



Saga plc

# Annual Report and Accounts

Year ended 31 January 2019

**SAGA**

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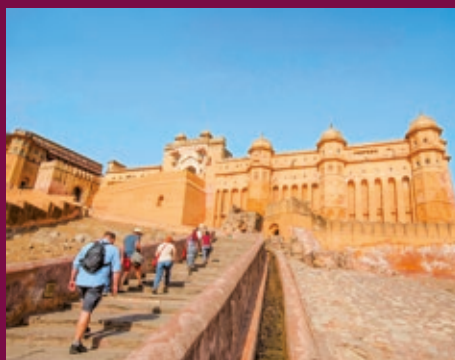
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[www.saga.co.uk](http://www.saga.co.uk)



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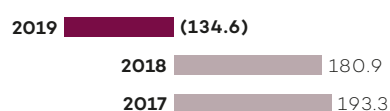
# Saga plc exists to help our customers lead the life they want to lead.

## In 2019/20, the Company is refocusing its strategy to return to its heritage as a direct to consumer brand, with Membership at its core.

### Financial highlights<sup>1</sup>

(Loss)/Profit before tax from continuing operations (£m)

↓ (174.4%)



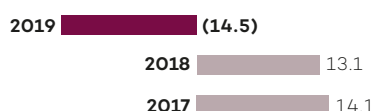
Underlying Profit Before Tax (£m)<sup>1</sup>

↓ (5.4%)



Basic earnings per share for continuing operations (pence)

↓ (210.7%)



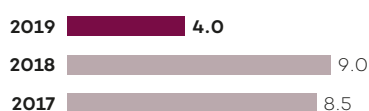
Debt ratio (net debt to Trading EBITDA<sup>1</sup>)

1.7x



Dividend per share (pence)

↓ (55.6%)



Available operating cash flow (£m)<sup>1</sup>

↑ 2.9%



Underlying earnings per share (pence)<sup>1</sup>

↓ (5.1%)



Note:

1 Alternative Performance Measure (APM) – refer to the Glossary on page 199 for definition and explanation

### Operational highlights

Number of members of Saga Possibilities

↑ 1.1m

2018: 0.536m

Average product holding

1.4

2018: 1.4

Brand net promoter score (NPS)

25

Brand NPS was established in 2018.

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



# Insurance

The Insurance business is the largest part of the Saga Group. It provides tailored products including the recently launched fixed price insurance product.

- Insurance Retail Broking
- Insurance Underwriting

Retail Broking Underlying Profit Before Tax <sup>1</sup> (£m)	Policy Count <sup>2</sup>
<b>£105.8m</b>	<b>2,204k</b>
(2017/18: £130.7m; (19.1%))	(2017/18: 2,274k; (3.1%))
Underwriting Underlying Profit Before Tax <sup>1</sup> (£m)	Underlying reserve releases (£m)
<b>£86.7m</b>	<b>£77.9m</b>
(2017/18: £79.3m; +9.3%)	(2017/18: £60.0m; +29.8%)
	Pure COR <sup>3</sup>
	<b>99.7%</b>
	(2017/18: 97.8%; +1.9ppt)



Notes:

- 1 Alternative Performance Measure (APM) – refer to the Glossary on page 199 for definition and explanation
- 2 Combined buildings and contents home core policies count as one policy
- 3 Please refer to page 42 of the Operating and Financial Review for how this measure is calculated and defined







# Travel

The Travel business is at the heart of the Saga brand and it is from these origins that the business evolved. We take passengers all over the world on package holidays, escorted tours, river cruises, and ocean cruises.

- Saga Cruises
- Saga Holidays
- Titan
- Destinology

Underlying Profit  
Before Tax<sup>1</sup>  
(£m)

£21.1m

(2017/18: £20.6m;  
+2.4%)

Passengers – Holidays

176k

(2017/18: 184k; (4.3%))

Passengers – Cruise

26k

(2017/18: 24k; +8.3%)

 Travel p 43-44



# Emerging Businesses

Emerging Businesses includes new development areas.

- Saga Personal Finance
- Saga Healthcare

Underlying Profit Before Tax  
(£m)<sup>1</sup>

£3.1m

(2018: £0.8m; +287.5%)

 Emerging Businesses p 44-45

**“Getting back to growth will require exceptional commitment and execution from everyone at Saga. From what I have seen since I joined, I am confident the business will rise to the challenge.”**

**Patrick O' Sullivan**  
Chairman



## Strategy

Over the following pages we set out fundamental changes to our strategy. This will see Saga return to its heritage as a company that delivers high-quality, differentiated products and services that our customers cannot get elsewhere.

## Performance in 2018

Results for last year are in line with our expectations. While we are reporting another very strong year from Insurance Underwriting, Retail Broking has been disappointing. Travel maintained profitability but parts of Tour Operations remain under pressure. At a time when our target demographic market continues to grow overall, our volumes have declined.

Your Board believes that the new strategy responds to these challenges.

## Dividend and Goodwill impairment

In the near-term, a combination of margin pressures and other factors mean that profitability will be significantly below that of recent years and also below our previous expectations. As a result we have had to make some difficult decisions.

The Board has proposed a final dividend per share of 1.0p and a full year dividend per share of 4.0p, compared to 6.0p and 9.0p respectively in the prior year. We are targeting a sustainable payout ratio of around 50% of earnings over the next few years.

We have also re-assessed the carrying value of the goodwill relating to the Group's Insurance operations. This has resulted in a non-cash impairment charge of £310.0m, representing 22% of the Insurance goodwill, and has led to an overall loss before tax for the financial year 2018/19 of £134.6m and a loss after tax of £162.0m.

While the decisions to reduce our dividend and impair Insurance goodwill are disappointing, the Board believes that these actions are essential to address our challenges, allow for the product investments needed and enable the Group to return to sustainable growth.

## Changes to the Board

A number of changes have been made to the Board this year. I joined as Chairman in May, replacing Andrew Goodsell who served as Chairman since 2004.

James Quin replaced Jonathan Hill as Group Chief Financial Officer in January 2019. He brings with him extensive insurance experience and he will be key in delivering the new strategy.

Julie Hopes joined the Board in October 2018. Julie has taken over the Chair of our Retail Broking business from Bridget McIntyre, who retired from the Board in October 2018. Julie's experience in Insurance will be invaluable as we continue to develop this part of our business. Eva Eisenschimmel joined the Board in January 2019. Eva will work with us to make sure our customers are at the heart of everything we do. Gareth Hoskin joined the Board in March 2019. Once approved, Gareth will act as Chair for Acromas Insurance Company Limited, our in-house underwriter.

I would like to express my sincere appreciation for the contribution of those who left the Board during the year and extend a warm welcome to those who have joined us.

## The future

While there are challenges to address, the business is well-positioned to grow. We have 2.1m customers and offerings in Cruise, PMI, Savings and Life Time Mortgages that are excellent examples of what we are aiming for. We are launching new products in Insurance, the first of which are home and motor products that include a three year fixed price offer. Our Travel strategy is to become a specialised operator, focusing on Cruise and differentiated experiences in Tour Operations. While it's early days for our Membership programme, we now have 1.1m members, a strong proposition, and are seeing a steady increase in the level of member engagement.

It has been a challenging and pivotal year for the business. On behalf of the Board, I wish to thank all of our employees sincerely for their exceptional effort in helping us reset our direction and for their advocacy of our customers. Without them, we could not look forward to the future with confidence.

Getting back to growth will require exceptional commitment and execution from everyone at Saga. From what I have seen since I joined, I am confident the business will rise to the challenge.



**Patrick O' Sullivan**  
Chairman  
3 April 2019



**“We will focus Saga on its heritage as a direct to consumer brand with Membership at its core, delivering highly differentiated, competitively priced products to our customers and members.”**

**Lance Batchelor**  
Group Chief Executive Officer





## Summary

A lot has been achieved in the five years since Saga's IPO: net debt has been reduced by more than £300m; our old IT platforms have been largely replaced; a new cruise ship has been designed and built and another is coming; our Membership programme has been launched and over a million members have signed up; and the Travel division has grown from £5m to over £20m in Underlying Profit Before Tax.

I also want to be clear about what we have not addressed. If we look back to what made the Company successful, it was products specifically designed for our demographic, that were competitively priced and built great brand loyalty. Since then Saga has been focused overly on the short-term. At the same time, in the more commoditised parts of the insurance and travel markets, our customers are now able to buy basic and cheap products very easily on-line. The end result has been a steady decline in the number of customers over a period in which our demographic has grown.

The last year brought the long-term trends Saga has been grappling with even more sharply into focus. Our Insurance business in particular has been facing new challenges. Although we saw another very strong result from our Underwriting business and good progress in Cruise in 2018, results in Retail Broking have been below our expectations. And while Tour Operations maintained profitability, parts of that business are under pressure both in terms of volumes and margins.

In response, we are making a bold and fundamental change to our strategy to return the whole business to our heritage. That is, an organisation offering differentiated products and services that will give our customers and members a compelling reason to come to us and stay with us:

- We are changing our approach to selling insurance. This will move our Insurance business from one that, like the majority of the industry, wins new customers on price and recoups initial losses through increased renewal pricing. Instead, we will offer a differentiated insurance product on the basis of unique and attractive features. The significance of this change should not be underestimated in today's insurance market.
- Our Cruise offering is a brilliant example of a product that is already highly differentiated and competitively priced. The transition to two new ships and resultant upgrade in the offering is an example of how we are changing Saga. We need to do the same thing in Tour Operations, and move faster to become a differentiated, niche provider of great customer experiences. This might mean that overall volumes remain at current levels, but we expect our margins to increase in line with those of best in class specialist travel companies, reflecting the quality of the product.

- We will invest more in supporting our new product propositions. We have started this and are seeing some green shoots from our first TV advertising campaign.
- We will wrap all of this in our Membership proposition, Saga Possibilities, to help us build loyalty and multi-product holdings, and as a means of attracting new customers.

The combination of pressures on the Insurance business and investment to support this change in approach mean that our profitability will, in the near-term, be significantly below the level of recent years. As a result, we have had to make some difficult decisions. We have reduced the dividend and impaired the goodwill on our balance sheet, and we are reporting a loss for the 2018/19 financial year.

This is painful in the short-term but I firmly believe it is the right course of action for both customers and shareholders in the longer-term. It also ensures we have a robust balance sheet to support growth in customers, profits and attractive cash flows.

I will now explain the background to our performance, and the actions we are taking, in more detail.

## A fundamental shift in our Retail Broking business

Our broking business has experienced some significant challenges over the past five years. These include:

- the increasing dominance of price comparison sites
- the impact of regulatory changes
- under investment in our direct proposition
- insufficient investment in marketing.

The result has been a decline in profit and policies.

Although we held policy numbers flat in 2018/19, we acquired an increasing number of customers from price comparison sites and direct new business declined from 67% to 51% of total new business volumes. This business is more expensive to acquire than direct and has lower profit margins.

It is clear that to grow customers and profitability we need to give our customers more reasons to come to Saga direct and to remain with us. We also anticipate a significant industry response to the regulatory focus on renewal pricing. We are taking steps to show customers the benefit of loyalty through our change in approach. This move is an essential step towards creating the right perception of Saga Insurance among our customers.

The first major step will be the launch of a highly differentiated home and motor insurance product that guarantees the same premium for three years providing there are no claims in the period, and that there is no change to insurance premium tax. This will only be available to customers who come to us direct. We have been piloting this since November and have sold over 5,000 policies to new customers. It has proved to be extremely popular: over 60% of those offered it have opted for the fixed price insurance.

We are also changing our approach to renewal pricing. This is in recognition of the fact that the industry is going to go through a period of major change. We also want to encourage our customers to see more of a benefit in remaining with Saga for the long-term.

The change in strategy is expected to create a platform for future growth in policies and profits. In the near-term, however, the combination of margin pressures, the change in approach to renewal pricing and our investment in new propositions will lead to a decline in broking profitability compared to 2018/19.

### Our Travel strategy

In 2018, the Travel division had its fifth successive year of profit growth, beating £21m Underlying Profit Before Tax for the first time. However, Brexit is putting a clear dampener on customers' willingness to commit to holidays in 2019. This has been partially mitigated by growth in our trade channels, albeit from a low base.

We have seen the extraordinarily rapid build, to schedule, of Spirit of Discovery, our first ever purpose built cruise ship during 2018. Spirit of Discovery will carry her first passengers in July 2019. Our second new ship, Spirit of Adventure, is due to be delivered in summer 2020. Forward bookings for both ships are on track. They are each expected to deliver c.£40m EBITDA per annum. This will be transformational for the future profit trajectory of our Travel business.

Our strategy in Tour Operations will be to accelerate our move away from undifferentiated, low value products, such as short haul, to higher value, more differentiated segments, such as escorted tours, third party cruises and river cruises. We are starting to renew our river ship fleet, and have recently ordered two purpose built vessels on long-term lease agreements. While we do not expect significant growth in Tour Operating revenues, this forward transformation is expected to lead to improved margins in the next few years.

### Our Membership strategy

Our Membership programme, Saga Possibilities, launched in Autumn 2017. We have over one million members and the number is growing every week. We will continue to build our Membership proposition and engagement as we seek to make that our key route to customers.

The next phase will focus on increasing the engagement of existing members, growing member numbers, and cross-selling through the Membership programme. A recent trial to sell Travel to Insurance customers via Membership generated c. 900 passengers in 100 days, 34% of whom were first-time buyers. We will seek to build on this in 2019. The bigger Possibilities becomes, the better the deals and opportunities we will be able to find for our members.

It is still early days, but the initial signs, evidenced by the launch of Dining Possibilities in October, are that we have started to see engagement increase.

### The Saga brand

We have an exceptionally high level of prompted brand awareness: 87% of our target market knows Saga. For many of our customers, this translates to strong brand affinity, trust in our products, a high level of repeat bookings in Travel, and retention in Insurance. However, we need to improve consideration (people who know the brand and are more likely to buy a Saga product) and our new strategy is designed to do this.

Offering such new and unique products allows us to do something we haven't done for many years. We launched some new television adverts at the end of last year that we will continue to run in 2019. Advertising is important both to drive sales of our new Insurance and Cruise services, but also to ensure that our potential customers appreciate that we are doing things differently.

The early impact of our higher profile has been encouraging. The combination of new product offerings and increased advertising is expected to deliver further benefits.

## Looking forward

The Group strategy is to focus Saga on its heritage as a direct to consumer, membership-led brand. We want to be known as a company that delivers highly differentiated, competitively priced products to our customers and members. The fundamental change in strategy in Insurance is a significant start in the execution of that strategy and is the culmination of much work behind the scenes.

We proved in 2018 that our Cruise strategy is working and we will accelerate our efforts in Tour Operations to match the progress we've made in Cruise.

We will continue to build our Membership proposition and engagement as we seek to make that our key route to customers.

I would like to thank the many people across the business who have helped us develop our new strategy over the past six months. I am confident that the far reaching changes set out above are both essential and bold enough to address the long-term challenges we have faced. I am also confident that these changes will give our customers and Possibilities members a compelling reason to come to us and stay with us.



**Lance Batchelor**  
Group Chief Executive Officer  
3 April 2019



# Saga operates in a dynamic environment across multiple sectors to meet the needs of its target demographic, the UK's over 50s.

Saga regularly reviews the trends and factors influencing our customers and markets to identify opportunities and risks and ensure we remain agile.

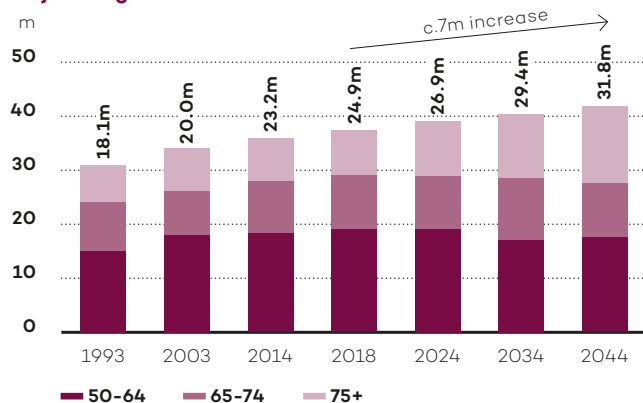
## The Saga customer

Saga's target market is one of the most affluent and influential in the UK. The needs of this demographic are continuously evolving, driven by longer periods in both employment and retirement. In 2018, the UK's over 50s totalled 24.9m and represented close to 40% of the entire UK population. The growth of this demographic is expected to continue and is predicted to total c.30m individuals by 2044.

This demographic holds 75% of the UK's household wealth. The pursuit of more active lifestyles continues to be a key trend. Fifty-four percent<sup>1</sup> of the UK's total expenditure on leisure, culture, food, recreation and health is made by this segment.

Saga continues to invest in strengthening its customer insight and ability to stay abreast of changing sentiments and behavioural traits of its target customer. This investment ensures that, as a business, Saga continues to evolve to ensure its relevance amongst today's over 50s.

### Projected growth of the UK's over 50s



## Vulnerable customers

Saga recognises that some of our customers need more attention than others. There are dedicated teams throughout the business to ensure that vulnerable customers are identified and given what help they need. For example, Saga has had active pricing processes in place for several years and increasing numbers of long-standing customers, who may be perceived as vulnerable, have seen their renewal premium either frozen or reduced as a result.

## Competition for customers

Saga competes for business with many providers within the sectors in which it operates. Whilst our brand as the over 50s specialist in the UK is particularly strong, Saga does not have a monopoly. Competition for customers continues to increase notably in the more commoditised parts of the insurance and travel markets, where customers are able to buy simple and cheap products very easily on-line. In this landscape, it is increasingly important that Saga offers differentiated products and services that will give its customers and Possibilities members a compelling reason to come to us and stay with us.

## Regulatory developments

Saga operates within an evolving regulatory landscape. Aspects of this, such as General Data Protection Regulation (GDPR), cover all of Saga's business. Other aspects cover the Group's Insurance, Travel and Personal Finance businesses.

The Insurance business is regulated by both the Financial Conduct Authority (FCA) and the Gibraltar Financial Services Commission and the Travel business by the Civil Aviation Authority (CAA), the European Economic Community (EEC), Package Travel Regulations and the Association of British Travel Agents (ABTA).

<sup>1</sup> Office for National Statistics, 'Family spending in the UK: April 2017 to March 2018'

2018/19 was a very active year for the insurance regulatory landscape. The FCA implemented new requirements relating to how retail general insurance products are sold, and launched an extensive market study into industry pricing practices. The insurance market is one of the most competitive sectors in the UK with high levels of switching and significant introductory discounts leading to most people shopping around for the best deal. For those customers who do not shop around it is crucial that insurers have active pricing processes.

Saga welcomes the approach of the FCA and expects this to lead to significant change across the industry in the coming years. As a business which is focused on direct distribution channels, with a higher number of older customers and with a strategy that is increasingly focused on rewarding customer loyalty, Saga will implement further changes on a proactive basis.

As regulation across operating markets continues to evolve, Saga strives to maintain strong relationships with its regulatory bodies through continuous engagement.

## Political developments

### Brexit

At the date of finalising this report there is considerable uncertainty as to how – and even whether – the UK will exit from the EU, or at least as to when Brexit will take effect and on what terms. There is corresponding uncertainty as to the impact on Saga. The potential impacts on the Group of Brexit, and more specifically a hard Brexit, have been considered. Working groups have been held throughout the year to identify, assess – and where possible – implement mitigations for the risks of a hard Brexit. The range of scenarios considered includes the additional administration processes and costs associated with running a travel tour operating business, supply chain delays for motor repairs and prolonged disruption to local roads caused by delays at the Port of Dover and Eurotunnel. The impact to date has been a decline in forward bookings in our Tour Operations business as Brexit uncertainty impacts consumer willingness to commit to holidays in 2019. The Group will continue to closely monitor the political developments, and adapt mitigation plans accordingly.



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

## Our sources of value

There are several core assets that are central to the functioning of our business model and the execution of our strategy. These include:

### Brand strength

In a highly competitive environment, the Saga brand can be a key differentiator. We recognise that the strength of our brand supports our direct marketing model, drives purchases and improves retention.

### Our people

Our people are core to our brand. We continue to invest in building a high-performance and high-support culture. We encourage our people to be brave and to challenge each other to deliver service excellence to our customers.

### Our customers

At the heart of our business model is our drive to know more about our customers' wants and needs so we are best placed to serve them.

### Membership

We continue to invest in our Membership programme, Possibilities, strengthening our ability to gain unique insights into the evolving traits of our demographic, while deepening our relationship with them.

### Proprietary data and technology

We have invested in renewing and refreshing our systems capabilities and in strengthening our ability to capture insights at every point of contact with our customers. Our Membership programme enables us to develop our understanding of our target demographic and their changes in behaviour over time. This helps us tailor our offering to existing and potential customers.

### Supplier partnerships

Our supplier relationships are fundamental to our business model. Our partners benefit from our brand, customer knowledge and access to an attractive demographic. Access to specialist skills, knowledge and capital help us deliver the best outcome for our customers.

### Financial strength

Saga's capital efficient business model means we are highly cash generative as much of our profit after tax is converted into cash. This provides the flexibility to balance investment in the brand with customer growth, debt reduction and the delivery of cash returns to shareholders.

## Underpinned by our people, culture and values

We exist to help our customers lead the life they want to lead and to enable and inspire new possibilities. Our values are who we are and how we work – they are brought to life every day by our people. We believe every interaction – whatever form it takes – reflects our values.

Our values can be summarised as, 'The Saga Way:'

- We must see the world through our customers' eyes, so we can exceed expectations.
- Nothing is too much for our customers.



Refer to Corporate responsibility on pages 28-33 for further details

## Delivered through the Saga model



## Creating value for our stakeholders

**1 A great brand**  
Saga is a trusted brand which achieves over 87% recognition from the UK's over 50s.

**2 Differentiated products**  
We listen to our 2.1m customers and our 1.1m Possibilities members to design and deliver highly differentiated, competitively priced products which meet their needs.

**3 Unique route to market**  
Saga's proprietary database, Membership programme and marketing model provide direct access to both existing and new customers across multiple channels.

**4 Outstanding service**  
Our customers and Possibilities members know what good service looks like, expect the best, and recognise it when they get it. We monitor feedback and the quality of customer service provided by our in-house and third party teams.

Saga is committed to maximising value for our key stakeholders.

### Customers and Possibilities members

Our customers and members of Saga Possibilities are at the heart of everything we do. We design bespoke products and services that help them lead the life they want to lead. Supported by our exceptional service, we seek to develop multi-decade relationships with our customers.

Measurement:

- NPS
- Number of Possibilities members
- Average products held

### Employees

Our success relies on having highly engaged employees who are committed to delivering exceptional service to our customers. We invest in building the capabilities of our people and embedding a positive, high-performance, high-support culture across our organisation.

Measurement:

- Employee engagement score

### Community

Saga is committed to supporting the communities in which it operates through charitable giving, employee volunteer programmes and minimising the negative impact our operations have on the environment. We are proud to represent and campaign on behalf of our customers on a range of issues that affect the UK's over 50s.

Measurement:

- Charitable donations
- Volunteer hours

### Shareholders

Saga aims to enhance long-term value to shareholders by returning the business to sustainable growth and targeting a dividend payout ratio of around 50% of earnings over the next few years.

Measurement:

- Dividend payout ratio
- Underlying Earnings Per Share

- We work as one team to serve the needs of our customers.
- We trust and challenge each other to be brave and to do the right thing.

To support the successful delivery of our strategy, we are committed to building a high-performance and cohesive culture across the organisation which promotes talent, diversity and ongoing development.

# Strategic Priorities 2018/19

The Group's progress against its 2018/19 strategic priorities provides a platform for growth which supports the refocused strategy.

Further details of the 2019/20 strategic priorities, which underpin Saga's strategy to refocus on its heritage as a direct to consumer brand, with Membership at its core, are detailed on pages 18-19.



## 1. Becoming increasingly customer centric

### Strategic priorities for 2018/19

In 2018/19 the Group focused on becoming a unique Membership organisation for the UK's over 50s with a high affinity brand.

#### Strategic delivery

- We grew the base of our Membership programme, Possibilities, to 1.1m members.
- We maintained sign-up rates to Possibilities at 84%.
- We continued to develop the Membership proposition, adding some of the UK's biggest brands to our offering.
- We strengthened the Membership proposition, and introduced Dining Possibilities in October 2018 and Travel Possibilities earlier in the year.
- The expansion of our Membership offering has supported engagement growth: 180,000 members interact with us and this number is steadily growing.
- We introduced NPS as our primary customer satisfaction measure. The Group score is 25.
- Average product holdings were flat at 1.4.



## 2. Growing our Retail Insurance and Travel businesses

### Strategic priorities for 2018/19

We focused on accelerating growth in our divisions by investing to attract new customers and improve margins.

#### Strategic delivery

- We stabilised the Retail Broking policy count and held Saga-branded home and motor insurance policy numbers flat. Retail Broking profitability declined 19.1% to £105.8m.
- The Travel division delivered its fifth successive year of profit growth, beating £21m Underlying Profit Before Tax for the first time.
- We rationalised our product offering in Tour Operations. The focus on higher-margin escorted touring, river and ocean cruise products led to a 5.1% increase in gross margin per passenger, offsetting a decline in passenger numbers.
- We broadened our competitive footprint with the expansion of our third party motor panel. Third party share of new motor business increased to 30% in 2018/19 (2017/18: 22%).
- We invested in the development of a pipeline of highly differentiated and innovative new product propositions in Retail Broking and Travel.
- We successfully piloted our new motor and home insurance product, three year fixed price, and sold over 5,000 policies at a sign-up rate of 60% since the start of the pilot in October 2018.

Notes:

1 Alternative Performance Measure – refer to the Glossary on page 199 for definition and explanation



### 3. Investing for future growth

#### Strategic priorities for 2018/19

In 2018/19 we continued to build demand for our new ships, launched our new retail insurance platform and supported investments to strengthen our brand, Membership proposition and new product development.

#### Strategic delivery

- Construction of our first ever purpose built cruise ship, Spirit of Discovery, remains on track and on budget. We continue to prepare for her maiden cruise in July 2019. Our second new ship, Spirit of Adventure, remains on track for delivery in summer 2020.
- We continue to build demand for our ships. Forward bookings remain on track and continue to support our ambitious plans.
- We delivered on our technology investments and enhanced our operating platforms:
  - We successfully re-platformed our motor product on Guidewire with home to follow in 2019.
  - We successfully developed our Travel reservation platform, Tigerbay, to be launched 2019.
- We continued to invest in the Saga brand with the launch of an integrated creative advertising campaign across TV, press, digital media and direct marketing – spanning our holidays, cruise and insurance products.
- We supported the acceleration of our shift towards higher-value, more differentiated travel segments with the renewal of our river cruise fleet. We have committed to two purpose built vessels on long-term lease arrangements.



### 4. Maintaining our efficient operating model

#### Strategic priorities for 2018/19

We focused on delivering operational efficiencies and performance excellence across our businesses to ensure that we operate in the most efficient way while preserving the customer experience.

#### Strategic delivery

- Continued strong cash generation of £180.6m, representing 78.1% of Trading EBITDA<sup>1</sup> (2018: 70.0%).
- Delivered Group wide cost and efficiency improvements resulting in a £10.2m reduction to our cost base.
- Continued focus on embedding a culture of customer service excellence across the Group.



### 5. Developing our people

#### Strategic priorities for 2018/19

Our people are central to the Saga brand. Following a challenging year, we focused on increasing employee engagement and building a culture which promotes talent and diversity, engenders winning and fosters high performance.

#### Strategic delivery

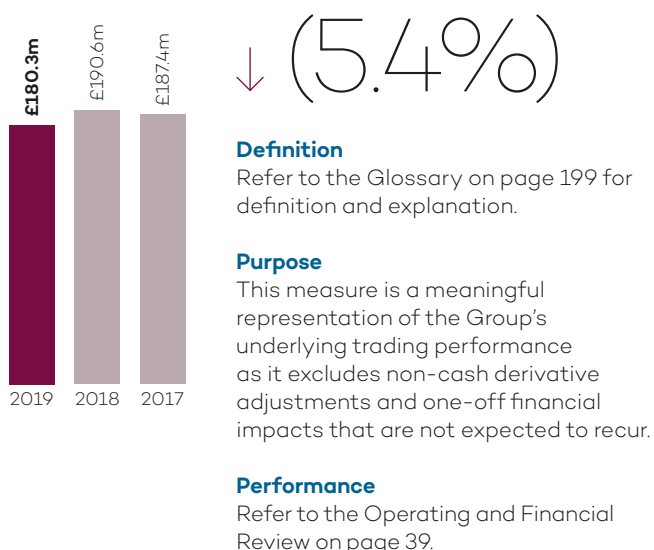
- Employee engagement fell to 70% following the organisational changes made in December 2017.
- We continued to invest in leadership development. Over 500 leaders are now working through an intensive leadership development programme.
- We delivered a range of apprenticeship programmes to support entry level recruitment and accelerate development of our mid-level managers.



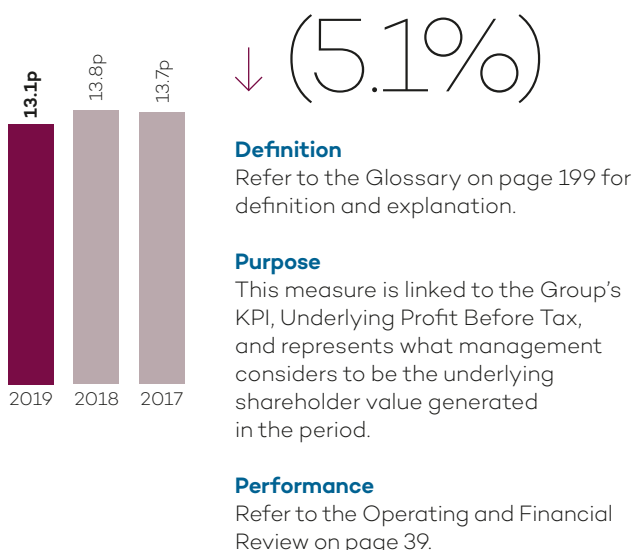
# In 2018/19, the Group used the following key performance indicators (KPIs) to track and measure the financial and operating performance of the business against its strategy.

Saga will review and update its KPIs to ensure they remain an effective measure of progress and delivery against its strategy to return to its heritage as a direct to consumer brand with Membership at its core.

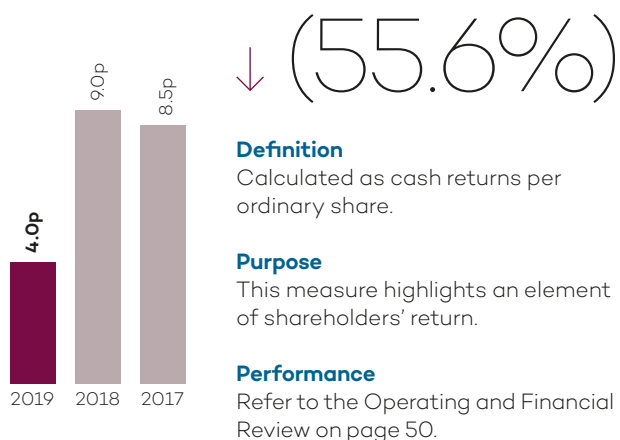
## Underlying Profit Before Tax (£m)



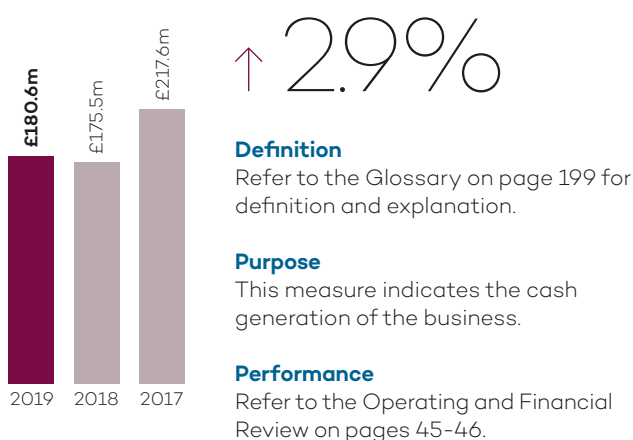
## Underlying earnings per share (pence)



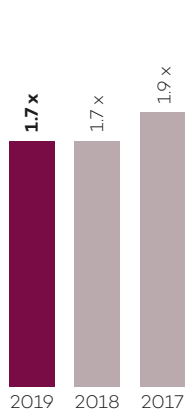
## Dividend per share (pence)



## Available operating cash flow (£m)



## Debt ratio



# 1.7x

### Definition

The ratio of bank debt net of available cash to Trading EBITDA.

### Purpose

This measure represents the Group's financial flexibility.

### Performance

Refer to the Operating and Financial Review on page 48.

## Number of members



# ↑ 105.2%

### Definition

Number of members of the Group's Membership programme, Possibilities.

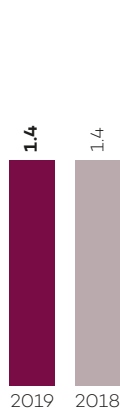
### Purpose

This metric is an important measure to track the Group's plan to grow its membership base and become a membership-led organisation.

### Performance

Reaching over 1 million members, the Group has met its unofficial target for the year.

## Average products held



# 1.4

### Definition

Calculated as the total number of core Saga products held per customer. This definition has been revised to the same basis as our policy numbers within Retail Broking.

### Purpose

This metric indicates how the Group is tracking against its aim to increase multiple product holdings within its customer base, supporting the Group's wider objective of improving the lifetime value of its customers.

### Performance

The Group held average products flat at 1.4.

## Brand net promoter score



# 25

### Definition

Calculated based on customer survey responses weighted by business units to be representative of the Saga Group.

### Purpose

This metric is an index that measures the willingness of customers to recommend products or services to others.

### Performance

Brand NPS was established in 2018 and was measured at 25. The Group aims to increase NPS scores across the business and for Saga as a whole.

# Strategic Priorities 2019/20

Saga is minded to focus on the following strategic priorities – ‘our touchstones’ – as it returns to its heritage as a direct to consumer brand, with Membership at its core.



## 1. Relaunch Retail Broking with a compelling direct proposition

Our new strategy in Insurance will take us back to our heritage by focusing on selling differentiated products and services direct to our customers.

The first step towards this is the launch of direct only, three year fixed price motor and home insurance. This allows our customers to ‘fix’ their price for three years (subject to claims and IPT).

We will deliver value to existing customers via an improved claims service-based proposition and three year fixed price insurance; and we will move towards a flatter renewal pricing structure.

Growth will be enabled by our Membership programme, Saga Possibilities, which creates a different route to direct sales; and by expanding our motor and home panels in 2019.

### Measuring success over the medium-term

- Increase in motor and home insurance sales through direct channels.
- Increase in the percentage of home new business on the higher cover level.
- Decrease in operating costs per policy.
- Increase in customer retention.
- Increase in NPS score.



## 2. Complete the transformation of Cruise

The delivery of two new, purpose built cruise ships in July 2019 and August 2020 will complete the transformation of our Cruise business.

These ships will increase our total capacity by 74% – from 1,150 to 1,998 passengers. They will have ‘best in class’ onboard facilities and state of the art technology. All cabins will have a balcony and 20% of cabins will be for single occupancy.

- EBITDA per ship.
- Increase in the Underlying Profit Before Tax margin.
- Increase in NPS score.



## 3. Accelerate the transformation of our Tour Operations business

We will accelerate the transformation of our Tour Operations business to a specialist travel company by focusing on higher-margin escorted touring and river cruises.

In short-haul we will focus on selected high-quality propositions and solo travel.

Membership is providing a low cost acquisition channel and is making a growing contribution to Travel revenues. Thirty-eight percent of those who purchase a holiday via Saga Possibilities are first time Travel customers.

- Increase in the Underlying Profit Before Tax margin.
- Increase in NPS score.



#### 4. Increase usage of and engagement with our Membership programme, Saga Possibilities

Membership is becoming an increasingly important part of our business. It provides an additional marketing channel and a way to engage with our most loyal customers more frequently.

In two trials we have proved that Membership is key to growing multiple product holdings. It is also helping to increase retention in Insurance and is making a strong contribution to Travel.

On average, Possibilities members have longer relationships with Saga than other customers and hold more products with us.

Saga Possibilities can become our main route to our customers and our focus in 2019 will be on growing member engagement.

- Increase in prompted brand consideration.
- Increase in the number of regularly engaged Possibilities members.
- Increase in the number of customers with more than one product holding.



#### 5. Complete implementation of key IT platforms

Our systems are key to our ability to personalise and target communications to our customers, improve the experience for members of Possibilities, our customers and employees, and achieve operational efficiencies.

We will continue to deliver key IT platforms to support delivery of our strategy in 2019/20.

- Complete the rollout of Adobe Marketing Cloud.
- Fully optimise the 'MySaga' digital customer journey.
- Implement the IT platforms required to enable the data strategy and analysis 'data lake'.
- Migrate home products on to the Guidewire platform.
- Go-live with Tigerbay in our Tour Operations business.



#### 6. Develop our people

We will focus on increasing employee engagement and on building a culture which promotes talent and diversity and fosters high-performance.

- Improvement in the sustained engagement score.
- Implementation of Phase 2 of the leadership development programme and targeted development programmes for our high performers.
- Increase in female representation in our 1-2 year succession pipeline.



# Over 1 million members and growing... Launched in September 2017, Possibilities is the Membership programme for Saga.

**It offers its members access to exclusive experiences, unique events, and curated offers.**

When asked, 84% of customers choose to join the programme. The success in activating customers has led to a membership base of over 1.1m Possibilities members. More than 90% of members have provided marketing consent in line with GDPR requirements.

Having gained marketing permissions, members' engagement with Possibilities emails is the highest across the Group. Unique open rates exceed 37% and the unsubscribe rate is 0.25%.

Since launch, there have been over 430,000 entries for over 300 events, including ticket offers and ballots to unique live music events, experiences, activities, arts and culture. Through member insight and feedback, we have added a number of features to the programme, namely Dining, Travel and Entertainment Possibilities.





### Dining Possibilities

A portfolio of restaurant brands providing discounts and added value offers. Since launch in October 2018, over 70,000 vouchers have been downloaded by members across 1,100 restaurants.



### Travel Possibilities

Offers across Saga's Travel and Cruise portfolio are having a positive and growing contribution to Travel revenues. To date, Travel Possibilities has delivered over 1,600 passengers, of whom more than a third are first time bookers.



### Entertainment Possibilities

Newly launched to provide exclusive member ticket offers combined with a 'price promise', plus added extras at theatres nationwide. Entertainment Possibilities will also feature additional opportunities such as back stage tours and 'meet the cast'.



### Possibilities members can enjoy:

- discounts and special treats at more than 1,000 restaurants nationwide, such as Café Rouge, Beefeater, Côte Brasserie and Bella Italia
- exclusive deals on theatre tickets for a range of shows including War Horse and Les Miserables, with a price promise guarantee
- the chance to win free balloted tickets to bespoke events and 'money can't buy' experiences, such as Lulu and The Gruffalo
- great savings on a range of Saga Insurance products, holidays and cruises
- other fantastic offers from partners such as Hello Fresh and Bloom & Wild.

### The future of Possibilities

Our programme of events and experiences will be expanded, with more exclusive events focused on members' passions.

In addition to building more experiences for members, additional focus will be placed on delivering greater value through the expansion of Dining Possibilities, offering more brands in more locations, broadening the Travel Possibilities programme to offer more destinations, and, having reviewed the performance of Entertainment Possibilities, adding more shows and experiences.

Having established both the offers and experiences component of Possibilities, the forthcoming year will see the launch of member Communities. This will be a forum on which members can share their experiences and knowledge and access unique and relevant content aligned to the pursuit of their passions.



## A fundamental shift in our Insurance model

We are relaunching our strategy in Retail Broking to focus on selling compelling, differentiated products direct to our customers. To grow the number of customers and profitability of our Retail Broking business, we need to give our customers more reasons to come direct to Saga and to remain with us.

Each element of the strategy is designed to foster growth in direct channels:

- Developing new, innovative and truly compelling insurance propositions, that are available exclusively through our direct channels, and which deliver the highest and most relevant levels of cover available in the market.
- Invest in delivering an emotive and appealing new marketing campaign through media channels that enables us to effectively reach our target customer segments.
- Leading the way by being the first UK insurer to truly reward loyalty, with a unique three year fixed price embedded into our direct insurance propositions.

These three elements, combined with the benefits that Saga Insurance customers will enjoy through Possibilities, will ensure that not only are we providing choice and excellent levels of cover, but a customer proposition that is more about value than just price.

The first major step in our direct distribution strategy is the relaunch of our motor and home insurance products.

We are introducing new levels of cover to both our motor and home insurance propositions, which will only be available direct from Saga.

These new cover levels will include not only exclusive, differentiated cover features, unique in the UK insurance market, but also a unique three year fixed price.

We know that the uncertainty of future insurance premiums is a key concern for our customers, so we have developed our three year fixed price, to give customers the opportunity to 'fix' their price for three years.

**3-Year**  
Fixed  
price



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“The price guarantee was a deciding factor.”

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“You are finally respecting loyalty, rather than favouring new customers.”

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In practice for our customers, this means that for three years, if nothing changes\*, neither will their insurance premium.

We think that our fixed price feature will enable us to stand out from the crowd in a heavily commoditised market, as we focus on rewarding, rather than penalising, the loyalty of insurance customers.

Our three year fixed price is the result of a new programme focused on innovation, and we will be the first UK insurer to offer fixed price in the UK motor insurance market.

Our initial customer research has shown us that our customers love our three year fixed price.

During customer trials, over two thirds of people offered a fixed price policy chose it over our standard motor and home insurance pricing plans.

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“It’s great to be able to lock in my next two years insurance premiums.”

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“This is UNIQUE!”

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\* not making a claim, receiving a conviction or changes in the rate of insurance premium tax



# Launching a new era in boutique, British cruising

July 2019 will herald a new era in British cruising as we launch our luxury boutique ship, Spirit of Discovery. Just 14 months later, her sister ship, Spirit of Adventure, will be launched in August 2020.

Our new ships will feature the design, cuisine and levels of service you expect from the world's finest boutique hotels. But these 'hotels' are able to take Saga guests to an array of destinations around the world.

Both ships will have a bold and adventurous style that's a testament to high-quality design and a representation of the best of British innovation and flair.

They will complete the transformation of our award winning Cruise business for both current and future Saga customers.

**Update on sales targets:**

The bookings for both Spirit of Discovery and Spirit of Adventure continue to support the Group's ambitious plans:

- Spirit of Discovery has achieved 78% of our sales target for 2019/20 departures<sup>1</sup>.
- Spirit of Adventure has achieved 25% of our sales target for 2020/21 departures<sup>1</sup>.



Note:  
1 Spirit of Discovery and Spirit of Adventure are planned to launch in July 2019 and August 2020, respectively. Sales targets cover the period from launch to the end of the financial year (31 January) and are consistent with those previously disclosed. Illustrations and descriptions are artists' impressions of how we imagine the ship will look on completion. Plans and décor are subject to change

## Spirit of Discovery

**March 2019**

Exterior and Interior

Work started to finish the fixtures and fittings on Spirit of Discovery



**May 2019**

Crew

The crew come aboard the new ship



**May 2019**

Conveyancing

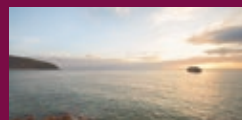
Spirit of Discovery cruises along the River Ems during a fireworks display



**June 2019**

Sea trials

The ship takes to the seas for operational and speed tests



**20 June 2019**

Final delivery

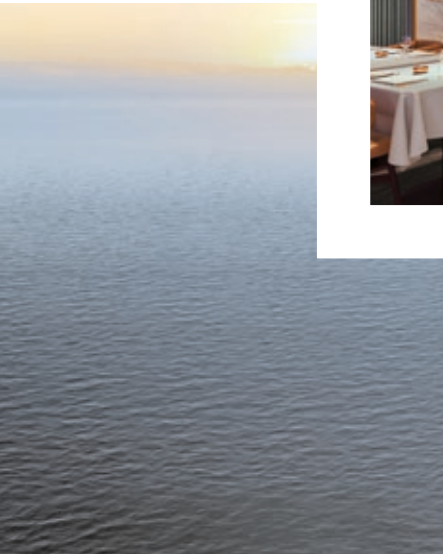
Meyer Werft sign the ship over to Saga



**The Amalfi** restaurant, one of the three speciality venues aboard Spirit of Adventure



Every cabin comes with a **balcony as standard**



**The Coast to Coast** restaurant, one of the three speciality venues aboard Spirit of Discovery



Music legend **Jools Holland** is the patron of **The Club** aboard Spirit of Discovery

**Spirit of Adventure**

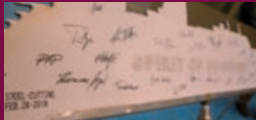
**5 July 2019**  
Naming ceremony



**10 July 2019**  
Maiden cruise  
The 13 night inaugural cruise departs from Dover



**27 March 2019**  
Steel cutting  
A ceremony signalling the start of production on Spirit of Adventure



**June 2019**  
Keel laying  
Including 'lucky' coins placed into the hull



**August 2020**  
Maiden cruise  
The 17 night inaugural cruise departs from Dover



## Non-financial information statement

The Company aims to comply with the new Non-Financial Reporting Directive requirements. The table below sets out where relevant information can be found within this annual report and summarises how the impact of processes and policies are tracked.

Reporting requirement	Policies	Monitored through	Relevant information
1. Environmental matters	<ul style="list-style-type: none"> <li>Environmental and sustainability policy</li> <li>Voluntarily report our energy performance figures to the Carbon Disclosure Project, see page 31</li> </ul>	<ul style="list-style-type: none"> <li>Annual Board review</li> <li>Risk committees throughout the Group</li> </ul>	<ul style="list-style-type: none"> <li>Carbon/Greenhouse Gas emissions, pages 31-33</li> <li>Waste reduction, page 31</li> <li>We anticipate that the launch of our new ships will see a significant reduction in our emissions, see page 31</li> </ul>
2. Employees	<ul style="list-style-type: none"> <li>Data protection policies</li> <li>Diversity and dignity policy</li> <li>Employee handbook</li> <li>Health and safety policies</li> <li>Personal standards and ethics policy</li> <li>Transgender policy</li> <li>Whistleblowing and open-door policy</li> </ul>	<ul style="list-style-type: none"> <li>Audit Committee – regular whistleblowing reports</li> <li>Audit Committee chair is whistleblowing champion and provides an annual report to the Board</li> <li>Data Governance Forum (chaired by the Head of Data Operations)</li> <li>Employee surveys</li> <li>Health &amp; Safety Committee (chaired by the Chief Risk and Compliance Officer, a member of the Group Executive Committee)</li> <li>People Committee</li> </ul>	<ul style="list-style-type: none"> <li>Business model, pages 12-13</li> <li>Chairman’s statement, pages 4-5</li> <li>Developing our people, pages 15 and 28</li> <li>Diversity and dignity policy, pages 28, 69 and 98-107</li> <li>Employee engagement, page 28</li> <li>Gender diversity, pages 28-29</li> <li>Investing in our employees, page 28</li> <li>People and culture, page 28</li> </ul>
3. Human rights	<ul style="list-style-type: none"> <li>Data protection policies</li> <li>Data retention and inventory policy</li> <li>Modern slavery statement and policy</li> </ul>	<ul style="list-style-type: none"> <li>Data Governance Forum</li> <li>Modern slavery policy and statement reviewed and approved by the Board</li> <li>Risk Committees throughout the Group</li> </ul>	<ul style="list-style-type: none"> <li>Human rights (including approach taken to modern slavery), page 29</li> </ul>
4. Social matters	<ul style="list-style-type: none"> <li>Charitable donations policy</li> <li>Corporate social responsibility policy</li> <li>Seeking and representing views of our customers</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Social Responsibility Committee</li> <li>Customer outcomes forums throughout the Group</li> <li>Saga Charitable Trust</li> </ul>	<ul style="list-style-type: none"> <li>Charity partnership with The Silver Line, page 30</li> <li>Community and social, page 30</li> <li>Customers and members representation, page 30</li> <li>Saga Charitable Trust, page 30</li> <li>Saga Populus Panel, page 30</li> <li>Vulnerable customers, page 10</li> <li>Volunteering, fundraising, matched giving and grants, page 30</li> </ul>

Reporting requirement	Policies	Monitored through	Relevant information
5. Anti-corruption and anti-bribery	<ul style="list-style-type: none"> <li>• Anti-bribery and anti-corruption policy</li> <li>• Anti-facilitation of tax evasion policy</li> <li>• Anti-fraud policy</li> <li>• Anti-money laundering and terrorist financing policy</li> <li>• Anti-sanctions policy</li> <li>• Competition policy</li> <li>• Conflict of interest policies (employees and Directors)</li> <li>• Contracts governance policy</li> <li>• Legal risk framework policy</li> <li>• Personal standards and ethics policy</li> <li>• Supplier risk management</li> <li>• Tax strategy</li> <li>• Treasury policy</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Crime, Information Security and Data Protection Committee (chaired by the Group Chief Financial Officer)</li> <li>• Regular reports to the Audit Committee and Supplier Risk Committee (chaired by the Chief Risk and Compliance Officer)</li> </ul>	<ul style="list-style-type: none"> <li>• Anti-bribery and anti-corruption, page 29</li> <li>• Audit Committee Report, pages 75-78</li> <li>• Supplier partnerships, page 12</li> </ul>
6. Business model			<ul style="list-style-type: none"> <li>• Business model, pages 12-13</li> </ul>
7. Principal risks and impact of business activity	<ul style="list-style-type: none"> <li>• Group risk policy</li> <li>• Subsidiary risk policies</li> </ul>	<ul style="list-style-type: none"> <li>• Business Continuity Committee (chaired by Chief Risk and Compliance Officer)</li> <li>• Risk Committee</li> <li>• Subsidiary board audit and risk committees</li> </ul>	<ul style="list-style-type: none"> <li>• Business interruption risk, pages 36-37</li> <li>• External regulatory landscape or political change risk, pages 36-37</li> <li>• Macro-economic climate risk, pages 36-37</li> <li>• Operation efficiency/change/innovation risk, pages 36-37</li> <li>• Principal risks and uncertainties, pages 34-37</li> <li>• Risk Committee Report, pages 79-81</li> </ul>
8. Non-financial KPIs			<ul style="list-style-type: none"> <li>• Carbon/Greenhouse Gas emissions, pages 31-33</li> <li>• Customer satisfaction, page 17</li> <li>• Employee engagement, page 28</li> <li>• Supplier partnerships, page 12</li> <li>• Vulnerable customers, page 10</li> <li>• Volunteering and fundraising, page 30</li> </ul>



Saga's approach to responsible business practices is governed by our Board. Group Executive members are accountable for delivering our main workstreams. They ensure the delivery of long-term sustainability for our customers, our people and other stakeholders, including our shareholders whilst considering the impact we have on our community, society and the environment.

**People and culture**

Our People Strategy has evolved this year in response to business challenges. There is an enhanced focus on driving for performance and building leadership capability throughout the business.

**Investing in our employee capabilities**

Twice-yearly talent reviews ensure we have the right people in the right roles across the business. We have given particular focus to our Leadership Team roles this year, ensuring clear development and succession plans are in place. This work has enabled multiple talent moves and promotions. Our leadership development programme has been a key enabler of leadership capability. Q2 of 2018 saw us launch the Future Leaders Programme to 300 first line managers, through our own learning and development team.

We have continued to support the development of our people by accessing learning available via the Apprenticeship Levy. Over 100 employees are currently working through formal qualification programmes across a range of disciplines including: Leadership and Management, Team Leading, Digital Marketing, HR, Finance, Project Management and IT. Our learning and development team continues to offer a range of skills-based courses to employees through our Learning Hub.

The impact of the development programmes is monitored and assessed through employee's objectives and the performance development review process.

**Building employee engagement**

We continue to focus on employee engagement. We have worked hard to communicate openly and well with our

employees as we recognise effective communication is a key part of building stronger levels of employee engagement. We share business news, successes and updates with employees every week and provide monthly updates on key priorities. In 2018, a full programme of roadshows was carried out by the Group Chief Executive Officer to share the revised business strategy and build confidence in the future success of Saga. A series of roadshows along with listening groups were hosted by the Group Executive.

Work was carried out to set up a People Committee to cover all areas of the business with the aim of gathering the views and opinions of Saga's workforce and providing feedback to the Board. The first meeting took place in January 2019. Our overall employee engagement scores fell to 70% in 2018/19 (2017/18: 77%). Whilst a significant improvement was seen in leadership roles, overall engagement reflected the impact of the organisational changes that were made in December 2017. The key actions taken in 2018 centred on enablement, specifically of IT systems, software and resource. A heavy investment was made in our IT systems, including an insurance database, SID, 1Insurer in our claims handling business, (CHMC), and a new travel platform.

We demanded a lot from our employees' performance in 2018, and in recognition of their contribution to the business, we awarded Free Shares up to the value of £300 to all eligible employees for the fourth year in a row.

We have continued to embed our reward principles and have kept our pay and benefits competitive and fair while managing costs. We consulted on changes to our pension schemes and proposed changes that were more sustainable for the organisation in the long-term. We have kept our defined benefit scheme open to new colleagues and encourage our employees to keep saving.

**Gender diversity**

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

**Gender diversity January 2019**

	Male		Female		Total
	Actual	%	Actual	%	
Board <sup>1</sup>	5	62	3	38	8
Senior managers <sup>2</sup>	107	64	60	36	167
Employees <sup>3</sup>	1,700	43	2,245	57	3,945
All	1,812	44	2,308	56	4,120

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)



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

Diversity and an employee base that brings different perspectives, backgrounds and ways of thinking is very important to our business. Fair consideration is given to all applications, including from those with disabilities. We make all reasonable efforts to be able to continue to employ those who become disabled during employment.

#### Human rights

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

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

#### Anti-bribery and anti-corruption

Saga has a zero tolerance approach to bribery and corruption. An anti-bribery and anti-corruption policy is in operation throughout the Group to ensure compliance with the Bribery Act 2010. We undertake regular risk assessments of our activities and destination markets, and design suitable procedures to mitigate the risk of bribery and corruption. These include undertaking due diligence before entering into new business acquisitions, material supplier contracts and joint ventures. Saga's Financial Crime, Data and Information Security Committee monitors the effectiveness of our policy and procedures, and oversight is provided by the Audit Committee as set out in the Committee report on page 77.

#### Health and safety

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

We meet our obligations through the development and implementation of suitable policies and procedures. This includes:

- risk assessments and control measures
- systems for reporting all accidents, incidents and near misses
- training programmes
- adequate resources
- employee consultation forums, including health and safety committees
- adequate supervision and planning processes in respect of maintenance works and contractor activities
- audit programmes to measure our performance and compliance with our policies, procedures and training
- support services to protect our employees' physical and mental health.

This policy applies to all business operations within the Saga Group. Beyond this, everyone in Saga has a personal responsibility for health and safety and for performing the activities they undertake in a safe manner and this is regularly communicated.

## Community and social

We are proud of our commitment to the communities in which we operate. During 2018/19, we strengthened our community support by introducing a local funding grant scheme. This allows UK registered charities, Community Amateur Sports Clubs (CASCs) and Charitable Incorporated Organisations (CIOs) within a 20-mile radius of Saga's offices to apply for funding.

We have introduced an employer-supported volunteer scheme by giving each Saga Group employee a day a year out of the office to volunteer. In 2018/19 our employees volunteered over 500 hours of community service to support local charities. The aim is to make a real difference to our communities by offering our employees both physical and skills-focused volunteer opportunities.

In 2016, we announced a three year partnership with The Silver Line, the UK's only 24-hour helpline for isolated older people. Through the support of customers, employees and the business, Saga gave almost £330k worth of support to The Silver Line in the 2018/19 year. A number of fundraising activities are planned for the final year, including a charity auction onboard one of the Spirit of Discovery shakedown cruises.

Titan Travel, Destinology and Bennetts form part of the Group. They continue to support charities which resonate with their brands or with which their employees have a strong connection. This year, Titan continued to support the Golden Lions Children's Trust, Destinology raised funds for the Bolton Hospice, Vine House and Urban Outreach, Bolton and Bennetts supported Sue Ryder, Thorpe Hall Hospice and Myton Hospice.

Our customers and employees undertook various fundraising activities during the year. Silver Fortnight, which took place during May 2018 in aid of The Silver Line, included challenge events, office-based fundraising and an on-line auction. The first £15k raised was matched by Saga.

Match funding of employee fundraising has proved very popular and is extended to employee payroll giving when in aid of The Silver Line. Our workplace lottery gathered momentum during the year and generated a donation of £10.5k for The Silver Line.

In September 2018 we held our first Charity Awards Event to acknowledge and celebrate the contribution our employees make to charitable giving. Employees were able to nominate themselves or a colleague in 'Fundraiser of the Year' and 'Volunteer of the Year' categories.

Saga was pleased to take part in the Comic Relief and Children in Need appeal nights by volunteering the use of its contact centres. Saga employees volunteered their time to process telephone donations made during the appeal nights.

In 2018, we received Silver status for our support of the armed forces. As a signatory to the Corporate Covenant, we have policies that support employees who are members of the reserve forces or whose spouses serve in our armed forces. Saga made donations to The Gurkha Welfare Trust, SSAFA, The Royal British Legion and The Royal Navy and Royal Marines Charity.

We continue to cover the UK overheads of the Saga Charitable Trust, registered charity number: 291991. The Trust provides grants to charities working in developing countries visited by our holidaymakers. Eleven grants totalling over £200k were awarded by the Trust. Projects included an outreach healthcare programme in Cambodia, training to deliver parent workshops in South Africa, equipment to furnish an IT laboratory in Zimbabwe and the running costs of a leprosy referral centre in India. The Saga Charitable Trust also acts as a conduit for funds raised for our national charity partner, The Silver Line, and our local funding grants.

We made considerable efforts during 2018 to understand how our responsible business activities can be improved in the future. As members of Business in the Community, we participated in the pilot of their Responsible Business tracker and look forward to building on the results in 2019.

### Social matters

We have represented the views of our customers and members on a wide range of issues that affect the nation's over 50s including stamp duty exemptions for downsizing, pensions freedoms employment, age discrimination in the workplace and an increase in the number of solo travellers. Saga is strictly non-political, but we do survey the opinions of our members through the Saga Populus Panel – the largest poll of over 50s opinion. This poll has been running for more than 10 years, giving us enhanced unique insight into a wide range of views that are important to our members and the wider demographic.

## Environmental Emissions

We voluntarily report our energy performance figures to the Carbon Disclosure Project (CDP) and this year have maintained a B grade despite more stringent criteria applied by CDP. Continuous improvement in our energy management has been achieved through an ongoing programme to optimise the performance of our office buildings and the behaviours of our staff.

Our biggest contributor to emissions is our shipping fleet. We anticipate a significant reduction in emissions following the launch of Spirit of Discovery in 2019 and Spirit of Adventure in 2020. Within our offices we continue to be committed to procuring green electricity and to ensuring that our suppliers are REGO backed to confirm the origins of the renewables in the mix of electricity provided. We have continued to use electrified maintenance vehicles as an important part of our maintenance fleet.

Our Group-wide Greenhouse gas emissions report is on pages 32-33.

### Waste management

We are proud that in Kent, where most of our staff are based, we have, for many years, partnered with waste management companies who recycle most of our waste. A proportion of our waste is incinerated and the energy from that is recovered and put back into the energy grid. In 2018/19 the Group recycled 88% and incinerated 12% of all office waste. No office waste in Kent goes to landfill and we continue to look at ways to improve our waste management.

On our vessels we have reduced single use plastic by bottling our own water in glass bottles and eliminating all plastic straws. We are also challenging the main suppliers to our ships to eradicate single use packaging.

### Estate management

Saga owns approximately 42 acres of land. We actively manage these estates and continue to replace and plant new or replacement trees to maintain a diverse range of flora and fauna around our offices.

In addition, we encourage wildlife through log falls, owl and other species bird boxes and timber-totem hulks which provide perfect nesting habitat for bats. We also engage with the local parish council at Sandgate and other local societies to promote use of our site for events in support of local community activities. Work has started on a community garden project engaging local volunteers.



**Greenhouse gas emissions**

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

Our total GHG emissions have increased by 1% during the 2018/19 financial year compared to the year before. Saga PLC has emitted a total of 101,307 tCO<sub>2</sub>e from fuel combustion (Scope 1 direct) and electricity purchased for our own use (Scope 2 indirect). This is equivalent to 83.7tCO<sub>2</sub>e per £m customer spend.

The overall increase in emissions is largely due to an increase in marine fuel, natural gas, and refrigerant gas consumption. This has been offset however, by the third consecutive yearly decrease in our emissions from electricity consumption.

The table below shows our GHG emissions for the year ended 31 January 2019.

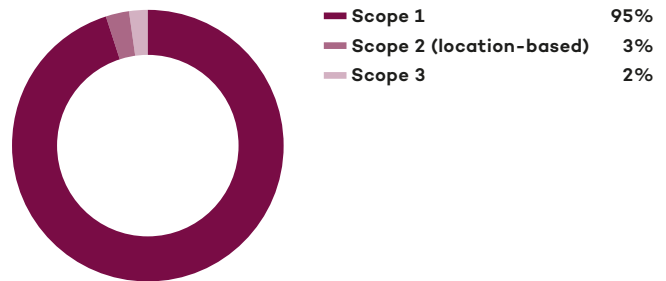
**Greenhouse gas emissions in tonnes of carbon dioxide (tCO<sub>2</sub>) or carbon dioxide equivalent (tCO<sub>2</sub>e)**

Emissions Source	2018/19 Emissions	2017/18 Emissions**
Scope 1	98,047 tCO <sub>2</sub> e	95,013 tCO <sub>2</sub> e
Scope 2 (location-based)	3,260 tCO <sub>2</sub> e	4,053 tCO <sub>2</sub> e
Total Scope 1 & 2	101,307 tCO <sub>2</sub> e	99,067 tCO <sub>2</sub> e
tCO <sub>2</sub> e per £m customer spend	83.7	82.0
Scope 2 (market-based)*	260 tCO <sub>2</sub>	221 tCO <sub>2</sub>
Scope 3	1,825 tCO <sub>2</sub>	2,758 tCO <sub>2</sub>

\* Emissions from the consumption of electricity outside the UK and emissions from purchased electricity calculated using the market-based approach using supplier-specific emission factors are reported in tCO<sub>2</sub> rather than tCO<sub>2</sub>e due to the availability of emission factors

\*\*2017/18 emissions have now been verified to ISO 14604-3 standard by our sustainability partner Carbon Credentials. They have been restated here based on the verification findings thanks to improvements in calculation methodology

**Figure 1: Total location-based emissions (2018/19)**



### 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 2018 UK Government GHG Conversion Factors for Company Reporting have been applied to calculate Scope 1, Scope 2 (location-based) and Scope 3 emissions from corresponding activity data. Supplier-specific emissions factors have been applied for the calculation of Scope 2 market-based emissions.

### Reporting boundaries and limitations

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

The GHG sources that constitute our operational boundary for the 2018/19 reporting period are:

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

Saga is now in its third year of disclosing diesel used in non-road machinery and its second year of disclosing business travel in taxis and transmission and distribution losses associated with electricity consumption. As in previous years, Scope 3 business travel emissions from rail and air have been identified, but not included in our disclosure due to a lack of accurate data. Emissions from energy paid for in service charges have been excluded due to lack of data and immateriality.

### Assumptions and estimations

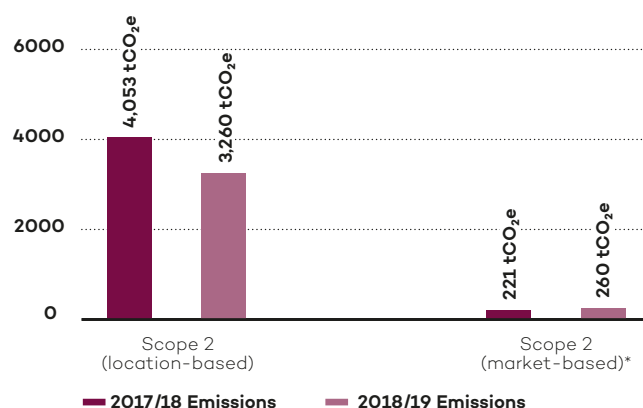
In some instances, where data is missing, values have been estimated using either an extrapolation of available data from the reporting period or data from 2017/18 as a proxy.

### Energy procurement decisions

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



Figure 1: Scope 2 electricity emissions by reporting type



Saga purchases 92% of its electricity from a 100% renewable supply from Haven Power. As in previous years, the dual reporting of our emissions in this way demonstrates that we are making efforts to reduce our climate impact through the purchase of electricity generated from cleaner sources.

### CDP

Saga made the decision in 2015 to respond to The CDP Climate Change Questionnaire to better understand and manage its climate-related impacts, risks, and opportunities. Since 2016, Saga's response has consistently scored a 'B', despite the increasingly stringent and challenging nature of the questionnaire.

### Risk governance

The Board has agreed systems and processes to govern our approach to risk management. These systems encompass ensuring that 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 that a suitable risk culture is embedded throughout Saga. Our approach and these processes are set out in more detail in the Accountability section of the Corporate Governance Statement on pages 70-74.

### Risk appetite and tolerances

Our risk appetite, reviewed annually, defines the amount and sources of risk 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.

#### Conduct

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

#### Customer growth

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

We 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 the need 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 that we feel we have the expertise to underwrite and manage and will accept non-life insurance risks in which we have relevant expertise.

We enter into certain reinsurance arrangements to reduce our exposure to large losses and any potential deterioration in claims development.

#### Commercial performance risk

We operate in a dynamic business environment and accept that we are exposed to a number of commercial performance risks. We seek to grow our business in areas which present sustainable growth opportunities and in which 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. We consider opportunities that arise in areas in which we have expertise and establish suitable risk tolerances in each case.



### Operational risk

We actively seek some logistical risks in areas in which 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. We only engage in regulated activities if 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 our employees, customers, and others who may be affected by our activities.

### Information security and cyber threat

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

### Legal and regulatory risk

We recognise that regulatory and legislative compliance is essential and we have no appetite for material or systemic breaches of regulatory or legislative requirements.

Separate risk appetite statements and risk tolerance thresholds have been created for each business in Saga, customised to their 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.

Pages 34-37 indicate the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, and also include the actions taken to manage these risks. The principal risks reflect the revised strategy of the Company and continue to be dominated by external risks from the regulatory and political landscape and internal risks in the delivery of our strategic priorities.



PRU Category	Strategic Priorities Linkage	Risk Description
Cybercrime	① ② ③ ④ ⑤	Cybercrime attacks cause breach or loss of sensitive data assets and prevent achievement of objectives.
Operational efficiency/ change/innovation	① ② ③ ④ ⑤ ⑥	The volume and complexity of business changes and priorities across the Group are not managed effectively or are not delivered due to insufficient resource or performance by third party partners.
Insurance landscape	①	Inability to compete effectively with insurance competitors due to higher than expected net rates from the panel or lack of differentiated and compelling insurance propositions.
Macro-economic climate	① ② ③ ④ ⑤	The outcome of Brexit and its effect on the economic and political environment impacts on businesses across the Group.
Business interruption	② ③	Reputational damage arising from ineffective handling of interruption incidents, particularly in the Travel division.
Travel landscape	② ③	Inability to drive demand to deliver the growth of core customers and first-time buyers.
External regulatory landscape or political change	① ② ③	The landscape of legislation faced by the Group and within the various industries within which it operates is extensive, which increases the risk of non-compliance with laws and changes to laws.
	① ② ③ ④	The cost of customer acquisition is higher than budgeted due to a decrease in direct marketing permissions as a result of GDPR.
	① ⑤	Changes in regulation could impact on the profitability of our products.



## Mitigations

## Future Outlook

## Key

Continued investment in industry leading tools and technologies to prevent cyber-attacks, benchmarking and external penetration tests.



1 Relaunch Retail Broking with a compelling direct proposition

Oversight and prioritisation provided by the Group Change Management Function; external and internal independent assurance reviews of key projects; Board and Group Executive review and oversight of key project metrics including quality and delivery measures.



2 Complete the transformation of Cruise

3 Accelerate the transformation of our Tour Operations business

Quota share arrangement; claims spend closely monitored; anti-fraud detection controls to get better net rates from the panel; 'rapid result' trials and product innovation focused on customers' needs.



4 Increase usage of and engagement with our Membership programme, Saga Possibilities

5 Complete implementation of key IT platforms

6 Develop our people

Brexit risks are monitored across the Group; action taken to minimise potential disruption to Tour Operations and Cruise businesses.



Full and regularly tested emergency plans in place for all Tour Operations businesses; full resilience review and plans in place for the ships; New ship in 2019.



Continued focus on trading and marketing efficiency and customer propositions; Possibilities paid for Membership launched; cross-sell opportunities from Possibilities Membership scheme; new Insurance proposition and products; new cruise ships to increase first-time buyers.



Legal team in place with industry experience; review of key legal risks by 2nd and 3rd line of defence functions; external lawyers used.



Possibilities Membership scheme; above the line advertising and investment for 2019.



Continued investment in pricing strategy; product governance reviews of products for value for money; new insurance products and propositions.



## Operating and Financial Review

The Group has reported Underlying Profit Before Tax of £180.3m, a decrease of 5.4% in comparison to the prior year. While this is in line with previously issued guidance, and Underlying Profit Before Tax of the Travel division is in line with expectations, Insurance results have been mixed. Specifically, Underwriting has benefited from an exceptionally high level of reserve releases but this has been offset by reduced profitability from the Retail Broking business.

Given the long-term trends faced by the business, and the more recent challenges in Retail Broking, the Board and the management team have undertaken a thorough review of the outlook and strategy for the Group. This review has led to two main conclusions:

- The Group needs to refocus its strategy, returning to Saga's heritage as a direct to consumer brand with Membership at its core.
- Due to the ongoing pressures on broking margins; and anticipated reductions in renewal pricing, the future profitability of Retail Broking, and the Group as a whole, will in the near-term be significantly lower than previously projected.

The reduction in earnings expectations for Retail Broking has led to a re-assessment of the carrying value of the goodwill relating to the Group's Insurance operations, resulting in a non-cash impairment charge of £310m, and leading to an overall loss before tax of £134.6m, and a loss after tax of £162m.

The Group reassessed the level of the dividend and future dividend policy, considering projected debt levels over the next five years. While Saga continues to benefit from a highly cash generative business model, and a secure and long-term capital structure, action is being taken now to retain the Group's financial strength and flexibility. This has led the Board of Directors to propose a reduction in the final dividend per share from 6.0p to 1.0p, which reduces the full year dividend per share from 9.0p to 4.0p. The Group is now targeting a payout ratio of around 50% of earnings over the next few years.

While these are difficult steps, the Group starts the 2019/20 year with a clear direction and is investing to support its new strategy.

## Operating Performance

### Group Income Statement

£m	12m to Jan 2019	Growth	12m to Jan 2018 (restated) <sup>1</sup>
<b>Revenue<sup>2</sup></b>	<b>841.5</b>	<b>(2.2%)</b>	<b>860.2</b>
<b>Underlying Profit Before Tax<sup>3</sup></b>			
Total Retail Broking (earned)	105.8	(19.1%)	130.7
Underwriting	86.7	9.3%	79.3
Total Insurance	192.5	(8.3%)	210.0
Travel	21.1	2.4%	20.6
Emerging Businesses	3.1	2875%	0.8
Central Costs	(18.5)	21.5%	(26.7)
Net finance costs <sup>4</sup>	(11.7)	6.4%	(12.5)
	<b>180.3</b>	<b>(5.4%)</b>	<b>190.6</b>
Net fair value gains/(losses) on derivatives	1.0		(0.6)
Debt issue costs	–		(4.3)
Restructuring costs	–		(4.8)
Impairment of cruise ships	(5.9)		–
Impairment of goodwill	(310.0)		–
<b>(Loss)/profit before tax from continuing operations</b>	<b>(134.6)</b>	<b>(174.4%)</b>	<b>180.9</b>
Tax expense	(27.4)	19.2%	(33.9)
Loss after tax for the year from discontinued operations	–		(7.6)
<b>(Loss)/profit after tax</b>	<b>(162.0)</b>	<b>(216.2%)</b>	<b>139.4</b>
<b>Basic earnings per share:</b>			
Underlying earnings per share from continuing operations <sup>3</sup>	13.1p	(5.1%)	13.8p
Earnings per share from continuing operations	(14.5p)	(210.7%)	13.1p
Earnings per share	(14.5p)	(216.4%)	12.5p

#### Notes:

1 The Group has adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments and is reporting its performance for the 12 months to 31 January 2019 against a restated comparative period for the 12 months to 31 January 2018 under these new standards. For further details, see note 37 on pages 189-191

2 Revenue is stated net of ceded reinsurance premiums earned on business underwritten by the Group of £136.0m (2018: £139.9m)

3 Alternative Performance Measure – refer to the Glossary on page 199 for definition and explanation

4 Net finance costs exclude net fair value gains/(losses) on derivatives and IAS19R pension interest costs

The Group's business model is based on providing high-quality and differentiated products to its target demographic, predominantly focused on Insurance and Travel.

The Insurance business operates mainly as a broker, sourcing underwriting capacity from selected third party insurance companies, and, for motor and home, also from the Group's in-house underwriter. Travel is comprised of Tour Operating and Cruising. The Cruise business is undergoing a significant transformation, with the replacement of its two existing ships over the next 18 months. Emerging Businesses are at an earlier stage of development, and principally comprise Personal Finance and domiciliary Healthcare.

### Revenue

Revenue decreased by 2.2% to £842m (2018: £860m) due to a decrease in Retail Broking revenues, as lower-margin new business policies replaced higher-margin renewal policies, partially offset by increases in Cruising revenue. Total customer spend<sup>3</sup> with Saga was broadly stable at £1,210m (2018: £1,209m). This includes gross written premiums and insurance premium tax.

Total customer spend<sup>3</sup> reconciles to revenue as follows:

£m	12m to Jan 2019	Growth	12m to Jan 2018 (restated)
<b>Total customer spend<sup>3</sup></b>	<b>1,210.1</b>	<b>0.1%</b>	<b>1,208.8</b>
Net premiums paid to insurance underwriters	(296.6)		(278.3)
Insurance premium tax	(72.0)		(70.3)
<b>Revenue<sup>2</sup></b>	<b>841.5</b>	<b>(2.2%)</b>	<b>860.2</b>

### Underlying Profit Before Tax<sup>3</sup>

Underlying Profit Before Tax decreased by 5.4% to £180.3m (2018: £190.6m).

This was primarily due to a £24.9m reduction in Retail Broking, resulting from a decline in margins and a £8.0m reduction in the 'written to earned' benefit, offset by a £7.4m increase in Underwriting, and a £5.9m improvement in Emerging Businesses and Central Costs.

Net finance costs in the year were £11.7m, a decrease of 6.4% on the previous year (2018: £12.5m). This was due to an increase in capitalised borrowing costs, due to down-payments on the new cruise ships.

### Loss before tax from continuing operations

Loss before tax from continuing operations was £134.6m for the year, mainly resulting from the £310m impairment of goodwill relating to the Group's Insurance operations. In addition, a review of the residual values of the two existing cruise ships at 31 January 2019 has resulted in a non-cash impairment charge of £5.9m. The prior year included costs associated with the unamortised facility fees of previous banking facilities and one-off restructuring costs.

### Tax expense

The Group's tax expense for the year was £27.4m (2018: £33.9m) representing an effective tax rate of 19.4% before the impairment of goodwill and release of associated deferred tax (2018: 18.7%). The increase in the effective tax rate is due to one-off corporation and deferred tax releases in the prior year.

### Discontinued operations

The loss after tax from discontinued operations in the prior year related to the impairment of all remaining deferred consideration from the sale of Allied Healthcare, which completed in the year ended 31 January 2016.

### Earnings per share

The Group's underlying Earnings Per Share from continuing operations were 13.1p (2018: 13.8p). The Group's Earnings Per Share were a loss of 14.5p (2018: profit of 12.5p). Earnings Per Share from continuing operations for the same period of a loss of 14.5p (2018: profit of 13.1p).

### Retail Broking

The Retail Broking business provides tailored insurance products and services, principally motor, home, private medical and travel insurance. Its role is to price the policies and source the lowest cost of risk, whether through the panel of home and motor underwriters or through solus arrangements for private medical and travel insurance. The Group's in-house insurer, Acromas Insurance Company Limited (AICL), sits on the motor and home panels and competes for that business with other panel members on equal terms. If underwritten by a third party, the product is presented as a Saga product and the Group will always manage the customer relationship.

Retail Broking profit before tax on a written basis (which excludes the impact of the written to earned adjustment) reduced to £106.6m from £123.5m, and on an earned basis (which includes the impact of the written to earned adjustment) reduced to £105.8m from £130.7m. As previously indicated, prior year results on an earned basis benefited from a £7.2m 'written to earned' accounting adjustment that was one-off in nature.

The reduction in profit before tax on a written basis was due to a £24.6m reduction in written gross profit, after also deducting marketing expenses. This was partially offset by a £7.7m improvement in other operating expenses, as the Group achieved cost saving targets. The reduction in written gross profit, after marketing expenses, is due mainly to home and motor insurance (£19.1m), with a lower impact from other business (£5.5m). The decline in other broking is due to recognition of a one-off loss on a specific contract.

The lower gross margin, after marketing expenses, on home and motor insurance is due to a £11m decline in Saga branded new business profitability, a £5m reduction in Saga branded renewal profitability, and a £3m decline in Bennetts and Direct Choice. The decline in renewal profitability was expected and is mainly a function of a decline in the size of the renewal book due to lower new business sales in the prior year, as well as a reduction in motor insurance persistency.

During the 2018/19 year, the Group consciously sought to increase Saga branded home and motor new business to stabilise the overall policy count after several years of decline. While this was broadly achieved, the cost of doing so was significantly higher than expected. This was mainly because of an increase in lower-margin business sourced from price comparison websites, a decline in motor direct new business, an increase in customer acquisition costs and competitive market conditions, among other factors.

The challenges across the Broking business are not new and have in practice been building in recent years. Nonetheless, the experience of the last 12 months has demonstrated that these challenges require a fundamental change of approach. While a further reduction in margins is expected from 2018/19 levels in the next year, the Group is now implementing a detailed strategic plan that will create a stronger platform for future growth in both policy count and profits.

£m	12m to Jan 2019					12m to Jan 2018 (restated)			
	Motor Broking	Home Broking	Other Broking	Total	Growth	Motor Broking	Home Broking	Other Broking	Total
GWP									
Broked	132.9	161.4	123.0	417.3	6.0%	105.4	164.3	123.9	393.6
Underwritten	219.0	0.0	4.1	223.1	(13.8%)	254.0	0.0	4.7	258.7
	<b>351.9</b>	<b>161.4</b>	<b>127.1</b>	<b>640.4</b>	<b>(1.8%)</b>	<b>359.4</b>	<b>164.3</b>	<b>128.6</b>	<b>652.3</b>
Broker revenue	30.7	43.7	44.4	118.8	(20.6%)	42.3	52.9	54.5	149.7
Instalment revenue	7.5	2.9	0.1	10.5	4.0%	7.1	2.8	0.2	10.1
Add-on revenue	27.9	10.6	0.1	38.6	(5.4%)	28.9	11.8	0.1	40.8
Other revenue	43.7	17.3	24.2	85.2	13.4%	39.5	13.9	21.7	75.1
<b>Written revenue</b>	<b>109.8</b>	<b>74.5</b>	<b>68.8</b>	<b>253.1</b>	<b>(8.2%)</b>	<b>117.8</b>	<b>81.4</b>	<b>76.5</b>	<b>275.7</b>
<b>Written gross profit</b>	<b>107.6</b>	<b>74.5</b>	<b>55.9</b>	<b>238.0</b>	<b>(8.9%)</b>	<b>115.3</b>	<b>81.4</b>	<b>64.6</b>	<b>261.3</b>
Marketing expenses	(20.9)	(7.1)	(8.8)	(36.8)	(3.7%)	(17.5)	(6.0)	(12.0)	(35.5)
Other operating expenses	(51.9)	(22.3)	(20.4)	(94.6)	7.5%	(58.5)	(22.7)	(21.1)	(102.3)
<b>Written Underlying PBT</b>	<b>34.8</b>	<b>45.1</b>	<b>26.7</b>	<b>106.6</b>	<b>(13.7%)</b>	<b>39.3</b>	<b>52.7</b>	<b>31.5</b>	<b>123.5</b>
Written to earned adjustment	(0.8)	–	–	(0.8)	(111.1%)	3.6	3.6	–	7.2
<b>Earned Underlying PBT</b>	<b>34.0</b>	<b>45.1</b>	<b>26.7</b>	<b>105.8</b>	<b>(19.1%)</b>	<b>42.9</b>	<b>56.3</b>	<b>31.5</b>	<b>130.7</b>



Thousands	12m to Jan 2019				Growth	12m to Jan 2018 (restated)			
	Motor Broking	Home Broking	Other Broking	Total		Motor Broking	Home Broking	Other Broking	Total
Number of policies sold <sup>5</sup>									
Core	1,237	683	284	2,204	(3.1%)	1,281	679	314	2,274
Add-ons	1,488	560	10	2,058	(3.9%)	1,572	559	10	2,141
	2,725	1,243	294	4,262	(3.5%)	2,853	1,238	324	4,415
Core policies sold <sup>5</sup>									
Saga branded	964	683	284	1,931	(2.5%)	988	679	314	1,981
Non-Saga branded	273	–	–	273	(6.8%)	293	–	–	293
	1,237	683	284	2,204	(3.1%)	1,281	679	314	2,274
Core policies sold <sup>6</sup>									
Saga branded	964	1,190	284	2,438	(2.0%)	988	1,186	314	2,488
Non-Saga branded	273	–	–	273	(6.8%)	293	–	–	293
	1,237	1,190	284	2,711	(2.5%)	1,281	1,186	314	2,781
Third party panel share <sup>7</sup>	23.7%				6.7%	17.0%			

5 Combined buildings and contents home core policies count as one policy

6 Combined buildings and contents home core policies count as two policies

7 Third party Underwriter share of the motor panel for Saga branded policies

### Motor Broking

Gross written premiums decreased by 2.1% due to a 3.4% reduction in core policies, partially offset by an increase in average gross written premiums. Gross written premiums from business underwritten by AICL decreased by 13.8% to £219.0m (2018: £254.0m), reflecting the growing maturity of the panel.

Written gross profit minus marketing expenses was £86.7m (2018: £97.8m), contributing £70/policy (2018: £76/policy). The decline was due to the higher proportion of new business in the overall motor book, together with lower profitability of new business. The lower profitability of new business was due to: a higher proportion of new business from price comparison websites; the impact of GDPR on direct channels; and a highly competitive market. This impact was partially offset by a stable contribution from the renewal book, with a small increase in profit per policy offset by a lower number of renewal policies as persistency reduced to 62.0% (2018: 65.4%).

Written marketing expenses have increased by 19.4%, reflecting an increase in new business volumes and a change in mix towards price-comparison websites. This has led to marketing costs per policy increasing to £17 compared to £14 in the prior year.

Overall written Underlying Profit Before Tax has decreased by 11.5% to £34.8m (2018: £39.3m).

The reduction in the written to earned adjustment in the current period is due to the Group no longer underwriting any add-on motor products following the outsourcing of underwriting these products at the end of 2016.

### Home Broking

Gross written premiums decreased by 1.8% due to lower average gross written premiums on a stable number of core policies.

Written gross profit minus marketing expenses was £67.4m (2018: £75.4m), on a per policy basis this was £99/policy (2018: £111/policy). The decline was due to lower margins on the renewal book as net rates increased and a higher proportion of new business. As was the case with the motor product, the highly competitive market, change in channel mix and an increase in the acquisition costs from direct channels impacted new business profitability.

Written marketing expenses have increased by 18.3%, reflecting an increase in new business volumes, a change in mix towards price-comparison websites and an increase in acquisition costs for direct business. This has led to marketing costs per policy increasing to £10 compared to £9 in the prior year.

The reduction in the written to earned adjustment in the current period is due to the Group no longer underwriting any add-on home products following the outsourcing of the underwriting of these products at the end of 2016.

### Other Broking

Other insurance broking business is primarily comprised of private medical insurance (PMI) and travel insurance. These products have been designed for Saga customers and play an important role in deepening the Group's relationship with them.

The Group incurred a £5.1m loss on the PMI product, as a result of the adverse impact of prior year claims experience on profit share arrangements. Increasing claims frequency also had a smaller impact on current year trading. Following changes to policy terms, including an approach that improves customer outcomes and usually reduces costs, claims experience has now improved. As a result, this charge is not expected to recur.

Travel insurance profitability was marginally up against the prior year due to a higher contribution per policy, offset by lower policy volumes. This was due to lower new business volumes in an extremely competitive market.

Other revenue includes the results of the credit hire business, which has performed well in the year.

### Insurance underwriting

£m	12m to Jan 2019				12m to Jan 2018 (restated)			
	Reported	Quota Share	Underlying	Growth	Reported	Quota Share	Underlying	
Net earned premium	80.8	(124.0)	204.8	(5.0%)	84.2	(131.3)	215.5	
Other revenue	12.5	10.3	2.2	(78.2%)	14.8	4.7	10.1	
<b>Revenue</b>	<b>A</b>	<b>93.3</b>	<b>(113.7)</b>	<b>207.0</b>	<b>(8.2%)</b>	<b>99.0</b>	<b>(126.6)</b>	<b>225.6</b>
Claims costs	<b>B</b>	(73.1)	108.6	(181.7)	6.0%	(79.0)	114.3	(193.3)
Reserve releases	<b>C</b>	71.1	(6.8)	779	29.8%	60.0	0.0	60.0
Claims handling and levies	<b>D</b>	(6.3)	11.5	(17.8)	18.3%	(9.0)	12.8	(21.8)
	<b>E</b>	(8.3)	113.3	(121.6)	21.6%	(28.0)	127.1	(155.1)
<b>Gross profit</b>		<b>85.0</b>	<b>(0.4)</b>	<b>85.4</b>	<b>21.1%</b>	<b>71.0</b>	<b>0.5</b>	<b>70.5</b>
Operating expenses	<b>F</b>	(2.5)	4.3	(6.8)	(23.6%)	(2.3)	3.2	(5.5)
Investment return		4.2	(5.7)	9.9	(39.6%)	10.6	(5.8)	16.4
Quota share net cost		0.0	1.8	(1.8)	14.3%	0.0	2.1	(2.1)
<b>Underlying Profit Before Tax</b>		<b>86.7</b>	<b>-</b>	<b>86.7</b>	<b>9.3%</b>	<b>79.3</b>	<b>-</b>	<b>79.3</b>
Reported loss ratio	<b>(B+C)/A</b>	2.1%		50.1%	(9.0%)	19.2%		59.1%
Expense ratio	<b>(D+F)/A</b>	9.4%		11.9%	(0.2%)	11.4%		12.1%
Reported COR	<b>(E+F)/A</b>	11.6%		62.0%	(9.2%)	30.6%		71.2%
Pure COR	<b>(E+F-C)/A</b>	87.8%		99.7%	1.9%	91.2%		97.8%
Number of earned policies				839k	(8.4%)			916k

The Group's in-house underwriter AICL continues to play an important role on the motor panel, providing a source of competitively priced risk, primarily focused on lower risk drivers. AICL also underwrites a portion of the home panel, although all the risk in the home insurance business is passed on to a third party insurance company.

Excluding the impact of the quota share reinsurance agreement, Underwriting revenue decreased by 8.2% to £207.0m (2018: £225.6m) as AICL wrote a lower number of policies, as external panel members won a greater share compared with the prior year.

Also excluding the impact of the quota share, the Underwriting business saw an increase in the pure combined operating ratio to 99.7% (2018: 97.8%). This was due to higher than average returns on profit and loss sharing agreements in the prior year.

Reserve releases of £77.9m (2018: £60.0m) have resulted in a reported combined operating ratio of 62.0% (2018: 71.2%), excluding the impact of the quota share treaty. The Group retains economic interest in motor reserve releases. To the extent they are commuted under the quota share arrangement they are recognised within 'other revenue' as a profit share.

£m	12m to Jan 2019				12m to Jan 2018		
	Reported	Quota Share	Underlying	Growth	Reported	Quota Share	Underlying
Motor insurance	68.0	(9.7)	77.7		64.0	–	64.0
Home insurance	0.2	–	0.2		(1.2)	–	(1.2)
Other insurance	2.9	2.9	–		(2.8)	–	(2.8)
	71.1	(6.8)	77.9	29.8%	60.0	–	60.0

The high level of reserve releases in both financial years is due to continued strong claims management and favourable claims development experience. In particular, experience on large and small personal injury claims has been very positive.

In addition, £30m of the reserve releases in the year have arisen from recognition of improved development patterns within the actuarial 'best estimate' reserving methodology (2018: £20m). While there has been no change in the reserve margin held over best estimate in percentage terms, the declining level of absolute reserves, the changes made to best estimate reserving, and the unusually low level of large reported losses in the year mean that it is highly unlikely that reserve releases will continue at 2017/18 or 2018/19 levels.

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

The investment return decreased by £6.5m to £9.9m (2018: £16.4m). This was largely due to a profit on sale of bonds in the prior year, coupled with a lower yield on a smaller investment portfolio. The lower yield resulted from historical fixed income investments that have matured, as the funds are reinvested at current market rates. Total investments have reduced as surplus solvency capital has been released, which is due to continued favourable claims experience.

## Travel

£m	12m to Jan 2019				12m to Jan 2018 (restated)		
	Tour Operations	Cruise	Total Travel	Growth	Tour Operations	Cruise	Total Travel
<b>Revenue</b>	<b>360.8</b>	<b>96.6</b>	<b>457.4</b>	<b>1.9%</b>	<b>360.5</b>	<b>88.2</b>	<b>448.7</b>
<b>Gross profit</b>	<b>70.2</b>	<b>23.1</b>	<b>93.3</b>	<b>0.5%</b>	<b>69.8</b>	<b>23.0</b>	<b>92.8</b>
Marketing expenses	(19.3)	(9.5)	(28.8)	(9.9%)	(18.4)	(7.8)	(26.2)
Other operating expenses	(36.8)	(6.8)	(43.6)	5.6%	(37.4)	(8.8)	(46.2)
Investment return	0.1	0.1	0.2	0.0%	0.1	0.1	0.2
<b>Underlying Profit Before Tax</b>	<b>14.2</b>	<b>6.9</b>	<b>21.1</b>	<b>2.4%</b>	<b>14.1</b>	<b>6.5</b>	<b>20.6</b>
Average revenue per passenger (£)	2,050	3,715	2,264	4.9%	1,959	3,675	2,157
Holidays passengers ('000)							
Stays	80		80	(7.0%)	86		86
Escorted tours	64		64	(4.5%)	67		67
River cruise	22		22	4.8%	21		21
Third party ocean cruise	10		10	0.0%	10		10
	176		176	(4.3%)	184		184
Cruise passengers ('000)		26	26	8.3%		24	24
Cruise passenger days ('000)		334	334	3.4%		323	323
Load factor		82%	82%	(1.2%)		83%	83%
Per diems (£)		262	262	5.2%		249	249

The Travel business has had another solid year of trading. It achieved growth in both revenue and profit, which are up by 1.9% and 2.4%, respectively.

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The Tour Operations business generated revenue of £360.8m (2018: £360.5m) with 5.1% higher gross margin per passenger offsetting 4.3% lower departing passenger numbers. The product range offered in the year has been rationalised to reduce short haul stays in favour of higher margin escorted touring, river and ocean cruise products. Gross profit margin was 19.5% (2018: 19.4%). The marketing spend within Tour Operations increased by £0.9m compared to the previous year to drive passenger bookings in 2019, partly offset by other operating cost efficiency savings.

Underlying Profit Before Tax from Tour Operations is slightly higher than the prior period at £14.2m (2018: £14.1m), with a stable net profit margin of 3.9%.

The Saga Cruise business delivered a 9.5% increase in revenue to £96.6m (2018: £88.2m) reflecting an increase in passenger days of 11k including fewer maintenance days and an increase in per diems as demand for Saga Pearl II in her final year was higher than expected. There were no scheduled maintenance days in the year compared with 19 days of maintenance on the Saga Pearl II and 20 days of maintenance on the Saga Sapphire in the prior year.

Underlying Profit Before Tax from the Cruise business was £6.9m (2018: £6.5m). Revenue per diem improvements have offset £2m of additional fuel costs, net of fuel hedges, arising from higher market prices in the year. The increased marketing spend was expected and supports demand for the new ships. This was offset by cost savings from operational efficiencies.

### Forward Travel sales

Tour Operations booked revenue for 2019/20 is currently 3.4% down on prior year and has been impacted by the recent market weaknesses particularly in short haul holidays. Brexit uncertainty has been a significant contributor to this shortfall and booked revenues were 7.6% down in the 12 weeks to 23 March 2019. However, the mix of business continues to move to higher margin and more differentiated products, notably escorted tours, rivers and third party ocean cruising.

Cruise ticket revenues and passengers for 2019/20 departures are up 17.7% and 17.8% respectively. This reflects the requirement to fill the additional capacity of the first new ship, Spirit of Discovery, as the Saga Pearl II exits service. The increase in capacity days is 19% weighted to quarters 3 and 4 as the business sees the full impact of the larger new 999 berth vessel.

### Trading to week ended 23 March 2019

	2019/20 departures			2020/21 departures		
	2019/20	Growth	2018/19	2019/20	Growth	2018/19
Tour operations revenue (£m)	271.1	(3.5%)	280.7	22.6	41.3%	16.0
Tour operations passengers ('000)	126.9	(7.6%)	137.3	7.7	42.6%	5.4
Cruise ticket revenue (£m)	92.0	17.8%	78.1	43.3	2.1%	42.4
Cruise passenger days ('000)	347.7	17.8%	295.1	167.3	4.9%	159.5

### Emerging Businesses and Central Costs

£m	12m to Jan 2019				12m to Jan 2018 (restated)			
	Emerging Businesses	Central Costs	Total	Growth	Emerging Businesses	Central Costs	Total	
Revenue:								
Personal Finance	8.2	–	8.2	6.5%	7.7	–	7.7	
Healthcare	6.0	–	6.0	7.1%	5.6	–	5.6	
Media – Saga Magazine & printing	18.6	–	18.6	31.9%	14.1	–	14.1	
Other	–	1.3	1.3	(40.9%)	0.6	1.6	2.2	
<b>Total revenue</b>	<b>32.8</b>	<b>1.3</b>	<b>34.1</b>	<b>15.2%</b>	<b>28.0</b>	<b>1.6</b>	<b>29.6</b>	
<b>Gross profit</b>	<b>13.8</b>	<b>2.2</b>	<b>16.0</b>	<b>6.0%</b>	<b>13.0</b>	<b>2.1</b>	<b>15.1</b>	
Operating expenses	(10.7)	(30.4)	(41.1)	(17.8%)	(10.0)	(24.9)	(34.9)	
Profit on sale of property	–	3.9	3.9		–	–	–	
Share of loss on joint venture	–	–	–		(2.2)	–	(2.2)	
IAS19R pension charge	–	(0.4)	(0.4)	92.7%	–	(5.5)	(5.5)	
Net finance costs	–	(11.7)	(11.7)	6.4%	–	(12.5)	(12.5)	
<b>Underlying Profit/(Loss) Before Tax</b>	<b>3.1</b>	<b>(36.4)</b>	<b>(33.3)</b>	<b>16.8%</b>	<b>0.8</b>	<b>(40.8)</b>	<b>(40.0)</b>	

Revenue from Emerging Businesses (which includes Personal Finance, Healthcare Services and the Media businesses) increased by 17.1% to £32.8m (2018: £28.0m), which was largely due to increased revenue from the Group's mailing business.



Profit from Emerging Businesses improved by £2.3m to £3.1m (2018: £0.8m), which was mainly due to £2.2m of losses in the prior year from the impairment of the discontinued Investment Services joint venture.

Central operating expenses increased to £30.4m (2018: £24.9m) reflecting higher depreciation and amortisation from the investment in IT platforms over the past two years, increased investment in Membership, and also due to a significantly reduced management bonus payout for the 2017/18 financial year.

Following the restructuring programme at the end of 2017, the central cost base reduced by £5m, and those savings were passed on to the trading divisions in the form of lower recharges for shared services.

Central costs also include some one-time impacts in both years. For the 2018/19 year this relates to a one-off £3.9m profit on disposal from the sale of one of the Group's properties. The preceding year was adversely impacted by an exceptional £5.5m IAS19R pension charge following the completion of the triennial review of the Group's defined benefit pension scheme.

### Cash flow and liquidity

Available operating cash flow<sup>3</sup> is made up of the unrestricted cash flows from Retail Broking, Emerging Businesses and Central Costs, plus any dividends paid by restricted businesses, AICL and Travel. As well as a regulatory restriction on the cash within the Travel business, the initial instalments for the Spirit of Discovery and Spirit of Adventure have until now been funded from Travel cash. Therefore, until both ships are delivered, Travel is not expected to contribute to the Group's available operating cash flow.

The Group delivered a strong cash flow performance in the year to 31 January 2019, achieving an available operating cash flow of £180.6m, 78.1% of Trading EBITDA. Operating cash flow increased by £5.1m compared to the previous year, due to increased dividends from AICL and a positive working capital inflow that is expected to reverse in the 2019/20 financial year. This was partially offset by the reduction in available Trading EBITDA, which is due to reduced earnings from the Retail Broking business.

As a result of the high level of underwriting profitability, AICL dividends increased from £70m in the year to 31 January 2018 to £85m in the last financial year. Although AICL's solvency II coverage remains strong at 148% (2018: 171%), reduced levels of reserve releases will lead to a reduction in future dividend payouts.

Offsetting this was a £6.5m subordinated loan to the Travel business to maintain its regulatory solvency capital whilst investment in the new ships continues. The Group injected a further £25m of cash into the Travel business in February 2019 to support the funding of the two ships.

### Available Cash Flow

£m	12m to Jan 2019	Growth	12m to Jan 2018 (restated)
Retail Broking Trading EBITDA <sup>3</sup>	116.7	(170%)	140.6
Underwriting Trading EBITDA <sup>3</sup>	87.2	10.4%	79.0
Travel Trading EBITDA <sup>3</sup>	41.1	6.5%	38.6
Emerging Businesses and Central Costs Trading EBITDA <sup>3</sup>	(13.7)	(90%)	(7.6)
<b>Group Trading EBITDA<sup>3</sup></b>	<b>231.3</b>	<b>(7.7%)</b>	<b>250.6</b>
Less Trading EBITDA <sup>3</sup> relating to restricted businesses	(128.3)	(91%)	(117.6)
Intra-group transfers from restricted businesses	78.5	12.1%	70.0
Working capital and non-cash items	199	1,758.3%	(1.2)
Capital expenditure funded with available cash	(20.8)	20.9%	(26.3)
<b>Available operating cash flow<sup>3</sup></b>	<b>180.6</b>	<b>2.9%</b>	<b>175.5</b>
Available operating cash flow %	78.1%		70.0%

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

	12m to Jan 2019 £m	12m to Jan 2018 (restated) £m
Net cash flow from operating activities (reported)	138.0	135.2
Exclude cash impact of:		
Trading of restricted divisions	(68.7)	(56.0)
Non-trading costs	5.5	8.7
Interest paid	13.3	11.1
Tax paid	34.8	32.8
	(15.1)	(3.4)
Net cash released from restricted divisions	78.5	70.0
Include capital expenditure funded from available cash	(20.8)	(26.3)
<b>Available operating cash flow<sup>3</sup></b>	<b>180.6</b>	<b>175.5</b>

### Trading EBITDA reconciles to (loss)/profit after tax as follows:

£m	12m to Jan 2019	Growth	12m to Jan 2018 (restated)
<b>Trading EBITDA<sup>3</sup></b>	<b>231.3</b>	<b>(7.7%)</b>	<b>250.6</b>
Depreciation & amortisation (excluding acquired intangibles)	(33.0)		(33.9)
Non-trading costs	(2.3)		(3.4)
Amortisation of acquired intangibles	(3.6)		(4.7)
Pension charge IAS19R <sup>8</sup>	(0.4)		(5.5)
Net finance costs <sup>4</sup>	(11.7)		(12.5)
<b>Underlying Profit Before Tax<sup>3</sup></b>	<b>180.3</b>	<b>(5.4%)</b>	<b>190.6</b>
Net fair value gains/(losses) on derivatives	1.0		(0.6)
Debt issue costs	–		(4.3)
Restructuring costs	–		(4.8)
Impairment of cruise ships	(5.9)		–
Impairment of goodwill	(310.0)		–
<b>(Loss)/profit before tax from continuing operations</b>	<b>(134.6)</b>	<b>(174.4%)</b>	<b>180.9</b>
Tax expense	(27.4)	19.2%	(33.9)
Loss after tax for the year from discontinued operations	–		(7.6)
<b>(Loss)/profit after tax</b>	<b>(162.0)</b>	<b>(216.2%)</b>	<b>139.4</b>

<sup>8</sup> Pension charge IAS19R includes the additional non-cash pension service costs in excess of employer contributions made in the year and the non-cash pension interest cost that are both required under IAS19R

## Balance sheet

### Goodwill

£m	31 Jan 2019	31 Jan 2018
Insurance, excluding Bennetts	1,088.6	1,398.6
Insurance, Bennetts	13.6	13.6
Travel, excluding Destinology	59.8	59.8
Travel, Destinology	13.0	13.0
	<b>1,175.0</b>	<b>1,485.0</b>

The Group has tested all goodwill for impairment at 31 January 2019. The impairment test compares the recoverable amount of the goodwill of each cash generating unit (CGU) with its carrying value. The goodwill associated with the Bennetts and Destinology businesses have been considered separately, as these businesses represent separate CGUs.

The recoverable amount of each CGU has been determined based on a value-in-use calculation using cash flow projections from the Group's five year plan to 2023/24, and after allowing for certain stress test scenarios.

Based on this analysis, the Group remains comfortable that there is headroom over and above the carrying value of the goodwill of Bennetts, and for the Travel Operations.

However, based on the new plans for the Insurance business, excluding Bennetts, there has been a material reduction in the carrying value of the business compared to the valuations undertaken in previous years. In addition, once certain stress scenarios are considered in relation to the insurance cash flows, for example, relating to the selected risk discount rate, as well as the expected return from new strategic investments, the Group has determined that the recoverable amount of the goodwill of the Insurance business, excluding Bennetts, is below the previous carrying value. The Group's results therefore include an impairment of the insurance goodwill, excluding Bennetts, in the amount of £310m.

### 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 £82.3m compared with the previous year, to £392.8m as at 31 January 2019 (2018: £475.1m). As at 31 January 2019, 99% of the financial assets held by the Group were invested with counterparties with a risk rating of BBB or above, which is broadly in line with the previous year and reflects the stable credit risk rating of the Group's counterparties. In February 2018, the Group made changes to its investment policy which have resulted in more BBB rated invested funds and a reduction in the number of unrated invested funds.

						Risk rating
At 31 Jan 2019	AAA £m	AA £m	A £m	BBB £m	Unrated £m	Total £m
Underwriting investment portfolio:						
Deposits with financial institutions	–	50.8	–	18.5	–	69.3
Debt securities	14.8	140.3	41.2	83.9	–	280.2
Money market funds	37.1	–	–	–	–	37.1
Loan funds	–	–	–	–	6.2	6.2
Total invested funds	51.9	191.1	41.2	102.4	6.2	392.8
Hedging derivative assets	–	–	32.6	0.8	–	33.4
<b>Total financial assets</b>	<b>51.9</b>	<b>191.1</b>	<b>73.8</b>	<b>103.2</b>	<b>6.2</b>	<b>426.2</b>

						Risk rating
At 31 Jan 2018 (restated)	AAA £m	AA £m	A £m	BBB £m	Unrated £m	Total £m
Underwriting investment portfolio:						
Deposits with financial institutions	–	60.8	54.7	–	–	115.5
Debt securities	28.9	119.0	11.5	–	–	159.4
Money market funds	153.2	–	–	–	–	153.2
Equities	–	–	–	–	31.4	31.4
Hedge funds	–	–	–	–	7.5	7.5
Loan funds	–	–	–	–	6.4	6.4
Unlisted equity shares	–	–	–	–	1.7	1.7
Total invested funds	182.1	179.8	66.2	–	47.0	475.1
Hedging derivative assets	–	–	37.8	0.6	–	38.4
<b>Total financial assets</b>	<b>182.1</b>	<b>179.8</b>	<b>104.0</b>	<b>0.6</b>	<b>47.0</b>	<b>513.5</b>

### Insurance reserves

Analysis of insurance contract liabilities at 31 January 2019 and 31 January 2018 is as follows:

£m	12m to Jan 2019			12m to Jan 2018 (restated)		
	Gross	Reinsurance Assets <sup>9</sup>	Net	Gross	Reinsurance Assets <sup>9</sup>	Net
Reported claims	280.4	(73.5)	206.9	306.5	(76.1)	230.4
Incurred but not reported <sup>10</sup>	103.0	(17.7)	85.3	149.3	(17.9)	131.4
Claims handling provision	9.2	0.0	9.2	10.6	0.0	10.6
Total claims outstanding	392.6	(91.2)	301.4	466.4	(94.0)	372.4
Unearned premiums	98.0	(5.6)	92.4	115.0	(6.2)	108.8
Total	490.6	(96.8)	393.8	581.4	(100.2)	481.2

<sup>9</sup> Excludes funds-withheld quota share agreement (please refer to note 25 on page 178 for further detail)

<sup>10</sup> Includes amounts for reported claims that are expected to become periodical payment orders

The Group's total insurance contract liabilities net of reinsurance assets have reduced by £87.4m as at 31 January 2019 from the previous year end due to a £23.5m reduction in reported claims reserves, a £46.1m reduction in IBNR claims reserves and a £16.4m lower unearned premium reserve. The reduction in IBNR claims reserves is mainly due to favourable experience on large and small personal injury claims, as well as the recognition of improved development patterns within actuarial 'best estimate' reserving methodology.

### Financing

Continued strong cash flows have enabled the Group to continue to maintain a stable debt ratio of 1.7x compared to 31 January 2018. The Group's net debt has decreased by £40.7m to £391.3m from £432.0m as at 31 January 2018. It is made up as follows:

Net debt <sup>3</sup>	Maturity date	31 Jan 2019 £m	31 Jan 2018 £m
Corporate bond	May 2024	250.0	250.0
Term loan	May 2022	160.0	180.0
Revolving credit facility	May 2023	30.0	15.0
Less available cash <sup>11</sup>		(48.7)	(13.0)
Net debt		391.3	432.0

<sup>11</sup> Refer to note 22 of the financial statements for information as to how this reconciles to a statutory measure of cash

The Group has extended the term of the revolving credit facility to May 2023.

The Group has amended the covenants in the revolving credit facility and term loan. The new financial covenants will be tested against the Group earnings and net debt excluding the earnings and debt associated with the new cruise ships. On this basis the net debt to EBITDA covenant is 3.5x until August 2021 and 3.0x thereafter.

The Group has committed to an additional financial covenant that the Cruise cash flows will meet the Cruise debt service costs. This will only be tested if the Group (ex-Cruise) is within 0.5x of the Group covenant.

There are no financial covenants associated with the corporate bond.



## Pensions

Over the year, the valuation of the Group's pension scheme has strengthened on an IAS19R basis by £4.2m to a deficit of £2.8m (2018: deficit £7.0m):

<b>Saga Scheme</b>	<b>12m to Jan 2019 £m</b>	<b>12m to Jan 2018 £m</b>
Fair value of scheme assets	312.4	307.3
Present value of defined benefit obligation	(315.2)	(314.3)
Defined benefit scheme liability	(2.8)	(7.0)

The strengthening has been driven by a £5.1m increase in the fair value of the scheme assets to £312.4m (2018: £307.3m). This was partially offset by an increase in the scheme liabilities of £0.9m to £315.2m (2018: £314.3m), driven by a slight fall in corporate bond yields over the period. This also includes the Group's estimate of the cost of equalising Guaranteed Minimum Pensions, which served to increase the scheme liabilities by £0.1m.

## Net assets

Since 31 January 2018, total assets and liabilities have reduced by £345.5m and £84.3m respectively, resulting in an overall decrease in net assets of £261.2m.

The decrease in total assets is the result of a £310m impairment of goodwill and a decrease in financial assets of £87.3m, which coincides with the release of surplus solvency capital from the Group's underwriting business. This was partly offset by an increase in property plant and equipment of £20.5m, primarily due to the fourth stage payment for the Spirit of Discovery of £13.4m and the second stage payment for the Spirit of Adventure of £15.5m, and an increase in cash and short-term deposits of £39.7m as the Group held surplus cash in advance of making the third stage payment for the Spirit of Adventure in early February 2019.

The decrease in total liabilities reflects a £90.8m reduction in gross insurance contract liabilities in line with further positive claims experience in the year, and a decrease in financial liabilities of £11.5m as a result of a decrease in bank overdrafts. This was partially offset by an increase in trade and other payables of £21.8m due to an increase in policies underwritten by third party underwriters.

## Regulation

The Group operates within an evolving regulatory landscape. Aspects of this, such as GDPR, cover all of Saga's business. Other aspects cover the Group's Insurance, Travel and Personal Finance operations.

For the Insurance business in particular, the last year has been very active. The FCA has implemented new requirements relating to how retail general insurance products are sold, and has launched an extensive market study into industry pricing practices.

As other insurers have noted, the insurance market is very competitive with high levels of switching and significant introductory discounts which lead to people shopping around for the best deal. For those customers who don't shop around it is crucial that insurers have active pricing processes. Saga has had these measures in place for several years and increasing numbers of long-standing customers have seen their renewal premium either frozen or reduced as a result.

Saga welcomes the approach of the FCA and expects this to lead to a significant change across the industry in the coming years. As a business which is focused on direct distribution channels, with a higher number of older customers, and with a strategy that is increasingly focused on rewarding customer loyalty, the Group is anticipating implementing further changes on a proactive basis. These steps are expected to reduce the near-term profitability of the Retail Broking business.

### Brexit

At the date of this report there is considerable uncertainty as to how and even whether the UK will exit from the EU, or at least as to when it will take effect and on what terms. Accordingly there is corresponding uncertainty as to the effect on the Group. The potential impacts on the Group of Brexit, and more specifically a hard Brexit, have been considered. Working groups have been in place through the year to identify, assess and where possible, implement mitigations for the risks of a hard Brexit. The range of scenarios considered includes the additional administration processes and costs associated with running a travel tour operating business, supply chain delays for motor repairs and prolonged disruption to local roads caused by delays at the Port of Dover and Eurotunnel. The Group will continue to monitor political developments, and adapt mitigation plans accordingly.

### Dividends

In light of the challenges in the recent financial year and revised earnings projections for the next five years, the Board has undertaken a detailed evaluation of the dividend policy.

Within this assessment, the Board has taken account of several positive factors. Specifically, Saga's business model remains highly cash generative, absolute levels of leverage have been reduced successfully since the 2014 IPO, and none of the Group's debt is due to mature for another three years. This is further supported by recent changes to the terms of the covenants within the term loan and revolving credit banking facility, which provide the Group with greater financial flexibility.

At the same time, while operating results for the 2018/19 financial year have in the aggregate been in line with expectations, the Group expects a significant reduction in Underlying Profit Before Tax for 2019/20, both in absolute terms and when compared to previous projections. This is mainly attributable to a change in the profitability of Retail Broking, which is likely to be significantly lower than was previously expected.

As explained above, this is primarily a reflection of existing margin pressures and expected reductions in renewal pricing. The shortfall in comparison to previous plans is not due to Underwriting, where a decline in reserve releases was already anticipated.

Further, while the Board has a high level of confidence in the revised strategy, and a level of prudence has been factored into plan projections, the future dividend policy needs to balance cash returns to investors with the objective of maintaining a stable and secure balance sheet. This is particularly important given the increase in debt that will result from the addition of two new ships, while cruise cash flows are expected to cover debt and interest repayments on the ships, and to enable a resumption of capital repatriations from the Travel business from the end of the 2021/22 financial year.

In balancing these objectives, the Board is of the view that a medium-term payout ratio of around 50% is appropriate. This will offer an attractive dividend for investors, while maintaining a 'peak' debt to EBITDA ratio of below 4x with Cruise on a pro forma basis, and reducing the overall Group leverage ratio to 2x over the next few years.

The Board is also of the view that a proactive approach to managing leverage is important, leading to a proposal to reduce the final dividend per share from 6.0p to 1.0p.

### Financial priorities for 2019/20

As a result of lower margins in Insurance, a change in approach to renewal pricing, lower reserve releases and investment in new products, Underlying Profit Before Tax for the 2019/20 financial year is expected to be between £105m – £120m. The Group's new strategy will set a platform for renewed growth in both customers and profits.

The key priority for the Group is the implementation of the direct strategy in Retail Broking, including additional marketing spend and the launch of the new three year fixed price product. This is expected to be evident in lead-indicator KPIs such as mix of business, and in take-up of 'premium' products. Higher policy numbers are expected from 2020/21 due to growth in new business and improved customer retention. Gross margins per policy are projected to be fairly stable in motor, but to reduce in home.

Although reserve releases are likely to be significantly lower in Underwriting than in 2018/19, continued strong claims management and favourable claims experience is expected to support a further positive contribution in the next few years. In the medium-term, the anticipated reported combined ratio, before the impact of the quota share, will be around 97%, subject to normal large loss volatility. Work is underway to widen the AICL underwriting 'footprint'.

In common with the experience of the travel industry as a whole, bookings at the start of this year have been impacted by various factors, including uncertainties relating to Brexit. Beyond this short-term issue, the focus of the business will be on moving away from undifferentiated, low value products (for example, short haul) to higher-margin, more differentiated products, such as escorted tours and river cruises. This is expected to lead to modest growth in passenger numbers, but a significant improvement in margins.

Cruise bookings and per diem rates remain in line with expectations for both 2019/20 and 2020/21 departures. Each new ship is expected to generate EBITDA of £40m, and profit before tax of £20m. This should lead to materially higher cruise earnings in the next two years.

The Group continues to focus on improving efficiency and expects to hold overhead costs as broadly flat in absolute terms, other than a modest investment to support the growth of the Healthcare business.

The Strategic Report was approved by the Board and signed on its behalf by Lance Batchelor, Group Chief Executive Officer on 3 April 2019



# “It is important that our governance framework supports us as we strive to return to our heritage as a direct to consumer brand with Membership as its core.”



## Dear Shareholder,

It is important that our governance framework continues to provide support as we strive to return to our heritage as a direct to consumer brand with Membership as its core. Governance must create the conditions so that our future strategic priorities (as outlined on pages 18-19) can be brought to life.

We spent time as a Board discussing how we could set the tone from the top, encourage long-term thinking and identify the ‘touchstones’ (see page 18) that should form the basis of our reporting, discussions and monitoring. The quality of data is important to us, so that we gain meaningful insight into what our customers want and how we can grow our Insurance and Travel businesses.

The Board also spent time considering how investment in the Saga brand would allow us to continue to offer differentiated products and to be innovative and disruptive in the market. It was clear that focus on attracting new customers and growing our Retail Insurance and Travel businesses would need to include consideration of how our customers experience our service. Board discussion has focused on how investment decisions will lead to future growth.

Details of Board activities during the year and how the governance structure supported key decisions, such as the decisions to invest in our IT capabilities and to charter new river cruise ships, can be found on pages 60-61.

The Audit, Nomination, Risk and Remuneration Committees also played important roles throughout the year. The Risk

Committee considered how Group strategy would impact principal risks and uncertainties and discussed our risk appetite and tolerance levels. This analysis played an important part in the stress testing used in the formation of the viability statement (see page 54). The Audit Committee considered the process and the viability statement itself, provided assurance that appropriate systems, controls and processes were in place and advised the Board that it supported the statement that the annual report is ‘fair, balanced and understandable’. Details can be found in the Audit Committee Report on pages 75-78.

## Board composition and changes

The year has seen changes in Board composition. I succeeded Andrew Goodsell as Chairman in May 2018, following his retirement. James Quin joined as Group Chief Financial Officer on 1 January 2019, replacing Jonathan Hill who left the Company in September 2018. Julie Hopes replaced Bridget McIntyre as a Non-Executive Director in October 2018 (and has assumed the position of Chair of Saga Services Limited) and we also welcomed Eva Eisenschimmel and Gareth Hoskin as additional Non-Executive Directors (with effect from 1 January 2019 and 11 March 2019 respectively). Gareth will also act as Chair for Acromas Insurance Company Limited.

For details of the processes for selection and appointment, see page 69.

We comply with the recommendation in the UK Corporate Governance Code 2016 (Code) that at least half of our Board members are independent Non-Executive Directors. For full details of Board composition see pages 64-66.

## Our people

Our people are our future leaders and brand ambassadors. Talent development and succession planning is discussed in detail by the Nomination Committee and the Board during the year, including biannual formal reviews. The Board is committed to developing our employees and creating a culture in which employees are encouraged to ‘be brave and challenge’. During the year we launched a leadership degree, continued the rollout of the Saga Way leadership development programme to our wider group of senior leaders and introduced the concept of ‘rapid results’ trials, to encourage innovative and creative thinking. We awarded eligible employees Free Shares for the fourth year running to reward their hard work and encourage a sense of ownership of the business.

### Environmental, social and governance

We considered the framework of current policies and processes relating to responsible business practices. Group Executive members were allocated accountability for main work streams, including environmental issues, stakeholder considerations and implications to the brand and Membership propositions.

Our governance framework is reviewed by the Board every year against best practice and regulatory requirements. We conducted our third externally facilitated Board and Committee evaluation during the year. The exercise focused on areas identified during last year's review as opportunities for further development. The review concluded that good progress had been made, there was a clearer view of risk and areas of importance were highlighted in pre-read papers. There was also greater emphasis on focusing on the long-term. The Board discussed the findings of the review and concluded that the business will continue to set out credible plans for the long-term future of the Group; consider the impact of decisions on stakeholders in more detail; focus on competition and what differentiates Saga; and assess the impact of advances in technology and artificial intelligence. A full explanation of the evaluation exercise can be found on pages 66-67.

While we have reported against the 2016 Code, we are mindful that the UK Corporate Governance Code 2018 applies to the Company from 1 February 2019 and so we conducted a gap analysis to identify necessary action. Our terms of reference for all Committees and a document summarising matters reserved for the Board were updated where necessary to reflect new requirements. A summary of action taken is provided on page 57.

As a result of the new Corporate Governance Code and the findings of the evaluation, the Board is focused on 'touchstones'. It is driving to put our Possibilities members at the heart of our discussions. This is achieved partly by designating Eva Eisenschimmel as the Non-Executive Director responsible for championing the customer. This will ensure that customer views and opinions are communicated to the Board as a whole. Eva will also provide guidance and act as a sounding board for all aspects of customer experience across the Group.

The Remuneration Committee discussed how its responsibilities would change in order to review wider workforce remuneration and related policies and ensure the alignment of incentives and rewards with culture. As a result, we formed a 'People Committee' and agreed that Gareth Williams should be the designated Non-Executive Director for employee-related matters. He will ensure that employee views and opinions are communicated to the Board as a whole. Gareth will attend the People Committee at least twice a year to observe the discussions relating to remuneration, reward and recognition, employee engagement, development, training and talent, the working environment and the Saga Way, and to answer any questions that the employee representatives may have. This will help ensure that workforce policies and practices are consistent with the Company's values and support its long-term sustainable success. Further details can be found in our Remuneration Report on pages 101-102.

## Key features

### Our internal governance procedures must support our strategic priorities

Corporate governance statement:

- **Governance:** an explanation of how governance works to support our strategic priorities as we seek to become an increasingly Membership-led organisation and invest for growth.
- **Performance:** how performance is reviewed to ensure that long-term relationships are developed with our stakeholders.
- **Customers:** work to recognise the current and future value of customers and where to focus efforts and investment, including a more targeted contact strategy and work to consider how much more efficient and effective our database could be.
- **Possibilities:** how to ensure that our Membership scheme delivers what our members really want.
- **Growth:** how to grow our Insurance and Travel businesses and invest in our capabilities.
- **Financial performance.**

For more details see pages 18-19.

A summary of how we have applied the principles of the 2016 Code is set out overleaf. Our approach to leadership is detailed on pages 58-63, effectiveness on pages 66-67, accountability on pages 70-74, and relations with shareholders on page 82.

### Culture

I recognise that in the current challenging trading environment, a strong cultural framework is key. A sound governance framework will remain vital in supporting our people. It will ensure we focus on our stakeholders and on the right things to deliver our strategy.

### Our shareholders and our AGM

Our Executive Directors, Senior Independent Director and I met with key shareholders throughout the year, heard from our brokers and discussed how we could improve communication and explain our strategy. At our fourth AGM at our head office in Folkestone, Kent on 21 June 2018, all resolutions were passed with a significant majority and all Directors standing for re-election were re-appointed. I hope to welcome you to our AGM scheduled for 19 June 2019.



**Patrick O' Sullivan**  
Chairman  
3 April 2019



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### 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 at [www.frc.org.uk](http://www.frc.org.uk). The Company applied the principles and complied with all of the relevant provisions of the Code throughout the year.

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### Viability statement

The Directors have considered the viability of the Group over the five-year period to January 2024 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 2024 to be an appropriate period over which to assess the Group's viability, as this period:

- a) is consistent with the planning horizon over which the Directors normally consider the future performance, capital and solvency requirements of the business
- b) includes the delivery of the contracted new ships in 2019 and 2020
- c) includes the refinancing of senior bank facilities which took place in 2017, maturing in four to six years
- d) includes consideration of Brexit.

In making this statement, the Directors have considered the resilience of the Group, taking account of its current position, the principal risks facing the business in severe but plausible scenarios, and the effect of any mitigating actions. The Directors have considered each of the Group's principal risks and uncertainties (PRUs) detailed on pages 34-37 and the potential impact of these risks on the business model, future performance, solvency and liquidity over the period. The Directors have also taken into account the availability of the Group's senior banking facilities, which do not mature until 2022 and are considered to be sufficient to meet the Group's needs.

Our list of 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. All of the PRUs have been considered and severe but plausible outcomes for each have been identified. The financial impact in terms of both profit and cash of each outcome has been quantified along with their likelihood of occurrence. Assessments of potential financial impact were derived from both internal calculation and examples of similar incidents in the public domain.

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

1. General insurance regulation.
2. A no-deal Brexit.
3. A failure to deliver on our Insurance strategy.

Three scenarios were then modelled for the assessment period: the impact of any one of the three largest sensitivities individually, as if each were certain to occur and were mutually exclusive of one another; the estimated financial impact for a reasonably possible combination of all sensitivities occurring at the same time, by reference to the estimated probability of each one occurring; and a reverse stress test considering what PRU, or combination of PRUs, might lead to breach of performance and cash flow solvency thresholds. The outcome of this modelling confirmed that none of the top three PRUs would compromise the Group's viability. The reverse stress test demonstrated that the likelihood of a combination of PRUs causing us to breach performance and insolvency thresholds was remote.

As set out in the Audit Committee Report on pages 75-78, the Directors have reviewed and discussed the rationale and conclusions of management's viability testing.

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<b>Going concern</b>	<p>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 (see principal risks and uncertainties on pages 34-37; Operating and Financial Review on pages 38-51; accountability on pages 70-74; Audit Committee Report on pages 75-78; Risk Committee Report on pages 79-81; and notes on pages 132-197).</p> <p>The Group has access to sufficient cash and other financial resources, 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.</p> <p>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.</p>
<b>Fair, balanced and understandable</b>	<p>In accordance with the principles of the Code, the Board has established arrangements to evaluate whether the information presented in the annual report is fair, balanced and understandable. Having taken advice from the Audit Committee, the Board considers the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.</p>
<b>Assessment of risk</b>	<p>Through the risk cycle detailed on page 72, 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.</p>
<b>Statement of review</b>	<p>The risk management process detailed on pages 70-74 was in place for the year under review and up to the date of approval of this report.</p> <p>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.</p>

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

### A. Leadership

#### A1 The role of the Board

The Board met formally seven times during the year. The schedule of matters reserved for the Board (detailed on page 58) was reviewed on 25 September 2018. There is a clear governance structure throughout the Group, which sets out delegated authorities.

#### A2 Division of responsibilities

There is a clear division of responsibilities between the Chairman and the Group Chief Executive Officer. The Chairman is responsible for the leadership and effectiveness of the Board. The Group Chief Executive Officer is responsible for leading the day to day management of the Group within the strategy set by the Board. A document clarifying these divisions and the role of the Senior Independent Director was reviewed and approved by the Board on 1 November 2018. This document is reviewed annually by the Board.

#### A3 The Chairman

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

#### A4 Non-Executive Directors

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

### B. Effectiveness

#### B1 The composition of the Board

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

#### B2 Appointments to the Board

The appointment of new Directors to the Board is led by the Nomination Committee and the process is such that candidates are selected on merit and with due regard for the benefits of diversity, in all forms. This included the search for a successor to the Chairman. Further details of the activities of the Nomination Committee can be found on pages 68-69.

#### 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 pages 66-67.

#### B7 Re-election of Directors

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

### C. Accountability

#### C1 Financial and business reporting

The Board has established arrangements to ensure that reports and other information published by the Group are fair, balanced and understandable. The Strategic Report is set out on pages 1-51 inclusive and this provides information about the performance of the Group, the business model, strategy and PRUs 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 79-81.

#### C3 Audit Committee and auditors

The Board has delegated a number of responsibilities to the Audit Committee, which is responsible for overseeing the Group's financial reporting processes, internal controls and the work undertaken by the external auditor. The principal activities of the Audit Committee are set out on pages 75-78.

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 the interests of management are aligned with those of shareholders and the long-term success of the Company.

**D2 Procedure**

Details of the work of the Remuneration Committee and the Remuneration Policy can be found in the Directors' Remuneration Report on pages 83-112 inclusive.

**E2 Constructive use of general meetings**

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

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

**E. Relations with shareholders**

**E1 Dialogue with shareholders**

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

<b>Action taken as a result of a review of the UK Corporate Governance Code 2018</b>	
<b>Audit and Risk Committees</b>	A review of the current practices and procedures showed that the Company is compliant with the UK Corporate Governance Code 2018.
<b>Nomination Committee</b>	<p>The remit was expanded (and terms of reference updated) to include:</p> <ul style="list-style-type: none"> <li>• additional reporting responsibilities for the annual report and accounts</li> <li>• oversight of the development of a diverse pipeline for succession and reporting on progress on diversity</li> <li>• a formal process for Director appointments to note consideration of other demands on Directors' time and significant commitments (with an indication of time involved)</li> <li>• Directors are required to obtain Board approval before accepting additional external appointments.</li> </ul>
<b>Remuneration Committee</b>	<p>The remit was expanded (and terms of reference updated) to include a review of workforce remuneration and related policies and alignment of incentives and rewards with the Company's risk appetite, culture, strategy and purpose.</p> <p>The Company's remuneration policies and practices are being reviewed to ensure they are aligned with the Company's culture and strategy. Formal channels for providing feedback by the workforce on reward, incentives and conditions and how these address any pay gaps and pay ratios has been established by the formation of a People Committee. Gareth Williams was selected as our Non-Executive Director for employee-related matters.</p> <p>More information can be found in our Remuneration Report on pages 83-112.</p>

### Culture

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

All Directors, members of the Group Executive Committee and persons discharging managerial responsibilities (PDMRs) receive training on an ongoing basis. During the year, the Directors received regular updates on topics including the Market Abuse Regulation, General Data Protection Regulation (GDPR) and other relevant regulatory changes. Training has been built into the Board and Committee annual plan for 2019/20 and is scheduled to include PDMR refresher training, the threat of cybercrime and GDPR.

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

### Our Board

There is an articulated set of matters which are reserved for the Board and these are reviewed annually. The last review took place on 25 September 2018. Matters reserved for the Board include the following:

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

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

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

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

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

Details of the Board's activities during the year can be found on pages 60-61.



## Board attendance during the year

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

Member	Role	Maximum number of meetings	Attendance
Patrick O' Sullivan <sup>1</sup>	Chairman (leadership, Board governance, set the agenda and facilitate open Board discussions, performance and shareholder engagement)	5	5
Lance Batchelor	Group Chief Executive Officer (develop strategy for Board approval and Group performance)	7	7
James Quin <sup>2</sup>	Group Chief Financial Officer (Group financial performance, including creation of the budget and five-year plans for recommendation to the Board)	1	1
Orna NiChionna	Senior Independent Director (sounding board for Chairman, lead evaluation on Chairman, alternative contact for shareholders)	7	7
<b>Independent Non-Executive Directors:</b>			
Eva Eisenschimmel <sup>3</sup>	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.	1	1
Gareth Hoskin <sup>6</sup>		0	0
Julie Hopes <sup>4</sup>		2	2
Ray King		7	7
Gareth Williams		7	7
<b>Former Directors:</b>			
Andrew Goodsell	Chairman	1	0
Jonathan Hill	Group Chief Financial Officer	5	5
Bridget McIntyre <sup>5</sup>	Non-Executive Director	5	5

### Notes:

- 1 Andrew Goodsell resigned as Chair on 30 April 2018. Patrick O' Sullivan was appointed as Chairman on 1 May 2018
- 2 Jonathan Hill resigned as Group Chief Financial Officer on 28 September 2018. James Quin was appointed as Group Chief Financial Officer on 1 January 2019
- 3 Eva Eisenschimmel was appointed on 1 January 2019
- 4 Julie Hopes was appointed on 1 October 2018
- 5 Bridget McIntyre retired on 31 October 2018
- 6 Gareth Hoskin was appointed on 11 March 2019

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

## Board activities during the year

The content of all Board meetings remains aligned to strategy and the key drivers of performance. Meetings are structured to enable the Board to support executive management on the delivery of strategy within a transparent and robust governance framework as illustrated on pages 62-63. The table below sets out the key areas of focus for the Board's activities and topics discussed during the year.

### Areas of Board focus:

<b>Strategy</b>	Regular updates were provided by management on strategic and commercial priorities, including the development of the new brand strategy and updates on the Possibilities programme. The possible impact of Brexit was discussed.
<b>People &amp; culture</b>	The Board received regular updates on talent and succession plans, reward structures and Group HR policy. We established a People Committee to facilitate ongoing dialogue and transparency with our employees.
<b>Stakeholder engagement</b>	We considered the views of, and impact of decisions on, our stakeholders. We maintained an active dialogue with our shareholders throughout the year responding to enquiries via our Investor Relations team and held meetings with investors and financial analysts to discuss business performance and strategy. The Executive Directors, the Chairman and the Senior Independent Director held meetings with key shareholders.
<b>Governance</b>	Regular reports were provided by the Board's principal Committees, with oversight of the governance and risk management frameworks. We reviewed our risk appetite and tolerance levels and thresholds against the strategy. The Group's modern slavery policy and statement were approved and published.
<b>Investing in our capabilities</b>	The Board received updates from management on the performance of the business and on financial performance and how investment would lead to growth.

## Customer centricity

- Discussed how the Possibilities proposition could be developed to provide greater insight into customer needs and wants (refer to pages 19-21).
- Reviewed the marketing permissions centre and considered how this would continue to comply with the GDPR.
- Considered how Insurance could be better aligned to what customers want – delivery of Insurance the Saga Way.



## People

- Terms of reference for a People Committee were agreed, so that the Board would hear the views of the wider workforce (refer to pages 101-102).
- Held a biannual review of talent development and succession planning.
- Agreed the award of Free Shares to eligible employees under the Share Incentive Plan (SIP) for the fourth year running.
- Invited senior executives to Board meetings to gain a deeper understanding of each business and our culture.



# Governance in action



## Investment

- Considered how platforms could deliver flexibility and efficiencies – for customers and employees (refer to pages 15 and 19).
- Discussed the new insurance platform, how this would increase product differentiation, improve call centre and back office efficiencies and enable cross-selling and customer retention.
- Discussed and approved the proposition to replace existing river ship charters (giving customers what they want and increasing our ability to compete).



## Growth

- Reviewed our products and offerings to ensure that they truly were differentiated and enabled us to compete.
- Discussed how to grow the Retail Insurance and Travel businesses (refer to pages 14-15).
- Monitored progress of the build of our new ship, Spirit of Discovery (refer to pages 15 and 24-25).

## The Board's responsibilities

- Strategic direction of the Group.
- Setting values and standards (in accordance with the 'keep doing' ethos).
- Considering the needs of our stakeholders, including shareholders, employees and customers.

### The Nomination Committee's responsibilities

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

 The Nomination Committee Report is on **pages 68-69**

### The Audit Committee's responsibilities

- Monitoring the integrity of financial statements and reporting procedures.
- Reviewing internal audit work plan.
- Monitoring, reviewing and challenging the effectiveness of the Internal Audit and Finance functions.
- Assessing the adequacy and effectiveness of the Company's internal controls and audits.
- Reviewing Saga's annual and half year financial statements and accounting policies.
- Approving the remuneration and terms of engagement, and determining independence of the external auditor.
- Monitoring the scope of the annual audit and the extent of non-audit work undertaken by external auditors.
- Providing recommendations on the fair, balanced and understandable assessment, going concern and viability statements.
- Ensuring that whistleblowing and anti-fraud systems are in place within Saga.

 The Audit Committee Report is on **pages 75-78**

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

- implementing strategy as determined by the Board
- executive management – monitoring trading against strategy
- cultural leadership and people development and day to day operational management

- Ensuring compliance with statutory and regulatory obligations.
- Managing risk and control.


**The Risk Committee’s responsibilities**

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

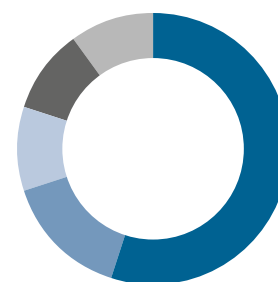
 The Risk Committee Report is on **pages 79-81**

**The Remuneration Committee’s responsibilities**

- Setting and monitoring the Remuneration Policy for senior executives, considering relevant legal and regulatory requirements and all relevant factors to ensure alignment with the delivery of value over the long-term.
- Recommending and monitoring remuneration packages for Executive Directors, the Chairman and senior management.
- Working with the Nomination Committee regarding workforce structure, reward, incentives and conditions.
- Reviewing workforce remuneration and incentive programmes ensuring alignment with Company culture and strategy.
- Determining all aspects of share-based incentive arrangements.
- Reviewing and administering employee share schemes.
- Setting key performance indicators for the Annual Bonus Plan and long-term incentives.
- Preparing an Annual Remuneration Report.

 The work of the Remuneration Committee is included on **pages 83-112** and is incorporated by reference

**Board responsibilities – allocation of time**

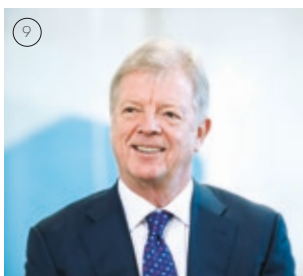
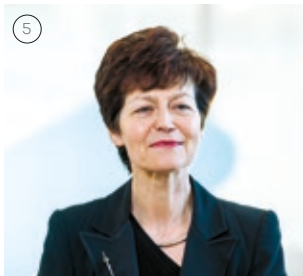


- **Strategy and business performance** c. 55%
- **Financial reporting and controls (including dividend policy)** c. 15%
- **Oversight of risk and management** c. 10%
- **People, culture and Board effectiveness** c. 10%
- **Corporate governance** c. 10%

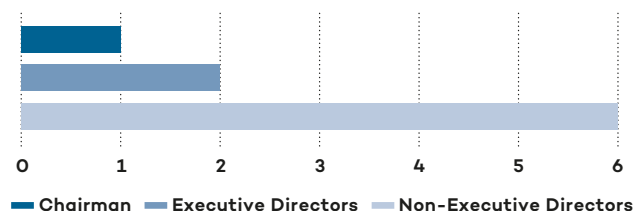
- managing risk and conduct, reviewing Group risk and internal audit and compliance plans
- reporting any potential or actual breaches of regulation or policy to the Board.



## Board of Directors



### Composition of the Board



### Key to Committees

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

### 1. Patrick O' Sullivan

(N)  
Chairman

#### Appointed

Independent Non-Executive Director and Chairman on 1 May 2018

#### Skills, competencies and experience

Patrick has a wealth of experience in the financial and insurance industry gained from a number of senior roles he held at the Bank of America, Goldman Sachs, Financial Guaranty Insurance Company and Barclays/BZW. Patrick spent 12 years at Zurich Insurance Group, where he held positions including CEO of Eagle Star Insurance Company, CEO of UK General Insurance, Group Chief Financial Officer and Vice Chairman of the Management Board. Previous Non-Executive roles have included Chairman of Old Mutual plc and the UK's Shareholder Executive, Deputy Governor of the Bank of Ireland, Senior Independent Director at Man Group plc and Chairman of the Audit Committee at Collins Stewart plc and Cofra Group AG.

#### Other roles

Patrick is also Chairman of ERS (syndicate 218), a Lloyd's market specialist motor insurer (appointed April 2013).

### 2. Lance Batchelor

(E)  
Group Chief Executive Officer

#### Appointed

Group Chief Executive Officer on 14 April 2014  
Joined March 2014

#### Skills, competencies and experience

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

#### Other roles

Lance is a Non-Executive Director on the Royal Navy Board, (appointed October 2018) and a Trustee of the charity The White Ensign Association (appointed November 2014).

### 3. James Quin

(E)  
Group Chief Financial Officer

#### Appointed

Group Chief Financial Officer on 1 January 2019

#### Skills, competencies and experience

James joined us from Zurich Insurance Group, where his most recent role was UK Chief Financial Officer, spanning the UK Property & Casualty and Life Insurance operations. James is a seasoned insurance executive with over 28 years of senior leadership experience, primarily within Zurich, Citigroup Global Markets, Lehman Brothers and PricewaterhouseCoopers. James has extensive strategic, investor and operational finance experience within the insurance industry and is a valuable member of the Leadership Team.

James is an associate of the Institute of Chartered Accountants in England and Wales.

#### 4. Orna NiChionna



Senior Independent Non-Executive Director

##### Appointed

Senior Independent Non-Executive Director on 31 March 2017

Independent Non-Executive Director on 29 May 2014

##### Skills, competencies and experience

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

##### Other roles

Orna is currently Senior Independent Non-Executive Director and Chair of the Remuneration Committee of Royal Mail plc (appointed June 2010), Non-Executive Director and Chair of the Remuneration Committee at Burberry Group plc (appointed January 2018), Deputy Chair of the National Trust (appointed January 2014) and Trustee of Sir John Soane's Museum (appointed January 2012).

#### 7. Gareth Hoskin



Independent Non-Executive Director

##### Appointed

Non-Executive Director on 11 March 2019

##### Skills, competencies and experience

Gareth joined the Saga Board in March 2019. He brings a wealth of experience from nearly 20 years with Legal & General in a variety of roles, latterly as a main Board Director and CEO International, where he was responsible for the North American, European, Middle East, Indian and Far East insurance markets. Prior to that he held a variety of roles in finance, retail marketing and HR. Before joining Legal & General, Gareth worked at PwC for 12 years, where he trained as an accountant and later specialised in insurance.

##### Other roles

Gareth is currently Audit Chair and Senior Independent Director at Leeds Building Society (appointed November 2015). He is also Trustee, Non-Executive Director and Chair of the Audit and Risk Committees at Diabetes UK (January 2015).

#### 5. Eva Eisenschimmel



Independent Non-Executive Director

##### Appointed

Independent Non-Executive Director on 1 January 2019

##### Skills, competencies and experience

Eva brings over 30 years of experience as a brand and marketing professional. She was previously a Non-Executive Director (and a member of the Audit, Nomination, Remuneration and Risk Committees) of Virgin Money plc until its acquisition by CYBG plc. Prior to this she was Managing Director of Marketing, Brands and Culture at Lloyds Banking Group plc, Chief Customer Officer at Regus plc, and Chief People and Brand Officer at EDF Energy. Eva has also held senior positions at Allied Domecq and British Airways, where she was responsible for the Executive Club, with three million members at the time.

##### Other roles

Eva is currently Chief of Staff at Lowell (appointed February 2016).

#### 8. Ray King



Independent Non-Executive Director

##### Appointed

Non-Executive Director on 29 May 2014

##### Skills, competencies and experience

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

##### Other roles

Ray is currently a Non-Executive Director of Rothesay Holdco UK Ltd (appointed April 2014) and of its regulated subsidiary, Rothesay Life plc (appointed April 2014).

#### 6. Julie Hopes



Independent Non-Executive Director

##### Appointed

Independent Non-Executive Director on 1 October 2018

##### Skills, competencies and experience

Julie brings a wealth of insurance experience coupled with over 20 years in a variety of roles, at Co-operative Insurance, RSA and Tesco Bank, specialising in general insurance and predominantly in personal lines. Julie is highly customer-focused, with a breadth of functional, membership and affinity experience and a track record of driving growth.

Most recently, Julie was a Non-Executive Director of Co-Operative Insurance, where she chaired the Risk Committee and was a member of the Audit and Remuneration Committees. Prior to this, she was the CEO of The Conservation Volunteers (2012 to 2016), a UK community volunteering charity. Julie is an associate with the Chartered Institute of Bankers.

##### Other roles

Julie is currently a Non-Executive Director of both Police Mutual, (appointed May 2014) where she chairs the Remuneration Committee and is a member of the Risk, Nominations and With Profits Committees, and West Bromwich Building Society (appointed April 2016), where she chairs the Remuneration Committee and is a member of the Risk and Nominations Committees.

#### 9. Gareth Williams



Independent Non-Executive Director

##### Appointed

Non-Executive Director on 29 May 2014

##### Skills, competencies and experience

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

##### Other roles

Gareth is currently a Non-Executive Director of WNS (Holdings) Limited (appointed January 2014).

## 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.

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

## Independence of Non-Executive Directors

The Board considers all of the current Non-Executive Directors to be independent of Saga's executive management and free from any business or other relationships that could materially interfere with the exercise of their independent judgement or objective challenge of management. These Directors are Eva Eisenschimmel, Julie Hopes, Gareth Hoskin, Ray King, Orna NiChionna, Patrick O' Sullivan and Gareth Williams.

## Changes to the Board

Andrew Goodsell resigned from the Board and his position as Non-Executive Director and Chairman on 30 April 2018. He was replaced as Non-Executive Director and Chairman by Patrick O' Sullivan, who was selected due to his experience in growing businesses in the financial services and insurance industry. The Board was of the opinion that Patrick's leadership would be invaluable as we invested in growing the customer base to deliver profit growth across the business.

During the year we made three appointments to the Board. The Nomination Committee discussed optimum Board composition and the skills required to take the business forward. In March 2018, we announced that Jonathan Hill intended to resign from the Board and step down from his position as Group Chief Financial Officer. The process to recruit a replacement was led by Orna NiChionna as Senior Independent Director and overseen by the Nomination Committee. On 20 September 2018, we announced that the Board had approved the Nomination Committee's recommendation to appoint James Quin as Group Chief Financial Officer with effect from 1 January 2019. James was selected due to his extensive strategic, investor and operational finance experience within the insurance industry.

In September 2018, we announced that Julie Hopes had been appointed to the Board as a Non-Executive Director with effect from 1 October 2018, replacing Bridget McIntyre.

In December we announced that Eva Eisenschimmel had been appointed to the Board as a Non-Executive Director with effect from 1 January 2019. More details on the appointment process can be found in the Nomination Committee Report on pages 68-69.

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 64-65.

## Annual re-election

The Directors are standing for election or re-election at the AGM. The Board's view is that each of the Directors standing for re-election should be re-appointed and that Julie Hopes, Gareth Hoskin, James Quin and Eva Eisenschimmel, who are standing for election, should be appointed. We believe that they have the skills required for the Board to discharge its responsibilities, as outlined in each of their biographies set out on pages 64-65.

## Board effectiveness review

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

### 2017/18 review

The 2017/18 review was carried out by Independent Audit Limited, based on Independent Audit Limited's analysis of a self-assessment.

The review concluded that the Board felt that information and the way issues were brought to the Board had improved and provided the right opportunity for discussion.

The action plan arising from the 2017/18 evaluation included:

- improving the structure of the information provided, to make sure that the Board receives a clear picture of how performance links to key drivers
- improving Board papers, so that these consistently benefited from good summaries, positioning and analysis to help the Board ensure that growth and initiatives were on track.

### 2018/19 review

The Board agreed that the 2018/19 review should also be carried out by Independent Audit Limited, as this would provide a consistent approach and allow for effective tracking against the previous year's action plan. Independent Audit Limited does not have any other connection to the Company.

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

- how value is built and how strategy is considered and presented to investors
- how well we understand our customers and use data to gain valuable insight
- how we stay alert to the competition
- how investment would be made in the Possibilities programme and brand awareness
- the risk associated with technology, projects and delivery of strategy
- the performance of the Committees and Committee Chairs.

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

The review concluded that good progress had been made, there was a clearer view of risk and areas of importance were highlighted in pre-read papers. There was greater emphasis on focusing on the long term.

There remains scope for further strengthening of:

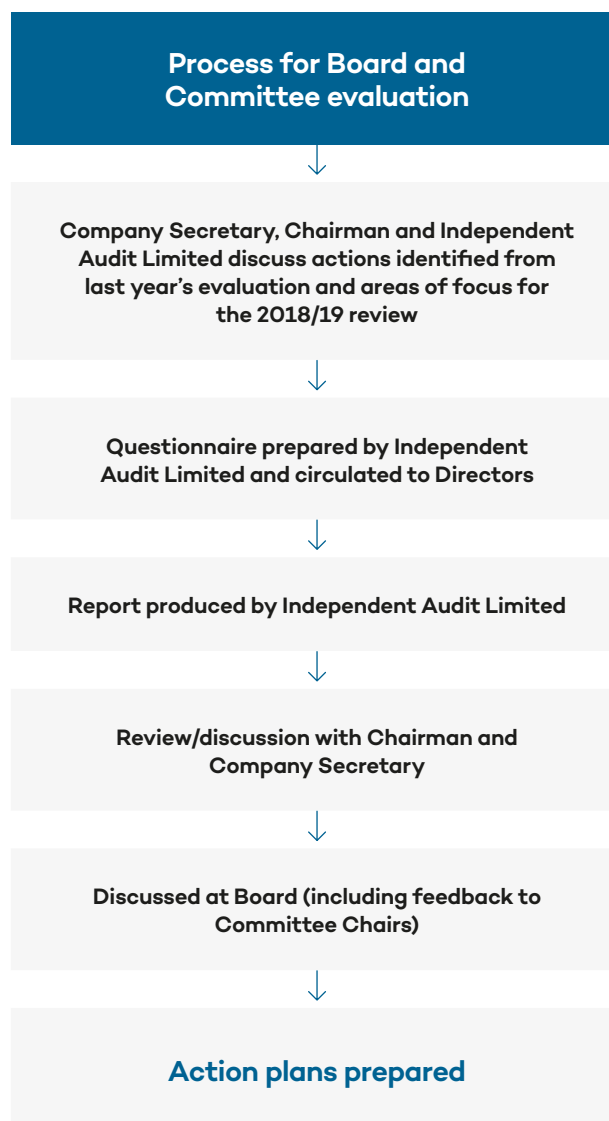
- setting out credible plans for the long-term future of the Group
- considering the impact of decisions on stakeholders in more detail
- focusing on competition and what differentiates Saga
- assessing the impact of digital and artificial intelligence.

As a result of cascading the results of the evaluation to the Group Executive, a good dialogue was established to support delivery of the strategy.

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

## Board development plan for 2019/20

The Board will continue to ensure that agreed 'touchstones' remain at the centre of Board discussions and are aligned to strategy. Quality of data will be paramount to ensure that key drivers of performance are closely monitored. Risk management will continue to link directly to strategic drivers and PRUs. Off-site strategy days are used to set and reflect on progression of the Company's strategy. These sessions also allow the Board to discuss the strategic priorities for the year ahead.



**Dear Shareholder,**

I am pleased to present this report from the Nomination Committee on what has been a year in which we have made significant changes to Board composition. Since I assumed responsibility as Chair of the Committee from Orna NiChionna on 18 May 2018, we have been focused on ensuring that we have the right skills and experience in place at Board level. I was delighted that this resulted in the appointments of Julie Hopes, Eva Eisenschimmel and Gareth Hoskin as Non-Executive Directors and James Quin as Group Chief Financial Officer. Julie chairs the Saga Services Limited board, our largest regulated subsidiary, following the retirement of Bridget McIntyre and Gareth will act as chair of our AICL board, providing useful oversight of these key areas of our business. Our Board is currently comprised of 33% female to 67% male Directors. Succession planning and talent development at and below Board level remains a key consideration, recognising the importance of this in supporting the delivery of our strategy.



**General information**

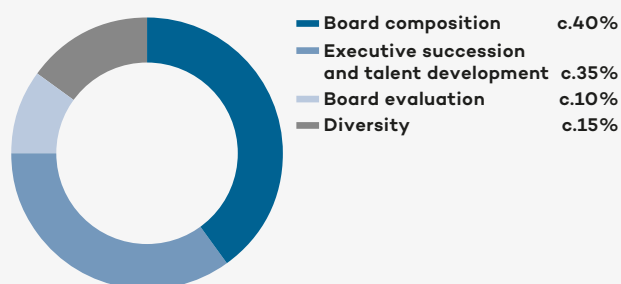
**Summary of Committee's remit**

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

Committee terms of reference were approved by the Board on 25 September 2018 and are available on our website at [www.corporate.saga.co.uk/about-us/governance](http://www.corporate.saga.co.uk/about-us/governance)

**What we have done during the year**

**Time spent on matters**



**Committee composition and attendance**

Member	Member since	Max. possible meetings	Attendance
Patrick O' Sullivan (Chair) <sup>1</sup>	18/05/18	4	4
Andrew Goodsell <sup>2</sup>	24/09/15	3	0
Ray King	29/05/14	7	7
Bridget McIntyre <sup>3</sup>	01/01/16	5	4
Orna NiChionna	29/05/14	7	7
Gareth Williams	29/05/14	7	7

Notes:  
 1 Patrick O' Sullivan was appointed on 1 May 2018  
 2 Andrew Goodsell resigned on 30 April 2018  
 3 Bridget McIntyre retired on 31 October 2018

At the beginning of the year, the Committee consisted of independent Non-Executive Directors and the previous Chairman. Following the appointment of Patrick O' Sullivan as Committee Chair, all members were independent. From 1 November 2018, three independent Non-Executive Directors and the Chairman have formed the Committee. Since the year end we have appointed Eva Eisenschimmel as a Committee member.

**Committee evaluation**

An evaluation of the Committee's effectiveness took place during the year, as part of the Board effectiveness review (for details see pages 66-67). The review indicated that the Committee had had good discussion about Board skill requirements, diversity and management development. It was felt that a future area of focus was the succession pipeline to ensure that it supported a strong and diverse management team.



### Board evaluation

Committee members also discussed the findings of the report produced by Independent Audit Limited in relation to the composition of the Board. Based on the self-assessment, it was felt that the Committee had a detailed understanding of the appropriate Board and the Board Committees' structure, size and composition. We also concluded that the selection process for the Chairman, Group Chief Financial Officer and Non-Executive Directors had resulted in a Board comprised of the skills needed to take the Group forward.

### Board composition

Our terms of reference set out how we recruit and appoint Directors to the Board. They stipulate that we will use open advertising or the services of external advisers to facilitate a search for the best possible candidates. In last year's report, we confirmed that MWM Consulting had been appointed by the Committee to provide support in searching for a new Chairman and we explained the process involved. The Committee recommended my appointment as Chairman, which was subsequently approved by the Board.

Following my appointment, the Committee considered the skills needed to support delivery of the strategy. We concluded that there was a need to appoint a Non-Executive Director with strong insurance experience and a focus on customer outcomes, who would succeed Bridget McIntyre as a Board Director and Chair of Saga Services Limited. In addition, we identified the need to appoint a Non-Executive Director with both insurance and commercial experience, who would also chair AICL, and a Non-Executive Director with strong consumer experience, particularly in optimising customer journeys, marketing and brand awareness. MWM Consulting was involved in appointing all of the Non-Executive Directors.

Following the resignation of Jonathan Hill as Group Chief Financial Officer, a search was instigated for his replacement. Spencer Stuart was involved in this process. Neither MWM Consulting or Spencer Stuart have any other connection with the Company.

Job specifications were carefully crafted to reflect the requirements for each role, including time commitment and experience. A shortlist was considered for each role and a series of interviews with all members of the Committee and the Group CEO followed for preferred candidates. References were obtained and terms of appointment were considered. Candidates were assessed against their strategic skill set, experience, and personality and fit. Consideration was also given to diversity and whether individuals being considered for the Non-Executive roles met the independence criteria set out in the Code.

### Re-election and election of Directors

During the year, the Committee considered the profiles of the Directors and recommended to the Board that all should be put forward for re-election or election at the 2018 AGM. Individuals did not participate in the discussion when their own re-appointment was being considered.

After the year end, but prior to the publication of this annual report, the Committee considered each Director's contribution and the time commitment necessary to perform their duties. A recommendation was made to the Board that all Directors be put forward for re-election (or election) at the 2019 AGM.

### Succession planning and talent development

The Committee has continued to oversee the development of Group Executive Committee members and senior management. An established talent review framework is in place, which identifies potential successors for each role, a pipeline of candidates for the Executive and a development process. Diversity is considered as part of this discussion.

The Committee recognised the importance of the Board having access to senior management meeting individuals in the talent pool. Arrangements were made for the Board to meet these individuals and they were invited to attend Group Executive meetings to gain an understanding of the skills required to operate at a senior level.

### Diversity

The Company has a diversity and dignity policy in place to provide equal opportunity for all individuals including in relation to protected characteristics of individuals. This policy applies to the Group, including the Board of Directors, and is communicated to all staff. All employees are expected to co-operate in making this policy effective and to adhere to it and report any breaches of the policy, whether actual or perceived, to their line manager or to human resources.

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

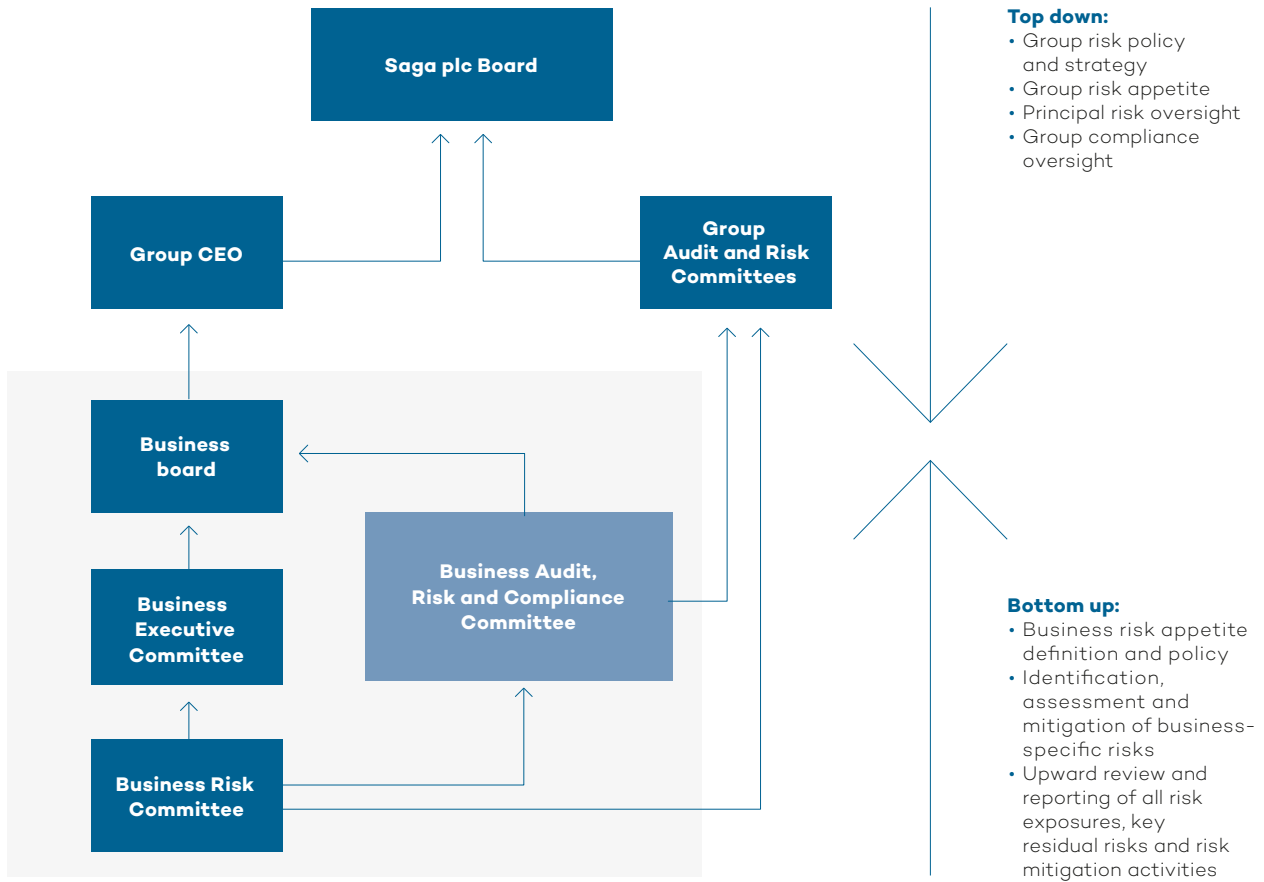
### Terms of reference

Committee terms of reference were reviewed against best practice. The impact of the UK Corporate Governance Code 2018 was also considered. As a result, the terms of reference were amended to provide for consideration of the length of service of the Board as a whole and the need for a progressive refresh of its members; reference to diversity 'of perspective, including gender, social and ethnic backgrounds'; implementation of the diversity policy; the need for gender balance in senior management; and the need to develop a diverse pipeline in succession planning.



**Patrick O' Sullivan**  
Chair, Nomination Committee

Risk management and internal control



**Board assessment of risk management and internal control**

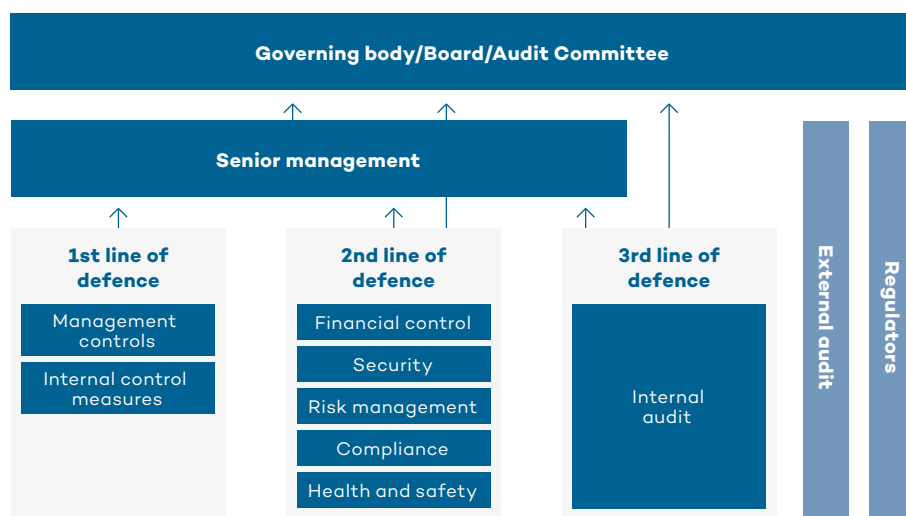
The Board has ultimate responsibility for the Group’s risk management and internal control, and for the Company’s risk culture. In accordance with section C 2.3 of the Code, the Board is responsible for reviewing the effectiveness of risk management and control systems, ensuring that:

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

During 2018, 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. The Board has agreed risk policies, risk appetite and the strategic approach to risks and it has overseen the identification and mitigation of emerging and principal risks. Details regarding the involvement of the Risk and Audit Committees in the development and review of risk management and internal control systems can be found in the Risk and Audit Committee Reports on pages 79-81 and 75-78 respectively.

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

### Saga’s ‘three lines of defence’ risk governance model



**1st line of defence** – Business managers and staff are responsible for identifying and managing risk in line with agreed risk appetite, risk policies and procedures.

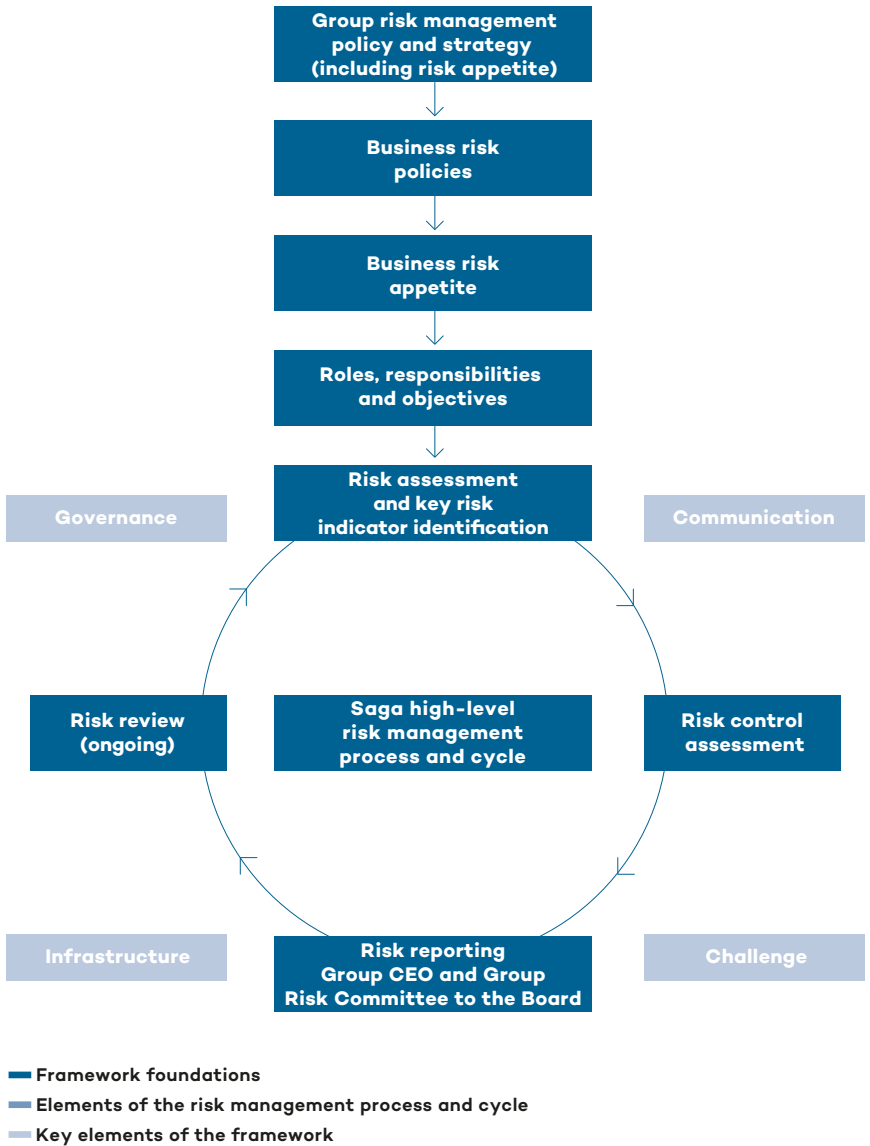
**2nd line of defence** – Independent oversight is provided by the various control functions. Duties include advice on Group and business risk appetites, independent review and challenge of the rating of key risks, and approach and adequacy of business risk management strategies. The 2nd line of defence is also responsible for reporting on the management of PRUs to the Risk Committee and Board.

**3rd line of defence** – Internal audit provides 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.

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

**Risk management framework**

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



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

### 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 strategy. Group risk appetite is reviewed annually and derived from our strategic objectives. It is used as a measure against which all of our current and proposed activities can be tested. Group risk appetites and tolerances are further defined within the principal risks and uncertainties section (pages 34–37).

Business risk appetites are separately crafted. These may be different to Group appetites but cannot exceed them.

### Risk policies

Saga has a Group risk policy that defines our risk management strategy, framework, governance structures, and detailed assessment and mitigation processes. Individual business policies are also created, these are 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 and control assessment

Each Saga business is responsible for identifying and managing its risks, which are captured on risk registers and also include associated controls and incidents. Risks are rated in terms of probability and impact on both an inherent and a residual basis and are graded on a red, amber, yellow and green scale.

### Risk review and reporting

Risk reports are reviewed at business risk committees, which are attended by key 1st and 2nd line of defence managers. An aggregated Group view of the principal risks is subject to independent review by the Risk Committee. Explicit consideration is also given as to whether risks lie within or outside our risk appetite. Any risk close to appetite limits on a residual basis is examined to ensure that our desired risk/reward balance is maintained.

Significant control weaknesses or failures are escalated to the Board of the individual business or, if of sufficient scale and seriousness, to the Risk Committee. Each subsidiary risk committee considers cross-Group risks and incidents to ensure the risk of contagion is minimised.

### Risk oversight

Independent oversight of the risk management process is provided by the Chief Risk and Compliance Officer, the risk team, the compliance team, the Risk Committee and, ultimately, the Board. All business CEOs certified compliance with the risk management framework at the year end.

### Risk monitoring

All risk registers are independently reviewed by the risk team 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.

### Process feedback

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

### Independent process assurance

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

A statement confirming that the Board has carried out a robust assessment of risks is on page 55.

### Internal control

Internal audit acts as the 3rd line of defence within Saga's 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 remit of internal audit 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 provides an opinion on the control environment and details of issues found. Internal audit works with the businesses to agree the remedial actions necessary to improve the control environment, and these are tracked to completion. The Head of Internal Audit submits reports to, and/or attends, Board and Audit Committee meetings for the subsidiary Saga businesses, as well as meetings of the Audit Committee.



**Financial reporting**

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

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

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

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

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

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

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

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

The outcome of this modelling confirmed that none of the top three PRUs would compromise the Group's viability. The reverse stress test demonstrated that the likelihood of a combination of PRUs causing us to breach performance and insolvency thresholds was remote.

As set out in the Audit Committee Report on pages 75-78, the Directors have reviewed and discussed the rationale and conclusions of management's viability testing.

**Statement of review**

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.

The Board's statement of review of the effectiveness of Saga's risk management and internal control systems is contained on page 55.

**Dear Shareholder,**

I am pleased to report on the Audit Committee’s activities during the year to January 2019. This has been another busy year, as the Group continues to invest in new customer acquisition and operating systems, new ships, improving operating efficiency and developing the Possibilities Membership scheme. Against this background, the Committee provided independent scrutiny of the processes in place to monitor the Group’s financial reporting and control environment. While the business remains in an environment of constant change, the Committee’s prime focus is to ensure that internal controls remain robust.



**General information**

**Summary of Committee’s remit**

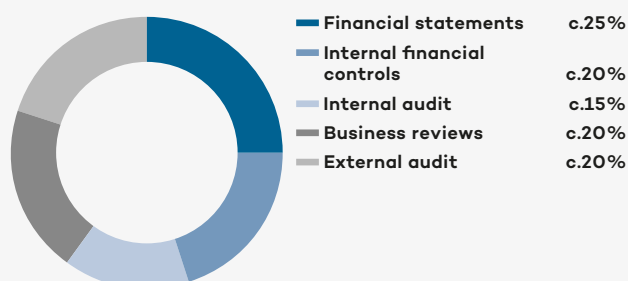
Our main purpose is to assist the Board and discharge its responsibilities for monitoring the:

- integrity of the Company’s financial statements
- adequacy and effectiveness of the Company’s internal financial controls and other internal control systems
- effectiveness, performance and objectivity of the Company’s Internal Audit function and the external auditors.

The Committee’s terms of reference were approved by the Board on 25 September 2018 and are available on our website at [www.corporate.saga.co.uk/about-us/governance](http://www.corporate.saga.co.uk/about-us/governance)

**What we have done during the year**

**Time spent on matters**



**Committee composition and attendance**

Member	Member since	Max. possible meetings	Attendance
Ray King (Chair)	29/05/14	5	5
Bridget McIntyre <sup>1</sup>	01/01/16	3	2
Orna NiChionna	29/05/14	5	5
Gareth Williams	29/05/14	5	5

Note:  
1 Bridget McIntyre retired on 31 October 2018

All members are independent Non-Executive Directors. The Board is satisfied that I have recent and relevant financial experience and competence in accounting. This reflects my professional qualification as a chartered accountant and relevant experience during my career including running a business (as CEO and prior to that as CFO) similar to Saga. The Board is also satisfied that the Committee members possess an appropriate level of independence and offer a depth of financial and commercial experience across various industries, including the sector in which the Company operates. The Board of Directors’ biographies on pages 64–65 contain details of each Committee member’s skills and experience. During the year, the Committee held private meetings with external auditors and the Head of Internal Audit. I also had regular update meetings with them. Since the year end we have appointed Gareth Hoskin as a Committee member.

### Committee evaluation

An evaluation of the Committee's effectiveness took place during the year, as part of the Board effectiveness review (for details see page 66-67). Overall, the Committee concluded that it has acted in accordance with its terms of reference and that it has ensured the independence, objectivity and effectiveness of the external and internal auditors.

The relationship with the external auditor continues to support a detailed examination of the critical issues and annual report and accounts.

We are encouraging authors of papers to be concise and use executive summaries to bring out key messages.

### Reporting

#### Interim and full year results

The interim and full year results were reviewed, together with papers summarising the process, the appropriateness and application of key accounting policies, and the areas of significant judgement, including how those judgements were made. Reports were also received from KPMG throughout the year. The report on the full year results included specific focus on areas identified as having significant audit risk or other audit emphasis.

#### Key areas of focus

- Valuation of insurance contracts' liabilities. The analysis prepared by management was reviewed alongside that of the Group's external auditor. The Committee also examined the governance of the reserving process.
- Valuation of the parent company's investment in subsidiaries. The Committee reviewed and challenged the recoverability of the carrying value of the investment in subsidiaries held in the balance sheet of the Saga plc entity. The review confirmed that an impairment of £1,036m was required (for more information see page 196).
- Valuation of goodwill. The Committee reviewed and challenged the impairment assessments of the recoverability of goodwill. The review confirmed that impairment of £310m was required (for more information see page 160).
- Valuation of the Group's ships. The Committee considered a valuation report on the existing fleet of ships as compared with their carrying value and received a progress update on their sale.
- Adoption of IFRS 9, IFRS 15 and IFRS 16. The Committee considered how the adoption of new reporting standards effective from 1 February 2018 (IFRS 9 and IFRS 15) affected the Group's financial statements and associated disclosures, as included in the annual report. The Committee also considered an assessment of the estimated impact of IFRS 16, which becomes effective from 1 February 2019.

Accounting policy changes were reviewed and approved. The Committee reviewed and supported the key accounting judgements.

The Committee was satisfied that the key accounting choices and judgements were appropriate and served to provide a true and fair view of the Company's financial statements and advised the Board in order for the appropriate statement to be made (page 55).

#### Fair, balanced and understandable

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

We advised the Board that we supported the statement made on page 55 after considering whether:

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

The Committee has also reviewed and supported the going concern statement as set out on page 55.

#### Viability statement

The viability statement and the Group's methodology for production of its viability statement are set out on page 54.

Our review took account of the Company's current position and PRUs (as reviewed and approved by the Risk Committee (see pages 34-37)) and the methodology used to provide for an assessment of ongoing viability. We specifically considered the relevant assessment time horizon, 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 as set out on page 54.

## Audit and control

### Financial controls

Key financial controls were included in the Internal Audit programme and the outcome was reviewed by the Committee. The Group Financial Controller provided an update on accounting issues and key aspects of financial controls at every meeting.

### Financial crime

We reviewed policies covering financial crime (including anti-bribery, anti-corruption and anti-fraud) to ensure they are fit for purpose and comply with the most recent legislation. A regular financial crime report (summarising key themes from the Financial Crime, Data and Information Security Committee's meetings) was considered.

We noted the actions taken to improve the detection and management of fraud, particularly in regard to credit card and insurance fraud.

### Whistleblowing and open door reporting

We received a report on incidents at each meeting and concluded that all cases had been investigated independently with appropriate follow-up action. No material issues were identified. The whistleblowing and open door policy and procedures were reviewed and I was appointed as the Group's whistleblowing champion. My role is to oversee and ensure the integrity, independence and effectiveness of the Company's policy and procedures, including those intended to protect people who raise issues from being victimised.

### Internal Audit

This department consists of eight people with a broad range of skills and is headed by Lynn Fournier, Head of Internal Audit, appointed during the year. Audit skills are sourced externally for specialised audits. Taking the internal audits conducted throughout the year and implementation of the internal audit plan into account, we are satisfied that the Internal Audit function had appropriate resources throughout the year. The Head of Internal Audit is a regular attendee at Committee meetings and provides regular reports on the progress of the Internal Audit monitoring plan.

A proposal from the Head of Internal Audit to enhance the Internal Audit planning methodology so it becomes more adaptive to business needs was considered and approved by the Committee. We approved the Internal Audit Charter. This is available on the Saga website at [www.corporate.saga.co.uk/about-us/governance](http://www.corporate.saga.co.uk/about-us/governance)

Internal Audit work is risk-based, covers both financial and non-financial controls, and included reviews of:

- implementation of new operating systems for both the Insurance and Travel businesses to ensure they remained on track to deliver expected benefits (in terms of cost, time and quality)
- cybersecurity – a review of key systems and processes to protect Group IT assets from cybercrime
- IT Disaster Recovery – a review of the Group's restoration procedures and in-built system resilience when a serious disruptive event occurs
- business key controls – a review of the key risks and controls in place for selected number of businesses within the Group
- GDPR – included a review while the changes were being implemented to ensure compliance with new regulations and an end-to-end post-implementation review to ensure continuing GDPR compliance.

We monitored the responsiveness of management to the internal auditor's findings and recommendations and found these to be appropriate.

The Committee considered whether the assurance provided by the Risk, Compliance and Internal Audit teams provided satisfactory coverage of the Group's risk environment and concluded that it did. This included reviewing the results of the internal auditor's work and the assurance from Internal Audit on its 3rd line of defence review of the functioning of the risk management framework.

An external review of the effectiveness of the Internal Audit function (in line with the recommendations of the IIA Standards) was conducted during the financial year ended 31 January 2017. The Committee will consider in due course when it is appropriate to undertake a further external review.

### Subsidiary committees

We received an annual update on activities from the independent Non-Executive Directors who chair the Saga Services, Saga Personal Finance and AICL audit committees. These included a review of the governance arrangements to ensure that the appropriate level of oversight and a sufficient level of transparency were in place. Minutes from these meetings were also reviewed at each meeting.

### External audit

Following the competitive tender process in 2016, KPMG was appointed as the Company's external auditor in June 2017 and re-appointed in June 2018. The current audit partner Stuart Crisp has been in place since its appointment. We considered and approved KPMG's engagement terms and fee proposal for 2018/19. The Company has complied with the Statutory Audit Services Order 2014 for the financial year under review.

## Audit Committee Report

continued

### Audit planning

KPMG presented an audit plan for the financial year, together with an outline of its risk assessments, materiality thresholds and planned approach. The key aspects of the plan are set out in the Independent Auditor's Report on pages 118-126.

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

### Audit quality and effectiveness of external auditors

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

- our perception of the external auditor's understanding and insights into the Group's business model
- how KPMG approached key areas of judgement and the extent of challenge
- the quality of the external auditor's reporting to the Committee and its overall efficiency
- the content of the external auditor's management letter and the management's responsiveness to recommendations therein
- feedback from management, who were asked to complete an evaluation survey on the audit process and their interaction with the audit team and audit partners during the year.

We discussed the FRC audit quality inspection report (dated June 2018), and KPMG's quality improvement plan. Further, as part of the routine procedures, the FRC selected for audit quality review KPMG's audit of Saga plc's accounts for the year to 31 January 2018. We discussed the findings with the external auditor and were pleased there was nothing material to disclose.

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

### Auditor independence and non-audit services

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

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

We noted that KPMG will discontinue the provision of non-audit services to FTSE 350 companies (other than those required by law or closely related to the audit).

A policy on employment of former employees of the external auditor was also reviewed during the year and approved on 12 September 2018. This policy complies with the FRC's Guidance on Audit Committees and Revised Ethical Standard.

The audit fees payable to KPMG in respect of the year ended 31 January 2019 were £1.3m (2018: £1.2m) and non-audit service fees incurred were £0.2m (2018: £0.2m) for work to review the Group's half year results. This equates to a non-audit to audit fee ratio of 0.14 (2018: 0.20). A summary of fees paid to the external auditor is set out in note 4 to the consolidated financial statements on page 154.



**Ray King**  
Chair, Audit Committee



## Dear Shareholder,

I am pleased to present our report, which summarises the activities of the Risk Committee during the year. We have increased our focus on some specific items including supplier risk management; the threat of a cybercrime attack; the implications of Brexit; conduct risk; and regulatory scrutiny of pricing practices in the insurance industry. We continued to measure and discuss principal risks and uncertainties (PRUs), aiming to ensure that processes were aligned with strategy. We also reviewed the way in which information was presented to us, to ensure that the Committee had better visibility of risks and key performance indicators (KPIs) in each business area as well as on an aggregate basis. This review was reflected in the revised risk policy approved by the Board during the year.

Throughout the year, the Committee received regular updates from senior management across the Group. We will continue to review the impact that our risk management approach has on the way the business operates in a continually changing environment. I was also pleased that Helen Webb, Chief Risk and Compliance Officer, was appointed to the Group Executive Committee during the year, as this will ensure that risk remains at the heart of strategic discussions and decisions.



### General information

#### Summary of Committee's remit

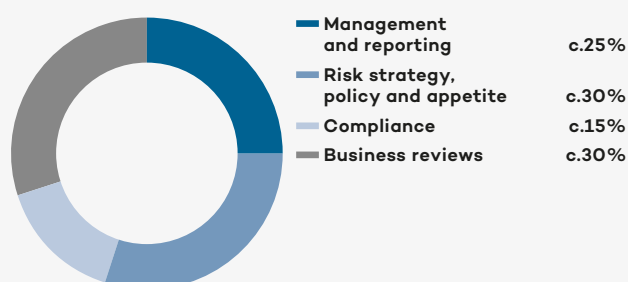
Our main purpose is to assist the Board in discharging its responsibilities for monitoring:

- the Group's overall risk appetite, tolerance and strategy
- the risk assessment processes that inform the Board's decision making process
- the effectiveness of the Group's risk management systems and compliance management procedures
- the Group's capability to identify and manage new risk
- any material breaches of risk limits and adequacy of proposed action.

Committee terms of reference were approved by the Board on 25 September 2018 and are available on our website at [www.corporate.saga.co.uk/about-us/governance](http://www.corporate.saga.co.uk/about-us/governance)

### What we have done during the year

#### Time spent on matters



### Committee composition and attendance

Member	Member since	Max. possible meetings	Attendance
Orna NiChionna (Chair)	29/05/14	5	5
Ray King	29/05/14	5	5
Bridget McIntyre <sup>1</sup>	01/01/16	3	2
Gareth Williams	29/05/14	5	5

Note:  
1 Bridget McIntyre retired on 31 October 2018

All members are independent Non-Executive Directors. Since the year end we have appointed Julie Hopes and Gareth Hoskin as Committee members.

### Committee evaluation

An evaluation of the Committee's effectiveness took place during the year, as part of the Board effectiveness review (for details, see page 66-67). The review indicated that the Committee's work is comprehensive, with an increased focus on Group-wide risks. Suggested development areas included continuing to test approaches that can help the Committee to fully consider enterprise-wide risks and the need to link these to strategy.

### Management and reporting

At each meeting, we considered a detailed risk report. These reports included a summary of the principal risks of the Group, including those that would threaten the business model, future performance, solvency or liquidity. We recommended to the Board that the appropriate statement regarding robust assessment of principal risks facing the Group could be made (see page 55).

We also reviewed the risks relating to each business area's performance and arising from incidents, particularly those relating to significant control failures or weaknesses. We reviewed and discussed these incidents in the context of their risk framework to identify causes, necessary actions, lessons learnt and monitoring requirements. All business CEOs certified compliance with the risk management framework at the year end.

In co-ordination with the Audit Committee, a review of the effectiveness of the risk management framework took place during the year, as part of the wider review of risk management and internal control. This was considered by the Committee. The Committee concluded that a robust risk management framework was in place and that a good risk and control culture was apparent across the Group with a continuous improvement approach. The Committee recommended to the Board that the appropriate part of the statement could be made (see page 55).

The insurance programme for the Group was considered, including whether any additional cover was required, specifically in relation to the threat of cybercrime and the reintroduction of sanctions in the USA against Cuba. We noted that the cover in relation to the Cruise business would be monitored, to ensure it remained appropriate for the new ships.

### Risk strategy, policy and appetite

The risk reporting framework continues to provide a holistic approach that is tangibly linked to the Company's strategy. This is reconciled with the viability statement.

Changes and additions to the PRUs list were scrutinised in line with agreed strategy and the results of this process are shown in the Strategic Report on pages 34-37. These formed the basis of the scenario testing used for the production of the viability statement (see page 54). Our risk management processes are described on pages 70-74. 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.

Our discussions also considered conduct risk as an essential part of our review. We reviewed how our business decisions and behaviour could impact our customers, affect our reputation or undermine the integrity of the financial markets.

Risk appetites and tolerances were reviewed continually, including those that are outside of agreed risk appetite. We concluded that where this was the case, the probability of occurrence was very low and that existing mitigating actions were appropriate. We remain satisfied that controls are in place, meaning that the risk of significant failing across the business model is unlikely.

The Group risk policy was reviewed during the year and while no material changes were proposed, it was presented in a simplified format, to clarify the tone from the top and to provide a high-level view of the approach to risk management.

We discussed key change management projects and how the benefit of each would be measured. We were assured that planned projects were subject to appropriate risk mitigation and management. The Committee noted that where acceptable risk was taken as projects progressed, it was carefully monitored. We concluded that there are no systemic issues with any change management projects and that the Committee has good oversight in terms of roles and planning.

The risk associated with the IT systems within the Group was discussed and it was noted that a replacement HR system was being considered.

IT risk and protection of data are important areas of focus for us to consider as a Committee, both in terms of cyber-risk and regulatory compliance. IT operations are structured to form dedicated teams, structured around business processes and project delivery.

The cyber and information security strategy for the Group is reviewed regularly, together with consideration of vulnerability management of information systems and IT crisis management and communication plans. Strategies are in place to deal with malware and ransomware threats: these are kept under constant review and development as the threat evolves. The toolkit released by the National Cyber Security Centre and Saga's response was discussed.

Data quality was recognised as an area of focus. We continued to monitor how the GDPR (which came into force in May 2018) will affect how we do business. The Committee noted that a Data Governance Forum had been established to ensure the proactive management of the risks presented by these regulations.

A review of legal risk and action taken to mitigate this took place. The Committee concluded that it was important for each business to continue to have appropriate controls to manage legal risk.

Supplier risk management continues to be an ongoing process, with contracts above a certain threshold being subject to a review process, resulting in enhancement to due diligence processes and a focus by the organisation on the risks associated with larger suppliers and those that carry reputational risk.

### Compliance

At every meeting a Group regulation report was received, which included the status of the monitoring plan for the financial regulated businesses. The relationships of individual businesses with regulators, management of incidents and the impact of the FCA annual business plan were considered and discussed. Material changes to compliance regulations were noted and the FCA Market Study was discussed.

### Business reviews

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

Reviews of individual businesses during the year included the following:

#### Saga Services Limited

- Considered regulatory reform and the FCA Market Study.
- Reviewed the business challenges, including the impact of GDPR and market conditions.
- Discussed the challenges of ensuring that the culture within Saga Services Limited was fully aligned with their strategy.

### Travel

- Heard how the business model and Holidays transformation plan would deliver in the long-term.
- Discussed the revised structure of the division, its governance, and issues of transformation and change.
- Considered the principal risks and noted the potential effects of Brexit and steps taken to plan for this.
- Reviewed customer health, safety and emergency procedures and lessons learnt from Travel-related incidents.

### Cruise

- Discussed the logistics of launching the Spirit of Discovery, including the need to have the necessary procurement in place and recruitment/training of staff.
- The Committee was satisfied that sufficient resource had been deployed to ensure as far as possible that the delivery schedule remained on track.

### Saga Money

- Discussed core products in the savings and equity release markets and how demand would be managed to ensure there was no reputational damage to the Group.
- Considered how product offerings provided an opportunity to grow relationships with customers and how these would link to the Possibilities Membership scheme.

### AICL

- Discussed how the processes for reserve releases and Solvency II could support best practice.
- Reviewed supplier risk and potential operational changes on the horizon.

### CHMC

- Discussed a programme of system fixes to reduce the number of defects.
- Heard how the claims process was audited and monitored.



**Orna NiChionna**  
Chair, Risk Committee

### Shareholder communication

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

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

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

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

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
- make past key presentations available via our corporate website.

### Wider communication

We also:

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

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

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

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

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

### Annual General Meeting

The AGM will be held on 19 June 2019 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, [www.corporate.saga.co.uk](http://www.corporate.saga.co.uk), in due course.



### Dear Shareholder,

The Committee is pleased that our Remuneration Policy was approved by shareholders at the AGM in June 2018, receiving a vote in favour of over 99.34%. The changes we made were long-term in nature and were aimed at further aligning our remuneration with best practice. In particular, the following features were added to the Remuneration Policy:

- Reduced maximum pension contribution for Executive Directors from 20% of salary to 15% of salary for existing Executive Directors and to 10% of salary for newly appointed Executive Directors, in line with average employee contributions.
- Introduced a mandatory post-vesting two-year holding period to the Long Term Incentive Plan (LTIP).
- Increased minimum shareholding requirements to 250% of salary for the Group Chief Executive Officer from 200%; and for the Group Chief Financial Officer from 150% to 200% of salary.

We believe that the Remuneration Policy reflects the long-term goals of the business and market best practice, but we will continue to monitor emerging FTSE 250 best practice following the update to the UK Corporate Governance Code (the 'Code') and consider any policy adjustments as required. The 2017/18 Annual Report on Remuneration also received votes in favour in excess of 99%. The Committee is pleased shareholders recognised that the Executive Directors' decision to waive their entitlement to the annual bonus was reflective of Company performance during the 2017/18 financial year.

### Compliance with the new UK Corporate Governance Code

We have considered the compliance of our Remuneration Policy in the context of the new Code which applies for financial years beginning on or after 1 January 2019. While we are not required to comply with the Code for the year being reported on, the following table shows that we are already substantially compliant with the new Code:

Key remuneration element of the Code	Company position
Five-year period between the date of grant and realisation for equity incentives.	The LTIP meets this requirement.
Phased release of equity awards.	The LTIP ensures the phased release of equity awards through annual rolling grants.
Discretion to override formulaic outcomes	The Remuneration Policy contains the ability to override formulaic outcomes for both the Deferred Bonus Plan (DBP) and the LTIP. The Committee has exercised its judgement in respect of the year being reported on.
Post-termination holding requirement	We are introducing a one-year post-termination shareholding requirement.
Pension alignment	It is the Committee's intention to bring new Executive Directors in at a pension contribution equivalent to the average employee contribution (10% of salary). The Committee does not intend to change the provision for existing Executive Directors.
Extended malus & clawback	The current malus and clawback provision already exceeds the best practice suggested in relation to the new Code.

This report lays out the activities and decisions of the Remuneration Committee over the past 12 months. We believe these take full account of our actual performance and the desire to deliver sustainable, long-term value creation in the business. Where the Committee has exercised its judgement or discretion this has been clearly set out.

### Company performance for the 2018/19 financial year

The implementation of our strategy (as outlined on pages 14-15) has been measured against the KPIs set out below:

- Underlying Profit Before Tax down 5.4% at £180.3m (the measure used for assessing management bonus).
- Strong reserve releases but disappointing Retail Broking result.
- Loss before tax of (£134.6m) after goodwill impairment of £310m.
- Available operating cash flow of £180.6m.
- Net debt reduced to £391.3m with net debt to Trading EBITDA at 1.7x.
- Execution of new IT platform in support of both Insurance and Travel businesses.
- Good progress in Cruise and Tour Operations. Launch of Spirit of Discovery on track with forward bookings meeting expectations.
- Continued efficiency gains with like-for-like overhead reductions of £10m.
- Upweighted investment in Membership and the Saga brand.



### 2018/19 bonus

Page 86 sets out the calculation based on the predetermined performance criteria for the percentage of salary earned under the Bonus Plan for 2018/19 by Lance Batchelor (CEO) of 77.4% of salary (maximum 150%). The Remuneration Committee, with the support of the CEO, exercised its judgement to depart from this formulaic determination of the bonus and award the CEO a reduced bonus of 52.65% of salary and to provide the whole bonus as an award of shares deferred for three years. The Committee made this decision based on its view that whilst the PBT targets for the Insurance business have been satisfied it was intended that they be met more through Retail Broking than reserve releases. The payment in deferred shares will increase the alignment of the CEO to shareholders and support a focus on the announced strategy and long-term shareholder value. James Quin (CFO) received a bonus of 82.5% of salary equivalent to 6.9% of salary pro-rated for one month given his start date of employment of 1 January 2019. The Committee felt that given the short period in role and his excellent performance no change to the bonus calculation should be made for the CFO.

### 2016 LTIP vesting

It is currently anticipated that 0% of the 2016 LTIP will vest on 16 May 2019. The EPS performance condition resulted in 0% of this proportion of the award vesting. No element is currently expected to vest in respect of the Total Shareholder Return (TSR) performance of the Company over this performance period. The only Executive Director eligible to receive this LTIP award was Lance Batchelor (CEO).

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

- Made grants in May 2018 under the Saga 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 2018.
- Reviewed the governance and processes of the three Saga Share Plans in operation in the Company and confirmed that they met the necessary standards and were well-communicated.
- Supported base salary increases of 2.0% (average) for the employee population. Executive Director salaries will be frozen at their current level. The Board concurrently agreed that Non-Executive Director fees would remain at their current level.
- Reviewed and approved the bonus outcomes for 2018/19 as detailed above.
- Reviewed a risk evaluation for the subsidiary regulated businesses, Saga Personal Finance Limited, Saga Services Limited and AICL, and considered whether they highlighted any material adverse activities, decisions or outcomes that should impact subsidiary or Group bonus calculations. We concluded that these evaluations were robust and that there were no risk issues to consider in determining bonus outcomes for any of the regulated entities.
- Approved the business and personal objectives for 2018/19. These were considered in light of both overall performance expectations for 2018/19 and our medium-term business strategy. Details of the personal objectives for the Executive Directors are on page 109.

- Noted the voting results on our Remuneration Report at the 2018 AGM.
- Considered the operation of the Remuneration Policy for 2019/20.
- Introduced a one-year post-termination shareholding requirement.
- Discussed how the Committee would review wider workforce pay and ensure alignment of incentives throughout the Company with its culture and strategy; and approved terms of reference for a People Committee to engage with employees. The Chairman of the Remuneration Committee attended the People Committee meeting on 23 January 2019. The next engagement will be the day of the 2019 AGM.
- Reviewed and agreed the compensation package for the new Group Chief Financial Officer, James Quin.

### Changes to the Board

Jonathan Hill, our former Group Chief Financial Officer, left Saga in September 2018.

Upon his departure from the Board, Jonathan's unvested awards under the LTIP and DBP lapsed in line with our Remuneration Policy and he received no payments for loss of office.

### General information

#### Committee composition and attendance

Member	Member since	Max. possible meetings	Attendance
Gareth Williams (Chair)	29/05/14	7	7
Ray King	29/05/14	7	7
Bridget McIntyre <sup>1</sup>	01/01/16	5	3
Orna NiChionna	29/05/14	7	7

Note:

1 Bridget McIntyre retired on 31 October 2018

All members are independent Non-Executive Directors. Since the year end we have appointed Eva Eisenschimmel and Julie Hopes as Committee members.

The Committee receives assistance from Karen Caddick, Group HR Director and Vicki Haynes, Company Secretary. Our adviser (PwC) attends by invitation.

### Summary of Committee's remit

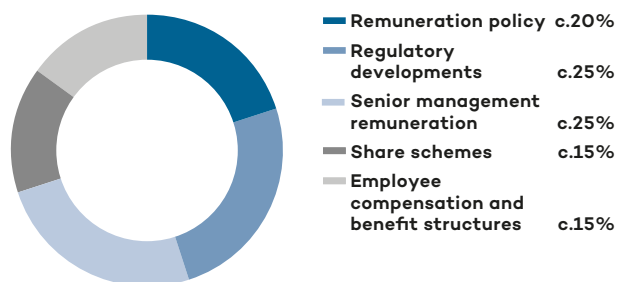
The Committee's main purpose is to assist the Board in discharging its responsibilities for:

- 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 compensation and benefit structures throughout the Company or Group.

Committee terms of reference were approved by the Board on 31 January 2019 and are available on our website at [www.corporate.saga.co.uk/about-us/governance](http://www.corporate.saga.co.uk/about-us/governance)

## What we have done during the year

### Time spent on matters



### Committee evaluation

An evaluation of the Committee's effectiveness took place during the year as part of the Board effectiveness review (for details see pages 66-67). The review indicated that the Committee covers the ground well and brings the right issues to the table. It was felt that the proposals for employee engagement had been well thought through. In future there will be a focus on ensuring that there is a link between strategy and incentives and that the remuneration structure is optimised to reward and retain employees and deliver long-term sustainable Company performance.

### Structure of the report

- Chairman's Annual Statement (pages 83-85).
- Summary Report (pages 86-97).
- Fairness, diversity and wider workforce considerations (pages 98-107).
- Annual Report on Remuneration (pages 108-112).

### Further evolution of this report

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

As part of our commitment to fairness, we introduced a new section to this report last year which set out more information on the pay conditions of our wider workforce, the cascade of incentives throughout our business and our CEO to employee pay ratio, our gender pay statistics, and our diversity policy. This year we have expanded our disclosures in preparation for the new Code. Whilst we recognise there is much work still to do, we believe that transparency is an important first step towards making improvements in relation to these important issues.

### Looking ahead

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

### Shareholder consultation

We did not have an active shareholder consultation exercise during 2018/19 as we had made no material changes to the Remuneration Policy which received such strong shareholder support at the 2018 AGM. The Policy approved at the 2018 AGM took into account the views of the Company's key shareholders. Given the evolving strategy of the business, it is our intention to consult with shareholders on potential changes to measures and targets in the LTIP. It is intended this should be done in early May 2019. The final outcome will be published on the Company website prior to the AGM on 19 June 2019.

### Conclusion

I hope you find the information contained in this report helpful, thoughtful and clear. I welcome any feedback from the Company's shareholders and you can contact me at [gareth.williams@saga.co.uk](mailto: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, at which 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.

## Remuneration Summary Report

In this section, we summarise:

- the actual performance and remuneration outcomes for the 2018/19 financial year
- the Remuneration Policy which applied for the 2018/19 financial year; how it was operated and the proposed application in 2019/20
- the link between our strategy for 2019/20 and the Remuneration Policy.

### Actual performance and remuneration outcomes for 2018/19

#### How we have performed in 2018/19

#### Bonus (audited in conjunction with details on page 94)

The details of the performance conditions and outcomes against the targets for the annual bonus in respect of the 2018/19 financial year are shown in the table below.

Performance condition	Weighting	Threshold performance required	Target performance required	Maximum performance required	Actual performance	Annual bonus value for threshold and maximum performance (% of max)	Percentage of maximum performance achieved	Annual bonus value achieved (% of salary)	
								Lance Batchelor	James Quin
Group PBT <sup>1</sup>	55%	£171.4m	£180.0m	£187.2m	£180.0m	100%	60%	49.5%	3.4%
Group cash flow <sup>2</sup>	15%	72.2%	77.2%	81.2%	72.7%	100%	24.3%	5.4%	0.4%
Personal objectives	30%	See page 109 for details of personal objectives and their achievement				100%	0%	22.5%	3.1%
Total	100%							77.4%	6.9%
Total calculated (£)								£533,893	£25,686
Total payable <sup>3</sup> (£)								£363,171	£25,686

Notes:

- 1 Defined as Underlying Profit Before Tax excluding derivatives, the impairment of goodwill and cruise ships, and in the prior year excluding restructuring costs and debt issue costs
- 2 Defined as net available cash generation
- 3 See the Remuneration Committee Chair Annual Statement on pages 83-85 for an explanation of the difference

### LTIP

KPIs	Threshold	Target	Maximum	Actual	Percentage of current potential LTIP vesting
<b>2016 LTIP award as at year end 31 January 2019</b>					
EPS growth (p.a.) <sup>1</sup>	5%	-	12%	1.1%	0%
TSR	Median	-	Upper quartile	Below median	0%
<b>2017 LTIP award as at year end 31 January 2019</b>					
Basic Earnings Per Share (EPS) growth (p.a.)	5%	-	12%	(1.1%)	0%
Organic EPS <sup>2</sup> growth (p.a.)	12%	-	21%	(5.9%)	0%
TSR	Median	-	Upper quartile	Below median	0%
<b>2018 LTIP Award as at year end 31 January 2019</b>					
Organic EPS growth (p.a.)	12%	-	21%	(16.9%)	0%
TSR	Median	-	Upper quartile	Below median	0%
Return On Capital Employed (ROCE) <sup>3</sup>	10.5%	-	11.5%	(10.1%)	0%

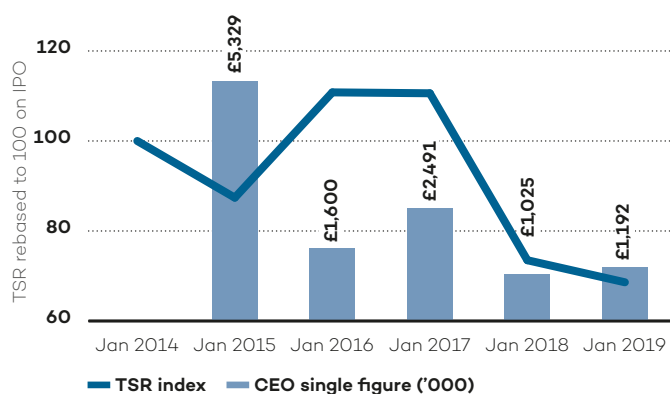
Notes:

- 1 Defined as PBT divided by the number of shares in issue
- 2 Defined as post-tax profit excluding the effect of reserve releases divided by the fully diluted number of shares in issue
- 3 Defined as earnings before interest and tax divided by the carrying value of shareholders' equity plus long-term liabilities (debt)

The 2016 LTIP will vest on 16 May 2019. The indications for the LTIP performance in the table above are as at 31 January 2019. The relative TSR target for the 2016 LTIP is substantially (but not fully) completed as at 31 January 2019. The EPS target is complete. The Committee has included the current position for the 2017 and 2018 LTIP awards to allow shareholders to see the potential value in the long-term remuneration over the next three years. The final level of performance and corresponding level of vesting of the LTIP awards will be dependent on the performance at the end of the relevant performance period.

**Long-term performance**

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



**Single total figure of remuneration for Executive Directors for the 2018/19 financial year**

Executive Directors	Period	Salary £	Taxable benefits £	Bonus £	LTIP £	Pension £	Total £
<b>Lance Batchelor</b>	2018/19	689,785	35,319	363,171	0	103,468	1,191,743
(Group Chief Executive Officer)	2017/18	689,785	32,346	0	199,547	103,468	1,025,146
<b>James Quin</b>	2018/19	30,833	3,097	25,686	0	3,083	62,699
(Group Chief Financial Officer)	2017/18	n/a	n/a	n/a	n/a	n/a	n/a
<b>Jonathan Hill</b>	2018/19	282,981	15,580	0	0	42,448	341,009
(Former Group Chief Financial Officer)	2017/18	424,483	24,243	0	92,099	63,672	604,497

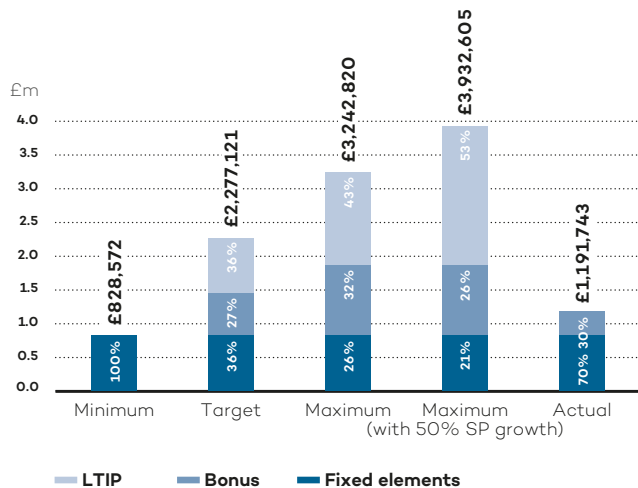
Note: Jonathan Hill resigned from the Board on 28 September 2018 and was replaced by James Quin on 1 January 2019. Therefore only the remuneration paid to them during the financial year is shown

For the full single figure table, please see page 108 in the Annual Report on Remuneration.

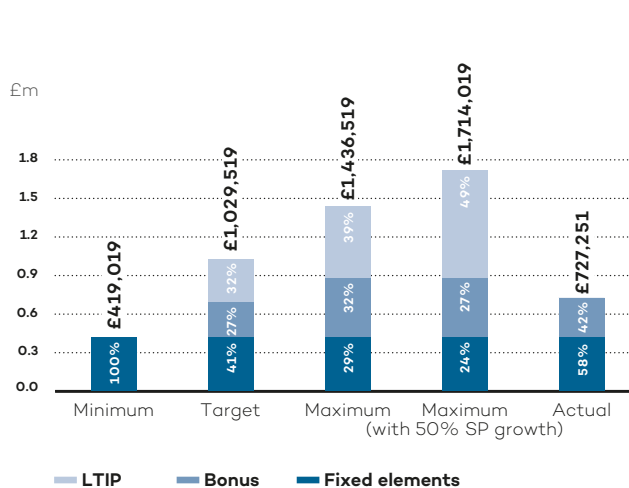
**Illustration and application of current Remuneration Policy in 2018/19**

The following charts show the 2018/19 actual remuneration against the current Policy levels of remuneration for the Executive Directors.

**Group Chief Executive Officer (Lance Batchelor)**



**Group Chief Financial Officer (James Quin)**



To aid comparability we have used James Quin's full year annualised package for his actual remuneration. His actual total remuneration for 2018/19 is £62,699.

Under the Policy, the remuneration payable to each of the Executive Directors is based on salaries at the start of 2018/19, and is shown for 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 2018/19. In line with the new remuneration reporting regulations, we have also shown the maximum performance scenario with the effects of a 50% increase in share price on the value of the LTIP.

The following table<sup>4</sup> outlines the elements included in the illustration above:

Element	Description	Minimum	Target	Maximum	Maximum (with 50% SP growth)
Fixed	Salary, benefits and pension <sup>1</sup>	Included	Included	Included	Included
Annual bonus	Annual bonus (including deferred shares)	No annual variable	60% of maximum bonus (target performance is set above budget)	100% of maximum bonus <sup>2</sup>	100% of maximum bonus <sup>2</sup>
LTIP	Award under the LTIP	No multiple year variable	60% of the maximum award	100% of the maximum award <sup>3</sup>	100% of the maximum award <sup>3</sup> plus the increase in value resulting from a 50% share price growth

Notes:

- 1 Based on 2018/19 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 new regulations, share price growth has been added to the LTIP only for the 'maximum (with 50% share price growth)' scenario. 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)
- 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 the target performance scenario (fixed elements plus 60% of maximum annual bonus and 60% of the maximum LTIP). The charts have been based on the same assumptions as set out above for the illustrations of the application of the Remuneration Policy.

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

#### Group Chief Executive Officer (Lance Batchelor)



At risk	£1,448,549
Pension and benefits	£138,846
Salary	£689,785

#### Group Chief Financial Officer (James Quin)



At risk	£610,500
Pension and benefits	£49,066
Salary	£370,000



## Remuneration Summary Report

continued

### Directors' share interests (audited)

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

Director	Shareholding requirement (% salary) <sup>1</sup>	Current shareholding (% salary) <sup>2</sup>	Shares counting towards shareholder requirements <sup>3</sup>	Shares held directly		Other shares held		Options <sup>4</sup>		Outstanding interests in the SIP	Shareholding requirement met?
				Beneficially owned <sup>5</sup>	Deferred shares not subject to performance conditions	LTIP interests subject to performance conditions	LTIP interests vested but not yet exercised	Vested	Unvested		
<b>Executive Directors</b>											
Lance											
Batchelor <sup>5</sup>	250%	111%	704,522	192,509	338,891	2,328,140	619,847	1,081,080	1,081,082	3,882	No
James Quin	200%	0%	-	-	-	-	-	-	-	-	No
Jonathan Hill <sup>6</sup>	200%	46%	179,375	179,375	-	-	-	-	-	-	No
<b>Non-Executive Directors</b>											
Patrick O' Sullivan											
	-	-	-	130,000	-	-	-	-	-	-	n/a
Ray King											
	-	-	-	27,027	-	-	-	-	-	-	n/a
Orna NiChionna											
	-	-	-	28,567	-	-	-	-	-	-	n/a
Gareth Williams											
	-	-	-	32,433	-	-	-	-	-	-	n/a
Julie Hopes											
	-	-	-	-	-	-	-	-	-	-	n/a
Eva Eisenschimmel											
	-	-	-	-	-	-	-	-	-	-	n/a
Andrew Goodsell											
	-	-	-	5,532,960	-	-	-	-	-	-	n/a
Bridget McIntyre											
	-	-	-	7,245	-	-	-	-	-	-	n/a

Notes:

1 Shareholding requirements are those that were in existence throughout the course of the year and as at 31 January 2019

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

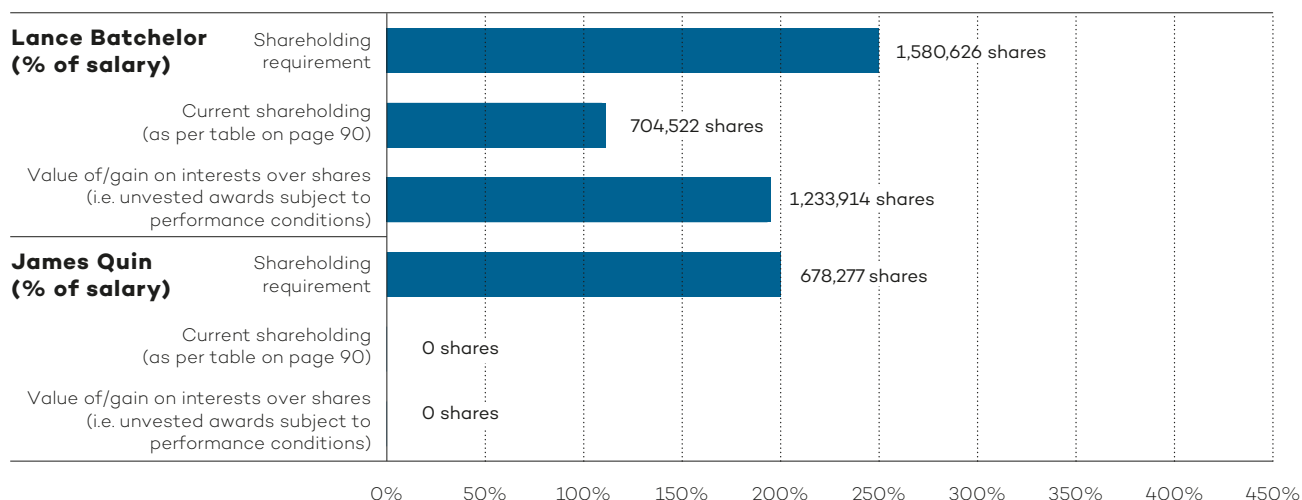
3 Shares counting towards shareholding requirements for Lance Batchelor is calculated on a net of tax basis for both the deferred shares (179,612) and vested but not exercised LTIP interests (328,518)

4 Lance Batchelor – these represent IPO options with an exercise price of £1.85; 540,540 options vested on 29 May 2017; 540,540 options vested on 29 May 2018; and the remaining 1,081,082 options vest on 29 May 2019

5 Since the year end, Lance Batchelor has bought an additional 131 shares through the SIP. There have been no other changes to the shareholdings above

6 The figures for Jonathan Hill are as at his date of leaving of 28 September 2018

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 2019 are set out below:



Notes:

- The mid-market quoted share price of 109.10p as at 31 January 2019 has been used 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 2016, 2017 and 2018 LTIP awards for Lance Batchelor on a net of tax basis. 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 2019
- Unvested LTIP shares and options do not count towards satisfaction of the shareholding guidelines

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

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

The following table sets out the single figure for 2018/19, the number of shares held by the Group Chief Executive Officer at the beginning and end of the financial year and the impact on the value of these shares taking the opening price and closing price for the year. Shares held includes those owned outright as well as nil-cost options currently held under incentive plans which have not yet vested.

	2018/19 single figure	Shares held at start of year	Shares held at end of year	Value of shares at start of year	Value of shares at end of year	Difference
Lance Batchelor	£1,191,743	2,887,028	3,483,269	£3,360,500	£3,800,246	£439,746

The difference of £439,746 for the year shows that the CEO’s shareholding is meaningful in comparison to his single figure. Hence a material proportion of the CEO’s wealth is tied to the share price of the Company, aligning him with the ownership experience of other shareholders during the period. It should be noted that the increase in value is as a result of an increase in the number of shares owned by the CEO during the year with the actual share price having fallen during the period (£1.164 on 31 January 2018, £1.091 on 31 January 2019).

## **Remuneration Policy and its implementation**

### **Remuneration Policy**

The new Remuneration Policy was passed at the Company's AGM on 21 June 2018 and a condensed summary can be found in this report. A full version of the Remuneration Policy can be found on pages 112-120 of the 2018 annual report available on our website, [www.corporate.saga.co.uk/media/1248/saga\\_ar18\\_drr.pdf](http://www.corporate.saga.co.uk/media/1248/saga_ar18_drr.pdf) and from the Company Secretary at Saga's registered office.

### **Remuneration philosophy**

The Remuneration Policy and strategy are designed to stimulate sustainable, value-creating growth and performance for the business and to reward Executives' performance accordingly. The Company's core principles of remuneration are to support:

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

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

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

When determining the Remuneration Policy, specifically for the Executive Directors, the Remuneration Committee addressed the following:

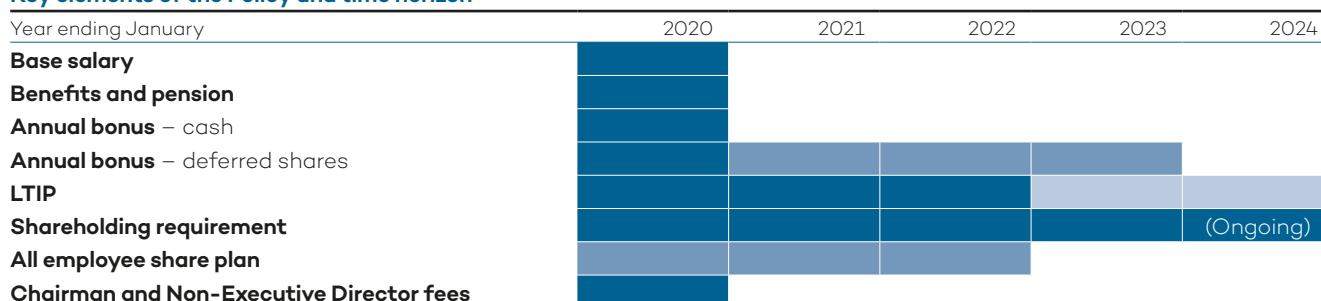
Factor	How the Committee addressed it in the Remuneration Policy
Clarity	The Company's performance remuneration is based on supporting the implementation of the Company's strategy measured through key KPIs which are used for the bonus and LTIP. This provides clarity to all stakeholders on the relationship between the successful implementation of the Company's strategy and the remuneration paid.
Simplicity	The Company operates a UK market standard approach to remuneration which is familiar to all stakeholders.
Risk	<p>The Remuneration Policy includes:</p> <ul style="list-style-type: none"> <li>• setting defined limits on the maximum awards which can be earned</li> <li>• requiring the deferral of a substantial proportion of the incentives in shares for a material period of time</li> <li>• aligning the performance conditions with the strategy of the Company</li> <li>• ensuring a focus on long-term sustainable performance through the LTIP</li> <li>• ensuring there is sufficient flexibility to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes.</li> </ul> <p>These elements mitigate against the risk of target-based incentives by:</p> <ul style="list-style-type: none"> <li>• limiting the maximum value that can be earned</li> <li>• deferring the value in shares for the long-term which helps ensure that the performance earning the award was sustainable and thereby discouraging short-term behaviours</li> <li>• aligning any reward to the agreed strategy of the Company</li> <li>• the use of an LTIP which supports a focus on the sustainability of the performance over the longer term</li> <li>• reducing the awards or cancelling them if the behaviours giving rise to the awards are inappropriate</li> <li>• reducing the awards or cancelling them, if it appears that the criteria on which the award was based do not reflect the underlying performance of the Company.</li> </ul>
Predictability	Shareholders were given full information on the potential values which could be earned under the plans on their approval. In addition, all the checks and balances set out above under 'Risk' were disclosed at the time of shareholder approval.
Proportionality	The Company's incentive plans clearly reward the successful implementation of the strategy and through deferral and measurement of performance over a number of years ensure that the Executive Directors have a strong drive to ensure that the performance is sustainable over the long-term. Poor performance cannot be rewarded due to the Committee's overriding discretion to depart from the formulaic outcomes under the incentive plans if they do not reflect underlying business performance.
Alignment to culture	A key tenet of the Company's culture is a focus on customers and their experience. This is reflected directly in the type of performance conditions used for the bonus. The focus on share ownership and long-term sustainable performance is also a key part of the Company's culture. In addition the measures used in incentive plans support directly the implementation of the strategy.

The Remuneration Committee is satisfied that the Remuneration Policy operated as intended during 2018/19.

### Remuneration Policy

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

#### Key elements of the Policy and time horizon



Key Performance period: [Dark Blue] Vesting period: [Medium Blue] Holding period: [Light Blue]

## Remuneration Summary Report

continued

Details of each of these elements and their implementation are included in the table below, which provides the following information:

- A summary of the key elements of the Remuneration Policy.
- The operation of the Policy in 2018/19 and its proposed operation in 2019/20.

Remuneration Policy element	Operation in 2018/19	Proposed operation in 2019/20
<p><b>Base salary</b></p> <p>The Remuneration Committee ensures that maximum salary levels are positioned in line with companies of a similar size to Saga in the comparator group. The companies in the comparator group are the constituents of the FTSE 250.</p> <p>In general salary increases for Executive Directors will be in line with the increase for employees.</p>	<p>Executive Directors did not receive any increase in base salary on 1 February 2018 (all employee rise 2%). James Quin replaced Jonathan Hill as CFO on 1 January 2019 and his salary was set at £370,000, below that of his predecessor.</p> <p>As a result, the salaries for the Executive Directors are:</p> <ul style="list-style-type: none"> <li>• Lance Batchelor: £689,785</li> <li>• James Quin: £370,000</li> </ul>	<p>Executive Directors will not receive an increase on 1 February 2019 (all employee rise 2%). As a result, the salaries for the Executive Directors remain as:</p> <ul style="list-style-type: none"> <li>• Lance Batchelor: £689,785</li> <li>• James Quin: £370,000</li> </ul>
<p><b>Benefits</b></p> <p>The Executive Directors receive family private health cover, death in service life assurance, a car allowance, subsistence expenses and staff discounts in line with other employees.</p>	<p>Standard benefits.</p>	<p>No change.</p>
<p><b>Pension</b></p> <p>The maximum value of the pension contribution allowance is 15% of gross basic salary for current Executive Directors and limited to 10% of salary for newly appointed Executive Directors.</p>	<p>Executive Directors received the following:</p> <ul style="list-style-type: none"> <li>• Lance Batchelor: 15% of salary supplement in lieu of pension.</li> <li>• James Quin: 10% of salary supplement in lieu of pension.</li> </ul>	<p>No change.</p>
<p><b>Annual bonus</b></p> <p>The Remuneration Committee will determine the maximum annual participation in the Annual Bonus Plan for each year, which will not exceed 150% of salary. The Remuneration Committee can determine that part of the bonus earned under the Annual Bonus Plan is provided as an award of shares under the Deferred Bonus Plan. The maximum value of deferred shares is 50% of the bonus earned and the minimum will be one third of the bonus earned. The main terms of these awards are:</p> <ul style="list-style-type: none"> <li>• minimum deferral period of three years</li> <li>• the participant's continued employment at the end of the deferral period unless he/she is a good leaver.</li> </ul>	<p>Maximum bonus opportunity:</p> <ul style="list-style-type: none"> <li>• Group Chief Executive Officer – 150%</li> <li>• Group Chief Financial Officer – 125%</li> </ul> <p>Two thirds of the total bonus to be paid immediately in cash and one-third deferred into shares for three years.</p> <p>Performance measures were:</p> <ul style="list-style-type: none"> <li>• Group PBT<sup>1</sup> – 55%</li> <li>• Group cash flow<sup>2</sup> – 15%</li> <li>• Personal objectives – 30%</li> </ul> <p>(See page 86 and page 109 for full details on the full year 18/19 targets).</p>	<p>No change.</p> <p>The Committee is of the view that targets for the 2019/20 annual bonus are currently commercially sensitive and these targets will be disclosed retrospectively in the 2020 Annual Report on Remuneration.</p>

Remuneration Policy element	Operation in 2018/19	Proposed operation in 2019/20
<p><b>LTIP</b></p> <p>Awards are designed to incentivise the Executive Directors over the longer-term to successfully implement the Company's strategy.</p>	<p>2018 LTIP award:</p> <p>Group Chief Executive Officer received award of 200% of salary. Outgoing Group Chief Financial Officer did not receive an award.</p> <p>Performance measures for the 2018 LTIP were:</p> <ul style="list-style-type: none"> <li>comparative TSR (40%),</li> <li>Organic EPS<sup>3</sup> (30%) – growth of 12% p.a. for 25% of this element of the award to vest with full vesting occurring for EPS growth of 21% p.a.</li> <li>ROCE<sup>4</sup> (30%) – 10.5% p.a. for 25% of this element of the award to vest with full vesting at 11.5% p.a.</li> <li>straight-line vesting to take place from 25% to 100% of the award</li> <li>introduction of a new two-year holding period.</li> </ul>	<p>2019 LTIP award:</p> <ul style="list-style-type: none"> <li>Group Chief Executive Officer – 200% of salary</li> <li>Group Chief Financial Officer – 150% of salary</li> </ul> <p>The structure for the proposed performance measures for the 2019 LTIP will be subject to consultation with shareholders and will be updated as appropriate following that consultation. The Company will notify shareholders of the measures and targets prior to the 2019 AGM.</p>
<p><b>Shareholding requirement</b></p> <p>The Remuneration Committee sets formal shareholding guidelines that will encourage the Executive Directors to build up over a five-year period, and then subsequently hold, a shareholding equivalent to a percentage of base salary.</p>	<ul style="list-style-type: none"> <li>Group Chief Executive Officer – 250% of salary</li> <li>Group Chief Financial Officer – 200% of salary</li> </ul>	No change.
<p><b>Post-shareholding requirement</b></p>	No post-termination shareholding requirement.	Introduction of one-year post-termination shareholding requirement.
<p><b>All employee share plan</b></p> <p>The Company operates an HMRC SIP.</p>	Saga continued to operate the SIP for all employees in 2018, with a Free Share award of £300 made in July 2018 to all eligible full-time employees.	Saga will continue to provide all employees the opportunity to participate in all employee equity arrangements.
<p><b>Chairman and Non-Executive Director fees</b></p> <p>The fees for Non-Executive Directors are set at broadly the median of the comparator group.</p> <p>In general, the level of fee increase for the Non-Executive Directors will be set taking account of any change in responsibility and will take into account the general rise in salaries across the UK workforce.</p>	<p>No increase in the Board fee, Committee Chair fee or Senior Independent Director fee. Non-Executive fees were, from 1 June 2018:</p> <ul style="list-style-type: none"> <li>Chairman fee: £325,000</li> <li>Board member fee: £63,672</li> <li>Committee Chair fee: £10,000</li> <li>Senior Independent Director fee: £20,000</li> </ul>	No change.

## Notes:

1 Defined as Underlying Profit Before Tax excluding derivatives, the impairment of goodwill and cruise ships, and in the prior year, excluding restructuring costs and debt issue costs

2 Defined as net available cash generation

3 Defined as post-tax profit excluding the effect of reserve releases divided by the fully diluted number of shares in issue

4 Defined as earnings before interest and tax divided by the carrying value of equity plus net debt



## The link between our strategy for 2019/20 and the Remuneration Policy

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 18-19. The key elements of the Company's strategy and how its successful implementation is linked to the Company's remuneration are set out in the following table:

Remuneration Policy	Framework					
	Relaunch Retail Broking with a compelling direct proposition	Complete the transformation of Cruise	Accelerate the transformation of our Tour Operations business	Increase usage of and engagement with our Membership programme, Saga Possibilities	Complete implementation of IT platforms	Developing our people
<p><b>Fixed remuneration (salary, benefits and pension)</b></p> <p>The Company provides competitive levels to attract and retain talent required to successfully deliver on our business strategy.</p>	<p>Sell differentiated products and service to our customers.</p> <p>Launch three-year price for car and house insurance.</p> <p>Improved claims service.</p>	<p>Ensure delivery of two new purpose built cruise ships in July 2019 and August 2020.</p>	<p>Focus the business on higher-margin escorted travel and river cruises.</p> <p>In short haul prioritise high-quality properties and solo travel.</p>	<p>Grow and leverage membership and the Possibilities programme to enhance customer engagement and loyalty.</p>	<p>Ensure we have the IT platforms to deliver great customer outcomes and deliver our commercial objectives.</p>	<p>Build on employee culture which promotes fairness, talent and inclusion and enables a high-performing business.</p>
<p><b>Annual bonus metrics</b></p> <p>Maximum annual bonus opportunity is 150% of salary.</p> <ul style="list-style-type: none"> <li>Two thirds of the total bonus to be paid immediately in cash.</li> <li>One third deferred in shares for three years.</li> </ul>	<p>Increase car and house insurance sales through direct channels.</p> <p>Increase customer retention.</p> <p>PBT and operating cash flow.</p>	<p>Achieve targeted future bookings in 2019/20 for both ships.</p> <p>PBT and operating cash flow.</p>	<p>Increase Tour Operations margin.</p> <p>PBT and operating cash flow.</p>	<p>Leverage membership to enhance Holiday and Insurance sales.</p> <p>Operational objectives.</p>	<p>Deliver the benefits from our investments in our Insurance Claims Management and Travel platforms.</p> <p>Operational objectives.</p>	<p>Improve employee engagement.</p> <p>Enhance diverse succession.</p> <p>Operational objectives.</p>

Remuneration Policy	Framework					
	Relaunch Retail Broking with a compelling direct proposition	Complete the transformation of Cruise	Accelerate the transformation of our Tour Operations business	Increase usage of and engagement with our Membership programme, Saga Possibilities	Complete implementation of IT platforms	Developing our people
<b>LTIP metrics<sup>1</sup></b>						
Maximum annual award is 200% of salary.	Increase car and house insurance sales through direct channels.	Achieve targeted EBITA per ship.  Increase NPS.	Increase the underlying profit before tax margin.  Increase NPS.	Increase prompted brand consideration.  Increase the number of regularly engaged customers.  Increase in the number of customers with more than one product holding.	Implement the IT platforms required to deliver the three-year strategy.  Fully optimise the 'My Saga' digital customer journey.	Improve our engagement score.  Increase female representation in our 1 to 2 year succession pipeline.  Implementation of phase 2 of the leadership development programme.
Awards will vest at the end of three years subject to the achievement of stretching targets.	Increase customer retention.  Increase NPS.	Increase the underlying profit before tax margin.				

Note:

1 The Company will be consulting with shareholders on the structure of proposed LTIP metrics for 2019

## Contents

This section of the Annual Report on Remuneration deals with the following:

- The Committee's report:
  - on wider workforce pay policies and whether the approach to executive remuneration is consistent
  - on the alignment of the incentives operated by the Company with its culture and strategy.
- General pay and conditions in the Company.
- Gender and diversity.
- Comparison metrics on executive and employee remuneration.

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

## Our employees

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

## Committee Report

### Process

In order for the Committee to review the wider workforce pay, policies and incentives, reports are regularly considered at the Remuneration Committee meetings, setting out key details of remuneration throughout the Company. The following table sets out a summary of the information received by the Committee at the end of the financial year:

Element of remuneration	Saga plc
<b>Alignment with remuneration principles</b>	One of Saga's reward principles is to create fair and flexible reward structures for all Saga employees. In the past two years we have reviewed and redesigned most of our compensation and benefit structures in line with this principle.
<b>Salary</b>	<p>For full year 18/19 Saga has awarded an annual 2% pay review.</p> <p>Employees rated as 'achieving' will receive 2%; higher performers will receive a higher rate up to a maximum of 3.6%.</p> <p>Our annual pay review in February is managed centrally, with recommendations for the Group being presented to the Group Executive in December.</p> <p><b>National Living Wage</b> For most employees, we maintain a 20p uplift between minimum pay levels and the National Living Wage. MetroMail has maintained an uplift of 5p to reflect our approach to allow flexibility in our reward structures and to sustain financial viability.</p>

Element of remuneration	Saga plc
<b>Bonus</b>	<p>Saga operates three separate bonus schemes, which have different methods of calculation (excluding Group Executives' bonus):</p> <ol style="list-style-type: none"> <li>1. Top Team Bonus Scheme</li> <li>2. Management Bonus Scheme</li> <li>3. Company Bonus Scheme.</li> </ol> <p>Our Top Team Bonus Scheme is based on Group and divisional profit and cash performance.</p> <p>Our Management Bonus and Company Bonus Schemes are based on the performance in three areas:</p> <ul style="list-style-type: none"> <li>• Group profit: Group PBT, reported at the end of the financial year</li> <li>• Divisional profit: Divisional PBT for the employing division, reported at the end of the year (Group roles are based solely on Group profit)</li> <li>• Individual contribution: performance against the bonus objectives set at the start of the financial year.</li> </ul> <p>Our Top Team Bonus Scheme levels range between 40% and 60% of salary.</p> <p>Management Bonus Scheme levels range between 10% to 20% depending on the level within Saga.</p> <p>Company Bonus Scheme levels range between 0% and 7.5% of salary.</p> <p>Bonuses are paid annually in May subject to Company results.</p>
<b>Sales &amp; commission plans</b>	<p>Sales and commission schemes operate in the following companies within the Saga Group: Saga Services (including Bennetts), ST&amp;H, Destinology, Saga Healthcare, Saga Personal Finance and Titan Travel.</p> <p>The method of calculation varies dependent on business area and product. The majority of these plans are paid monthly.</p> <p>Governance of the sales and commission plans is managed at a divisional Board or Executive Committee level.</p> <p>We review these schemes regularly to ensure they adhere to our reward principles and support good customer outcomes.</p> <p>There are adequate recovery provisions in place for all plans to deal with payments made in error or in breach of our values. These provisions are communicated to all eligible employees.</p>

Element of remuneration	Saga plc																				
<b>LTIP</b>	<p>The LTIP is currently only available to Group Executive, Top Team roles or in exceptional circumstances senior management. These are awarded annually.</p> <p>Malus and clawback provisions are in place.</p> <p>The vesting period is three years. Our Executive Directors are subject to an additional two-year holding period.</p> <p>Eligible employees:</p> <table border="1"> <thead> <tr> <th>Level</th> <th>Number of eligible employees<sup>1</sup></th> <th>Award type</th> <th>Targeted ranges</th> </tr> </thead> <tbody> <tr> <td>Group Chief Executive Officer</td> <td>1</td> <td>Group shares</td> <td>200%</td> </tr> <tr> <td>Group Chief Financial Officer</td> <td>1</td> <td>Group shares</td> <td>150%</td> </tr> <tr> <td>Group Executive</td> <td>5</td> <td>Group shares</td> <td>60%-100%</td> </tr> <tr> <td>Top Team</td> <td>64</td> <td>Group shares</td> <td>40%, 50%, 60%</td> </tr> </tbody> </table>	Level	Number of eligible employees <sup>1</sup>	Award type	Targeted ranges	Group Chief Executive Officer	1	Group shares	200%	Group Chief Financial Officer	1	Group shares	150%	Group Executive	5	Group shares	60%-100%	Top Team	64	Group shares	40%, 50%, 60%
Level	Number of eligible employees <sup>1</sup>	Award type	Targeted ranges																		
Group Chief Executive Officer	1	Group shares	200%																		
Group Chief Financial Officer	1	Group shares	150%																		
Group Executive	5	Group shares	60%-100%																		
Top Team	64	Group shares	40%, 50%, 60%																		

Note:  
1 As at 31 January 2019

<b>Pension</b>	<p>Saga operates two pension schemes, a DB scheme and a defined contribution (DC) scheme. Membership figures (as at 31 January) 2019 are as follows:</p> <ul style="list-style-type: none"> <li>• DB scheme: 1,315</li> <li>• DC scheme: 1,887</li> </ul> <p>The current contributions rates are as follows:</p> <p><b>Saga Pension Scheme (DB)</b></p> <p>Employees can choose to join our DB scheme when reaching three years' service with the Company. The standard accrual is 1/75th with a contribution rate of 8.7% which is matched by the Company. Members have the option to trade up or trade down. The trade down rate is 1/90ths with a contribution rate of 7% employee and 7.5% employer.</p> <p>To trade up they can choose either 1/60th or 1/50th accrual and the contribution rate is 8.7% plus an age-related additional contribution. The employers' contribution is capped at 8.7%.</p> <p>This scheme is not open to resort reps or our carer population.</p> <p><b>Saga Workplace Pension Scheme (DC)</b></p> <p>To be eligible for autoenrolment employees need to be aged over 22 and with earnings of over £10k per annum.</p> <ul style="list-style-type: none"> <li>• Less than 12 months' service: 4% of qualifying earnings (employees can pay more but employer contribution is fixed at 4%).</li> <li>• Over 12 months' service: 4.5% of basic salary (employees can pay more but employer contribution is fixed at 4.5%).</li> <li>• Over three years' service: option to increase to an employer-matched maximum of 6% (employees are also eligible to join Saga Pension Scheme (DB)).</li> <li>• Over five years' service: option to increase to an employer matched maximum of 10%.</li> </ul>
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The Remuneration Committee receives feedback from employee surveys and now feedback from the new People Committee which will meet regularly throughout the year. The first People Committee meeting was held in January 2019 following an election process for the representatives who sit on it and who are drawn from all areas of our business.

Alongside its review of the wider workforce remuneration, the Remuneration Committee considers the approach applied to the Executive Directors and senior management. In particular, the Committee is focused on ensuring the approach to the remuneration of the Executive Directors and senior management is consistent with that applied to the wider workforce.

### Overview of findings

The key findings of the Committee's review for this financial year are as follows:

- Salary increases for employees across the Company are being applied on an equitable basis. Average increases are considered when setting salary increases for the Executive Directors.
- The majority of employees have the ability to share in the success of the Company through incentive compensation. In line with market practice, the level of incentive compensation and whether it is paid solely in cash or in a mixture of cash and deferred shares depends on the level of seniority of employees. The incentive approach applied to the Executive Directors aligns with the wider Company policy on incentives; which is:
  - to have a higher percentage of at risk performance pay the more senior the employee
  - to increase the amount of incentive deferred, provided in equity and/or measured over the longer term the more senior the employee.
- The following table shows the cascade of incentives throughout the Company:

### Competitive pay and cascade of incentives

Organisational level	Employee <sup>1</sup>	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% <sup>2</sup>	33% <sup>2</sup>	200%	✓
Group Chief Financial Officer	1	125%	67% <sup>2</sup>	33% <sup>2</sup>	150%	✓
Executive Team	6	100%	67% <sup>2</sup>	33% <sup>2</sup>	100%	✓
Executive Team	1	80%	100%	0%	80%	✓
Executive Team	1	60%	100%	0%	60%	✓
Directors <sup>3</sup>	12	60%	100%	0%	60%	✓
Senior leadership	56	40%	100%	0%	40%	✓
Other bonused employees	2,525	20%	100%	0%	n/a	✓
Non-bonused employees	1,467	n/a	n/a	n/a	n/a	✓

Notes:

1 Employees of the Group as at 31 January 2019

2 The maximum level of deferral of bonus in shares for these employees is 50%. Minimum deferral has been set at 33%

3 Director defined as a statutory Executive Director of any board of the Group other than Executive Directors of the plc Board or members of the Executive Team

- Equity participation is offered to all employees of the Company through the SIP. Senior employees are eligible for LTIP and deferred shares.
- In line with the Company's wider policy on pay, all employees have the opportunity to participate in a Company pension arrangement.
- They also receive benefits appropriate to their level of seniority.



## Fairness, diversity and wider workforce considerations

continued

The alignment between Company strategy and culture is demonstrated in the table of incentives below:

	Culture	Strategy
<b>Bonus plans</b>	<p>Focus on how performance is delivered as well as the actual performance. Customer metrics are an integral approach to incentivisation as is a careful calibration of risk.</p> <p>At senior levels in the organisation a proportion of the bonus is deferred for the long-term to support a share ownership culture in the Company and a focus on long-term performance.</p>	<p>The link to strategy is set out on pages 96-97.</p>
<b>SIPs</b>	<p>All sales plans are designed to produce positive customer outcomes and to ensure levels of risk are mitigated.</p>	
<b>LTIP</b>	<p>The LTIP focuses on long-term sustainable performance which is part of the culture of the Company. The retention of shares for the longer term also supports a shared ownership culture in the Company.</p>	

## Conclusion

In summary the Committee is satisfied that the approach to remuneration across the Company is consistent with the Company's principles of remuneration. In the Committee's opinion the approach to executive remuneration aligns with wider Company pay policy and there are no anomalies specific to the Executive Directors.

The following sets out a summary of the Company's general policies:

### Communication with employees

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

From January 2019, Saga has set up a People Committee which is comprised of 18 elected members who act as representatives from all areas of the business. The People Committee exists to achieve the following:

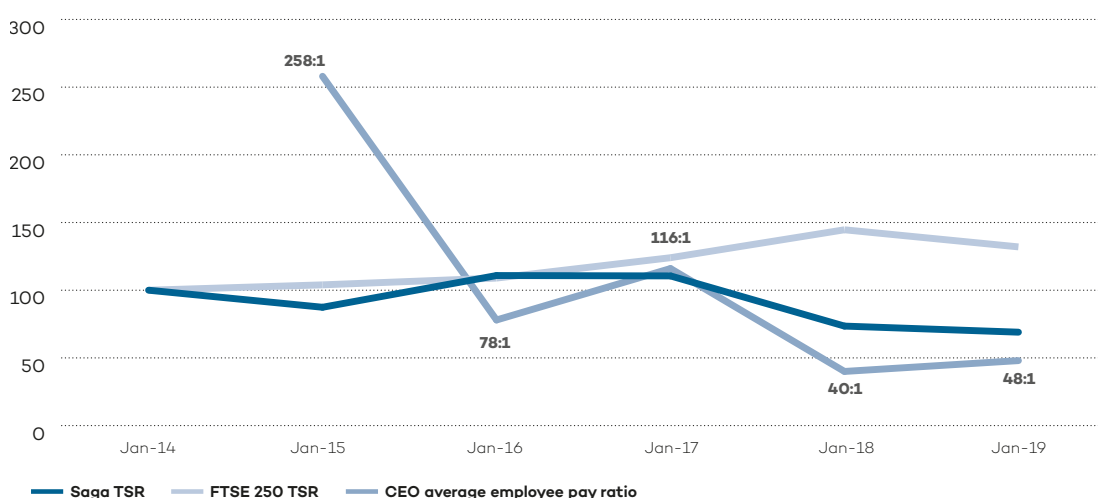
- improved employee engagement across the Group and confidence in the leadership of the business
- a structured and recognised mechanism for collective consultation/feedback which meets the UK Corporate Governance Code and our legislative responsibilities including but not limited to pay review
- a regular forum for open discussion and debate which is representative of our whole workforce
- supplement our regular engagement surveys by providing an important two-way dialogue with our employees and demonstrate where actions are being taken where appropriate
- improve and enhance our current working environment
- improve and help define our culture at Saga.

### Equal opportunities

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

Area	Considerations
Pay comparisons	<b>CEO ratio</b> We have set out:

Our CEO to average employee pay ratio for 2018/19 is 48:1. To give context to this ratio, we have set out below a chart tracking the CEO to average employee pay ratio since 2014/15 alongside Saga's TSR performance since IPO.



FTSE 250 index. The graph shows the TSR generated by both the movement in share value and the re-investment 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 IPO. This graph has been calculated in accordance with the Listing 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 2019.

In summary there is significant volatility in Group Chief Executive Officer pay, and we believe that this is caused by the following:

- Our Group Chief Executive Officer pay is made up of a higher proportion of incentive pay than that of our employees, in line with the expectations of our shareholders. This introduces a higher degree of variability in his pay each year which affects the ratio.
- The value of long-term incentives which measure performance over three years is disclosed in pay in the year it vests, which increases the Group Chief Executive Officer pay in that year, again impacting the ratio for that year.
- Long-term incentives are provided in shares, and therefore an increase in share price over the three years magnifies the impact of a long-term incentive award vesting in a year.
- We recognise that the ratio is driven by the different structure of the pay of our Group Chief Executive Officer versus that of our employees, as well as the make-up of our workforce. This ratio varies between businesses even in the same sector. What is important from our perspective is that this ratio is influenced only by the differences in structure, and not by divergence in fixed pay between the Group Chief Executive Officer and wider workforce.
- Where the structure of remuneration is similar, as for the Executive Committee and the Group Chief Executive Officer, the ratio is much more stable over time.

Area	Considerations																																																				
<b>Pay comparisons</b> continued	<b>Employee and Executive Committee ratios</b>																																																				
	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:																																																				
	<table border="1"> <thead> <tr> <th></th> <th>2018/19</th> <th>2017/18</th> <th>2016/17</th> <th>2015/16</th> <th>2014/15</th> </tr> </thead> <tbody> <tr> <td>Group Chief Executive Officer</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total single figure</td> <td>£1,191,743</td> <td>£1,025,146<sup>1</sup></td> <td>£2,490,617</td> <td>£1,600,287</td> <td>£5,328,702<sup>2</sup></td> </tr> <tr> <td>Annual bonus payment level achieved (percentage of maximum opportunity)</td> <td>35.1%</td> <td>0%</td> <td>67.5%</td> <td>78.6%</td> <td>80.7%</td> </tr> <tr> <td>LTIP vesting level achieved (percentage of maximum opportunity)</td> <td>0%<sup>3</sup></td> <td>26.0%</td> <td>65.6%</td> <td>n/a<sup>8</sup></td> <td>n/a<sup>8</sup></td> </tr> <tr> <td rowspan="3">Ratio of CEO single total remuneration figure to all employees<sup>4,5,6</sup></td> <td>25th percentile</td> <td>59:1</td> <td>8:1</td> <td>n/a</td> <td>n/a</td> </tr> <tr> <td>Median<sup>7</sup></td> <td>48:1</td> <td>40:1</td> <td>116:1</td> <td>78:1</td> </tr> <tr> <td>75th percentile</td> <td>36:1</td> <td>33:1</td> <td>n/a</td> <td>n/a</td> </tr> <tr> <td>Ratio of single total remuneration figure shown to Executive Committee members</td> <td>3:1</td> <td>3:1</td> <td>4:1</td> <td>2:1</td> <td>3:1</td> </tr> </tbody> </table>		2018/19	2017/18	2016/17	2015/16	2014/15	Group Chief Executive Officer						Total single figure	£1,191,743	£1,025,146 <sup>1</sup>	£2,490,617	£1,600,287	£5,328,702 <sup>2</sup>	Annual bonus payment level achieved (percentage of maximum opportunity)	35.1%	0%	67.5%	78.6%	80.7%	LTIP vesting level achieved (percentage of maximum opportunity)	0% <sup>3</sup>	26.0%	65.6%	n/a <sup>8</sup>	n/a <sup>8</sup>	Ratio of CEO single total remuneration figure to all employees <sup>4,5,6</sup>	25th percentile	59:1	8:1	n/a	n/a	Median <sup>7</sup>	48:1	40:1	116:1	78:1	75th percentile	36:1	33:1	n/a	n/a	Ratio of single total remuneration figure shown to Executive Committee members	3:1	3:1	4:1	2:1	3:1
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Notes:

- For 2017/18 the final value of the 2015 LTIP award as at vesting date is shown which has been restated from the 2017/18 annual report. The share price at vesting date of 30 June 2018 was 125.6p
- 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. Twenty five percent 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
- Based on indicative vesting as at 31 January 2019. The award will vest on 16 May 2019. The final vesting outcome will be stated in the 2019/20 annual report
- The fall in the ratio in 2017/18 is due to the forfeiture of bonus by the Group Chief Executive Officer and the relatively low payout on the LTIP. This reflects the fact that shareholders want Executives to have a higher proportion of pay at risk and this is reflected in the volatility in the chart. The percentage change in Group Chief Executive Officer remuneration set out in the table below shows that year-on-year when the volatility of payouts from equity-based awards is excluded that the changes in remuneration for the Group Chief Executive Officer and average employee are broadly in line. This demonstrates that the underlying compensation ratio is not increasing year-on-year
- The increase in ratio for 2018/19 is due to the Group Chief Executive Officer receiving a bonus in 2018/19. This increase has remained low due to a relatively low bonus and LTIP payout
- For the employee ratio Saga has chosen to use Option B, identifying employees using our gender pay gap data. This was the preferred option due to the availability of data for our many UK-based, overseas and part-time employees for whom single total figure data is difficult to calculate. Figures have been completed for 2017/18 and 2018/19 using the April 2017 and April 2018 gender pay gap data. In order to mitigate any anomalies, 11 individuals have been identified at each percentile point from the gender pay gap data, and the median of pay in the year up to 31 January 2018 and 31 January 2019, for these employees calculated in line with the single total figure methodology. For employees who participate in a defined benefit scheme, the value of the pension for the purposes of total pay has been estimated based on the individual's accrual rate and length of service
- The median ratios shown for 2014/15, 2015/16 and 2016/17 have been recalculated to allow a comparison to the 2017/18 and 2018/19 figures which have been calculated in line with the methodology prescribed by the regulations
- There was no LTIP or share option plan operated prior to listing

The employee pay figures used to calculate the ratio are:

		25th percentile	Median	75th percentile
2018/19	Salary	£18,360	£22,448	£29,655
	Total pay	£20,253	£24,919	£33,235
2017/18	Salary	£17,144	£22,065	£25,220
	Total pay	£21,496	£25,427	£30,950

Area	Considerations								
<b>Pay comparisons</b> continued	<b>Percentage change in Group Chief Executive Officer remuneration</b>								
	The following table sets out the change in the remuneration paid to the Group Chief Executive Officer from 2017/18 to 2018/19 compared with 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			£ Bonus		
			Percent- age change			Percent- age change			Percent- age change
	2018/19	2017/18 <sup>1</sup>		2018/19	2017/18		2018/19	2017/18	
Group Chief Executive Officer <sup>1</sup>	689,785	689,785	0%	35,319	32,346	9% <sup>2</sup>	363,171	0	n/a
Average per employee	28,418	28,719	-1% <sup>3</sup>	993	928	7% <sup>2</sup>	2,971	1,822	63.1%

Notes:

1 2017/18 figure has been revised to include our port representatives and casual drivers

2 The increase in benefits is driven by HMRC annual increases to the company car tax and fuel benefit charge as reported on P11D

3 Decrease in average salary due to number of redundancies in 2017 and 2018

## Background

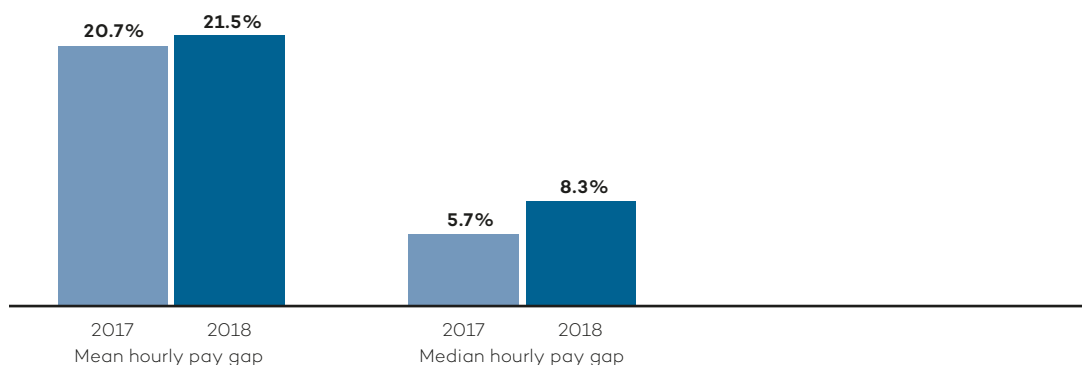
Gender pay reporting legislation came into force in April 2017 and requires all UK employers with 250 or more employees to publish annual information illustrating pay differences between male and female employees.

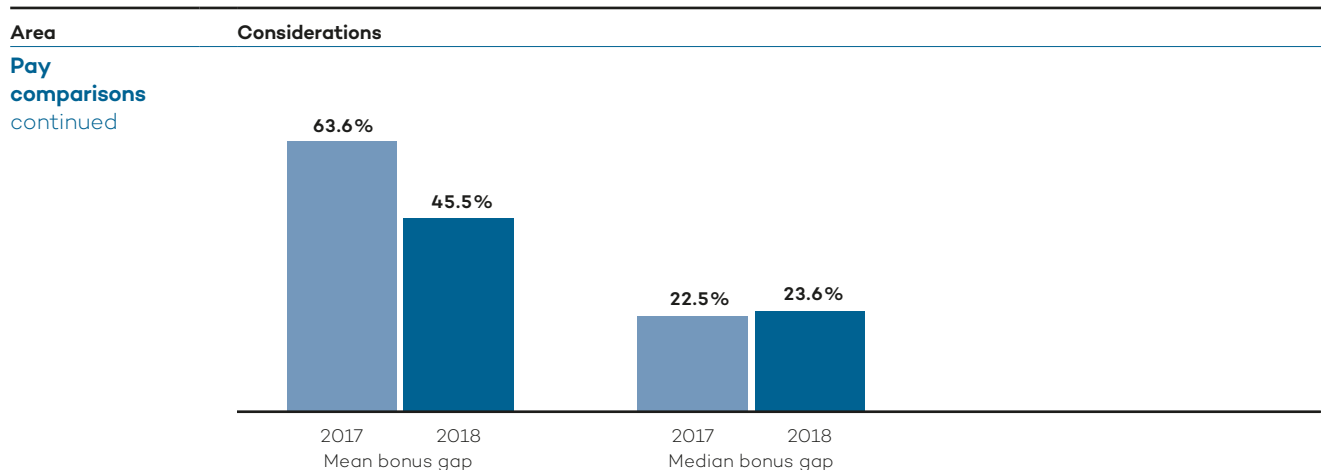
We welcomed the opportunity to report our findings last year and saw it as an opportunity to test the effectiveness of our existing reward strategies and embraced this as an opportunity to drive our focus on diversity forward.

Our 2018 results demonstrate that we have broadly maintained our overall position when we compare our figures against our 2017 reportable numbers. This is somewhat encouraging given the significant changes in our Leadership Team and the employee base during 2018. As a result, much of the narrative in our 2018 report is consistent with what was reported in 2017. There are also some positive improvements within our reportable numbers such as a decrease in our non-demographic pay gap, which suggest the closer focus on pay and addressing individual pay discrepancies against the market median has had a positive impact on closing the actual difference in pay between men and women.

Our reward principles fully support the work on gender pay and we are confident that men and women are paid fairly and equally for doing equivalent jobs across our business. Our full report with all our reportable entities disclosure figures can be found at [www.saga.co.uk](http://www.saga.co.uk)

Area	Considerations
<p><b>Pay comparisons</b> continued</p>	<p><b>Definitions</b></p> <p>Difference between gender pay and equal pay:</p> <ul style="list-style-type: none"> <li>• A gender pay gap is the difference between average male and female pay for an organisation, regardless of nature of work. This means that gender distribution across grades will be a significant driver of any gap.</li> <li>• An equal pay gap, on the other hand, refers to an unlawful pay gap between male and female employees carrying out the same roles with the same experience and skills.</li> </ul> <p>The 'gender pay gap' is a metric that measures the difference in average hourly pay across all men and women across an organisation, by reference to both the mean and median figures.</p> <ul style="list-style-type: none"> <li>• The 'mean' is an arithmetic average of a set of numbers. The mean calculation considers basic average pay/bonus across all of our employees.</li> <li>• The median is the number in the middle of a set of ordered numbers. The median calculation focuses on those employees in the middle of pay/bonus ranges, thereby reducing the impact of our highest and lowest paid employees. The 'median' calculation reduces the very significant impact of our most senior male employees, in order to provide a gender pay gap figure which is much more representative of the majority of our employees.</li> </ul> <p><b>Saga Group gender pay gaps</b></p> <p>The gaps in both pay and bonus continue to be driven by an over-representation of male employees in our senior highly paid roles, which has the impact of increasing the average male salary across Saga (and therefore driving the overall pay gaps).</p> <p>Whilst both the median pay for females and males in 2018 increased, the male median pay increased at a higher rate, hence our relative increase of 2.7%. Several factors contributed to this including:</p> <ul style="list-style-type: none"> <li>• senior male hires</li> <li>• a large proportion of females being excluded from the calculation (we must exclude employees who do not receive normal pay due to sickness, unpaid absence or maternity)</li> <li>• a decrease in the number of overall employees included in the report with 67% of these being female.</li> </ul> <p>Due to our bonus being linked to base pay, we expect to see a similar correlation in both sets of reportable numbers. The significant change in mean bonus is largely due to the high-value share award to our Chief Executive in 2017, which had a significant impact on our overall gap in 2017.</p> <p>The tables below show our mean and median hourly pay and bonus gaps, based on April 2018 payroll data.</p>





Addressing representation is a long-term objective of our gender pay workstream. We are passionate about creating a diverse and inclusive culture where everyone succeeds; as such we continue to focus on creating opportunities with our senior leadership team and strengthening our succession pipeline.

### What we are doing at Saga to close the gap

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

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

### Diversity policy

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

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

See Strategic Report for more information on pages 28-29.



**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 2018/19 financial year. Comparative figures for the 2017/18 financial year have also been provided. Figures provided have been calculated in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013.

	Period	Salary/ fees £	Taxable benefits <sup>1</sup> £	Bonus <sup>4</sup> £	LTIP <sup>2</sup> £	Pension <sup>3</sup> £	Total £
<b>Executive Directors</b>							
Lance Batchelor (Group Chief Executive Officer)	2018/19	689,785	35,319	363,171	0	103,468	1,191,743
	2017/18	689,785	32,346	0	199,547	103,468	1,025,146
James Quin <sup>5</sup> (Group Chief Financial Officer)	2018/19	30,833	3,097	25,686	0	3,083	62,699
	2017/18	n/a	n/a	n/a	n/a	n/a	n/a
Jonathan Hill <sup>5</sup> (Group Chief Financial Officer)	2018/19	282,981	15,580	0	0	42,448	341,009
	2017/18	424,483	24,243	0	92,099	63,672	604,497
<b>Non-Executive Directors</b>							
Patrick O' Sullivan <sup>6</sup> (Chairman)	2018/19	243,750	0	0	0	0	243,750
	2017/18	n/a	n/a	n/a	n/a	n/a	n/a
Andrew Goodsell <sup>7</sup> (Chairman)	2018/19	71,527	10,858	0	0	0	82,385
	2017/18	284,240	45,488	0	0	0	329,728
Ray King (Non-Executive Director, Audit Committee Chair)	2018/19	73,672	0	0	0	0	73,672
	2017/18	73,256	0	0	0	0	73,256
Orna NiChionna (Senior Independent Non- Executive Director, Risk Committee Chair)	2018/19	96,710	0	0	0	0	96,710
	2017/18	95,756	0	0	0	0	95,756
Julie Hopes <sup>8</sup> (Non-Executive Director)	2018/19	36,224	0	0	0	0	36,224
	2017/18	n/a	n/a	n/a	n/a	n/a	n/a
Eva Eisenschimmel <sup>9</sup> (Non-Executive Director)	2018/19	5,306	0	0	0	0	5,306
	2017/18	n/a	n/a	n/a	n/a	n/a	n/a
Gareth Williams (Non-Executive Director, Remuneration Committee Chair)	2018/19	73,672	0	0	0	0	73,672
	2017/18	73,256	0	0	0	0	73,256
Bridget McIntyre <sup>10</sup> (Non-Executive Director)	2018/19	120,568	0	0	0	0	120,568
	2017/18	136,512	0	0	0	0	136,512

## Notes:

- The types of benefits provided included family private health cover, death in service life assurance, a car allowance or company car, subsistence expenses and staff discounts in line with other employees
- Values shown for 2018/19 represent the indicative vesting of the 2016 award. The performance period of the TSR element of the award is due to be tested in May 2019, the value in the table above assumes zero vesting under the TSR element based on performance to year end. For 2018/19 the final value of the 2015 LTIP award as at vesting date is shown which has been restated from the 2018/19 annual report. The share price at vesting date of 30 June 2018 was 125.6p
- Reflects the value of the pension supplement
- See the Chair of Remuneration Committee's Annual Statement for the details of the Committee's deliberations on bonus
- James Quin joined the Board on 1 January 2019, replacing Jonathan Hill who left the Company on 28 September 2018
- Patrick O' Sullivan was appointed Chairman on 1 May 2018
- Until his retirement as Chairman on 30 April 2018, Andrew Goodsell continued to receive taxable benefits which are legacy arrangements from his employment as Executive Chairman and comprise a leased car with associated fuel, and healthcare
- Julie Hopes joined the Board on 1 October 2018
- Eva Eisenschimmel joined the Board on 1 January 2019
- Bridget McIntyre retired from the Saga plc Board on 31 October 2018

### Annual bonus<sup>3</sup>

See page 86 for details of the financial performance conditions and their level of satisfaction which are incorporated into this Annual Report on Remuneration by reference.

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

Name	Weighting	Objective	Details	Achievement of objective
Lance Batchelor Group Chief Executive Officer	10%	Deliver Saga growth agenda	Deliver budgeted growth agenda through: <ul style="list-style-type: none"> <li>increase in Insurance policy numbers from 2,769k to 2,785k</li> <li>achieve persistency rates of 77.1% for home and 65.2% for motor</li> <li>deliver Tour Operation and Cruise passenger growth from 211k to 224k</li> <li>deliver 10% growth in cross-sell.</li> </ul>	2% Partially achieved
	10%	Deliver Olympic business case	Deliver business case for Spirit of Discovery and Spirit of Adventure through: <ul style="list-style-type: none"> <li>delivery of 2019/20 detailed annual plan consistent with the agreed business case</li> <li>deliver on track revenue per capacity day of £235</li> <li>deliver on track ship operating cost per capacity day of £115.</li> </ul>	9% Achieved
	10%	Build employee engagement	Build Saga as an admired place to work by increasing overall employee engagement. Focus on improving underlying sustainable engagement by 5%.	4% Partially achieved
James Quin Group Chief Financial Officer	10%	Introduction to Saga, governance and responsibilities	Positive engagement with the Business, Board and CEO to ensure: <ul style="list-style-type: none"> <li>full understanding of Saga's strategy</li> <li>full understanding of Saga's governance and risk appetite including the responsibilities at the Group and regulated entities level</li> <li>full understanding of the Saga customer and customer experience</li> <li>Saga values, culture and how these are embedded in the Company.</li> </ul>	10% Achieved
	10%	Delivery of required financials	Delivery of 2018/19 financial reporting	10% Achieved
	10%	Deliver Saga growth agenda	Delivery of 2019/20 business plan and strategy	10% Achieved

#### Notes:

1 The bonus paid to the CEO was adjusted – see the Chair of the Remuneration Committee's Annual Statement on pages 83-85

2 The bonus paid to James Quin (the new Group CFO) was pro-rated to reflect that he had only been employed by the Company since 1 January 2019

3 No bonus was paid to Jonathan Hill, the departed Group CFO

### Long-term incentives vested in 2018/19 (audited)

The LTIP awards granted on 30 June 2015 vested on 30 June 2018. The final vesting percentage was 26%, in line with the estimate disclosed in the 2017/18 annual report.

The below table confirms the vesting of the 2015 LTIP award for Lance Batchelor:

Name	Award level (% of salary)	Portion of EPS vesting	Portion of TSR vesting	Total vesting (as % of award)	LTIP value for single figure
Lance Batchelor	200%	52%	0%	26%	£199,547

For the 2017/18 annual report, the average share price for the final quarter of 2017/18 of 146.8p was used to estimate the value of the award. Now that the share price on vesting as well as final number of awards vesting is known, the LTIP value above and in the single figure table have been restated. The value of the award has been calculated using the share price at vesting date of 125.6p. No discretion has been exercised by the Committee in determining the level of LTIP vesting.

### Long-term incentives vesting in respect of 2018/19 performance (audited)

The LTIP awards granted on 16 May 2016 have not yet vested but as performance was substantially completed during the 2018/19 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 2020 Annual Report on Remuneration to reflect the final vesting outcome and the actual share price on the date of vesting (currently in line with the Regulations the average share price for the last quarter of the financial year has been used). The 2016 LTIP is equally weighted between EPS and relative TSR performance conditions. The EPS growth is measured to the 2018/19 year end and the three year TSR condition concluding on 16 May 2019. The EPS over the period has grown by 10% p.a. against the range of 7-12% p.a. equating to a vesting of 0% of the EPS element. The Company has assessed relative TSR performance against the FTSE 250 (excluding real estate and investment trusts) to 31 January 2019. Saga ranked below the median equating to an indicative vesting of 0%. The table below presents the indicative vesting of the 2016 LTIP award for Lance Batchelor.

Name	Award level (% of salary)	Portion of EPS vesting	Estimate of TSR vesting <sup>1</sup>	Estimate of total vesting (as % of award)	Indicative LTIP value for single figure <sup>2</sup>
Lance Batchelor	200% of salary	0%	0%	0%	£0

Notes:

1 Based on TSR performance against the peer group to 31 January 2019

2 Value based on the Company's final quarter average share price to 31 January 2019 of 108.15p

### Long-term incentives awarded in 2018/19 (audited)

The table below sets out the details of the long-term incentive awards granted in the 2018/19 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
Lance Batchelor	LTIP	Annual	£1,379,570	1,015,136	25%	100%

The awards were granted on 1 May 2018; the face value is calculated with reference to the share price on 1 May 2018 of 135.90p. The awards will vest, subject to the level of performance achieved, on 1 May 2021. For performance conditions see page 86.

## Pension entitlements (audited)

Name	Age at 31/01/2019	Pensionable service at 31/01/2019	Accrued Pension		Single figure numbers		Extra information disclosed under 2013 Directors' Remuneration Regulations	
			01/02/2018	31/01/2019	Pension salary supplement <sup>1</sup>	Value x20 over year <sup>2</sup>	Total pension benefits	Normal retirement age
Lance Batchelor	55	2 years, 9 months	£6,213	£6,213	£103,468	£0	£103,468	65
Jonathan Hill	50	1 year, 10 months	£3,156	£3,156	£42,448	£0	£42,448	65

Notes:

1 Pension salary supplement paid is 15% of the Executive Director's base salary

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

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

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

### Directors' share interests

Directors' share interests are discussed in the Summary Report on page 90 and are incorporated into this Annual Report on Remuneration by reference.

### Performance graph and table

The TSR performance graph and single figure of remuneration for the CEO are set out in the section of the report headed Fairness, diversity and wider workforce considerations and are incorporated into this Annual Report on Remuneration by reference.

### Percentage change in remuneration of Director undertaking the role of Chief Executive Officer

This information is set out in the section of the report headed Fairness, diversity and wider workforce considerations and are incorporated into this Annual Report on Remuneration by reference.

### 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 the White Ensign Association; in January 2019, he was appointed as a Non-Executive Director on the Board of the Royal Navy. He does not receive a fee for his position with the White Ensign Association. He does receive a fee for the Navy Board position of £15,000 per annum. James Quin holds no external Directorships.

### Implementation of policy

Implementation of policy is discussed in the Summary Report and is incorporated into this Annual Report on Remuneration by reference.

### Relative importance of the spend on pay

The table below sets out the relative importance of spend on pay in the 2018/19 financial year and 2017/18 financial year compared with other disbursements. All figures provided are taken from the relevant company accounts.

	Disbursements from profit in 2018/19 financial year (£m)	Disbursements from profit in 2017/18 financial year (£m)	Percentage change
Profit distributed by way of dividend	100.9	98.5	2.4%
Total tax contributions <sup>1</sup>	74.6	75.1	-0.7%
Overall spend on pay including Executive Directors	123.9	136.7	-9.3%

Note:

1 Total tax contributions include corporation tax, national insurance contributions, VAT and air passenger duty

## Annual Report on Remuneration

continued

### Shareholder voting at the AGM

A new Directors' Remuneration Policy was put to a binding vote and the Chairman's Annual Statement and the Annual Report on Remuneration were subject to an advisory vote at the AGM on 21 June 2018. Below we outline the voting outcomes in respect of approving the Directors' Remuneration Report and approving the Directors' Remuneration Policy. Overall both the Remuneration Policy and Report received overwhelming support from shareholders.

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	708,342,888	99.34	4,703,239	0.66	714,727,672	63.6%	1,681,545
To approve the Directors' Remuneration Policy	710,588,229	99.49	3,637,508	0.51	714,727,672	63.8%	501,935

The Committee, therefore, intends to make no change to the Policy or its implementation for 2019/20.

### Advisers to the Remuneration Committee

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 were appointed by the Remuneration Committee, and the Committee is satisfied that the advice provided is independent. 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 £80,000 (2017/18: £51,250) were provided to PwC during the year in respect of remuneration advice received. The increase from the prior year is due to additional support in relation to the renewal of the Remuneration Policy.



**Gareth Williams**  
Chair, Remuneration Committee  
3 April 2019

## Management report

The Directors' Report, together with the Strategic Report set out on pages 1-51, form the Management Report for the purposes of Disclosure Guidance and Transparency Rule (DTR) 4.1.5R.

## Statutory information contained elsewhere in the annual report

Information required to be part of this Directors' Report can be found elsewhere in the annual report as indicated in the table below and is incorporated into this report by reference.

Information	Location in annual report
Likely future developments in the business of the Company or its subsidiaries	Pages 1-51
Corporate social responsibility	Pages 28-33
Greenhouse gas emissions	Pages 32-33
Employees (employment of disabled persons, employee engagement and policies)	Pages 15 and 28
Corporate Governance Statement	Pages 52-82
Directors' details (including changes made during the year)	Pages 59 and 64-66
Related party transactions	Not applicable
Diversity	Pages 28 and 69
Share capital	Note 29 on page 182
Viability statement	Page 54
Going concern and Fair, balanced and understandable statement	Page 55
Employee share schemes (including long-term incentive schemes)	Note 32 on pages 184-185
Financial instruments: information on the Group's financial instruments and risk management objectives and policies, including our policy for hedging	Notes 2.3, 18 and 19 on pages 133-144, 162-165 and 167-172
Additional information	Pages 198-201

## Disclosure table pursuant to Listing Rule (LR) 9.8.4C

The following table provides references to where the information required by Listing Rule 9.8.4C R is disclosed:

Listing Rule	Listing Rule requirement	Disclosure
9.8.4(1)	Interest capitalised by the Group and any related tax relief	Note 17 on page 161
9.8.4(2)	Unaudited financial information (LR 9.2.18R)	Operating and Financial Review, pages 38-51
9.8.4(4)	Long-term incentive schemes (LR 9.4.3R)	Directors' Remuneration Report, pages 83-112
9.8.4(5)	Directors' waivers of emoluments	Directors' Remuneration Report, pages 83-112
9.8.4(6)	Directors' waivers of future emoluments	Directors' Remuneration Report, pages 83-112
9.8.4(7)	Non pre-emptive issues of equity for cash	Directors' Report on page 116
9.8.4(8)	Non pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking	Not applicable
9.8.4(9)	Parent company participation in a placing by a listed subsidiary	Not applicable
9.8.4(10)	Contract of significance in which a Director is or was materially interested	Not applicable
9.8.4(11)	Contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder	Not applicable
9.8.4(12)	Waiver of dividends by a shareholder	Directors' Report on page 116 (under paragraph 'Rights attaching to shares')
9.8.4(13)	Waiver of future dividends by a shareholder	Directors' Report on page 116 (under paragraph 'Rights attaching to shares')
9.8.4(14)	Board statement in respect of relationship agreement with the controlling shareholder	Not applicable



**Results and dividends**

The Group made a loss after taxation of £(162.0m) for the financial year ended 31 January 2019. The Board paid an interim dividend of 3.0p per share and proposes to pay, subject to shareholder approval at the 2019 AGM, a final dividend of 1.0p net per share in respect of the year ended 31 January 2019.

The Directors have adopted a long-term sustainable dividend policy (which is reviewed by the Board on an annual basis). This will reflect the growth of the business while retaining sufficient profits to fund investment and ensure that there are sufficient capital reserves. Any decision to declare and pay dividends is made at the discretion of the Directors and depends on, among other things, applicable law, regulation, restrictions, the Group's financial position, regulatory capital requirements, working capital requirements, finance costs, general economic conditions and other factors the Directors deem significant from time to time.

**Political donations**

No political donations were made during the year.

**Directors' interests**

A list of the Directors, their interests in the long-term performance share plan, contracts and ordinary share capital of the Company are given in the Directors' Remuneration Report on pages 83-112.

**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 Jonathan Hill, who has resigned from the Board with effect from 28 September 2018, and Bridget McIntyre, who retired from the Board on 31 October 2018, and Eva Eisenschimmel, Julie Hopes, Gareth Hoskin and James Quin, whose elections will be put to the shareholders at the AGM.

A Director may be appointed by ordinary resolution of the shareholders in a general meeting following nomination by the Board or a member (or members) entitled to vote at such a meeting. In addition, the Directors may appoint a Director to fill a vacancy or as an additional Director, provided that the individual retires at the next AGM.

A Director may be removed by the Company in certain circumstances set out in the Company's articles of association or by an ordinary resolution of the Company.

**Directors' indemnities and insurance**

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by law and the Company's articles of association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company or any of its subsidiaries. No amount was paid under any of these

indemnities or insurances during the year other than the applicable insurance premiums. Directors' and officers' liability insurance is in place as at the date of this report, at an amount which the Board considers adequate. This is subject to an annual review.

**Change of control – significant agreements**

A number of agreements take effect, alter or terminate upon a change of control of the Company, including following a takeover bid, for example, insurance, commercial contracts and distribution agreements. There are a number of contracts and arrangements throughout the Group for which the legal risk arising out of a change of control is closely managed as part of the contractual governance process.

The Group's corporate debt is unsecured and in place for general purposes. It consists of a £250m seven-year public listed bond at 3.375%, due to expire in May 2024, which has 101% put at change of control leading to a 1 notch credit rating downgrade, a five-year £200m term loan expiring in May 2022 and a £100m five-year revolving credit facility, expiring in May 2023.

Twelve year Export Credit Agency backed funding is in place to finance 80% of the cost of the Group's two new ships. These facilities will be drawn as ship builds complete and are secured by way of a charge over the assets financed. The Company has provided a guarantee for the ship debt.

In the event of a change of control the facilities would either require repayment or renegotiation. If the ship financing is terminated, significant break fees may be incurred. Further details on banking facilities are shown in note 27 to the consolidated financial statements on page 181.

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.

**Share capital and interests in voting rights**

The Company's share capital (including movements during the year) is set out on page 182. 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 2019, 1,122,003,328 ordinary shares of 1p each have been issued, are fully paid up and

quoted on the London Stock Exchange. In July 2018, the Company issued 1,707,909 new ordinary shares of 1p each for transfer into an Employee Benefit Trust to satisfy employee incentive arrangements. The new shares were admitted to trading on 10 July 2018. This increased the Company's issued share capital to 1,122,003,328 ordinary shares of 1p, of which no shares are held in treasury.

In accordance with DTR 5.1, the Company has been notified of the following interests in the Company's total voting rights as at 31 January 2019:

Name	Date of disclosure to Company <sup>1</sup>	Ordinary shares	Percentage of capital	Nature of holding
Majedie Asset Management Limited (owned by Majedie UK Income Fund, Majedie Asset Management UK Income Fund, Majedie Asset Management UK Equity Fund, Majedie UK Equity Fund, Majedie Institutional Trust and Discretionary Clients)	03/12/2015	68,956,717	6.17%	Indirect
Artemis Investment Management LLP on behalf of discretionary funds under management	23/03/2017	111,601,253	9.98%	Indirect
BlackRock Inc.	19/04/2018	56,195,022	5.01%	Indirect, Securities Lending, Contract for Difference
Royal London Asset Management Limited (owned by HSBC Global Custody Nominees (UK) Ltd)	31/08/2018	55,282,337	4.9271%	Direct
Pelham Long/Short Master Fund Ltd (owned by Pelham Long/Short Master Fund Ltd)	22/11/2018	49,867,633	4.44%	Contract for Difference
Aggregate of Standard Life Aberdeen plc affiliated investment management entities with delegated voting rights on behalf of multiple managed portfolios	08/01/2019	157,793,867	14.06%	Indirect Rights to recall lent shares
Setanta Asset Management Limited	04/02/2019	78,881,033	7.0304%	Indirect

Note:

1 Since the date of disclosure to the Company, the interest of any person listed above in ordinary shares may have increased or decreased. No requirement to notify the Company of any increase or decrease arises unless the holding passes a notifiable threshold in accordance with DTR 5.1

- Information regarding other interests in voting rights provided to the Company pursuant to the FCA DTRs is published on the Company's website and a Regulatory Information Service. Notification was also received by the Company during the year that Deutsche Bank AG and J. P. Morgan Chase & Co (owned by J. P. Morgan Securities plc) had notifiable interests but these ceased to be notifiable interests and are not included in the table above.
- As at 3 April 2019, the Company had been notified, in accordance with the UK Listing Authority's Disclosure Guidance and Transparency Rules that the following shareholders held, or were beneficially interested in, 3% or more of the voting rights in the Company's issued share capital:

Name	Date of disclosure to Company	Ordinary shares	Percentage of capital	Nature of holding
BlackRock, Inc	20/02/2019	56,398,638	5.02%	Direct Securities Lending Contract for Difference
Aggregate of Standard Life Aberdeen plc affiliated investment management entities with delegated voting rights on behalf of multiple managed portfolios	29/03/2019	170,169,192	15.17%	Indirect

**Authority to allot/purchase own shares**

A shareholders' resolution was passed at the AGM on 21 June 2018 which authorised the Company to make market purchases within the meaning of section 693(4) of the Companies Act 2006 (the 'Act') (up to £1,120,295.41 representing 10% of the aggregate nominal share capital of the Company following Admission). This is subject to a minimum price of 1p and a maximum price of the higher of 105% of the average mid-market quotations for five business days prior to purchase or the price of the last individual trade and highest current individual bid as derived from the London Stock Exchange trading system.

The Company did not exercise this authority during the year and it will expire at the forthcoming AGM. 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 £1,122,003.32 and will set out the minimum and maximum price which would be paid.

The Directors of the Company were also granted authority at the 2018 AGM to allot relevant securities up to a nominal amount of £3,730,583. This authority will apply until the conclusion of the 2019 AGM, at which shareholders will be asked to grant the Directors authority (for the purposes of section 551 of the Act) to allot relevant securities (i) up to an aggregate nominal amount of £3,736,271; and, (ii) comprising equity securities (as defined in the Act) up to an aggregate nominal amount of £7,472,542 (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 2020 or, if earlier, 31 July 2020.

Special resolutions will also be proposed to give the Directors authority to make non pre-emptive issues wholly for cash in connection with rights issues and otherwise up to an aggregate nominal amount of £561,001.66 and to make non pre-emptive issues wholly for cash in connection with acquisitions or specified capital investments up to an aggregate amount of £561,001.66.

**Rights attaching to shares**

The Company has a single class of ordinary shares in issue. The rights attached to the shares are governed by applicable law and the Company's articles of association (which are available at [www.corporate.saga.co.uk/media/1195/saga-plc-articles-of-association.pdf](http://www.corporate.saga.co.uk/media/1195/saga-plc-articles-of-association.pdf)).

Ordinary shareholders have the right to receive notice, attend and vote at general meetings; and receive a copy of the Company's report and accounts and a dividend when approved and paid. On a show of hands, each shareholder present in person, or by proxy (or an authorised representative of a corporate shareholder), shall have one vote. In the event of a poll, one vote is attached to each share held. No shareholder owns shares with special rights as to control. The notice of the AGM (Notice) states deadlines for exercising voting rights and for appointing a proxy/proxies.

The Saga Employee Benefit Trust (the 'Trust') is an Employee Benefit Trust which holds property, (the 'Trust Fund') including inter-alia money and ordinary shares in the Company, in trust in favour or for the benefit of employees of the Saga Group. The Trustee of the Trust has the power to exercise the rights and powers incidental to, and to act in relation to, the Trust Fund in such manner as the Trustee in its absolute discretion thinks fit. The Trustee has waived its rights to dividends on ordinary shares held by the Trust. Details of employee share schemes are set out in note 32 to the consolidated financial statements.

**Restrictions on the transfer of shares**

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

**Articles of association**

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

**Research and development**

The Group does not undertake any material activities in the field of research and development.

**Branches outside the UK**

The Company does not have any branches outside the UK.

**Post-balance sheet events**

There were no post-balance sheet events.

**Auditor**

KPMG LLP has confirmed its willingness to continue in office as auditor of the Company and resolutions for its re-appointment and for the Audit Committee to determine its remuneration will be proposed at the forthcoming AGM.

**Annual General Meeting**

The AGM will be held on 19 June 2019 at 11am at Enbrook Park, Sandgate, Folkestone, Kent CT20 3SE. The Notice contains an explanation of special business to be considered at the meeting and will be available on our website, [www.corporate.saga.co.uk](http://www.corporate.saga.co.uk), in due course.

By order of the Board



**V. Haynes**  
Company Secretary  
3 April 2019  
Saga plc (Company no. 08804263)

**Directors' responsibilities**

The Directors' are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law, and have elected to prepare the parent company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable, relevant, reliable and prudent
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and hence to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

**Disclosure of information to the auditor**

Having made the requisite enquiries, so far as each of the Directors is aware, there is no relevant audit information (as defined by section 418(3) of the Act) of which the Company's auditor is unaware and the Directors have taken all the steps they ought to have taken as Directors to make themselves aware of any relevant audit information and to ensure that the Company's auditor is aware of that information.

**Maintenance of website**

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.

**Directors' responsibility statement**

Each of the Directors, who were in office at the date of this report, whose names and responsibilities are listed on pages 59 and 64-65, confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the Management Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board



**V. Haynes**  
**Company Secretary**  
**3 April 2019**  
**Saga plc (Company no. 08804263)**



## 1. Our opinion is unmodified

We have audited the financial statements of Saga plc ('the Company' or 'Group' or 'Parent') for the year ended 31 January 2019 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows, Parent Company Statement of Financial Position, Parent Company Statement of Changes in Equity, and the related notes, including the accounting policies notes.

### In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 January 2019 and of the Group's loss for the year then ended
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework and as applied in accordance with the provisions of the Companies Act 2006
- 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 International Auditing Standards ('IAS') Regulation.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders on 22 June 2017. The period of total uninterrupted engagement is for the two financial years ended 31 January 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

#### Overview

<b>Materiality:</b> Group financial statements as a whole	£6.8m (2018: £9.0m) 3.9% (2018: 5.0%) of normalised profit before tax from continuing operations
<b>Coverage</b>	98% (2018: 98%) of total profits and losses that made up Group loss before tax

#### Key audit matter

vs 2018

<b>Event driven</b>	<b>New:</b> The impact of uncertainties due to Britain exiting the European Union on our audit	↑
<b>Recurring risks</b>	Valuation of claims outstanding (gross and net)	↔
	Recoverability of Group goodwill and the parent company's investment in subsidiaries	↑

## 2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members as a body may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our findings are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
<p><b>The impact of uncertainties due to UK exiting the European Union on our audit</b></p> <p>Refer to page 36 (principal risks), page 54 (viability statement) and page 75 (Audit Committee Report).</p>	<p><b>Unprecedented levels of uncertainty</b></p> <p>All audits assess and challenge the reasonableness of estimates, in particular as described in the valuation of claims outstanding, recoverability of Group goodwill and the parent company's investment in subsidiaries below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.</p> <p>In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the Directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.</p> <p>Brexit is one of the most significant economic events for the UK and at the date of this report, its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.</p>	<p>We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Our Brexit knowledge:</b> We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks.</li> <li>• <b>Sensitivity analysis:</b> When addressing valuation of claims outstanding, the recoverability of Group goodwill and the parent company's investment in subsidiaries, and other areas that depend on forecasts, we considered the Directors' sensitivity analysis against our understanding of reasonably possible adverse scenarios impacted by Brexit uncertainty and, where forecasts cash flows are required to be discounted, considered the need for adjustments to discount rates for the level of any remaining uncertainty.</li> <li>• <b>Assessing transparency:</b> As well as assessing individual disclosures as part of our procedures on valuation of claims outstanding, recoverability of Group goodwill and the parent company's investment in subsidiaries, we considered all of the Brexit-related disclosures together, including those in the Strategic Report, comparing the overall picture against our understanding of the risks.</li> </ul> <p><b>Our findings</b></p> <p>As reported under valuation of claims outstanding, recoverability of Group goodwill and the parent company's investment in subsidiaries, we found the resulting estimates to be mildly cautious and related disclosures to be proportionate and disclosures in relation to going concern to be proportionate. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.</p>



	The risk	Our response
<p><b>Valuation of claims outstanding (gross and net)</b></p> <p>(Gross £392.6 million; 2018: £466.4 million, Net £182.8 million, 2018: £272.8 million)</p> <p>Refer to page 75 (Audit Committee Report), page 142 (accounting policy) and page 177 (financial disclosures).</p>	<p><b>Subjective valuation:</b> Claims outstanding represent the largest liability for the Group.</p> <p>Valuation of these liabilities is highly judgmental, and requires a number of assumptions to be made that have high estimation uncertainty and can have material impacts on the valuation. Key assumptions include expected loss ratios and estimates of the frequency and severity of claims, used to value the liabilities, particularly those relating to the amount and timing of Incurred but not Reported ('IBNR') claims.</p> <p>Certain areas of the claims outstanding balance contain greater uncertainty, for example third party bodily injury claims exhibit greater variability and are more long tailed than the damage classes.</p> <p>In particular the allowance made for the current and potential propensity change following the Ogden rate change on Periodic Payment Order ('PPO') reserves are very uncertain and have a high reserving risk.</p> <p>Similar estimates are required in establishing the reinsurers' share of insurance provisions, in particular share of IBNR claims.</p> <p>A margin is added to the actuarial best estimate ('ABE') of insurance liabilities to make allowance for risks and uncertainties that are not specifically allowed for in establishing the ABE. The appropriate margin to recognise is a subjective judgement and estimate taken by the Directors, based on the perceived uncertainty and potential for volatility in the underlying claims.</p> <p>The valuation of claims outstanding depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are used to form expectations about future claims. If the data used in calculating IBNR, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of claims outstanding may arise.</p>	<p>Our control procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Control design and operation:</b> Testing, with the support of our IT specialists, the design, implementation of key controls over the completeness and accuracy of claims and premiums data used in the calculation of IBNR claims (including both current and prior year case reserve data). The controls included reconciliations between data in the actuarial reserving systems and data in the policy administration systems. We tested controls through inspecting or re-performing the Group's reconciliations.</li> <li>• We also tested the design and implementation of controls over setting and monitoring of case reserves over large bodily injury claims.</li> </ul> <p>We involved our actuaries in performing the following procedures:</p> <ul style="list-style-type: none"> <li>• <b>Evaluating the work of independent and internal actuaries:</b> Analysing and evaluating the results of reserving reports issued by the internal and external actuaries, assessing the competence of both parties and the appropriateness of their methodology and reviewing their conclusions.</li> <li>• <b>Benchmarking assumptions:</b> Evaluating the findings of the internal and external actuaries. Through critical assessment of these actuarial reports and supporting documentation, including the use of benchmarking against market data and through discussion with both sets of actuaries, we analysed and challenged the differences in reserving methodology as well as the key assumptions being used – including claims frequency, claims severity, claims inflation, development pattern, Ogden discount rates, PPO propensities, allowances for subrogation and the impact of legislative and process developments. Alternative projections were performed on the bodily injury and third party property damage perils as these were identified as the most material areas to be followed up through the audit.</li> <li>• <b>Margin evaluation:</b> Evaluating the appropriateness of the management recommended margin held at year end. In order to do this, we assessed the Directors' approach, and supporting analysis for margin to be held, having regard to the allowance for uncertainties inherent in the data and assumptions in developing the ABE. We then considered the relative strength of the margin held versus the prior period in order to be satisfied that no additional prudence had been recognised in the level of overall reserves held including margin.</li> </ul> <p>Our other procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Data comparisons:</b> Tie back of the reconciliations of claims data recorded in the claims administration systems to the data used in the actuarial reserving calculations, to ensure the integrity of the data used by the internal and external actuaries in the actuarial reserving process and then ensured that the output of the actuarial re-projections reconciles to amounts recorded in the financial statements.</li> <li>• <b>Testing application of significant assumptions:</b> Corroborating a targeted sample of large loss case reserves, to appropriate documentation such as reports from loss adjusters or third party experts, to identify and test the application of significant assumptions applied in determining the level of case reserves and to verify valuation against prescribed reserving methodology.</li> </ul>

	The risk	Our response
<b>Valuation of claims outstanding (gross and net) (cont.)</b>	<p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contracts liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>	<ul style="list-style-type: none"> <li>• <b>Tests of detail:</b> For a sample of individual large bodily injury claims, we evaluated the level of review, oversight and third party evidence available and the frequency of updates against new information.</li> <li>• Assessing the risk transfer elements of the reinsurance contracts and the accuracy of a sample of reinsurance recoveries recorded, including reinsurance recoveries related to IBNR, against the terms of relevant reinsurance agreements.</li> <li>• <b>Assessing transparency:</b> Assessing whether the Group's disclosures about the degree of estimation uncertainty and the sensitivity of the balance to changes in key assumptions reflected the risks inherent in the valuation of claims outstanding.</li> </ul>
		<p><b>Our findings</b></p> <p>We found that the assumptions and estimates were cautious (2018: cautious) with proportionate (2018: proportionate) disclosure of the sensitivities to changes in key assumptions and estimates as inputs to the valuation.</p>
<b>Recoverability of Group Goodwill and the parent company's investment in subsidiaries</b>	<p><b>Forecast-based valuation:</b></p> <p>Goodwill in the Group and the carrying amount of the parent company's investment in subsidiaries are significant and at risk of irrecoverability if forecast business performance for the Group's retail insurance broking and travel businesses, in particular, were to fall significantly short of business plans. The estimated recoverable amount of goodwill and the parent company's investment in subsidiaries are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of Group goodwill and the parent company's investment in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Control design:</b> Evaluating the design and implementation of the Group's impairment assessment procedures, including those controls over the approvals of business plans, including as applied to the parent company.</li> <li>• <b>Historical comparisons:</b> Assessing the reasonableness of cash flow projections against historical performance.</li> <li>• <b>Benchmarking assumptions:</b> Comparing the Group's and the parent company's assumptions to externally derived data in relation to key inputs such as projected economic growth, competition, cost inflation and discount rates with the support of our valuation specialists.</li> <li>• <b>Comparing valuations:</b> Comparing and reconciling the sum of the value-in-use for the Group's cash generating units and for the parent company investment in subsidiaries to the market capitalisation of the Group and corroborating any significant differences.</li> <li>• <b>Sensitivity analysis:</b> Using our analytical tools to: assess the sensitivity of the goodwill headroom and to conclude on the appropriateness of the impairment recognised in relation to the goodwill attributed to the Group's Insurance cash generating unit, having regard to reasonably possible changes in key assumptions, both individually and collectively; and to assess and conclude on the appropriateness of the impairment recognised in relation to the carrying value of the parent company's investment in subsidiaries.</li> <li>• <b>Assessing transparency:</b> Assessing whether the Group disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflects the risks inherent in the valuation of goodwill and in the carrying value of the parent company's investment in subsidiaries.</li> </ul>
<p>(Group goodwill: £1,175.0 million; 2018: £1,485.0 million; parent company's investment in subsidiaries: £1,069.8 million, 2018: £2,104.2 million)</p> <p>Refer to page 75 (Audit Committee Report), pages 136 and 194 (accounting policy) and pages 159 and 196 (financial disclosures).</p>		<p><b>Our findings</b></p> <p>We found that the resulting estimates over the recoverable amount of Group goodwill and of the parent company's investment in subsidiaries to be mildly cautious (2018 finding: mildly optimistic) and, when taken with the estimates at the start of the year, the effect on the reported loss for the year to be cautious. We found the disclosures of the drivers of impairment and the sensitivities of goodwill headroom and carrying value of parent company investment in subsidiaries to changes in key assumptions to be proportionate (2018: proportionate).</p>

### **3. Our application of materiality and an overview of the scope of our audit**

Materiality for the Group financial statements as a whole was set at £6.8m (2018: £9.0m), determined with reference to a benchmark of Group loss before tax, normalised to exclude this year's impairment charge as disclosed in note 15a, of £175.4m (2018: £178.7m), of which it represents 3.9% (2018: 5.0%).

Materiality for the parent company financial statements as a whole was set at £5.0m (2018: £2.5m), which represents 0.5% (2018: 0.1%) of total assets. This is lower than the materiality we would otherwise have determined by reference to Company total assets.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.27m (2018: £0.36m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 14 (2018: 14) reporting components, we subject 4 (2018: 4) to full scope audits for Group purposes and 3 (2018: 4) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The components within the scope of our work accounted for the percentages illustrated opposite.

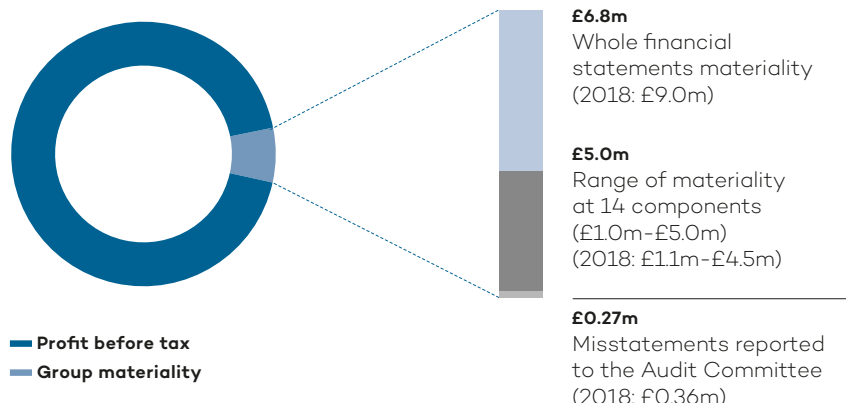
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £1.0m to £5.0m (2018: £1.1m-£4.5m), having regard to the size and risk profile of the Group across the components. The work on 3 of the 14 components was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The Group audit team performed specific procedures on the impairment of goodwill of £310m which was excluded in arriving at the normalised Group profit before tax for the year as identified above.

The Group audit team met KPMG Gibraltar during 2018 and 2019 to assess the audit risks and strategy. Telephone conference meetings were also held with KPMG Gibraltar. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

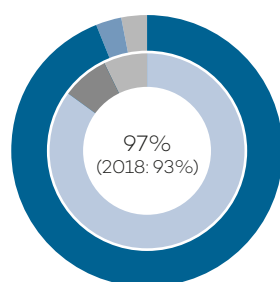
### Normalised profit before tax from continuing operations

£175.4m (2018: £178.7m)

**Group materiality**  
£6.8m (2018: £9.0m)

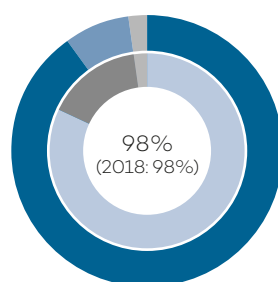


### Group revenue



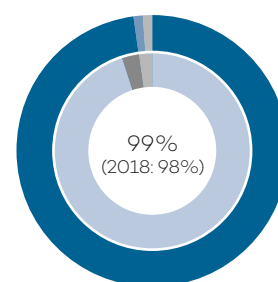
Full scope for Group audit purposes 2019	94%
Specified risk-focused audit procedures 2019	3%
Full scope for Group audit purposes 2018	85%
Specified risk-focused audit procedures 2018	8%
Residual components	

### Total profits and losses that made up the normalised Group profit before tax



Full scope for Group audit purposes 2019	90%
Specified risk-focused audit procedures 2019	8%
Full scope for Group audit purposes 2018	82%
Specified risk-focused audit procedures 2018	16%
Residual components	

### Group total assets



Full scope for Group audit purposes 2019	98%
Specified risk-focused audit procedures 2019	1%
Full scope for Group audit purposes 2018	95%
Specified risk-focused audit procedures 2018	3%
Residual components	

## 4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model, including the impact of Brexit, and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- the ability of the Group's trading businesses to deliver on business plans in the face of increasing market competition, cost pressure and a significant change agenda
- the external regulatory landscape and the impact that the increased focus on General Insurance pricing practices may have on future profitability
- the risk of a significant slowdown in the macro-economic environment, heightened by the increased risk of a disorderly Brexit, with the consequential impacts on the Group's trading businesses.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement on page 132 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements
- the related statement under the Listing Rules set out on page 55 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

## **5. We have nothing to report on the other information in the annual report and accounts**

The Directors are responsible for the other information presented in the annual report and accounts together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

### **Strategic Report and Directors' Report**

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report
- in our opinion the information given in those reports for the financial year is consistent with the financial statements
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **Directors' Remuneration Report**

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### **Disclosures of principal risks and longer-term viability**

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on page 54 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity
- the principal risks and uncertainties disclosures describing these risks and explaining how they are being managed and mitigated
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

### Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy
- a corporate governance statement has not been prepared by the Company.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the 11 provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein
  - the information therein is consistent with the financial statements
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

### 6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us
- 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
- certain disclosures of Directors' remuneration specified by law are not made
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## 7. Respective responsibilities

### Directors' responsibilities

As explained more fully in their statement set out on page 117, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities)

### Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.



The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Group's licences to operate. We identified the following areas as those most likely to have such an effect: regulatory capital, regulatory compliance, recognising that there are operations of the Group authorised and regulated by the Financial Conduct Authority (FCA) and the Civil Aviation Authority (CAA). We also identified certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

## **8. The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. 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 the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Stuart Crisp (Senior Statutory Auditor)**

for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square London  
E14 5GL

3 April 2019

	Note	2019 £'m	2018 (restated) £'m
Revenue	3	<b>841.5</b>	860.2
Cost of sales	3	<b>(405.7)</b>	(412.8)
Gross profit		<b>435.8</b>	447.4
Administrative and selling expenses	4	<b>(244.5)</b>	(254.3)
Impairment of assets	5	<b>(315.9)</b>	–
Investment income	6	<b>0.7</b>	7.6
Finance costs	7	<b>(11.7)</b>	(19.1)
Finance income	8	<b>1.0</b>	1.5
Share of loss of joint ventures	36	<b>–</b>	(2.2)
<b>(Loss)/profit before tax from continuing operations</b>		<b>(134.6)</b>	180.9
Tax expense	10	<b>(27.4)</b>	(33.9)
<b>(Loss)/profit for the year from continuing operations</b>		<b>(162.0)</b>	147.0
Loss after tax for the year from discontinued operations		<b>–</b>	(7.6)
<b>(Loss)/profit for the year</b>		<b>(162.0)</b>	139.4
Attributable to:			
Equity holders of the parent		<b>(162.0)</b>	139.4
<b>Earnings Per Share:</b>			
Basic	12	<b>(14.5p)</b>	12.5p
Diluted	12	<b>(14.5p)</b>	12.4p
<b>Earnings Per Share for continuing operations:</b>			
Basic	12	<b>(14.5p)</b>	13.1p
Diluted	12	<b>(14.5p)</b>	13.1p

Revenue of £841.5m (2018: £860.2m) is stated net of ceded reinsurance premiums earned on business underwritten by the Group of £136.0m (2018: £139.9m).

The notes on pages 132-191 form an integral part of these consolidated financial statements.

**Consolidated statement of comprehensive income**

for the year ended 31 January 2019

	Note	2019 £'m	2018 (restated) £'m
<b>(Loss)/profit for the year</b>		<b>(162.0)</b>	139.4
<b>Other comprehensive income</b>			
<b><i>Other comprehensive income to be reclassified to income statement in subsequent years</i></b>			
Net gains/(losses) on hedging instruments during the period		<b>0.5</b>	(5.3)
Recycling of previous gains to income statement on matured hedges		<b>(2.9)</b>	(18.8)
Total net loss on cash flow hedges	18	<b>(2.4)</b>	(24.1)
Associated tax effect		<b>0.4</b>	4.1
Net losses on fair value financial assets during the period		<b>(1.3)</b>	(0.3)
Recycling of previous gains to income statement on sale of fair value financial assets during the year		<b>-</b>	(4.4)
Total net loss on fair value financial assets		<b>(1.3)</b>	(4.7)
Associated tax effect		<b>0.2</b>	0.8
Total other comprehensive losses with recycling to income statement		<b>(3.1)</b>	(23.9)
<b><i>Other comprehensive income not to be reclassified to income statement in subsequent years</i></b>			
Re-measurement gains on defined benefit plans	24	<b>2.1</b>	10.2
Associated tax effect		<b>(0.4)</b>	(1.7)
Total other comprehensive gains without recycling to income statement		<b>1.7</b>	8.5
<b>Total other comprehensive losses</b>		<b>(1.4)</b>	(15.4)
<b>Total comprehensive (losses)/income for the year</b>		<b>(163.4)</b>	124.0
Attributable to:			
Equity holders of the parent		<b>(163.4)</b>	124.0

The notes on pages 132-191 form an integral part of these consolidated financial statements.


	Note	2019 £'m	2018 (restated) £'m
<b>Assets</b>			
Goodwill	14	<b>1,175.0</b>	1,485.0
Intangible fixed assets	15	<b>62.8</b>	61.2
Property, plant and equipment	17	<b>183.9</b>	163.4
Financial assets	18	<b>426.2</b>	513.5
Deferred tax assets	10	<b>14.2</b>	13.7
Reinsurance assets	25	<b>96.8</b>	100.2
Inventories		<b>4.0</b>	5.8
Trade and other receivables	21	<b>216.6</b>	215.1
Assets held for sale	4	<b>-</b>	6.8
Cash and short-term deposits	22	<b>122.9</b>	83.2
<b>Total assets</b>		<b>2,302.4</b>	2,647.9
<b>Liabilities</b>			
Retirement benefit scheme obligations	24	<b>2.8</b>	7.0
Gross insurance contract liabilities	25	<b>490.6</b>	581.4
Provisions		<b>10.3</b>	4.7
Financial liabilities	18	<b>457.0</b>	468.5
Deferred tax liabilities	10	<b>7.8</b>	17.0
Current tax liabilities		<b>17.2</b>	15.2
Contract liabilities	26	<b>144.7</b>	142.7
Trade and other payables	23	<b>207.7</b>	185.9
<b>Total liabilities</b>		<b>1,338.1</b>	1,422.4
<b>Equity</b>			
Issued capital	29	<b>11.2</b>	11.2
Share premium		<b>519.3</b>	519.3
Retained earnings		<b>404.8</b>	664.8
Share-based payment reserve		<b>13.3</b>	11.4
Fair value reserve		<b>(1.8)</b>	(0.7)
Hedging reserve		<b>17.5</b>	19.5
<b>Total equity</b>		<b>964.3</b>	1,225.5
<b>Total equity and liabilities</b>		<b>2,302.4</b>	2,647.9

The notes on pages 132-191 form an integral part of these consolidated financial statements.

Signed for and on behalf of the Board on 3 April 2019 by



**L. H. L. Batchelor**  
Group Chief Executive Officer



**J. Quin**  
Group Chief Financial Officer

**Consolidated statement of changes in equity**  
for the year ended 31 January 2019

	Attributable to the equity holders of the parent						
	Issued capital £'m	Share premium £'m	Retained earnings £'m	Share-based payment reserve £'m	Fair value reserve £'m	Hedging reserve £'m	Total £'m
<b>At 1 February 2018 (as reported)</b>	11.2	519.3	662.8	11.4	(0.6)	19.4	1,223.5
Effect of adoption of IFRS 9 and 15	–	–	2.0	–	(0.1)	0.1	2.0
<b>At 1 February 2018 (restated)</b>	11.2	519.3	664.8	11.4	(0.7)	19.5	1,225.5
Loss for the year	–	–	(162.0)	–	–	–	(162.0)
Other comprehensive income/(losses) excluding recycling	–	–	1.7	–	(1.1)	0.4	1.0
Recycling of previous gains to income statement	–	–	–	–	–	(2.4)	(2.4)
Total comprehensive losses	–	–	(160.3)	–	(1.1)	(2.0)	(163.4)
Dividends paid (note 11)	–	–	(100.9)	–	–	–	(100.9)
Share-based payment charge (note 32)	–	–	–	3.8	–	–	3.8
Exercise of share options	–	–	1.2	(1.9)	–	–	(0.7)
<b>At 31 January 2019</b>	<b>11.2</b>	<b>519.3</b>	<b>404.8</b>	<b>13.3</b>	<b>(1.8)</b>	<b>17.5</b>	<b>964.3</b>
<b>At 1 February 2017 (as reported)</b>	11.2	519.3	607.8	15.6	3.3	38.0	1,195.2
Effect of adoption of IFRS 9 and 15	–	–	0.1	–	(0.1)	1.5	1.5
<b>At 1 February 2017 (restated)</b>	11.2	519.3	607.9	15.6	3.2	39.5	1,196.7
Profit for the year	–	–	139.4	–	–	–	139.4
Other comprehensive income excluding recycling	–	–	8.5	–	(0.3)	(4.4)	3.8
Recycling of previous gains to income statement	–	–	–	–	(3.6)	(15.6)	(19.2)
Total comprehensive income	–	–	147.9	–	(3.9)	(20.0)	124.0
Dividends paid (note 11)	–	–	(98.5)	–	–	–	(98.5)
Share-based payment charge (note 32)	–	–	–	4.0	–	–	4.0
Exercise of share options	–	–	7.5	(8.2)	–	–	(0.7)
<b>At 31 January 2018</b>	<b>11.2</b>	<b>519.3</b>	<b>664.8</b>	<b>11.4</b>	<b>(0.7)</b>	<b>19.5</b>	<b>1,225.5</b>

The notes on pages 132-191 form an integral part of these consolidated financial statements.

	Note	2019 £'m	2018 (restated) £'m
(Loss)/profit before tax from continuing operations		<b>(134.6)</b>	180.9
Loss before tax from discontinued operations		–	(7.8)
(Loss)/profit before tax		<b>(134.6)</b>	173.1
Depreciation, impairment and loss on disposal of property, plant and equipment		<b>25.1</b>	20.0
Amortisation and impairment of intangible assets		<b>329.6</b>	18.5
Share-based payment transactions		<b>3.6</b>	3.0
Accelerated amortisation of debt issue costs		–	4.3
Impairment of investment in joint venture		–	1.9
Impairment of financial assets		–	6.6
Profit on assets held for sale		<b>(3.8)</b>	–
Finance costs		<b>11.7</b>	14.9
Finance income		<b>(1.0)</b>	(1.5)
Share of loss of joint ventures		–	0.5
Interest income from investments		<b>(0.7)</b>	(7.7)
Movements in other assets and liabilities		<b>(44.5)</b>	(62.1)
		<b>185.4</b>	171.5
Interest received		<b>0.7</b>	7.4
Interest paid		<b>(13.3)</b>	(10.9)
Income tax paid		<b>(34.8)</b>	(32.8)
<b>Net cash flows from operating activities</b>		<b>138.0</b>	135.2
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment		<b>0.1</b>	0.4
Purchase of and payments for the construction of property, plant and equipment and intangible assets		<b>(63.0)</b>	(82.5)
Net (purchase)/disposal of financial assets		<b>(36.9)</b>	93.1
Investment in joint venture		–	(1.0)
<b>Net cash flows (used in)/from investing activities</b>		<b>(99.8)</b>	10.0
<b>Financing activities</b>			
Proceeds from exercise of share options		–	0.3
Payment of finance lease liabilities		<b>(2.0)</b>	(1.1)
Proceeds from borrowings	28	<b>58.0</b>	485.0
Repayment of borrowings	28	<b>(63.0)</b>	(520.0)
Debt issue costs		–	(5.1)
Dividends paid		<b>(100.9)</b>	(98.8)
<b>Net cash flows used in financing activities (note 28)</b>		<b>(107.9)</b>	(139.7)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(69.7)</b>	5.5
<b>Cash and cash equivalents at the start of the year</b>		<b>227.0</b>	221.5
<b>Cash and cash equivalents at the end of the year</b>	22	<b>157.3</b>	227.0

The notes on pages 132-191 form an integral part of these consolidated financial statements.



## 1 Corporate information

Saga plc (the 'Company') is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (registration number 08804263). The Company is registered in England and its registered office is located at Enbrook Park, Folkestone, Kent CT20 3SE.

Saga Group offers a wide range of products and services to its customer base which includes general insurance products, package and cruise holidays, personal finance products, domiciliary care services and a monthly subscription magazine.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), 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.

The preparation of financial statements in compliance with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.6.

This is the first set of the Group's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in section 2.3 on pages 133-144.

### 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.

Subsidiary companies are consolidated using the acquisition method.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date when such control ceases.

In preparing these consolidated financial statements, any intra-group balances, unrealised gains and losses or income and expenses arising from intra-group trading are eliminated. Where accounting policies used in individual financial statements of a subsidiary company differ from Group policies, adjustments are made to bring these policies in line with Group policies.

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

### Revenue from Contracts with Customers

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' for the first time in the year ended 31 January 2019. The Group applied IFRS 15 retrospectively and the details of the new accounting policies for revenue recognition and cost recognition are disclosed below.

#### 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

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.

Brokerage revenue received in connection with insurance policies not underwritten by the Group is recognised on inception of the policy when the obligation to arrange insurance for the customer has been satisfied. The portion of insurance premiums received for risks which are not underwritten by the Group that is passed to a third party insurer is not recognised in the income statement.

Insurance premiums and sales revenues received in advance of the inception date of a policy are treated as advance receipts and included as contract liabilities in the statement of financial position.

Premiums in respect of insurance policies underwritten by the Group that are live at the reporting date and which relate to the period after the reporting date are treated as unearned and included in insurance contract liabilities in the statement of financial position.

Changes to premiums are recognised on the effective date of a mid-term adjustment. For those policies that are underwritten by the Group, these changes are recognised on a straight-line time-apportioned basis over the period remaining on the policy. Reduction in premiums from mid-term cancellations are recognised on the effective date of the cancellation. Fee income from mid-term adjustments and cancellations is recognised on the date which the mid-term adjustment or cancellation occurs.

A provision is made for the potential for policies to cancel or lapse after the balance sheet date based on the historical run rate for such an event. The provision is recognised as a reduction in revenue in the Group's income statement and as a provision in the Group's statement of financial position.

Income from credit provided to customers to facilitate payment of their insurance premiums over the life of their policy is treated as part of the revenue from insurance operations and recognised over the period of the policy in proportion to the outstanding premium balance.

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

For revenue earned from credit hire and repair services for non-fault claims ('credit hire' and 'credit repair'), the Group initially recognises the associated financial asset at fair value, based on a historical assessment of debt recovery, including any discounts offered retrospectively. Credit hire revenue is recognised from the date that a vehicle is placed on hire equally over the duration of the hire. Credit repair revenue represents income from the recovery of the costs of repair of customers' vehicles. Credit repair revenue is recognised when the work has been completed. Late payment penalties afforded under the terms of the Association of British Insurers General Terms of Agreement ('ABI GTA') are recognised as they become payable by the insurance company.

##### ii) Travel

Revenue from tour operations and cruise holidays where the Group does not operate the cruise ship is recognised in line with the performance obligations that are included in a package holiday, namely the provision of flights, accommodation, transfers and travel insurance. Revenue is recognised as and when each performance obligation is satisfied.

Revenue in respect of cruise holidays where the Group operates the cruise ship is also recognised in line with the performance obligations being the cruise itself, flights (where applicable), travel insurance and transfers. The portion of revenue allocated to the cruise itself is recognised on a per diem basis over the duration of the cruise in line with when the performance obligation is satisfied. The portion of revenue allocated to each of flights (where applicable), travel insurance and transfers is recognised as and when each performance obligation is satisfied.

An element of revenue which represents the non-refundable deposit received at the time of booking is recognised in the income statement immediately in line with the prevailing rate of cancellation.

## 2.3 Summary of significant accounting policies (continued)

### a. Revenue recognition (continued)

#### ii) Travel (continued)

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

Revenue from tour operations and cruising holidays received in advance of when each performance obligation is satisfied is 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, the present value of the future expected revenue to be received is recognised when the customer contracts with the provider of the relevant personal finance product, and it is highly probable that a significant reversal of revenue recognised will not occur.

##### *Healthcare*

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

##### *Magazine subscriptions*

Magazine subscription revenue is recognised on a straight-line basis over the period of the subscription. Revenue generated from advertising within the magazine is recognised when the magazine is provided to the customer.

The element of subscriptions and advertising revenue relating to the period after the reporting date is treated as unearned and included within contract liabilities in the statement of financial position.

##### *Retirement villages*

Sales commission from retirement villages is recognised on the legal completion of a property.

##### *Printing and mailing*

Revenue from printing and mailing services is recognised in line with the performance obligations within customer contracts.

### 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, unless it meets the criteria of costs to obtain or fulfil a contract.

#### ii) Acquisition costs

Acquisition costs arising from the selling or renewing of insurance policies underwritten by the Group are recognised on a straight-line time-apportioned basis over the period of the policy in which the related revenues are earned. The proportion of acquisition costs relating to premiums treated as unearned at the reporting date are deferred and included as other receivables in the statement of financial position.

Incremental costs of obtaining an insurance contract not underwritten by the Group, namely fees charged by price-comparison websites are recognised as an asset on the statement of financial position. Such costs are amortised in line with the pattern of revenue for the related insurance contract, which incorporate the propensity for that contract to renew in future periods based on the prevailing rate of renewal for these types of contract. If the expected amortisation period is one year or less, then incremental costs are expensed when incurred.

#### iii) Claims costs

Claims costs incurred in respect of insurance policies underwritten by the Group include claims made for losses reported as occurring during the period together with the related handling costs, any adjustments to claims outstanding from previous periods, and a provision for the estimated cost of claims incurred during the period but not reported at the reporting date. Further detail is provided in note 25.

#### iv) Reinsurance costs

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

## 2.3 Summary of significant accounting policies (continued)

### b. Cost recognition (continued)

#### v) Finance costs

Finance costs comprise interest paid and payable which is calculated using the effective interest rate method and recognised in the income statement as it accrues. Accrued interest is included within the carrying value of the interest-bearing financial liability in the statement of financial position. Finance costs also include debt issue costs which are initially recognised in the statement of financial position and amortised over the life of the debt.

#### vi) Other expenses

Other expenses are taken to the income statement as incurred.

### 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 that the security is listed as ex-dividend.

#### ii) Gains and losses on financial investments at fair value through profit or loss

Realised and unrealised gains and losses on financial investments are recorded as finance income or finance costs in the income statement. Realised gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on the date of sale. Unrealised gains and losses arising on financial assets measured at fair value through profit and loss, which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or the purchase value for investments acquired during the year, net of the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

#### iii) Non-trading items

Items which derive from events or transactions that are not representative of the underlying financial performance and which are material, or if of a similar type are material in aggregate, are treated as non-trading. Non-trading items are charged or credited to the income statement as appropriate and are not separated from the line item to which they relate on the face of the income statement. Amounts attributable to non-trading items are in note 4b.

### 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 assets and liabilities also include adjustments in respect of tax expected to be payable or recoverable in respect of previous periods. Current income tax relating to items recognised in other comprehensive income and directly in equity is recognised in other comprehensive income or equity and not in the income statement.

#### ii) Deferred tax

Deferred tax is provided 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 or equity, in which case the deferred tax is recognised in other comprehensive income or equity as appropriate.

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.

## 2.3 Summary of significant accounting policies (continued)

### 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 that 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).

### f. Intangible assets

Intangible assets acquired are measured on initial recognition at cost. Intangible assets acquired in a business combination are measured at their fair value at the date of acquisition and, following initial recognition, are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding internally developed software, are not capitalised and the related expenditure is reflected in the income statement in the period in which the expenditure is incurred.

The useful lives of intangible assets and goodwill are assessed as either finite or indefinite. Estimated useful lives are as follows:

Goodwill	Indefinite
Brands	10 years
Customer relationships	Over the life of the customer relationship
Contracts acquired	Over the life of the contract
Software	3-10 years

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

Intangible assets and goodwill with indefinite useful lives are not amortised but are tested for impairment annually, either individually or at the 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.

## 2.3 Summary of significant accounting policies (continued)

### 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 IFRS 9 'Financial Instruments' is measured at fair value with the changes in fair value recognised in the income statement.

Any excess of the cost of acquisition over the fair values of the identifiable assets and liabilities is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable assets and liabilities of the acquired business, the difference is recognised directly in the income statement in the year of acquisition.

Acquisition-related costs are expensed as incurred and included in administrative expenses.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to CGUs at the point of acquisition and is reviewed annually for impairment.

### 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 with 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.



## 2.3 Summary of significant accounting policies (continued)

### j. Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Assets in the course of construction at the balance sheet date are classified separately. These assets are transferred to other asset categories when they become available for their intended use.

Depreciation is charged to the income statement on a straight-line basis so as to write off the depreciable amount of property, plant and equipment over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Land and assets in the course of construction are not depreciated. Estimated useful lives are as follows:

Buildings, properties and related fixtures:

Buildings	50 years
Related fittings	3-20 years
Leasehold properties	Over the period of the lease
Cruise ships	2-15 years
Computers	3-6 years
Plant, vehicles and other equipment	3-10 years

Costs relating to cruise ship mandatory dry-dockings are capitalised and depreciated over the period up to the next dry-docking where appropriate. All other repairs and maintenance costs are recognised in the income statement as incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

Estimated residual values and useful lives are reviewed annually.

### 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.

## 2.3 Summary of significant accounting policies (continued)

### I. Financial instruments

The Group has adopted IFRS 9 'Financial Instruments' for the first time for the year ended 31 January 2019. The requirements of IFRS 9 represent a significant change from IAS 39 'Financial Instruments: Recognition and Measurement'. As such, the Group has changed its accounting policy and applied it retrospectively, for financial instruments as detailed below.

#### i) Financial assets

On initial recognition, a financial asset is classified as either amortised cost; fair value through other comprehensive income (FVOCI); or fair value through profit and loss (FVTPL). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

	Initial recognition	Subsequent measurement
Amortised cost	<p>A financial asset is measured at amortised cost if it meets both of the following conditions and is not elected to be designated as FVTPL:</p> <ul style="list-style-type: none"> <li>It is held within a business model whose objective is to hold assets to collect contractual cash flows.</li> <li>Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.</li> </ul>	<p>These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by any impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss as they are incurred. Any gain or loss on derecognition is recognised in profit or loss immediately.</p>
FVOCI	<p>A debt investment is measured at FVOCI if it meets both of the following conditions and is not elected to be designated as FVTPL:</p> <ul style="list-style-type: none"> <li>It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.</li> <li>Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.</li> </ul> <p>On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.</p>	<p>Debt instruments are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairments are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are recycled to profit or loss.</p> <p>Equity investments are measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.</p>
FVTPL	<p>All financial assets not classified as amortised cost or FVOCI as described above are classified as FVTPL and held at fair value. This includes all derivative financial assets.</p> <p>On initial recognition, the Group may irrevocably elect to designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. This election is made on an individual instrument basis.</p>	<p>These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss, unless such instrument is designated in a hedging relationship (see (vi) below).</p>

#### 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.

## 2.3 Summary of significant accounting policies (continued)

### I. Financial instruments (continued)

#### ii) Impairment of financial assets

The IFRS 9 expected credit loss (ECL) impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI.

The Group measures loss allowances at an amount equal to 12 month ECLs, except for the following, which are measured as lifetime ECLs:

- Debt securities that are determined to have high credit risk at the reporting date.
- Other debt securities and bank balances for which credit risk has increased significantly since initial recognition.
- Trade receivables and contract assets that result from transactions within the scope of IFRS 15.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the definition of 'investment grade'. The Group considers this to be BBB or higher as per Standard & Poor's rating scale.

#### Measurement of ECLs

ECLs are measured as a probability-weighted estimate of credit losses. Credit losses are measured as the probability of default in conjunction with the present value of the Group's exposure. Loss allowances for ECLs on financial assets measured at amortised cost are recognised as a provision in the statement of financial position with a corresponding charge to the income statement. For debt instruments measured at FVOCI the loss allowance is recognised in the statement of comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position.

#### Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. In such an event, the lifetime ECL will be recognised in lieu of the 12 month ECL.

#### iii) Financial liabilities

##### Initial recognition and measurement

All financial liabilities are classified as financial liabilities at amortised cost on initial recognition except for derivatives, which are classified at FVTPL, the gains or losses for which are recognised through other comprehensive income if the instrument is designated as a hedging instrument in an effective hedge.

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, derivative financial instruments, obligations under finance leases and hire purchase.

##### Subsequent measurement

After initial recognition, interest bearing loans and borrowings and other payables are subsequently measured at amortised cost using the effective interest rate (EIR) method. 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.

## 2.3 Summary of significant accounting policies (continued)

### I. Financial instruments (continued)

#### iv) Derivatives

Derivatives are measured at fair value both initially and subsequent to initial recognition. All changes in fair value of non-designated derivatives are recognised in the income statement immediately. Changes in fair value of derivatives designated as hedges are initially recognised in other comprehensive income until such a point that they are recycled to profit or loss in the same period as the hedged item is recognised in profit or loss, or immediately if the hedged item is no longer expected to occur.

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.

#### v) Fair values

The Group measures financial instruments, such as derivatives and financial instruments not designated as a hedge classified as FVOCI 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.

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 possible for each instrument.

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 at the end of each reporting period.

#### vi) 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.

The Group has elected to adopt the general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses forward foreign exchange contracts and commodity swap contracts to hedge the variability in cash flows arising from changes in foreign currency rates and oil prices respectively. For foreign exchange contracts, the Group designates the fair value change of the full forward price as the hedging instrument in cash flow hedging relationships. For commodity hedging, the Group designates the fair value change of the benchmark price. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity. Any ineffective portion of the fair value gain or loss is recognised immediately within the income statement.

When a hedging instrument no longer meets the criteria for hedge accounting (through maturity, sale, or other termination), 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.

See note 37 for a reconciliation of the impact on the financial statements arising from the transition to IFRS 9.

## 2.3 Summary of significant accounting policies (continued)

### m. Leases

Leases under which substantially all of the risks and rewards of ownership are transferred to the Group are finance leases. All other leases are operating leases.

Assets held under finance leases are recognised at the lower of the fair value of the asset and the present value of the minimum lease payments within property, plant and equipment on the statement of financial position and depreciated over the shorter of the lease term or their expected useful lives. The interest element of finance lease payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

Income arising from operating leases where the Group acts as lessor is recognised on a straight-line basis over the lease term and is included in operating income.

### n. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### o. Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with a maturity of three months or less from their inception date.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash, short-term deposits as defined above and short-term highly liquid investments (including money market funds) with original maturities of three months or less which are subject to an insignificant risk of change in value, net of outstanding bank overdrafts.

### p. Trade and other receivables

Trade and other receivables are initially recognised at their transaction price and subsequently measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of profit or loss when there is evidence that the asset is impaired. These are reversed when the triggering event that caused the impairment is reversed.

### q. 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 prior to completion and disposal.

### r. Insurance contract liabilities

Insurance contract liabilities include an outstanding claims provision, a provision for unearned premiums and, if required, a provision for premium deficiency.

#### Outstanding claims provision

The provision for outstanding claims is set on an individual claim basis and is based on the ultimate cost of all claims notified but not settled less amounts already paid by the reporting date, together with a provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported at the statement of financial position date, which is set using statistical methods. The outstanding claims provision is not discounted for the time value of money with the exception of claims settled as periodical payment orders (PPOs).

The amount of any anticipated reinsurance, salvage or subrogation recoveries is separately identified and reported within reinsurance assets and insurance contract liabilities respectively.

Differences between the provisions at the reporting date and settlements and provisions in the following year (known as 'run off deviations') are recognised in the income statement as they arise.

#### Provision for unearned premiums

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of release from risk under the contract.

## 2.3 Summary of significant accounting policies (continued)

### r. Insurance contract liabilities (continued)

#### 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.

### s. 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 presented as a reduction in claims costs. Where this amount is material, it is reported separately in the statement of financial position, except where the contractual terms of the reinsurance arrangement necessitates the set-off of its associated financial assets and liabilities.

For the funds-withheld quota share agreement in motor insurance, the obligation to pay funds and the right to receive reimbursement for incurred claims are presented on a net basis because there is a legally enforceable right to offset these amounts and there is an intention to settle on a net basis or realise both the asset and settle the liability simultaneously.

### t. Share-based payments

The Group provides benefits to employees (including Executive 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)

### u. Retirement benefit schemes

During the year, the Group operated a defined benefit pension plan that requires contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit valuation method.

Actuarial gains and losses arising in the year are credited/charged to other comprehensive income and comprise the effects of changes in actuarial assumptions and experience adjustments due to differences between the previous actuarial assumptions and what has actually occurred. In particular, the difference between the interest income and the actual return on plan assets is recognised in other comprehensive income.

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.

### v. 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.

### w. Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost. They represent liabilities to pay for goods or services that have been received or supplied in the normal course of business, invoiced by the supplier before the year end, but for which payment has not yet been made.

### x. 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 2019.

### a. IFRS 16 'Leases'

The new accounting standard on leases, IFRS 16 'Leases', ensures that all lease contracts are now recognised on balance sheet and require the recognition of the present value of future lease payments as a liability and corresponding recognition of a right-of-use asset for many leases that were previously only ever recognised as an operating expense. IFRS 16 'Leases' will replace the existing standard, IAS 17.

The new standard is applicable for accounting periods commencing from 1 January 2019 and is required to be adopted by the Group from 1 February 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17.

On initial application of IFRS 16, the Group will for all lease contracts:

- i) recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments
- ii) recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss
- iii) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

The Group will recognise new assets and liabilities for its current operating leases of river cruise ships, leased properties, shipping telecommunications equipment and car leases. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities, instead of a periodic operating lease expense.

No significant impact is expected for the Group's finance leases, as currently defined by IAS 17.

The Group intends to apply the standard retrospectively to all accounting periods using the full retrospective approach (FRA). For all leases held at the date of transition (being 1 February 2019 for the Group) the recognition and measurement provisions of IFRS 16 will be applied in full, and hence comparative financial information will be restated, and an adjustment will be made to equity at the beginning of the earliest period presented.

The estimated impact of adopting IFRS 16 on the financial statements for the year ended 31 January 2019 (had IFRS 16 been applied already) is summarised in the following table:

	Financial year ended 31 January 2018	Financial year ended 31 January 2019
	FRA £'m	FRA £'m
Balance sheet impact		
Right-of-use asset	26.2	<b>29.7</b>
Lease liability	(28.3)	<b>(32.1)</b>
Net assets	(2.1)*	<b>(2.4)</b>
Income statement impact		
Depreciation		<b>(11.3)</b>
Lease interest cost		<b>(0.6)</b>
Reverse operating lease expenses		<b>11.6</b>
<b>Loss before tax</b>		<b>(0.3)</b>

\* to be recognised as an adjustment to opening retained earnings

## 2.4 Standards issued but not yet effective (continued)

### a. IFRS 16 'Leases' (continued)

Under the FRA, it has been estimated that an additional right-of-use asset of £29.7m as at 31 January 2019 would need to be recognised. A corresponding lease liability at the same date of £32.1m has been calculated, resulting in a reduction to net assets of £2.4m. This would result in a £0.3m additional expense needing to be recognised in the income statement for the 12 months ended 31 January 2019, and a £2.1m debit to opening profit and loss reserves as at 1 February 2018.

The additional expense arises due to the different amortisation profiles between the depreciation of the right-of-use asset on a straight-line basis and the amortisation of the lease liability using an EIR method.

### b. IFRS 17 'Insurance Contracts'

IFRS 17 was issued in May 2017 and established a principles-based accounting approach for insurance contracts and will replace IFRS 4. The impact of this standard on the Group's financial statements is still being assessed. The standard is effective for annual reporting periods beginning on or after 1 January 2022, although this is yet to be endorsed by the EU.

### c. Amendments to 'References to the Conceptual Framework in IFRSs'

Together with the revised Conceptual Framework published in March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application being permitted, although this is yet to be endorsed by the EU.

### d. Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures'

The amendments to IAS 28 clarify that an entity applies IFRS 9 'Financial Instruments' to long-term interests in an associate or joint venture that form part of the net investments in the associate or joint venture but to which the equity method is not applied. The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application being permitted, although this is yet to be endorsed by the EU and will have no effect on the Group's financial statements.

### e. Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement'

The amendments to IAS 19 are if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendments are effective for annual periods beginning on or after 1 January 2019, although this is yet to be endorsed by the EU and is not likely to have a material effect on the Group's financial statements.

### f. IFRIC 23 'Uncertainty over Income Tax Treatments'

This interpretation of IAS 12 sets out how to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates where there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after 1 January 2019, with earlier application being permitted, although this is yet to be endorsed by the EU and will have no effect on the Group's financial statements.

### g. Definition of a Business (Amendments to IFRS 3)

The amendments in Definition of a Business clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and substantive process that together significantly contribute to the ability to create outputs. The definitions of a business and outputs are narrowed by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. The amendments are effective for annual periods beginning on or after 1 January 2020, although this is yet to be endorsed by the EU.

### h. Definition of Material (Amendments to IAS 1 and IAS 8)

The amendments in Definition of Material clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards. The amendments are effective for annual periods beginning on or after 1 January 2020, although this is yet to be endorsed by the EU.

## 2.5 First time adoption of new standards

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' retrospectively from 1 February 2018 and therefore the financial statements for the year ended 31 January 2019 include restated comparative information. See note 37 for a reconciliation between the reported and restated comparatives.

The transition to IFRS 15 has increased profit after tax by £0.3m for the year ended 31 January 2018. Net assets have increased by £2.5m as at 31 January 2018.

The transition to IFRS 9 has increased profit after tax by £1.6m for the year ended 31 January 2018. Net assets have decreased by £0.5m as at 31 January 2018.

## 2.5 First time adoption of new standards (continued)

### Insurance

The adjustments made represent the deferral of aggregator fees as the incremental costs of obtaining a contract over the expected average renewal cycle of a policy not underwritten by the Group as required by IFRS 15.

Under IFRS 9, an expected loss provision is made on the investment portfolio held by the Insurance segment. It is calculated with reference to the rating of the asset held and credit default swap curves.

### Travel

Under IFRS 15, it is necessary to allocate tour operations and cruise revenue to various performance obligations such as the provision of flights, accommodation, transfers and travel insurance. Therefore, it is appropriate to defer a proportion of revenue and associated direct costs in line with when these obligations are discharged. Previously, revenue from tour operations and cruise holidays where the Group does not operate the cruise ship was recognised in full on the date of departure.

Under IFRS 9, the hedging requirements are more closely aligned with the Group's risk management strategy and risk management objectives, and therefore the Group expects to be able to designate a larger proportion of its derivative contracts into hedging relationships.

### Emerging Businesses and Central Costs

The adjustments made represents a deferral of a proportion of revenue in respect of the performance obligations arising from the Group's membership scheme, Saga Possibilities. The deferral is calculated as a proportion of the transaction price of the product or service purchased which is allocated with respect of the costs of the membership scheme relative to the cost of fulfilling the product or service. Revenue is deferred over the period in which a customer is expected to be a Saga Member.

## 2.6 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the Group to select accounting policies and make estimates and assumptions that affect items reported in the primary consolidated financial statements and notes to the consolidated financial statements.

The major areas of judgement used as part of accounting policy application are summarised below:

### Significant judgements

Acc. policy	Items involving judgement	Critical accounting judgement
2.3a	Revenue recognition – performance obligations	Identification of performance obligations within contracts with customers, and the subsequent allocation of the transaction price to each performance obligation.
2.3ai	Classification of insurance contracts	Assessment of whether significant insurance risk is transferred, and in particular assessment of whether reinsurance arrangements constitute a reinsurance contract under IFRS 4, for example, the funds-withheld quota share contract.
2.3f	Intangible assets	Assessment of whether expenditure is eligible for capitalisation under IAS 38.
2.3h	Impairment testing of goodwill and other major classes of assets	<p>The Group determines whether goodwill needs to be impaired on an annual basis, or more frequently as required. In the year to 31 January 2019, management has deemed it necessary to impair the goodwill allocated to the Insurance CGU.</p> <p>In the year to 31 January 2019, management has exercised its judgement in relation to the impairment of each of the two cruise ships, the Saga Pearl II and the Saga Sapphire.</p>
2.3l	Financial instruments	Classification of financial instruments, including assessment of market observability of valuation inputs.

## 2.6 Significant accounting judgements, estimates and assumptions (continued)

### Significant estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results may therefore differ from those estimates.

The table below sets out those items the Group considers susceptible to changes in critical estimates and assumptions together with the relevant accounting policy.

Acc. policy	Items involving estimation	Sources of estimation uncertainty
2.3bii	Cost recognition – incremental costs of obtaining an insurance contract	<p>Incremental costs of obtaining an insurance contract not underwritten by the Group, namely fees charged by price-comparison websites, are recognised as an asset on the statement of financial position.</p> <p>Such costs are amortised in line with the pattern of revenue for the related insurance contract, which incorporate the propensity for that contract to renew in future periods based on the prevailing rate of renewal for these types of contract.</p>
2.3h	Goodwill impairment testing	<p>The Group determines whether goodwill needs to be 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, discounted at a suitably risk-adjusted rate in order to calculate present value.</p> <p>Sensitivity analysis has been undertaken to determine the effect of changing the discount rate, the terminal value and future cash flows on the present value calculation, which is shown in note 16a on page 160.</p>
2.3f & 2.3j	Useful economic lives of intangible assets and PPE	<p>The useful economic lives and residual values of intangible assets and property, plant and equipment are assessed upon the capitalisation of each asset and at each reporting date and are based upon the expected consumption of future economic benefits of the asset.</p> <p>Assets which are in the course of construction are not amortised and are assessed for impairment in line with the requirements of IAS 36.</p>
2.3h	Impairment of cruise ships	<p>In the year to 31 January 2019, management has exercised its judgement in relation to the impairment of each of the two cruise ships, the Saga Pearl II and the Saga Sapphire. In light of the delivery of the Spirit of Discovery and the Spirit of Adventure in July 2019 and August 2020 respectively, management has obtained updated third party valuations of each of the existing cruise ships with a view to selling them once they are no longer in use.</p> <p>The valuations obtained were significantly below those obtained by management in the previous year and as such an impairment charge of £1.7m on the Saga Pearl II and £4.2m on the Saga Sapphire has been recognised, which includes £1.6m impairment of technical stocks in respect of the Saga Pearl II.</p>

## 2.6 Significant accounting judgements, estimates and assumptions (continued)

### Significant estimates (continued)

Acc. policy	Items involving estimation	Sources of estimation uncertainty
2.3r	Valuation of insurance contract liabilities	<p>For insurance contracts, estimates have to be made both for the expected cost of claims known but not yet settled (case reserves) and for the expected cost of claims incurred but not yet reported (IBNR), as 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.</p> <p>The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years. Historical claims development is primarily analysed by accident year, geographical area, significant business line and peril. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the 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 best estimate of the ultimate cost of claims.</p> <p>On 27 February 2017, the UK Government announced its decision to reduce the Ogden discount rate from 2.5% to -0.75%. Subsequently, the UK Government has launched a full consultation regarding the Ogden discount rate. The proposed changes mean the rate would be set by reference to 'low risk' rather than 'very low risk' and will ensure the rate is reviewed more regularly in future. If the proposed framework were to be applied immediately, the rate may increase to between 0% and 1%.</p> <p>The ultimate cost of claims is not discounted except for those in respect of PPOs, which have been discounted at -1.5% for the year ended 31 January 2019 (2018: -1.5%). 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, and the sensitivity of this assumption is shown in note 19d on pages 170-171.</p> <p>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.</p>
2.3u	Valuation of pension benefit obligation	<p>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.</p> <p>All significant assumptions and estimates involved in arriving at the valuation of the pension scheme obligation are set out in note 24 on page 174.</p>

### 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:
  - Retail broking, consisting of:
    - Motor broking
    - Home broking
    - Other insurance broking
  - Underwriting.
- *Travel*: the segment primarily comprises the operation and delivery of package tours and cruise holiday products. The Group owns and operates two cruise ships. All other holiday products are packaged together with third party supplied accommodation, flights and other transport arrangements.
- *Emerging Businesses and Central Costs*: the segment comprises the Group's other businesses, its central cost base and membership scheme. The other businesses primarily include the financial services product offering, the domiciliary care services offering, the sale of retirement village properties where the Group acts as an agent only, a monthly subscription magazine product and the Group's internal mailing house.

Segment performance is primarily evaluated using the Group's key performance measure of Underlying Profit Before Tax. Items not allocated to a segment relate to transactions that do not form part of the ongoing segment performance or which are managed at a Group level.

Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expenses and results include transfers between business segments which are then eliminated on consolidation.

Goodwill, current taxes, deferred taxes and bank loans are not allocated to segments as they are also managed on a Group basis.

	Insurance				Total £'m	Travel £'m	Emerging Businesses and Central		Total £'m
	Motor broking £'m	Home broking £'m	Other insurance broking £'m	Under- writing £'m			Costs £'m	Adjustments £'m	
<b>2019</b>									
<b>Revenue</b>	<b>113.4</b>	<b>74.5</b>	<b>68.8</b>	<b>93.3</b>	<b>350.0</b>	<b>457.4</b>	<b>40.5</b>	<b>(6.4)</b>	<b>841.5</b>
Cost of sales	(2.2)	–	(12.9)	(8.4)	(23.5)	(364.1)	(18.1)	–	(405.7)
<b>Gross profit</b>	<b>111.2</b>	<b>74.5</b>	<b>55.9</b>	<b>84.9</b>	<b>326.5</b>	<b>93.3</b>	<b>22.4</b>	<b>(6.4)</b>	<b>435.8</b>
Administrative and selling expenses	(77.2)	(29.4)	(29.2)	(2.5)	(138.3)	(72.4)	(40.2)	6.4	(244.5)
Investment income	–	–	–	4.3	4.3	0.2	(3.8)	–	0.7
Finance costs	–	–	–	–	–	–	(11.7)	–	(11.7)
Finance income	–	–	–	–	–	–	–	–	–
<b>Underlying Profit Before Tax</b>	<b>34.0</b>	<b>45.1</b>	<b>26.7</b>	<b>86.7</b>	<b>192.5</b>	<b>21.1</b>	<b>(33.3)</b>	<b>–</b>	<b>180.3</b>
Net fair value gain on derivative financial instruments	–	–	–	–	–	1.0	–	–	1.0
Impairment of cruise ships	–	–	–	–	–	(5.9)	–	–	(5.9)
Impairment of goodwill	–	–	–	–	–	–	–	(310.0)	(310.0)
<b>Profit/(loss) before tax from continuing operations</b>	<b>34.0</b>	<b>45.1</b>	<b>26.7</b>	<b>86.7</b>	<b>192.5</b>	<b>16.2</b>	<b>(33.3)</b>	<b>(310.0)</b>	<b>(134.6)</b>
<b>Total assets less liabilities</b>					<b>335.9</b>	<b>73.8</b>	<b>(181.4)</b>	<b>735.8</b>	<b>964.3</b>

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)

2018 (restated)	Insurance					Travel £'m	Emerging Businesses and Central Costs £'m	Adjustments £'m	Total £'m
	Motor broking £'m	Home broking £'m	Other insurance broking £'m	Under- writing £'m	Total £'m				
<b>Revenue</b>	<b>121.4</b>	<b>85.0</b>	<b>76.5</b>	<b>99.0</b>	<b>381.9</b>	<b>448.7</b>	<b>36.4</b>	<b>(6.8)</b>	<b>860.2</b>
Cost of sales	(2.5)	–	(11.9)	(28.0)	(42.4)	(355.9)	(14.5)	–	(412.8)
<b>Gross profit</b>	<b>118.9</b>	<b>85.0</b>	<b>64.6</b>	<b>71.0</b>	<b>339.5</b>	<b>92.8</b>	<b>21.9</b>	<b>(6.8)</b>	<b>447.4</b>
Administrative and selling expenses	(76.0)	(28.7)	(33.1)	(2.3)	(140.1)	(72.4)	(43.8)	6.8	(249.5)
Investment income	–	–	–	10.6	10.6	0.2	(3.2)	–	7.6
Finance costs	–	–	–	–	–	–	(14.2)	–	(14.2)
Finance income	–	–	–	–	–	–	1.5	–	1.5
Share of loss of joint venture	–	–	–	–	–	–	(2.2)	–	(2.2)
<b>Underlying Profit Before Tax</b>	<b>42.9</b>	<b>56.3</b>	<b>31.5</b>	<b>79.3</b>	<b>210.0</b>	<b>20.6</b>	<b>(40.0)</b>	<b>–</b>	<b>190.6</b>
Net fair value loss on derivative financial instruments	–	–	–	–	–	(0.6)	–	–	(0.6)
Accelerated amortisation of debt issue costs	–	–	–	–	–	–	(4.3)	–	(4.3)
Restructuring costs	–	–	–	–	–	–	(4.8)	–	(4.8)
<b>Profit before tax from continuing operations</b>	<b>42.9</b>	<b>56.3</b>	<b>31.5</b>	<b>79.3</b>	<b>210.0</b>	<b>20.0</b>	<b>(49.1)</b>	<b>–</b>	<b>180.9</b>
<b>Total assets less liabilities</b>					<b>353.8</b>	<b>60.4</b>	<b>(224.0)</b>	<b>1,035.3</b>	<b>1,225.5</b>

All revenue is generated solely in the UK.

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

	2019 £'m	2018 £'m
Goodwill (note 14)	<b>1,175.0</b>	1,485.0
Bank loans (note 27)	<b>(439.2)</b>	(443.0)
Deferred tax – non-pension scheme related	–	(6.7)
	<b>735.8</b>	1,035.3



### 3 Segmental information (continued)

#### a. Disaggregation of revenue

Major product lines	2019					
	Insurance			Travel	EB&CC	Total
	Earned premium on insurance underwritten by the Group	Other revenue	Total insurance			
	£'m	£'m	£'m	£'m	£'m	£'m
Gross earned premium on insurance underwritten by the Group	238.1		238.1			238.1
Less: ceded to reinsurers	(136.0)		(136.0)			(136.0)
Net revenue on:						
• Motor broking	19.9	93.5	113.4			113.4
• Home broking	–	74.5	74.5			74.5
• Other broking	1.4	67.4	68.8			68.8
• Underwriting	80.8	12.5	93.3			93.3
Tour operations				360.8		360.8
Cruise				96.6		96.6
Personal finance					8.2	8.2
Healthcare					6.0	6.0
Media					18.6	18.6
Other					1.3	1.3
	102.1	247.9	350.0	457.4	34.1	841.5

Major product lines	2018					
	Insurance			Travel	EB&CC	Total
	Earned premium on insurance underwritten by the Group	Other revenue	Total insurance			
	£'m	£'m	£'m	£'m	£'m	£'m
Gross earned premium on insurance underwritten by the Group	259.6		259.6			259.6
Less: ceded to reinsurers	(139.9)		(139.9)			(139.9)
Net revenue on:						
• Motor broking	30.4	91.0	121.4			121.4
• Home broking	3.6	81.4	85.0			85.0
• Other broking	1.5	75.0	76.5			76.5
• Underwriting	84.2	14.8	99.0			99.0
Tour operations				360.5		360.5
Cruise				88.2		88.2
Personal finance					7.7	7.7
Healthcare					5.6	5.6
Media					14.1	14.1
Other					2.2	2.2
	119.7	262.2	381.9	448.7	29.6	860.2

### 3 Segmental information (continued)

#### b. Analysis of insurance cost of sales

	2019 £'m	2018 (restated) £'m
Gross claims incurred on insurance underwritten by the Group	<b>129.7</b>	156.1
Less: ceded to reinsurers	<b>(120.1)</b>	(127.1)
Net claims incurred on insurance underwritten by the Group:		
• Motor broking	<b>2.2</b>	2.5
• Underwriting	<b>7.4</b>	26.5
	<b>9.6</b>	29.0
Other cost of sales	<b>13.9</b>	13.4
	<b>23.5</b>	42.4

#### c. Contract balances

The following table provides information about contract assets and contract liabilities from contracts with customers as accounted for under IFRS 15 (the amounts stated here do not include amounts accounted for under IFRS 4):

	2019 £'m	2018 £'m
Contract cost assets	<b>4.5</b>	2.8
Contract liabilities	<b>144.7</b>	142.7

The contract cost assets relate to commissions paid to price comparison websites to acquire new business policies not underwritten by the Group.

Management expects that incremental commission fees paid to price comparison websites as a result of obtaining insurance contracts are recoverable. The Group has therefore capitalised them as contract assets amounting to £7.8m for the year ended 31 January 2019 (2018: £4.4m). These fees are amortised over the period of the expected renewal cycle. In the year to 31 January 2019, the amount of amortisation was £6.1m (2018: £4.3m) and there was no impairment loss in relation to the costs capitalised.

Applying the practical expedient in paragraph 94 of IFRS 15, the Group recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

The contract liabilities relate to the deferral of revenue for performance obligations not satisfied as at 31 January 2019 and the advance consideration received from customers for holidays or cruises booked but not travelled and insurance premiums received in advance of the inception date.

Significant changes in the contract assets and the contract liabilities during the year are as follows:

	2019		2018	
	Contract cost assets	Contract liabilities	Contract cost assets	Contract liabilities
Balance as at 1 February	<b>2.8</b>	<b>142.7</b>	2.7	137.4
Released to the income statement in the period	<b>(6.1)</b>	<b>(133.6)</b>	(4.3)	(134.7)
Additional contract balances incurred during the period	<b>7.8</b>	<b>135.6</b>	4.4	140.0
Balance as at 31 January	<b>4.5</b>	<b>144.7</b>	2.8	142.7

#### d. Transaction price allocated to the remaining performance obligations

As at 31 January 2019, the amount allocated to the Group's Membership scheme, Saga Possibilities, is £0.8m (2018: £0.3m). This will be recognised as revenue over the duration of Membership, which is expected to be over the next one to three years depending on the duration of each Membership contract.

The transaction price allocated to customer contracts within the Travel segment where the remaining performance obligations are not expected to be satisfied within the next 12 months is £13.3m (2018: £15.0m). This is expected to be recognised as revenue in the next one to two years.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

## 4 Administrative and selling expenses

	2019 £'m	2018 (restated) £'m
Staff costs (excluding restructuring costs)	99.1	108.2
Marketing and fulfilment costs	65.3	63.9
Lease rentals	1.4	1.4
Auditors' remuneration	1.3	1.2
Other administrative costs	59.8	53.2
Amounts ceded under reinsurance contracts	(4.3)	(3.2)
Depreciation (note 17)	4.8	5.2
Amortisation of intangible assets (note 15)	18.7	17.9
Restructuring costs	-	4.8
Non-trading items	(1.6)	1.7
	<b>244.5</b>	<b>254.3</b>

### a. Auditors' remuneration

	2019 £'m	2018 £'m
Audit of the parent company and consolidated financial statements	0.3	0.3
Audit of subsidiary financial statements	0.8	0.7
Audit-related assurance services	0.2	0.2
Total auditors' remuneration	<b>1.3</b>	<b>1.2</b>

### b. Non-trading items

	2019 £'m	2018 £'m
Share-based payment costs (note 32)	0.2	0.3
Redundancy costs	1.6	1.4
Joint venture closure costs	0.6	-
Profit on sale of property	(3.9)	-
Other	(0.1)	-
Non-trading items included within administrative and selling expenses	<b>(1.6)</b>	<b>1.7</b>
Impairment of joint venture	-	1.7
Non-trading items included within share of loss of joint venture	-	1.7
Total non-trading costs	<b>(1.6)</b>	<b>3.4</b>

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

Impairment of joint venture represents the write-down of the carrying value of the Group's joint venture, Saga Investment Services Limited, following the decision to replace the legal structure with a new, more cost-efficient structure, and included an estimate of costs to wind up the joint venture.

Profit on sale of property relates to the sale of the Buckingham Gate property in the year, which was previously held for sale in the statement of financial position (£6.8m as at 31 January 2018).

## 5 Impairment of assets

During the year, the Group has impaired the carrying value of the goodwill balance allocated to the Insurance CGU by £310.0m (2018: £nil). See note 16a for further details.

The Group has also impaired the carrying value of the Saga Pearl II and the Saga Sapphire in line with third party valuations received. The total impairment charge of £5.9m includes a write-down of the carrying value of property, plant and equipment of £4.3m (note 18) and a write-down of the carrying value of technical stock of £1.6m.

## 6 Investment income

	2019 £'m	2018 (restated) £'m
Interest income recognised using the EIR method	4.8	6.4
Gains on assets measured at FVTPL	1.6	2.6
Recycling of gains from other comprehensive income	–	4.4
Amounts ceded under reinsurance contracts	(5.7)	(5.8)
	<b>0.7</b>	7.6

## 7 Finance costs

	2019 £'m	2018 (restated) £'m
Interest and charges on debt and borrowings	11.5	13.5
Net fair value loss on derivative financial instruments	–	0.6
Dividends paid by subsidiaries to non-controlling interests	–	0.2
Net finance expense on pension schemes	–	0.2
Net finance charges on finance leases and hire purchase contracts	0.2	0.3
Accelerated amortisation of debt issue costs	–	4.3
	<b>11.7</b>	19.1

## 8 Finance income

	2019 £'m	2018 £'m
Net fair value gain on derivative financial instruments	1.0	–
Unwinding of discount rates	–	1.5
	<b>1.0</b>	1.5

## 9 Directors and employees

Amounts charged to the income statement for the year are as follows:

	2019 £'m	2018 £'m
Wages and salaries	102.9	110.0
Social security costs	10.7	11.2
Pension costs (note 23)	10.3	15.5
Total staff costs	<b>123.9</b>	136.7

Staff costs (including restructuring and redundancy costs) of £23.2m (2018: £22.3m) and £100.7m (2018: £114.4m) have been allocated to cost of sales and to administrative and selling expenses respectively.

Average monthly number of employees:

	2019	2018
Insurance	1,911	2,206
Travel	2,134	2,266
Emerging Businesses and Central Costs	997	857
Total staff numbers	<b>5,042</b>	5,329

The number of employees in the Travel segment includes 852 (2018: 839) crew who are employed indirectly via a manning agency.

### Directors' remuneration

The information required by the Companies Act 2006 and the Listing Rules of the FCA is contained on pages 83-97 in the Directors' Remuneration Report.

## 9 Directors and employees (continued)

### Compensation of key management personnel of the Group

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and comprise the Directors of the Company and the Chief Executive Officers of the major businesses within the trading segments.

The amounts recognised as an expense during the financial year in respect of key management personnel are as follows:

	2019 £'m	2018 £'m
Short-term benefits	4.7	4.9
Share-based payments	1.0	1.3
Post-employment benefits	–	0.1
	<b>5.7</b>	<b>6.3</b>

## 10 Tax

The major components of the income tax expense are:

	2019 £'m	2018 (restated) £'m
<b>Consolidated income statement</b>		
<b>Current income tax</b>		
Current income tax charge	36.5	34.3
Adjustments in respect of previous years	0.4	(1.0)
	<b>36.9</b>	<b>33.3</b>
<b>Deferred tax</b>		
Relating to origination and reversal of temporary differences	(8.9)	0.6
Adjustments in respect of previous years	(0.6)	–
<b>Tax expense in the income statement</b>	<b>27.4</b>	<b>33.9</b>

Reconciliation of tax expense to (loss)/profit before tax multiplied by the UK corporation tax rate:

	2019 £'m	2018 (restated) £'m
Profit before tax	(134.6)	180.9
Tax at rate of 19.00% (2018: 19.17%)	(25.6)	34.7
Adjustments in respect of previous years	(0.2)	(1.0)
Expenses not deductible for tax purposes:		
Impairment of goodwill	58.9	–
Associated deferred tax on impairment of goodwill	(6.7)	–
Other non-deductible expenses/non-taxed income	1.0	0.2
<b>Tax expense in the income statement</b>	<b>27.4</b>	<b>33.9</b>

The Group's tax expense for the year was £27.4m (2018: £33.9m) representing a tax effective rate of 19.4% before the impairment of goodwill and associated deferred tax (2018 restated: 18.7%).

Adjustments in respect of previous years includes an adjustment for the over provision of tax charge in previous years of £0.2m (2018: £1.0m).

## 10 Tax (continued)

### Deferred tax

	Consolidated statement of financial position		Consolidated income statement	
	2019 £'m	2018 (restated) £'m	2019 £'m	2018 (restated) £'m
Excess of depreciation over capital allowances	4.5	5.4	0.9	0.2
Intangible assets	(1.3)	(1.6)	0.3	1.9
Retirement benefit scheme liabilities	0.5	1.2	(0.3)	0.6
Short-term temporary differences	2.7	(8.3)	8.6	(3.3)
<b>Deferred tax credit/(charge)</b>			<b>9.5</b>	<b>(0.6)</b>
<b>Net deferred tax assets/(liabilities)</b>	<b>6.4</b>	<b>(3.3)</b>		

Short-term temporary differences include deferred tax recognised on designated hedges recognised through OCI, the share-based payment reserve and general bad debt provision. Deferred tax is reflected in the statement of financial position as follows:

	2019 £'m	2018 (restated) £'m
Deferred tax assets	14.2	13.7
Deferred tax liabilities	(7.8)	(17.0)
<b>Net deferred tax assets/(liabilities)</b>	<b>6.4</b>	<b>(3.3)</b>

### Reconciliation of net deferred tax assets/(liabilities)

	2019 £'m	2018 (restated) £'m
<b>At 1 February</b>	<b>(3.3)</b>	<b>(5.9)</b>
Tax credit/(charge) recognised in the income statement	9.5	(0.6)
Tax charge recognised in other comprehensive income	0.2	3.2
<b>At 31 January</b>	<b>6.4</b>	<b>(3.3)</b>

Measures were enacted in the Finance Act 2015 to reduce the corporation tax rate from 20% to 19% from 1 April 2017, and to 18% from 1 April 2020. A further reduction to 17% from 1 April 2020 was announced on 16 March 2016 and has been enacted at the balance sheet date. As a result, the closing deferred tax balances have been reflected at 17%. We expect net deferred tax assets/(liabilities) to be normally settled within 12 months.

The Group has tax losses which arose in the UK of £4.2m (2018: £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 was able to recognise all unrecognised deferred tax assets, the profit would increase by £0.7m (2018: £0.7m).

## 11 Dividends

Declared during the year:	2019 £'m	2018 £'m
Final dividend for the year ended 31 January 2018: 6.0 pence per share (2017: 5.8 pence per share)	67.1	64.8
Interim dividend for the year ended 31 January 2019: 3.0 pence per share (2018: 3.0 pence per share)	33.6	33.6
	<b>100.7</b>	<b>98.4</b>

Proposed after the end of the reporting period and not recognised as a liability:

Final dividend for the year ended 31 January 2019: 1.0 pence per share (2018: 6.0 pence per share)	11.2	67.2
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The proposed dividend for the year ended 31 January 2019 is subject to approval by shareholders at the Annual General Meeting on 19 June 2019 and would be paid on 28 June 2019.

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 receiving a cash payment. The last date for shareholders to elect to participate in the DRIP will be 3 June 2019. The record date will be 17 May 2019 and the final dividend will be paid on 28 June 2019. Payment of the final dividend of 1.0p per share remains subject to shareholder approval at the Company's 2019 Annual General Meeting.

## 11 Dividends (continued)

Saga plc has £600.2m of distributable reserves at 31 January 2019 available for distribution to support the dividend policy. The distributable reserves of Saga plc are £600.2m as at 31 January 2019 which are equal to the retained earnings reserve. If necessary, its subsidiary companies hold significant reserves from which a dividend can be paid to support Saga plc's dividend policy. Subsidiary distributable reserves are available immediately with the exception of companies within the Travel and Underwriting segments, which require regulatory approval before any dividends can be declared and paid.

## 12 Earnings Per Share

Basic EPS is calculated by dividing the (loss)/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:

	2019 £'m	2018 £'m
(Loss)/Profit attributable to ordinary equity holders	<b>(162.0)</b>	139.4
(Loss)/Profit from continuing operations	<b>(162.0)</b>	147.0
Weighted average number of ordinary shares	<b>m</b>	m
Shares in issue at 1 February	<b>1,118.1</b>	1,114.0
IPO share options exercised	–	3.1
LTIP share options exercised	<b>0.9</b>	0.9
Other share options exercised	<b>0.1</b>	0.1
Weighted average number for basic EPS	<b>1,119.1</b>	1,118.1
Dilutive options		
IPO share options not yet exercised	–	0.4
Other share options not yet vested	–	–
LTIP share options not yet vested	–	4.7
Deferred Bonus Plan	–	0.4
Weighted average number for diluted EPS	<b>1,119.1</b>	1,123.6
<b>Basic EPS</b>	<b>(14.5p)</b>	12.5p
<b>Basic EPS for continuing operations</b>	<b>(14.5p)</b>	13.1p
<b>Diluted EPS</b>	<b>(14.5p)</b>	12.4p
<b>Diluted EPS for continuing operations</b>	<b>(14.5p)</b>	13.1p

The table below reconciles between basic EPS and underlying EPS:

	2019	2018
<b>Basic EPS for continuing operations</b>	<b>(14.5p)</b>	13.1p
Adjusted for:		
Derivative gains/(losses)	–	–
Restructuring costs	–	0.4p
Debt issue costs	–	0.3p
Impairment of cruise ships	0.5p	–
Impairment of goodwill and associated deferred tax	27.1p	–
<b>Underlying EPS for continuing operations</b>	<b>13.1p</b>	13.8p

## 13 Business combinations and acquisition of non-controlling interests

### Acquisitions during the year ended 31 January 2019

There were no acquisitions in the year ended 31 January 2019.



## 14 Goodwill

	Goodwill £'m
<b>Cost</b>	
At 1 February 2018	1,485.0
<b>At 31 January 2018 and 31 January 2019</b>	<b>1,485.0</b>
<b>Impairment</b>	
At 1 February 2018	–
Charge for the year (note 16a)	(310.0)
<b>At 31 January 2019</b>	<b>(310.0)</b>
<b>Net book value</b>	
<b>At 31 January 2019</b>	<b>1,175.0</b>
At 31 January 2018	1,485.0

Goodwill deductible for tax purposes amounts to £nil (2018: £nil).

## 15 Intangible fixed assets

	Contracts £'m	Brands £'m	Customer relationships £'m	Software £'m	Total £'m
<b>Cost</b>					
At 1 February 2017	5.8	179	11.3	93.6	128.6
Additions – internally developed	–	–	–	25.9	25.9
<b>At 31 January 2018</b>	<b>5.8</b>	<b>179</b>	<b>11.3</b>	<b>119.5</b>	<b>154.5</b>
Additions – internally developed	–	–	–	21.5	21.5
Disposals	–	–	–	(16.3)	(16.3)
Transfer of asset class	–	–	–	(0.3)	(0.3)
<b>At 31 January 2019</b>	<b>5.8</b>	<b>179</b>	<b>11.3</b>	<b>124.4</b>	<b>159.4</b>
<b>Amortisation and impairment</b>					
At 1 February 2017	2.1	4.7	8.7	59.3	74.8
Amortisation	1.2	1.8	1.7	13.8	18.5
<b>At 31 January 2018</b>	<b>3.3</b>	<b>6.5</b>	<b>10.4</b>	<b>73.1</b>	<b>93.3</b>
Amortisation	1.1	1.8	0.7	16.0	19.6
Disposals	–	–	–	(16.3)	(16.3)
<b>At 31 January 2019</b>	<b>4.4</b>	<b>8.3</b>	<b>11.1</b>	<b>72.8</b>	<b>96.6</b>
<b>Net book value</b>					
<b>At 31 January 2019</b>	<b>1.4</b>	<b>9.6</b>	<b>0.2</b>	<b>51.6</b>	<b>62.8</b>
At 31 January 2018	2.5	11.4	0.9	46.4	61.2

Contracts, brands and customer relationships assets acquired through business combinations have been reviewed for indicators of impairment (see note 16b).

The amortisation charge for the year is analysed as follows:

	2019 £'m	2018 £'m
Cost of sales	<b>0.9</b>	0.6
Administrative and selling expenses (note 4)	<b>18.7</b>	17.9
	<b>19.6</b>	18.5

## 16 Impairment of intangible assets

### a. Goodwill

Goodwill acquired through business combinations has been allocated to CGUs for the purpose of impairment testing. The carrying value of goodwill by CGU is as follows:

	2019 £'m	2018 £'m
Insurance, excluding Bennetts	1,088.6	1,398.6
Insurance, Bennetts	13.6	13.6
Travel, excluding Destinology	59.8	59.8
Travel, Destinology	13.0	13.0
	<b>1,175.0</b>	1,485.0

The Group has tested all goodwill balances for impairment at 31 January 2019. The impairment test compares the recoverable amount of the goodwill of each CGU to its carrying value. The goodwill associated with the Bennetts and Destinology businesses have been considered separately, as these businesses represent separate CGUs.

The recoverable amount of each CGU has been determined based on a value-in-use calculation using cash flow projections from the Group's Board-approved five year plan to 2023/24. Terminal values have been included using 2.25% as the expected long-term average growth rate of the UK economy, and calculated using the Gordon Growth Model. The cash flows have then been discounted to present value using a suitably risk-adjusted discount rate derived from the Group's weighted average cost of capital. The pre-tax discount rates used for each CGU were as follows:

	2019	2018
Insurance, excluding Bennetts	9.6%	9.7%
Insurance, Bennetts	11.6%	10.6%
Travel, excluding Destinology	11.8%	10.1%
Travel, Destinology	12.2%	10.1%

The value-in-use calculation is most sensitive to the assumptions used for forecast cash flows, the long-term growth rate and the discount rate selected, all of which require significant judgement. Accordingly, stress testing has been performed on these key assumptions as part of the impairment review to determine whether any reasonably foreseeable change in those assumptions would cause the recoverable amount of the CGU to be lower than its carrying amount. Stress testing as to possible Brexit outcomes has also been considered.

The resultant headroom/(deficit) for each of the CGUs against the brought forward carrying value is as follows:

	Headroom /(deficit) £'m
Insurance, excluding Bennetts	(310.0)
Insurance, Bennetts	30.9
Travel, excluding Destinology	374.0
Travel, Destinology	10.5

Due to the deficit calculated in the Insurance excluding Bennetts base case for the Insurance excluding Bennetts CGU, and taking into account the likelihood of each of the sensitivities, management considers it necessary to impair the Insurance excluding Bennetts CGU to its value-in-use of £1,157.9m, from which the value of PPE and intangibles assets of £69.3m must also be deducted. Therefore, a reduction to the carrying value of Goodwill allocated to the Insurance excluding Bennetts CGU of £310.0m has been recognised in the year to 31 January 2019. The impairment charge has been determined using a prudent view of forecast cash flows for the Insurance business, removing the benefit of future strategies that are not yet reflective of the asset in its current condition. No impairment is considered necessary for the three other CGUs.

The headroom calculated is most sensitive to the discount rate and terminal growth rate assumed. A quantitative sensitivity analysis for each of these as at 31 January 2019 and its impact on the headroom against brought forward goodwill carrying values is as follows:

	Pre-tax discount rate		Terminal growth rate	
	+1.0ppt £'m	-1.0ppt £'m	+1.0ppt £'m	-1.0ppt £'m
Insurance, excluding Bennetts	(130.8)	171.5	134.0	(102.0)
Insurance, Bennetts	(4.6)	5.8	4.3	(3.4)
Travel, excluding Destinology	(93.8)	116.7	89.2	(72.3)
Travel, Destinology	(2.9)	3.6	2.6	(2.1)

## 16 Impairment of intangible assets (continued)

### 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 2019 and concluded that no impairment is required.

## 17 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
<b>Cost</b>						
At 1 February 2017	52.5	8.6	96.7	15.1	58.6	231.5
Additions	–	0.8	73	45.3	5.8	59.2
Disposals	–	–	–	–	(10.5)	(10.5)
Assets held for sale	(7.5)	–	–	–	–	(7.5)
<b>At 31 January 2018</b>	<b>45.0</b>	<b>9.4</b>	<b>104.0</b>	<b>60.4</b>	<b>53.9</b>	<b>272.7</b>
Additions	–	–	–	40.6	4.7	45.3
Disposals	–	–	–	–	(0.3)	(0.3)
Transfer of asset class	–	(0.7)	–	–	1.7	1.0
<b>At 31 January 2019</b>	<b>45.0</b>	<b>8.7</b>	<b>104.0</b>	<b>101.0</b>	<b>60.0</b>	<b>318.7</b>
<b>Depreciation and impairment</b>						
At 1 February 2017	8.2	2.1	45.6	–	44.1	100.0
Provided during the year	0.9	0.1	12.4	–	6.7	20.1
Disposals	–	–	–	–	(10.1)	(10.1)
Assets held for sale	(0.7)	–	–	–	–	(0.7)
<b>At 31 January 2018</b>	<b>8.4</b>	<b>2.2</b>	<b>58.0</b>	<b>–</b>	<b>40.7</b>	<b>109.3</b>
Provided during the year	0.8	0.2	13.7	–	6.1	20.8
Impairment of assets	–	–	4.3	–	–	4.3
Disposals	–	–	–	–	(0.3)	(0.3)
Transfer of asset class	–	0.1	–	–	0.6	0.7
<b>At 31 January 2019</b>	<b>8.8</b>	<b>2.5</b>	<b>66.0</b>	<b>–</b>	<b>47.1</b>	<b>134.8</b>
<b>Net book value</b>						
<b>At 31 January 2019</b>	<b>35.8</b>	<b>6.2</b>	<b>28.0</b>	<b>101.0</b>	<b>12.9</b>	<b>183.9</b>
At 31 January 2018	36.6	7.2	46.0	60.4	13.2	163.4

The net book value of plant and equipment includes £2.3m (2018: £3.3m) in respect of plant and machinery held under finance lease agreements. The accumulated depreciation on these assets is £3.2m (2018: £2.5m).

The depreciation charge for the year is analysed as follows:

	2019 £'m	2018 £'m
Cost of sales	16.0	14.9
Administrative and selling expenses (note 4)	4.8	5.2
	<b>20.8</b>	<b>20.1</b>

During the year, the Group disposed of assets with a net book value of £nil (2018: £0.4m). Profit arising on disposal was £0.1m (2018: £nil).

During the year, borrowing costs of £2.5m (2018: £0.8m) have been capitalised in property, plant and equipment and £0.5m (2018: £0.2m) has been capitalised in software in intangible assets, which represents 3.2% (2018: 3.1%) of capital expenditure eligible to capitalise borrowing costs.

## 18 Financial assets and financial liabilities

### a. Financial assets

	2019 £'m	2018 (restated) £'m
<b>Fair value through profit or loss</b>		
Foreign exchange forward contracts	0.4	0.1
Fuel oil swaps	0.6	1.8
Loan funds	6.2	6.4
Money market funds	37.1	153.2
Unlisted equity shares	–	1.7
Hedge funds	–	7.5
Equities	–	31.4
	<b>44.3</b>	202.1
<b>Fair value through profit or loss designated in a hedging relationship</b>		
Foreign exchange forward contracts	31.2	35.2
Fuel oil swaps	1.2	1.3
	<b>32.4</b>	36.5
<b>Fair value through other comprehensive income</b>		
Debt securities	280.2	159.4
	<b>280.2</b>	159.4
<b>Amortised cost</b>		
Deposits with financial institutions	69.3	115.5
	<b>69.3</b>	115.5
<b>Total financial assets</b>	<b>426.2</b>	513.5
Current	111.4	229.4
Non-current	314.8	284.1
	<b>426.2</b>	513.5

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.

## 18 Financial assets and financial liabilities (continued)

### b. Financial liabilities

	2019 £'m	2018 (restated) £'m
<b>Fair value through profit or loss</b>		
Foreign exchange forward contracts	0.5	1.0
Fuel oil swaps	0.1	0.1
	<b>0.6</b>	1.1
<b>Fair value through profit or loss designated in a hedging relationship</b>		
Foreign exchange forward contracts	10.1	11.4
Fuel oil swaps	1.4	0.2
	<b>11.5</b>	11.6
<b>Amortised cost</b>		
Bond and bank loans (note 27)	439.2	443.0
Obligations under finance leases and hire purchase	3.0	3.4
Bank overdrafts	2.7	9.4
	<b>444.9</b>	455.8
<b>Total financial liabilities</b>		
	<b>457.0</b>	468.5
Current	41.4	34.8
Non-current	415.6	433.7
	<b>457.0</b>	468.5

All financial assets that are measured at FVTPL are mandatorily measured at FVTPL and all financial liabilities that are measured at FVTPL meet the definition of held for trading.

### 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.

**18 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 2019, 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 that are held at fair value:

	As at 31 January 2019				As at 31 January 2018 (restated)			
	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
<b>Financial assets measured at fair value</b>								
Foreign exchange forwards	–	31.6	–	<b>31.6</b>	–	35.3	–	35.3
Fuel oil swaps	–	1.8	–	<b>1.8</b>	–	3.1	–	3.1
Loan funds	6.2	–	–	<b>6.2</b>	6.4	–	–	6.4
Equities	–	–	–	–	31.4	–	–	31.4
Hedge funds	–	–	–	–	7.5	–	–	7.5
Debt securities	280.2	–	–	<b>280.2</b>	159.4	–	–	159.4
Money market funds	37.1	–	–	<b>37.1</b>	153.2	–	–	153.2
Unlisted equity shares	–	–	–	–	–	–	1.7	1.7
<b>Financial liabilities measured at fair value</b>								
Foreign exchange forwards	–	10.6	–	<b>10.6</b>	–	12.4	–	12.4
Fuel oil swaps	–	1.5	–	<b>1.5</b>	–	0.3	–	0.3
<b>Financial assets for which fair values are disclosed</b>								
Deposits with institutions	–	69.3	–	<b>69.3</b>	–	115.5	–	115.5
<b>Financial liabilities for which fair values are disclosed</b>								
Bond and bank loans	–	439.2	–	<b>439.2</b>	–	443.0	–	443.0
Finance leases and hire purchase obligations	–	3.0	–	<b>3.0</b>	–	3.4	–	3.4
Bank overdrafts	–	2.7	–	<b>2.7</b>	–	9.4	–	9.4

Following a review of the Group's investment portfolio during the prior year, loan funds, hedge funds and money market funds were transferred from Level 2 to Level 1 in the hierarchy. There have been no such transfers in the year to 31 January 2019. There have been no non-recurring fair value measurements of assets and liabilities during the year (2018: none).

The value of the debt securities, money market funds, loan funds and equities are based upon publicly available market prices. Hedge funds are valued based upon a market value, which is not otherwise publicly available, provided by the hedge fund manager.

Foreign exchange forwards are valued using current spot and forwards rates discounted to present value. They are also adjusted for counterparty credit risk using CDS curves. Fuel oil swaps are valued with reference to the valuations provided by third parties, which use current Platt's index rates, discounted to present value.

## 18 Financial assets and financial liabilities (continued)

### d. Cash flow hedges

#### i) Forward currency risk

During the year ended 31 January 2019, the Group designated 675 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 2019		At 31 Jan 2018	
	Volume	£'m	Volume	£'m	Volume	£'m
Foreign currency cash flow hedging instruments						
Euro (EUR)	218	(2.1)	251	18.0	188	28.6
US dollar (USD)	179	1.3	230	2.5	181	(4.3)
Other currencies	278	0.5	341	0.7	330	(0.6)
Total	675	(0.3)	822	21.2	699	23.7

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 2019		At 31 Jan 2018	
	Volume	£'m	Volume	£'m	Volume	£'m
Commodity cash flow hedging instruments						
Hedging instruments	44	(1.1)	170	0.2	123	3.9

#### iii) Hedge maturity profile

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 2019. These cash flows are expected to become determined in profit or loss in the same period in which the cash flows occur.

Determination period	EUR	USD	Other	Currency	Fuel	Total
	£'m	£'m	currencies	hedges	hedges	£'m
			£'m	£'m	£'m	£'m
1 February 2019 to 31 July 2019	316.9	17.2	11.4	345.5	0.6	346.1
1 August 2019 to 31 January 2020	30.4	15.6	4.1	50.1	0.5	50.6
1 February 2020 to 31 July 2020	19.3	12.0	1.9	33.2	(0.3)	32.9
1 August 2020 to 31 January 2021	234.6	7.5	0.1	242.2	(0.4)	241.8
1 February 2021 to 31 July 2021	–	1.5	–	1.5	(0.2)	1.3
1 August 2021 to 31 January 2022	–	1.0	–	1.0	(0.1)	0.9
Total	601.2	54.8	17.5	673.5	0.1	673.6

The foreign currency hedge which will be determined in July 2019 of £252.3m and August 2020 of £233.3m relates to the delivery of the ships (note 33).

During the year, the Group recognised net gains of £5.3m (2018: £2.8m losses) on cash flow hedging instruments through other comprehensive income into the hedging reserve. Additionally, the Group recognised net losses of £6.3m (2018: £1.1m) through other comprehensive income into the hedging reserve, in relation to the specific hedging instrument for the acquisition of two new ships (note 33). The overall net losses of £1.0m (2018: £3.9m) are offset by a net £1.5m gain (2018: £0.3m gain) on forecast transactions recognised in the financial statements. The Group has not recognised any amount through the income statement in respect of the ineffective portion of hedges measured during the year (2018: £0.2m loss).

There has been no de-designation of hedges during the year ended 31 January 2019 as a result of cash flows forecast that are no longer expected to occur. During the year, the Group recognised a £2.9m gain (2018: £18.8m gain) through the income statement in respect of matured hedges, which has been recycled from other comprehensive income. No amounts have been removed from the hedging reserve to be included in the carrying value of non-financial assets and liabilities.



## 19 Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include debt securities, deposits with financial institutions, money market funds, equity funds, loan funds and hedge funds. The Group also enters into derivative transactions such as foreign exchange forward contracts, fuel and gas oil swaps and interest rate swaps to manage its exposures to various risks.

The Group is exposed to market risk, credit risk, liquidity risk, insurance risk and operational risk. The Group's senior management oversees the management of these risks, supported by the Group Treasury function and Treasury Committees within the key areas of the Group that advise on financial risks and the appropriate financial risk governance framework for the Group. These functions and committees ensure that the Group's financial risks are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities are for risk management purposes and are carried out by the Group's Treasury function. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

The Group manages concentration risk on its financial assets through a policy of diversification that is outlined in the Group Treasury Policy and approved by the Board. The policy defines the exposure limit by asset class and to third party institutions based on the credit ratings of the individual counterparties, combined with the views of the Board. On a monthly basis, exposure to each asset class and counterparty is calculated and reported, and compliance with the policy is monitored.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

### a. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group is exposed to the following market risk factors:

- Foreign currency risk.
- Commodity price risk.
- Equity prices.
- 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 that the Group is willing to accept considering strategy, risk appetite and capital resources.

The Group has the ability to monitor market risk exposure on a daily basis and has established limits for each component of market risk.

The Group uses derivatives for hedging its exposure to foreign currency, fuel oil prices and interest rate risks. The market risk policy explicitly prohibits the use of derivatives for speculative purposes.

Equity exposures are managed within allocation parameters agreed by the Board and with reference to agreed benchmarks.

### i) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial asset or liability will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

The Group uses foreign exchange forward contracts to manage the majority of its transaction exposures. The foreign exchange forward contracts, some of which are formally designated as hedging instruments, are entered into for periods consistent with the foreign currency exposure of the underlying transactions, generally from 1 to 24 months. The foreign exchange forward contracts vary with the level of expected foreign currency sales and purchases.

## 19 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 the fair value of forward exchange contracts	Effect on profit after tax and equity
<b>2019</b>	<b>EUR – Trading</b>	<b>+/- £5.9m</b>	<b>+/- £0.6m</b>
	<b>EUR – New ships</b>	<b>+/- £23.7m</b>	<b>+/- £0.0m</b>
	<b>USD</b>	<b>+/- £4.0m</b>	<b>+/- £0.6m</b>
2018	EUR – Trading	+/- £4.2m	+/- £0.7m
	EUR – New ships	+/- £18.1m	+/- £0.0m
	USD	+/- £2.3m	+/- £0.4m

Since all of the forward exchange contracts held are part of effective hedging relationships, any change to the fair value of the instrument will be offset by an equal and opposite change to the cost of the hedged item resulting in no effect on profit after tax and equity.

#### 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
<b>2019</b>	<b>USD – Fuel oil price</b>	<b>+/- £0.1m</b>
2018	USD – Fuel oil price	+/- £0.1m

#### iii) Interest rate risk

Interest rate risk arises primarily from medium and long-term investments in fixed interest securities. The market value of these investments is affected by the movement in interest rates. This is managed by a policy of holding the majority of investments to maturity by closely matching asset and liability duration.

It is also ensured that the investment portfolio has a diversified range of investments such that there is a combination of fixed and floating rate securities, as well as other types of investments such as RPI linked securities.

Interest rate risk also arises in respect of the Group's borrowings where the interest rate attaching to those borrowings is not fixed. Where the Group perceives there to be a significant interest rate risk, it manages its exposure to such risks by purchasing interest rate caps to limit the risk.

The following table shows the sensitivity of financial assets and liabilities to changes in the LIBOR rate. The impact is shown net of tax at the current rate.

	Sensitivity of +/- 0.25% rate change in	Effect on profit after tax and equity
<b>2019</b>	<b>LIBOR</b>	<b>+/- £0.3m</b>
2018	LIBOR	+/- £0.1m

**19 Financial risk management objectives and policies (continued)****b. Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk in relation to its financial and reinsurance assets, outstanding derivatives and trade and other receivables. The Group assesses its counterparty exposure in relation to the investment of surplus cash, fuel oil and foreign currency contracts, and undrawn credit facilities. The Group primarily uses published credit ratings to assess counterparty strength and therefore to define the credit limit for each counterparty in accordance with approved treasury policies.

The credit risk in respect of trade and other receivables is limited as payment from customers is generally required before services are provided. At 31 January 2019, the maximum exposure to credit risk for trade receivables by operating segment was as follows:

	<b>2019</b>	2018
	<b>£'m</b>	£'m
Insurance	<b>51.4</b>	136.5
Travel	<b>2.3</b>	4.0
Emerging Businesses and Central Costs	<b>7.0</b>	4.4
	<b>60.7</b>	144.9

Amounts past due but not impaired by operating segment were as follows:

	<b>2019</b>	2018
	<b>£'m</b>	£'m
Insurance	<b>15.4</b>	11.3
Travel	<b>1.1</b>	0.8
Emerging Businesses and Central Costs	<b>1.7</b>	2.0
	<b>18.2</b>	14.1

Management believes that the unimpaired amounts that are current and past due by more than 30 days are still collectable in full, based on historical payment behaviour.

Credit risk in relation to deposits and derivative counterparties is managed by the Group's Treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed on a regular basis, and updated throughout the year subject to approval by the Group Board. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through any potential counterparty failure.

The Group is exposed to the risk of default on the reinsurance arrangements in its insurance business when amounts recoverable under those arrangements become due. Credit risk in respect of reinsurance arrangements is assessed at the time of entering into a reinsurance contract. The Group's reinsurance programme is only placed with reinsurers which meet the Group's financial strength criteria.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 January 2019 and 31 January 2018 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.

## 19 Financial risk management objectives and policies (continued)

### b. Credit risk (continued)

The Group's financial assets and reinsurance assets are analysed by Moody's rating as follows:

#### Ratings analysis

<b>31 January 2019</b>						
£'m	AAA	AA	A	BBB	Unrated	Total
Debt securities	14.8	140.3	41.2	83.9	–	280.2
Money market funds	37.1	–	–	–	–	37.1
Deposits with financial institutions	–	50.8	–	18.5	–	69.3
Derivative assets	–	–	32.6	0.8	–	33.4
Loan funds	–	–	–	–	6.2	6.2
	51.9	191.1	73.8	103.2	6.2	426.2
Reinsurance assets	–	55.5	40.9	–	0.4	96.8
<b>Total</b>	<b>51.9</b>	<b>246.6</b>	<b>114.7</b>	<b>103.2</b>	<b>6.6</b>	<b>523.0</b>

<b>31 January 2018 (restated)</b>						
£'m	AAA	AA	A	< A	Unrated	Total
Debt securities	28.9	119.0	11.5	–	–	159.4
Money market funds	153.2	–	–	–	–	153.2
Deposits with financial institutions	–	60.8	54.7	–	–	115.5
Derivative assets	–	–	37.8	0.6	–	38.4
Loan funds	–	–	–	–	6.4	6.4
Hedge funds	–	–	–	–	7.5	7.5
Equities	–	–	–	–	31.4	31.4
Unlisted equity shares	–	–	–	–	1.7	1.7
	182.1	179.8	104.0	0.6	47.0	513.5
Reinsurance assets	–	54.6	44.8	–	0.8	100.2
<b>Total</b>	<b>182.1</b>	<b>234.4</b>	<b>148.8</b>	<b>0.6</b>	<b>47.8</b>	<b>613.7</b>

## 19 Financial risk management objectives and policies (continued)

### 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 and insurance contract liabilities on contractual 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.

<b>31 January 2019</b>						
£'m	On demand	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Loans and borrowings	–	50.0	20.0	120.0	250.0	440.0
Interest on loans and borrowings	–	12.1	11.6	28.8	4.2	56.7
Insurance contract liabilities	–	85.5	158.6	131.3	186.1	461.5
Other liabilities	144.7	–	–	–	–	144.7
Trade and other payables	207.7	–	–	–	–	207.7
Derivative liabilities	–	2.6	8.8	0.1	–	11.5
	<b>352.4</b>	<b>150.2</b>	<b>199.0</b>	<b>280.2</b>	<b>440.3</b>	<b>1,422.1</b>

<b>31 January 2018</b>						
£'m	On demand	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Loans and borrowings	5.5	35.0	20.0	140.0	250.0	450.5
Interest on loans and borrowings	–	12.1	11.6	31.4	12.7	67.8
Insurance contract liabilities	–	183.1	95.6	143.7	128.3	550.7
Other liabilities	142.7	–	–	–	–	142.7
Trade and other payables	185.9	–	–	–	–	185.9
Derivative liabilities	–	3.8	4.9	4.0	–	12.7
	<b>334.1</b>	<b>234.0</b>	<b>132.1</b>	<b>319.1</b>	<b>391.0</b>	<b>1,410.3</b>

The amounts included above do not include the financing arrangements for the purchase of two new cruise ships as detailed in note 33.

### 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 that 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.

## 19 Financial risk management objectives and policies (continued)

### d. Insurance risk (continued)

#### ii) Reserving risk

Reserving risk is the risk that insufficient funds have been set aside to settle claims as they fall due. The Group undertakes regular internal actuarial reviews and commissions external actuarial reviews at least once a year. These reviews estimate the future liabilities in order to consider the adequacy of the provisions.

Claims which are subject to PPOs are a significant source of uncertainty in the claim's reserves. Cash flow projections are undertaken for PPO claims to estimate the gross and net of reinsurance provisions required. PPO provisions are discounted to reflect expectations of future investment returns and cost inflation.

#### iii) Reinsurance

The Group purchases reinsurance to reduce the impact of individual large losses or accumulations from a single catastrophic event. During 2016, the Group entered into a funds-withheld quota share reinsurance contract that reinsures 75% of the Group's motor claim risks limited by a loss ratio cap of 120%, effective for three years from 1 February 2016. A new quota share reinsurance contract has been entered into that reinsures 80% of the Group's motor claims risks, effective from 1 February 2019. Prior to this, the Group had quota share reinsurance in place for third party branded motor business for drivers aged under 50. The Group also purchases individual excess of loss protections for the motor portfolio to limit the impact of a single large claim. Similar protections are in place for all years for which the Group has underwritten 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 2019 and 31 January 2018. 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.

	2019	2018
Impact of 1 percentage point change in loss ratio	+/- £0.8m	+/- £1.0m
Impact of 1% change in claims outstanding	+/- £1.5m	+/- £2.2m
Impact of a 0.25 percentage point change in discount rate for PPOs	+/- £1.7m	+/- £1.7m

### e. Operational risk

Effective operational risk management requires the Group to identify, assess, manage, monitor, report and mitigate all areas of exposure. The Group operates across a range of segments and operational risk is inherent in all of the Group's products and services, arising from the operation of assets, from external events and dependencies, and from internal processes and systems.

The Group manages its operational risk through the risk management framework agreed by the Board, and through the use of risk management tools which together ensure that operational risks are identified, managed and mitigated to the level accepted, and that contingency processes and disaster recovery plans are in place. Regular reporting is undertaken to segment boards and includes details of new and emerging risks, as well as monitoring of existing risks. Testing of contingency processes and disaster recovery plans is undertaken to ensure the effectiveness of these processes.

All of the Group's operations are dependent on the proper functioning of its IT and communication systems; on its properties and other infrastructure assets; on the need to adequately maintain and protect customer and employee data and other information; and on the ability of the Group to attract and retain staff. Specific areas of operational risk by segment include:

#### i) Insurance

The Insurance segment is required to comply with various operational regulatory requirements primarily in the UK but also within Gibraltar for its underwriting business. To the extent that significant external events could increase the incidence of claims, these would place additional strain on the claims handling function but any financial impact of such an event is considered to be an insurance risk.

## 19 Financial risk management objectives and policies (continued)

### e. Operational risk (continued)

#### ii) Travel

The Travel segment operates two cruise ships which are the Group's largest trading assets. Risk to the operation of these cruise ships arises from the impact of mechanical or other malfunction, non-compliance with regulatory requirements, and from global weather and socio-economic events. The tour holidays operated by the segment are also affected by global weather and socio-economic events which impact either the Group directly or its suppliers. The Travel segment is in operation with multiple suppliers which minimises the impact of any socio-economic events affecting its suppliers.

#### iii) Emerging Businesses and Central Costs

The financial services product business is required to comply with various operational regulatory requirements in the UK.

The Healthcare business provides a range of domiciliary services. Risk to the operation of this service arises mainly from the availability of appropriately skilled staff to deliver the level and standard of care required, and from the oversight of the delivery of these services.

## 20 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:

- bank loan funds
- money market funds.

In the prior year, hedge funds also formed the Group's balance in unconsolidated structured entities. All hedge funds were divested during the year.

The nature and purpose of the bank loan funds are to diversify the investment portfolio and enhance the overall yield, whilst maintaining an acceptable level of risk for the portfolio as a whole.

Bank loan funds invest in secured loans to companies rated below investment grade.

The nature and purpose of the money market funds is to provide maximum security and liquidity for the funds invested whilst also providing an adequate return. The money market funds used by the Group are all members of the Institutional Money Market Funds Association. They are thus required to maintain specified liquidity and diversification characteristics of their underlying portfolios, which comprise investment grade investments in financial institutions.

The Group invests in unconsolidated structured entities as part of its investment activities. The Group does not sponsor any of the unconsolidated structured entities.

At 31 January 2019, the Group's total interest in unconsolidated structured entities was £43.3m analysed as follows:

	Carrying value £'m	Interest income £'m	Fair value gains £'m
Loan funds	6.2	0.1	(0.2)
Hedge funds	-	-	-
Money market funds	37.1	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.



## 21 Trade and other receivables

	2019 £'m	2018 (restated) £'m
Trade receivables	135.2	144.9
Other receivables	18.3	15.7
Prepayments	40.5	299
Contract cost assets	4.5	2.8
Deferred acquisition costs	14.5	17.7
Other taxes and social security costs	3.6	4.1
	<b>216.6</b>	<b>215.1</b>

The ageing of trade receivables is as follows:

	Total £'m	Neither past due nor impaired £'m	Past due				
			< 30 days £'m	30-60 days £'m	61-90 days £'m	91-120 days £'m	> 120 days £'m
<b>2019</b>	<b>135.2</b>	<b>117.0</b>	<b>4.9</b>	<b>2.9</b>	<b>2.0</b>	<b>1.3</b>	<b>7.1</b>
2018	144.9	130.8	4.5	1.8	1.0	3.8	3.0

As at 31 January 2019, impairment provisions totalling £15.9m (2018: £10.7m) were made against trade receivables with an initial value of £155.4m (2018: £155.6m). The movements in the provision for impairment of receivables are as follows:

	Credit- impaired £'m	Not credit- impaired £'m	Total £'m
At 1 February 2017	0.4	8.8	9.2
Charge for the year	2.1	9.4	11.5
Utilised in the year	(1.4)	(8.5)	(9.9)
Unused amounts reversed	–	(0.1)	(0.1)
<b>At 31 January 2018</b>	<b>1.1</b>	<b>9.6</b>	<b>10.7</b>
Charge for the year	1.4	14.8	16.2
Utilised in the year	(1.3)	(9.7)	(11.0)
Unused amounts reversed	–	–	–
<b>At 31 January 2019</b>	<b>1.2</b>	<b>14.7</b>	<b>15.9</b>

See note 19 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired. We expect trade and other receivables to be normally settled within 12 months.

## 22 Cash and cash equivalents

	2019 £'m	2018 £'m
Cash at bank and in hand	91.9	33.4
Short-term deposits	31.0	49.8
<b>Cash and short-term deposits</b>	<b>122.9</b>	<b>83.2</b>
Money market funds	37.1	153.2
Bank overdraft	(2.7)	(9.4)
<b>Cash and cash equivalents in the cash flow statement</b>	<b>157.3</b>	<b>227.0</b>

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 £108.6m (2018: £214.0m).

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

## 23 Trade and other payables

	2019 £'m	2018 (restated) £'m
Trade and other payables	150.8	130.4
Other taxes and social security costs	13.5	13.5
Assets in the course of construction	1.7	2.8
Accruals	41.7	39.2
	<b>207.7</b>	185.9

All trade and other payables are current in nature.

## 24 Retirement benefit schemes

The Group operates retirement benefit schemes for the employees of the Group consisting of defined contribution plans and a defined benefit plan.

### a. Defined contribution plans

There are a number of defined contribution schemes in the Group. The total charge for the year in respect of the defined contribution schemes was £2.2m (2018: £0.9m).

The assets of these schemes are held separately from those of the Group in funds under the control of Trustees.

### b. Defined benefit plan

The Group operates a funded defined benefit scheme, the Saga Pension Scheme ('Saga scheme'), which is open to new members who accrue benefits on a career average salary basis. The assets of the scheme are held separately from those of the Group in independently administered funds.

The scheme is governed by the employment laws of the UK. The level of benefits provided depends on the member's length of service and average salary whilst a member of the scheme. The scheme requires contributions to be made to a separately administered fund which is governed by a Board of Trustees and consists of an equal number of employer and employee representatives. The Board of Trustees is responsible for the administration of the plan assets and for the definition of the investment strategy.

The long-term investment objectives of the Trustees and the Group are to limit the risk of the assets failing to meet the liabilities of the scheme over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of the scheme. To meet those objectives, the scheme's assets are invested in different categories of assets, with different maturities designed to match liabilities as they fall due. The investment strategy will continue to evolve over time and is expected to match the liability profile increasingly closely. The pension liability is exposed to inflation rate risks and changes in the life expectancy of members. As the plan assets include investments in quoted equities, the Group is exposed to equity market risk. The Group has provided a super security to the Trustees of the Saga scheme, which ranks before any liabilities under the senior facilities agreement (as detailed in note 27). The value of the security is capped at £32.5m.

The fair value of the assets and present value of the obligations of the Saga defined benefit scheme are as follows:

	2019 £'m	2018 £'m
Fair value of scheme assets	312.4	307.3
Present value of defined benefit obligation	(315.2)	(314.3)
Defined benefit scheme liability	(2.8)	(7.0)

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.

## 24 Retirement benefit schemes (continued)

### b. Defined benefit plan (continued)

The following table summarises the components of the net benefit expense recognised in the income statement and amounts recognised in the statement of financial position for the schemes for the year ended 31 January 2019:

	Fair value of scheme assets £'m	Defined benefit obligation £'m	Defined benefit scheme liability £'m
1 February 2018	307.3	(314.3)	<b>(7.0)</b>
<b>Pension cost charge to income statement</b>			
Current service cost paid in cash during the period	–	(7.6)	<b>(7.6)</b>
Non-cash current service cost uplift	–	(0.4)	<b>(0.4)</b>
Total current service cost	–	(8.0)	<b>(8.0)</b>
Past service cost	–	(0.1)	<b>(0.1)</b>
Net interest	8.1	(8.1)	–
Included in income statement	8.1	(16.2)	<b>(8.1)</b>
Benefits paid	(7.8)	7.8	–
Return on plan assets (excluding amounts included in net interest expense)	(5.8)	–	<b>(5.8)</b>
Actuarial changes arising from changes in demographic assumptions	–	1.9	<b>1.9</b>
Actuarial changes arising from changes in financial assumptions	–	7.5	<b>7.5</b>
Experience adjustments	–	(1.5)	<b>(1.5)</b>
Sub-total included in other comprehensive income	(13.6)	15.7	<b>2.1</b>
Total contributions by employer	10.6	(0.4)	<b>10.2</b>
<b>31 January 2019</b>	<b>312.4</b>	<b>(315.2)</b>	<b>(2.8)</b>

The past service cost above includes the Group's estimate of the cost of equalising Guaranteed Minimum Pensions, which served to increase the scheme liabilities by £0.1m.

The following table summarises the components of the net benefit expense recognised in the income statement and amounts recognised in the statement of financial position for the schemes for the year ended 31 January 2018:

	Fair value of scheme assets £'m	Defined benefit obligation £'m	Defined benefit scheme liability £'m
1 February 2017	276.8	(290.5)	<b>(13.7)</b>
<b>Pension cost charge to income statement</b>			
Current service cost paid in cash during the period	–	(9.3)	<b>(9.3)</b>
Non-cash current service cost uplift	–	(5.3)	<b>(5.3)</b>
Total current service cost	–	(14.6)	<b>(14.6)</b>
Net interest	8.2	(8.4)	<b>(0.2)</b>
Included in income statement	8.2	(23.0)	<b>(14.8)</b>
Benefits paid	(6.8)	6.8	–
Return on plan assets (excluding amounts included in net interest expense)	17.2	–	<b>17.2</b>
Actuarial changes arising from changes in demographic assumptions	–	4.0	<b>4.0</b>
Actuarial changes arising from changes in financial assumptions	–	(6.1)	<b>(6.1)</b>
Experience adjustments	–	(4.9)	<b>(4.9)</b>
Sub-total included in other comprehensive income	10.4	(0.2)	<b>10.2</b>
Total contributions by employer	11.9	(0.6)	<b>11.3</b>
<b>31 January 2018</b>	<b>307.3</b>	<b>(314.3)</b>	<b>(7.0)</b>

**24 Retirement benefit schemes (continued)****b. Defined benefit plan (continued)**

The major categories of assets in the Saga scheme are as follows:

	<b>2019</b>	2018
	<b>£'m</b>	£'m
Equities	<b>58.1</b>	61.4
Bonds	<b>171.0</b>	160.3
Property	<b>16.8</b>	17.9
Hedge funds	<b>61.9</b>	63.0
Insured annuities	<b>3.4</b>	3.5
Cash and other	<b>1.2</b>	1.2
<b>Total</b>	<b>312.4</b>	307.3

Equities and bonds are all quoted in active markets whilst property and hedge funds are not.

The principal assumptions used in determining pension benefit obligations for the Saga scheme are shown below:

	<b>2019</b>	2018
Real rate of increase in salaries	<b>3.00%</b>	3.05%
Real rate of increase of pensions in payment	<b>2.90%</b>	2.95%
Real rate of increase of pensions in deferment	<b>2.90%</b>	2.90%
Discount rate – pensioner	<b>2.60%</b>	2.60%
Discount rate – non-pensioner	<b>2.70%</b>	2.60%
Inflation – pensioner	<b>3.05%</b>	3.10%
Inflation – non-pensioner	<b>3.00%</b>	3.05%
Life expectancy of a member retiring in 20 years' time – Male	<b>27.6 yrs</b>	27.8 yrs
Life expectancy of a member retiring in 20 years' time – Female	<b>29.7 yrs</b>	29.8 yrs

Mortality assumptions are set using standard tables based on specific experience where available and allow for future mortality improvements. The Saga scheme assumption is that a member currently aged 60 will live on average for a further 26.4 years if they are male and on average for a further 28.4 years if they are female.

A quantitative sensitivity analysis for significant assumptions as at 31 January 2019 and their impact on the net defined benefit obligation is as follows:

Assumptions	Discount rate		Future inflation		Life expectancy		Future salary
	+/- 0.25%		+/- 0.25%		+/- 1 year		+/- 0.5%
	Increase	Decrease	Increase	Decrease	Increase	Decrease	
Impact £'m	(15.9)	17.4	11.9	(12.5)	9.7	(9.3)	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 £9.9m 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 to pay additional contributions above those needed to fund new pensions accruing in the scheme.

## 24 Retirement benefit schemes (continued)

### b. Defined benefit plan (continued)

The latest valuation of the Saga scheme was at 31 January 2017. Further to this valuation, a recovery plan is in place for the scheme. Under the agreed recovery plan, the Group made an additional payment of £2.5m during the year ended 31 January 2019 and will make payments totalling a further £28.2m over the next six years, with the last payment being made by 29 February 2024. The total expected contributions in the year ending 31 January 2020 are £9.9m, inclusive of a £2.8m additional payment. No additional liabilities are required to be accrued in relation to the recovery plan since the employer has the right to a refund if a surplus is recognised and the Trustees of the scheme are unable to wind up the scheme before any refund is made.

## 25 Insurance contract liabilities and reinsurance assets

The analysis of gross and net insurance liabilities is as follows:

	2019 £'m	2018 £'m
<b>Gross</b>		
Claims outstanding	392.6	466.4
Provision for unearned premiums	98.0	115.0
<b>Total gross liabilities</b>	<b>490.6</b>	<b>581.4</b>
	2019 £'m	2018 £'m
<b>Recoverable from reinsurers</b>		
Claims outstanding	91.2	94.0
Provision for unearned premiums	5.6	6.2
<b>Total reinsurers' share of insurance liabilities (as presented on the face of the statement of financial position)</b>	<b>96.8</b>	<b>100.2</b>
Amounts recoverable under funds – withheld quota share agreements recognised within trade payables:		
– Claims outstanding	118.6	100.2
– Provision for unearned premiums	57.9	63.2
<b>Total reinsurers' share of insurance liabilities after funds – withheld quota share</b>	<b>273.3</b>	<b>263.6</b>
<b>Analysed as:</b>		
Claims outstanding	209.8	194.2
Provision for unearned premiums	63.5	69.4
<b>Total reinsurers' share of insurance liabilities after funds – withheld quota share</b>	<b>273.3</b>	<b>263.6</b>
	2019 £'m	2018 £'m
<b>Net</b>		
Claims outstanding	301.4	372.4
Provision for unearned premiums	92.4	108.8
<b>Total net insurance liabilities</b>	<b>393.8</b>	<b>481.2</b>
Amounts recoverable under funds – withheld quota share agreements recognised within trade payables:		
– Claims outstanding	(118.6)	(100.2)
– Provision for unearned premiums	(57.9)	(63.2)
<b>Total net insurance liabilities after funds – withheld quota share</b>	<b>217.3</b>	<b>317.8</b>
<b>Analysed as:</b>		
Claims outstanding	182.8	272.2
Provision for unearned premiums	34.5	45.6
<b>Total net insurance liabilities after funds – withheld quota share</b>	<b>217.3</b>	<b>317.8</b>

**25 Insurance contract liabilities and reinsurance assets (continued)**

	2019 £'m	2018 £'m
<b>Reconciliation of movements in claims outstanding</b>		
Gross claims outstanding at 1 February	<b>466.4</b>	516.1
Less: reinsurance claims outstanding	<b>(194.2)</b>	(149.3)
Net claims outstanding at 1 February	<b>272.2</b>	366.8
Gross claims incurred	<b>124.4</b>	156.4
Less: reinsurance recoveries	<b>(114.8)</b>	(127.1)
Net claims incurred (note 3b)	<b>9.6</b>	29.3
Gross claims paid	<b>(198.2)</b>	(206.1)
Less: received from reinsurance	<b>99.2</b>	82.2
Net claims paid	<b>(99.0)</b>	(123.9)
Gross claims outstanding at 31 January	<b>392.6</b>	466.4
Less: reinsurance claims outstanding	<b>(209.8)</b>	(194.2)
Net claims outstanding at 31 January	<b>182.8</b>	272.2
<b>Reconciliation of movements in the provision for net unearned premiums</b>		
Gross unearned premiums at 1 February	<b>115.0</b>	125.3
Less: unearned reinsurance premiums	<b>(69.4)</b>	(69.8)
Net unearned premiums at 1 February	<b>45.6</b>	55.5
Gross premiums written	<b>221.1</b>	249.3
Less: outward reinsurance premium	<b>(130.1)</b>	(139.5)
Net premiums written	<b>91.0</b>	109.8
Gross premiums earned	<b>(238.1)</b>	(259.6)
Less reinsurance premium earned	<b>136.0</b>	139.9
Net premiums earned (note 3a)	<b>(102.1)</b>	(119.7)
Gross unearned premiums at 31 January	<b>98.0</b>	115.0
Less: unearned reinsurance premiums	<b>(63.5)</b>	(69.4)
Net unearned premiums at 31 January	<b>34.5</b>	45.6

The loss on purchasing reinsurance in 2018 was £12.6m (2018: £19.5m loss).

On 27 February 2017, the UK Government announced its decision to reduce the Ogden discount rate from 2.5% to -0.75%. The insurance liabilities presented here and on the face of the Group's balance sheet incorporate the effect of this change. Subsequently, the UK Government has launched a full consultation regarding the Ogden discount rate. The proposed changes mean the rate would be set by reference to 'low risk' rather than 'very low risk' and will ensure the rate is reviewed more regularly in future. If the proposed framework were to be applied immediately, the rate may increase to between 0% and 1%.

**a. Discounting**

Claims outstanding provisions are calculated on an undiscounted basis, with the exception of PPOs made by the courts as part of a bodily injury claim settlement. Claims outstanding provisions for PPOs are discounted at a rate of -1.5% (2018: -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 £471.0m (2018: £550.7m) gross of reinsurance and £260.0m (2018: £302.8m) net of reinsurance.

The period between the balance sheet date and the estimated final payment date was calculated using Ogden life expectancy tables, with appropriate adjustments where necessary for impaired life. The average life expectancy from PPO settlement date to the final PPO payment was 37 years (2018: 37 years) and the rate of investment return used to determine the discounted value of claims provisions was 2.0% (2018: 2.0%).

## 25 Insurance contract liabilities and reinsurance assets (continued)

### b. Analysis of claims incurred: claims development tables

The following tables detail the Group's initial estimate of ultimate gross and net claims incurred over the past 10 years and the re-estimation at subsequent financial period ends.

The following table analyses the gross incurred claims (before deducting reinsurance recoveries) on an accident year basis:

Analysis of claims incurred	Financial year ended 31 January										Total £'m	Claims paid £'m	Gross claims outstanding £'m	
	2010 £'m	2011 £'m	2012 £'m	2013 £'m	2014 £'m	2015 £'m	2016 £'m	2017 £'m	2018 £'m	2019 £'m				
Accident year														
2010 and earlier	277.2	(5.4)	(14.5)	(14.0)	(3.9)	(10.2)	(11.5)	(9.6)	(3.2)	(4.8)				43.4
2011		307.0	(0.7)	(7.6)	(4.6)	(18.8)	(9.0)	(1.3)	(4.7)	(4.0)	256.3	(253.4)		2.9
2012			330.3	(25.6)	(33.8)	(7.3)	(19.5)	(10.5)	(9.4)	(2.6)	221.6	(219.3)		2.3
2013				321.2	(14.2)	(45.2)	(22.1)	(13.4)	(5.6)	(5.9)	214.8	(203.0)		11.8
2014					281.9	(18.9)	(25.7)	(7.6)	(11.1)	(10.6)	208.0	(179.2)		28.8
2015						271.3	(6.0)	(6.2)	(8.2)	(15.3)	235.6	(211.4)		24.2
2016							280.4	4.1	(19.3)	(21.7)	243.5	(217.0)		26.5
2017								197.2	4.7	(13.1)	188.8	(139.4)		49.4
2018									194.9		194.9	(110.9)		84.0
2019										189.8	189.8	(79.7)		110.1
	277.2	301.6	315.1	274.0	225.4	170.9	186.6	152.7	138.1	111.8				383.4
Claims handling costs	9.0	10.1	15.6	17.4	17.2	18.0	21.5	20.6	20.9	17.9				9.2
	<b>286.2</b>	<b>311.7</b>	<b>330.7</b>	<b>291.4</b>	<b>242.6</b>	<b>188.9</b>	<b>208.1</b>	<b>173.3</b>	<b>159.0</b>	<b>129.7</b>				<b>392.6</b>

The development of the associated loss ratios on the same basis is as follows:

Accident year	Financial year ended 31 January									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2010	79%	79%	77%	76%	74%	73%	73%	72%	71%	71%
2011		80%	80%	78%	77%	72%	70%	69%	68%	67%
2012			77%	71%	63%	62%	57%	55%	52%	52%
2013				76%	72%	62%	56%	53%	52%	51%
2014					75%	70%	63%	61%	58%	55%
2015						81%	80%	78%	75%	71%
2016							87%	88%	82%	75%
2017								67%	69%	65%
2018									75%	75%
2019										80%



**25 Insurance contract liabilities and reinsurance assets (continued)****b. Analysis of claims incurred: claims development tables (continued)**

The following table analyses the net incurred claims (after deducting reinsurance recoveries) on an accident year basis:

Analysis of claims incurred	Financial year ended 31 January										Total £'m	Claims paid £'m	Net claims outstanding £'m	
	2010 £'m	2011 £'m	2012 £'m	2013 £'m	2014 £'m	2015 £'m	2016 £'m	2017 £'m	2018 £'m	2019 £'m				
Accident year														
2010 and earlier	196.6		(13.5)	(15.0)	(6.7)	(6.3)	(5.1)	(9.0)	(3.3)	(4.8)				18.0
2011		266.0	(2.8)	(5.2)	(4.6)	(13.3)	(7.2)	(7.4)	(5.6)	(4.0)	215.9	(206.9)		9.0
2012			302.3	(25.6)	(31.1)	(0.6)	(17.3)	(11.9)	(6.4)	(2.6)	206.8	(203.0)		3.8
2013				315.4	(14.6)	(22.9)	(19.8)	(14.6)	(10.2)	(5.9)	227.4	(222.6)		4.8
2014					276.8	(14.7)	(23.4)	(11.0)	(9.8)	(10.6)	207.3	(188.8)		18.5
2015						219.1	5.3	(9.2)	(11.1)	(15.3)	188.8	(164.4)		24.4
2016							220.9	3.2	(15.1)	(21.7)	187.3	(159.7)		27.6
2017								94.0	1.5	(6.2)	89.3	(76.2)		13.1
2018									78.5		78.5	(60.3)		18.2
2019										71.8	71.8	(35.6)		36.2
	196.6	266.0	286.0	269.6	219.8	161.3	153.4	34.1	18.5	0.7				173.6
Claims handling costs	9.0	10.1	15.6	17.4	17.2	18.0	21.5	11.5	10.5	8.8				9.2
	<b>205.6</b>	<b>276.1</b>	<b>301.6</b>	<b>287.0</b>	<b>237.0</b>	<b>179.3</b>	<b>174.9</b>	<b>45.6</b>	<b>29.0</b>	<b>9.5</b>				<b>182.8</b>

The development of the associated loss ratios on the same basis is as follows:

Accident year	Financial year ended 31 January									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2010	73%	73%	72%	70%	68%	67%	66%	64%	63%	63%
2011		78%	78%	76%	75%	71%	69%	67%	65%	64%
2012			76%	70%	62%	62%	57%	54%	53%	52%
2013				75%	72%	66%	62%	58%	56%	54%
2014					75%	71%	65%	62%	59%	56%
2015						67%	69%	66%	63%	58%
2016							70%	71%	66%	59%
2017								56%	56%	53%
2018									66%	66%
2019										70%

Favourable claims development over the year has resulted in a £71.1m (2018: £60.0m) reduction in the net claims incurred in respect of prior years.

## 26 Contract liabilities

	2019 £'m	2018 (restated) £'m
Deferred revenue	<b>144.7</b>	142.7
	<b>144.7</b>	142.7
Current	<b>130.5</b>	127.4
Non-current	<b>14.2</b>	15.3
	<b>144.7</b>	142.7

Deferred revenue comprise 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 and represents the performance obligations not yet satisfied as at 31 January 2019.

## 27 Loans and borrowings

	2019 £'m	2018 £'m
Bond	<b>250.0</b>	250.0
Bank loans	<b>160.0</b>	180.0
Revolving credit facility	<b>30.0</b>	15.0
Accrued interest payable	<b>2.2</b>	2.2
	<b>442.2</b>	447.2
Less: deferred issue costs	<b>(3.0)</b>	(4.2)
	<b>439.2</b>	443.0

The Group's bank facilities consist of a £250.0m seven-year senior unsecured bond, a £200.0m five-year term loan facility and a £100.0m five-year revolving credit facility with an option to extend. In March 2019, the Group's banks agreed to extend the term on the revolving credit facility by one year with expiry in May 2023. The bond is listed on the Irish Stock Exchange.

At 31 January 2019, the Group had drawn £30.0m of its £100.0m revolving credit facility and since the refinancing £40.0m of the term loan has been repaid.

Interest on the bond is incurred at an annual interest rate of 3.375%. Interest on the term loan and revolving credit facility is incurred at a variable rate of LIBOR plus, a bank margin which is linked to the Group's leverage ratio.

During the period, the Group charged £11.5m (2018: £13.5m) to the income statement in respect of fees and interest associated with the bonds, term loan and revolving credit facility. In addition, finance costs recognised in the income statement includes £0.2m (2018: £0.7m) relating to interest on finance lease liabilities, net finance expense on pension schemes and other interest costs, £nil (2018: £0.6m) of net fair value losses on derivatives and £nil (2018: £4.3m) of accelerated amortisation of debt issue costs in relation to previous debt held.

## 28 Reconciliation of liabilities arising from financing activities

The following tables analyse the cash and non-cash movements for liabilities arising from financing activities:

	Non-cash changes					2019 £'m
	2018 £'m	Cash flows £'m	Acquisition £'m	Foreign exchange movement £'m	Other £'m	
Finance lease liabilities (note 33)	3.4	(2.0)	1.6	–	–	<b>3.0</b>
Bank loans (note 27)	180.0	(20.0)	–	–	–	<b>160.0</b>
Revolving credit facility (note 27)	15.0	15.0	–	–	–	<b>30.0</b>
Bond (note 27)	250.0	–	–	–	–	<b>250.0</b>
Deferred issue costs (note 27)	(4.2)	–	–	–	1.2	<b>(3.0)</b>

	Non-cash changes					2018 £'m
	2017 £'m	Cash flows £'m	Acquisition £'m	Foreign exchange movement £'m	Other £'m	
Finance lease liabilities (note 33)	3.0	(1.1)	1.5	–	–	3.4
Bank loans (note 27)	380.0	(200.0)	–	–	–	180.0
Revolving credit facility (note 27)	100.0	(85.0)	–	–	–	15.0
Bond (note 27)	–	250.0	–	–	–	250.0
Deferred issue costs (note 27)	(4.9)	(5.1)	–	–	5.8	(4.2)

Included within 'Other' is the amortisation of deferred issue costs of £1.2m (2018: £1.5m) and debt write-off costs of £nil (2018: £4.3m) following the refinancing of debt as described in more detail in note 27.

## 29 Called up share capital

	Ordinary shares		
	Number	Nominal value £	Value £'m
Allotted, called up and fully paid			
As at 31 January 2017	1,118,005,405	0.01	11.2
Issue of shares	2,290,014	0.01	0.0
As at 31 January 2018	1,120,295,419	0.01	11.2
Issue of shares	1,707,909	0.01	0.0
<b>As at 31 January 2019</b>	<b>1,122,003,328</b>	<b>0.01</b>	<b>11.2</b>

On 5 July 2018, Saga plc issued 1,707,909 new ordinary shares of 1p each for transfer into an Employee Benefit Trust to satisfy employee incentive arrangements.

### 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 26,000 of these shares which were transferred from the Employee Benefit Trust into the direct ownership of the employee. Employees have previously exercised 13,046,409 of these shares in prior periods. The remaining 361,699 shares have been treated as treasury shares at 31 January 2019.

## 30 Reserves

### Share-based payment reserve

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. More detail is provided in note 32.

### Fair value reserve

The fair value reserve comprises the unrealised gains or losses of fair value financial assets pending subsequent recognition in profit or loss once the investment is derecognised.

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

## 31 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

For the purposes of the Group's capital management, capital comprises total equity of £964.3m (2018 restated: £1,225.5m) 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 2019 or 31 January 2018.

The Group's regulated underwriting business is based in Gibraltar and regulated by the FSC. The underwriting business is required to ensure that it has a sufficient level of capitalisation in accordance with Solvency II.

(The amounts set out in the following three paragraphs are estimated and unaudited)

The Group monitored its ability to comply with the requirements of Solvency II throughout the year to 31 January 2019, having previously received approval from the FSC for the Undertaking of Specific Parameters when applying the standard formula to measure capital requirements for this business under Solvency II rules. Under Solvency II, AICL remained well-capitalised, and at 31 January 2019 available capital was £89.7m against a Solvency Capital Requirement of £60.5m, giving 148% coverage. As at 31 January 2018, available capital was £137.0m against a Solvency Capital Requirement of £79.7m, giving 171% coverage.

The Group's regulated insurance distribution business is based in the UK and regulated by the FCA. Due to the nature of the business, the capital requirements are significantly less than the underwriting business but the Group is required to comply with the Adequate Resources requirements of Threshold Condition 4 of the FCA Handbook. The Group undertakes a rigorous assessment against the requirements of this Condition on an annual basis and, as a consequence of this, calculates and holds an appropriate amount of capital in respect of the insurance distribution business. The Minimum Regulatory Capital requirement of these businesses at 31 January 2019 was £5.5m (2018: £6.4m).

The regulated travel businesses are required to comply with two main tests based on liquidity and leverage and were 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 and will be measured against these covenants on a monthly basis going forward. For the year ended 31 January 2019 the CAA has given the travel businesses special dispensation to comply with decreased covenants due to the investment in the new ships. At 31 January 2019 and 31 January 2018, the travel businesses had good coverage against both covenants.

## 32 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 20 shares they acquired and held continuously for one year to 29 May 2015. As these were bonus shares, there was no exercise price and no cash settlement alternative.

### b. Long-Term Incentive Plan (LTIP) and Deferred Bonus Plan (DBP)

- The LTIP is a discretionary executive share plan under which the Board may, within certain limits and subject to applicable performance conditions, grant options over shares in Saga plc. Up to 31 January 2017, these options are 50% linked to a non-market vesting condition, EPS, and 50% linked to a market vesting condition, TSR. From 1 February 2017 to 31 January 2018, these options are 60% linked to non-market vesting conditions (30% linked to basic EPS and 30% linked to organic EPS) and 40% linked to a market vesting condition, TSR. From 1 February 2018, these options are 60% linked to non-market vesting conditions (30% linked to organic EPS and 30% linked to ROCE) and 40% linked to a market vesting condition, TSR.
  - On 1 May 2018, share options over 4,314,573 shares were issued which vest and become exercisable on the third anniversary of the grant date.
  - On 1 October 2018, share options over 253,530 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 2 December 2015, share options over 99,552 shares were issued to the Chief Marketing Officer at the time which were to vest on the second anniversary of his appointment, subject to continuing employment. Following the cessation of his employment, the vesting period has been extended to 1 May 2020.

### d. Employee free shares

- On 11 July 2018, 700,815 shares were awarded to eligible staff on the fourth 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.

### 32 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 2018	387,699	10,588,790	866,729	2,261,714	1,169,612	15,274,544
Granted	–	4,568,103	–	–	700,815	5,268,918
Forfeited	–	(1,272,830)	–	–	(136,269)	(1,409,099)
Exercised	(26,000)	(861,326)	(150,882)	–	(86,015)	(1,124,223)
At 31 January 2019	361,699	13,022,737	715,847	2,261,714	1,648,143	18,010,140
Exercise price	£nil	£nil	£nil	£1.77	£nil	£0.21
Exercisable at 31 January 2019	361,699	3,530,882	179,142	1,081,081	288,307	5,441,111
Average remaining contractual life	0.0 years	1.0 years	0.7 years	0.2 years	1.4 years	0.9 years
Average fair value at grant	£1.85	£1.83	£2.09	£1.86	£1.75	£1.85

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 (%)	0.82%	0.82%	n/a
Expected life of share option	3 years	3 years	3 years
Weighted average share price (£)	£1.38	£1.38	£1.26
Share price volatility	25.2%	31.4%	n/a

As only limited historical data for the Group's share price is available, the Group has estimated the Company's share price volatility as an average of the volatilities of its TSR comparator group over a historical period commensurate with the expected life of the award immediately prior to the date of the grant.

For future valuations, at a date when sufficient Saga share price data becomes available, the Group intends to estimate the Company volatility directly from this data.

The total amount charged to the income statement in the year ended 31 January 2019 is £3.8m (2018: £3.8m). This has been charged to administrative and selling expenses £3.6m (2018: £3.5m) and non-trading items £0.2m (2018: £0.3m) (note 4b).

The Group did not enter into any share-based payment transactions with parties other than employees during the current period.

### 33 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	
	2019 £'m	2018 £'m	2019 £'m	2018 £'m
Within one year	1.2	1.2	24.6	20.7
Between one and five years	3.3	3.5	14.6	4.9
After five years	7.0	6.7	0.9	1.0
	<b>11.5</b>	11.4	<b>40.1</b>	26.6

#### 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:

	2019 £'m	2018 £'m
Within one year	2.5	1.5
Between one and five years	0.9	2.3
Total minimum lease payments	3.4	3.8
Less amounts representing finance charge	(0.4)	(0.4)
Present value of minimum lease payments	3.0	3.4

#### c. Commitments

On 21 December 2015, the Group contracted with Meyer Werft GmbH & Co. KG to purchase Spirit of Discovery for delivery in July 2019, with an option to purchase a second similar cruise ship for delivery in 2021. On 24 April 2017, the Group signed an agreement with the shipyard to bring forward the delivery date by one month to June 2019.

On 20 September 2017, the Saga plc Board approved the purchase of the second cruise ship, Spirit of Adventure, with an earlier delivery date of August 2020, and the Group exercised the option in December 2017.

Four stage payments for Spirit of Discovery were made between February 2016 and July 2018. The remaining element of the contract price is due on delivery of the ship, and the Group entered into appropriate financing for this on 21 December 2015.

The first two stage payments for Spirit of Adventure were made between December 2017 and January 2019. Two similar stage payments will be made during the construction period (18 months and 12 months prior to delivery), funded via cash resources of the Group. The remaining element of the contract price is due on delivery of the ship, and the Group entered into appropriate financing for this on 20 September 2017.

As at 31 January 2019, the capital amount contracted but not provided for in the financial statements in respect of the ships amounted to £543.5m (2018: £583.8m).

The financing for Spirit of Discovery represents a 12 year fixed rate sterling loan, backed by an export credit guarantee. The loan value of approximately £245m will be repaid in 24 broadly equal instalments, with the first payment six months after delivery. On the date the finance was entered into, the Group purchased Euro currency forwards totalling £273.2m to lock in the cost of the ship.

The financing for Spirit of Adventure represents a 12 year fixed rate sterling loan, backed by an export credit guarantee. The loan value of approximately £295m will be repaid in 24 broadly equal instalments, with the first payment due six months after delivery. On the date the finance was entered into, the Group purchased Euro currency forwards totalling £211.5m, which represents 72% of the cost of the ship.

Both hedges have been designated as cash flow hedges and remain outstanding as at 31 January 2019 (note 18d).



### 33 Commitments and contingencies (continued)

#### d. Contingent liabilities

The Association of British Travel Agents regulates the Group's UK tour operating business and requires the Group to put in place bonds to provide customer protection.

On 4 May 2017, the Group was notified about legal proceedings against Nestor Primecare Services Limited by the Crown Prosecution Service in relation to a breach of the Health and Safety at Work etc. Act 1974. Under an indemnity included in the sales agreement following the disposal of Nestor Primecare Services Limited, certain entities in the Group may be liable for any penalties incurred.

It is too early in the litigation process to evaluate Saga's position on liability and quantum. As such, no amounts have been provided for this in the financial statements.

During the prior year, a former subsidiary of the Group, Saga Property (St Lucia) Limited, was served with a tax assessment from the St Lucian tax authorities to the sum of £2.0m. Due to certain indemnities granted to the purchaser on sale of the subsidiary, Saga plc is responsible for any liabilities arising prior to sale. A tax-free period was agreed with the Ministry of Tourism in St Lucia for a 10 year period commencing from 2007 and therefore the Group does not believe that the tax liability is payable.

### 34 Post-balance sheet events

On 6 February 2019, the Group signed a memorandum of agreement to sell one of its cruise ships, the Saga Pearl II, for €6.0m with an expected date of delivery of 15 April 2019.

### 35 Subsidiaries

The entities listed below are subsidiaries of the Company or Group. All of the undertakings are wholly owned and included within the consolidated financial statements. The registered office address for all entities registered in England is Enbrook Park, Sandgate, Folkestone, Kent CT20 3SE. The registered office address of Acromas Insurance Company Limited is 57/63 Line Wall Road, Gibraltar. The registered office address of Saga Cruises GmbH is Industriegebiet Süd, 26871, Papenburg, Niedersachsen, Germany.

Name	Country of registration	Nature of business
Saga Personal Finance Limited	England	Delivery of regulated investment products
ST&H Limited	England	Tour operating
Acromas Insurance Company Limited	Gibraltar	Insurance underwriting
Saga Cruises Limited	England	Cruising
ST&H Transport Limited	England	Tour operating
CHMC Limited	England	Motor accident management
PEC Services Limited	England	Repairer of automotive vehicles
Saga Retirement Villages Limited	England	Marketing of retirement villages
Destinology Limited	England	Tour operating
Enbrook Cruises Limited	England	Cruising
MetroMail Limited	England	Mailing house
Saga Cruises IV Limited	England	Cruising
Saga Cruises V Limited	England	Cruising
Saga Cruises VI Limited	England	Cruising
Saga Cruises GmbH	Germany	Cruising
Saga Crewing Services 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 distribution
Titan Transport Limited	England	Tour operating
Saga Membership Limited	England	Customer loyalty scheme
Driveline Group Limited	England	Holding company
CHMC Holdings Limited	England	Holding company
Saga 200 Limited	England	Holding company
Saga 300 Limited	England	Holding company
Saga 400 Limited	England	Holding company
Saga Group Limited	England	Holding company
Saga Holdings Limited	England	Holding company
Saga Leisure Limited	England	Holding company
Saga Properties Limited	England	Holding company
ST&H Group Limited	England	Holding company
Saga Cruises I Limited	England	Dormant company
Confident Services Limited	England	Dormant company
Country Cousins (Horsham) Limited	England	Dormant company
Driveline Europe Limited	England	Dormant company
Driveline Travel Limited	England	Dormant company
Patricia White's Personal Home Care Limited	England	Dormant company
Saga 500 Limited	England	Dormant company
Saga Coach Holidays Limited	England	Dormant company
Saga Cruises BDF Limited	England	Dormant company
Saga Cruises II Limited	England	Dormant company
Saga Cruises III Limited	England	Dormant company
Saga Flights.com Limited	England	Dormant company
Saga Holidays Limited	England	Dormant company
Saga Independent Living Limited	England	Dormant company
Saga Funding Limited	England	Dormant company
Saga Communications Limited	England	Dormant company
Saga Radio (North West) Limited	England	Dormant company
Saga Shipping Company Limited	England	Dormant company

### 35 Subsidiaries (continued)

Name	Country of registration	Nature of business
Spirit Of Adventure Limited	England	Dormant company
Titan Aviation Limited	England	Dormant company
Titan Travel Holdings Limited	England	Dormant company
Titan Travel Limited	England	Dormant company

### 36 Investment in joint ventures

During the current and prior year, the Group's interests in joint ventures were:

#### 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 £nil after tax (2018: £2.2m loss after tax). During the prior year, the carrying value of the joint venture was impaired to £nil following the decision to replace the legal structure with a new, more cost-efficient structure.

The registered office address for Saga Investment Services Limited is Enbrook Park, Sandgate, Folkestone, Kent CT20 3SE.

### 37 Transition to IFRS 15 and IFRS 9

	As reported	IFRS 9/15 adjustment			As restated
	31 Jan 18	Insurance	Travel	EB&CC	31 Jan 18
	£'m	£'m	£'m	£'m	£'m
Revenue	860.1	0.5	(0.1)	(0.3)	860.2
Cost of sales	(412.8)	(0.3)	0.3	–	(412.8)
<b>Gross profit</b>	447.3	0.2	0.2	(0.3)	447.4
Administrative and selling expenses	(254.5)	0.2	–	–	(254.3)
Investment income	7.4	0.2	–	–	7.6
Finance costs	(20.8)	–	1.7	–	(19.1)
Finance income	1.5	–	–	–	1.5
Share of loss of joint ventures	(2.2)	–	–	–	(2.2)
<b>Profit before tax from continuing operations</b>	178.7	0.6	1.9	(0.3)	180.9
Tax expense	(33.6)	(0.1)	(0.3)	0.1	(33.9)
<b>Profit for the period from continuing operations</b>	145.1	0.5	1.6	(0.2)	147.0
Loss after tax for the year from discontinued operations	(7.6)	–	–	–	(7.6)
<b>Profit for the year</b>	137.5	0.5	1.6	(0.2)	139.4
Attributable to:					
Equity holders of the parent	137.5	0.5	1.6	(0.2)	139.4
<b>Earnings Per Share:</b>					
Basic	12.3p				12.5p
Diluted	12.2p				12.4p
<b>Earnings Per Share for continuing operations:</b>					
Basic	13.0p				13.1p
Diluted	12.9p				13.1p

### 37 Transition to IFRS 15 and IFRS 9 (continued)

	As reported 31 Jan 18	IFRS 9/15 adjustment			As restated 31 Jan 18
	£'m	Insurance £'m	Travel £'m	EB&CC £'m	£'m
<b>Profit for the year</b>	1375	0.5	1.6	(0.2)	139.4
<b>Other comprehensive income</b>					
<b>Other comprehensive income to be reclassified to the income statement in subsequent periods</b>					
Net losses on hedging instruments during the year	(3.6)	–	(1.7)	–	(5.3)
Recycling of previous gains to income statement on matured hedges	(18.8)	–	–	–	(18.8)
Total net loss on cash flow hedges	(22.4)	–	(1.7)	–	(24.1)
Associated tax effect	3.8	–	0.3	–	4.1
Net losses on fair value financial assets	(0.3)	–	–	–	(0.3)
Recycling of previous gains to income statement on sale of fair value financial assets during the year	(4.4)	–	–	–	(4.4)
Total net loss on fair value financial assets	(4.7)	–	–	–	(4.7)
Associated tax effect	0.8	–	–	–	0.8
Total other comprehensive losses with recycling to income statement	(22.5)	–	(1.4)	–	(23.9)
<b>Other comprehensive income not to be reclassified to the income statement in subsequent periods</b>					
Re-measurement gains on defined benefit plans	10.2	–	–	–	10.2
Tax effect	(1.7)	–	–	–	(1.7)
Total other comprehensive gains without recycling to income statement	8.5	–	–	–	8.5
Total other comprehensive losses	(14.0)	–	(1.4)	–	(15.4)
Total comprehensive income for the year	123.5	0.5	0.2	(0.2)	124.0

## 37 Transition to IFRS 15 and IFRS 9 (continued)

	As reported 31 Jan 17 £'m	IFRS 9/15 adjustment £'m	As restated 31 Jan 17 £'m	As reported 31 Jan 18 £'m	IFRS 9/15 adjustment £'m	As restated 31 Jan 18 £'m
<b>Assets</b>						
Goodwill	1,485.0	–	1,485.0	1,485.0	–	1,485.0
Intangible assets	53.8	–	53.8	61.2	–	61.2
Investment in joint ventures	1.4	–	1.4	–	–	–
Property, plant and equipment	131.5	–	131.5	163.4	–	163.4
Financial assets	600.3	(0.9)	599.4	514.5	(1.0)	513.5
Deferred tax assets	16.3	–	16.3	13.7	–	13.7
Reinsurance assets	97.5	–	97.5	100.2	–	100.2
Inventories	5.6	–	5.6	5.8	–	5.8
Trade and other receivables	198.7	5.3	204.0	210.0	5.1	215.1
Assets held for sale	–	–	–	6.8	–	6.8
Cash and short-term deposits	108.7	–	108.7	83.2	–	83.2
<b>Total assets</b>	<b>2,698.8</b>	<b>4.4</b>	<b>2,703.2</b>	<b>2,643.8</b>	<b>4.1</b>	<b>2,647.9</b>
<b>Liabilities</b>						
Retirement benefit scheme obligations	13.7	–	13.7	7.0	–	7.0
Gross insurance contract liabilities	642.3	(0.9)	641.4	582.0	(0.6)	581.4
Provisions	4.0	–	4.0	4.7	–	4.7
Financial liabilities	489.8	(0.4)	489.4	469.2	(0.7)	468.5
Current tax liabilities	14.9	–	14.9	15.2	–	15.2
Deferred tax liabilities	21.5	0.7	22.2	16.3	0.7	17.0
Other liabilities	134.9	2.5	137.4	140.9	1.8	142.7
Trade and other payables	182.5	1.0	183.5	185.0	0.9	185.9
<b>Total liabilities</b>	<b>1,503.6</b>	<b>2.9</b>	<b>1,506.5</b>	<b>1,420.3</b>	<b>2.1</b>	<b>1,422.4</b>
<b>Equity</b>						
Issued capital	11.2	–	11.2	11.2	–	11.2
Share premium	519.3	–	519.3	519.3	–	519.3
Retained earnings	607.8	0.1	607.9	662.8	2.0	664.8
Share-based payment reserve	15.6	–	15.6	11.4	–	11.4
Fair value reserve	3.3	(0.1)	3.2	(0.6)	(0.1)	(0.7)
Hedging reserve	38.0	1.5	39.5	19.4	0.1	19.5
<b>Total equity</b>	<b>1,195.2</b>	<b>1.5</b>	<b>1,196.7</b>	<b>1,223.5</b>	<b>2.0</b>	<b>1,225.5</b>
<b>Total liabilities and equity</b>	<b>2,698.8</b>	<b>4.4</b>	<b>2,703.2</b>	<b>2,643.8</b>	<b>4.1</b>	<b>2,647.9</b>

## Company financial statements of Saga plc balance sheet

	Note	2019 £'m	2018 £'m
<b>Non-current assets</b>			
Investment in subsidiaries	2	<b>1,069.8</b>	2,104.2
<b>Current assets</b>			
Debtors	4	<b>326.0</b>	152.4
<b>Creditors – amounts falling due within one year</b>	5	<b>(3.2)</b>	(217.2)
<b>Net current assets/(liabilities)</b>		<b>322.8</b>	(64.8)
<b>Creditors – amounts falling due after more than one year</b>	6	<b>(248.3)</b>	(248.0)
<b>Net assets</b>		<b>1,144.3</b>	1,791.4
<b>Capital and reserves</b>			
Called up share capital	7	<b>11.2</b>	11.2
Share premium account		<b>519.3</b>	519.3
Profit and loss reserve		<b>600.2</b>	1,249.2
Share-based payment reserve		<b>13.6</b>	11.7
<b>Total shareholders' funds</b>		<b>1,144.3</b>	1,791.4

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 £549.3m (2018: £11.8m loss).

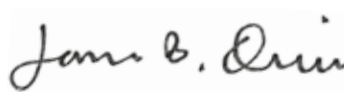
Company number: 08804263

The notes on pages 194-197 form an integral part of these financial statements.

Signed for and on behalf of the Board on 3 April 2019 by



**L. H. L. Batchelor**  
Group Chief Executive Officer



**J. Quin**  
Group Chief Financial Officer

	Called up share capital £'m	Share premium account £'m	Retained earnings £'m	Share- based payment reserve £'m	Total equity £'m
<b>At 31 January 2017</b>	11.2	519.3	1,352.1	15.8	1,898.4
Loss for the financial year	–	–	(11.8)	–	(11.8)
Dividends	–	–	(98.5)	–	(98.5)
Share-based payment charge	–	–	–	4.1	4.1
Exercise of share options	–	–	7.4	(8.2)	(0.8)
<b>At 31 January 2018</b>	11.2	519.3	1,249.2	11.7	1,791.4
Loss for the financial year	–	–	(549.3)	–	(549.3)
Dividends	–	–	(100.9)	–	(100.9)
Share-based payment charge	–	–	–	3.8	3.8
Exercise of share options	–	–	1.2	(1.9)	(0.7)
<b>At 31 January 2019</b>	<b>11.2</b>	<b>519.3</b>	<b>600.2</b>	<b>13.6</b>	<b>1,144.3</b>



## 1 Accounting policies

### a. Accounting convention

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards. The financial statements are prepared under the historical cost convention, as modified by derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The Company's financial statements are presented in sterling and all values are rounded to the nearest hundred thousand (£'m) except when otherwise indicated.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 January 2019.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of IFRS 7 'Financial Instruments: Disclosures'.
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1.
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B-D, 40A-D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements'.
- The requirements of IAS 7 'Statement of Cash Flows'.
- The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.
- The requirements of paragraph 17 of IAS 24 'Related Party Disclosures'.
- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- The requirements of paragraphs 45(b) and 46-52 of IFRS 2 'Share-based Payment'.

### b. Investments

Investments in subsidiaries are accounted for at the lower of cost less impairment 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 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.

## 1 Accounting policies (continued)

### d. Share-based payments

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

Fair values of share-based payment transactions are calculated using Black-Scholes modelling techniques.

In valuing equity-settled transactions, assessment is made of any vesting conditions to categorise these into market performance conditions, non-market performance conditions and service conditions.

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

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

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

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

### e. Financial liabilities

#### i) Initial recognition and measurement

All financial liabilities are classified as financial liabilities at amortised cost.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities comprise loans and borrowings.

#### ii) Subsequent measurement

After initial recognition, interest bearing loans and borrowings and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

#### iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

## 2 Investment in subsidiaries

	£'m
<b>Cost</b>	
At 31 January 2017	4,129.1
Capital contributions arising from share-based payments	1.5
At 31 January 2018	4,130.6
Capital contributions arising from share-based payments	1.6
<b>At 31 January 2019</b>	<b>4,132.2</b>
<b>Amounts provided for</b>	
At 31 January 2017 (as reported)	2,026.4
Amounts provided in the year	–
At 31 January 2018	2,026.4
Amounts provided in the year	1,036.0
<b>At 31 January 2019</b>	<b>3,062.4</b>
<b>Net book value</b>	
At 31 January 2018	2,104.2
<b>At 31 January 2019</b>	<b>1,069.8</b>

See note 35 to the consolidated financial statements for a list of the Company's investments.

The Company has tested the investment in subsidiaries balance for impairment at 31 January 2019. The impairment test compares the recoverable amount of investments to its carrying value.

The recoverable amount of the investment has been determined based on a value-in-use calculation using cash flow projections from the Group's Board-approved five year plan to 2023/24. Terminal values have been included using 2.25% as the expected long-term average growth rate of the UK economy, and calculated using the Gordon Growth Model. The cash flows have then been discounted to present value using a suitably risk-adjusted discount rate derived from the Group's weighted average cost of capital being 8.4%.

The recoverable amount when compared against the carrying value of the investment in subsidiaries results in a deficit of £1,036.0m, therefore management considers it necessary to impair the investment in subsidiaries balance to its value-in-use of £1,069.8m. An impairment charge of £1,036.0m has been recognised in the year to 31 January 2019.

The deficit calculated is most sensitive to the discount rate and terminal growth rate assumed. A quantitative sensitivity analysis for each of these as at 31 January 2019 and its impact on the headroom/(deficit) against the carrying value of investment in subsidiaries is as follows:

	Pre-tax discount rate		Terminal growth rate	
	+1.0ppt £'m	-1.0ppt £'m	+1.0ppt £'m	-1.0ppt £'m
Impact	(210.3)	267.2	205.5	(162.5)

## 3 Dividends

During the year, the Company received a dividend of £62.5m per share from one of its subsidiaries, Saga Midco Limited, totalling £500.0m.

#### 4 Debtors

	2019 £'m	2018 £'m
Deferred tax asset	1.4	1.0
Other debtors	1.4	1.8
Amounts due to Group undertakings	323.2	149.6
	<b>326.0</b>	152.4

All amounts above are due in less than one year.

#### 5 Creditors – amounts falling due in less than one year

	2019 £'m	2018 £'m
Amounts owed to Group undertakings	–	214.3
Other creditors	1.4	1.1
Accrued interest payable	1.8	1.8
	<b>3.2</b>	217.2

#### 6 Creditors – amounts falling due in more than one year

	2019 £'m	2018 £'m
Bond	250.0	250.0
Unamortised issue costs	(1.7)	(2.0)
	<b>248.3</b>	248.0

#### 7 Called up share capital

	Ordinary shares		
	Number	Nominal value £	Value £'m
Allotted, called up and fully paid			
At 31 January 2017	1,118,005,405	0.01	11.2
Issue of shares	2,290,014	0.01	0.0
<b>As at 31 January 2018</b>	1,120,295,419	0.01	11.2
Issue of shares	1,707,909	0.01	0.0
<b>As at 31 January 2019</b>	1,122,003,328	0.01	11.2

### Financial calendar

2019 Annual General Meeting – 19 June 2019

### Final dividend dates

Announcement date – 4 April 2019

Ex-dividend date – 16 May 2019

Record date – 17 May 2019

Last day for DRIP elections – 3 June 2019

Payment date – 28 June 2019

### Shareholder information on-line

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](http://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 on-line. 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 FCA before getting involved. Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way; you may lose your money. For more information, or if you are approached by fraudsters, please visit the FCA website [www.fca.org.uk/consumers/scams](http://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

#### Joint corporate broker and financial adviser

J.P. Morgan Cazenove  
25 Bank St  
Canary Wharf  
London E14 5JP

#### Joint corporate broker

Numis Securities Ltd.  
The London Stock Exchange Building  
10 Paternoster Square  
London EC4M 7LT

#### Joint financial adviser

Goldman Sachs Intl.  
Peterborough Court  
133 Fleet Street  
London EC4A 2BB

#### Media relations advisers

MHP Communications  
6 Agar Street  
London WC2N 4HN

#### Independent auditors

KPMG LLP  
15 Canada Square  
London E14 5GL

#### Legal advisers

Freshfields Bruckhaus Deringer LLP  
65 Fleet Street  
London EC4Y 1HT

#### Information for investors

Information for investors is provided on the internet as part of the Group's corporate website which can be found at [www.corporate.saga.co.uk](http://www.corporate.saga.co.uk)

#### Registrars

Link Asset Services

For shareholder enquiries contact:

Saga Shareholder Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

Shareholder Helpline: 0800 015 5429 – calls to Freephone numbers will vary by provider. If you are outside the UK, call +44 (0)333 300 1581 – calls outside the UK will be charged at the applicable international rate. Lines are open 9am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

[enquiries@sagashareholder.co.uk](mailto:enquiries@sagashareholder.co.uk)

### Registered office

Saga plc  
Enbrook Park  
Sandgate  
Folkestone  
Kent CT20 3SE

### Corporate websites

Information made available on the Group's websites does not, and is not intended to, form part of these Results.

### Alternate Performance Measures (APM)

The Group uses a number of Alternative Performance Measures (APMs), which are not required or commonly reported under International Financial Reporting Standards, the Generally Accepted Accounting Principles (GAAP) under which the Group prepares its financial statements, but which are used by the Group to help the user of the accounts better understand the financial performance and position of the business.

Definitions for the primary APMs used in this report and set out below. APMs are usually derived from financial statement line items and are calculated using consistent accounting policies to those applied in the financial statements, unless otherwise stated.

APMs may not necessarily be defined in a consistent manner to similar APMs used by the Group's competitors. They should be considered as a supplement rather than a substitute for GAAP measures.

### Underlying Profit Before Tax

Underlying Profit Before Tax represents profit before tax from continuing operations excluding unrealised fair value gains and losses on derivatives and the impairment of the carrying value of cruise ships and goodwill. In the prior year it also excludes the one-off costs associated with the unamortised facility fees of the previous banking facilities and one-off restructuring costs. It is reconciled to statutory profit before tax within the Operating and Financial Review on page 39.

This measure is the Group's key performance indicator and is useful for presenting the Group's underlying trading performance, as it excludes non-cash derivative adjustments and one-off financial impacts that are not expected to recur.

### Trading EBITDA

Trading EBITDA is defined as earnings before interest payable, tax, depreciation and amortisation, and excludes the amortisation of acquired intangibles, non-trading costs and impairments. It also excludes the non-cash impact of IAS19R current service costs in line with the Group's debt covenants. It is reconciled to profit before tax within the Operating and Financial Review on page 46.

This measure has been presented by the Group in every annual report since it became a listed Group in 2014 and is linked to the Group's debt covenants, being the denominator in the Group's leverage ratio calculation.

### Underlying basic earnings per share from continuing operations

Underlying basic earnings per share from continuing operation represents basic earnings per share from continuing operations excluding the post-tax effect of unrealised fair value gains and losses on derivatives and the impairment of the carrying value of cruise ships and goodwill. In the prior year it also excludes the post-tax effect of the one-off non-cash costs associated with the unamortised facility fees of the previous banking facilities and the post-tax effect of one-off restructuring costs. This measure is reconciled to the statutory basic earnings per share from continuing operations in note 12 to the accounts on page 158.

This measure is linked to the Group's key performance indicator Underlying Profit Before Tax and represents what management consider to be the underlying shareholder value generated in the period.

### Customer spend

Customer spend represents the total amount that customers spent on products provided by the Saga Group of companies, including gross written premiums, ancillary income and Insurance Premium Tax for all of the core policies and add-ons sold in the period. It is reconciled to statutory revenue within the Operating and Financial Review on page 39.

### Available operating cash flow

Available operating cash flow is net cashflow from operating activities after capital expenditure but before tax, interest paid and non-trading items, which is available to be used by the Group as it chooses and is not subject to regulatory restriction. It is reconciled to statutory net cash flow from operating activities within the Operating and Financial Review on page 46.

### Net debt

Net debt is the sum of the carrying values of the Group's debt facilities less the amount of available cash it holds. It is linked to the Group's debt covenants, being the numerator in the Group's leverage ratio calculation, and is analysed further within the Operating and Financial Review on page 48.

## 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

**Board** Saga plc Board of Directors

**Claims frequency** the number of claims incurred divided by the number of policies earned in a given period

**Claims reserves** accounting provisions that have been set to meet outstanding insurance claims, IBNR and associated claims handling costs

**Code** the UK Corporate Governance Code published by the UK Financial Reporting Council setting out guidance in the form of principles and provisions to address the principal aspects of corporate governance

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

**Companies Act** the UK Companies Act 2006, as amended from time to time

**Company** Saga plc

**Continuing operations** operations that are not classified as discontinued

**Core policy** an insurance policy that is actively marketed and sold on its own

**Cruise passenger days** the total number of days passengers have travelled on a ship, or ships, in a given period

**Cruise passengers** the number of passengers that have travelled on a Saga cruise in a given period

**DBP** Deferred Bonus Plan

**Diems** the total amount of cruise revenue earned per cruise passenger per day

**Discontinued operations** operations divested or those that have been classified as held for sale whose trading activities relate to a separate line of business or geographical area

**Debt ratio (Leverage)** the ratio of net debt to Trading EBITDA

**DTRs (Disclosure and Transparency Rules)** rules published by the UK Financial Conduct Authority relating to the disclosure of information by a company listed in the UK

**Earned premium** insurance premiums that are recognised in the income statement over the period of cover to which the premiums relate, deferred on a 365ths basis

**Earnings per share from continuing operations (basic)** profit after tax from continuing operations attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period

**Executive Director** executive director of Saga plc (unless otherwise stated)

**Expense ratio** the ratio of expenses incurred to underwrite insurance (numerator) to the revenue earned by AICL (denominator) in a given period

**Financial Conduct Authority (FCA)** the independent UK body that regulates the financial services industry, which includes general insurance

**GHG Protocol** a global standard for how to measure, manage, and report greenhouse gas emissions

**GWP (Gross written premiums)** the total premium charged to customers for a core insurance product, excluding Insurance Premium Tax but before the deduction of any outward reinsurance premiums, measured with reference to the cover start date of the policy

**Group** the Saga plc group

**Holidays passengers** the number of passengers that have travelled on a Saga, Titan or Destinology holiday in a given period

**IASB** International Accounting Standards Board

**IBNR (incurred but not reported)** a claims reserve provided to meet the estimated cost of claims that have occurred, but have not yet been reported to the insurer

**IFRS** International Financial Reporting Standards

**IPO (Initial Public Offering)** the first sale of shares by a previously unlisted company to investors on a securities exchange

**Leverage ratio** the ratio of net debt to Trading EBITDA

**LIBOR** London inter-bank offered rate

**Load factor** the total number of cruise passengers booked in proportion to the total cruise ship capacity



**Loss ratio** a ratio of the claims costs (numerator) to the net earned premium (denominator) in a given period

**LR (Listing Rules)** a set of mandatory regulations of the UK Financial Conduct Authority and applicable to a company listed in the UK

**LTIP** Long Term Incentive Plan

**Malus** an arrangement that permits the forfeiture of unvested remuneration awards in circumstances the Company considers appropriate

**Mosaic classifications** Mosaic is a consumer classification system, owned by Experian, that classifies UK households into 15 main social-economic groups, each of which have specific consumer and societal trends

**Net claims** the cost of claims incurred in the period less any claims costs recovered under reinsurance contracts and after the release of any claims reserves

**Net earned premium** earned premium net of any outward earned reinsurance premium paid

**Net interest expense** finance costs less finance income

**Non-Executive Director (NED)** non-executive director of Saga plc

**Ogden discount rate** the discount rate set by the relevant government bodies, the Lord Chancellor and Scottish Ministers, and used to calculate lump sum awards in bodily injury cases

**Operating margin** is a measurement of the proportion of revenue which is left over after paying for all business costs

**PBT** profit before tax

**PMI** private medical insurance

**Policies sold** the number of core and add-on insurance policies sold to customers in a given period, measured by reference to the cover start date of the policy

**Reinsurance** contractual arrangements where an insurer transfers part or all of the insurance risk written to another insurer, in exchange for a share of the customer premium

**RMM** (required minimum margin) a measure used to assess the minimum level of solvency capital an insurance underwriter must retain under Solvency I

**RPI** Retail Price Index

**Saga Way** the internal framework that guides the behaviours of our employees

**SCR** Solvency capital requirement as calculated under Solvency II rules

**SIP** Share Incentive Plan

**Solvency capital/Solvency II** insurance regulations designed to harmonise European Union insurance regulation. Primarily this concerns the amount of capital that European insurance companies must hold under a measure of capital and risk

**tCO<sub>2</sub>e** 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<sub>2</sub>

**TSR (total shareholder return)** the theoretical growth in value of a shareholding over a period, by reference to the beginning and ending share price, and assuming that dividends, including special dividends, are reinvested to purchase additional units of the equity

**Unearned premium** an amount of insurance premium that has been written but not yet earned



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