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keep doing

Preliminary Results

for the year ended
31 January 2018

12 April 2018

Saga plc

Preliminary Results for the full year ended 31 January 2018

Increase in underlying profit and dividend; with early signs of progress on long term growth initiatives

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 2018.

Financial highlights

	31 January 2018	31 January 2017	Change
Profit before tax from continuing operations	£178.7m	£193.3m	(7.6)%
Underlying Profit Before Tax[1]	£190.1m	£187.4m	1.4%
Basic earnings per share from continuing operations	13.0p	14.1p	(7.8)%
Underlying Earnings Per Share[1]	13.8p	13.7p	0.7%
Proposed full year dividend	9.0p	8.5p	5.9%
Available operating cash flow[1]	£175.5m	£217.6m	(19.3)%
Net debt[2]	£432.0m	£464.9m	7.1%
Debt ratio (net debt to Trading EBITDA)	1.7x	1.9x	0.2x

- Growth in Underlying Profit Before Tax of 1.4%
- Robust performance in our Retail Broking insurance business despite challenging trading conditions; and growth in Travel
- Reduction in profit before tax to £178.7m reflects costs associated with the successful refinancing, cost savings and net fair value losses on derivatives
- Continued strong cash generation which has supported deleveraging to 1.7x
- Full year dividend increased to the level of 9.0p, reflecting our confidence in the future cash generation of the business

Operational and divisional highlights

- Written profit growth in Retail Broking of 4.3%, including a 37.3% increase in motor partially offset by an 8.8% fall in home
- Earned Retail Broking profit was 5.7% lower, reflecting lower written to earned benefit
- Strong profit growth of 36.9% in the Travel business
- Positive performance in Underwriting: profit before tax of £79.2m, driven by excellent claims management and the ongoing positive experience in small and large personal injury claims
- £10m of cost savings delivered to fund targeted investment in customer growth
- Construction has commenced on our new cruise ship, 'Spirit of Discovery' and delivery of our second new cruise ship, 'Spirit of Adventure', has been brought forward to August 2020
- Strong demand for 'Spirit of Discovery' continues; we have achieved over 50% of our sales target for the first 9 months from June 2019, at attractive yields
- Investment in future growth across the Group including the ongoing renewal of our IT capabilities, demonstrated by the successful launch of our new broking platform, Guidewire

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

"In a challenging market we have delivered a set of full year results which is in line with the rebased profit expectations set at the end of 2017. We have also continued to develop our strategy for long term growth. We have achieved a modest increase in underlying profits and have remained highly cash generative. We have increased the dividend given our confidence in the stability of our highly cash generating model.

[1] Alternative performance measure – refer to the glossary on pages 50-51 for definition and explanation
[2] Bank debt and borrowings, excluding any overdrafts held by restricted trading subsidiaries, net of available cash

Our membership scheme, Possibilities, now has over half a million members and I am confident that the Group has a significant opportunity to attract, retain and grow a core customer base that has a high affinity with the brand.

In December we outlined our plans to further invest in growing our customer base and, having seen some initial momentum in new business, the early signs are promising. While this investment will contribute to a small decrease in profitability compared to last year, I am confident that we have put in place the right investment to drive the Saga business forward."

END

A preliminary results 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: 020 3936 2999, all other locations: +44 20 3936 2999. Participant Password: 547534.

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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 would like to thank our shareholders, both institutional and retail, for their ongoing support and forbearance this year and to welcome those who have joined us.

At the end of 2017 we took steps to rebase our profit expectations, implement £10m of annualised savings from across the Group at a one off cost of £5m, and increase our targeted spend by £10m a year to grow customer numbers. This had a significant impact on our share price and Lance and Jonathan have been working to rebuild the market's confidence in Saga.

Due to the challenging markets in which our core businesses of retail insurance and travel operate, we delivered growth in Underlying Profit Before Tax[3] of 1.4% to £190.1m and in Underlying Earnings Per Share[3] of 0.7% to 13.8p. Profit before tax and earnings per share from continuing operations declined by 7.6% and 7.8%, respectively due to costs associated with our refinancing, the £10m annualised savings, and fair value movements on derivatives.

We have continued to be highly cash generative, resulting in a further deleveraging and enabling us to reduce our net debt to Trading EBITDA ratio to 1.7 times.

We have delivered on our dividend policy again this year, increasing our dividend to 9.0p. The decision to increase the dividend to this level reflects the Board's ongoing confidence in the stability of our highly cash generative model.

Our customers and their changing needs remain central to everything we do at Saga and we have built strong platforms and systems in 2017 that will help us interact differently and more efficiently with our 500,000 plus members going forward.

After 26 years with Saga, 14 of which as Chairman, I will retire from the Board on 30 April 2018. I welcome Patrick O'Sullivan as my successor and wish him success as he takes over the stewardship of this great British company.

I am hugely proud of Saga. Our employees have incredibly high standards and a passion for delivery and customer service that I have not seen elsewhere. I would like to thank them all - past and present - for everything they have done to make my time at Saga so enjoyable and to make Saga the great business it is. I wish Lance, the Board and the management team every success in the next stage of its evolution.

[3] Alternative performance measure – refer to the glossary on pages 50-51 for definition and explanation

Group CEO's statement

Overview

This is Saga's fourth set of results as a public company. It has been a challenging few months during which the share price has been under real pressure. This is in contrast to the four years since IPO, in which we have achieved a great deal.

We came to market with a target to grow profits every year and reduce the £700m of inherited bank debt. We set out a strategy that replaced riskier and more capital-intensive underwriting earnings with earnings from broking and travel. As part of this we needed to grow profits in the broking business, especially via the motor panel; grow profits in the travel business; and deliver growth in emerging businesses.

We have made good progress in achieving these objectives while also upgrading most of our IT platforms. However, while we have achieved excellent growth in earnings in our travel business, we have not delivered the expected profit uplift in broking.

In recent years, we achieved profit growth from a static customer base. In December 2017 we announced our decision to increase our targeted spend by £10m a year to allow us to focus on growing our customer numbers. While it will have an impact on profitability in 2018/19, I am confident that this investment will lead to a larger customer base and a return to sustainable profit growth.

In addition to the targeted investment and enhancements to our platform, our new membership scheme, Possibilities, increases our ability to attract, target and retain people who are likely to develop a high affinity with our brand. It will also help the broader business, and particularly the Retail Broking business, to grow customer numbers.

Early signs show these initiatives are working: in the first two months of the year there has been a 14% increase in the volume of new business in Retail Broking.

A membership scheme to reward our loyal customers

The launch of our new membership scheme, Possibilities, in September was a significant achievement for the Group. Eighty percent of customers who have been invited to join the scheme have signed up and we now have over half a million active members.

After a successful launch, the Group is now ready to drive a fundamental change in how we interact with our customers which will reward loyalty and encourage the take up of multiple Saga products.

Increased product holdings by HACs

The number of products held by High Affinity Customers ("HACs") has increased to 1,143k (1,129k in 2017) due to a combination of a slightly lower number of HACs (471k versus 483k in 2017) offset by a higher number of average products of 2.4 (versus 2.3 in 2017). Our new product propositions and marketing activity have also driven a 5.5% increase in revenue per HAC.

Spirit of Discovery and Spirit of Adventure

We are now just over a year away from the delivery of Spirit of Discovery. We have achieved over 50% of our sales target for the first 19 cruises, at per diems that continue to be in line with our expectations.

The highlight of the year for me was the decision to invest further in our shipping capacity. Our second new ship, the Spirit of Adventure, will be delivered in August 2020. Having two new efficient ships will significantly change the profit trajectory of our Travel business.

Systems improvements

We continue to renew and refresh our systems to enhance our customers' experience and to provide efficient operating platforms across the Group. Important achievements which position us well for the next phase of our development include:

- our new claims platform was launched in the first half of the year. It is delivering an enhanced customer experience at a reduced cost;
- work throughout the year culminated in the launch of our broking platform, Guidewire, in April 2018; and
- we started work on a new reservation system for our tour operating business which will be used for reservations from FY 2020.

Summary and outlook

I am a passionate believer in the uniqueness of the Saga model. The fundamentals have not changed: we are focused on an attractive and growing demographic which has strong loyalty to the Saga brand and we continue to evolve our products and services to ensure that they remain relevant to our customers.

A comprehensive overhaul of our systems, a clear focus on the development of our offering, and progress in developing our retail broking model, give us a strong foundation from which to increase customer engagement and retention. We are also beginning to see the benefits of our targeted investment in retail broking and travel. These early signs, together with the arrival of our new ships in 2019 and 2020, give me confidence in our ability to return the business to sustainable profit growth.

Divisional review

Insurance Retail Broking

Our Retail Broking business provides tailored products and services that are underwritten by our panels of underwriters or via a solus arrangement.

Our in-house insurer AICL sits on our motor and home panels and competes for that business with other panel members on equal terms.

Our travel insurance and private medical insurance are underwritten through solus arrangements with third party insurers.

When underwritten by a third party, the product is manufactured as a Saga product and we manage the customer relationship.

Motor broking

Our motor broking business performed strongly during the year, delivering a 37.3% increase in written PBT to £39.0m (2017: £28.4m). This was despite a fall in persistency to 65.4% (2017: 69.2%) as a result of the introduction of new FCA renewal wording, an increase in IPT and a more competitive trading environment in the last quarter of 2017. During this period we have focused on value over volume which has resulted in written profit per core policy increasing by 46.2% to £30.4 (2017: £20.8) and a 3.4% reduction in our Saga branded policies sold.

Profit before tax decreased by £2.8m to £42.4m (2017: £45.2m) as a result of a lower written to earned adjustment. We continue to benefit from our transition to a capital light broker model driving a positive written to earned adjustment of £3.4m (2017: £16.8m). This resulted from the expansion of the panel and the outsourcing of the underwriting for add-ons.

Home broking

The UK home insurance market has remained competitive throughout the year. We have continued to experience the same flat premium environment as the wider market. In response, we chose to maintain the quality of our home business. Where we believe prices in the market are unprofitable we are prepared to lose business and this has resulted in a reduction in the number of core policies sold. Core policies reduced to 1,186k (2017: 1,254k) and profit per policy declined by 3.5% to £44.7. Profit before tax was £56.6m (2017: £61.2m).

The efficiency of our panel continues to enable us to access a competitive cost of underwriting, and this is key to maintaining our margins in a challenging environment.

Other broking

Our other insurance broking business is primarily comprised of private medical insurance (“PMI”) and travel insurance. These products have been designed our customers and play an important role in deepening our relationship with them.

Our PMI business performed strongly, both in terms of new policies and renewals.

Demand for travel insurance was weaker in the first quarter due to higher net rates from our underwriting partner. These stemmed from unfavourable foreign exchange movements in Q1 2017, which have now normalised.

Profit before tax was broadly in line with the prior year at £31.2m (2017: £31.6m).

Gary Duggan joined Saga in September as part of our succession planning for the Retail Broking business, and became CEO of Saga Services in January. Gary brings a wealth of experience in running and growing broking businesses at GE, Barclays and most recently as Managing Director of BGL's General Insurance partnerships business. He is focused on driving growth in the broking business by:

- Continuing to drive the efficiency and footprint of our panels;
- Focusing on increasing customer acquisition and retention; and
- Maintaining our efficient operating model.

Current trading in Retail Broking

The decision to invest in targeted marketing spend to return our customer base to growth is working well and motor and home new business volumes increased in the year to date by 17.7% and 9.2% respectively.

In the motor broking market, the strong price inflation we saw in 2017 has eased due to the expectation that the Ogden discount rate review and the implementation of proposed whiplash reforms put a downward pressure on retail pricing.

Our third party panel members currently underwrite 24.4% of net premiums. Since the panel was established two and a half years ago, we have seen a steady progression in panel share, apart from in H1 2017, when the cautious approach to pricing by external underwriters meant that AICL's share temporarily increased. The growth recovered in H2 2017 and we expect this to continue as we progress through the year.

Trading conditions continue to be challenging within the home insurance market but we have seen some signs of premium inflation, reflecting the backdrop of claims inflation. While we expect another tough year in this market, our targeted marketing spend and a focus on increasing home and motor cross product holdings by our high affinity and potential high affinity customers are expected to provide some opportunities for policy count growth.

Other insurance has been resilient. PMI continues to benefit from the ongoing concerns about NHS funding and travel insurance remains stable.

Insurance underwriting

Our in-house underwriter AICL retains its competitive advantage and has a high panel share of older, lower risk drivers. Its focus on these drivers, along with its ongoing efficient management of small and large personal injury claims, has led to a strong underwriting result. Profit before tax was £79.2m (2017: £77.1m).

AICL targets a 3% return on net premiums and a strong return on equity, which it has consistently delivered over many years. Claims inflation continues to be in the mid-single percentages reflecting a higher average claims cost, partially offset by a lower frequency of claims. The average claims cost has been driven by the depreciation of sterling and an increase in theft costs. Our excellent claims management and our claims experience continues to be very positive for small and large personal injury claims. This has enabled us to maintain reserve releases at roughly the same level year-on-year. However, we continue to expect a circa £10-15m decline in reserve releases in the coming year.

We have a 75% quota share arrangement with NewRe which expires on 31 January 2019. The new arrangement with both NewRe and HannoverRe will provide three years' cover on a rolling basis. It will cover 80% of the downside risk of all motor policies written from February 2019 up to 120% loss ratio cap.

This agreement is a testament to the stability and high quality of our underwriting business.

Travel

Our award winning travel business is at the heart of the Saga brand. During the year, we took more than 208,000 passengers all over the world on package holidays, escorted tours and cruises.

The travel business achieved growth in both revenue and Underlying PBT[4] of 3.9% and 36.9%, respectively, and remains on track to grow PBT by four to five times over the five years from January 2017. Profit before tax was £18.1m, reflecting the net fair value loss on derivatives.

Tour operating

The tour operating businesses delivered another year of earnings growth: Underlying PBT[4] increased 20.0% to £13.8m (FY 2017: £11.5m). We continue to see a shift in the mix of sales towards higher value, long-haul, river cruise and third-party cruise products. The trend to higher value products has been offset by a slight decline in passengers during the year, primarily due to flight cancellations following the collapse of Monarch Airlines.

Our tour operating business is comprised of four product segments: Go for it; Discover; Unwind; and Stay & Explore. We remain focused on leveraging our deep customer insight in the development of highly differentiated holidays and guided tours tailored to meet the needs of our travel customers.

Cruising

Saga Cruising is an integral component of our brand and delivers the most differentiated customer experience of all our products.

Underlying Profit before Tax[4] for our two cruise ships, Saga Sapphire and Saga Pearl II, increased by £3.2m to £6.6m (2017: £3.4m). This was driven by favourable fuel hedges and a 7% increase in passenger days as both ships required fewer maintenance days: a 19 day dry dock of the Pearl in April 2017 and a 20 day dry dock of Sapphire in November 2017, compared to a 63 day wet dock for Sapphire in the prior year.

Current trading

Our travel business has excellent visibility of bookings in the year ahead due to our customers' preference to book holidays in advance. In both tour operating and cruising, we have already secured the majority of our FY 2019 sales targets.

Overall profitability for the travel business is expected to step forward again year on year. Growth in forward travel reservations combined with our cost reductions will be partially offset by incremental marketing.

The incremental marketing investment in tour operations has led to an increase in revenue in the year to date of 0.7%.

There are no scheduled days in dock for our shipping fleet this year, increasing the number of days at sea. This benefit will be partially offset by a year on year increase in fuel costs because we will not benefit from the excellent forward acquired fuel rates we enjoyed in FY 2018.

Booked revenue has increased by £23.6m year on year for 2019/20 departures. This is due to the Spirit of Discovery having achieved over 50% of our sales target for her first 19 cruises at attractive per diem rates.

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[4] Alternative performance measure – refer to the glossary on pages 50-51 for definition and explanation

Trading to week ended 31 March 2018

	2018/19 departures			2019/20 departures		
	2018/19	**Growth**	**2017/18**	**2018/19**	**Growth**	**2017/18**
Tour operating revenue £m	285.0	0.2%	284.3	18.1	9.0%	16.6
Tour operating passengers	139.5	(5.7%)	147.9	6.3	12.5%	5.6
Cruise revenue £m	78.9	2.6%	76.9	42.6	124.2%	19.0
Cruise passengers	23.3	4.0%	22.4	11.4	153.3%	4.5

Emerging businesses

Our emerging businesses include our personal finance, healthcare, retirement villages and media operations. These businesses provide long-term growth opportunities to the Group. Profit before tax was £0.7m (2017: £0.8m) from the cluster of businesses.

Saga Money is made up of a variety of products, including credit cards, equity release, savings, loans and wealth management. We believe that a money proposition is an important part of our offering and we continue to explore ways to bring innovative products to our customers.

During the year we have restructured our joint venture with our partner, Tilney, to a lower cost commercial model.

Saga operates a number of brands within the homecare sector. We continue to strengthen our domiciliary care pilot in Hertfordshire to ensure we have a scalable and repeatable model before we roll it out to other areas.

Chief Financial Officer's Review

I am pleased to report that the Group has delivered a robust financial performance. Underlying Profit Before Tax is 1.4% higher at £190.1m. Strong cash flows and conversion have enabled us to continue to deleverage to 1.7x from 1.9x at the start of the year. Net debt has reduced from £464.9m to £432.0m. Based on these results and the stability of our highly cash generative model, we propose to increase our final dividend to 6.0p, leading to growth in the full year dividend of 5.9% to 9.0p per share. Profit before tax from continuing operations has decreased by 7.6% to £178.7m (2017: £193.3m).

Income Statement

Group Income Statement	**12m to Jan 2018**	***Growth***	**12m to Jan 2017**
Revenue	**£860.1m**	***(1.3%)***	**£871.3m**
Trading EBITDA [1]	£250.1m	*1.2%*	£247.1m
Depreciation & amortisation (excluding acquired intangibles)	(£33.9m)		(£33.1m)
Trading Profit [1]	**£216.2m**	***1.0%***	**£214.0m**
Non-trading costs (note 4b)	(£3.4m)		(£1.9m)
Amortisation of acquired intangibles	(£4.7m)		(£6.5m)
Pension charge IAS19R [2]	(£5.5m)		(£1.5m)
Net finance costs [3]	(£12.5m)		(£16.7m)
Underlying Profit Before Tax[1]	**£190.1m**	***1.4%***	**£187.4m**
Net fair value gains / (losses) on derivatives	(£2.3m)		£9.9m
Debt issue costs	(£4.3m)		-
Restructuring costs	(£4.8m)		-
Ogden rate change impact	-		(£4.0m)
Profit before tax from continuing operations	**£178.7m**	***(7.6%)***	**£193.3m**
Tax expense	(£33.6m)	*(6.7%)*	(£36.0m)
Loss after tax for the year from discontinued operations	(£7.6m)		-
Profit after tax	**£137.5m**	***(12.6%)***	**£157.3m**
Basic earnings per share:			
Underlying earnings per share from continuing operations [1]	13.8p	*0.7%*	13.7p
Earnings per share from continuing operations	13.0p	*(7.8%)*	14.1p
Earnings per share	12.3p	*(12.8%)*	14.1p

[1] Alternative performance measure – refer to the glossary on pages 50-51 for definition and explanation

[2] Pension charge IAS19R includes the additional non-cash pension current service cost in excess of employer contributions made in the year and the non-cash pension interest cost that are both required under IAS19R

[3] Net finance costs excludes net fair value gains / (losses) on derivatives and has been restated to exclude IAS19R pension interest cost

Revenue decreased by 1.3% to £860.1m (2017: £871.3m). Saga's total customer spend [1] increased by 2.3% to £1,209m (2017: £1,182m). This includes gross written premiums and insurance premium tax on all insurance policies sold.

Trading Profit grew by 1.0% to £216.2m (2017: £214.0m). A strong performance in Travel was offset by a decline in the written to earned benefit in Retail Broking. Depreciation and amortisation increased by £0.8m due to the planned investment in software within our insurance business and the maintenance of the Saga Sapphire in the prior year.

Underlying Profit Before Tax increased by 1.4% to £190.1m (2017: £187.4m). The benefit of lower net finance costs and amortisation of acquired intangibles was offset by an increase in the pension charge under IAS19R and higher non-trading costs. The increase in pension charge was due to the effect of low corporate bond yields as at 1 February 2017 driving down the discount rate used in the accounting valuation of the pension current service cost for the year.

Profit before tax from continuing operations was £178.7m for the year. This is a decrease of 7.6% due to the derivative losses that impacted the business following the weakening of sterling, the one-off costs associated with the unamortised facility fees of our previous banking facilities and the one-off restructuring costs incurred as a result of a review of the Group's cost base. This was partially offset by a one-time £4.0m profit impact in the prior year 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

Net finance costs in the year were £12.5m (2017: £16.7m). This reduction has been achieved through the Group obtaining an overall lower average cost of debt following the refinancing of its debt earlier in the year along with lower average borrowings during the year. The cost of the external bank debt is now linked to the Group's leverage ratio and the continuing deleveraging has enabled the Group to be charged interest at the low end of the range.

Tax expense

The Group's tax expense for the year was £33.6m (2017: £36.0m) representing an effective tax rate of 18.8% (2017: 18.6%). The current year benefited from a lower corporation tax rate. The prior year benefited from a £2.7m one-off positive impact from the utilisation of tax losses brought forward from the Allied business that was disposed of on 1 December 2015. Going forward, the tax charge is likely to be more in line with the underlying corporation tax rate.

Discontinued operations

The loss after tax from discontinued operations is in relation to the sale of Allied Healthcare in the year ended 31 January 2016. The Group received deferred consideration in the form of two loan notes with face value of £3.5m each which attract uncompounded interest at a rate of 5% due to mature on 30 May 2018 and 30 May 2019. In the year to 31 January 2018, following an impairment review, management no longer consider the loan notes to be recoverable and as such have impaired the loan notes to £nil.

Earnings per share

The Group's underlying basic earnings per share from continuing operations were 13.8p (2017: 13.7p). The Group's basic earnings per share were 12.3p (2017: 14.1p), with basic earnings per share from continuing operations for the same period of 13.0p (2017: 14.1p).

Dividends

In determining the level of dividend in any year in accordance with the policy, the Board also considers a number of other factors that influence the proposed dividend. These include but are not limited to:

- the level of available distributable reserves
- future cash commitments and investment needs, including Saga's new ships
- availability of cash resources
- consideration of prevailing risks and uncertainties as documented on pages 24 to 29 of the Annual Report and Accounts.

Reflecting Saga's strong cash generation and confidence in the business, the Directors have proposed a final dividend of 6.0p per share. Combined with the interim dividend of 3.0p per share, this will deliver a total dividend for the financial year ended 31 January 2018 of 9.0p per share (2017: 8.5p). This equates to a payout ratio of 65% compared with the Group's underlying basic earnings per share from continuing operations.

Looking ahead the Board is committed to a long-term sustainable dividend policy. The increase in the dividend to this level reflects our ongoing confidence in the stability of our highly cash generative model.

Saga plc has £1,249.2m of distributable reserves at 31 January 2018 available for distribution to support the dividend policy. The distributable reserves of Saga plc are equal to the balance of the retained earnings reserve of £1,249.2m as at 31 January 2018. If necessary, its subsidiary companies hold significant reserves from which a dividend can be paid to support Saga plc's dividend policy. Subsidiary distributable reserves are available immediately with the exception of companies within the Travel and Underwriting segments, which require regulatory approval before any dividends can be declared and paid.

Saga offers a share alternative in the form of a dividend re-investment plan ("DRIP") for those shareholders who wish to elect to use their dividend payments to purchase additional Shares in the Group, rather than receiving a cash payment. The last date for shareholders to elect to participate in the DRIP will be 4 June 2018. The record date will be 18 May 2018 and the final dividend will be paid on 29 June 2018. Payment of the final dividend of 6.0p per share remains subject to shareholder approval at the Company's 2018 Annual General Meeting.

Cash flow and liquidity

Available operating cash flow is made up of the unrestricted cash flows of the retail broking and emerging businesses and central costs, plus any dividends paid by our restricted businesses, underwriting and travel.

The Group delivered a strong cash flow performance in the year to 31 January 2018, achieving an available operating cash flow of £175.5m, 70.2% of Trading EBITDA. This cash flow decreased by £42.1m on the previous period, which was primarily driven by a more normalised dividend paid from AICL, as the initial reduction in solvency capital from the introduction of the quota share in the prior year reduces. The reduction in the working capital outflow is due to the decrease in the written to earned adjustment.

Available Cash Flow	**12m to Jan 2018**	***Growth***	**12m to Jan 2017**
Trading EBITDA[1]	**£250.1m**	***1.2%***	**£247.1m**
Less Trading EBITDA relating to restricted businesses	(£117.4m)	*(6.8%)*	(£109.9m)
Intra-group dividends paid by restricted businesses	£70.0m	*(39.1%)*	£115.0m
Working capital and non-cash items [2]	(£0.9m)	*93.8%*	(£14.6m)
Capital expenditure funded with available cash	(£26.3m)	*(31.5%)*	(£20.0m)
Available operating cash flow[1]	**£175.5m**	***(19.3%)***	**£217.6m**
Available operating cash flow %	*70.2%*		*88.1%*

[1] Alternative performance measure – refer to the glossary on pages 50-51 for definition and explanation

[2] Restated to exclude IAS19R pension service costs

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

	12m to Jan 2018	12m to Jan 2017
Net cash flow from operating activities (reported)	£135.2m	£138.5m
Exclude cash impact of:		
Trading of restricted divisions	(£56.0m)	(£62.4m)
Non-trading costs	£8.7m	£5.9m
Interest paid	£11.1m	£15.6m
Tax paid	£32.8m	£25.0m
	(£3.4m)	(£15.9m)
Cash released from restricted divisions	£70.0m	£115.0m
Include capital expenditure funded from available cash	(£26.3m)	(£20.0m)
Available operating cash flow	**£175.5m**	**£217.6m**

Financing

In May 2017, the Group refinanced its bank facilities with the launch of a debut £250m seven year senior unsecured bond, a £200m five year term loan facility and a £100m five year revolving credit facility. The refinancing strengthened the Group's balance sheet by extending the maturity profile and increasing the diversity of its sources of borrowings. The overall level of indebtedness did not change.

Continued strong cash flows have enabled the Group to continue to deleverage to a debt ratio (net debt to Trading EBITDA) of 1.7 from 1.9. The Group’s net debt is made up as follows:

Net debt	31 Jan 2018	31 Jan 2017
Corporate bond	£250.0m	-
Term loan	£180.0m	£380.0m
Revolving credit facility	£15.0m	£100.0m
Less available cash [1]	(£13.0m)	(£15.1m)
Net debt	£432.0m	£464.9m

[1] Refer to note 13 of the financial statements for information as to how this reconciles to a statutory measure of cash

Pensions

Over the year, the valuation of the Group’s pension scheme has strengthened on an IAS19R basis by £6.7m to a deficit of £7.0m (January 2017: deficit £13.7m):

Saga Scheme	12m to Jan 2018	12m to Jan 2017
Fair value of scheme assets	£307.3m	£276.8m
Present value of defined benefit obligation	(£314.3m)	(£290.5m)
Defined benefit scheme liability	(£7.0m)	(£13.7m)

The strengthening has been driven by a £30.5m increase in the fair value of the scheme assets to £307.3m (January 2017: £276.8m). This was partially offset by an increase in the scheme liabilities of £23.8m to £314.3m (January 2017: £290.5m), driven by a fall in corporate bond yields over the period.

Net assets
Since 31 January 2017, total assets and liabilities have reduced by £55.0m and £83.3m respectively, increasing overall net assets by £28.3m.

The decrease in total assets is as a result of a decrease in financial assets of £85.8m, which coincides with the release of surplus solvency capital from the Group's underwriting business and a decrease in cash and short-term deposits of £25.5m. This was partly offset by an increase in intangible fixed assets of £7.4m due to increased investment in IT systems, and an increase in trade and other receivables of £11.3m. The latter was primarily due to an increase in prepayments, which includes significant commitment fees on the two new ships and an increase in property plant and equipment of £31.9m, which includes the second and third stage payments for the Spirit of Discovery of £13.2m and £13.9m respectively and the first stage payment for the Spirit of Adventure of £15.2m.

The reduction in total liabilities reflects a £20.6m reduction in financial liabilities following the repayment of debt during the year, enabled through continued positive cash generation and the release of surplus solvency capital. This was coupled with an associated £60.3m reduction in gross insurance contract liabilities in line with further positive claims experience throughout the year.

Segmental performance

	12m to Jan 2018	*Growth*	12m to Jan 2017
Revenue			
Motor broking (written)	£117.8m	*5.2%*	£112.0m
Home broking (written)	£81.4m	*(6.1%)*	£86.7m
Other broking (written)	£76.2m	*(5.2%)*	£80.4m
Total retail broking (written)	£275.4m	*(1.3%)*	£279.1m
Written to earned adjustment	£7.2m	*(61.3%)*	£18.6m
Total retail broking (earned)	£282.6m	*(5.1%)*	£297.7m
Underwriting	£98.8m	*(12.0%)*	£112.3m
	£381.4m	*(7.0%)*	£410.0m
Travel	£448.8m	*3.9%*	£432.0m
Emerging Businesses and Central Costs	£29.9m	*2.0%*	£29.3m
	£860.1m	***(1.3%)***	**£871.3m**
Underlying Profit Before Tax			
Motor broking (written)	£39.0m	*37.3%*	£28.4m
Home broking (written)	£53.0m	*(8.8%)*	£58.1m
Other broking (written)	£31.2m	*(1.3%)*	£31.6m
Total retail broking (written)	£123.2m	*4.3%*	£118.1m
Written to earned adjustment	£7.0m	*(64.8%)*	£19.9m
Total retail broking (earned)	£130.2m	*(5.7%)*	£138.0m
Underwriting	£79.2m	*2.7%*	£77.1m
	£209.4m	*(2.6%)*	£215.1m
Travel	£20.4m	*36.9%*	£14.9m
Emerging Businesses and Central Costs	(£39.7m)	*6.8%*	(£42.6m)
	£190.1m	***1.4%***	**£187.4m**
KPIs			
Total core policies			
- Saga branded	2,488k	*(6.4%)*	2,658k
- Non-Saga branded	293k	*(14.6%)*	343k
	2,781k	*(7.3%)*	3,001k
Passengers travelled			
- Tour operations	184k	*(3.2%)*	190k
- Cruise	24k	*14.3%*	21k
	208k	*(1.4%)*	211k
Pure COR (underlying excl. QS)[5]	97.7%	1.9ppt	99.6%

Total revenue for the retail broking businesses on a written basis decreased by 1.3% to £275.4m (2017: £279.1m). This was mainly due to ongoing challenges in the home market and a reduction in travel polices. Revenue from the written to earned ("WTE") adjustment has decreased by 61.3% to £7.2m (2017: £18.6m). This was mainly due to a reduction in the motor WTE adjustment. The WTE adjustment is required when the Group underwrites the portion of policies that it sells in its broker business to spread the broker revenue earned on those policies, and associated direct costs, over the period of cover.

Revenue for the underwriting business decreased by 12.0% to £98.8m (2017: £112.3m), due to the accounting for the quota share agreement in motor insurance, which required £126.6m (2017: £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 £2.1m cost (2017: £1.6m cost). Travel revenue increased by 3.9% to £448.8m, due to revenue growth in both the tour operations and cruise businesses.

[5] Please refer to page 19 for details of how this Alternative Performance Measure is calculated and defined.

Underlying Profit Before Tax in the retail broking insurance business on a written basis has increased by 4.3%, primarily due to higher average revenues per policy in motor. Underwriting profit increased by £2.1m, from an increase in investment return. Travel underlying profits increased by 36.9%, due to higher average revenues and less ship maintenance days during the year compared with last year. Emerging businesses and central costs saw a 6.8% decrease in its underlying loss before tax reflecting the reduction in finance costs and central cost base, partially offset by an increase in the IAS19R pension charge.

Motor broking

	12m to Jan 2018			*Growth*	12m to Jan 2017		
	Earned	**WTE**	**Written**		**Earned**	**WTE**	**Written**
GWP							
Broked	£102.1m	-	£102.1m	*4.3%*	£97.9m	-	£97.9m
Underwritten	£223.8m	-	£223.8m	*0.5%*	£222.6m	-	£222.6m
	£325.9m	-	£325.9m	*1.7%*	£320.5m	-	£320.5m
Broker revenue	£40.5m	(£1.8m)	£42.3m	*17.2%*	£39.4m	£3.3m	£36.1m
Instalment revenue	£7.1m	-	£7.1m	*51.1%*	£4.7m	-	£4.7m
Add-on revenue	£34.3m	£5.4m	£28.9m	*(11.3%)*	£38.3m	£5.7m	£32.6m
Other revenue	£39.5m	-	£39.5m	*2.3%*	£45.1m	£6.5m	£38.6m
Revenue	**£121.4m**	**£3.6m**	**£117.8m**	***5.2%***	**£127.5m**	**£15.5m**	**£112.0m**
Gross profit	**£118.9m**	**£3.6m**	**£115.3m**	***5.9%***	**£124.4m**	**£15.5m**	**£108.9m**
Marketing expenses	(£19.0m)	(£1.2m)	(£17.8m)	*15.6%*	(£20.7m)	£0.4m	(£21.1m)
Other operating expenses	(£57.5m)	£1.0m	(£58.5m)	*1.5%*	(£58.5m)	£0.9m	(£59.4m)
Underlying Profit Before Tax	**£42.4m**	**£3.4m**	**£39.0m**	***37.3%***	**£45.2m**	**£16.8m**	**£28.4m**
Number of policies sold							
- core			1,281k	*(6.2%)*			1,366k
- add-ons			1,572k	*(2.9%)*			1,619k
			2,853k	*(4.4%)*			2,985k
Core policies sold analysed by:							
- Saga branded			988k	*(3.4%)*			1,023k
- Non-Saga branded			293k	*(14.6%)*			343k
			1,281k	*(6.2%)*			1,366k
Core Saga branded third-party panel share (by policy count)			17.0%	*4.3ppt*			12.7%

Gross written premiums increased by 1.7%, with core policies lower by 6.2% offset by an increase in average gross written premiums of 7.9%.

Gross written premiums from business underwritten by third party underwriters increased by 4.3% to £102.1m (2017: £97.9m), as the number of policies underwritten by third parties increased by 4.3ppt to 17.0% (2017: 12.7%). Gross written premiums from business underwritten within the Group increased by 0.5% to £223.8m (2017: £222.6m) due to an increase in average premiums partially offset by a decrease in the number of policies sold. The discontinuation of the Direct Choice brand impacted both policies and gross written premiums. Saga branded policies reduced by 3.4%.

Written broker revenue has increased by 17.2% to £42.3m (2017: £36.1m) reflecting a positive trading environment that saw written revenue per policy increase strongly with premium inflation increasing ahead of the claims inflation during the year. When excluding the discontinued Direct Choice brand, broker revenue increased by 23.0% to £41.5m (2017: £33.7m).

Written instalment revenue has increased by £2.4m to £7.1m (2017: £4.7m) following the insourcing of the Bennetts debtor book during the prior year and an increase in the number of Saga customers paying by instalments coupled with higher premiums. Written add-on revenue has decreased by £3.7m to £28.9m (2017: £32.6m) due to the reduction in core policies and a decrease in add-on penetration.

Overall, this has led to written revenue increasing by 5.2% to £117.8m (2017: £112.0m).

Written marketing expenses have decreased by 15.6%, reflecting a reduction in aggregator volumes and improved efficiency of marketing spend. Written operating expenses have decreased by 1.5% as a result of programmes to deliver operational efficiencies across the broking business and savings associated with the closure of the Direct Choice brand. As a result, underlying written profit before tax has increased by 37.3% to £39.0m (2017: £28.4m).

The profit impact of the WTE adjustment has decreased by £13.4m to £3.4m (2017: £16.8m) with a £6.6m increase in the deferral of broker revenue on policies associated with AICL, driven by an increase in average premiums and £6.5m due to the introduction of the arrangement fee in November 2015 accelerating earnings in the prior year only.

Home broking

		12m to Jan 2018			*Growth*	12m to Jan 2017		
		Earned	**WTE**	**Written**		**Earned**	**WTE**	**Written**
GWP								
	Broked	£150.6m	-	£150.6m	*(3.3%)*	£155.7m	-	£155.7m
	Underwritten	-	-	-	*0.0%*	-	-	-
		£150.6m	-	£150.6m	*(3.3%)*	£155.7m	-	£155.7m
Broker revenue		£52.9m	-	£52.9m	*(6.9%)*	£56.8m	-	£56.8m
Instalment revenue		£2.8m	-	£2.8m	*(6.7%)*	£3.0m	-	£3.0m
Add-on revenue		£15.4m	£3.6m	£11.8m	*(14.5%)*	£16.9m	£3.1m	£13.8m
Other revenue		£13.9m	-	£13.9m	*6.1%*	£13.1m	-	£13.1m
Revenue		**£85.0m**	**£3.6m**	**£81.4m**	***(6.1%)***	**£89.8m**	**£3.1m**	**£86.7m**
Gross profit		**£85.0m**	**£3.6m**	**£81.4m**	***(6.1%)***	**£89.8m**	**£3.1m**	**£86.7m**
Marketing expenses		(£5.6m)	-	(£5.6m)	*3.4%*	(£5.8m)	-	(£5.8m)
Other operating expenses		(£22.8m)	-	(£22.8m)	*0.0%*	(£22.8m)	-	(£22.8m)
Underlying Profit Before Tax		**£56.6m**	**£3.6m**	**£53.0m**	***(8.8%)***	**£61.2m**	**£3.1m**	**£58.1m**
Number of policies sold								
- core				1,186k	*(5.4%)*			1,254k
- add-ons				559k	*5.7%*			529k
				1,745k	*(2.1%)*			1,783k
- Core Saga branded				1,186k	*(5.4%)*			1,254k
- Core non-Saga branded				0k	*0.0%*			0k
				1,186k	*(5.4%)*			1,254k

The ongoing challenges in the home market have reduced revenues and underlying profits in our home broking business. Core policies have fallen by 5.4% which has led to decreases in earned revenue and earned profit to £85.0m and £56.6m respectively (2017: £89.8m and £61.2m).

The positive home WTE adjustment in the current and prior year reflects the standard accounting treatments, as the group has moved towards a capital light broking model whereby add-ons were fully outsourced to a third party underwriter. These benefits will no longer occur in future years and we expect there to be no home WTE adjustment going forward.

Other insurance broking

	12m to Jan 2018			*Growth*	12m to Jan 2017		
	Earned	**WTE**	**Written**		**Earned**	**WTE**	**Written**
GWP							
Broked	£123.9m	-	£123.9m	*0.9%*	£122.8m	-	£122.8m
Underwritten	£4.7m	-	£4.7m	*(11.3%)*	£5.3m	-	£5.3m
	£128.6m	-	£128.6m	*0.4%*	£128.1m	-	£128.1m
Broker revenue	£54.5m	-	£54.5m	*(4.6%)*	£57.1m	-	£57.1m
Instalment revenue	£0.2m	-	£0.2m	*0.0%*	£0.2m	-	£0.2m
Add-on revenue	£0.1m	-	£0.1m	*100%*	-	-	-
Other revenue	£21.4m	-	£21.4m	*(7.4%)*	£23.1m	-	£23.1m
Revenue	**£76.2m**	**-**	**£76.2m**	***(5.2%)***	**£80.4m**	**-**	**£80.4m**
Gross profit	**£64.3m**	**-**	**£64.3m**	***1.4%***	**£63.4m**	**-**	**£63.4m**
Marketing expenses	(£12.0m)	-	(£12.0m)	*(5.3%)*	(£11.4m)	-	(£11.4m)
Other operating expenses	(£21.1m)	-	(£21.1m)	*(3.4%)*	(£20.4m)	-	(£20.4m)
Underlying Profit Before Tax	**£31.2m**	**-**	**£31.2m**	***(1.3%)***	**£31.6m**	**-**	**£31.6m**
Number of policies sold							
- core			314k	*(17.6%)*			381k
- add-ons			10k	*11.1%*			9k
			324k	*(16.9%)*			390k
- Core Saga branded			314k	*(17.6%)*			381k
- Core non-Saga branded			0k	*0.0%*			0k
			314k	*(17.6%)*			381k

Revenue from other broking decreased by 5.2% to £76.2m (2017: £80.4m), mainly due to a reduction in travel policies. This was driven by higher net rates in Q1 2017, due to the impact of foreign exchange rate movements, which made us less competitive in the market. This disadvantage has now unwound. Private medical insurance revenue also decreased due to lower average broker revenues. This resulted in a decrease in Underlying Profit Before Tax of 1.3% to £31.2m (2017: £31.6m).

Insurance underwriting
Underwriting P&L

		12m to Jan 2018				12m to Jan 2017			
		Reported	**Quota Share (QS)**	**Underlying (excl. QS)**	***Growth***	**Reported**	**Ogden impact**	**Quota Share (QS)**	**Underlying (excl. QS and Ogden)**
Revenue	**A**	**£98.8m**	**(£126.6m)**	**£225.4m**	***0.9%***	**£112.3m**	**(£0.7m)**	**(£110.5m)**	**£223.5m**
Claims costs	**B**	(£79.0m)	£114.3m	(£193.3m)	*1.3%*	(£93.9m)		£102.0m	(£195.9m)
Reserve releases	**C**	£60.0m	-	£60.0m	*(4.8%)*	£59.9m	(£3.1m)	-	£63.0m
Other cost of sales	**D**	(£8.7m)	£12.8m	(£21.5m)	*(1.4%)*	(£9.6m)	(£0.2m)	£11.8m	(£21.2m)
	E	(£27.7m)	£127.1m	(£154.8m)	*(0.5%)*	(£43.6m)	(£3.3m)	£113.8m	(£154.1m)
Gross profit		**£71.1m**	**£0.5m**	**£70.6m**	***1.7%***	**£68.7m**	**(£4.0m)**	**£3.3m**	**£69.4m**
Operating expenses	**F**	(£2.3m)	£3.2m	(£5.5m)	*(1.9%)*	(£2.8m)		£2.6m	(£5.4m)
Investment return		£10.4m	(£5.8m)	£16.2m	*10.2%*	£7.2m		(£7.5m)	£14.7m
Quota share net cost		-	£2.1m	(£2.1m)	*(31.3%)*	-		£1.6m	(£1.6m)
Underlying Profit Before Tax		**£79.2m**	**-**	**£79.2m**	***2.7%***	**£73.1m**	**(£4.0m)**	**-**	**£77.1m**
Reported loss ratio	**(B+C)/A**	19.2%		59.1%	(0.4%)	30.3%			59.5%
Expense ratio	**(D+F)/A**	11.1%		12.0%	0.1%	11.0%			11.9%
Reported COR	**(E+F)/A**	30.4%		71.1%	(0.3%)	41.3%			71.4%
Pure COR	**(E+F-C)/A**	91.1%		97.7%	(1.9%)	94.7%			99.6%
Number of earned policies				916k					955k

Excluding the impact of the quota share agreement and the Ogden rate change, underwriting revenue increased by 0.9% to £225.4m (2017: £223.5m), while AICL underwrote a lower number of policies, as a result of external panel members winning a greater share compared with the prior year, this was more than offset by an increase in revenue per policy. The underwriting business delivered an improved pure combined operating ratio of 97.7% (2017: 99.6%).

Investment return increased by £1.5m to £16.2m (2017: £14.7m) with a profit from the sale of some bonds was partially offset by a lower yield on a smaller investment portfolio. The lower yield resulted from historical fixed income investments that have matured and the funds have been reinvested at current market rates. Total investments have reduced as surplus solvency capital has been released, which has been driven by continued favourable claims experience and an increase in the number of accident years covered by the quota share agreement.

Despite the lower level of underlying reserve releases, profit from underwriting activity has increased to £79.2m (2017: £77.1m).

Reserving

	12m to Jan 2018	*Growth*	12m to Jan 2017	Ogden rate changes	Underlying 12m to Jan 2017
Motor insurance	£64.0m		£59.2m	(£3.1m)	£62.3m
Home insurance	(£1.2m)		(£0.1m)	-	(£0.1m)
Other insurance	(£2.8m)		£0.8m	-	£0.8m
Total	£60.0m	*(4.8%)*	£59.9m	(£3.1m)	£63.0m

Excellent claims management and favourable claims development experience during the twelve months to 31 January 2018 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 on motor totalling £64.0m during the year. There has been no deterioration in the underlying reserve margin held over best estimate claims reserves year-on-year in percentage terms.

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

Analysis of insurance contract liabilities at 31 January 2018 and 31 January 2017 is as follows:

	12m to Jan 2018			12m to Jan 2017		
	Gross	Reinsurance Assets[1]	Net	Gross	Reinsurance Assets[1]	Net
Reported claims	£307.3m	(£76.1m)	£231.2m	£313.3m	(£70.1m)	£243.2m
Incurred but not reported[2]	£149.3m	(£17.9m)	£131.4m	£193.7m	(£23.7m)	£170.0m
Claims handling provision	£10.4m	-	£10.4m	£10.0m	-	£10.0m
Total claims outstanding	£467.0m	(£94.0m)	£373.0m	£517.0m	(£93.8m)	£423.2m
Unearned premiums	£115.0m	(£6.2m)	£108.8m	£125.3m	(£3.7m)	£121.6m
Total	£582.0m	(£100.2m)	£481.8m	£642.3m	(£97.5m)	£544.8m

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

The Group's total insurance contract liabilities net of reinsurance assets have reduced by £63.0m as at 31 January 2018 from the previous year end driven by a £12.0m reduction in reported claims reserves, a £38.6m reduction in IBNR claims reserves and a £12.8m reduction in unearned premium reserve. The reduction in IBNR claims reserves was mainly due to favourable experience on large and small personal injury claims.

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 £71.5m compared with the previous year, from £546.8m as at 31 January 2017 to £475.3m as at 31 January 2018. As at 31 January 2018, 91% of the financial assets held by the Group were invested with counterparties with a risk rating of A or above, which is broadly in line with the previous year and reflects the stable credit risk rating of the Group’s counterparties.

At 31 Jan 2018	AAA	AA	A	<A	Unrated	Total
Underwriting investment portfolio:						
Deposits with financial institutions	-	£60.8m	£54.8m	-	-	£115.6m
Debt securities	£28.9m	£119.1m	£11.5m	-	-	£159.5m
Money market funds	£153.2m	-	-	-	-	£153.2m
Equities	-	-	-	-	£31.4m	£31.4m
Hedge funds	-	-	-	-	£7.5m	£7.5m
Loan funds	-	-	-	-	£6.4m	£6.4m
Loan notes	-	-	-	-	-	-
Unlisted equity shares	-	-	-	-	£1.7m	£1.7m
Total invested funds	£182.1m	£179.9m	£66.3m	-	£47.0m	£475.3m
Hedging derivative assets	-	-	£38.6m	£0.6m	-	£39.2m
Total financial assets	**£182.1m**	**£179.9m**	**£104.9m**	**£0.6m**	**£47.0m**	**£514.5m**

At 31 Jan 2017	AAA	AA	A	<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**

Solvency capital

	12m to Jan 2018[1]	12m to Jan 2017
Undertaking-specific parameters		
Solvency Capital Requirement (SCR)	£79.9m	£102.9m
Available capital	£137.0m	£146.7m
Surplus	£57.1m	£43.8m
Coverage	171%	143%

[1] The amounts shown for 12m to Jan 2018 are estimated and unaudited

Under Solvency II the Group had an SCR of £79.9m at 31 January 2018 (2017: £102.9m), benefiting from the claims experience and the impact of the quota share agreement. Available capital was £137.0m (2017: £146.7m), giving a coverage ratio of 171% (2017: 143%).

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

Sensitivities	
Base solvency II coverage	**171%**
Interest rates +/- 1%	+8%/-7%
Equities -15%	-4%
Credit spreads 50bps	-6%
3 large losses of £10m each	-6%

Travel

	12m to Jan 2018				12m to Jan 2017		
	Tour Operations	**Cruising**	**Total Travel**	***Growth***	**Tour Operations**	**Cruising**	**Total Travel**
Revenue	**£360.4m**	**£88.4m**	**£448.8m**	***3.9%***	**£350.1m**	**£81.9m**	**£432.0m**
Gross profit	**£69.5m**	**£23.1m**	**£92.6m**	***5.2%***	**£71.5m**	**£16.5m**	**£88.0m**
Marketing expenses	(£18.4m)	(£7.8m)	(£26.2m)	*1.5%*	(£19.6m)	(£7.0m)	(£26.6m)
Other operating expenses	(£37.4m)	(£8.8m)	(£46.2m)	*1.1%*	(£40.6m)	(£6.1m)	(£46.7m)
Investment return	£0.1m	£0.1m	£0.2m	*0.0%*	£0.2m	-	£0.2m
Underlying Profit Before Tax	**£13.8m**	**£6.6m**	**£20.4m**	***36.9%***	**£11.5m**	**£3.4m**	**£14.9m**
Number of holidays passengers	184k	n/a	184k	*(3.2%)*	190k	n/a	190k
Number of cruise passengers	n/a	24k	24k	*14.3%*	n/a	21k	21k
Number of cruise passenger days	n/a	323k	323k	*7.3%*	n/a	301k	301k

The travel business has had another strong year of trading having achieved growth in both revenue and profit, which are up 3.9% and 36.9% respectively.

The tour operations business generated a 2.9% increase in revenue to £360.4m (2017: £350.1m) from a decrease in passengers to 184k (2017: 190k). Approximately half of the decrease in passengers was due to the cancellations following the Monarch insolvency. The increased spend per passenger has primarily been driven by the foreign exchange impact of weak sterling, but also a continued shift in product mix towards higher value long-haul, river cruise and third party cruise products. Gross profit margin was impacted by cost associated with the Monarch insolvency and adverse foreign exchange movements but was more than offset by operational savings. Underlying Profit Before Tax from tour operations increased by 20.0% to £13.8m at an increased profit margin of 3.8% (2016: 3.3%). The insolvency of Monarch had a profit impact of approximately £2.0m during the year.

Saga Cruising delivered a 7.9% increase in revenue to £88.4m (2017: £81.9m) reflecting an increase in passenger days of 22k, in part driven by an increase in capacity days. The Saga Pearl was out of operation for scheduled maintenance for 19 days in April 2017 and the Saga Sapphire had a scheduled maintenance of 20 days in November 2017. This compared with 63 days of maintenance on the Saga Sapphire in the prior year.

Underlying Profit Before Tax from the cruising business almost doubled to £6.6m (2017: £3.4m), led by the increase in passenger days, lower fuel prices, and improved operating efficiency, partly offset by initial marketing spend for the Spirit of Discovery, due for delivery in June 2019.

On the 20 September 2017, the Saga plc Board approved the purchase of the second cruise ship, Spirit of Adventure, with an earlier delivery date of August 2020, and the Group exercised the option in December 2017. The financing for Spirit of Adventure represents a 12 year fixed rate sterling loan at an overall cost of approximately 3.3% per annum fixed, backed by an export credit guarantee. The loan value of approximately £295m will be repaid in 24 broadly equal instalments, with the first payment is due 6 months after delivery. On the date the finance was entered into, the Group purchased Euro currency forwards totalling £211.5m which represents 72% of the cost of the ship.

Emerging businesses and central costs

	12m to Jan 2018				12m to Jan 2017		
	Emerging Businesses	**Central costs**	**Total**	***Growth***	**Emerging Businesses**	**Central costs**	**Total**
Revenue	**£28.0m**	**£1.9m**	**£29.9m**	***2.0%***	**£27.2m**	**£2.1m**	**£29.3m**
Profit/(loss) before interest, tax & the IAS19R pension charge	£0.7m	(£22.4m)	(£21.7m)	*11.1%*	£0.8m	(£25.2m)	(£24.4m)
IAS19R pension charge	-	(£5.5m)	(£5.5m)	*(266.7%)*	-	(£1.5m)	(£1.5m)
Net finance costs	-	(£12.5m)	(£12.5m)	*25.1%*	-	(£16.7m)	(£16.7m)
Underlying Profit/(Loss) Before Tax	**£0.7m**	**(£40.4m)**	**(£39.7m)**	***6.8%***	**£0.8m**	**(£43.4m)**	**(£42.6m)**

Revenue from emerging businesses (which includes personal finance, healthcare services, retirement villages and the media businesses) increased by 2.9% to £28.0m (2017: £27.2m), which delivered a broadly stable profit of £0.7m (2017: £0.8m).

Central costs reduced to £22.4m (2017: £25.2m) due to cost savings initiatives. The Group saw a £4.0m increase in the IAS19R charge due to prevailing market conditions, particularly in the bond market, as at 1 February 2017. This was offset by lower debt service costs, driven by lower levels of debt, which led to a £4.2m reduction in net finance costs to £12.5m (2017: £16.7m). This resulted in a loss from central costs of £40.4m (2017: £43.4m).

Previous trading guidance

On 6 December 2017, the Group published a Trading update stating that the Group's growth in Underlying PBT was expected to be between 1% and 2% for the year ended 31 January 2018. Within the Chief Financial Officer's review for the year ended 31 January 2017, the following statement was made in respect of the year ended 31 January 2018: 'The Group is aiming to deliver ongoing consistent profit growth this year'. The Group's published Underlying PBT within this Annual Report and Accounts for the year ended 31 January 2018 is £190.1m which represents 1.4% growth.

Financial outlook and guidance

During the year ending 31 January 2019, written profits from insurance broking are expected to be relatively flat with lower costs and improvements in net revenues will be offset by an incremental investment of approximately £5m in policy growth. There will be a negative movement in the written to earned accounting adjustment of approximately £10m.

For tour operating, higher revenues are expected to drive incremental profit, but the additional investment of approximately £5m in passenger growth for 2019/20 will mean that profit will be relatively stable year on year. While cruise has more capacity days to sell with no dry docks this year, the hedging on fuel and foreign exchange for the current year are less advantageous than last year, therefore cruise profits will also remain flat year on year.

Lower costs and a limited IAS19R pension charge in central costs will provide a profit improvement year on year.

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

Reserve releases are expected to reduce this current year by c£10-15m.

Subject to market conditions remaining materially consistent, the Group is aiming to deliver Underlying Profit approximately 5% lower than in the year to 31 January 2018.

While the Group's leverage reduced materially in the year to 31 January 2018, the rate of any reduction is expected to be lower this year due to our profit guidance.

Consolidated income statement for the year ended 31 January 2018

	Note	**2018 £'m**	2017 £'m
Revenue	3	860.1	871.3
Cost of sales	3	(412.8)	(422.7)
Gross profit		**447.3**	**448.6**
Administrative and selling expenses		(254.5)	(251.6)
Investment income		7.4	5.0
Finance costs		(20.8)	(18.6)
Finance income		1.5	11.3
Share of loss of joint ventures		(2.2)	(1.4)
Profit before tax from continuing operations		**178.7**	**193.3**
Tax expense	5	(33.6)	(36.0)
Profit for the year from continuing operations		**145.1**	**157.3**
Loss after tax for the year from discontinued operations	18	(7.6)	-
Profit for the year		**137.5**	**157.3**
Attributable to:			
Equity holders of the parent		**137.5**	**157.3**
Earnings per share:			
Basic	7	12.3p	14.1p
Diluted	7	12.2p	14.0p
Earnings per share for continuing operations:			
Basic	7	13.0p	14.1p
Diluted	7	12.9p	14.0p

Consolidated statement of comprehensive income for the year ended 31 January 2018

	2018 £'m	2017 £'m
Profit for the year	**137.5**	**157.3**
Other comprehensive income		
Other comprehensive income to be reclassified to income statement in subsequent years		
Exchange differences on translation of foreign operations	-	0.7
Net (losses)/gains on hedging instruments during the period	(3.6)	43.4
Recycling of previous gains to income statement on matured hedges	(18.8)	(11.4)
Total net (loss)/gain on cash flow hedges	(22.4)	32.0
Associated tax effect	3.8	(5.3)
Net (losses)/gains on available for sale assets during the period	(0.3)	1.0
Recycling of previous gains to income statement on sale of AFS assets during the year	(4.4)	-
Net (loss)/gain on available for sale financial assets	(4.7)	1.0
Associated tax effect	0.8	(0.1)
	(22.5)	28.3
Other comprehensive income not to be reclassified to income statement in subsequent years		
Re-measurement gains on defined benefit plans	10.2	4.6
Associated tax effect	(1.7)	(1.1)
	8.5	**3.5**
Total other comprehensive (losses)/income	**(14.0)**	**31.8**
Total comprehensive income for the year	**123.5**	**189.1**
Attributable to:		
Equity holders of the parent	**123.5**	**189.1**

Consolidated statement of financial position as at 31 January 2018

	Note	**2018**	2017
Assets		**£'m**	£'m
Goodwill	9	1,485.0	1,485.0
Intangible fixed assets	10	61.2	53.8
Investment in joint ventures		-	1.4
Property, plant and equipment	11	163.4	131.5
Financial assets	12	514.5	600.3
Deferred tax assets	5	13.7	16.3
Reinsurance assets	15	100.2	97.5
Inventories		5.8	5.6
Trade and other receivables		210.0	198.7
Assets held for sale		6.8	-
Cash and short-term deposits	13	83.2	108.7
Total assets		**2,643.8**	**2,698.8**
Liabilities			
Retirement benefit scheme obligations	14	7.0	13.7
Gross insurance contract liabilities	15	582.0	642.3
Provisions		4.7	4.0
Financial liabilities	12	469.2	489.8
Current tax liabilities		15.2	14.9
Deferred tax liabilities	5	16.3	21.5
Other liabilities		140.9	134.9
Trade and other payables		185.0	182.5
Total liabilities		**1,420.3**	**1,503.6**
Equity			
Issued capital		11.2	11.2
Share premium		519.3	519.3
Retained earnings		662.8	607.8
Share-based payment reserve		11.4	15.6
Available for sale reserve		(0.6)	3.3
Hedging reserve		19.4	38.0
Total equity		**1,223.5**	**1,195.2**
Total liabilities and equity		**2,643.8**	**2,698.8**

Consolidated statement of changes in equity for the year ended 31 January 2018

	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
At 1 February 2017	**11.2**	**519.3**	**607.8**	**15.6**	**-**	**3.3**	**38.0**	**1,195.2**
Profit for the year	-	-	137.5	-	-	-	-	137.5
Other comprehensive income/(losses) excluding recycling	-	-	8.5	-	-	(0.3)	(3.0)	5.2
Recycling of previous gains to income statement	-	-	-	-	-	(3.6)	(15.6)	(19.2)
Total comprehensive income/(losses)	-	-	146.0	-	-	(3.9)	(18.6)	123.5
Dividends paid (note 6)	-	-	(98.5)	-	-	-	-	(98.5)
Share based payment charge (note 17)	-	-	-	4.0	-	-	-	4.0
Exercise of share options	-	-	7.5	(8.2)	-	-	-	(0.7)
At 31 January 2018	**11.2**	**519.3**	**662.8**	**11.4**	**-**	**(0.6)**	**19.4**	**1,223.5**
At 1 February 2016	**11.2**	**519.3**	**527.0**	**17.7**	**(0.7)**	**2.4**	**11.3**	**1,088.2**
Profit for the year	-	-	157.3	-	-	-	-	157.3
Other comprehensive income excluding recycling	-	-	3.5	-	0.7	0.9	36.2	41.3
Recycling of previous gains to income statement	-	-	-	-	-	-	(9.5)	(9.5)
Total comprehensive income	-	-	160.8	-	0.7	0.9	26.7	189.1
Dividends paid (note 6)	-	-	(86.1)	-	-	-	-	(86.1)
Share based payment charge (note 17)	-	-	-	4.9	-	-	-	4.9
Exercise of share options	-	-	6.1	(7.0)	-	-	-	(0.9)
At 31 January 2017	**11.2**	**519.3**	**607.8**	**15.6**	**-**	**3.3**	**38.0**	**1,195.2**

Consolidated statement of cash flows
for the year ended 31 January 2018

	Note	**2018 £'m**	2017 £'m
Profit before tax from continuing operations		178.7	193.3
Loss before tax from discontinued operations		(7.8)	-
Profit before tax		170.9	193.3
Depreciation, impairment and loss on disposal of property, plant and equipment		20.0	21.6
Amortisation and impairment of intangible assets		18.5	18.1
Share-based payment transactions		3.0	4.0
Accelerated amortisation of debt issue costs		4.3	-
Impairment of investment in joint venture		1.9	-
Impairment of financial assets		6.6	-
Finance costs		16.5	18.6
Finance income		(1.5)	(11.3)
Share of loss of joint ventures		0.5	1.4
Interest income from investments		(7.4)	(5.0)
Movements in other assets and liabilities		(61.8)	(58.8)
		171.5	181.9
Interest received		7.4	5.0
Interest paid		(10.9)	(15.8)
Income tax paid		(32.8)	(32.6)
Net cash flows from operating activities		**135.2**	**138.5**
Investing activities			
Proceeds from sale of property, plant and equipment		0.4	0.2
Purchase of property, plant and equipment, and intangible fixed assets		(82.5)	(43.9)
Net disposal of financial assets		93.1	124.7
Investment in joint venture		(1.0)	(1.3)
Net cash flows used in investing activities		**10.0**	**79.7**
Financing activities			
Proceeds from exercise of share options		0.3	-
Payment of finance lease liabilities		(1.1)	(0.5)
Proceeds from borrowings		485.0	65.0
Repayment of borrowings		(520.0)	(140.0)
Debt issue costs		(5.1)	-
Dividends paid		(98.8)	(86.3)
Net cash flows used in financing activities		**(139.7)**	**(161.8)**
Net increase / (decrease) in cash and cash equivalents		**5.5**	**56.4**
Net foreign exchange differences		-	0.7
Cash and cash equivalents at the start of the year		221.5	164.4
Cash and cash equivalents at the end of the year	13	**227.0**	**221.5**

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 2018 were approved for issue by the Board of Directors on 11 April 2018 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 2018 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 2018 Annual report and accounts.

The preliminary announcement for the year ended 31 January 2018 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 2018 have been audited by KPMG LLP (KPMG). 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 2018. Full details of the accounting policies of the Group can be found in the Annual report and accounts for the year ended 31 January 2018 available at www.corporate.saga.co.uk.

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 2018. 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 standard is effective for annual periods beginning on or after 1 January 2018, and was endorsed by the EU on 22 November 2016.

The Group has undertaken an exercise to consider the adoption of IFRS 9 and the impact that it would have on the Group's financial statements. Each of the issues is dealt with here in turn:

Notes to the consolidated financial statements (continued)

2.3 Standards issued but not yet effective (continued)

i. IFRS 9 'Financial Instruments'

Classification and measurement

An assessment of changes to the classification of the Group's financial assets based on investments held at 31 January 2018 has been completed, including an assessment of business models across various portfolios, and a review of contractual cash flow features for material financial assets. The changes required are not significant for the Group and are summarised as follows:

- The available-for-sale (AFS) category is now replaced by two Fair Value through Other Comprehensive Income (FVOCI) categories, with recycling to P&L for non-equity instruments, but without recycling for equity instruments. Instruments currently classified under AFS will simply map to these new categories with the same recognition and measurement treatments as under IAS 39 currently. The only exception to this is that the fair value movement of any equity funds classified as AFS will no longer be able to be recycled to P&L in the future. The balance of such instruments accumulated in reserves as at 31 January 2018 is £1.4m
- Amounts invested in money market funds that are currently classified as AFS will now have to be classified as fair value through profit or loss. This will have no impact on the recognition and measurement of these assets, other than to switch their carrying values between categories. The amount held in such investments as at 31 January 2018 is £153.2m
- The Loans and Receivables (L&R) category will now be renamed Amortised Cost. Instruments currently held in L&R will still meet the classification criteria of Amortised Cost, and the recognition and measurement criteria are the same.

Impairment

IFRS 9 introduces a revised impairment model that requires entities to recognise expected credit losses based on unbiased forward-looking information. This replaces the existing IAS 39 incurred loss model, and will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

It is expected to have an immaterial financial impact, although impairment charges could be more volatile. The expected increase in the accounting impairment provision has been estimated at £0.2m as at 31 January 2018, which would serve to reduce the carrying value of the Group's financial assets measured at amortised cost.

Hedge accounting

IFRS 9 contains revised requirements on hedge accounting, which are more closely aligned with an entity's risk management strategies and risk management objectives. The new rules replace the current quantitative effectiveness test with a simpler version, and only require that an economic relationship exists between the hedged item and the hedging instrument. Under the new rules, voluntary hedge de-designations would not be allowed.

Saga will be adopting the hedge requirements of IFRS 9 rather than electing to continue with the accounting requirements of IAS 39. The P&L impact of this in the financial year ending 31 January 2018 is a £0.1m loss on derivatives which, under IFRS 9, can be held in reserves to be matched to operating cash flows as they are incurred in subsequent periods. Profit before tax for the twelve months to 31 January 2018 would therefore increase by this amount.

Under IFRS 9, Saga will also be able to designate all of its commodity swaps, purchased to mitigate the risk of oil price volatility, as hedges for hedge accounting purposes. This will have the effect of significantly reducing the level of fair value gains and losses on derivatives recognised in the income statement during the life of the derivative. Instead, those gains and losses will be accumulated in the Group's hedging reserve and recycled to the income statement, and matched with the hedged item when it is determined in the income statement. This can only be applied to new hedge designations prospectively, but if IFRS 9 had been in place for all such derivatives affecting profit and loss for the year ending 31 January 2018, the effect would have been to increase the fair value loss on derivatives by £1.8m. This movement would have been taken through the statement of other comprehensive income to accumulate in the hedging reserve, thus increasing reported profit before tax by this amount.

Notes to the consolidated financial statements (continued)

2.3 Standards issued but not yet effective (continued)

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 standard is effective for annual periods beginning on or after 1 January 2018, and was endorsed by the EU on 22 September 2016.

The Group has undertaken a review of its contracts with its customers and has applied the five-step model prescribed by the standard to each of these. The impact of this has been quantified for the year ending 31 January 2018 as set out in the following table:

		As at 1 February 2017			**As at 31 January 2018**		
	Note	Reported £m	Adj. £m	Restated £m	**Reported £m**	**Adj. £m**	**Restated £m**
Deferred revenue							
Insurance Broking	**1**	(17.4)	(0.8)	(18.2)	**(18.9)**	**(0.1)**	**(19.0)**
Tour Operations	**2**	(82.4)	(0.9)	(83.3)	**(77.6)**	**(0.7)**	**(78.3)**
Cruise	**3**	(32.7)	0.3	(32.4)	**(42.0)**	**0.3**	**(41.7)**
Other businesses	**4**	(2.4)	0.0	(2.4)	**(2.4)**	**(0.3)**	**(2..7)**
		(134.9)	(1.4)	(136.3)	**(140.9)**	**(0.8)**	**(141.7)**
Deferred costs							
Insurance Broking	**1**	18.3	4.0	22.3	**17.9**	**4.3**	**22.2**
Tour Operations	**2**	10.9	2.3	13..2	**9.4**	**2.4**	**11.8**
Cruise	**3**	5.6	0.0	5.6	**11.0**	**0.0**	**11.0**
Other businesses	**4**	3.2	0.0	3.2	**5.2**	**0.1**	**5.3**
		38.0	6.3	44.3	**43.5**	**6.8**	**50.3**
Net asset impact		(96.9)	4.9	(92.0)	**(97.4)**	**6.0**	**(91.4)**
Profit before tax from continuing operations							
Insurance Broking	**1**				**209.4**	**1.0**	**210.4**
Tour Operations	**2**				**10.3**	**0.3**	**10.6**
Cruise	**3**				**7.9**	**0.0**	**7.9**
Other businesses	**4**				**(48.9)**	**(0.2)**	**(49.1)**
					178.7	**1.1**	**179.8**

Notes:

1. Under IAS 18 currently, the Group recognises the revenue received in connection with insurance policies not underwritten by the Group at the commencement of the period of risk. However, the Group does have some performance obligations that exist beyond this date, namely the provision of claims first notification and other customer services, and the invitation to renew polices before their renewal date. Under IFRS 15, it is appropriate to defer a proportion of revenue and associated direct cost in line with when these obligations are discharged. This has been calculated using a costs-incurred input model.
2. Under IAS 18 currently, revenue from tour operations and cruise holidays where the Group does not operate the cruise ship is recognised in full on the passenger's date of departure. Under IFRS 15, it is necessary to allocate this revenue in line with the various performance obligations that are included in a package holiday, namely the provision of flights, hotel accommodation, transfers and travel insurance. Under IFRS 15, it is therefore appropriate to defer a proportion of revenue and associated direct cost in line with when these obligations are discharged. This has been calculated using a costs-incurred input model. Revenue from sales in resort is to be recognised as and when earned, which remains unchanged under IFRS 15.
3. Under IAS 18 currently, revenue in respect of cruise holidays where the Group operates the cruise ship is recognised on a per diem basis over the duration of the cruise. Under IFRS 15, this is still appropriate for the provision of the actual cruise itself, however the arrangement of inclusive travel insurance and the provision of a car service before and after the cruise require a proportion of revenue and cost to be matched against when these services are provided. The required adjustment has been calculated using observable market prices to allocate the ticket revenue. Revenue from sales on board the cruise ship is to be recognised as and when earned, which remains unchanged under IFRS 15.
4. Other businesses include the Personal Finance, Healthcare, Retirement Villages and Media businesses, and the Saga Membership Scheme. The adoption of IFRS 15 has no material impact on these businesses.

Notes to the consolidated financial statements (continued)

2.3 Standards issued but not yet effective (continued)

iii. IFRS 16 'Leases'

IFRS 16 specifies how to recognise, measure, present and disclose leases, and will essentially replace IAS 17. It requires all leased assets to be recognised in the statement of financial position with exception to leases of low value or with a term of 12 months or less. The majority of assets disclosed in note 32a will be affected. The impact of this standard on the Group's financial statements is still being assessed but the impact is unlikely to be material. The standard was issued in January 2016 and was endorsed by the EU on 9 November 2017. It is effective for annual reporting periods beginning on or after 1 January 2019.

iv. IFRS 17 'Insurance Contracts'

IFRS 17 was issued in May 2017 and established a principles based accounting approach for insurance contracts and will replace IFRS 4. The impact of this standard on the Group's financial statements is still being assessed. The standard is effective for annual reporting periods beginning on or after 1 January 2021, although this is yet to be endorsed by the EU.

v. 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, and was endorsed by the EU on 26 February 2018. The amendments will have no effect on the Group's financial statements.

vi. Amendments to IFRS 9 'Prepayment Features with Negative Compensation'

The amendments to IFRS 9 address concerns about how IFRS 9 classifies particular prepayable assets and clarify the accounting for financial liabilities following a modification. The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application being permitted although this is yet to be endorsed by the EU. The effect on the Group's financial statements has been considered above in (a).

vii. Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures'

The amendments to IAS 28 clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investments in the associate or joint venture but to which the equity method is not applied. The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application being permitted, although this is yet to be endorsed by the EU and will have no effect on the Group's financial statements.

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

The amendments to IAS 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 primarily analysed by accident year, geographical area, significant business line and peril. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all of the uncertainties involved.

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

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

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. 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, the domiciliary care services offering, the sale of retirement village properties where the Group acts as an agent only, a monthly subscription magazine product and the Group's internal mailing house.

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

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

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

3 Segmental information (continued)

2018	Insurance: Motor broking	Insurance: Home broking	Insurance: Other insurance broking	Insurance: Underwriting	Insurance: Total	Travel	Emerging Businesses and Central Costs	Adjustments	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Revenue	**121.4**	**85.0**	**76.2**	**98.8**	**381.4**	**448.8**	**36.7**	**(6.8)**	**860.1**
Cost of sales	(2.5)	-	(11.9)	(27.7)	(42.1)	(356.2)	(14.5)	-	(412.8)
Gross profit	**118.9**	**85.0**	**64.3**	**71.1**	**339.3**	**92.6**	**22.2**	**(6.8)**	**447.3**
Administrative and selling expenses	(76.5)	(28.4)	(33.1)	(2.3)	(140.3)	(72.4)	(43.8)	6.8	(249.7)
Investment income	-	-	-	10.4	10.4	0.2	(3.2)	-	7.4
Finance costs	-	-	-	-	-	-	(14.2)	-	(14.2)
Finance income	-	-	-	-	-	-	1.5	-	1.5
Share of loss of joint venture	-	-	-	-	-	-	(2.2)	-	(2.2)
Underlying profit before tax	**42.4**	**56.6**	**31.2**	**79.2**	**209.4**	**20.4**	**(39.7)**	**-**	**190.1**
Net fair value loss on derivative financial instruments	-	-	-	-	-	(2.3)	-	-	(2.3)
Accelerated amortisation of debt issue costs	-	-	-	-	-	-	(4.3)	-	(4.3)
Restructuring costs	-	-	-	-	-	-	(4.8)	-	(4.8)
Profit before tax from continuing operations	**42.4**	**56.6**	**31.2**	**79.2**	**209.4**	**18.1**	**(48.8)**	**-**	**178.7**
Total assets less liabilities					**1,763.5**	**135.1**	**(225.4)**	**(449.7)**	**1,223.5**

2017	Insurance: Motor broking	Insurance: Home broking	Insurance: Other insurance broking	Insurance: Underwriting	Insurance: Total	Travel	Emerging Businesses and Central Costs	Adjustments	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 ventures	-	-	-	-	-	-	(1.4)	-	(1.4)
Underlying profit before tax	**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					1,758.0	141.1	(222.0)	(481.9)	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).

Notes to the consolidated financial statements (continued)

3 Segmental information (continued)

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

	2018 £'m	2017 £'m
Bank loans (note 16)	(443.0)	(475.2)
Deferred tax – non-pension scheme related	(6.7)	(6.7)
	(449.7)	**(481.9)**

a Analysis of insurance revenue

	2018 £'m	2017 £'m
Gross earned premiums on insurance underwritten by the Group	259.6	292.4
Less: ceded to reinsurers	(139.9)	(123.1)
Net earned premiums on insurance underwritten by the Group		
- Motor broking	30.4	54.3
- Home broking	3.6	12.2
- Other insurance broking	1.5	1.4
- Underwriting	84.2	101.4
	119.7	169.3
Other income from insurance products	261.7	240.7
	381.4	**410.0**

b Analysis of insurance cost of sales

	2018 £'m	2017 £'m
Gross claims incurred on insurance underwritten by the Group	156.1	149.4
Less: ceded to reinsurers	(127.1)	(103.8)
Net claims incurred on insurance underwritten by the Group		
- Motor broking	2.5	3.1
- Underwriting	26.5	42.5
	29.0	45.6
Other cost of sales	13.1	18.1
	42.1	**63.7**

4 Non-trading items

	2018	2017
	£'m	£'m
Share-based payment costs (note 17)	0.3	0.5
Flotation and other costs	-	0.3
Redundancy costs	1.4	1.8
Insurance claims	-	(0.7)
Non–trading items included within Administrative and Selling expenses	3.4	1.9
Impairment of joint venture	1.7	-
Non-trading items included within share of loss of joint venture	**5.1**	**1.9**

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.

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

Impairment of joint venture represents the write down of the carrying value of the Group's joint venture, Saga Investment Services Limited, following the decision to replace the current legal structure with a new, more cost-efficient structure and includes an estimate of costs to wind up the joint venture.

During the prior period, 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:

	2018 £'m	2017 £'m
Consolidated income statement		
Current income tax		
Current income tax charge	34.3	36.2
Adjustments in respect of previous years	(1.0)	(3.6)
	33.3	**32.6**
Deferred tax		
Relating to origination and reversal of temporary differences	0.3	3.0
Effect of tax rate change on opening balance	-	0.4
Tax expense in the income statement	**33.6**	**36.0**

The Group's tax expense for the year was £33.6m (2017: £36.0m) representing a tax effective rate of 18.8% (2017: 18.6%).

Adjustments in respect of previous years includes an adjustment for the over provision of tax charge in previous years of £1.0m (2017: £0.6m).

The expense for the prior 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%.

Reconciliation of net deferred tax assets / (liabilities)

	2018 £'m	2017 £'m
At 1 February	(5.2)	4.7
Tax credit recognised in the income statement	(0.3)	(3.4)
Tax charge/(credit) recognised in other comprehensive income	2.9	(6.5)
At 31 January	**(2.6)**	**(5.2)**

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

The Group has tax losses which arose in the UK of £4.2m (2017: £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 (2017: £0.7m).

Notes to the consolidated financial statements (continued)

6 Dividends

During the year, the Company paid an ordinary dividend of 5.8p per share (2017: 5.0p per share), relating to the year ended 31 January 2017, and also paid an interim dividend of 3.0p per share (2017: 2.7p per share) for the year ended 31 January 2018. The total dividends paid for the year were £98.4m (2017: £86.1m).

The Directors propose a final dividend for the year ended 31 January 2018 of 6.0p per share, which is subject to approval by shareholders at the Annual General Meeting on 21 June 2018 and would be paid on 29 June 2018. 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:

	2018	2017
	£'m	£'m
Profit attributable to ordinary equity holders	137.5	157.3
Profit from continuing operations	145.1	157.3
Weighted average number of ordinary shares	'm	'm
Shares in issue at 1 February	1,114.0	1,110.7
IPO share options exercised	3.1	3.2
LTIP share options exercised	0.9	-
Other share options exercised	0.1	0.1
Weighted average number for Basic EPS	1,118.1	1,114.0
Dilutive options		
IPO share options not yet exercised	0.4	3.5
Other share options not yet vested	-	0.1
LTIP share options not yet vested	4.7	4.4
Deferred bonus plan	0.4	0.3
Weighted average number for Diluted EPS	**1,123.6**	**1,122.3**
Basic EPS	**12.3p**	14.1p
Basic EPS for continuing operations	**13.0p**	14.1p
Diluted EPS	**12.2p**	14.0p
Diluted EPS for continuing operations	**12.9p**	14.0p

Notes to the consolidated financial statements (continued)

8 Acquisitions

There were no acquisitions in the year ended 31 January 2018.

9 Goodwill

Goodwill acquired through business combinations has been allocated to CGUs on initial recognition. The carrying value of goodwill by CGU is as follows:

	2018	2017
	£'m	£'m
Insurance, excluding Bennetts	**1,398.6**	1,398.6
Insurance, Bennetts	**13.6**	13.6
Travel, excluding Destinology	**59.8**	59.8
Travel, Destinology	**13.0**	13.0
	1,485.0	1,485.0

The Group has tested all goodwill for impairment at 31 January 2018. The impairment test compares the recoverable amount of the goodwill of each CGU to its carrying value. The goodwill associated with the Bennetts and Destinology businesses have been considered separately, as these businesses represent separate CGUs.

The recoverable amount of each CGU has been determined based on a value-in-use calculation using cash flow projections from the Group's Board approved five year plan to 2022/23. Terminal values have been included using 2.1% as the expected long-term average growth rate of the UK economy, and calculated using the Gordon growth model.

The headroom for each of the CGUs against carrying value in the base case scenario is as follows:

	Headroom
	£'m
Insurance, excluding Bennetts	639.2
Insurance, Bennetts	38.4
Travel, excluding Destinology	486.3
Travel, Destinology	42.2

The headroom calculated above is before taking into account any allocation of the Group's central cost base to any of the CGUs.

Consequently, no impairment of goodwill has been recognised.

10 Intangible fixed assets

During the year, the Group capitalised £25.9m (2017: £19.6m) of software assets and charged £18.5m of amortisation to its intangible assets (2017: £18.1m).

11 Property, plant and equipment

During the year, the Group capitalised assets with a cost of £59.2m (2017: £12.6m), disposed of assets with a net book value of £0.4m (2017: £0.1m) and charged £20.1m of depreciation and impairment to its property, plant and equipment (2017: £21.6m). The Group transferred assets with a net book value of £6.8m (2017: £nil) to assets held for sale.

On 21 December 2015, the Group contracted with Meyer Werft GmbH & Co. KG to purchase Spirit of Discovery for delivery in July 2019, with an option to purchase a second similar cruise ship for delivery in 2021. On 24 April 2017, the Group signed an agreement with the shipyard to bring forward the delivery date by one month to June 2019. On 20 September 2017, the Saga plc Board approved the purchase of the second cruise ship, Spirit of Adventure, with an earlier delivery date of August 2020, and the Group exercised the option in December 2017.

The first three stage payments for Spirit of Discovery were made between February 2016 and January 2018. One further stage payment will be made 11 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.

11 Property, plant and equipment

The first stage payment for Spirit of Adventure was made in December 2017. 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 20 September 2017.

As at 31 January 2018, the capital amount contracted but not provided for in the financial statements in respect of the ships amounted to £583.8m (2017: £280.1m).

On 17 February 2017, certain entities in the Group were served with legal proceedings by the broker engaged in the committed purchase of Spirit of Discovery (see note 16). 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 Spirit of Adventure now that the option has been exercised. The amount of the claim is up to €7 million. A trial date of 9 – 13 July 2018 has been set and Saga is contesting the claim.

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 commission 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

	2018 £'m	2017 £'m
Fair value through profit or loss		
Foreign exchange forward contracts	0.8	3.7
Fuel oil swaps	1.8	1.3
Loan funds	6.4	6.5
Hedge funds	7.5	22.7
	16.5	**34.2**
Fair value through the hedging reserve		
Foreign exchange forward contracts	35.3	47.3
Fuel oil swaps	1.3	1.2
	36.6	**48.5**
Loans and receivables		
Deposits with financial institutions	115.6	309.5
	115.6	**309.5**
Available for sale investments		
Debt securities	159.5	79.5
Money market funds	153.2	122.1
Equities	31.4	-
Unlisted equity shares	1.7	1.3
Loan notes	-	5.2
	345.8	**208.1**
Total financial assets	**514.5**	**600.3**
Current	230.4	310.5
Non-current	284.1	289.8
	514.5	**600.3**

b) Financial liabilities

	2018 £'m	2017 £'m
Fair value through profit or loss		
Foreign exchange forward contracts	1.5	1.0
Fuel oil swaps	0.1	0.3
	1.6	**1.3**
Fair value through the hedging reserve		
Foreign exchange forward contracts	11.6	1.0
Fuel oil swaps	0.2	-
	11.8	**1.0**
Loans and borrowings		
Bond and bank loans (note 16)	443.0	475.2
Finance leases and hire purchase obligations	3.4	3.0
Bank overdrafts	9.4	9.3
	455.8	**487.5**
Total financial liabilities	**469.2**	**489.8**
Current	35.5	12.5
Non-current	433.7	477.3
	469.2	**489.8**

Notes to the consolidated financial statements (continued)

12 Financial assets and financial liabilities (continued)

c) Fair value hierarchy

	As at 31 January 2018				As at 31 January 2017			
	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	-	36.1	-	**36.1**	-	51.0	-	**51.0**
Fuel oil swaps	-	3.1	-	**3.1**	-	2.5	-	**2.5**
Loan funds	6.4	-	-	**6.4**	-	6.5	-	**6.5**
Equities	31.4	-	-	**31.4**	-	-	-	**-**
Hedge funds	7.5	-	-	**7.5**	-	22.7	-	**22.7**
Debt securities	159.5	-	-	**159.5**	79.5	-	-	**79.5**
Money market funds	153.2	-	-	**153.2**	-	122.1	-	**122.1**
Unlisted equity shares	-	-	1.7	**1.7**	-	-	1.3	**1.3**
Loan notes	-	-	-		-	-	5.2	**5.2**
Financial liabilities measured at fair value								
Foreign exchange forwards	-	13.1	-	**13.1**	-	2.0	-	**2.0**
Fuel oil swaps	-	0.3	-	**0.3**	-	0.3	-	**0.3**
Assets for which fair values are disclosed								
Deposits with institutions	-	115.6	-	**115.6**	-	309.5	-	**309.5**
Liabilities for which fair values are disclosed								
Bond and bank loans	-	443.0	-	**443.0**	-	475.2	-	**475.2**
Finance leases and hire purchase obligations	-	3.4	-	**3.4**	-	3.0	-	**3.0**
Bank overdrafts	-	9.4	-	**9.4**	-	9.3	-	**9.3**

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.

Following a review of the Group's investment portfolio during the year, loan funds, hedge funds and money market funds have been transferred from Level 2 to Level 1 in the hierarchy. There have been no non-recurring fair value measurements of assets and liabilities during the year (2017: none).

The Group operates a programme of economic hedging against its foreign currency and fuel oil exposures. During the year, the Group designated 575 foreign exchange forward currency contracts as hedges of highly probable foreign currency cash expenses in future periods, and designated 59 fuel oil swaps as hedges of highly probable fuel oil purchases in future periods. As at 31 January 2018, the Group has designated 699 forward currency contracts and 123 fuel oil swaps as hedges.

During the year, the Group recognised net losses of £2.8m (2017: £11.1m gains) on cash flow hedging instruments through other comprehensive income into the hedging reserve. Additionally, the Group recognised net losses of £1.1m (2017: £34.2m gains) through other comprehensive income into the hedging reserve, in relation to the specific hedging instrument for the acquisition of two new ships (note 16). The overall net losses of £3.9m are offset by a net £0.3m gain on forecast transactions recognised in the financial statements. The Group recognised a £0.2 loss (2017: £0.8m 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 2018 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 £18.8m gain through the income statement in respect of matured hedges, which has been recycled from other comprehensive income. No amounts have been removed from the hedging reserve to be included in the carrying value of non-financial assets and liabilities.

Notes to the consolidated financial statements (continued)

13 Cash and cash equivalents

	2018	2017
	£'m	£'m
Cash at bank and in hand	33.4	55.5
Short-term deposits	49.8	53.2
Cash and short-term deposits	**83.2**	**108.7**
Money markets funds	153.2	122.1
Bank overdraft	(9.4)	(9.3)
Cash and cash equivalents in the cash flow statement	**227.0**	**221.5**

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 £214.0m (2017: £206.4m).

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 £0.9m (2017: £0.8m). The assets of these schemes are held separately from those of the Group in funds under the control of Trustees.

b. Defined benefit plans

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

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

	2018	2017
	£'m	£'m
Fair value of scheme assets	307.3	276.8
Present value of defined benefit obligation	(314.3)	(290.5)
Defined benefit scheme obligation	**(7.0)**	**(13.7)**

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 2018, the net liability of the Saga scheme has improved by £6.7m to a total liability of £7.0m.

Notes to the consolidated financial statements (continued)

15 Insurance contract liabilities and reinsurance assets

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

	2018	2017
Gross	**£'m**	£'m
Claims outstanding	467.0	517.0
Provision for unearned premiums	115.0	125.3
Total gross liabilities	**582.0**	**642.3**

	2018	2017
Recoverable from reinsurers	**£'m**	£'m
Claims outstanding	94.0	93.8
Provision for unearned premiums	6.2	3.7
Total reinsurers' share of insurance liabilities (as presented on the face of the statement of financial position)	**100.2**	**97.5**
Amounts recoverable under funds withheld quota share agreements recognised within trade payables:		
- Claims outstanding	100.2	55.5
- Provision for unearned premiums	63.2	66.1
Total reinsurers' share of insurance liabilities after funds withheld quota share	**263.6**	**219.1**
Analysed as:		
Claims outstanding	194.2	149.3
Provision for unearned premiums	63.2	69.8
Total reinsurers' share of insurance liabilities after funds withheld quota share	**263.6**	**219.1**

	2018	2017
Net	**£'m**	£'m
Claims outstanding	373.0	423.2
Provision for unearned premiums	108.8	121.6
Total net insurance liabilities	**481.8**	**544.8**
Amounts recoverable under funds withheld quota share agreements recognised within trade payables:		
- Claims outstanding	(100.2)	(55.5)
- Provision for unearned premiums	(63.2)	(66.1)
Total net insurance liabilities after funds withheld quota share	**318.4**	**423.2**
Analysed as:		
Claims outstanding	272.8	367.7
Provision for unearned premiums	45.6	55.5
Total net insurance liabilities after funds withheld quota share	**318.4**	**423.2**

Notes to the consolidated financial statements (continued)

15 Insurance contract liabilities and reinsurance assets (continued)

Reconciliation of movements in claims outstanding

	2018 £'m	2017 £'m
Gross claims outstanding at 1 February	517.0	561.6
Less: reinsurance claims outstanding	(149.3)	(101.6)
Net claims outstanding at 1 February	367.7	460.0
Gross claims incurred	156.1	149.4
Less: reinsurance recoveries	(127.1)	(103.8)
Net claims incurred (note 3b)	29.0	45.6
Gross claims paid	(206.1)	(194.0)
Less: received from reinsurance	82.2	56.1
Net claims paid	(123.9)	(137.9)
Gross claims outstanding at 31 January	467.0	517.0
Less: reinsurance claims outstanding	(194.2)	(149.3)
Net claims outstanding at 31 January	**272.8**	**367.7**

The development of the gross loss ratios (before deducting reinsurance recoveries) on an accident year basis over the last ten years is as follows:

	Financial Year ended 31 January									
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	75%	75%	75%	73%	72%	72%	68%	68%	67%	67%
2010		79%	79%	77%	76%	75%	74%	73%	72%	71%
2011			80%	80%	78%	77%	72%	70%	69%	68%
2012				77%	71%	63%	62%	57%	55%	52%
2013					76%	72%	62%	56%	53%	52%
2014						75%	70%	63%	61%	58%
2015							81%	80%	78%	75%
2016								87%	88%	82%
2017									68%	69%
2018										75%

The development of the net loss ratios (after deducting reinsurance recoveries) on an accident year basis over the last ten years is as follows:

	Financial Year ended 31 January									
Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2009	71%	71%	71%	70%	68%	68%	67%	67%	66%	66%
2010		73%	73%	72%	70%	68%	67%	66%	64%	63%
2011			78%	78%	76%	75%	71%	69%	67%	65%
2012				76%	70%	62%	62%	57%	54%	53%
2013					75%	72%	66%	62%	58%	56%
2014						75%	71%	65%	62%	59%
2015							67%	69%	66%	63%
2016								70%	71%	66%
2017									56%	56%
2018										66%

Favourable claims development over the year has resulted in a £60.0m (2017: £59.9m) reduction in net claims incurred in respect of prior years.

Notes to the consolidated financial statements (continued)

16 Loans and borrowings

	2018	2017
	£'m	£'m
Bond	250.0	-
Bank loans	180.0	380.0
Revolving credit facility	15.0	100.0
Accrued interest payable	2.2	0.1
	447.2	480.1
Less: deferred issue costs	(4.2)	(4.9)
	443.0	**475.2**

On 12 May 2017, the Group refinanced its existing bank facilities with the launch of a debut £250.0m seven-year senior unsecured bond, a £200.0m five-year term loan facility and a £100.0m five-year revolving credit facility with an option to extend the term by two years. The bond was issued on 12 May 2017 on the Irish Stock Exchange.

At 31 January 2018, the Group had drawn £15.0m of its £100.0m revolving credit facility and since the refinancing £20.0m of the term loan has been repaid.

Interest on the bond is incurred at an annual interest rate of 3.375%. Interest on the term loan and revolving credit facility is incurred at a variable rate of LIBOR plus between 1% and 2.2%, which is linked to the Group's leverage ratio.

During the period, the Group charged £13.5m (2017: £17.6m) to the income statement in respect of fees and interest associated with the bonds, term loan and revolving credit facility. In addition, finance costs recognised in the income statement includes £0.7m (2017: £1.0m) relating to interest on finance lease liabilities, net finance expense on pension schemes and other interest costs, £2.3m (2017: £nil) of net fair value losses on derivatives and £4.3m (2017: £nil) of accelerated amortisation of debt issue costs in relation to previous debt held.

The financing for Spirit of Discovery represents a 12 year fixed rate sterling loan, backed by an export credit guarantee. The loan value of approximately £245m will be repaid in 24 broadly equal instalments, with the first payment 6 months after delivery. On the date the finance was entered into, the Group purchased Euro currency forwards totalling £273.2m to lock the cost of the ship.

The financing for Spirit of Adventure represents a 12 year fixed rate sterling loan, backed by an export credit guarantee. The loan value of approximately £295m will be repaid in 24 broadly equal instalments, with the first payment due 6 months after delivery. On the date the finance was entered into, the Group purchased Euro currency forwards totalling £211.5m which represents 72% of the cost of the ship.

Both hedges have been designated as cash flow hedges and remain outstanding as at 31 January 2018

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 1 May 2017, options over 3,449,200 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 30% linked to basic EPS performance, 30% linked to organic EPS performance and 50% linked to TSR performance.

b) On 26 May 2017, options over 317,710 shares were issued under the Deferred Bonus Plan ("DBP") to the Executive Directors reflecting their deferred bonus in respect of 2016/17, which vest and become exercisable on the third anniversary of the grant date.

c) On 13 July 2017, 488,583 shares were awarded to eligible staff on the 3rd 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 2 October 2017, options over 258,500 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 30% linked to basic EPS performance, 30% linked to organic 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 £3.8m during the year (2017: £4.7m) to the income statement in respect of equity-settled share-based payment transactions. Of this, £0.3m (2017: £0.5m) is included within non-trading items (note 4), which represents the share based payment charge on options awarded at the IPO that are still vesting.

18 Discontinued operations and assets held for sale

The loss after tax from discontinued operations is in relation to the sale of Allied Healthcare in the year ended 31 January 2016. The Group received deferred consideration in the form of two loan notes with face value of £3.5m each which attract uncompounded interest at a rate of 5% due to mature on 30 May 2018 and 30 May 2019. In the year to 31 January 2018, following an impairment review, management no longer consider the loan notes to be recoverable and, as such, an impairment charge of £6.6m through discontinued operations has been recognised which resulted in the loan notes being impaired to £nil.

During the year, management made the decision to sell one of the Group's freehold properties, Buckingham Gate. Immediately before the classification of the property as held for sale, the recoverable amount was ascertained and the carrying value is considered to be below fair value less costs to sell and hence no revaluation at the point of reclassification was required. The property is presented within the Insurance segment of the Group, is being actively marketed and the sale is expected to be completed within 12 months of the end of the financial year. No gains or losses have been recognised with respect to the asset.

19 Related party transactions

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 2018 earned total fees of £2.6m (2017: £3.6m); further payments to these subsidiaries of WNS (Holdings) Limited in respect of repair costs on claims handled totalled £35.0m (2017: £37.2m). As at 31 January 2018, amounts owing to these subsidiaries of WNS (Holdings) Limited for fees and repair costs totalled £1.4m (2017: £2.2m).

Alternative Performance Measures Glossary

The Group uses a number of Alternative Performance Measures ("APMs"), which are not required or commonly reported under International Financial Reporting Standards, the Generally Accepted Accounting Principles (GAAP) under which the Group prepares its financial statements, but which are used by the Group to help the user of the accounts better understand the financial performance and position of the business.

Definitions for the primary APMs used in this report are set out below. APMs are usually derived from financial statement items and are calculated using consistent accounting policies to those applied in the financial statements, unless otherwise stated.

APMs may not necessarily be defined in a consistent manner to similar APMs used by the Group's competitors. They should be considered as a supplement rather than a substitute for GAAP measures.

Underlying Profit Before Tax

Underlying Profit Before Tax represents profit before tax from continuing operations excluding unrealised fair value gains and losses on derivatives, the one-off costs associated with the unamortised facility fees of the previous banking facilities, the one-off restructuring costs and the Ogden rate change impact in the prior year. It is reconciled to statutory profit before tax within the Chief Financial Officer's Review on page 10.

This measure is the Group's key performance indicator and is useful for presenting the Group's underlying trading performance, as it excludes non-cash derivative adjustments and one-off financial impacts that are not expected to recur.

Trading EBITDA

Trading EBITDA is defined as earnings before interest payable, tax, depreciation and amortisation, excluding amortisation of acquired intangibles. It has also been restated to exclude the non-cash impact of IAS19R current service costs, which have increased notably in the year, in line with the Group's latest debt covenants. It is reconciled to statutory profit before tax within the Chief Financial Officer's Review on page 10.

This measure has been presented by the Group in every Annual Report since it became a listed Group in 2014. It is presented due to it being linked to the Group's debt covenants, as it is the denominator in the Group's leverage ratio calculation.

Trading Profit

Trading Profit is defined as Trading EBITDA less depreciation and amortisation, excluding amortisation of acquired intangibles and has also been restated to exclude IAS19R current service costs. It is reconciled to statutory profit before tax within the Chief Financial Officer's Review on page 10.

This measure has been presented by the Group since the Annual Report published for the year ended 31 January 2016 and was used as part of the Group's transition from Trading EBITDA to Underlying Profit Before Tax as its key performance indicator. Although it is no longer one of the Group's key performance indicators, it has been provided to ensure reporting consistency with previous periods.

Underlying basic earnings per share from continuing operations

Underlying basic earnings per share from continuing operations represents basic earnings per share from continuing operations excluding the post-tax effect of unrealised fair value gains and losses on derivatives, the post-tax effect of the one-off non-cash costs associated with the unamortised facility fees of the previous banking facilities, the post-tax effect of the one-off restructuring costs and the post-tax effect of the Ogden rate change impact in the prior year.

This measure is linked to the Group's key performance indicator Underlying Profit Before Tax and represents what management consider to be the underlying shareholder value generated in the period.

Customer spend

Customer spend represents the total amount that customers spent on products provided by the Saga Group of companies, including gross written premiums, ancillary income and Insurance Premium Tax for all of the core policies and add-ons sold in the period.

Available operating cash flow

Available operating cash flow is net cashflow from operating activities after capital expenditure but before tax, interest paid and non-trading items, which is available to be used by the Group as it chooses and is not subject to regulatory restriction. It is reconciled to statutory net cash flow from operating activities within the Chief Financial Officer's Review on page 10.