rates of 76.4% home and 72.7% motor.	3% – Customer numbers were not achieved but persistency rates in home and motor were partially achieved.
	5%	Delivery of required customer outcomes	No significant regulatory or brand failures. Measured through regulatory intervention, assessment of how far we move outside of agreed risk tolerance, level of customer complaints and poor PR. A review of protection for vulnerable customers as part of the five year plan to reward customer loyalty.	5% – Achieved in full.
	5%	Group-wide employee engagement	Achieve an increase in employee engagement in CFO functions of 5% year-on-year.	3% – Engagement improved by 2% with all 10 categories of engagement improving in CFO functions.
The overall performance against these personal objectives equated to 55% of the bonus for this element being achieved.				

The bonus for the 2016/17 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 vesting during in 2016/17 (audited)

The LTIP awards granted on 30 June 2014 have not yet vested but as performance was substantially completed during the 2016/17 financial year, an estimate of the vesting and the indicative value of the awards has been provided below. This figure will be updated in the 2017/18 Annual Report on Remuneration to reflect the final vesting outcome.

The 2014 LTIP is equally weighted between EPS and relative TSR performance conditions. The EPS growth is measured to the 2016/17 year end and the three year TSR condition concluding on 30 June 2017.

The EPS over the period has grown by 15.7% p.a. against the range of 7-12% p.a. equating to a vesting of 100% of the EPS element.

The Company has assessed relative TSR performance against the FTSE 250 (excluding real estate and investment trusts) to 31 January 2017. Saga ranked below the median equating to an indicative vesting of 0%.

The table presents the indicative vesting of the 2014 LTIP award for Lance Batchelor and Andrew Goodsell, who was awarded the LTIP as Executive Chairman in 2014 (prior to his change in role of Non-Executive Chairman).

Name	Award level (% of salary)	Portion of EPS vesting	Estimate of TSR vesting[1]	Estimate of total vesting (as % of award)	Indicative LTIP value for single figure
Lance Batchelor	200%	100%	0%	50.0%	£676,456
Andrew Goodsell[2]	150%	100%	0%	16.7%	£202,363

Notes:
1 Based on TSR performance against the peer group to 31 January 2017.
2 2014 LTIP of 630,374 share options granted in relation to his service as Executive Chairman in June 2014.

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

The 2014 LTIP award and its treatment for Andrew Goodsell was set out on page 90 of our 2015 annual report under the heading of 'Remuneration arrangements for our outgoing Executive Chairman'.

Andrew Goodsell was granted 630,374 share options under the 2014 LTIP in his capacity as Executive Chairman. As a good leaver in reference to his change in role from Executive to Non-Executive Chairman, his award was pro-rated to the amount of the vesting period completed on the date of cessation as Executive Chairman (one-third of the original award) but remained subject to the achievement of the performance conditions for the award.

Long-term incentives awarded in 2016/17 (audited)

The table below sets out the details of the long-term incentive awards granted in the 2016/17 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	£1,352,520	654,656	25%	100%	Relative TSR and EPS equally weighted
Jonathan Hill	LTIP	Annual	£624,240	302,149	25%	100%	Relative TSR and EPS equally weighted

The awards were granted on 16 May 2016; the face value is calculated with reference to the share price on 15 May 2016 of 206.6p. The performance conditions are set out on page 71 in the Implementation of Remuneration Policy in the 2016/17 financial year. The awards will vest, subject to the level of performance achieved, on 16 May 2019.

Pension entitlements (audited)

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

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

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

			Accrued pension		Single figure numbers		Extra information disclosed under 2013 Directors' Remuneration Regulations	
Name	Age at 31/01/2017	Pensionable service at 31/01/2017	01/02/2016	31/01/2017	Pension salary supplement[1]	Value x 20 over year[3]	Total pension benefits	Normal retirement age
Lance Batchelor	53	2 years, 9 months	£4,334	£6,213	£97,844[2]	£36,380	£134,224	65
Jonathan Hill	48	1 year, 10 months	£2,000	£3,156	£58,956[2]	£21,920	£80,876	65

Notes:
1 Pension salary supplement paid is the difference between the employer contribution into the Saga Pension Scheme and 15% of the Executive Director's base salary.
2 Represents the amount paid to the Executive Director being the difference between 15% of the Executive Director's base salary and the employer contribution into the Saga Pension Scheme from 1 February 2016 to 31 March 2016, and 15% of the Executive Director's base salary from 1 April 2016 to 31 January 2017.
3 Reflects the growth in the Executive Director's pension accrued in the Saga Pension Scheme over the year multiplied by 20, less the contributions by the Executive Director in the year.

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

Having opted out of further accruals under the Saga Pension Scheme, Lance Batchelor and Jonathan Hill will receive a 15% salary supplement in lieu of pension for the 2017/18 financial year.

Non-Executive Directors' annual fees

See table on page 82.

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

There were no payments to past Directors or payments for loss of office during the financial year.

Statement of Directors' shareholding and share interests

See the tables on page 75.

Fees retained for external non-executive directorships

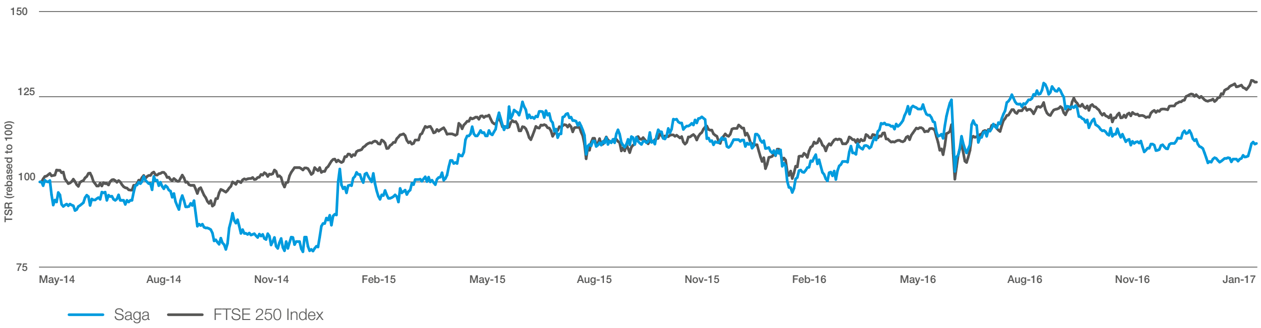
Executive Directors may hold positions in other companies as Non-Executive Directors and retain the fees.

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

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 2017.



Group Chief Executive Officer historical remuneration

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

Group Chief Executive Officer	2016/17	2015/16	2014/15
Total single figure	£2,201,798	£1,600,287	£5,328,702[1]
Annual bonus payment level achieved (percentage of maximum opportunity)	67.5%	78.6%	80.7%
LTIP vesting level achieved (percentage of maximum opportunity)	50.0%[2]	n/a	n/a
Option vesting level achieved (percentage of maximum opportunity)	n/a	n/a	n/a

Notes:

1 The Group Chief Executive Officer joined the Company on 24 March 2014 the remuneration shown is therefore not for the full financial year. Included within the single figure is a cash award of £4m with vesting based on continued employment. 25% immediately on the IPO, 25% on the first anniversary of the award and 50% on the second anniversary; this was part of the buyout on the recruitment of the Group Chief Executive Officer to compensate for awards lapsing on his ceasing employment with his former employer.

2 Based on indicative vesting as at 31 January 2017. The award will vest on 30 June 2017. The final vesting outcome will be stated in the 2017/18 annual report.

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

Relative importance of the spend on pay

The table below sets out the relative importance of spend on pay in the 2016/17 financial year and 2015/16 financial year compared with other disbursements. All figures provided are taken from the relevant company accounts.

	Disbursements from profit in 2016/17 financial year (£m)	Disbursements from profit in 2015/16 financial year (£m)	Percentage change
Profit distributed by way of dividend	86.1	70.4	22.3%
Total tax contributions[1]	74.9	61.6	21.6%
Overall spend on pay including Executive Directors[2]	131.2	300.1	(56.3%)

Note:

1 Total tax contributions include corporation tax, national insurance contributions, VAT and Air Passenger Duty. 2015/16 includes £10.1m in respect of discontinued operations. Excluding this amount, the percentage change is 45.4%.

2 2015/16 includes £174.2m in respect of discontinued operations. Excluding this amount, the percentage change is 4.2%.

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 2015/16 to 2016/17 compared to the average percentage change for employees.

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

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

	Salary			Taxable benefits			Annual Bonus		
	2016/17	2015/16	Percentage change	2016/17	2015/16	Percentage change	2016/17	2015/16	Percentage change
Group Chief Executive Officer[1]	£676,260	£663,000	2%	£30,403	£28,095	8%	£684,455	£781,678	(12%)
Average per employee	£27,380	£24,865	10%	£714	£638	12%	£3,259	£3,293	(1%)

Note:

1 The Group Chief Executive Officer also received cash awards of £1,000,000 in 2015/16 and £2,000,000 in 2016/17 as part of his recruitment as compensation for awards lapsing on his ceasing employment with his former employer.

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 the organisation

Organisational level	Employee #	Maximum bonus percentage of salary	Maximum proportion of bonus payable in cash	Maximum proportion of bonus deferrable in shares	Maximum LTIP award	SIP
Group Chief Executive Officer	1	150%	67%[1]	33%[1]	200%	✓
Group Chief Financial Officer	1	125%	67%[1]	33%[1]	150%	✓
Executive Team	6	100%	67%[1]	33%[1]	100%	✓
Directors	18	60%	100%	0%	60%	✓
Senior leadership	65	40%	100%	0%	40%	✓
Other bonused employees	2,694	20%	100%	0%	n/a	✓
Non-bonused employees	1,892	n/a	n/a	n/a	n/a	✓

Note:

1 The maximum level of deferral of bonus in shares for these employees is 50% with no minimum deferral.

Statement of implementation of the Remuneration Policy in the 2017/18 financial year

See the tables on pages 78-79.

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 positive level of support received from shareholders both on the Policy and its implementation the Committee is comfortable that no changes are required to the Policy or its implementation for 2017/18.

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	661,486,807	91.20	63,828,867	8.80	726,474,388	64.98	1,158,714
To approve the Directors' Remuneration Policy	824,261,354	99.63	3,031,154	0.37	827,292,508	74.00	1,631,155

Advisers to the Remuneration Committee

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

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

PwC is a member of the Remuneration Consultants Group and the voluntary code of conduct of that body is designed to ensure objective and independent advice is given to remuneration committees. Fixed fees of £45,000 (2015/16: £65,000) were provided to PwC during the year in respect of remuneration advice received.

Gareth Williams
Chair, Remuneration Committee

28 March 2017

Strategic report
Governance
Financial statements

The Directors present their report together with the audited consolidated financial statements for the year ended 31 January 2017 in accordance with section 415 of the Companies Act 2006 which were approved by the Board on 28 March 2017.

Management report

The Directors' Report, together with the Strategic Report set out on pages 01-39 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 01-39
Corporate social responsibility	Pages 16-18
Greenhouse gas emissions	Pages 18-19
Employees (employment of disabled persons, employee engagement and policies)	Pages 16-17
Corporate Governance Statement	Pages 40-66
Directors' details (including changes made during the year)	Pages 45 and 48-51
Related party transactions	Note 32 on page 163
Employee share schemes (including long-term incentive schemes)	Note 29 on pages 159-160
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 108-120
Additional information	Pages 171-173

Results and dividends

The Group made a profit after taxation of £157.3m for the financial year ended 31 January 2017. The Board paid an interim dividend of 2.7p per share and proposes to pay, subject to shareholder approval at the 2017 AGM, a final dividend of 5.8p net per share in respect of the year ended 31 January 2017.

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 42.

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 42.

Viability statement

The Directors' viability statement is set out on page 42.

Political donations

No political donations were made during the year.

Directors' interests

A list of the Directors, their interests in the long-term performance share plan, contracts and ordinary share capital of the Company are given in the Directors' Remuneration Report on pages 67-89.

Rules on appointment and replacement of Directors

All Directors will seek re-election at the AGM in accordance with the Company's articles of association and the recommendations of the Code, with the exception of Philip Green, who has resigned from the Board with effect from 31 March 2017.

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 92) each Private Equity Investor was entitled to appoint one Non-Executive Director to the Board for so long as it was entitled, either directly or indirectly through its voting rights in Acromas Bid Co Limited ('ABCL'), 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. The Company was notified that ABCL had sold its last tranche of shares on 22 April 2016. Following the sale, James Arnell, Non-Executive Director appointed by Charterhouse, resigned from the Board of the Company with immediate effect and the Relationship Agreement ceased to exist.

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 157. 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 2017, 1,118,005,405 ordinary shares of 1p each have been issued, are fully paid up and quoted on the London Stock Exchange.

On 22 April 2016, the Company was notified that ABCL had sold the remaining 352,674,283 shares held by them, representing approximately 31.54% of the Company's issued ordinary share capital. Following the sale, ABCL ceased to be shareholder of 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 as at 31 January 2017:

Name	Ordinary shares	Percentage of capital	Nature of holding
HSBC Global Custody Nominees (UK Limited)	56,154,560	5.02%	Direct
Deutsche Bank AG, London Branch	81,953,949	7.33%	5.21% Direct and 2.12% SWAPs
Artemis Investment Management LLP on behalf of discretionary funds under management	121,840,916	10.9%	Indirect

Subsequent to the year end, Henderson Group plc disclosed information in accordance with DTR5, on 28 February 2017, disclosing a holding of 59,285,367 (5.30%, broken down as 4.97% Indirect and 0.32% CFD). Deutsche Bank AG has disclosed information in accordance with DTR5 on three occasions. The most recent one being 22 March 2017, disclosing a holding of 103,659,855 (9.27%, broken down as 5.73% Direct and 3.54% SWAPs). On 23 March 2017, Artemis Investment Management LLP disclosed information in accordance with DTR5, disclosing a holding of 111,601,253 ordinary shares (9.98%, Indirect).

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 and Legal & General Group plc had notifiable interests but these ceased to be notifiable interests and are not included in the table above.

Relationship Agreement

The Company had entered into an agreement with ABCL as its controlling shareholder as required under Listing Rule ('LR') 9.2.2A R (2)(a), complied with the independence provisions set out in LR 6.1.4D R and had a constitution that allowed 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, whilst the agreement was in force.

As far as the Company is aware:

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

The Relationship Agreement between the Company, ABCL (the 'Principal Shareholder') and certain funds managed or advised by Charterhouse Capital Partners, CVC Capital Partners and Permira (the 'Private Equity Investors') remained in force until the later of (i) each of the Private Equity Investors (together with its associates) ceased 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; or (ii) the Principal Shareholder (together with its associates) ceased 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.

As a result of the share placing undertaken by ABCL on 21 April 2016, ABCL held no shares in the Company, Charterhouse ceased to have an interest in the Company and the Private Equity Investment Director nominated by them resigned from the Board with effect from 22 April 2016.

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 provide 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 26 to the consolidated financial statements.

The rules of the Company's employee share plans generally provide for the accelerated vesting and/or release of share awards in the event of a change of control of the Company.

The Company does not have any agreements with Directors or employees which would pay compensation in the event of a change of control.

Conflict of interest

Each Director is obliged to disclose any potential or actual conflict of interest in accordance with the Company's conflict of interest policy. The policy and declarations made are subject to annual review and Directors are required to update any changes to declarations as they occur. Internal controls are in place to ensure that any related party transactions are conducted on an arm's length basis.

Authority to allot/purchase own shares

A shareholders' resolution was passed at the AGM on 21 June 2016 which authorised the Company to make market purchases within the meaning of section 693 (4) of the Companies Act 2006 (the 'Act') (up to £1,118,005.41 representing 10% of aggregate nominal share capital of the share capital of the Company following Admission). This is subject to a minimum price of 1p and a maximum price of the higher of 105% of the average mid-market quotations for five business days prior to purchase or 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 2017. The above authority will expire at the forthcoming AGM and a special resolution to authorise the Company to make market purchases representing 10% of current nominal share capital will be proposed. The authority to repurchase the Company's ordinary shares in the market will be limited to £1,118,005.41 and will set out the minimum and maximum price which will be paid.

The Directors of the Company were also granted authority at the 2016 AGM to allot relevant securities up to a nominal amount of £3,722,958. This authority will apply until the conclusion of the 2017 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 2018 or, if earlier, 31 July 2018.

Special resolutions will also be proposed to give the Directors authority to make non-preemptive issues wholly for cash in connection with rights issues and otherwise up to an aggregate nominal amount of £559,002.70 and to make non-preemptive issues wholly for cash in connection with acquisitions or specified capital investments up to an aggregate amount of £559,002.70.

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; and receive a copy of the Company's report and accounts and a dividend when approved and paid. On a show of hands, each shareholder present in person, or by proxy (or an authorised representative of a corporate shareholder), shall have one vote. In the event of a poll, one vote is attached to each share held.

The notice of the AGM (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 regulation, or where the Listing Rules require certain persons to obtain clearance before dealing, there are no restrictions regarding the transfer of shares in the Company. The Company is not aware of any agreement which would result in a restriction on the transfer of shares or voting rights.

Articles of association

Any amendment to the Company's articles of association may only be made by passing a special resolution of the shareholders of the Company.

Branches outside the UK

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

Post-balance sheet events

On 27 February 2017, the UK Government announced its decision to move the Ogden rate to -0.75% from 2.5%. The UK Government first announced the decision to launch a consultation process on a potential downgrade to the Ogden rate in 2012. In line with the prudent approach to reserving, the Group has therefore held a specific amount within its reserve margin in anticipation of a reduction in the Ogden rate.

This event has been treated as an adjusting post-balance sheet event, and as such a one-off, pre-tax impact on profit of £4m has been reflected in the Group's results for the year ended 31 January 2017. Our older demographic provides the Group with a defensive advantage, with lower claims frequency generating less exposure to large and small bodily injury claims, and to periodic payment orders ('PPOs'). The Group does not expect the Ogden rate change to have a material impact on its financial outlook.

Auditor

A resolution to appoint KPMG LLP (who have indicated their willingness to act after a formal audit tender process) as our Auditor will be proposed at the 2017 AGM. Ernst & Young LLP were appointed as auditors of the principal trading companies within the Acromas group in September 2007 and as auditors of the Company on 24 September 2014. following the Company's incorporation and insertion within the Group prior to listing. The formal audit tender process is explained in detail on page 61.

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 22 June 2017 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 Company and Group financial statements for each financial year. Under that law, the Directors are required to prepare Group financial statements under International Financial Reporting Standards ('IFRSs') as adopted by the European Union and applicable law and Company financial statements under United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). Under company law the Directors must not approve the Company and 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 Company and Group and of the profit or loss of the Company and Group for that period. In preparing the Company and Group financial statements the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the Company and 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 FRS 101 and IFRSs as adopted by the European Union are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and Group's financial position and financial performance; and
- state whether the Company and Group financial statements have been prepared in accordance with FRS 101 and IFRSs as adopted by the European Union.

The Directors are responsible for keeping adequate records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Company and 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 45 and 48-49, confirm that, to the best of their knowledge:

- the Company and Group financial statements, which have been prepared in accordance with FRS 101 and IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and Group; and
- the Strategic Report contained on pages 01-39 includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

V Haynes
Company Secretary
28 March 2017

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 2017 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, including 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 2017, which comprise:

Group financial statements	Company financial statements
• the consolidated income statement • the consolidated statement of 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 34 to the consolidated financial statements	• the company balance sheet • the company statement of changes in equity • the related notes 1 to 5 to the company financial statements

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (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, including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101')).

Overview of our audit approach	
Risks of material misstatement	• Valuation of insurance contract liabilities • Valuation of goodwill • Revenue recognition
Audit scope	We have performed an audit of the complete financial information of 10 components (2016: 7 components) and audit procedures on specific balances for a further 1 component (2016: 4 components). The divisions and entities where we performed full scope audit procedures accounted for 96% (2016: 89%) of the Group's Profit before tax, 92% (2016: 93%) of the Group's revenue and 98% (2016: 96%) of the Group's Total assets.
Materiality	Overall Group materiality is £9.7m (2016: £9.0m) which represents approximately 5% of Profit before tax from continuing operations.

Independent Auditor's Report to the members of Saga plc continued

Our assessment of risks of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of efforts of the audit team. In addressing these risks, which are the same risks as those included in our prior year opinion, 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 (£423.2m, 2016: £460.0m)

Risk	Our responses to the risks	Key observations communicated to the Audit Committee
Valuation of insurance contract liabilities (£423.2m, 2016: £460.0m) Refer to the Audit Committee Report (page 58), accounting policy note 2.3(q) and disclosure note 24. For insurance contracts, estimates have to be made both for the expected ultimate cost of claims notified by 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 judgements 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, being the discount rate used by the Courts to determine the present value of personal injury claims; and other regulatory developments. On 27 February 2017, the Lord Chancellor announced a change in the Ogden discount rate to -0.75%; we would expect this to be reflected in the measurement of insurance contract liabilities. Management sets insurance contract liabilities at a level that includes a margin over the actuarial best estimate to take account of uncertainty that may impact the value of the liabilities ultimately settled. As a result of the inherent uncertainty in setting the insurance contract liabilities and the susceptibility to management bias, we consider the valuation of the insurance contract liabilities to be a significant risk. As a result of the timing of the Ogden announcement, this risk has increased compared to the prior year.	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, and controls over changes in assumptions and methodology. Supported by our actuarial specialists, we: • 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; • 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 net insurance contract liabilities, to determine our own best estimate for the projected liabilities and a reasonable range within which such an estimate may fall given the inherent uncertainty involved in the estimation; • 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; • validated that the change in Ogden rate had been appropriately reflected in the insurance contract liabilities; and • tested on a sample basis that the reinsurance recoveries were recorded in line with the underlying reinsurance contracts. We reviewed the reinsurance agreement with NewRe to understand the terms of the contract and ensure the transaction is appropriately accounted for in accordance with the contractual agreement.	In the prior period we reported that the Saga best estimate was based on assumptions which were individually reasonable but contained degrees of caution when compared to our own assumptions. Revisions to assumptions by management during the current period have resulted in the Saga best estimate now being more closely aligned to our own best estimate projections. However, we consider that the overall insurance contract liabilities including the margin are towards the more conservative end of the reasonable range. We are satisfied that the NewRe quota share contract is appropriately accounted for and disclosed in the consolidated financial statements. We consider that the recorded insurance contract liabilities as at 31 January 2017, including the margin and net of reinsurance, are within a reasonable range.

<table>
<tr><th>Risk</th><th>Our responses to the risks</th><th>Key observations communicated to the Audit Committee</th></tr>
<tr><td>Valuation of insurance contract liabilities (£423.2m, 2016: £460.0m) continued

Note 18(d) Insurance risk provides further detail of these uncertainties and the process for establishing insurance contract liabilities.

With effect from 1 February 2016, the Group entered into a quota share arrangement with New Reinsurance Company Limited (NewRe) ceding 75% of the risk of motor policies on a loss occurring basis.

Key accounting considerations relate to whether the contract satisfies the requirements of IFRS 4 to be accounted for as an insurance contract, the presentation and related disclosures in respect of the contract in the financial statements, and assumptions relating to the timing of recognition of profit commission.</td><td>This included considering whether the contract included risk transfer to qualify as an insurance contract under IFRS 4, and validating, through re-performance, the application of the quota share contract to the applicable business and ensuring that the financial statements reflect the underlying contract terms.</td><td></td></tr>
<tr><td>Valuation of goodwill (£1,485m, 2016: £1,485m)

Refer to the Audit Committee Report (page 58), accounting policy 2.3(g) and disclosure note 13.

The goodwill recorded as at 31 January 2017 is £1,485.0m and is tested for impairment by Management by considering the recoverable amount of the goodwill as described in note 15.

In determining the recoverable amount, judgement is applied by Management in deriving:
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.
The level of risk has remained consistent with the prior year.</td><td>Management's impairment assessment of the recorded goodwill value was performed as at 30 November 2016. We tested the design and operating effectiveness of the controls in operation over the goodwill impairment assessment.

We have also evaluated and challenged this assessment, specifically we:
validated that the goodwill is appropriately allocated to the operating segments;
validated that the cash flows underpinning the calculation were consistent with the five year strategic plan approved by the Board;
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;
compared the long-term growth rates to economic and industry forecasts;
compared the discount rate to the Group's pre-tax weighted average cost of capital and to discount rates used by similar UK companies that operate in the financial services and travel industries; and
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.</td><td>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 consider to be cautious assumptions.

We consider that:
the allocation of goodwill to operating segments is appropriate and in line with the requirements of IAS 36;
the forecasts used are a reasonable basis upon which to perform the impairment review; and
the assumptions for the pre-tax discount rate and long-term growth applied by management are within an acceptable range, and are consistent with economic and industry forecasts, and those used by comparator insurance and travel companies.</td></tr>
</table>

Risk	Our responses to the risks	Key observations communicated to the Audit Committee
Revenue recognition (£871.3m, 2016: £963.2m) Refer to accounting policy 2.3(a) and disclosure note 3. ISAs (UK & Ireland) presume there may be pressures or incentives on Management to commit fraudulent financial reporting through inappropriate revenue recognitions. There is a risk of management override on revenue recognition in response to performance targets. The diverse nature of the Group’s revenue recognition policies and the materiality of the balances concerned are such that we consider revenue recognition to represent a significant risk. 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: • 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. • 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. The level of risk has remained consistent with the prior year.	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’. We tested the design and operating effectiveness of the controls in operation over the Insurance and Travel revenue recognition and recording processes. For the Insurance segment we: • re-performed earnings calculations for insurance contracts underwritten by the Group, to validate that insurance revenues were being recognised over the policy term; • inspected a sample of contracts not underwritten by the Group 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. For the Travel segment we: • 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.	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. We are satisfied that the consolidation adjustments to align the revenue recognition policies across the group are appropriate. We concluded that revenue has been recognised in the year in compliance with the Group’s revenue recognition policies and relevant accounting standards.

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, we selected components covering entities within the United Kingdom and Gibraltar, which represent the principal trading entities within the Group.

The table below illustrates the coverage obtained from the work we performed:

	Jan-17				Jan-16			
	No.	Revenue	Profit before Tax	Total Assets	No.	Revenue	Profit before Tax	Total Assets
Full scope[1]	10	92%	96%	98%	7	93%	89%	96%
Specific scope[2]	1	4%	1%	1%	4	3%	5%	3%
Full and Specific scope coverage	11	96%	97%	99%	11	96%	94%	99%
Remaining components[3]	7	4%	3%	1%	19	4%	6%	1%
Total reporting components	18	100%	100%	100%	30	100%	100%	100%

Notes:
1 We audited the complete financial information.
2 We audited specific accounts within these components.
3 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.

Changes from the prior year

The changes in the number of full scope and specific scope entities primarily reflect revisions to the internal reporting and consolidation structure within Saga.

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 be satisfied 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 all remaining components were performed directly by the primary audit team.

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of identified misstatements on our audit and in forming our opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

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 £9.7m (2016: £9.0m), which is approximately 5% of the Group's Profit before tax from continuing operations.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds 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 £4.9m (2016: £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 £2.5m.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.49m (2016: £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’ Responsibility Statements set out on page 94, 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
- based on the work undertaken in the course of the audit:
  - 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; and
  - the Strategic Report and the Directors’ Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

ISAs (UK and Ireland)	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: • 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. 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.	We have no exceptions to report.
Companies Act 2006 reporting	In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report. We are required to report to you if, in our opinion: • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • the directors' statement in relation to going concern and longer-term viability, set out on page 42; 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	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • 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.

John Headley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor, London, 28 March 2017

Notes:
1 The maintenance and integrity of the Saga plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement
for the year ended 31 January 2017

	Note	2017 £'m	2016 £'m
Revenue	3	**871.3**	963.2
Cost of sales	3	**(422.7)**	(544.2)
Gross profit		**448.6**	419.0
Administrative and selling expenses	4	**(251.6)**	(227.3)
Investment income	5	**5.0**	11.0
Finance costs	6	**(18.6)**	(25.2)
Finance income	7	**11.3**	–
Share of loss of joint ventures	34	**(1.4)**	(1.3)
Profit before tax from continuing operations		**193.3**	176.2
Tax expense	9	**(36.0)**	(28.1)
Profit for the year from continuing operations		**157.3**	148.1
Loss after tax for the year from discontinued operations	31	**–**	(6.9)
Profit for the year		**157.3**	141.2
Attributable to:			
Equity holders of the parent		**157.3**	140.9
Non-controlling interests		**–**	0.3
		157.3	141.2
Earnings per share:			
Basic	11	**14.1p**	12.7p
Diluted	11	**14.0p**	12.6p
Earnings per share for continuing operations:			
Basic	11	**14.1p**	13.3p
Diluted	11	**14.0p**	13.2p

The notes on pages 107-165 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 31 January 2017

	Note	2017 £'m	2016 £'m
Profit for the year		**157.3**	141.2
Other comprehensive income			
Other comprehensive income to be reclassified to income statement in subsequent years			
Exchange differences on translation of foreign operations		**0.7**	(1.2)
Net gain on cash flow hedges		**32.0**	16.6
Associated tax effect		**(5.3)**	(3.0)
Net gain/(loss) on available for sale financial assets		**1.0**	(1.6)
Associated tax effect		**(0.1)**	0.4
		28.3	11.2
Other comprehensive income not to be reclassified to income statement in subsequent years			
Re-measurement gains on defined benefit plans	23	**4.6**	26.6
Associated tax effect		**(1.1)**	(4.8)
		3.5	21.8
Total other comprehensive income		**31.8**	33.0
Total comprehensive income for the year		**189.1**	174.2
Attributable to:			
Equity holders of the parent		**189.1**	173.9
Non-controlling interests		**–**	0.3
		189.1	174.2

The notes on pages 107-165 form an integral part of these consolidated financial statements.

Consolidated statement of financial position
as at 31 January 2017

	Note	2017 £'m	2016 £'m
Assets			
Goodwill	13	**1,485.0**	1,485.0
Intangible fixed assets	14	**53.8**	52.3
Investment in joint ventures	34	**1.4**	1.6
Property, plant and equipment	16	**131.5**	140.6
Financial assets	17	**600.3**	644.7
Deferred tax assets	9	**16.3**	22.1
Reinsurance assets	24	**97.5**	106.4
Inventories		**5.6**	4.9
Trade and other receivables	20	**198.7**	188.0
Cash and short-term deposits	21	**108.7**	106.5
Total assets		**2,698.8**	2,752.1
Liabilities			
Retirement benefit scheme obligations	23	**13.7**	18.8
Gross insurance contract liabilities	24	**642.3**	703.3
Provisions		**4.0**	4.0
Financial liabilities	17	**489.8**	580.5
Current tax liabilities		**14.9**	15.0
Deferred tax liabilities	9	**21.5**	17.4
Other liabilities	25	**134.9**	133.3
Trade and other payables	22	**182.5**	191.6
Total liabilities		**1,503.6**	1,663.9
Equity			
Issued capital	27	**11.2**	11.2
Share premium		**519.3**	519.3
Retained earnings		**607.8**	527.0
Share-based payment reserve		**15.6**	17.7
Foreign currency translation reserve		**–**	(0.7)
Available for sale reserve		**3.3**	2.4
Hedging reserve		**38.0**	11.3
Total equity		**1,195.2**	1,088.2
Total liabilities and equity		**2,698.8**	2,752.1

The notes on pages 107-165 form an integral part of these consolidated financial statements.

Signed for and on behalf of the Board on 28 March 2017 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 2017

	Attributable to the equity holders of the parent									
	Issued capital £'m	Share premium £'m	Retained earnings £'m	Share-based payment reserve £'m	Foreign currency translation reserve £'m	Available for sale reserve £'m	Hedging reserve £'m	Total £'m	Non-controlling interests £'m	Total equity £'m
At 1 February 2016	11.2	519.3	527.0	17.7	(0.7)	2.4	11.3	1,088.2	–	1,088.2
Profit for the year	–	–	157.3	–	–	–	–	157.3	–	157.3
Other comprehensive income	–	–	3.5	–	0.7	0.9	26.7	31.8	–	31.8
Total comprehensive income	–	–	160.8	–	0.7	0.9	26.7	189.1	–	189.1
Dividends paid (note 10)	–	–	(86.1)	–	–	–	–	(86.1)	–	(86.1)
Share-based payment charge (note 29)	–	–	–	4.9	–	–	–	4.9	–	4.9
Exercise of share options	–	–	6.1	(7.0)	–	–	–	(0.9)	–	(0.9)
At 31 January 2017	**11.2**	**519.3**	**607.8**	**15.6**	**–**	**3.3**	**38.0**	**1,195.2**	**–**	**1,195.2**
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 29)	–	–	–	2.8	–	–	–	2.8	–	2.8
Exercise of share options	–	–	11.1	(12.9)	–	–	–	(1.8)	–	(1.8)
Issue of free shares (note 27)	–	–	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**

The notes on pages 107-165 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 January 2017

	Note	2017 £'m	2016 £'m
Profit before tax from continuing operations		**193.3**	176.2
Loss before tax from discontinued operations		**–**	(7.2)
Profit before tax		**193.3**	169.0
Depreciation, impairment and loss on disposal of property, plant and equipment		**21.6**	23.4
Amortisation and impairment of intangible assets		**18.1**	14.1
Share-based payment transactions		**4.0**	1.1
Transactions relating to disposal group held for sale		**–**	7.3
Finance costs		**18.6**	25.2
Finance income		**(11.3)**	–
Share of loss of joint ventures		**1.4**	1.3
Interest income from investments		**(5.0)**	(11.0)
Movements in other assets and liabilities		**(58.8)**	(56.5)
		181.9	173.9
Interest received		**5.0**	13.5
Interest paid		**(15.8)**	(21.6)
Income tax paid		**(32.6)**	(15.4)
Net cash flows from operating activities		**138.5**	**150.4**
Investing activities			
Proceeds from sale of property, plant and equipment		**0.2**	–
Purchase of property, plant and equipment and intangible assets		**(43.9)**	(33.8)
Net disposal of financial assets		**124.7**	64.3
Acquisition of subsidiaries	12	**–**	(26.7)
Disposal of subsidiaries		**–**	(8.2)
Investment in joint venture		**(1.3)**	(3.0)
Net cash flows used in investing activities		**79.7**	**(7.4)**
Financing activities			
Payment of finance lease liabilities		**(0.5)**	(0.5)
Net payment of borrowings	26	**(75.0)**	(145.0)
Dividends paid		**(86.3)**	(70.0)
Net cash flows used in financing activities		**(161.8)**	**(215.5)**
Net increase/(decrease) in cash and cash equivalents		**56.4**	**(72.5)**
Net foreign exchange differences		**0.7**	(1.0)
Cash and cash equivalents at the start of the year		**164.4**	237.9
Cash and cash equivalents at the end of the year	21	**221.5**	**164.4**

The notes on pages 107-165 form an integral part of these consolidated financial statements.

1 Corporate information

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

The consolidated financial statements of Saga plc and the entities controlled by the Company (its subsidiaries, collectively 'Saga Group' or the 'Group') for the year ended 31 January 2017 were approved for issue by the Board of Directors on 28 March 2017.

Saga Group offers a wide range of products and services to its customer base which include general insurance products, package and cruise holidays, personal finance products, domiciliary care services, and a monthly subscription magazine. Accordingly, the Group segments its business into three trading segments – insurance, travel and emerging businesses and central costs (see note 3).

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and adopted by the European Union, and with the Companies Act 2006.

The consolidated financial statements have been prepared on a going concern basis and on a historical cost basis except as otherwise stated.

The Group's consolidated financial statements are presented in pounds sterling which is also the parent company's functional currency, and all values are rounded to the nearest hundred thousand (£'m), except when otherwise indicated. Each company in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

IFRSs require the Directors to adopt accounting policies that are the most appropriate to the Group's circumstances. In determining and applying accounting policies, Directors and management are required to make judgements in respect of items where the choice of specific policy, accounting estimate or assumption to be followed could materially affect the Group's reported financial position, results or cash flows; it may later be determined that a different choice may have been more appropriate.

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; and
- the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are identified and measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. The interest of non-controlling shareholders is stated at the non-controlling interest's proportion of the fair values of the assets and liabilities recognised. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to non-controlling interests, even if this results in non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where a subsidiary which constituted a major line of business is disposed of or otherwise meets the requirements of IFRS 5 to be held for sale, it is disclosed as a discontinued operation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.3 Summary of significant accounting policies

a. Revenue recognition

Revenue represents amounts receivable from the sale or supply of goods and services provided to customers in the ordinary course of business, and is recognised to the extent that it is probable that the future economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is received. The recognition policies for the Group's various revenue streams by segment are as follows:

i) Insurance

Revenue is recognised in the income statement over the period matching the Group's obligation to provide services. Where the Group has no remaining contractual obligations, revenue is recognised immediately.

Insurance premiums received for risks underwritten by the Group are recognised on a straight-line time-apportioned basis over the period of the policy. Any changes to premium arising as a result of adjustments to the underlying risk notified by the policyholders are recognised over the remaining period of the policy from the effective date of notification.

Revenue received in connection with insurance policies not underwritten by the Group is recognised at the commencement of the period of risk.

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.

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.

Profit commissions due under coinsurance or reinsurance arrangements are recognised and valued in accordance with the contractual terms to which they are subject to and on the same basis, where appropriate, as the related reinsured liabilities.

ii) Travel

Revenue from tour operations and cruise holidays where the Group does not operate the cruise ship is recognised in full on the passenger's date of departure which represents the date upon which the revenue becomes fully non-refundable. Revenue in respect of cruise holidays where the Group operates the cruise ship is recognised on a per diem basis over the duration of the cruise reflecting the often longer durations of cruise holidays, and to facilitate more accurate matching of revenue with costs as they arise.

Revenue from sales in resort, for example for optional excursions, or on board a cruise ship operated by the Group, for example bar sales or optional excursions, is recognised as and when earned.

Revenue from tour operations received in advance of the date of departure, and the unearned element of cruise revenues not yet recognised on a per diem basis, are included as other liabilities in the statement of financial position.

iii) Emerging Businesses and Central Costs

Personal finance

Revenue from personal finance products is recognised when the customer contracts with the provider of the relevant personal finance product where the revenue comprises a one-off payment by the provider of the product.

Where the personal finance product is one that delivers a recurring income stream, for example ongoing investment, savings or lending products, revenues are recognised over the life of the product.

Healthcare

Revenue from healthcare operations is recognised when services are provided to customers. The point of supply is generally defined as the point at which a service user has received care services from the Group and which are usually provided on an hourly basis.

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 24.

iv) Reinsurance costs

The Group undertakes a programme of reinsurance in respect of the policies which it underwrites. Outward reinsurance premiums are accounted for in the same accounting period as the related inward insurance premiums and are included as a deduction from earned premium, and therefore as a reduction in revenue.

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.

2.3 Summary of significant accounting policies (continued)

d. Taxes

i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is 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	3-10 years

Intangible assets with finite lives are amortised over their useful economic life on a basis appropriate to the consumption of the asset and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category that is consistent with the function of the intangible assets.

Intangible assets 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.

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 on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

Estimated residual values and useful lives are reviewed annually.

2.3 Summary of significant accounting policies (continued)

k. Non-current assets held for sale and discontinued operations

The Group classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. To be classified as held for sale, an asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets, and the sale must be highly probable. Sale is considered to be highly probable when management is committed to a plan to sell an asset and an active programme to locate a buyer and complete the plan has been initiated at a price that is reasonable in relation to its current fair value, and there is an expectation that the sale will be completed within one year from the date of classification. Non-current assets classified as held for sale are carried on the Group's statement of financial position at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount of profit or loss after tax from discontinued operations in the income statement.

l. Financial instruments

i) Financial assets

Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available for sale financial assets. The Group determines the classification of its financial assets at initial recognition and they are accounted on a trade date basis. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss ('FVTPL')

Financial assets at FVTPL are assets:

- which upon initial recognition are designated at fair value through the income statement to eliminate or significantly reduce a measurement recognition inconsistency, or
- which are acquired principally for the purpose of selling in the near term or forming part of the portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

Derivative financial instruments not designated as hedging instruments and hedge funds are classified as FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised through the income statement. The fair values are quoted market prices (where there is an active market) or are based on valuation techniques (where there is no active market or the securities are unlisted). Valuation techniques include the use of recent arm's length transactions, discounted cash flow analysis and other commonly used valuation techniques.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate ('EIR') method, less impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

Available for sale financial investments

Available for sale financial investments include debt securities and money market funds. After initial measurement, available for sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available for sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available for sale reserve. Interest income on available for sale debt securities is calculated using the EIR and is recognised in the income statement.

2.3 Summary of significant accounting policies (continued)

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.

2.3 Summary of significant accounting policies (continued)
I. Financial instruments (continued)
ii) Financial liabilities (continued)
Subsequent measurement
The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at FVTPL
Derivative financial instruments not designated as hedging instruments are classified as FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised through the income statement.

Loans and borrowings and other payables
After initial recognition, interest bearing loans and borrowings and other payables are subsequently measured at amortised cost using the 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.

2.3 Summary of significant accounting policies (continued)

l. Financial instruments (continued)

v) Hedge accounting

The Group designates certain derivative financial instruments as cash flow hedges of certain forecast transactions. These transactions are highly probable to occur and present an exposure to variations in cash flows that could ultimately affect amounts determined in profit or loss.

Where a derivative financial instrument is designated as a hedge, the effective part of any fair value gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the fair value gain or loss is recognised immediately within the income statement.

When a hedged forecast transaction subsequently results in the recognition of a financial asset or a financial liability, any associated cumulative gain or loss is removed from the hedging reserve and reclassified into the income statement in the same period in which the asset or liability affects profit or loss. When a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, any associated cumulative gain or loss is removed from the hedging reserve and is included in the initial cost or other carrying amount of the non-financial asset or liability.

For foreign currency hedges, prospective hedge effectiveness testing is performed at the inception of the hedging relationship, and subsequently at each balance sheet date, through comparison of the projected fair values of the hedged forecast transaction and the hedging instrument using a combination of the hypothetical derivative approach and sensitivity analysis, as part of the dollar-offset method. Retrospective hedge testing is also performed at each reporting date using the dollar-offset method, by comparing the cumulative changes in the fair values of the forecast hedged transaction and the hedging instrument.

For fuel oil hedges, prospective hedge effectiveness testing is performed at the inception of the hedging relationship, and subsequently at each balance sheet date, using regression analysis. This method involves calculating the strength of the correlation between the price of the derivative and the price of the fuel oil being purchased. Retrospective hedge testing is also performed at each reporting date using the same technique.

When a hedging instrument no longer meets the criteria for hedge accounting, through maturity, sale, other termination, or the revoking of the designated hedging relationship, hedge accounting is discontinued prospectively. If the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss remains in the hedging reserve and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealised gain or loss is recognised in the income statement immediately.

m. Leases

Leases under which substantially all of the 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.

2.3 Summary of significant accounting policies (continued)

r. Reinsurance assets

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on insurance contracts issued are classified as reinsurance contracts. A contract is only accounted for as a reinsurance contract where there is significant insurance risk transfer between the insurer and reinsurer.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions in accordance with the relevant reinsurance contract.

The Group assesses its reinsurance assets for impairment at each balance sheet date. For assets that are directly exposed to long-tail PPO liabilities a general provision for impairment is provided, calculated on a wholesale basis by reference to published credit rating default curves. For all other reinsurance assets, the carrying value is written down to its recoverable amount only if there is objective evidence of impairment.

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, except where the contractual terms of the reinsurance arrangement necessitates the set-off of its associated financial assets and liabilities.

IFRS 4 prohibits the offsetting of reinsurance assets against the related insurance liabilities, unless the appropriate legal requirements are met. Financial assets and liabilities arising under quota share agreements must be offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set-off the associated amounts and there is an intention to settle on a net basis, or realise both the asset and settle the liability simultaneously. The contractual terms of the new funds-withheld quota share agreement in motor insurance requires such a set-off of associated amounts.

s. Share-based payments

The Group provides benefits to employees (including Directors) in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions'). The cost of equity-settled transactions is measured by reference to the fair value on the grant date and is recognised as an expense over the relevant vesting period, ending on the date on which the employee becomes fully entitled to the award.

Fair values of share-based payment transactions are calculated using Black-Scholes and Monte-Carlo modelling techniques. In valuing equity-settled transactions, assessment is made of any vesting conditions to categorise these into market performance conditions, non-market performance conditions and service conditions.

Where the equity-settled transactions have market performance conditions (that is, performance which is directly or indirectly linked to the share price), the fair value of the award is assessed at the time of grant and is not changed, regardless of the actual level of vesting achieved, except where the employee ceases to be employed prior to the vesting date.

For service conditions and non-market performance conditions, the fair value of the award is assessed at the time of grant and is reassessed at each reporting date to reflect updated expectations for the level of vesting. No expense is recognised for awards that ultimately do not vest.

At each reporting date prior to vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and, in the case of non-market conditions, the best estimate of the number of equity instruments that will ultimately vest or, in the case of instruments subject to market conditions, the fair value on grant adjusted only for leavers. The movement in the cumulative expense since the previous reporting date is recognised in the income statement, with the corresponding increase in share-based payments reserve.

Upon vesting of an equity instrument, the cumulative cost in the share-based payments reserve is reclassified to retained earnings in equity.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

2.3 Summary of significant accounting policies (continued)

t. 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.

u. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

v. Equity

The Group has ordinary shares that are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

2.4 Standards issued but not yet effective

The following is a list of standards and amendments to standards that are in issue but are not effective or adopted as at 31 January 2017. 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 Group has begun work to determine the full impact of this standard on the Group's financial statements. Our initial assessment is that the standard is likely to enable a greater proportion of derivatives to qualify for hedge accounting, and so reduce the volatility of derivative gains and losses in the Group's income statement. Besides from this, the Group believes that the standard is unlikely to have a significant effect on the recognition, measurement and presentation of its other financial instruments. The standard is effective for annual periods beginning on or after 1 January 2018, and was endorsed by the EU on 22 November 2016.

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 Group has begun work to determine the full impact of this standard on the Group's financial statements.

Our initial assessment is that the standard will be unlikely to have a material impact on the Group's financial statements. For insurance brokerage, the majority of the Group's performance obligations are discharged when arranging cover for its customers, which is on or just before the cover start date of the policy and is when the Group currently recognises the associated revenue. Revenue from insurance underwriting is out of scope and so is unaffected by this standard. For tour operations, the majority of the Group's performance obligations are discharged on the customer's departure date, which is when the Group currently recognises the associated revenue. For Cruising, revenue is currently recognised on a straight-line basis over the duration of each cruise, and this is likely to remain appropriate under the new standard. The standard is effective for annual periods beginning on or after 1 January 2018, and was endorsed by the EU on 22 September 2016.

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 12 'Recognition of Deferred Tax Assets for Unrealised Losses'

The amendments to IAS 12 clarify the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value. The amendment is effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted, although this is yet to be endorsed by the EU and will have no effect on the Group's financial statements.

e. Amendments to IAS 7 'Disclosure Initiative'

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted, although this is yet to be endorsed by the EU and will have no effect on the Group's financial statements.

f. Clarifications to IFRS 15 'Revenue from Contracts with Customers'

The amendments provide some illustrative factors that an entity might consider in making the assessment as to whether promised goods or services are distinct. The amendments are effective for annual periods beginning on or after 1 January 2018, with earlier application being permitted, although this is yet to be endorsed by the EU.

g. Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions'

The amendments to IFRS 2 clarify the accounting for the effects of vesting and non-vesting conditions on cash-settled share-based payments, the classification of share-based payment transactions with net settlement features for withholding tax obligations and the accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after 1 January 2018, with earlier application being permitted, although this is yet to be endorsed by the EU and will have no effect on the Group's financial statements.

h. Amendments to IAS 40 'Transfers of Investment Property'

The amendments to IFRS 40 clarify that an entity can only reclassify a property to/from investment property when, and only when, there is evidence that a change in the use of the property has occurred. The amendments are effective for annual periods beginning on or after 1 January 2018, with earlier application being permitted, although this is yet to be endorsed by the EU and will have no effect on the Group's financial statements.

2.5 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 four product sub-segments:
  - Motor broking
  - Home broking
  - Other insurance broking
  - Underwriting
- *Travel*: the segment primarily comprises the operation and delivery of package tours and cruise holiday products. The Group owns and operates two cruise ships 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.

Segment performance is primarily evaluated using the Group's key performance measure of profit before tax. 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.

3 Segmental information (continued)

2017	Insurance Motor broking £'m	Insurance Home broking £'m	Insurance Other insurance broking £'m	Insurance Under-writing £'m	Insurance Total £'m	Travel £'m	Emerging Businesses and Central Costs £'m	Adjustments £'m	Total £'m
Revenue	**127.5**	**89.8**	**80.4**	**112.3**	**410.0**	**432.0**	**36.5**	**(7.2)**	**871.3**
Cost of sales	(3.1)	–	(17.0)	(43.6)	(63.7)	(344.0)	(15.0)	–	(422.7)
Gross profit	**124.4**	**89.8**	**63.4**	**68.7**	**346.3**	**88.0**	**21.5**	**(7.2)**	**448.6**
Administrative and selling expenses	(79.2)	(28.6)	(31.8)	(2.8)	(142.4)	(73.3)	(43.1)	7.2	(251.6)
Investment income	–	–	–	7.2	7.2	0.2	(2.4)	–	5.0
Finance costs	–	–	–	–	–	–	(18.6)	–	(18.6)
Finance income	–	–	–	–	–	–	1.4	–	1.4
Share of loss of joint venture	–	–	–	–	–	–	(1.4)	–	(1.4)
Profit before tax and derivative gains and losses	**45.2**	**61.2**	**31.6**	**73.1**	**211.1**	**14.9**	**(42.6)**	**–**	**183.4**
Net fair value gain on derivative financial instruments	–	–	–	–	–	9.9	–	–	9.9
Profit before tax from continuing operations	**45.2**	**61.2**	**31.6**	**73.1**	**211.1**	**24.8**	**(42.6)**	**–**	**193.3**
Total assets less liabilities					**345.8**	**68.3**	**(222.0)**	**1,003.1**	**1,195.2**

All revenue is generated solely in the UK.

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

3 Segmental information (continued)

2016	Insurance: Motor broking £'m	Insurance: Home broking £'m	Insurance: Other insurance broking £'m	Insurance: Under-writing £'m	Insurance: Total £'m	Travel £'m	Emerging Businesses and Central Costs £'m	Adjustments £'m	Total £'m
Revenue	**89.5**	**90.0**	**82.4**	**248.2**	**510.1**	**423.1**	**37.1**	**(7.1)**	**963.2**
Cost of sales	(2.5)	(0.3)	(16.1)	(173.3)	(192.2)	(337.2)	(16.4)	1.6	(544.2)
Gross profit	**87.0**	**89.7**	**66.3**	**74.9**	**317.9**	**85.9**	**20.7**	**(5.5)**	**419.0**
Administrative and selling expenses	(58.4)	(26.3)	(31.8)	(5.4)	(121.9)	(72.8)	(38.1)	5.5	(227.3)
Investment income	–	–	–	14.6	14.6	0.4	(4.0)	–	11.0
Finance costs	–	–	–	–	–	–	(24.0)	–	(24.0)
Share of loss of joint ventures	–	–	–	–	–	–	(1.3)	–	(1.3)
Profit before tax and derivative gains and losses	**28.6**	**63.4**	**34.5**	**84.1**	**210.6**	**13.5**	**(46.7)**	**–**	**177.4**
Net fair value loss on derivative financial instruments	–	–	–	–	–	(1.2)	–	–	(1.2)
Profit before tax from continuing operations	**28.6**	**63.4**	**34.5**	**84.1**	**210.6**	**12.3**	**(46.7)**	**–**	**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).

3 Segmental information (continued)

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

	2017 £'m	2016 £'m
Goodwill (note 13)	**1,485.0**	1,485.0
Bank loans (note 26)	**(475.2)**	(547.7)
Deferred tax – non–pension scheme related	**(6.7)**	(7.8)
	1,003.1	929.5

a. Analysis of insurance revenue

	2017 £'m	2016 £'m
Gross earned premiums on insurance underwritten by the Group	**292.4**	322.6
Less: ceded to reinsurers	**(123.1)**	(6.9)
Net earned premiums on insurance underwritten by the Group		
– Motor broking	**54.3**	73.0
– Home broking	**12.2**	12.9
– Other insurance broking	**1.4**	1.4
– Underwriting	**101.4**	228.4
	169.3	315.7
Other income from insurance products	**240.7**	194.4
	410.0	510.1

b. Analysis of insurance cost of sales

	2017 £'m	2016 £'m
Gross claims incurred on insurance underwritten by the Group	**149.4**	219.3
Less: ceded to reinsurers	**(103.8)**	(44.4)
Net claims incurred on insurance underwritten by the Group		
– Motor broking	**3.1**	2.5
– Underwriting	**42.5**	172.4
	45.6	174.9
Other cost of sales	**18.1**	17.3
	63.7	192.2

4 Administrative and selling expenses

	2017 £'m	2016 £'m
Staff costs (note 8)	**109.1**	103.7
Marketing and fulfilment costs	**63.7**	54.9
Lease rentals	**1.4**	1.1
Auditors' remuneration	**1.5**	1.4
Other administrative costs	**48.5**	39.7
Depreciation (note 16)	**8.0**	9.3
Amortisation of intangible assets (note 14)	**17.5**	13.9
Non-trading items	**1.9**	3.3
	251.6	227.3

4 Administrative and selling expenses (continued)

a. Auditors' remuneration

	2017 £'m	2016 £'m
Audit of the parent company and consolidated financial statements	**0.3**	0.3
Audit of subsidiary financial statements	**0.7**	0.7
Audit of prior year subsidiary financial statements	**–**	0.2
Audit-related assurance services	**0.2**	0.2
Total auditors' remuneration	**1.2**	1.4

b. Non-trading items

	2017 £'m	2016 £'m
Share-based payment costs (note 29)	**0.5**	0.3
Flotation and other costs	**0.3**	2.6
Restructuring costs	**1.8**	1.3
Acquisition of subsidiaries (note 12a)	**–**	0.5
Release of contingent consideration liability (note 12a)	**–**	(7.1)
Supplier insolvency	**–**	4.7
Impairment of property	**–**	3.8
Insurance claims	**(0.7)**	(3.1)
Other non-trading items	**–**	0.3
	1.9	3.3

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 prior 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 in the prior year 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 costs of disposal.

During the current and prior years, the Group received amounts under insurance policies towards the cost of cancelled or curtailed cruises; the costs of these operational issues were treated as non-trading items in prior periods.

5 Investment income

	2017 £'m	2016 £'m
Investment income from insurance underwriting	**7.2**	14.6
Elimination of intra-group property rental income	**(3.7)**	(4.1)
Interest income from other segments	**1.5**	0.5
	5.0	11.0

6 Finance costs

	2017 £'m	2016 £'m
Interest and charges on debt and borrowings	**17.6**	21.8
Net fair value loss on derivative financial instruments	**–**	1.2
Unwinding of discount rates	**–**	0.9
Dividends paid by subsidiaries to non-controlling interests	**0.3**	–
Net finance expense on pension schemes	**0.5**	1.1
Net finance charges on finance leases and hire purchase contracts	**0.2**	0.2
	18.6	25.2

7 Finance income

	2017 £'m	2016 £'m
Net fair value gain on derivative financial instruments	**9.9**	–
Unwinding of discount rates	**1.4**	–
	11.3	–

8 Directors and employees

Amounts charged to the income statement for the year are as follows:

	2017 £'m	2016 £'m
Continuing operations		
Wages and salaries	**109.4**	106.9
Social security costs	**11.0**	9.2
Pension costs (note 23)	**10.8**	9.8
	131.2	125.9
Discontinued operations		
Wages and salaries	**–**	164.2
Social security costs	**–**	9.6
Pension costs (note 23)	**–**	0.4
	–	174.2
Total staff costs	**131.2**	300.1

Staff costs in respect of continuing operations have been allocated £22.1m (2016: £22.2m) to cost of sales and £109.1m (2016: £103.7m) to administrative and selling expenses.

Average monthly number of employees

	2017	2016
Insurance	**2,362**	2,237
Travel	**2,092**	2,175
Emerging Businesses and Central Costs	**815**	735
Continuing operations	**5,269**	5,147
Employees attributable to discontinued operations	**–**	14,465
Total staff numbers	**5,269**	19,612

The number of employees in the travel segment includes 848 (2016: 868) 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 67-89 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:

	2017 £'m	2016 £'m
Short-term benefits	**8.6**	6.9
Share-based payments	**1.7**	1.3
Post-employment benefits	**0.1**	0.1
	10.4	8.3

9 Tax

The major components of the income tax expense are:

	2017 £'m	2016 £'m
Consolidated income statement		
Current income tax		
Current income tax charge	**36.2**	32.7
Adjustments in respect of previous years	**(3.6)**	(8.4)
	32.6	24.3
Deferred tax		
Relating to origination and reversal of temporary differences	**3.0**	2.8
Effect of tax rate change on opening balance	**0.4**	1.0
Tax expense in the income statement	**36.0**	28.1

Reconciliation of tax expense to profit before tax multiplied by the UK corporation tax rate:

	2017 £'m	2016 £'m
Profit before tax	**193.3**	176.2
Tax at rate of 20.0% (2016: 20.2%)	**38.7**	35.6
Adjustments in respect of previous years	**(3.6)**	(8.7)
Rate change adjustment on temporary differences	**–**	(0.5)
Effect of tax rate change on opening balance	**0.4**	1.0
Expenses not deductible for tax purposes:		
– Other non-deductible expenses/non-taxed income	**0.5**	0.7
Tax expense in the income statement	**36.0**	28.1

The Group's tax expense for the year was £36.0m (2016: £28.1m) representing a tax effective rate of 18.6% (2016: 15.9%).

The expense for the current year includes benefits of £2.7m and £0.3m from the utilisation under the group relief rules of tax losses from Nestor Primecare Services Limited and Saga Investment Services Limited (see note 34) respectively. The tax losses for Nestor Primecare Services Limited arose when it formed part of the Group in the prior year. Excluding the impact of the Nestor Primecare Services Limited and Saga Investment Services Limited tax losses, the underlying tax effective rate was 20.2%.

The expense for the prior year 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%.

9 Tax (continued)

Deferred tax

	Consolidated statement of financial position		Consolidated income statement	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
Excess of depreciation over capital allowances	**5.2**	5.0	**0.5**	(0.6)
Intangible assets	**(3.5)**	(4.9)	**1.1**	1.0
Retirement benefit scheme liabilities	**2.3**	3.4	**0.2**	(0.2)
Effect of tax rate change	**–**	–	**(0.4)**	(1.0)
Short-term temporary differences	**(9.2)**	1.2	**(4.8)**	(3.0)
Deferred tax charge			**(3.4)**	(3.8)
Net deferred tax (liabilities)/assets	**(5.2)**	4.7		

Reflected in the statement of financial position as follows:

	2017 £'m	2016 £'m
Deferred tax assets	**16.3**	22.1
Deferred tax liabilities	**(21.5)**	(17.4)
Net deferred tax (liabilities)/assets	**(5.2)**	4.7

Reconciliation of net deferred tax assets/(liabilities)

	2017 £'m	2016 £'m
At 1 February	**4.7**	17.4
Tax credit recognised in the income statement	**(3.4)**	(3.8)
Tax credit recognised in other comprehensive income	**(6.5)**	(7.4)
Deferred taxes acquired in business combinations	**–**	(2.7)
Deferred tax charge attributable to discontinued operations	**–**	1.2
At 31 January	**(5.2)**	4.7

Reductions were enacted in the Finance Act 2015 to reduce the rate from 20% to 19% from 1 April 2017, and to 18% from 1 April 2020. A further reduction to 17% from 1 April 2020 was announced on 16 March 2016 and has been enacted at the balance sheet date. As a result, the closing deferred tax balances have been reflected at 17%.

The Group has tax losses which arose in the UK of £4.2m (2016: £4.2m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group, they have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future. If the Group were able to recognise all unrecognised deferred tax assets, the profit would increase by £0.7m (2016: £0.8m).

10 Dividends

Declared during the year:	2017 £'m	2016 £'m
Final dividend for the year ended 31 January 2016: 5.0 pence per share (2015: 4.1 pence per share)	**55.9**	45.8
Interim dividend for the year ended 31 January 2017: 2.7 pence per share (2016: 2.2 pence per share)	**30.2**	24.6
	86.1	70.4
Proposed after the end of the reporting period and not recognised as a liability:		
Final dividend for the year ended 31 January 2017: 5.8 pence per share (2016: 5.0 pence per share)	**64.8**	55.9

The proposed dividend for the year ended 31 January 2017 is subject to approval by shareholders at the Annual General Meeting on 22 June 2017 and would be paid on 30 June 2017.

11 Earnings per share

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

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

The calculation of basic and diluted EPS is as follows:

	2017 £'m	2016 £'m
Profit attributable to ordinary equity holders	**157.3**	140.9
Profit from continuing operations	**157.3**	148.1

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**	297.3
Free shares issued on 5 June 2015	**7.0**	7.3
IPO share options exercised	**9.7**	6.5
Weighted average number for basic EPS	**1,114.0**	1,111.1
Dilutive options		
IPO share options not yet exercised	**3.5**	6.6
Other share options not yet vested	**0.1**	2.4
LTIP share options not yet vested	**4.4**	–
Deferred Bonus Plan	**0.3**	0.2
Weighted average number for diluted EPS	**1,122.3**	1,120.3
Basic EPS	**14.1p**	12.7p
Basic EPS for continuing operations	**14.1p**	13.3p
Diluted EPS	**14.0p**	12.6p
Diluted EPS for continuing operations	**14.0p**	13.2p

12 Business combinations and acquisition of non-controlling interests

a. Acquisitions during the year ended 31 January 2017

There were no acquisitions in the year ended 31 January 2017.

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.

ii) 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.

The acquisition cost of £26.3m was settled in cash. Transaction costs of £0.5m were expensed and included as part of the non-trading items 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 represented 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.

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 2015	1,471.4
Acquisition of a subsidiary (note 12b)	13.6
At 31 January 2016 and 31 January 2017	1,485.0
Impairment	
At 31 January 2016 and 31 January 2017	–
Net book value	
At 31 January 2017	1,485.0
At 31 January 2016	1,485.0

Goodwill deductible for tax purposes amounts to £nil (2016: £nil).

Strategic report

Governance

Financial statements

14 Intangible fixed assets

	Contracts £'m	Brands £'m	Customer relationships £'m	Software £'m	Total £'m
Cost					
At 1 February 2015	–	14.1	7.4	61.3	82.8
Additions	–	–	–	16.5	16.5
Acquisition of a subsidiary (note 12b)	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
Additions	–	–	–	19.6	19.6
Disposals	–	–	–	–	–
At 31 January 2017	**5.8**	**17.9**	**11.3**	**93.6**	**128.6**
Amortisation and impairment					
At 1 February 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
Amortisation	1.3	1.8	3.4	11.6	18.1
Disposals	–	–	–	–	–
At 31 January 2017	**2.1**	**4.7**	**8.7**	**59.3**	**74.8**
Net book value					
At 31 January 2017	**3.7**	**13.2**	**2.6**	**34.3**	**53.8**
At 31 January 2016	5.0	15.0	6.0	26.3	52.3

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:

	2017 £'m	2016 £'m
Cost of sales	**0.6**	0.2
Administrative and selling expenses (note 4)	**17.5**	13.9
	18.1	14.1

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 prior 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:

	2017 £'m	2016 £'m
Insurance, excluding Bennetts	**1,398.6**	1,398.6
Insurance, Bennetts	**13.6**	13.6
Travel, excluding Destinology	**59.8**	59.8
Travel, Destinology	**13.0**	13.0
	1,485.0	1,485.0

The Group has tested all goodwill for impairment at 31 January 2017. 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 2021/22. 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 pre-tax discount rate has been assessed to be 7.6%, and for the travel and Destinology CGUs, it has been assessed to be 10.0%.

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, nil market inflation 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 2017 and concluded that no impairment is required.

16 Property, plant and equipment

	Freehold land & buildings £'m	Long leasehold land & buildings £'m	Cruise ships £'m	Assets in the course of construction £'m	Plant & equipment £'m	Total £'m
Cost or valuation						
At 1 February 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
Additions	–	–	4.8	2.0	5.8	12.6
Disposals	(5.7)	–	–	–	(1.3)	(7.0)
At 31 January 2017	**52.5**	**8.6**	**96.7**	**15.1**	**58.6**	**231.5**
Depreciation and impairment						
At 1 February 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
Provided during the year	0.9	0.4	11.6	–	8.7	21.6
Disposals	(5.7)	–	–	–	(1.2)	(6.9)
At 31 January 2017	**8.2**	**2.1**	**45.6**	**–**	**44.1**	**100.0**
Net book value						
At 31 January 2017	**44.3**	**6.5**	**51.1**	**15.1**	**14.5**	**131.5**
At 31 January 2016	45.2	6.9	57.9	13.1	17.5	140.6

The net book value of plant and equipment includes £2.9m (2016: £2.2m) in respect of plant and machinery held under finance lease agreements. The accumulated depreciation on these assets is £1.3m (2016: £0.5m).

The depreciation charge for the year is analysed as follows:

	2017 £'m	2016 £'m
Cost of sales	**13.6**	10.7
Administrative and selling expenses (note 4)	**8.0**	9.3
	21.6	20.0

During the year the Group disposed of assets with a net book value of £0.1m (2016: £nil). Profit arising on disposal was £0.1m (2016: £nil).

17 Financial assets and financial liabilities
a. Financial assets

	2017 £'m	2016 £'m
Fair value through profit or loss		
Foreign exchange forward contracts	3.7	3.3
Fuel oil swaps	1.3	–
Loan funds	6.5	19.3
Hedge funds	22.7	26.7
	34.2	49.3
Fair value through the hedging reserve		
Foreign exchange forward contracts	47.3	16.7
Fuel oil swaps	1.2	–
	48.5	16.7
Loans and receivables		
Deposits with financial institutions	309.5	413.6
	309.5	413.6
Available for sale investments		
Debt securities	79.5	85.2
Money market funds	122.1	75.9
Unlisted equity shares	1.3	0.2
Loan notes	5.2	3.8
	208.1	165.1
Total financial assets	600.3	644.7
Current	310.5	288.8
Non-current	289.8	355.9
	600.3	644.7

Debt securities, money market funds and deposits with financial institutions relate to monies held by the Group's insurance business and are subject to contractual restrictions and are not readily available to be used for other purposes within the Group.

17 Financial assets and financial liabilities (continued)

b. Financial liabilities

	2017 £'m	2016 £'m
Fair value through profit or loss		
Foreign exchange forward contracts	**1.0**	5.5
Fuel oil swaps	**0.3**	4.1
	1.3	9.6
Fair value through hedging reserve		
Foreign exchange forward contracts	**1.0**	1.2
Fuel oil swaps	**–**	1.9
	1.0	3.1
Loans and borrowings		
Bank loans (note 26)	**475.2**	547.7
Obligations under finance leases and hire purchase	**2.9**	2.2
Bank overdrafts	**9.4**	17.9
	487.5	567.8
Total financial liabilities	**489.8**	580.5
Current	**12.5**	27.8
Non-current	**477.3**	552.7
	489.8	580.5

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 2017, the marked-to-market values of derivative assets are net of a credit valuation adjustment attributable to derivative counterparty default risk.

The fair values are periodically reviewed by the Group's treasury committees.

iii) Level 3

These are valuation techniques for which any one or more significant inputs are not based on observable market data.

The following tables provide the quantitative fair value hierarchy of the Group's financial assets and financial liabilities:

	As at 31 January 2017				As at 31 January 2016			
	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	–	51.0	–	**51.0**	–	20.0	–	20.0
Fuel oil swaps	–	2.5	–	**2.5**	–	–	–	–
Loan funds	–	6.5	–	**6.5**	–	19.3	–	19.3
Hedge funds	–	22.7	–	**22.7**	–	26.7	–	26.7
Debt securities	79.5	–	–	**79.5**	85.2	–	–	85.2
Money market funds	–	122.1	–	**122.1**	–	75.9	–	75.9
Unlisted equity shares	–	–	1.3	**1.3**	–	–	0.2	0.2
Loan notes	–	–	5.2	**5.2**	–	–	3.8	3.8
Financial liabilities measured at fair value								
Foreign exchange forwards	–	2.0	–	**2.0**	–	6.7	–	6.7
Fuel oil swaps	–	0.3	–	**0.3**	–	6.0	–	6.0
Assets for which fair values are disclosed								
Deposits with institutions	–	309.5	–	**309.5**	–	413.6	–	413.6
Liabilities for which fair values are disclosed								
Bank loans	–	475.2	–	**475.2**	–	547.7	–	547.7
Finance leases and hire purchase obligations	–	2.9	–	**2.9**	–	2.2	–	2.2
Bank overdrafts	–	9.4	–	**9.4**	–	17.9	–	17.9

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 (2016: 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 uncompounded interest at a rate of 5% and mature on 30 May 2018 and 30 May 2019. These notes are not actively traded in any market 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.

17 Financial assets and financial liabilities (continued)

d. Cash flow hedges

i) Forward currency risk

During the year ended 31 January 2017, the Group designated 322 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 2017**		At 31 Jan 2016	
Foreign currency cash flow hedging instruments	Volume	£'m	**Volume**	**£'m**	Volume	£'m
Euro (EUR)	100	2.3	**119**	**38.8**	90	11.9
US Dollar (USD)	78	3.1	**96**	**5.2**	93	4.4
Other currencies	144	1.1	**189**	**2.3**	173	(0.8)
Total	322	6.5	**404**	**46.3**	356	15.5

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 2017**		At 31 Jan 2016	
Commodity cash flow hedging instruments	Volume	£'m	**Volume**	**£'m**	Volume	£'m
Hedging instruments	77	0.5	**103**	**1.2**	44	(1.9)

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 2017. These cash flows are expected to become determined in profit or loss in the same period in which the cash flows occur.

Determination period	EUR £'m	USD £'m	Other currencies £'m	Currency hedges £'m	Fuel hedges £'m	Total £'m
1 February 17 to 31 July 17	54.5	27.8	9.0	91.3	2.0	93.3
1 August 17 to 31 January 18	49.7	22.2	9.1	81.0	2.0	83.0
1 February 18 to 31 July 18	30.9	11.4	6.2	48.5	1.5	50.0
1 August 18 to 31 January 19	9.2	1.9	2.2	13.3	1.6	14.9
1 February 19 to 31 July 19	244.0	–	–	244.0	0.8	244.8
1 August 19 to 31 January 20	–	–	–	–	1.0	1.0
Total	388.3	63.3	26.5	478.1	8.9	487.0

The foreign currency hedge which will be determined in July 2019 of £244.0m relates to the delivery of the ship (note 30).

During the year, the Group recognised net gains of £11.1m (2016: £6.3m gains) on cash flow hedging instruments through other comprehensive income into the hedging reserve. Additionally, the Group recognised net gains of £34.2m (2016: £10.3m gains) through other comprehensive income into the hedging reserve, in relation to the specific hedging instrument for the acquisition of a new ship (note 30). The overall net gains of £45.3m are offset by a net £1.9m loss on forecast transactions recognised in the financial statements. The Group recognised a £0.8 loss (2016: £0.3m loss) though the income statement in respect of the ineffective portion of hedges measured during the year.

There has been no de-designation of hedges during the year ended 31 January 2017 as a result of cash flows forecast that are no longer expected to occur, or as a result of failed ineffectiveness testing. During the year, the Group recognised a £11.4m gain through the income statement in respect of matured hedges, which has been recycled from other comprehensive income. No amounts have been removed from the hedging reserve to be included in the carrying value of non-financial assets 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 committees ensure that the Group's financial risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities are for risk management purposes and are carried out by the Group's Treasury function. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

The Group manages concentration risk 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; and
- interest rate risk.

The Group has policies and limits approved by the Board for managing the market risk exposure. These set out the principles that the business should adhere to for managing market risk and establishing the maximum limits the Group is willing to accept considering strategy, risk appetite and capital resources.

The Group has the ability to monitor market risk exposure on a daily basis and has established limits for each component of market risk.

The Group uses derivatives for hedging its exposure to foreign currency, fuel oil prices and interest rate risks. The market risk policy explicitly prohibits the use of derivatives for speculative purposes.

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).

The Group uses foreign exchange forward contracts to manage the majority of its transaction exposures. The foreign exchange forward contracts, some of which are formally designated as hedging instruments, are entered into for periods consistent with the foreign currency exposure of the underlying transactions, generally from one to 24 months. The foreign exchange forward contracts vary with the level of expected foreign currency sales and purchases.

18 Financial risk management objectives and policies (continued)

a. Market risk (continued)

i) Foreign currency risk (continued)

The following table demonstrates the sensitivity of the fair value of forward exchange contracts to a 5% change in US dollar and Euro exchange rates, with all other variables held constant. The Group's exposure to foreign currency changes for all other currencies is not material. The impact is shown net of tax at the current rate.

	Sensitivity of +/- 5% rate change in	Effect on profit after tax and equity
2017	**EUR – Trading**	**+/- £4.9m**
	EUR – New ship	**+/- £14.4m**
	USD	**+/- £3.2m**
2016	EUR – Trading	+/- £5.3m
	EUR – New ship	+/- £12.3m
	USD	+/- £3.6m

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
2017	**USD – Fuel oil price**	**+/- £0.8m**
2016	USD – Fuel oil price	+/- £0.8m

iii) Interest rate risk

Interest rate risk arises primarily from medium and long-term investments in fixed interest securities. The market value of these investments is affected by the movement in interest rates. This is managed by a policy of holding 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.

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
2017	**LIBOR**	**+/- £0.8m**
2016	LIBOR	+/- £0.6m

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.

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.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 January 2017 and 31 January 2016 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 2017 £'m	AAA	AA	A	< A	Unrated	Total
Debt securities	79.5	–	–	–	–	79.5
Money market funds	122.1	–	–	–	–	122.1
Deposits with financial institutions	30.0	90.9	188.6	–	–	309.5
Derivative assets	–	50.0	3.5	–	–	53.5
Loan notes	–	–	–	–	5.2	5.2
Loan funds	–	–	–	–	6.5	6.5
Hedge funds	–	–	–	–	22.7	22.7
Unlisted equity shares	–	–	–	–	1.3	1.3
	231.6	140.9	192.1	–	35.7	600.3
Reinsurance assets	–	57.5	46.7	–	1.0	105.2
Total	**231.6**	**198.4**	**238.8**	**–**	**36.7**	**705.5**

18 Financial risk management objectives and policies (continued)
b. Credit risk (continued)
Ratings analysis (continued)

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

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 2017 £'m	On demand	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Loans and borrowings	9.4	–	–	480.0	–	489.4
Interest on loans and borrowings	0.1	13.3	13.1	3.2	–	29.7
Insurance contract liabilities	–	193.0	129.1	182.7	120.1	624.9
Other liabilities	138.9	–	–	–	–	138.9
Trade and other payables	182.5	–	–	–	–	182.5
Derivative liabilities	–	2.1	0.2	–	–	2.3
	330.9	**208.4**	**142.4**	**665.9**	**120.1**	**1,467.7**

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

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 to reflect future investment returns and cost inflation.

iii) Reinsurance

The Group purchases reinsurance to reduce the impact of individual large losses or accumulations from a single catastrophe event. During 2016, the Group entered into a funds-withheld quota share reinsurance contract that reinsures 75% of the Group's motor claim risks, effective from 1 February 2016. Prior to this, the Group had quota share reinsurance in place for third party branded motor business for drivers aged under 50. The Group also purchases individual excess of loss protections for the motor portfolio to limit the impact of a single large claim. Similar protections are in place for all years for which the Group has written motor business.

Reinsurance recoveries on individual excess of loss protections can take many years to collect, particularly if a claim is subject to a PPO. This means that the Group has exposure to reinsurance credit risk for many years. Reinsurers are therefore required to have strong credit ratings and their financial health is regularly monitored.

iv) Sensitivities

The following table demonstrates the impact on profit and loss and equity of a 1 percentage point variation in the recorded loss ratio at 31 January 2017 and 31 January 2016. 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.

	2017	2016
Impact of 1 percentage point change in loss ratio	**+/- £1.4m**	+/- £2.5m
Impact of 1% change in claims outstanding	**+/- £2.9m**	+/- £4.6m
Impact of a 0.25 percentage point change in discount rate for PPOs	**+/- £2.7m**	+/- £5.7m

Strategic report

Governance

Financial statements

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 in the form of investment funds comprising:

- hedge funds;
- bank loan funds; and
- money market funds.

The nature and purpose of the hedge and bank loan funds is to diversify the investment portfolio and enhance the overall yield, whilst maintaining an acceptable level of risk for the portfolio as a whole.

The primary activity of the hedge funds is to invest in a wide range of securities and markets, and the funds may take a variety of positions in these markets. Bank loan funds invest in secured loans to companies rated below investment grade.

The nature and purpose of the money market funds is to provide maximum security and liquidity for the funds invested whilst also providing an adequate return. The money market funds used by the Group are all members of the Institutional Money Market Funds Association. They are thus required to maintain specified liquidity and diversification characteristics of their underlying portfolios which comprise investment grade investments in financial institutions.

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 2017, the Group's total interest in unconsolidated structured entities was £151.3m analysed as follows:

	Carrying value £m	Interest income £m	Fair value gains £m
Loan funds	6.5	0.3	0.3
Hedge funds	22.7	–	0.8
Money market funds	122.1	0.4	–

These investments are typically managed under credit risk management as described in note 18. The Group's maximum exposure to loss on the interests presented above is the carrying amount of the Group's investments. No further loss can be made by the Group in relation to these investments. For this reason, the total assets of the entities are not considered meaningful for the purposes of understanding the related risks and so have not been presented.

20 Trade and other receivables

	2017 £'m	2016 £'m
Trade receivables	142.2	133.6
Other receivables	15.1	12.0
Prepayments	20.1	21.3
Deferred acquisition costs	17.8	16.6
Other taxes and social security costs	3.5	4.5
	198.7	188.0

The ageing of trade receivables is as follows:

			Past due				
	Total £'m	Neither past due nor impaired £'m	< 30 days £'m	30-60 days £'m	61-90 days £'m	91-120 days £'m	> 120 days £'m
2017	142.2	128.6	4.1	2.2	1.3	1.2	4.8
2016	133.6	118.5	7.2	1.5	1.4	0.7	4.3

20 Trade and other receivables (continued)

As at 31 January 2017, impairment provisions totalling £9.2m (2016: £8.5m) were made against trade receivables with an initial value of £151.4m (2016: £142.1m). The movements in the provision for impairment of receivables are as follows:

	Individually impaired £'m	Collectively impaired £'m	Total £'m
At 1 February 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
Charge for the year	1.4	8.1	9.5
Utilised in the year	(1.3)	(7.4)	(8.7)
Unused amounts reversed	–	(0.1)	(0.1)
At 31 January 2017	**0.4**	**8.8**	**9.2**

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.

21 Cash and cash equivalents

	2017 £'m	2016 £'m
Cash at bank and in hand	**55.5**	36.9
Short-term deposits	**53.2**	69.6
Cash and short-term deposits	**108.7**	106.5
Money markets funds	**122.1**	75.9
Bank overdraft	**(9.3)**	(18.0)
Cash and cash equivalents in the cash flow statement	**221.5**	164.4

Included within cash and cash equivalents are amounts held by the Group's travel and insurance businesses which are subject to contractual or regulatory restrictions. These amounts held are not readily available to be used for other purposes within the Group and total £206.4m (2016: £156.6m).

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

22 Trade and other payables

	2017 £'m	2016 £'m
Trade and other payables	**123.6**	123.2
Other taxes and social security costs	**12.1**	12.2
Assets in the course of construction	**2.8**	13.1
Accruals	**44.0**	43.1
	182.5	191.6

All trade and other payables are current in nature.

23 Retirement benefit schemes

The Group operates retirement benefit schemes for the employees of the Group consisting of defined contribution plans and 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 £0.8m (2016: £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. The Group has provided a super security to the Trustees of the Saga scheme, which ranks before any liabilities under the Senior Facilities Agreement (as detailed in note 26). The value of the security is capped at £32.5m.

During the prior 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 Saga defined benefit scheme are as follows:

	2017 £'m	2016 £'m
Fair value of scheme assets	276.8	218.6
Present value of defined benefit obligation	(290.5)	(237.4)
Defined benefit scheme liability	(13.7)	(18.8)

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.

Strategic report

Governance

Financial statements

23 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 2017:

	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 2016	218.6	(237.4)	**(18.8)**	–	–	**–**	**(18.8)**
Pension cost charge to income statement							
Service cost	–	(10.0)	**(10.0)**	–	–	**–**	**(10.0)**
Net interest	8.2	(8.7)	**(0.5)**	–	–	**–**	**(0.5)**
Included in income statement	8.2	(18.7)	**(10.5)**	–	–	**–**	**(10.5)**
Benefits paid	(11.2)	11.2	**–**	–	–	**–**	**–**
Return on plan assets (excluding amounts included in net interest expense)	49.7	–	**49.7**	–	–	**–**	**49.7**
Actuarial changes arising from changes in demographic assumptions	–	29.5	**29.5**	–	–	**–**	**29.5**
Actuarial changes arising from changes in financial assumptions	–	(78.8)	**(78.8)**	–	–	**–**	**(78.8)**
Experience adjustments	–	4.2	**4.2**	–	–	**–**	**4.2**
Sub-total included in other comprehensive income	38.5	(33.9)	**4.6**	–	–	**–**	**4.6**
Contributions by employer	11.5	(0.5)	**11.0**	–	–	**–**	**11.0**
31 January 2017	**276.8**	**(290.5)**	**(13.7)**	**–**	**–**	**–**	**(13.7)**

23 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)**

The major categories of assets in the Saga scheme are as follows:

	2017 £'m	2016 £'m
Equities	**63.7**	42.0
Bonds	**135.9**	117.1
Property	**25.7**	23.8
Hedge funds	**50.5**	33.7
Cash and other	**1.0**	2.0
Total	**276.8**	218.6

Equities and bonds are all quoted in active markets whilst property and hedge funds are not.

23 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:

	2017	2016
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	**2.9%**	3.6%
Discount rate – Non Pensioner	**3.0%**	3.8%
Inflation – Pensioner	**3.4%**	3.0%
Inflation – Non Pensioner	**3.4%**	3.2%

Mortality assumptions are set using standard tables based on specific experience where available and allow for future mortality improvements. The Saga scheme assumption is that a member currently aged 60 will live on average for a further 27 years if they are male and on average for a further 29 years if they are female.

A quantitative sensitivity analysis for significant assumptions as at 31 January 2017 and their impact on the net defined benefit obligation is as follows:

Assumptions	Discount rate		Future inflation		Life expectancy		Future salary
Sensitivity	+/- 0.25%		+/- 0.25%		+/- 1 year		+/- 0.5%
	Increase	Decrease	Increase	Decrease	Increase	Decrease	
Impact £m	(17.2)	18.6	12.6	(11.9)	7.5	(8.0)	+/- 0.0

Note: a positive impact represents an increase in the net defined benefit liability.

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of financial position.

The expected contribution to the Saga scheme for the next year is £11.5m and average duration of the defined benefit plan obligation at the end of the reporting period is 23 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.

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 2017, and will make further payments of £2.0m in each of the next eight years, with the last payment being made by 28 February 2024. The total expected contributions in the year ending 31 January 2018 are £11.5m, inclusive of the £2.0m additional payment.

24 Insurance contract liabilities and reinsurance assets

The analysis of gross and net insurance liabilities is as follows:

	2017 £'m	2016 £'m
Gross		
Claims outstanding	**517.0**	561.6
Provision for unearned premiums	**125.3**	141.7
Total gross liabilities	**642.3**	703.3

	2017 £'m	2016 £'m
Recoverable from reinsurers		
Claims outstanding	**93.8**	101.6
Provision for unearned premiums	**3.7**	4.8
Total reinsurers' share of insurance liabilities (as presented on the face of the statement of financial position)	**97.5**	106.4
Amounts recoverable under funds withheld quota share agreements recognised within trade payables:		
– Claims outstanding	**55.5**	–
– Provision for unearned premiums	**66.1**	–
Total reinsurers' share of insurance liabilities after funds withheld quota share	**219.1**	106.4
Analysed as:		
Claims outstanding	**149.3**	101.6
Provision for unearned premiums	**69.8**	4.8
Total reinsurers' share of insurance liabilities after funds withheld quota share	**219.1**	106.4

	2017 £'m	2016 £'m
Net		
Claims outstanding	**423.2**	460.0
Provision for unearned premiums	**121.6**	136.9
Total net insurance liabilities	**544.8**	596.9
Amounts recoverable under funds withheld quota share agreements recognised within trade payables:		
– Claims outstanding	**(55.5)**	–
– Provision for unearned premiums	**(66.1)**	–
Total net insurance liabilities after funds withheld quota share	**423.2**	596.9
Analysed as:		
Claims outstanding	**367.7**	460.0
Provision for unearned premiums	**55.5**	136.9
Total net insurance liabilities after funds withheld quota share	**423.2**	596.9

24 Insurance contract liabilities and reinsurance assets (continued)

Reconciliation of movements in claims outstanding	2017 £'m	2016 £'m
Gross claims outstanding at 1 February	561.6	552.4
Less: reinsurance claims outstanding	(101.6)	(60.2)
Net claims outstanding at 1 February	460.0	492.2
Gross claims incurred	149.4	219.3
Less: reinsurance recoveries	(103.8)	(44.4)
Net claims incurred (note 3b)	45.6	174.9
Gross claims paid	(194.0)	(210.1)
Less: received from reinsurance	56.1	3.0
Net claims paid	(137.9)	(207.1)
Gross claims outstanding at 31 January	517.0	561.6
Less: reinsurance claims outstanding	(149.3)	(101.6)
Net claims outstanding at 31 January	367.7	460.0

Reconciliation of movements in the provision for net unearned premiums	2017 £'m	2016 £'m
Gross unearned premiums at 1 February	141.7	152.3
Less: unearned reinsurance premiums	(4.8)	(3.2)
Net unearned premiums at 1 February	136.9	149.1
Gross premiums written	276.0	312.0
Less: outward reinsurance premium	(188.1)	(8.5)
Net premiums written	87.9	303.5
Gross premiums earned	(292.4)	(322.6)
Less reinsurance premium earned	123.1	6.9
Net premiums earned (note 3a)	(169.3)	(315.7)
Gross unearned premiums at 31 January	125.3	141.7
Less: unearned reinsurance premiums	(69.8)	(4.8)
Net unearned premiums at 31 January	55.5	136.9

The loss on purchasing reinsurance in 2017 was £16.5m (2016: £37.5m profit).

On 27 February 2017, the UK Government announced its decision to reduce the Ogden discount rate from 2.5% to -0.75%. The insurance liabilities presented here and on the face of the Group's balance sheet incorporate the effect of this change.

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% (2016: -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 £624.9m (2016: £734.0m) gross of reinsurance and £410.0m (2016: £539.0m) net of reinsurance.

The period between the balance sheet date and the estimated final payment date was calculated using Ogden life expectancy tables, with appropriate adjustments where necessary for impaired life. The average life expectancy from PPO settlement date to the final PPO payment was 39 years (2016: 42 years) and the rate of investment return used to determine the discounted value of claims provisions was 2.0% (2016: 2.0%).

24 Insurance contract liabilities and reinsurance assets (continued)

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										
	2010 £'m	2011 £'m	2012 £'m	2013 £'m	2014 £'m	2015 £'m	2016 £'m	2017 £'m	Total £'m	Claims paid £'m	Claims outstanding £'m
Accident Year											
2009 and earlier	(5.5)	–	(9.2)	(11.0)	(1.2)	(3.2)	(3.0)	(3.6)			19.2
2010	202.1	–	(4.3)	(4.0)	(5.5)	(3.1)	(2.1)	(5.4)	177.7	(167.4)	10.3
2011		266.0	(2.8)	(5.2)	(4.6)	(13.3)	(7.2)	(7.4)	225.5	(203.1)	22.4
2012			302.3	(25.6)	(31.1)	(0.6)	(17.3)	(11.9)	215.8	(200.1)	15.7
2013				315.4	(14.6)	(22.9)	(19.8)	(14.6)	243.5	(209.2)	34.3
2014					276.8	(14.7)	(23.4)	(11.0)	227.7	(171.2)	56.5
2015						219.1	5.3	(9.2)	215.2	(148.2)	67.0
2016							220.9	3.2	224.1	(130.6)	93.6
2017								94.0	94.0	(55.3)	38.7
	196.6	266.0	286.0	269.6	219.8	161.3	153.4	34.1			357.7
Claims handling costs	9.0	10.1	15.6	17.4	17.2	18.0	21.5	11.5			10.0
	205.6	**276.1**	**301.6**	**287.0**	**237.0**	**179.3**	**174.9**	**45.6**			367.7

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	2017
Accident Year								
2010	73%	73%	72%	70%	68%	67%	66%	64%
2011		78%	78%	76%	75%	71%	69%	67%
2012			76%	70%	62%	62%	57%	54%
2013				75%	72%	66%	62%	58%
2014					75%	71%	65%	62%
2015						67%	69%	66%
2016							70%	71%
2017								55%

Favourable claims development over the year has resulted in a £59.9m (2016: £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 £nil (2016: £0.5m) to be created; the cost of this has been included as part of total non-trading items (note 4b).

25 Other liabilities

	2017 £'m	2016 £'m
Advance receipts	**123.4**	113.0
Deferred revenue	**11.5**	12.7
Group relief payable (note 9)	**–**	7.6
	134.9	133.3
Current	**133.8**	133.2
Non-current	**1.1**	0.1
	134.9	133.3

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.

26 Loans and borrowings

	2017 £'m	2016 £'m
Bank loans	**380.0**	480.0
Revolving credit facility	**100.0**	75.0
Accrued interest payable	**0.1**	0.6
	480.1	555.6
Less: deferred issue costs	**(4.9)**	(7.9)
	475.2	547.7

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%. The Group is required to comply with a leverage covenant on a quarterly basis and had significant headroom against this covenant at 31 January 2017.

Under the facilities, the Group has access to a multi-currency revolving credit facility of £150.0m. During the year, the Group repaid £100.0m (2016: £220.0m) of its Senior Facilities Agreement, and at 31 January 2017 had drawn £100.0m (2016: £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 £17.6m (2016: £21.8m) to the income statement in respect of fees and interest associated with the Senior Facilities Agreement. In addition, interest charged to the income statement includes £1.0m (2016: £3.4m) relating to interest on finance lease liabilities, net finance expense on pension schemes and other interest costs.

27 Called up share capital

			Ordinary shares
	Number	Nominal value £	Value £'m
Allotted, called up and fully paid			
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
As at 31 January 2017	**1,118,005,405**	**0.01**	**11.2**

On 29 May 2014, Saga plc was admitted to the London Stock Exchange. 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 29).

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 3,154,051 (2016: 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 3,465,048 shares have been treated as treasury shares at 31 January 2017.

28 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

For the purposes of the Group's capital management, capital comprises total equity as shown on the consolidated statement of financial position. The Group operates in a number of regulated markets and includes subsidiaries which are required to comply with specific requirements in respect of capital or other resources.

The Group's financial services businesses are regulated primarily by the Financial Services Commission ('FSC') in Gibraltar and by the Financial Conduct Authority ('FCA') in the UK; and the capital requirements of its travel businesses are regulated by the Civil Aviation Authority ('CAA') in the UK. It is the Group's policy to comply with the requirements of these regulators in respect of capital adequacy or other similar tests at all times.

No changes were made to the objectives, policies or processes for managing capital during the years ended 31 January 2017 or 31 January 2016, 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'). The Group has historically monitored its compliance with this and other tests.

Solvency II incorporated a fundamental change to the capital adequacy regime for the European insurance industry and established 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 amounts set out in the following two paragraphs are unaudited)
The Group monitored its ability to comply with the requirements of Solvency II throughout the year to 31 January 2016 and received approval from the FSC for the Undertaking of Specific Parameters route prior to the effective date. Under Solvency II AICL remained well capitalised, and at 31 January 2016, available capital was £219.6m against a Solvency Capital Requirement of £128.8m giving 170% coverage. In the year to 31 January 2017, AICL continues to remain well capitalised, and at 31 January 2017, available capital was £146.7m against a Solvency Capital Requirement of £102.9m giving 142.6% 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 2017 was £6.1m (2016: £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 2017 and 31 January 2016, the travel businesses had good coverage against both covenants.

29 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 Deferred Bonus Plan ('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.
  - On 16 May 2016, options over 3,749,786 shares were issued which vest and become exercisable on the third anniversary of the grant date.
  - On 27 May 2016, options over 334,522 shares were issued under the DBP to the Executive Directors reflecting their deferred bonus in respect of 2015/16, which vest and become exercisable on the third anniversary of the grant date.
  - On 1 October 2016, options over 83,488 shares were issued which vest and become exercisable on the third anniversary of the grant date.

c. Other share options

- On 29 May 2014, share options over 2,162,162 shares were issued to the Chief Executive Officer. Vesting occurs 25% on the third anniversary of the IPO, 25% on the fourth anniversary of the IPO and 50% on the fifth anniversary of the IPO, subject to continuing employment. The award will be equity settled and has no cash alternative. The exercise price of the share options is £1.85.
- On 29 April 2015, options over 101,932 shares were issued to the Chief Financial Officer which vest in two equal tranches on the first and second anniversary of his appointment, subject to continuing employment.
- On 2 December 2015, options over 99,552 shares were issued to the Chief Marketing Officer 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.
- On 29 May 2016, 474,508 shares were awarded to eligible staff on the 2nd anniversary of the IPO and allocated at £nil cost; these shares become beneficially owned over a three year period from allocation subject to continuing service.

29 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 2016	6,619,099	5,504,179	256,093	2,363,646	374,210	15,117,227
Granted	–	3,833,274	334,522	–	474,508	4,642,304
Forfeited	–	(371,482)	–	–	(66,711)	(438,193)
Exercised	(3,154,051)	–	–	(50,966)	(20,968)	(3,225,985)
At 31 January 2017	3,465,048	8,965,971	590,615	2,312,680	761,039	16,095,353
Exercise price	£nil	£nil	£nil	£1.73	£nil	£0.25
Exercisable at 31 January 2017	3,465,048	–	–	–	6,231	3,471,279
Average remaining contractual life	7.3 years	1.5 years	1.9 years	1.5 years	1.9 years	2.8 years
Average fair value at grant	£1.85	£2.01	£2.11	£1.86	£2.07	£1.96

The following information is relevant in the determination of the fair value of options granted during the year under the equity- and cash-settled share based remuneration schemes operated by the Group.

	LTIP – EPS tranche	LTIP – TSR tranche	Employee free shares
Model used	Black-Scholes	Monte-Carlo	Black-Scholes
Dividend yield (%)	n/a	n/a	n/a
Risk-free interest rate (%)	0.95%	0.95%	n/a
Expected life of share option	3 years	3 years	3 years
Weighted average share price (£)	£2.09	£2.09	£2.01
Share price volatility	24.4%	24.4%	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 2017 is £4.7m (2016: £2.8m). This has been charged to administrative and selling expenses £4.2m (2016: £2.5m) and non-trading items £0.5m (2016: £0.3m) (note 4b).

The Group did not enter into any share-based payment transactions with parties other than employees during the current period.

30 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	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
Within one year	**1.0**	1.0	**0.7**	0.8
Between one and five years	**2.8**	3.3	**0.8**	1.6
After five years	**4.4**	4.8	**–**	–
	8.2	9.1	**1.5**	2.4

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:

	2017 £'m	2016 £'m
Within one year	**0.9**	0.5
Between one and five years	**2.0**	1.7
Total minimum lease payments	**2.9**	2.2
Less amounts representing finance charge	**(0.3)**	(0.4)
Present value of minimum lease payments	**2.6**	1.8

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 was 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 2017, the capital amount contracted but not provided for in the financial statements in respect of the ship amounted to £280.1m (2016: £280.1m).

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 2017 (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 remote.

30 Commitments and contingencies (continued)

d. Contingent liabilities

At 31 January 2017, the Group had secured £20.2m (2016: £31.8m) 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.

On 17 February 2017, certain entities in the Group were served with legal proceedings by the broker who acted on behalf of the ship yard for the committed purchase of the new cruise ship (see note 30c). The claimant has brought a claim alleging that these Saga companies are liable to pay commission on the first ship, plus interest and legal costs and separately, commission on the second ship should the option to purchase be exercised. The amount of the claim is up to €7 million, depending on whether the option for the purchase of a second ship is exercised.

It is too early in the litigation process to evaluate Saga's position on liability and quantum. As such, no amounts have been provided for this in the financial statements. Furthermore, in the event the claim is successful, the cost will be capitalised as part of assets in the course of construction within property, plant and equipment.

31 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 prior year was as follows:

	2016 £'m
Loss after tax, before amortisation of acquired intangibles	(7.9)
Gain on disposal of discontinued operations	1.0
	(6.9)

The impact of the discontinued operation on the reported earnings per share was as follows:

	2016
Basic and diluted earnings per share from discontinued operations	(0.6p)

The gain on disposal of Allied Healthcare was 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

31 Discontinued operations and assets held for sale (continued)

The results of Allied Healthcare for the prior period were as follows:

	2016 £'m
Revenue	206.2
Cost of sales	(149.2)
Gross profit	57.0
Administrative and selling expenses	(58.4)
Non-trading items	(6.4)
Net finance expense on retirement benefit schemes	(0.4)
Loss before tax	(8.2)
Tax expense	0.3
Loss for the period from discontinued operations	(7.9)
Attributable to:	
Equity holders of the parent	(8.2)
Non-controlling interest	0.3
	(7.9)

The net cash flows of Allied Healthcare during the prior period to disposal were as follows:

	2016 £'m
Operating	(12.2)
Investing	0.1
Financing	8.4
Net cash outflow	(3.7)

32 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) and settled in February 2016.

G Williams, an independent Non-Executive Director of Saga plc, serves on the board of WNS (Holdings) Limited, the parent company of WNS Global Services (UK Limited) and WNS Assistance Limited, both of which Acromas Insurance Company Limited and PEC Services Limited, subsidiaries of Saga plc, traded with during the year. These subsidiaries of WNS (Holdings) Limited provided claim handling management services to Acromas Insurance Company Limited and PEC Services Limited, and during the year ended 31 January 2017 earned total fees of £3.6m (2016: £3.5m); further payments to these subsidiaries of WNS (Holdings) Limited in respect of repair costs on claims handled totalled £37.2m (2016: £40.2m). As at 31 January 2017, amounts owing to these subsidiaries of WNS (Holdings) Limited for fees and repair costs totalled £2.2m (2016: £1.5m).

33 Subsidiaries

The entities listed below are subsidiaries of the Company or Group. All of the undertakings are wholly owned and included within the consolidated financial statements. The registered office address for all entities registered in England is Enbrook Park, Sandgate, Folkestone, Kent, CT20 3SE. The registered office address for all entities registered in Spain is Auxadi Contables & Consultores S.A., Calle Nanclares de Oca 1B, 28022 Madrid, Spain. The registered office address of Acromas Insurance Company Limited is 57/63 Line Wall Road, Gibraltar.

Name	Country of registration	Nature of business
Acromas Financial Services Limited	England	Regulated investment products
ST&H Limited	England	Tour operating
Acromas Insurance Company Limited	Gibraltar	Insurance underwriting
Saga Cruises Limited	England	Cruising
ST&H Transport Limited	England	Tour operating
Bennetts Biking Services Limited	England	Insurance services
CHMC Limited	England	Motor accident management
PEC Services Limited	England	Repairer of automotive vehicles
Saga Retirement Villages Limited	England	Marketing of retirement villages
Destinology Limited	England	Tour operating
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 I Limited	England	Cruising
Saga Healthcare Limited	England	Provision of domiciliary care
Saga Mid Co Limited	England	Debt service provider
Saga Publishing Limited	England	Publishing
Saga Services Limited	England	Insurance services
Titan Transport Limited	England	Tour operating
Driveline Group Limited	England	Holding company
CHMC Holdings Limited	England	Holding company
Saga 200 Limited	England	Holding company
Saga 300 Limited	England	Holding company
Saga 400 Limited	England	Holding company
Saga Establecimientos Hoteleros, S.L.	Spain	Holding company
Saga Group Limited	England	Holding company
Saga Holdings Limited	England	Holding company
Saga Leisure Limited	England	Holding company
Saga Overseas SL	Spain	Holding company
Saga Properties Limited	England	Holding company
ST&H Group Limited	England	Dormant company
Confident Services Limited	England	Dormant company

33 Subsidiaries (continued)

Name	Country of registration	Nature of business
Country Cousins (Horsham) Limited	England	Dormant company
Driveline Europe Limited	England	Dormant company
Driveline Travel Limited	England	Dormant company
Patricia White's Personal Home Care Limited	England	Dormant company
Saga 500 Limited	England	Dormant company
Saga Coach Holidays Limited	England	Dormant company
Saga 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 Flights.com Limited	England	Dormant company
Saga Holidays Limited	England	Dormant company
Saga Independent Living 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 Shipping Company Limited	England	Dormant company
Saga Tours Limited	England	Dormant company
Spirit Of Adventure Limited	England	Dormant company
Titan Aviation Limited	England	Dormant company
Titan Travel Holdings Limited	England	Dormant company
Titan Travel Limited	England	Dormant company

34 Investment in joint ventures

During the current and prior year, the Group's interests in joint ventures were:

a. Saga Investment Services Limited

The Group holds a 50% interest in Saga Investment Services Limited, a company registered in England and Wales. This is accounted for using the equity method in the consolidated financial statements. The joint venture contributed a share of a loss of £1.4m after tax (2016: £1.3m loss after tax). The investment has a carrying value at 31 January 2017 of £1.4m (2016: £1.6m).

b. 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 in the year to 31 January 2016.

Company financial statements of Saga Plc Balance Sheet

	Note	2017 £'m	2016 £'m
Non-current assets			
Investment in subsidiaries	2	**2,102.7**	2,100.6
Current assets			
Debtors	3	**1.9**	0.9
Creditors – amounts falling due within one year	4	**(206.2)**	(114.1)
Net current liabilities		**(204.3)**	(113.2)
Net assets		**1,898.4**	1,987.4
Capital and reserves			
Called up share capital	5	**11.2**	11.2
Share premium account		**519.3**	519.3
Profit and loss reserve		**1,352.1**	1,439.0
Other reserves		**15.8**	17.9
Total shareholders' funds		**1,898.4**	1,987.4

The Company has not presented its own profit and loss account as permitted by section 408(3) of the Companies Act 2006 (the 'Act'). The loss included in the financial statements of the Company, determined in accordance with the Act, was £6.9m (2016: £8.8m loss).

Company number: 08804263

Signed for and on behalf of the Board on 28 March 2017 by

L H L Batchelor
Group Chief Executive Officer

J S Hill
Group Chief Financial Officer

The notes on pages 168-170 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 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 paid	–	–	(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	17.9	1,987.4
Loss for the financial year	–	–	(6.9)	–	(6.9)
Dividends	–	–	(86.1)	–	(86.1)
Share-based payment charge	–	–	–	4.9	4.9
Exercise of share options	–	–	6.1	(7.0)	(0.9)
At 31 January 2017	**11.2**	**519.3**	**1,352.1**	**15.8**	**1,898.4**

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 (£'m) except when otherwise indicated.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2017.

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.

b. Investments

Investments in subsidiaries are accounted for at the lower of cost and net realisable value and reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

c. Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, can be utilised.

1 Accounting policies (continued)

c. Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is dealt with in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

d. Share-based payments

The Company provides benefits to employees (including Directors) of Saga plc and its subsidiary undertakings, in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is measured by reference to the fair value on the grant date and is recognised as an expense over the relevant vesting period, ending on the date on which the employee becomes fully entitled to the award.

Fair values of share-based payment transactions are calculated using Black-Scholes modelling techniques. In valuing equity-settled transactions, assessment is made of any vesting conditions to categorise these into market performance conditions, non-market performance conditions and service conditions.

Where the equity-settled transactions have market performance conditions (that is, performance which is directly or indirectly linked to the share price), the fair value of the award is assessed at the time of grant and is not changed, regardless of the actual level of vesting achieved, except where the employee ceases to be employed prior to the vesting date.

For service conditions and non-market performance conditions, the fair value of the award is assessed at the time of grant and is reassessed at each reporting date to reflect updated expectations for the level of vesting. No expense is recognised for awards that ultimately do not vest.

At each reporting date prior to vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and, in the case of non-market conditions, the best estimate of the number of equity instruments that will ultimately vest or, in the case of instruments subject to market conditions, the fair value on grant adjusted only for leavers. The movement in the cumulative expense since the previous reporting date is recognised in the income statement, with the corresponding increase in share-based payments reserve.

Upon vesting of an equity instrument, the cumulative cost in the share-based payments reserve is reclassified to reserves.

2 Investment in subsidiaries

	£'m
Cost	
At 31 January 2015	4,125.6
Capital contributions arising from share-based payments	1.4
At 31 January 2016	4,127.0
Capital contributions arising from share-based payments	2.1
At 31 January 2017	4,129.1
Amounts provided for	
At 31 January 2015	2,026.4
Amounts provided in the year	–
At 31 January 2016	2,026.4
Amounts provided in the year	–
At 31 January 2017	2,026.4
Net book value	
At 31 January 2017	2,102.7
At 31 January 2016	2,102.7

See note 33 to the consolidated financial statements for a list of the Company's investments.

3 Debtors

	2017 £'m	2016 £'m
Deferred tax asset	**0.7**	0.3
Other debtors	**1.2**	0.6
	1.9	0.9

All amounts above are due in less than one year.

4 Creditors – amounts falling due in less than one year

	2017 £'m	2016 £'m
Amounts owed to Group undertakings	**204.4**	109.7
Other creditors	**1.8**	4.4
	206.2	114.1

5 Called up share capital

	Ordinary shares		
	Number	Nominal value £	Value £'m
Allotted, called up and fully paid			
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
As at 31 January 2017	1,118,005,405	0.01	11.2

On 29 May 2014, Saga plc was admitted to the London Stock Exchange. 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.

Shareholder Information

Financial calendar
2017 Annual General Meeting
– 22 June 2017

Final dividend dates
Announcement date – 29 March 2017
Ex-dividend date – 11 May 2017
Record date – 12 May 2017
Last day for DRIP elections – 5 June 2017
Payment date – 30 June 2017

Shareholder information online
The Company will publish annual reports, notices of shareholder meetings and other documents which we are required to send to shareholders ('shareholder information') on a website. Consenting shareholders will be notified either by post or email if preferred each time the Company publishes shareholder information. This allows us to increase speed of communication, reduce our impact on the environment and keep costs to a minimum.

You can change your communication preference via the Saga Shareholder Services Portal www.sagashareholder.co.uk or by contacting Saga Shareholder Services. In order to register on the portal you require your 11-digit investor code ('IVC'). You can find your IVC on communications such as your share certificate. The Saga Shareholder Services Portal allows you to manage your shareholding easily and securely online. You can also change your personal details, view your holding and get an indicative valuation, view dividend information, register proxy voting instructions, reinvest your dividends to buy additional Saga plc shares, buy and sell shares and register bank details so that dividends can be paid directly to your account.

Shareholder fraud
Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post or by email. If any such unsolicited communication is received please check the company or person contacting you is properly authorised by the Financial Conduct Authority ('FCA') before getting involved. Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you may 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 6768. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Advisers

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Information for investors
Information for investors is provided on the internet as part of the Group's corporate website which can be found at www.corporate.saga.co.uk.

Registrars
Capita Asset Services

For shareholder enquiries contact:
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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 (0)333 300 1581 – calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 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

Add-on an insurance policy that is actively marketed and sold as an addition to a core policy

AGM Annual General Meeting

AICL Acromas Insurance Company Limited

Available cash cash held by subsidiaries within the Group that is not subject to regulatory restrictions, net of any overdrafts held by those subsidiaries

Available operating cash flow net cash flow from operating activities after capital expenditure but before tax and interest paid and non-trading items, which is available to be used by the Group as it chooses and is not subject to regulatory restriction

Board Saga plc Board of Directors

Claims frequency the number of claims incurred divided by the number of policies earned in a given period

Claims reserves accounting provisions that have been set to meet outstanding insurance claims, IBNR and associated claims handling costs

Code the UK Corporate Governance Code published by the UK Financial Reporting Council setting out guidance in the form of principles and provisions to address the principal aspects of corporate governance

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

Companies Act the UK Companies Act 2006, as amended from time to time

Company Saga plc

Continuing operations operations that are not classified as discontinued

Core policy an insurance policy that is actively marketed and sold on its own

Cruise passenger days the total number of days passengers have travelled on a ship, or ships, in a given period

Cruise passengers the number of passengers that have travelled on a Saga cruise in a given period

Customer spend Customer spend represents the total amount that customers spent on products provided by the Saga group of companies, including gross written premiums, ancillary income and Insurance Premium Tax for all of the core policies and add-ons sold in the period

DBP Deferred Bonus Plan

Discontinued operations operations divested or those that have been classified as held for sale whose trading activities relate to a separate line of business or geographical area

Debt ratio (Leverage) the ratio of net debt to Trading EBITDA

DTRs (Disclosure and Transparency Rules) rules published by the UK Financial Conduct Authority relating to the disclosure of information by a company listed in the UK

Earned premium insurance premiums that are recognised in the income statement over the period of cover to which the premiums relate, deferred on a 365ths basis

Earnings per share from continuing operations (basic) profit after tax from continuing operations attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period

Expense ratio the ratio of expenses Incurred to underwrite insurance (numerator) to the revenue earned by AICL (denominator) in a given period

FCA Financial Conduct Authority

Financial Conduct Authority (FCA) the independent UK body that regulates the financial services industry, which includes general insurance

GHG Protocol a global standard for how to measure, manage, and report greenhouse gas emissions

GWP (Gross written premiums) the total premium charged to customers for a core insurance product, excluding Insurance Premium Tax but before the deduction of any outward reinsurance premiums, measured with reference to the cover start date of the policy

Group the Saga plc group

Holidays passengers the number of passengers that have travelled on a Saga, Titan or Destinology holiday in a given period

IASB International Accounting Standards Board

IBNR (incurred but not reported) a claims reserve provided to meet the estimated cost of claims that have occured, 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

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 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

Mosaic classifications Mosaic is a consumer classification system, owned by Experian, that classifies UK households into 15 main social-economic groups, each of which have specific consumer and societal trends

Net claims the cost of claims incurred in the period less any claims costs recovered under reinsurance contracts and after the release of any claims reserves

Net debt bank debt and borrowings, excluding any overdrafts held by restricted trading subsidiaries, net of available cash

Net earned premium earned premium net of any outward earned reinsurance premium paid

Net interest expense finance costs less finance income

Ogden discount rate the discount rate set by the relevant government bodies, the Lord Chancellor and Scottish Ministers, and used to calculate lump sum awards in bodily injury cases

Operating margin is a measurement of the proportion of revenue which is left over after paying for all business costs.

PBT profit before tax

PMI private medical insurance

Policies sold the number of core and add-on insurance policies sold to customers in a given period, measured by reference to the cover start date of the policy

Reinsurance contractual arrangements where an insurer transfers part or all of the insurance risk written to another insurer, in exchange for a share of the customer premium

RMM (required minimum margin) a measure used to assess the minimum level of solvency capital an insurance underwriter must retain under Solvency I

RPI Retail Price Index

Saga Way the internal framework that guides the behaviours of our employees

SCR Solvency capital requirement as calculated under Solvency II rules

SIP Share Incentive Plan

Solvency capital/Solvency II insurance regulations designed to harmonise European Union insurance regulation. Primarily this concerns the amount of capital that European insurance companies must hold under a measure of capital and risk

tCO_2e tonnes of carbon dioxide equivalent, which is a measure that allows comparison of the emissions of other greenhouse gases relative to one unit of CO_2

Trading EBITDA earnings before interest payable, tax, depreciation and amortisation, non-trading items and fair value gains and losses on derivative financial instruments

Trading profit Trading EBITDA less depreciation and amortisation, excluding amortisation of acquired intangibles

TSR (total shareholder return) the theoretical growth in value of a shareholding over a period, by reference to the beginning and ending share price, and assuming that dividends, including special dividends, are reinvested to purchase additional units of the equity

Unearned premium an amount of insurance premium that has been written but not yet earned

MIX
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