Preliminary Results

for the year ended 31 January 2017

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29 March 2017

Saga plc

Preliminary Results for the full year ended 31 January 2017

Consistent financial performance: membership based on customer insight to be launched in 2017

Saga plc ("Saga" or "the Group"), the UK's specialist in products and services for life after 50, announces its preliminary results for the twelve months ended 31 January 2017.

Financial highlights

	31 January 2017	31 January 2016	Change
Profit before tax from continuing operations	£193.3m	£176.2m	9.7%
Underlying profit before tax [1]	£187.4m	£177.4m	5.6%
Basic earnings per share from continuing operations	14.1p	13.3p	6.0%
Proposed full year dividend	8.5p	7.2p	18.1%
Available operating cash flow[2]	£217.6m	£178.1m	22.2%
Net debt[3]	£464.8m	£547.7m	(15.1)%
Debt ratio (net debt to EBITDA)	1.9x	2.3x	(0.4)x

- Consistent delivery of profit growth
  - Underlying profit before tax, excluding derivative gains and the Ogden discount rate impact increased by 5.6%
- Sustained cash generation, leading to further deleveraging
  - Now within medium-term target range of between 1.5 and 2.0 times
- 18.1% growth in proposed full year dividend, equating to a payout ratio of 62%[4] (FY 2016: 57%[5])

Divisional Highlights

Retail broking

- Strong performance in competitive environment with significant improvement in motor
- Motor panel performing as expected
- Broking profit per customer grew 5.7% to £46.0 (FY 2016: £43.5)

Insurance underwriting

- Continued strong performance in motor underwriting
- Profit before tax (excluding Ogden impact) of £77.1m (FY 2016: £84.1m) with lower reserve releases
- Impact of change in Ogden discount rate from 2.5% to -0.75% of £4m
- Positive capital release from underwriter

Travel

- Profit growth across travel business, despite scheduled maintenance of Saga Sapphire
- Robust trading performance and visibility for FY 2018 departures, with current reservations 8% ahead of prior year
- New cruise ship on track for delivery in June 2019

Customer work

[1] Profit before tax excluding derivatives and Ogden impact
[2] Net cash flow from operating activities after capital expenditure but before tax and interest paid and non-trading items
[3] Bank debt and borrowings, excluding any overdrafts held by restricted trading subsidiaries, net of available cash
[4] Based on profit after tax excluding derivatives and Ogden impact
[5] Excluding the one-off impact of Acromas tax losses

- Enhanced customer understanding assisting retention and acquisition
- Driving proposition development across all divisions
- Identification of c.500k High-affinity Customers ("HACs")
- Launch of the Saga membership scheme, 'Saga Possibilities' later this year

Commenting on the results, Lance Batchelor, Group Chief Executive Officer, said:

"For the third successive year since IPO, we have delivered a strong set of financial results. Underlying profit before tax[6] is up 5.6%, consistent with our ongoing objective of delivering consistent, sustainable profit growth. Debt is down sharply, and I am very pleased that the dividend has again materially increased.

Our performance has continued to prove the strength of the Saga business model, which builds multi-decade relationships with our target demographic through a range of excellent products and services. This breadth allows us to deliver consistently for our shareholders, despite the ebbs, flows and challenges in the insurance and travel markets.

We have progressed our intensive work to better understand which Saga customers are our most valuable, and how we can best reward and retain them, as well as nurture the next generation. We know more about Saga's core customers than ever before, which is leading to more efficient acquisition, retention and up-sell of our products. It means we can better help our customers to enjoy their retirement to the full.

The new financial year will be a busy and exciting one. In the second half, we will launch our membership scheme, "Saga Possibilities", allowing us to deepen our relationship with our customers and find a variety of ways to thank them for their loyalty. In future, I will normally refer to "Saga Members" rather than customers, a significant shift after 65 years of Saga history.

Also in 2017, we will finalise the design details of our first purpose built ship, Saga's "Spirit of Discovery". We will start selling cabins later this year for her first season, summer 2019.

Our confidence in continuing to deliver a consistent financial performance in 2017 is strong. We have started the financial year well, and I look ahead with a great deal of optimism for the business."

END

A preliminary results and capital markets presentation to analysts and investors will be held at 09.45 at the offices of Numis, 10 Paternoster Square, London, EC4M 7LT. The presentation will be broadcast via a webcast and a conference call for registered participants. Registration for the webcast can be completed at http://corporate.saga.co.uk/. The conference call can be accessed on: UK: 0203 059 8125, all other locations: +44 203 059 8125

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[6] Profit before tax excluding derivatives and the Ogden impact

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Notes to editors

Saga is a specialist in the provision of products and services for life after 50. The Saga brand is one of the most recognised and trusted brands in the UK and is known for its high level of customer service and its high quality, award winning products and services including cruises and holidays, insurance, personal finance and publishing. saga.co.uk

Chairman's statement

I am delighted to present another strong set of results.

We have continued to deliver on our progressive dividend policy this year, increasing our dividend by 18.1% to 8.5p. This equates to a payout ratio of 62%[7] of net earnings, compared to 57%[8] in the previous year. Last year, we increased our target payout range from 40%-60%, to 50%-70% as a sign of our confidence that we will continue to deliver strong financial performance. This year's decision to increase the dividend again reflects the Board's ongoing confidence in the sustainability of our dividend policy, which is supported by a strong track record of profit growth and cash generation through our capital efficient model.

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

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

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

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

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

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

[7] Based on profit after tax excluding derivatives and Ogden impact
[8] Excluding the one-off benefit of Acromas tax losses

Group CEO's statement

Overview

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

Same clear strategy

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

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

Customer work

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

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

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

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

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

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

We have made a key improvement to our systems capability which will enable us to do this. In our core insurance and travel businesses, we have two excellent acquisition machines, whose demographic focus means we are constantly 'touching' current and new, potentially high-affinity, customers. The improved capability enables us to

monitor in real time what customers are doing and, just as importantly, what they have done while journeying through any of our systems, both online and through our call centres. It will also enable us to automatically offer the customer the right product based on their history and their propensity to buy.

Membership

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

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

Saga Possibilities will be structured around four key components:

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

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

Divisional review

Retail broking

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

Motor broking

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

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

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

Home broking

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

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

Other broking

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

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

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

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

Current trading in retail broking

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

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

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

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

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

Insurance underwriting

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

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

Reserve releases

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

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

Ogden discount rate change

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

Travel

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

Tour operating

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

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

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

Cruising

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

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

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

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

Current trading

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

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

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

Emerging businesses – continuing to invest for future growth

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

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

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

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

Conclusion – the Saga investment case

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

How we are different:

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

The model works

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

Confidence in future delivery

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

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

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

Chief Financial Officer's Review

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

Income Statement

Group Income Statement	**12m to Jan 2017**	***Growth***	**12m to Jan 2016**
Revenue	**£871.3m**	***(9.5%)***	**£963.2m**
Trading EBITDA[9]	£246.1m	*3.1%*	£238.8m
Depreciation & amortisation (excluding acquired intangibles)	(£33.1m)		(£27.8m)
Trading Profit	**£213.0m**	***0.9%***	£211.0m
Non-trading costs	(£1.9m)		(£3.3m)
Amortisation of acquired intangibles	(£6.5m)		(£6.3m)
Net finance costs	(£17.2m)		(£24.0m)
Profit before tax excluding derivatives and the Ogden impact	**£187.4m**	***5.6%***	**£177.4m**
Net fair value gains / (losses) on derivatives	£9.9m		(£1.2m)
Ogden rate change impact	(£4.0m)		-
Profit before tax from continuing operations	**£193.3m**	***9.7%***	**£176.2m**
Tax expense	(£36.0m)	*28.1%*	(£28.1m)
Loss after tax for the year from discontinued operations	-		(£6.9m)
Profit after tax	**£157.3m**	***11.4%***	**£141.2m**
Basic earnings per share:			
Earnings per share from continuing operations	14.1p	*6.0%*	13.3p
Earnings per share	14.1p	*11.0%*	12.7p

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

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

[9] Earnings before interest payable, tax, depreciation and amortisation, non-trading items and fair value gains and losses on derivative financial instruments

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

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

Net finance costs

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

Tax expense

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

Earnings per share

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

Dividends

The Directors have proposed a final dividend of 5.8p per share, which, combined with the interim dividend of 2.7p per share, will deliver a total dividend for the financial year ending 31 January 2017 of 8.5p per share (2016: 7.2p). This equates to a payout ratio of 62%[10] compared with the Group's basic earnings per share from continuing operations, excluding derivatives and the Ogden rate impact (2016: 57% excluding the one-off benefit of Acromas tax losses).

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

Cash flow and liquidity

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

[10] Based on profit after tax excluding derivatives and Ogden impact

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

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

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

Financing

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

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

Pensions

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

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

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

Net assets

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

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

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

Segmental performance

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

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

The retail broking insurance business increased profit before tax by 9.1%, with a particularly strong performance in motor broking. Underwriting profit reduced by £7.0m, as a result of reducing reserve releases and the cost of

quota share. Travel increased profits by 10.4%, even after the effect of the Sapphire scheduled maintenance, which had a profit impact of around £5m. Emerging businesses and central costs saw an 8.8% decrease in losses before tax reflecting the reduction in finance costs.

Retail broking

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

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

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

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

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

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

Revenue and profit before tax from other insurance lines was £80.4m and £31.6m respectively (2016: £82.4m and £34.5m), with higher revenues from both private medical and travel insurance being offset by revenue in the prior

year from the legal services product, which was discontinued at the end of 2015, and a decrease in credit hire and repair income. Core policies decreased slightly to 381k (2016: 383k), which was mainly due to a reduction in pet insurance policies sold. Profit was impacted by a more challenging travel market towards the end of the year, with net rate pressure becoming prevalent due to the depreciation of sterling.

Insurance underwriting

Underwriting P&L

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

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

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

When excluding the effect of the reserve releases and the impact of the quota share, the underwriting business delivered a broadly stable pure combined operating ratio[11] of 99.6%.

The reduced level of reserve releases, combined with the net cost of the new quota share agreement of £1.6m, for which there was no comparable cost in the prior year, has resulted in a decrease in the underlying profit before tax

[11] The ratio of the claims costs (excluding reserve releases) and expenses incurred to underwrite insurance (numerator) to the revenue earned by AICL (denominator) in a given period.

from underwriting activity to £77.1m (2016: £84.1m). The Ogden rate change had an additional net profit impact of £4.0m, reducing the reported profit before tax from underwriting to £73.1m.

Reserving

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

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

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

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

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

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

Investment portfolio

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

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

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

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

Solvency capital

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

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

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

Sensitivities	
Base solvency II coverage	**143%**
Interest rates +/- 1%	+5% / -6%
Equities -15%	-2%
Credit spreads 50bps	-4%

3 large losses of £10m each	-4%

Travel

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

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

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

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

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

Emerging businesses and central costs

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

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

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

Financial outlook and guidance

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

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

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

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

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

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

Consolidated income statement
for the year ended 31 January 2017

	Note	**2017 £'m**	2016 £'m
Revenue	3	871.3	963.2
Cost of sales	3	(422.7)	(544.2)
Gross profit		**448.6**	**419.0**
Administrative and selling expenses		(251.6)	(227.3)
Investment income		5.0	11.0
Finance costs		(18.6)	(25.2)
Finance income		11.3	-
Share of loss of joint ventures		(1.4)	(1.3)
Profit before tax from continuing operations		**193.3**	**176.2**
Tax expense	5	(36.0)	(28.1)
Profit for the year from continuing operations		**157.3**	**148.1**
Loss after tax for the year from discontinued operations	18	-	(6.9)
Profit for the year		**157.3**	**141.2**
Attributable to:			
Equity holders of the parent		157.3	140.9
Non-controlling interests		-	0.3
		157.3	**141.2**
Earnings per share:			
Basic	7	14.1p	12.7p
Diluted	7	14.0p	12.6p
Earnings per share for continuing operations:			
Basic	7	14.1p	13.3p
Diluted	7	14.0p	13.2p

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

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

Consolidated statement of financial position
as at 31 January 2017

	Note	**2017**	2016
Assets		**£'m**	£'m
Goodwill	9	1,485.0	1,485.0
Intangible fixed assets	10	53.8	52.3
Investment in joint ventures		1.4	1.6
Property, plant and equipment	11	131.5	140.6
Financial assets	12	600.3	644.7
Deferred tax assets	5	16.3	22.1
Reinsurance assets	15	97.5	106.4
Inventories		5.6	4.9
Trade and other receivables		198.7	188.0
Cash and short-term deposits	13	108.7	106.5
Total assets		**2,698.8**	**2,752.1**
Liabilities			
Retirement benefit scheme obligations	14	13.7	18.8
Gross insurance contract liabilities	15	642.3	703.3
Provisions		4.0	4.0
Financial liabilities	12	489.8	580.5
Current tax liabilities		14.9	15.0
Deferred tax liabilities	5	21.5	17.4
Other liabilities		134.9	133.3
Trade and other payables		182.5	191.6
Total liabilities		**1,503.6**	**1,663.9**
Equity			
Issued capital		11.2	11.2
Share premium		519.3	519.3
Retained earnings		607.8	527.0
Share-based payment reserve		15.6	17.7
Foreign currency translation reserve		-	(0.7)
Available for sale reserve		3.3	2.4
Hedging reserve		38.0	11.3
Total equity		**1,195.2**	**1,088.2**
Total liabilities and equity		**2,698.8**	**2,752.1**

Consolidated statement of changes in equity
for the year ended 31 January 2017

	Attributable to the equity holders of the parent									
	Issued capital £'m	Share premium £'m	Retained earnings £'m	Share-based payment reserve £'m	Foreign currency translation reserve £'m	Available for sale reserve £'m	Hedging reserve £'m	Total £'m	Non-controlling interests £'m	Total equity £'m
At 1 February 2016	**11.2**	**519.3**	**527.0**	**17.7**	**(0.7)**	**2.4**	**11.3**	**1,088.2**	-	**1,088.2**
Profit for the year	-	-	157.3	-	-	-	-	157.3	-	157.3
Other comprehensive	-	-	3.5	-	0.7	0.9	26.7	31.8	-	31.8
Total comprehensive	-	-	160.8	-	0.7	0.9	26.7	189.1	-	189.1
Dividends paid (note 6)	-	-	(86.1)	-	-	-	-	(86.1)	-	(86.1)
Share based payment charge	-	-	-	4.9	-	-	-	4.9	-	4.9
Exercise of share options	-	-	6.1	(7.0)	-	-	-	(0.9)	-	(0.9)
At 31 January 2017	**11.2**	**519.3**	**607.8**	**15.6**	**-**	**3.3**	**38.0**	**1,195.2**	-	**1,195.2**
At 1 February 2015	**11.1**	**519.4**	**410.7**	**40.7**	**0.5**	**3.6**	**(2.3)**	**983.7**	**0.4**	**984.1**
Profit for the year	-	-	140.9	-	-	-	-	140.9	0.3	141.2
Other comprehensive	-	-	21.8	-	(1.2)	(1.2)	13.6	33.0	-	33.0
Total comprehensive	-	-	162.7	-	(1.2)	(1.2)	13.6	173.9	0.3	174.2
Bonus shares issued	0.1	(0.1)	-	-	-	-	-	-	-	-
Dividends paid (note 6)	-	-	(70.4)	-	-	-	-	(70.4)	(0.7)	(71.1)
Share based payment charge	-	-	-	2.8	-	-	-	2.8	-	2.8
Exercise of share options	-	-	11.1	(12.9)	-	-	-	(1.8)	-	(1.8)
Issue of free shares	-	-	12.9	(12.9)	-	-	-	-	-	-
At 31 January 2016	**11.2**	**519.3**	**527.0**	**17.7**	**(0.7)**	**2.4**	**11.3**	**1,088.2**	**-**	**1,088.2**

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

	Note	**2017** **£'m**	2016 £'m
Profit before tax from continuing operations		193.3	176.2
Loss before tax from discontinued operations		-	(7.2)
Profit before tax		193.3	169.0
Depreciation, impairment and loss on disposal of property, plant and equipment		21.6	23.4
Amortisation and impairment of intangible assets		18.1	14.1
Share-based payment transactions		4.0	1.1
Transactions relating to disposal group held for sale		-	7.3
Finance costs		18.6	25.2
Finance income		(11.3)	-
Share of loss of joint ventures		1.4	1.3
Interest income from investments		(5.0)	(11.0)
Movements in other assets and liabilities		(58.8)	(56.5)
		181.9	173.9
Interest received		5.0	13.5
Interest paid		(15.8)	(21.6)
Income tax paid		(32.6)	(15.4)
Net cash flows from operating activities		**138.5**	**150.4**
Investing activities			
Proceeds from sale of property, plant and equipment		0.2	-
Purchase of property, plant and equipment, and intangible fixed assets		(43.9)	(33.8)
Net disposal of financial assets		124.7	64.3
Acquisition of subsidiaries	8	-	(26.7)
Disposal of subsidiaries		-	(8.2)
Investment in joint venture		(1.3)	(3.0)
Net cash flows used in investing activities		**79.7**	**(7.4)**
Financing activities			
Payment of finance lease liabilities		(0.5)	(0.5)
Net payment of borrowings	16	(75.0)	(145.0)
Dividends paid		(86.3)	(70.0)
Net cash flows used in financing activities		**(161.8)**	**(215.5)**
Net increase / (decrease) in cash and cash equivalents		**56.4**	**(72.5)**
Net foreign exchange differences		0.7	(1.0)
Cash and cash equivalents at the start of the year		164.4	237.9
Cash and cash equivalents at the end of the year	13	**221.5**	**164.4**

Notes to the consolidated financial statements

1 Corporate information

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

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

2.1 Basis of preparation

The results in this preliminary announcement have been taken from the Group's 2017 Annual report and accounts. The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS.

The basis of preparation, basis of consolidation and summary of significant accounting policies applicable to the Group's consolidated financial statements can be found in the notes to the consolidated financial statements in the 2017 Annual report and accounts.

The preliminary announcement for the year ended 31 January 2017 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The consolidated financial statements for the full year ended 31 January 2017 have been audited by Ernst & Young LLP (EY). Their report was unqualified and did not contain any statement under section 498(2) or section 498(3) of the Companies Act 2006.

2.2 Summary of significant accounting policies

There have been no significant changes to the accounting policies of the Group during the year ended 31 January 2017, except for changes required to appropriately reflect the contractual terms of the new quota share reinsurance agreement in motor insurance that became effective from 1 February 2016. Full details of the accounting policies of the Group can be found in the Annual report and accounts for the year ended 31 January 2017 available at www.corporate.saga.co.uk.

Notes to the consolidated financial statements (continued)

2.3 Standards issued but not yet effective

The following is a list of standards and amendments to standards that are in issue but are not effective or adopted as at 31 January 2017. Comment on these new standards or amendments is as follows:

i. IFRS 9 'Financial Instruments'

In July 2014, the IASB issued IFRS 9 'Financial Instruments' that will essentially replace IAS 39. The classification and measurement of financial assets and liabilities will be directly linked to the nature of the instrument's contractual cash flows and the business model employed by the holder of the instrument. The Group has begun work to determine the full impact of this standard on the Group's financial statements. Our initial assessment is that the standard is likely to enable a greater proportion of derivatives to qualify for hedge accounting, and so reduce the volatility of derivative gains and losses in the Group's income statement. Besides from this, the Group believes that the standard is unlikely to have a significant effect on the recognition, measurement and presentation of its other financial instruments. The standard is effective for annual periods beginning on or after 1 January 2018, and was endorsed by the EU on 22 November 2016.

ii. IFRS 15 'Revenue from Contracts with Customers'

The objective of IFRS 15 is to establish the principles that an entity should apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The Group has begun work to determine the full impact of this standard on the Group's financial statements.

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

iii. IFRS 16 'Leases'

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

iv. Amendments to IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses'

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

v. Amendments to IAS 7 'Disclosure Initiative'

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

2.3 Standards issued but not yet effective

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

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

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

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

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

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

2.4 Significant accounting judgements, estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

i) Valuation of insurance contract liabilities

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported ('IBNR') at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. For some types of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all of the uncertainties involved.

The ultimate cost of claims is not discounted except for those in respect of periodical payment orders ('PPOs'). The valuation of these claims involves making assumptions about the rate of inflation and the expected rate of return on assets to determine the discount rate. Due to the size of PPO claims, the ultimate cost is highly sensitive to changes in these assumptions. The assumptions are reviewed at each reporting date.

Similar judgements, estimates and assumptions are employed in the assessment of the adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

ii) Goodwill impairment testing

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the CGUs to which goodwill is allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs at a suitable discount rate in order to calculate present value.

iii) Valuation of pension benefit obligation

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Notes to the consolidated financial statements (continued)

3 Segmental information

For management purposes, the Group is organised into business units based on their products and services. The Group has three reportable operating segments as follows:

- *Insurance*: the segment primarily comprises general insurance products. Revenue is derived primarily from insurance premiums and broking revenues. This segment is further analysed into four product sub-segments:
    - Motor broking
    - Home broking
    - Other insurance broking
    - Underwriting

- *Travel*: the segment primarily comprises the operation and delivery of package tours and cruise holiday products. The Group owns and operates two cruise ships and throughout the year owned and operated one hotel. All other holiday products are packaged together with third party supplied accommodation, flights and other transport arrangements.

- *Emerging Businesses and Central Costs*: the segment comprises the Group's other businesses and its central cost base. The other businesses primarily include the financial services product offering including the wealth management joint venture, the domiciliary care services offering, a monthly subscription magazine product and the Group's internal mailing house.

Segment performance is primarily evaluated using the Group's key performance measure of profit before tax. Items not allocated to a segment relate to transactions that do not form part of the on-going segment performance or which are managed on a Group basis.

Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expenses and results includes transfers between business segments which are then eliminated on consolidation.

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

Notes to the consolidated financial statements (continued)

3 Segmental information (continued)

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

All revenue is generated solely in the UK.

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

3 Segmental information (continued)

2016	Insurance					Travel	Emerging Businesses and Central Costs	Adjustments	Total
	Motor broking	Home broking	Other insurance broking	Under-writing	Total				
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Revenue	**89.5**	**90.0**	**82.4**	**248.2**	**510.1**	**423.1**	**37.1**	(7.1)	**963.2**
Cost of sales	(2.5)	(0.3)	(16.1)	(173.3)	(192.2)	(337.2)	(16.4)	1.6	(544.2)
Gross profit	**87.0**	**89.7**	**66.3**	**74.9**	**317.9**	**85.9**	**20.7**	(5.5)	**419.0**
Administrative and selling expenses	(58.4)	(26.3)	(31.8)	(5.4)	(121.9)	(72.8)	(38.1)	5.5	(227.3)
Investment income	-	-	-	14.6	14.6	0.4	(4.0)	-	11.0
Finance costs	-	-	-	-	-	-	(24.0)	-	(24.0)
Share of loss of joint ventures	-	-	-	-	-	-	(1.3)	-	(1.3)
Profit before tax and derivative gains and losses	**28.6**	**63.4**	**34.5**	**84.1**	**210.6**	**13.5**	**(46.7)**	-	**177.4**
Net fair value loss on derivative financial instruments	-	-	-	-	-	(1.2)	-	-	(1.2)
Profit before tax from continuing operations	**28.6**	**63.4**	**34.5**	**84.1**	**210.6**	**12.3**	**(46.7)**	-	**176.2**
Total assets less liabilities					372.1	29.2	(242.6)	929.5	1,088.2

All revenue is generated solely in the UK.

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

Notes to the consolidated financial statements (continued)

3 Segmental information (continued)

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

	2017	2016
	£'m	£'m
Goodwill (note 9)	1,485.0	1,485.0
Bank loans (note 16)	(475.2)	(547.7)
Deferred tax – non-pension scheme related	(6.7)	(7.8)
	1,003.1	**929.5**

a Analysis of insurance revenue

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

b Analysis of insurance cost of sales

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

Notes to the consolidated financial statements (continued)

4 Non-trading items

	2017	2016
	£'m	£'m
Share-based payment costs (note 17)	0.5	0.3
Flotation and other costs	0.3	2.6
Restructuring costs	1.8	1.3
Acquisition of subsidiaries (note 8)	-	0.5
Release of contingent consideration liability	-	(7.1)
Supplier insolvency	-	4.7
Impairment of property	-	3.8
Insurance claims	(0.7)	(3.1)
Other non-trading items	-	0.3
	1.9	**3.3**

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

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

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

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

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

Notes to the consolidated financial statements (continued)

5 Tax

The major components of the income tax expense are:

	2017	2016
	£'m	£'m
Consolidated income statement		
Current income tax		
Current income tax charge	36.2	32.7
Adjustments in respect of previous years	(3.6)	(8.4)
	32.6	**24.3**
Deferred tax		
Relating to origination and reversal of temporary differences	3.0	2.8
Effect of tax rate change on opening balance	0.4	1.0
Tax expense in the income statement	**36.0**	**28.1**

The Group's tax expense for the year was £36.0m (2016: £28.1m) representing a tax effective rate of 18.6% (2016: 15.9%).

The expense for the current year includes benefits of £2.7m and £0.3m from the utilisation under the group relief rules of tax losses from Nestor Primecare Services Limited and Saga Investment Services Limited respectively. The tax losses for Nestor Primecare Services Limited arose when it formed part of the Group in the prior year. Excluding the impact of the Nestor Primecare Services Limited and Saga Investment Services Limited tax losses, the underlying tax effective rate was 20.2%.

The expense for the prior year included a £7.6m benefit from the utilisation under the group relief rules of tax losses from Acromas, which arose when Saga was a part of the Acromas Group. Excluding the impact of the Acromas tax losses, the underlying tax effective rate was 20.3%.

Notes to the consolidated financial statements (continued)

5 Tax (continued)

Reconciliation of net deferred tax assets / (liabilities)

	2017	2016
	£'m	£'m
At 1 February	4.7	17.4
Tax credit recognised in the income statement	(3.4)	(3.8)
Tax credit recognised in other comprehensive income	(6.5)	(7.4)
Deferred taxes acquired in business combinations	-	(2.7)
Deferred tax charge attributable to discontinued operations	-	1.2
At 31 January	**(5.2)**	**4.7**

Reductions were enacted in the Finance Act 2015 to reduce the rate from 20% to 19% from 1 April 2017, and to 18% from 1 April 2020. A further reduction to 17% from 1 April 2020 was announced on 16 March 2016 and has been enacted at the balance sheet date. As a result, the closing deferred tax balances have been reflected at 17%.

The Group has tax losses which arose in the UK of £4.2m (2016: £4.2m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group, they have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future. If the Group were able to recognise all unrecognised deferred tax assets, the profit would increase by £0.7m (2016: £0.8m).

Notes to the consolidated financial statements (continued)

6 Dividends

During the year, the Company paid an ordinary dividend of 5.0p per share (2016: 4.1p per share), relating to the year ended 31 January 2016, and also paid an interim dividend of 2.7p per share (2016: 2.2p per share) for the year ended 31 January 2017. The total dividends paid for the year were £86.1m (2016: £70.4m).

The Directors propose a final dividend for the year ended 31 January 2017 of 5.8p per share, which is subject to approval by shareholders at the Annual General Meeting on 22 June 2017 and would be paid on 30 June 2017. These financial statements do not reflect this dividend payable.

7 Earnings per share

Basic EPS is calculated by dividing the profit after tax for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by also including the weighted average number of ordinary shares that would be issued on conversion of all potentially dilutive options.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

The calculation of basic and diluted EPS is as follows:

	2017 **£'m**	2016 £'m
Profit attributable to ordinary equity holders	157.3	140.9
Profit from continuing operations	157.3	148.1
Weighted average number of ordinary shares	'm	'm
Original shares	800.0	800.0
297.3m shares issued on 29 May 2014	297.3	297.3
Free shares issued on 5 June 2015	7.0	7.3
IPO share options exercised	9.7	6.5
Weighted average number for Basic EPS	1,114.0	1,111.1
Dilutive options		
IPO share options not yet exercised	3.5	6.6
Other share options not yet vested	0.1	2.4
LTIP share options not yet vested	4.4	-
Deferred bonus plan	0.3	0.2
Weighted average number for Diluted EPS	**1,122.3**	**1,120.3**
Basic EPS	**14.1p**	12.7p
Basic EPS for continuing operations	**14.1p**	13.3p
Diluted EPS	**14.0p**	12.6p
Diluted EPS for continuing operations	**14.0p**	13.2p

Notes to the consolidated financial statements (continued)

8 Acquisitions

a Acquisitions during the year ended 31 January 2017

There were no acquisitions in the year ended 31 January 2017.

b Acquisitions in prior periods

i) Destinology Limited
On 13 August 2014, the Group acquired a 75% shareholding in Destinology Limited ('Destinology') with an option to acquire the remaining 25% shareholding at a later date. Accordingly, the subsequent purchase was considered to be a linked transaction and Destinology was consolidated as a 100% subsidiary.

ii) Bennetts Biking Services Limited
On 1 July 2015, the Group acquired a 100% shareholding in Bennetts Biking Services Limited ('Bennetts'), the UK's premier motorbike insurance specialist.

The acquisition cost of £26.3m was settled in cash. Transaction costs of £0.5m were expensed and included as part of the non-trading items within administrative and selling expenses. Cash of £0.4m was acquired with Bennetts, resulting in a net cash outflow of £25.9m.

The fair values of the identifiable assets and liabilities of Bennetts acquired on the date of acquisition were:

	£'m
Assets	
Brand	3.8
Customer relationships	3.9
Contracts	5.8
Software	1.6
Trade and other receivables (gross and expected to be received)	1.4
Cash	0.4
Total assets	16.9
Liabilities	
Trade and other payables	1.5
Deferred tax liability	2.7
Total liabilities	4.2
Total identifiable net assets at fair value	**12.7**
Goodwill arising on acquisition (note 9)	13.6
Purchase consideration transferred	**26.3**

The goodwill arising on acquisition of £13.6m represents the fair value arising from the acquired management structure, strategic knowledge, capability and other synergies arising on acquisition.

9 Goodwill

The net book value of goodwill is £1,485.0m (2016: £1,485.0m). During the prior year, the Group acquired £13.6m of goodwill with its acquisition of Bennetts (see note 8).

10 Intangible fixed assets

During the year, the Group capitalised £19.6m (2016: £16.5m) of software assets. In the prior year the Group acquired £15.1m of other intangible fixed assets with its acquisition of Bennetts (see note 8). During the year the Group charged £18.1m of amortisation to its intangible assets (2016: £14.1m).

11 Property, plant and equipment

During the year, the Group capitalised assets with a cost of £12.6m (2016: £30.8m), and charged £21.6m of depreciation and impairment to its property, plant and equipment (2016: 23.4m) .

On 21 December 2015, the Group contracted with Meyer Werft GmbH & Co. KG to purchase a new cruise ship for delivery in July 2019, with an option to purchase a second similar cruise ship for delivery in 2021. The new ship will replace one of the Group's existing two ships.

The first stage payment for the new ship was made in February 2016. Three similar stage payments will be made during the construction period (24 months, 18 months, and 12 months prior to delivery) funded via cash resources of the Group. The remaining element of the contract price is due on delivery of the ship, and the Group entered into appropriate financing for this on 21 December 2015.

As at 31 January 2017, the capital amount contracted but not provided for in the financial statements in respect of the ship amounted to £280.1m (2016: £280.1m).

On 17 February 2017, certain entities in the Group were served with legal proceedings by the broker who acted on behalf of the ship yard for the committed purchase of the new cruise ship. The claimant has brought a claim alleging that these Saga companies are liable to pay commission on the first ship, plus interest and legal costs and separately, commission on the second ship should the option to purchase be exercised. The amount of the claim is up to €7 million, depending on whether the option for the purchase of a second ship is exercised.

It is too early in the litigation process to evaluate Saga's position on liability and quantum. As such, no amounts have been provided for this in the financial statements. Furthermore, in the event the claim is successful, the cost will be capitalised as part of assets in the course of construction within property, plant and equipment.

Notes to the consolidated financial statements (continued)

12 Financial assets and financial liabilities

a) Financial assets

	2017 £'m	2016 £'m
Fair value through profit or loss		
Foreign exchange forward contracts	3.7	3.3
Fuel oil swaps	1.3	-
Loan funds	6.5	19.3
Hedge funds	22.7	26.7
	34.2	**49.3**
Fair value through the hedging reserve		
Foreign exchange forward contracts	47.3	16.7
Fuel oil swaps	1.2	-
	48.5	**16.7**
Loans and receivables		
Deposits with financial institutions	309.5	413.6
	309.5	**413.6**
Available for sale investments		
Debt securities	79.5	85.2
Money market funds	122.1	75.9
Unlisted equity shares	1.3	0.2
Loan notes	5.2	3.8
	208.1	**165.1**
Total financial assets	**600.3**	**644.7**
Current	310.5	288.8
Non-current	289.8	355.9
	600.3	**644.7**

b) Financial liabilities

	2017 £'m	2016 £'m
Fair value through profit or loss		
Foreign exchange forward contracts	1.0	5.5
Fuel oil swaps	0.3	4.1
	1.3	**9.6**
Fair value through the hedging reserve		
Foreign exchange forward contracts	1.0	1.2
Fuel oil swaps	-	1.9
	1.0	**3.1**
Loans and borrowings		
Bank loans (note 16)	475.2	547.7
Finance leases and hire purchase obligations	2.9	2.2
Bank overdrafts	9.4	17.9
	487.5	**567.8**
Total financial liabilities	**489.8**	**580.5**
Current	12.5	27.8
Non-current	477.3	552.7
	489.8	**580.5**

Notes to the consolidated financial statements (continued)

12 Financial assets and financial liabilities (continued)

c) Fair value hierarchy

	As at 31 January 2017				As at 31 January 2016			
	Level 1 £'m	Level 2 £'m	Level 3 £'m	**Total £'m**	Level 1 £'m	Level 2 £'m	Level 3 £'m	**Total £'m**
Financial assets measured at fair value								
Foreign exchange forwards	-	51.0	-	**51.0**	-	20.0	-	**20.0**
Fuel oil swaps	-	2.5	-	**2.5**	-	-	-	**-**
Loan funds	-	6.5	-	**6.5**	-	19.3	-	**19.3**
Hedge funds	-	22.7	-	**22.7**	-	26.7	-	**26.7**
Debt securities	79.5	-	-	**79.5**	85.2	-	-	**85.2**
Money market funds	-	122.1	-	**122.1**	-	75.9	-	**75.9**
Unlisted equity shares	-	-	1.3	**1.3**	-	-	0.2	**0.2**
Loan notes	-	-	5.2	**5.2**	-	-	3.8	**3.8**
Financial liabilities measured at fair value								
Foreign exchange forwards	-	2.0	-	**2.0**	-	6.7	-	**6.7**
Fuel oil swaps	-	0.3	-	**0.3**	-	6.0	-	**6.0**
Assets for which fair values are disclosed								
Deposits with institutions	-	309.5	-	**309.5**	-	413.6	-	**413.6**
Liabilities for which fair values are disclosed								
Bank loans	-	475.2	-	**475.2**	-	547.7	-	**547.7**
Finance leases and hire purchase obligations	-	2.9	-	**2.9**	-	2.2	-	**2.2**
Bank overdrafts	-	9.4	-	**9.4**	-	17.9	-	**17.9**

d) Other information

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.

There have been no transfers between Level 1 and Level 2 in the hierarchy and no non-recurring fair value measurements of assets and liabilities.

The Group operates a programme of economic hedging against its foreign currency and fuel oil exposures. During the year, the Group designated 322 foreign exchange forward currency contracts as hedges of highly probable foreign currency cash expenses in future periods, and designated 77 fuel oil swaps as hedges of highly probable fuel oil purchases in future periods. As at 31 January 2017, the Group has designated 404 forward currency contracts and 103 fuel oil swaps as hedges.

During the year, the Group recognised net gains of £11.1m (2016: £6.3m gains) on cash flow hedging instruments through other comprehensive income into the hedging reserve. Additionally, the Group recognised net gains of £34.2m (2016: £10.3m gains) through other comprehensive income into the hedging reserve, in relation to the specific hedging instrument for the acquisition of a new ship (note 16). The overall net gains of £45.3m are offset by a net £1.9m loss on forecast transactions recognised in the financial statements. The Group recognised a £0.8 loss (2016: £0.3m loss) though the income statement in respect of the ineffective portion of hedges measured during the year.

There has been no de-designation of hedges during the year ended 31 January 2017 as a result of cash flows forecast that are no longer expected to occur, or as a result of failed ineffectiveness testing. During the year, the Group recognised a £11.4m gain through the income statement in respect of matured hedges, which has been recycled from other comprehensive income. No amounts have been removed from the hedging reserve to be included in the carrying value of non-financial assets and liabilities.

Notes to the consolidated financial statements (continued)

13 Cash and cash equivalents

	2017	2016
	£'m	£'m
Cash at bank and in hand	55.5	36.9
Short-term deposits	53.2	69.6
Cash and short-term deposits	**108.7**	**106.5**
Money markets funds	122.1	75.9
Bank overdraft	(9.3)	(18.0)
Cash and cash equivalents in the cash flow statement	**221.5**	**164.4**

Included within cash and cash equivalents are amounts held by the Group's travel and insurance businesses which are subject to contractual or regulatory restrictions. These amounts held are not readily available to be used for other purposes within the Group and total £206.4m (2016: £156.6m).

14 Retirement benefit schemes

The Group operates retirement benefit schemes for the employees of the Group consisting of defined contribution plans and defined benefit plans.

a. Defined contribution plans

There are a number of defined contribution schemes in the Group. The total charge for the year in respect of the defined contribution schemes was £0.8m (2016: £1.3m). The assets of these schemes are held separately from those of the Group in funds under the control of Trustees.

b. Defined benefit plans

The Group operates a funded defined benefit scheme, the Saga Pension Scheme ("Saga scheme"), which is open to new members who accrue benefits on a career average salary basis. The assets of the scheme are held separately from those of the Group in independently administered funds.

During the prior year, the Group operated two other funded defined benefit schemes, the Nestor Healthcare Group Retirement Benefits Scheme and the Healthcall Group Limited Pension Scheme ('Nestor schemes'), which provided benefits based on final salary and was closed to new members. Both of these schemes were part of the liabilities held for sale and were disposed of when the Group completed the sale of the local authority section of the healthcare business, Allied Healthcare, on 30 November 2015.

The fair value of the assets and present value of the obligations of the Saga defined benefit scheme are as follows:

	2017	2016
	£'m	£'m
Fair value of scheme assets	276.8	218.6
Present value of defined benefit obligation	(290.5)	(237.4)
Defined benefit scheme obligation	**(13.7)**	**(18.8)**

The present values of the defined benefit obligation, the related current service cost and any past service costs have been measured using the projected unit credit method.

During the year ended 31 January 2017, the net liability of the Saga scheme has improved by £5.1m to a total liability of £13.7m.

15 Insurance contract liabilities and reinsurance assets

The analysis of gross and net insurance liabilities is as follows:

	2017	2016
Gross	**£'m**	£'m
Claims outstanding	517.0	561.6
Provision for unearned premiums	125.3	141.7
Total gross liabilities	**642.3**	**703.3**

	2017	2016
Recoverable from reinsurers	**£'m**	£'m
Claims outstanding	93.8	101.6
Provision for unearned premiums	3.7	4.8
Total reinsurers' share of insurance liabilities (as presented on the face of the statement of financial position)	**97.5**	**106.4**
Amounts recoverable under funds withheld quota share agreements recognised within trade payables:		
- Claims outstanding	55.5	-
- Provision for unearned premiums	66.1	-
Total reinsurers' share of insurance liabilities after funds withheld quota share	**219.1**	**106.4**
Analysed as:		
Claims outstanding	149.3	101.6
Provision for unearned premiums	69.8	4.8
Total reinsurers' share of insurance liabilities after funds withheld quota share	**219.1**	**106.4**

	2017	2016
Net	**£'m**	£'m
Claims outstanding	423.2	460.0
Provision for unearned premiums	121.6	136.9
Total net insurance liabilities	**544.8**	**596.9**
Amounts recoverable under funds withheld quota share agreements recognised within trade payables:		
- Claims outstanding	(55.5)	(-)
- Provision for unearned premiums	(66.1)	(-)
Total net insurance liabilities after funds withheld quota share	**423.2**	**596.9**
Analysed as:		
Claims outstanding	367.7	460.0
Provision for unearned premiums	55.5	136.9
Total net insurance liabilities after funds withheld quota share	**423.2**	**596.9**

15 Insurance contract liabilities and reinsurance assets (continued)

Reconciliation of movements in claims outstanding

	2017	2016
	£'m	£'m
Gross claims outstanding at 1 February	561.6	552.4
Less: reinsurance claims outstanding	(101.6)	(60.2)
Net claims outstanding at 1 February	460.0	492.2
Gross claims incurred	149.4	219.3
Less: reinsurance recoveries	(103.8)	(44.4)
Net claims incurred (note 3b)	45.6	174.9
Gross claims paid	(194.0)	(210.1)
Less: received from reinsurance	56.1	3.0
Net claims paid	(137.9)	(207.1)
Gross claims outstanding at 31 January	517.0	561.6
Less: reinsurance claims outstanding	(149.3)	(101.6)
Net claims outstanding at 31 January	**367.7**	**460.0**

The development of the loss ratios on an accident year basis over the last eight years is as follows:

		Financial Year ended 31 January							
		2010	2011	2012	2013	2014	2015	2016	2017
Accident Year	2010	73%	73%	72%	70%	68%	67%	66%	64%
	2011		78%	78%	76%	75%	71%	69%	67%
	2012			76%	70%	62%	62%	57%	54%
	2013				75%	72%	66%	62%	58%
	2014					75%	71%	65%	62%
	2015						67%	69%	66%
	2016							70%	71%
	2017								55%

Favourable claims development over the year has resulted in a £59.9m (2016: £68.0m) reduction in net claims incurred in respect of prior years.

Notes to the consolidated financial statements (continued)

16 Loans and borrowings

	2017 **£'m**	2016 £'m
Bank loans	380.0	480.0
Revolving credit facility	100.0	75.0
Accrued interest payable	0.1	0.6
	480.1	555.6
Less: deferred issue costs	(4.9)	(7.9)
	475.2	**547.7**

During the year, the Group repaid £100.0m (2016: £220.0m) of its Senior Facilities Agreement, and at 31 January 2017 had drawn £100.0m (2016: £75.0m) of its £150.0m revolving credit facility. The Group incurs commitment fees on undrawn facilities and interest at a rate of LIBOR plus 2.25% on drawn facilities.

The debt matures in April 2019, and interest is incurred at a variable rate of LIBOR plus 2.25%. The Group is required to comply with a leverage covenant on a quarterly basis and had significant headroom against this covenant at 31 January 2017.

During the year, the Group charged £17.6m (2016: £21.8m) to the income statement in respect of fees and interest associated with the Senior Facilities Agreement. In addition, interest charged to the income statement includes £1.0m (2016: £3.4m) relating to interest on finance lease liabilities, net finance expense on pension schemes and other interest costs.

On 21 December 2015, the Group entered into a 12 year fixed rate Sterling loan, backed by an export credit guarantee, in connection with the purchase of a new cruise ship (see note 11). Stage payments will be made during the construction period and this loan will finance the final payment on delivery. The loan value of approximately £245m will be repaid in 24 broadly equal instalments, with the first payment 6 months after delivery. The effective interest rate on the loan (including arrangement and commitment fees) is 4.29%.

On the date the finance was entered into, the Group purchased Euro currency forwards totalling £273.2m to lock the cost of the ship. These have been designated as cash flow hedges and remain outstanding as at 31 January 2017 (note 12d).

The Group has an option to purchase a second ship for the same price within the contract; the option must be exercised by 21 December 2017. The Group may be released from this option at any time although should the option to purchase not be exercised, a fee would become payable. The likelihood of incurring such a fee is considered extremely remote.

17 Share-based payments

The Group has granted a number of different equity-based awards which it has determined to be share-based payments. New awards granted during the year were as follows:

a) On 16 May 2016, options over 3,749,786 shares were issued under the Long-Term Incentive Plan to certain Directors and other senior employees which vest and become exercisable on the third anniversary of the grant date and are 50% linked to EPS performance and 50% linked to TSR performance.

b) On 27 May 2016, options over 334,522 shares were issued under the Deferred Bonus Plan ("DBP") to the Executive Directors reflecting their deferred bonus in respect of 2015/16, which vest and become exercisable on the third anniversary of the grant date.

c) On 29 May 2016, 474,508 shares were awarded to eligible staff on the 2nd anniversary of the IPO and allocated at £nil cost; these shares become beneficially owned over a three year period from allocation subject to continuing service.

d) On 1 October 2016, options over 83,488 shares were issued under the Long-Term Incentive Plan to certain Directors and other senior employees which vest and become exercisable on the third anniversary of the grant date and are 50% linked to EPS performance and 50% linked to TSR performance.

The fair values of all awards are assessed using techniques based upon the "Black-Scholes" pricing model. The Group charged £4.7m during the year (2016: £2.8m) to the income statement in respect of equity-settled share-based payment transactions. Of this, £0.5m (2016: £0.3m) is included within non-trading items (note 4).

Notes to the consolidated financial statements (continued)

18 Discontinued operations and assets held for sale

On 30 November 2015, the Group completed the sale of the local authority section of the Healthcare business, Allied Healthcare.

The impact of the discontinued operation on the profit for the prior year was as follows:

	2016 £'m
Loss after tax, before amortisation of acquired intangibles	(7.9)
Gain on disposal of discontinued operations	1.0
	(6.9)

The impact of the discontinued operation on the reported earnings per share was as follows:

	2016
Basic and diluted earnings per share from discontinued operations	(0.6p)

The gain on disposal of Allied Healthcare was as follows:

	£'m
Cash consideration received	10.1
Fair value of other consideration receivable	3.8
Pension scheme contribution	(9.2)
Net assets disposed	(3.1)
Costs of disposal not previously provided for	(0.6)
	1.0

18 Discontinued operations and assets held for sale (continued)

The results of Allied Healthcare for the prior period were as follows:

	2016 £'m
Revenue	206.2
Cost of sales	(149.2)
Gross profit	**57.0**
Administrative and selling expenses	(58.4)
Non-trading items	(6.4)
Net finance expense on retirement benefit schemes	(0.4)
Loss before tax	**(8.2)**
Tax expense	0.3
Loss for the period from discontinued operations	**(7.9)**
Attributable to:	
Equity holders of the parent	(8.2)
Non-controlling interest	0.3
	(7.9)

The net cash flows of Allied Healthcare during the period to disposal are as follows:

	2016 £'m
Operating	(12.2)
Investing	0.1
Financing	8.4
Net cash outflow	**(3.7)**

19 Related party transactions

During the year ended 31 January 2016, the Saga Group agreed terms for the utilisation under the group relief rules of corporation tax losses from Acromas SPC Co Limited and Acromas Mid Co Limited, indirect investees in the Group, at a cost of 50% of the tax affected face value. Amounts payable by the Group in respect of the surrender of these tax losses of £7.6m were unpaid at 31 January 2016 (see note 5) and settled in February 2016.

G Williams, an independent Non-Executive Director of Saga plc, serves on the board of WNS (Holdings) Limited, the parent company of WNS Global Services (UK Limited) and WNS Assistance Limited, both of which Acromas Insurance Company Limited and PEC Services Limited, subsidiaries of Saga plc, traded with during the year. These subsidiaries of WNS (Holdings) Limited provided claim handling management services to Acromas Insurance Company Limited and PEC Services Limited, and during the year ended 31 January 2017 earned total fees of £3.6m (2016: £3.5m); further payments to these subsidiaries of WNS (Holdings) Limited in respect of repair costs on claims handled totalled £37.2m (2016: £40.2m). As at 31 January 2017, amounts owing to these subsidiaries of WNS (Holdings) Limited for fees and repair costs totalled £2.2m (2016: £1.5m).