Saga plc

Annual Report and Accounts for the year ended 31 January 2018

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

Everything starts with our customers.

Contents

Highlights

Profit before tax from continuing operations (£m)

↓ (7.6%)

2018	**178.7**
2017	193.3
2016	176.2

Dividend per share (pence)

↑ 5.9%

2018	**9.0**
2017	8.5
2016	7.2

Underlying Profit Before Tax (£m)[1]

↑ 1.4%

2018	**190.1**
2017	187.4
2016	177.4

Available operating cash flow (£m)[1]

↓ (19.3%)

2018	**175.5**
2017	217.6
2016	178.1

Basic earnings per share (pence)

↓ (7.8%)

2018	**13.0**
2017	14.1
2016	13.3

Underlying earnings per share (pence)[1]

↑ 0.7%

2018	**13.8**
2017	13.7
2016	12.7

Debt ratio (net debt to trading EBITDA)

↓ (0.2x)

2018	**1.7x**
2017	1.9x
2016	2.3x

Members

536k

As at 31 March 2018

Products held by High Affinity Customers

1,143k

2017: 1,129k

Note:
1 Through this Annual Report and Accounts use is made of Alternative Performance Measures (APMs) in explaining and reporting on the Group's performance. Definitions and explanations of the primary APMs can be found on page 209

Our business at a glance

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

Saga's business segments

Insurance

The Insurance business, which is split between Retail Broking and Underwriting, is the largest part of the Group.

- Insurance Retail Broking
- Insurance Underwriting

+ Read more **p30–p33**

Travel

The Travel business is at the heart of the Saga brand, taking passengers all over the world on package holidays, escorted tours and cruises.

- Saga Cruises
- Saga Holidays
- Titan
- Destinology

+ Read more **p34–p35**

Emerging Businesses

Emerging Businesses include new development areas for the long-term growth of the business.

- Saga Money
- Saga Healthcare

+ Read more **p35**

Constantly Evolving

Our increasingly customer-centric brand

The Saga brand has evolved to keep pace with the ever-changing needs of our customers.

During the year we launched a new brand identity. 'Keep doing' is at the heart of Saga's purpose, to inspire and enable our customers to do more of the things that matter to them most.

999
passenger capacity

Over 50%
of our sales target sold for her first 19 cruises

Our second ship, Spirit of Adventure, will complete the transformation of our Cruise business when she is delivered in August 2020.

Our first new ship, Spirit of Discovery, remains on track and on budget for delivery in June 2019.

Sales for her first 19 cruises have exceeded expectations. This is a great testament to our deep understanding of, and relationship with, our customers and to their appetite to travel with us.

The investment will significantly improve the profit trajectory of our Cruise business.

A growing sense of

Adventure

Renewing our fleet

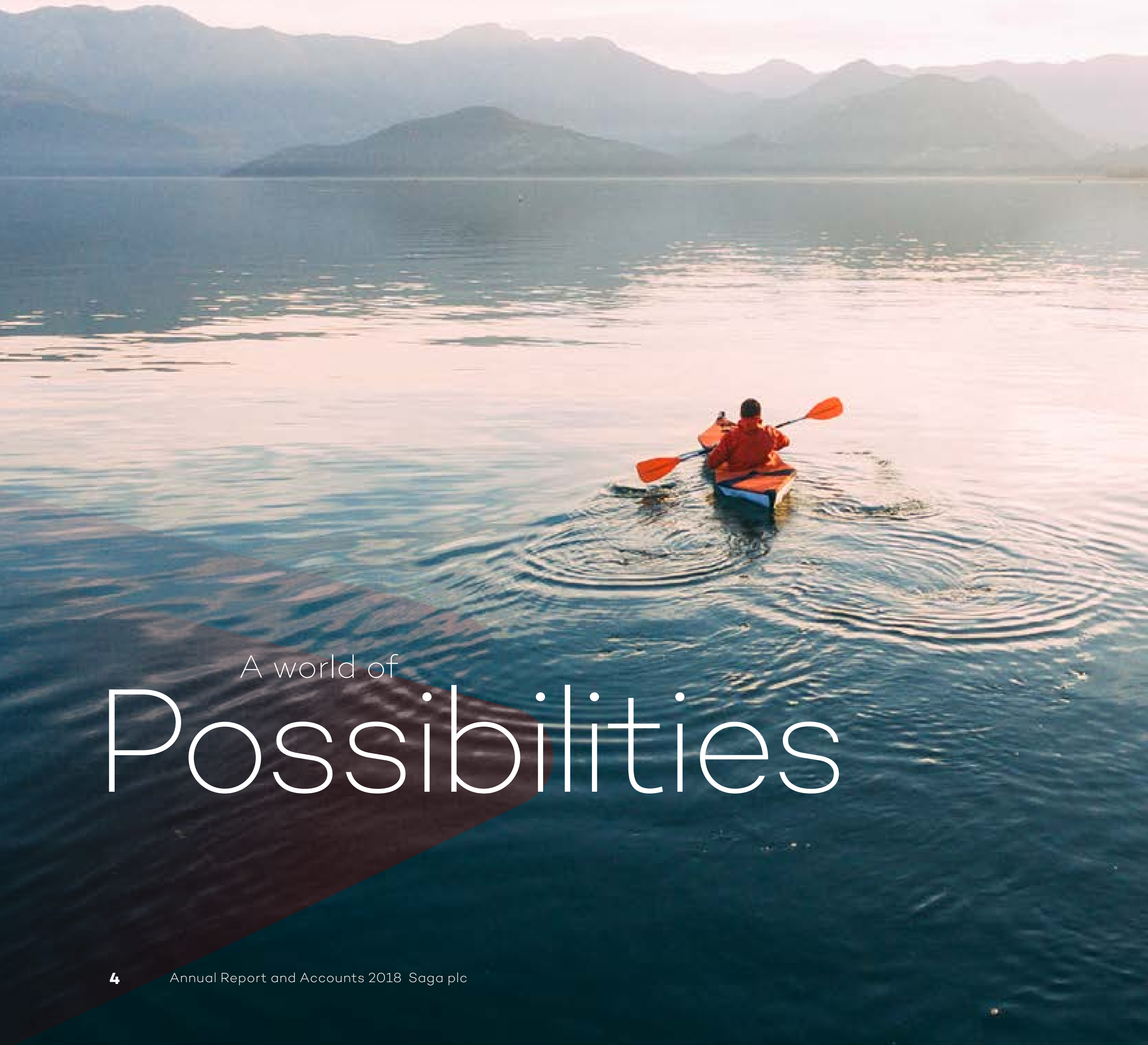
Possibilities is a membership programme for Saga customers. It brings them exclusive experiences, access to events, and great offers that are selected to appeal to a diverse range of tastes.

Membership is free. It is our way of rewarding and incentivising our customers to stay with Saga and deepen their relationship with us.

In the six months since launch, we have built an active base of over half a million members.

The programme is structured around three key components:

- **Events:** our events are either unique to Possibilities members or offer market leading value for publicly available events. Members are also invited to enter ballots to win tickets to exclusive arts, entertainment and sporting experiences created by us.
- **Offers:** through discounts and added extras, Possibilities offers value on everyday purchases such as dining out, sending flowers, booking a hotel or buying a bottle of wine.
- **Community:** we bring our members advice from UK experts in the fields of travel, technology, home and garden, financial solutions and health.



A world of Possibilities

We are investing in our core systems to create platforms that enhance our customers' experience and drive the efficiency of our operations.

A focus on customer experience and efficiency led to the modernisation of our insurance broking and claims handling platforms.

These new systems provide a platform to increase product differentiation whilst improving the efficiency of our call centres and back office functions.

June 2017

claims handling system went live

April 2018

first motor policy written on new broking platform, Guidewire

Investing in our

Capabilities

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[1] of 1.4% to £190.1m and in underlying earnings per share[1] 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.

> "Our customers and their changing needs remain central to everything we do at Saga."

Note:
1 Alternative performance measure – refer to the glossary on page 209 for definition and explanation

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 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.

Andrew Goodsell
Chairman
11 April 2018

Our governance supports our strategic priorities

Governance highlights
Our governance structure supports our investment for future growth.

- Our processes ensure good stewardship as we strive to become increasingly customer-centric, seek to grow our Retail Insurance and Travel businesses and maintain our efficient operating model.
- All resolutions proposed at our AGM were passed with a significant majority and all Directors standing for re-election were reappointed.
- We comply with the UK Corporate Governance Code 2016 (Code) recommendation that half of the Board are independent Non-Executive Directors.
- We conducted an externally facilitated Board and Committee evaluation process and agreed action plans to focus on areas of development.

+ Read more **p52**

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.

"I am a passionate believer in the uniqueness of the Saga model."

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 per cent 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, 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.

So, what's next?

Strategic priorities for the coming year
In order to deliver long-term sustainable earnings, our strategic priorities for the coming year are:

1. Becoming increasingly customer-centric

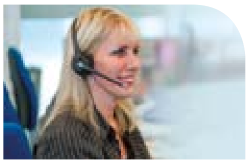
+ Read more **p18**

2. Growing our Retail Insurance and Travel businesses

+ Read more **p18**

3. Investing for future growth

+ Read more **p19**



4. Maintaining our efficient operating model

+ Read more **p19**

5. Developing our people

+ Read more **p19**

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.

Lance Batchelor
Group Chief Executive Officer
11 April 2018

A focused team

Introducing our Executive Team (from left to right)

Stuart Beamish
Group Marketing Director

Gary Duggan
Chief Executive, Insurance Broking

Andrew Button
Chief Executive, AICL

Karen Caddick
Group HR Director

Lance Batchelor
Group Chief Executive Officer

Jules Christmas
Group IT Director

Robin Shaw
Chief Executive, Travel

Jonathan Hill
Group Chief Financial Officer

Fundamentals of our target demographic

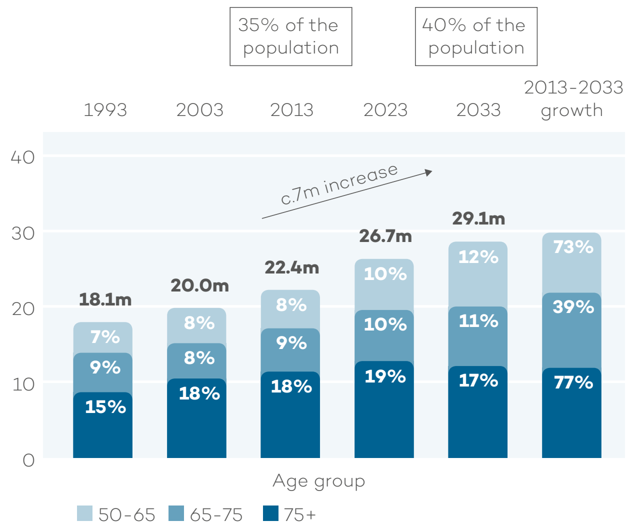
Leveraging our customer insight and rich proprietary data, we have maintained our position as the UK's leading provider of products and services tailored to the needs of people aged 50 and over.

This segment accounts for 75% of the UK's household wealth and 50% of the UK's household expenditure and is the fastest growing, most affluent and influential demographic in the UK. Needs are increasingly changing as the people in this demographic continue to work longer and lead more active lives. We use our understanding of these needs to create differentiated products and services to support our customers, to 'keep doing' as they enter new life chapters, rich in possibilities.

The ideal member of Saga is predominantly within three very specific mosaic classifications whose characteristics are:

- over 50;
- within ABC1[1] households; and
- having above average wealth.

Note:
1 Refer to the glossary on page 210 for definition and explanation



Source: Centre for Economic and Business Research

High Affinity Customers

Our rich proprietary data helps us identify customers who are more likely to have an affinity with the brand over time, and to deploy marketing resources effectively by targeting and rewarding those customers who are, or have the propensity to be High Affinity Customers (HACs).

We have identified a core group of c.470k HACs who form around 25% of our customer base, and who have contributed c.80% of customer value over the last three years. This group has the following key characteristics, all of which deliver greater lifetime value to Saga. They:

- buy premium versions of what Saga sells;
- have higher retention levels; and
- have a higher propensity to buy multiple products across the Group, holding an average of 2.4 core products each.

Having invested in customer insight tools, we have developed an understanding of the journeys by which these customers have developed a high affinity for Saga and the reasons why certain customers have not. This has helped us improve the efficiency and effectiveness of our direct marketing model to better identify and target existing or potential HACs and convert them to customers with a long tenure and multiple product holdings.

Macro conditions

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

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

- low levels of debt;
- fewer fixed costs; and
- inherited wealth.

Operating different businesses across different sectors helps protect the wider organisation in the event of a downturn in a particular sector.

Regulatory and political change

Saga's members are the most politically engaged in the UK, and are therefore highly influential. Saga's insight into the most important issues for its target demographic enhances its competitive advantage. The Company leverages this to create products and services that either take advantage of, or protect against, regulatory change. Where appropriate, Saga engages on these issues on behalf of its customers.

Saga as a regulated business

Regulation continues to evolve and Saga strives to maintain good relationships and levels of communication with its regulatory bodies to ensure that it is always in a position to adapt quickly to changes that could impact its operations.

Vulnerable customers

We recognise that some of our customers need more attention than others. There are dedicated teams throughout the business to ensure that vulnerable customers are identified and given what help they need.

Competition for customers

Saga competes for business with many providers within the sectors in which it operates. Whilst our brand as the over 50s specialist in the UK is particularly strong, we do not have a monopoly. We do, however, have the advantage of focusing on this demographic, which means that everything we do can be tailored to the specific needs that are characteristic of our customer base. This gives us a competitive advantage against peers who offer their products to all age ranges.

+ Read more about our business model on **p14**
+ Read more about strategy on **p18**
+ Read more about risk on **p24**

Creating value through our repeatable model

The resources and relationships that set us apart

We continue to invest in the resources and relationships that drive Saga's long-term value creation. These include:

Strong brand
Saga is a truly unique brand that is highly trusted and synonymous with life after 50 in the UK.

Rich proprietary data
Access to an extensive database provides insights into the needs, wants and behavioural traits of our target demographic. This enables us to tailor our offering and aids customer acquisition.

Strong customer relationships
The delivery of tailored products, underpinned by exceptional service, enhances brand loyalty and retention over many decades.

Flexible, capital efficient operating model
Leveraging the strength of the Saga brand and our ability to select the best providers, we are able to develop new products and enter new markets very quickly, with little capital at risk.

Possibilities
A tailored membership scheme that rewards and incentivises our customers to both stay with Saga and deepen their relationship with us as they strive to do more of what matters to them.

Developing our people
Ongoing investment in the development of our employees whilst continuing to instil the customer-centric culture that makes Saga different.

Investment in systems capabilities
Additional efficiency savings continue to be delivered through further upgrades to our systems capabilities, including a new retail insurance and claims handling system.

Financial strength
Saga's flexible operating model and the ability to allocate capital to the areas of the business with the most potential for growth means we are highly cash generative and have the option to continue to invest for growth, whilst paying down debt and enhancing long-term value to shareholders via a steady flow of dividends.

+ Read more about resources and relationships on **p20**

What we do and how we do it

Delivering a sustainable competitive advantage

1

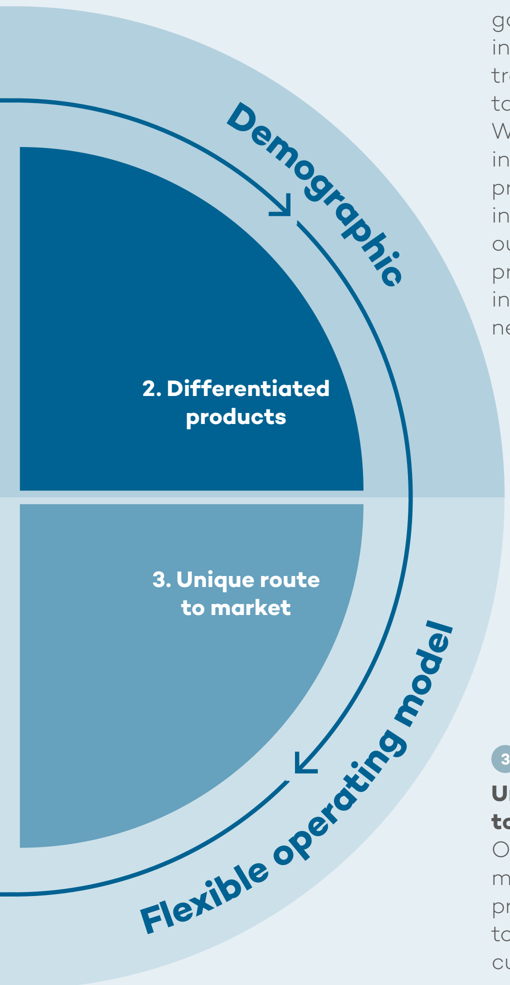
A great brand
We have a truly unique brand that is highly trusted and recognised by over 97% of people aged 50 and over in the UK. This allows us to provide products that offer exceptional levels of service, across multiple categories at a fair price.

4

Outstanding service
We compete across multiple sectors and, after buying products for many decades, our customers know what good service looks like. They expect this from us, and recognise it when they get it.

We match unique member needs with our outstanding hands-on customer service.

+ Read more about Insurance on **p30**
+ Read more about Travel on **p34**
+ Read more about Emerging Businesses on **p35**



2 Differentiated products
We seek to develop and enhance strong relationships with our customers over the course of many years, gaining a unique insight into the behavioural traits and needs of our target demographic. We use this strategic insight to develop products and services in-house to provide our customers with propositions that inspire and enable new possibilities.

3 Unique route to market
Our database and marketing model provide direct access to existing and potential customers across multiple channels, at low cost.

Creating value for stakeholders

Saga is committed to maximising value for its key stakeholders

Employees[1]

4,296
number of employees

Members

536k
number of members

471k
number of HACs

2.4
core products per HAC

Note: Members quoted as at 31 March 2018

Company

£190.1m
in Underlying Profit Before Tax[2] (2017: £187.4m)

Shareholders

9.0p
dividend per share

(2017: 8.5p)

13.8p
Underlying earnings per share[2]

(2017: 13.7p)

Community (CSR)

£371k
charitable donations

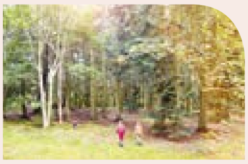
(2017: £163K)

Notes:
1 This figure excludes casuals, agency staff, contractors and retainers
2 Alternative performance measure – refer to glossary on page 209 for definition and explanation

+ Read more about risk on **p24**
+ Read more about strategy on **p18**
+ Read more about KPIs on **p16**

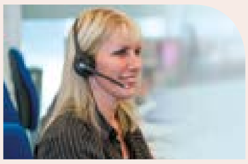
Our strategy

1. Becoming increasingly customer-centric

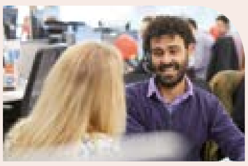


2. Growing our Retail Insurance and Travel businesses

3. Investing for future growth



4. Maintaining our efficient operating model



5. Developing our people

KPIs

Underlying Profit Before Tax[1]

£190.1m

↑ 1.4%

£187.4m

Underlying earnings per share[1]

13.8p

↑ 0.7%

13.7p

Dividend per share

9.0p

↑ 5.9%

8.5p

Available operating cash flow[1]

£175.5m

↓ (19.3%)

£217.6m

Debt ratio

1.7x

↓ (0.2x)

1.9x

Number of HACs

471k

↓ (2.5%)

483k

Core product holding per HAC

2.4

↑ 4.3%

2.3

Note:
1 Alternative performance measure – refer to glossary on page 209 for definition and explanation

Strategic delivery

1. Becoming increasingly customer-centric

- Launched the Saga membership scheme, Possibilities, with over 500k members and a sign-up rate of 80% of those invited to join Started to build engagement with our increasing membership digitally and through experiences
- Increased the core product holding of our 471k HACs from 2.3 to 2.4
- Continued to roll out our new marketing capability, Adobe Marketing Cloud, which allows us to better identify and target customers with the characteristics of HACs
- Completed the new Saga brand identity, with the introduction of the 'keep doing' ethos. 'Keep doing' underlines the relevance of Saga in the lives of our members and customers as they continue to seek new opportunities and new experiences

2. Growing our Retail Insurance and Travel businesses

- Delivered performance in Retail Broking in line with guidance provided in December 2017
- Increased profits through improved margins and a shift in product mix in our Tour Operating business and the optimum yield of our ships

3. Investing for future growth

- Completed the transformation of our Cruise business with the announcement of our second ship, Spirit of Adventure, to be delivered in August 2020
- Our first new ship, Spirit of Discovery, remains on track and on budget for delivery in June 2019; we have achieved over 50% of the sales target for our first 19 cruises
- Delivered improvements to the customer experience and efficiency of our Insurance business through the development of a new retail insurance platform and the rollout of a new claims handling platform

4. Maintaining our efficient operating model

- Continued to generate strong cash flows
- Maintained our lower exposure to underwriting risk with a new quota share arrangement with NewRe and Hannover Re covering 80% of the downside risk of all motor policies on a rolling three year agreement
- Delivered Group-wide cost and procurement efficiencies

5. Developing our people

- Achieved a sustainable engagement score of 77%
- Continued to invest in the capability of our top 400 leaders through our 'Leading the Saga Way' leadership development programme
- Launched Leadership degree

What's our plan?

In order to deliver sustainable long-term earnings our strategic priorities for the coming year are:

1. Becoming increasingly customer-centric

We will expand and improve Possibilities, further enhance our data capability and increase the rate of product differentiation.

+ Read more **p18**

Measuring success

- Products held by HACs
- Number of HACs and potential HACs (pHACs)
- Number of core products per HAC

2. Growing our Retail Insurance and Travel businesses

As the largest part of the Group, our Retail Insurance business has a vital role in acquiring and retaining customers. The Travel business remains at the heart of the Saga brand and we use our customer insights to ensure the proposition remains relevant.

+ Read more **p18**

- Increase in number of core Saga policies
- Increase in number of passengers travelled and booked

3. Investing for future growth

We will continue building demand for our new ships and prepare for operational delivery. We will also launch our new retail insurance platform for motor insurance and develop the next phase for home insurance. We will accelerate the development of our new travel reservation system.

+ Read more **p19**

- New ships on track for June 2019 and August 2020
- Number of booked passengers

4. Maintaining our efficient operating model

We will drive efficiencies across the Group, facilitated by the new claims platform and first phase of the broking policy platform.

+ Read more **p19**

- Deliver cost and efficiency improvements
- Continue to refresh our systems with the launch of a new travel reservation system

5. Developing our people

Our people are central to everything we do. They ensure our customers receive the Saga experience throughout the business.

+ Read more **p19**

- Improvement in sustained engagement
- Continued rollout of the leadership development programme to the top 400 leaders within Saga

1. Becoming increasingly customer-centric

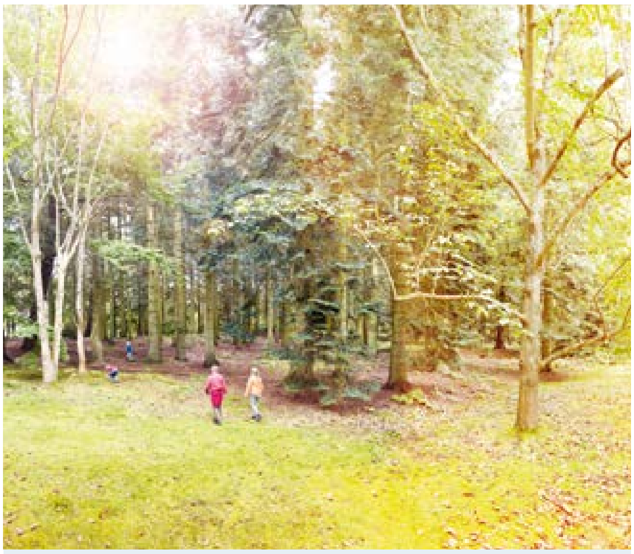
Our membership programme strengthens our ability to focus on rewarding, retaining and growing our target customer base. We will continue to look at ways to expand and improve the proposition for our 500k+ members and enhance both engagement and retention.

We will continue to invest in increasing our data capabilities to gain insight into the evolving needs and behaviours of our customer base. Leveraging this knowledge, we will seek to offer more differentiated products within our Insurance and Travel businesses.

Possibilities provides the unique opportunity to gain greater insight into the needs and behaviours of our target customers, and leads to opportunities to develop our membership programme further.

We will continue to roll out the Adobe Marketing Cloud tool to help us identify customers with the characteristics of HACs and will focus our marketing activities on this segment.

Our goal continues to be to grow the number of products held by HACs by 20% by 2022.



2. Growing our Retail Insurance and Travel businesses

To support our return to sustainable profit growth, we are rebalancing the business towards growing customer numbers through targeted marketing.

As the largest part of the Group, our Retail Broking business remains a vital tool in acquiring and retaining customers. Our panel of third-party underwriters allows us to offer competitive insurance products to a broad section of our target demographic without taking any underwriting risk.

We will focus on generating growth in our Retail Insurance business through optimised pricing, differentiated product propositions and increased efficiencies within our call centres and back office functions.

The Travel business remains at the heart of the Saga brand. We will focus on increasing our tour passenger numbers through existing propositions in which we have a differentiated product and new propositions in segments in which we have a competitive advantage.

+ Read more about risk on **p24**
+ Read more about our target market on **p12**
+ Read more about KPIs on **p16**

3. Investing for future growth

We will continue building demand for our new ships and preparing for operational delivery.

We will launch our new retail insurance platform for motor insurance and develop the next phase for home insurance.

We will accelerate the development of our new travel reservation system.

We will continue to focus on delivering improvements to the customer experience and on improving the efficiency of our Insurance and Travel businesses to attract new customers, increase cross-sell, retain and grow HACs.

4. Maintaining our efficient operating model

We will build a stronger focus on operational efficiency and performance excellence to ensure that we run the business in the most efficient way, allowing us to price competitively. We will continue to focus on growing policy and passenger numbers organically whilst carefully assessing capital allocation. This will lead to a higher quality of earnings over time.

We will drive efficiencies across the Group, facilitated by the new claims platform and the first phase of the broking policy platform.

5. Developing our people

Our people are central to everything we do because they ensure that our customers receive the Saga experience. We continue to invest in their development.

People and culture

Our people are core to our brand. They bring the Saga Way to life by putting our customers and colleagues at the heart of everything they do. We continue to build a culture which encourages our people to be brave and challenge each other to do the right things for our customers. We work together as One Saga to deliver exceptional products and services to our customers.

This year we reshaped our structure to focus increasingly on our customers. Through regular communication, we have made sure our people understand how our business is changing and why.

We want our employees to reach their potential wherever they work in the business and in 2017 we:

- launched the Leadership degree through the Saga Academy, to which over 50 employees have signed up for to date;
- invested in leadership development to take over 400 of our senior managers through the Leading the Saga Way programme which focuses on building a high-performing culture in the business; and
- re-launched our graduate management trainee scheme.

Together with new apprenticeship programmes in a range of teams and the Saga Academy, which provides a suite of learning and development tools for all our employees, these initiatives will help us attract talent to Saga. To support making Saga a great place to work, we hold listening groups and carry out regular engagement surveys, the outputs of which are shared with our leaders across the business.

We continue to strive for high levels of employee engagement. Whilst our sustainable engagement score fell slightly in 2017 from 81% to 77%, we are committed to using the insight to improve our overall sustainable engagement score. We were delighted that more than 70% of our people completed the online survey in 2017 and we have continued to out-perform the UK norm in a number of key areas such as our employees supporting our values and being proud to be associated with Saga.

We want our employees to feel closely aligned to the success of our business and this year, for the third year, we awarded all eligible employees up to £300 worth of shares.

We have continued to embed our reward principles, and have kept our pay and benefits competitive and fair while managing costs.

We consulted on changes to our pension schemes proposing changes that were more sustainable for the organisation in the long term. We have kept our defined benefit scheme open to new colleagues as well as encouraging our employees to keep saving.

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

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

We value diversity not just because it is the right thing to do, but because diverse teams perform better. Creating a culture in which everyone feels welcome and offering equal opportunities in all aspects of employment and advancement continue to be incredibly important to us.

Diversity and an employee base that brings different perspectives, backgrounds and ways of thinking is very important to our business. Fair consideration is given to applications from all applicants, including those with disabilities; and to continuing the employment of employees who become disabled during employment.

We are committed to treating all employees fairly and to offering equal opportunities in all aspects of employment and advancement.

Gender diversity January 2018

	Male		Female		Total
	Actual	%	Actual	%	
Board[1]	5	71	2	29	7
Senior managers[2]	131	68	63	32	194
Employees[3]	1,736	42	2,359	58	4,095
All	**1,872**	**44**	**2,424**	**56**	**4,296**

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

Community and social

Saga is a major employer in Folkestone, Thanet, Hastings and Redhill, as well as having satellite offices in Redhill, Bolton, Durham, Coventry and Peterborough. We recognise the impact that we have in the communities in which we operate, which is why we are so proud to support these areas through charitable giving and employee volunteer programmes.

In 2016, Saga announced a three year partnership with The Silver Line, the UK's only 24-hour helpline for isolated older people. Through the support of customers, employees and the business, Saga gave £228k to The Silver Line during the first year of the partnership.

In 2017, we launched our local giving programme, which assists registered charities based within a 20-mile radius of our office sites.

Our partner sites continue to support charities which resonate with their brands or with which their employees have a strong connection. This year, Titan Travel continued to support the Golden Lion Children's Trust; Destinology raised funds for The Bolton Hospice; and Bennetts has supported the PICU unit at Addenbrooke's Hospital.

CSR Site Representatives at each office coordinate fundraising activities, respond to charitable enquiries and recruit volunteers.

In 2016, match funding was introduced to employee payroll giving and this has been rolled out further during 2017. Employees taking part in fundraising activities for registered charities can now apply for match funding.

We also launched an employee lottery in aid of charity this year.

Our offices were again selected as contact centres for Children in Need and the phones were manned by volunteers from across the business.

As a signatory to the Corporate Covenant, we have policies that support employees who are members of the reserve forces or whose spouses serve in our armed forces. To mark Armed Forces Day, representatives from the armed services were invited to Saga's HQ. Donations were made to: The Royal British Legion; The Armed Forces charity SSAFA; Help for Heroes; and The Royal Navy and Royal Marines Charity.

The Saga Respite for Carers Trust provided 28 holidays for unpaid carers during 2017, utilising remaining trust funds before closing on 2 February 2018.

This year the Saga Charitable Trust continued to provide grants to projects in the developing world in areas visited by Saga's holidaymakers. Eleven grants totalling over £124,000 were awarded. Projects included a mobile clinic in India, vocational training for deafblind people in Nepal, and a community kitchen in Peru.

Public relations

There is an important social commentary aspect to the Saga brand. We have represented the views of our members on a wide range of issues that affect the nation's over 50s including stamp duty exemptions for downsizing, energy costs, cybercrime, GP waiting times, NHS treatment and employment.

Saga is strictly non-party political, but we do survey the opinions of our members through the Saga Populus Panel – the largest poll of over 50s opinion. This poll has been running for more than 10 years, giving us enhanced insight into a wide range of views that are important to our members.

Human rights

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

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

Anti-bribery and anti-corruption

Saga has a zero tolerance approach to bribery and corruption. An anti-bribery and anti-corruption policy is in operation throughout the Group to ensure compliance with the Bribery Act 2010. We undertake regular risk assessments of our activities and destination markets, and design suitable procedures to mitigate the risk of bribery and corruption. These include due diligence before entering into new business acquisitions, material supplier contracts and joint ventures. Saga's Financial Crime, Data and Information Security Committee monitors the effectiveness of our policy and procedures, and oversight is provided by the Audit Committee as set out in the Committee report on page 74.

Health and safety

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

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

Beyond this, everyone in Saga has a personal responsibility for health and safety and for performing the activities they undertake in a safe manner and this is regularly communicated.

Greenhouse gas emissions

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

Total GHG emissions decreased by 13% during the 2017/18 financial year compared with the year before. Saga plc has emitted a total of 90,317 tCO_2e from fuel combustion (Scope 1 direct) and electricity purchased for our own use (Scope 2 indirect). This is equivalent to 74.7 tCO_2e per £m customer spend. The Scope 3 emissions, which we choose to report voluntarily, have increased significantly due to improved data coverage in 2017/18. The expanded reporting of emissions arising from business travel gives our stakeholders greater visibility of our actual impact.

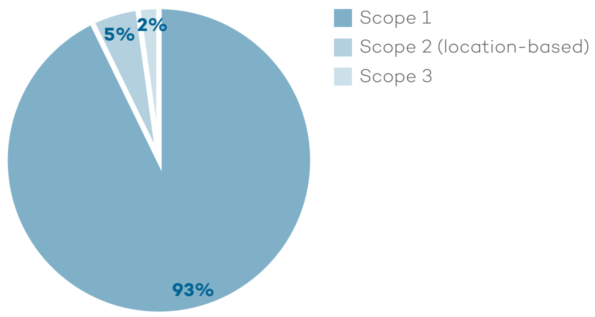
The table below shows GHG emissions for the year ended 31 January 2018:

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

Emissions Source	2017/18 Emissions	2016/17 Emissions
Scope 1	86,264 tCO_2e	100,951 tCO_2e
Scope 2 (location-based)	4,053 tCO_2e	5,343 tCO_2e
Total Scope 1 & 2	90,317 tCO_2e	106,294 tCO_2e
tCO_2e per £m customer spend	74.7	89.9
Scope 2 (market-based)[1]	221 tCO_2	658 tCO_2
Scope 3	2,187 tCO_2	425 tCO_2e

Note:
1 Emissions from the consumption of electricity outside the UK and emissions from purchased electricity calculated using the market-based approach using supplier-specific mission factors are reported in tCO_2 rather than tCO_2e due to the availability of emission factors

Total location-based emissions



Methodology

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

The UK *2017 Government GHG Conversion Factors for Company Reporting* have been applied to calculate Scope 1, Scope 2 (location-based) and Scope 3 emissions from corresponding activity data. Supplier-specific emissions factors have been applied for the calculation of Scope 2 market-based emissions.

Reporting boundaries and limitations

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

The GHG sources that constitute our operational boundary for the 2017/18 reporting period are:

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

Saga plc is disclosing diesel used in non-road machinery for the second year. This year, the disclosure has been further expanded to include business travel in taxis and transmission and distribution losses associated with electricity consumption. As in previous years, Scope 3 business travel emissions from rail and air have been identified, but not included in our disclosure due to a lack of accurate data.

Assumptions and estimations

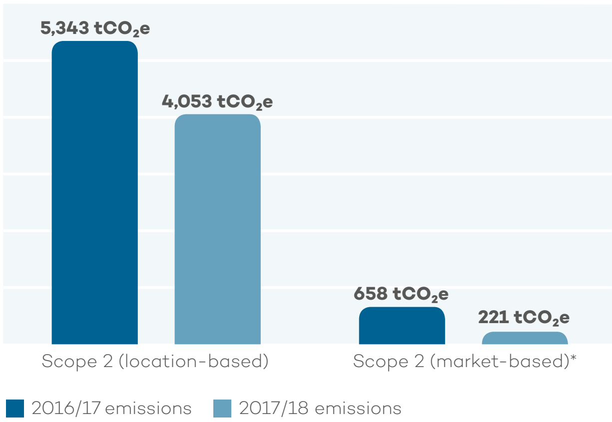
The Bel Jou hotel in Saint Lucia was sold during the 2016/17 financial year and is no longer part of the Group.

In some instances, where data is missing, values have been estimated using either an extrapolation of available data from the reporting period or data from 2016/17 as a proxy.

Energy procurement decisions

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

Scope 2 electricity emissions by reporting type



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

Improving performance

In collaboration with Carbon Credentials, we continue to monitor and measure our carbon impact.

There have been efforts to reduce energy usage across Saga plc during 2017/18, and overall Scope 1 and 2 emissions have reduced by 15% compared with last year.

Marine fuel usage, which is the largest contributor to our emissions, has decreased by 8% compared with last year. This is attributed to more fuel efficient itinerary planning and two dry docks during the financial year; as fuel quantity may improve in future years, we expect that fuel use per passenger will decrease.

Furthermore, there have been reductions in every energy consuming activity apart from natural gas consumption and Scope 3 business travel.

Risk governance

The Board has agreed systems and processes to govern our approach to risk management. These systems require us to ensure that effective risk assessment and management systems are in place; to agree the principal risks and uncertainties (PRUs) the business should accept in pursuit of its strategic objectives and regularly review the status of these; to ensure a suitable risk culture is embedded throughout Saga; and to frequently assess the effectiveness of the Group's risk management systems, including essential levels of internal and external communication of risk. Our approach and these processes are set out in more detail in the Accountability section of the Corporate Governance Statement on pages 69-73 of this Annual Report.

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

Risk appetite

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

Financial strength

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

Earnings volatility

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

Liquidity

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

Conduct

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

Market risk

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

Credit risk

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

Strategic risk

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

Liquidity risk

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

Insurance risk

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

We enter into certain reinsurance arrangements, for example, our funds-withheld quota share arrangement with Hannover Re and NewRe, to reduce our exposure to large losses and a potential deterioration in claims development.

Mergers and acquisitions risk

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

Operational risk

We actively seek some logistical risks where we believe that we have expertise and will be rewarded for taking them. We have a very low appetite for risks which threaten our reputation and will only engage in regulated activities where we have the expertise to manage them effectively. In the table on pages 26-29, we define our risk appetite for certain specific areas of operational risk.

Health and safety

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

Cyber security

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

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

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

+ Read more in the Accountability section on **p69**

PRU Category	Strategic priorities linkage	Risk
IT systems and processes	1 2 3 4	Inability to develop digital offerings sufficient to drive innovation and growth
		Insurance platform replacement does not deliver future planned benefits
		Failure to create the appropriate omni-channel customer experience to achieve plan
Cybercrime	1 2 3 4	Cybercrime attacks cause breach or loss of sensitive data assets and prevent achievement of objectives
People	1 2 3 4 5	We do not attract or retain the right people to achieve our objectives
		Our culture does not align to our brand values
Operational efficiency/ change/innovation	1 2 3 4	New ship(s) do not fully meet future customer needs
		Failure to accrue expected benefits from operational change initiatives
		Failure to achieve benefits anticipated from Possibilities
	2 3 4 5	Failure to achieve the right return from marketing investment
Business interruption	1 2 3 4	Reputational damage arising from ineffective handling of interruption incidents
External regulatory landscape/political change	1 2 3 4	Changes in regulation impact on planned activities (including Financial Conduct Authority (FCA) and General Data Protection Regulation (GDPR))
	1 2 3 4 5	UK decision to leave the EU negatively impacts our business models

Key

1 Becoming increasingly customer-centric
2 Growing our Retail Insurance and Travel businesses
3 Investing for future growth
4 Maintaining our efficient operating model
5 Developing our people

Mitigation	Movement
Digital innovation remains a core focus at Group and business level with continued investment during 2017 in system development, particularly in digital marketing systems and supporting resource	↓
We are currently on track to deliver assumed benefits, and we have also gained positive assurance on our programme management	New
We continue to invest in our key data and marketing systems. Our understanding of our customers provides us with the insight to deliver an omni-channel customer experience	New
Saga's 'continuous improvement' approach to providing ongoing protection to Saga's data assets is well embedded and enables us to keep abreast of emerging threats	→
A recent review of roles and responsibilities has been completed to ensure we have the right people in the right roles throughout the organisation, supported by talent management and leadership development programmes	→
Our brand and cultural values are now well understood across the business, and good progress is being made in embedding these as planned	→
Our dedicated product development and transition programme is now well established and is fully aligned with the new ship design team. We have gained input from new and existing customers on the proposition	→
Our Group Change Management function is now well established and all change throughout the Group is consistently prioritised and monitored	→
Following the launch of Possibilities, initial customer take-up and feedback have been extremely positive and the business continues to invest in further enhancing the customer proposition	New
Plans are in place to maximise the benefit from the additional investment in marketing in 2018/19	New
Our reinforced Business Continuity team is well established and work continues to ensure that our processes operate to a robust level of resilience and recovery capability	↓
Our project teams are working to ensure that the business complies with recent changes to FCA and GDPR regulations. Internal monitoring teams across the 2nd and 3rd lines of defence test compliance on an ongoing basis. The additional regulatory requirements increase the short-term risk while our mitigations are being implemented	↑
Following an initial impact assessment, further scenarios have been considered, potential outcomes and actions have been identified and monitoring is ongoing	→

PRU Category	Strategic priorities linkage	Risk
Counterparty	3 4 5	Inability to find an appropriate solution to manage pension fund shortfall
	1 2	Inability of key partner to provide appropriate service
Insurance landscape	1 2 3 4	Claims experience is adverse compared with current best-estimate assumptions
		Inability to compete with insurance competitors
		Rates in the motor insurance market do not move as expected
		Motor panel does not deliver the expected benefit
	2 3 4	Further changes in the Ogden discount rate negatively impact claims reserves and profitability
Conduct/customers	1 2 3 4	Our behaviour results in poor or unacceptable outcomes for customers
Macroeconomic climate	2 3 4	Investments do not yield expected returns
Travel landscape	1 2 3 4	Failure to create expected demand for future shipping capacity
		Failure to maintain existing shipping fleet at a level to meet both customer expectations and plan
		Failure to enhance customer propositions and brand perception to drive more first time buyers and additional revenue streams
		Inability to offset product commoditisation with agile pricing and yield management

Key

1. Becoming increasingly customer-centric
2. Growing our Retail Insurance and Travel businesses
3. Investing for future growth
4. Maintaining our efficient operating model
5. Developing our people

Mitigation	Movement
The Company has been closely engaged with employees and the pension Trustee to work on an appropriate recovery plan and redesign of the pension scheme benefits. A deficit repayment plan has been agreed	↓
We have recently refreshed our approach to assessing supplier risk, and to ensuring that our approach to completing due diligence, contracts and ongoing monitoring is appropriate given their potential impact on our operations and customer outcomes	→
AICL's claims experience continues to be in line with expectations, and is subject to close scrutiny and ongoing monitoring	→
Competition remains intense within the insurance market. To counteract this, we set the price in the Insurance Broking operation to compete where appropriate. We have panels in place for home and motor products to enable an appropriate customer footprint	→
We continue to run a motor panel arrangement, thereby increasing competitiveness and reducing risk. We continuously review AICL risk appetite to consider non-standard risks where they are understood	→
The performance of the motor panel has continued to improve and we are working closely with all panel underwriters to look for opportunities to further improve net rates and broaden our footprint	New
AICL continues to monitor the impact of the Ogden rate on the industry and is prepared to respond to any further changes	New
Saga's governance structure, brand and cultural values are built on the premise of customer dedication, and customer outcomes are regularly considered throughout the organisation	↓
We have recently updated our investment strategy to ensure our investment portfolio has an appropriate spread of risk and optimal returns, which is governed by an investment committee	↓
Following the completion of customer research, we continue to enhance our product offering, marketing and sales development plans. Our activities are generating sufficient demand for the new ship currently on sale	↓
The 'Beyond Compliance' programme is now completed. There is a significant focus on maintaining existing vessels, and ensuring that the right level of maintenance and customer care is established for new ships. The risk increases with the age of the existing fleet. The first of our two older vessels will leave the fleet in February 2019	↑
Extensive work has been undertaken to refresh and expand our product ranges, improve product flexibility and shift brand perception to attract more first time buyers. This will be ongoing	↓
Investment in new travel systems will include improvements in pricing and yield management capability	↓

Insurance Retail Broking

Our Retail Broking business provides tailored insurance products to millions of customers each year.

Retail Underlying Profit Before Tax[1]

£130.2m
(5.7%)

Policy count

2,781k
(7.3%)

Written profit per core policy

£44.3
+12.4%

Note:
1 Alternative performance measure – refer to the glossary on page 209 for definition and explanation

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 Insurance Premium Tax (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 for our customers and play an important role in deepening our relationship with them.

Our PMI business performed strongly, in terms of both 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.

Case study: A simpler quote journey for our home insurance customers

Drawing on data and customer feedback, a simplified home insurance quote journey was launched in late 2017.

Within the new journey, we have removed over a third of the risk questions and have simplified almost a third more. This means that obtaining a quote online or over the phone is quicker and more straightforward than ever before.

We have improved the customer experience significantly and reduced the time it takes to provide a home insurance quote. We are having richer conversations with our customers about things that really matter to them.

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

AICL, our underwriter, retains its competitive advantage and high panel share of older, lower-risk drivers and remains a critical part of our business.

Underwriting Underlying Profit Before Tax[1]

£79.2m

+2.7%

Solvency II coverage ratio

171%

+28 ppts

Pure COR[2]

97.7%

(1.9ppts)

Underlying reserve releases

£60.0m

(4.8%)

Notes:
1 Alternative performance measure – refer to the glossary on page 209 for definition and explanation
2 Please refer to page 46 of the Group Chief Financial Officer's review for how this Alternative Performance Measure is calculated and defined

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 continue 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 c.£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 Hannover Re 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. In 2017, we took more than 208,000 passengers all over the world on package holidays, escorted tours and cruises.

Revenue
£448.8m
+3.9%

Passengers – Holidays
184k
(3.2%)

Passenger days – Cruising
323k
+7.3%

Operating margin
4.5%
+1.1ppts

Underlying Profit before Tax[1]
£20.4m
+36.9%

Notes:
1 Alternative performance measure – refer to glossary on page 209 for definition and explanation

Travel
The Travel business achieved growth in both revenue and Underlying PBT[1] of 3.9% and 36.9% respectively, and remains on track to grow PBT[1] 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[1] 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[1] 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 of Sapphire in the prior year.

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 ('000s)	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 ('000s)	23.3	*4.0%*	22.4	11.4	*153.3%*	4.5

Emerging Businesses

Current trading

Our Travel business has excellent visibility of bookings in the year ahead due to our customers' preference for booking holidays in advance. In both Tour Operating and Cruising, we have already secured the majority of our FY 2019 sales targets.

Overall profitability of 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 Operating 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 Spirit of Discovery having achieved over 50% of our sales target for her first 19 cruises at attractive per diem rates.

Case study: Service differentiation in our Travel business helps us build long-term relationships with our customers

The overseas concierge service is a personal pre-departure service that aims to give our holidays customers information regarding all aspects of their holiday. This ranges from generic information about the locale to personalised requests, such as arranging restaurant bookings and organising flowers for special occasions. Our concierges build relationships with our customers right from the beginning of their Saga holidays journey, helping us create more memorable holiday experiences for our customers.

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

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 of bringing 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 Healthcare

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.

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).

> "Strong cash flows and conversion have enabled us to continue to deleverage to 1.7x from 1.9x at the start of the year."

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

Notes:
1 Alternative performance measure – refer to the glossary on page 209 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 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; and
- consideration of prevailing risks and uncertainties as documented on pages 24-29.

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 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 reinvestment 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 from 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 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%*

Notes:
1 Alternative performance measure – refer to the glossary on page 209 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

Note:
1 Refer to note 21 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 Spirit of Discovery of £13.2m and £13.9m respectively and the first stage payment for 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)[1]	**97.7%**	*1.9ppt*	99.6%

Total revenue for the Retail Broking business 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 policies. 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

Note:
1 Please refer to page 46 for details of how this alternative performance measure is calculated and defined

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.

Underlying Profit Before Tax in the Retail Broking insurance business on a written basis has increased by 4.3%, primarily due to higher average revenue 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				12m to Jan 2017		
	Earned	**WTE**	**Written**	*Growth*	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				12m to Jan 2017		
	Earned	**WTE**	**Written**	*Growth*	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				12m to Jan 2017		
	Earned	**WTE**	**Written**	*Growth*	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 policies sold analysed by:							
– 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 on sale of some bonds 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

Notes:
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%

Note:
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% (2017: 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 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 interest cost of 2.63% (overall cost of 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 six months after delivery. On the date the finance was entered into, the Group purchased Euro currency forwards totalling £211.5m which represents 72% of the cost of the ship.

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 in 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 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.

Jonathan Hill
Group Chief Financial Officer
11 April 2018

The Strategic Report was approved by the Board and signed on its behalf by Lance Batchelor, Group Chief Executive Officer on 11 April 2018.