**4 April 2019**

**This announcement contains inside information**

**Saga plc**

**Preliminary Results for the full year ended 31 January 2019**

*Saga to refocus on its heritage as a direct to consumer brand with membership at its core*

Saga plc ("Saga" or "the Group"), the UK's specialist in products and services for life after 50, announces its preliminary results for the twelve months ended 31 January 2019.

***Lance Batchelor, Group Chief Executive Officer, said:***

"Over recent years Saga has faced increasing challenges from the commoditisation of the markets in which we operate, especially in Insurance. This has had an impact on both customer numbers and profitability. Although Underlying Profit Before Tax for the 2018/19 financial year is in line with our expectations, the long-term challenges we face and the results demonstrate that Saga cannot grow without a clearly differentiated offering to its customers.

In response, today we are launching a fundamental change to the Group's strategy to return the whole business to its heritage as an organisation that offers differentiated products and services. This will give our customers and members a compelling reason to come to us and stay with us.

As a first step, we are announcing the launch of a new approach to Insurance. This focuses on direct channels and products that offer attractive innovative features, moving the conversation from price to value. Our new three-year fixed price insurance offering is a powerful indication of our change in approach.

As a result of lower margins in Insurance, a change in approach to renewal pricing, lower reserve releases and investment in new products, Underlying Profit Before Tax for the 2019/20 financial year is expected to be between £105m-120m. Therefore, we have taken the difficult decision to reduce our final dividend and write down goodwill. The fundamental changes we are making are essential to address the long-term challenges facing our business. They will support future growth in customers and profits, and generate attractive cash flows for Saga."

**Financial highlights**

| | **31 January 2019** | **31 January 2018 (restated)** | **Change** |
|---|---|---|---|
| Underlying Profit Before Tax[1] | £180.3m | £190.6m | (5.4%) |
| (Loss)/Profit before tax from continuing operations | (£134.6m) | £180.9m | (174.4%) |
| Underlying Earnings Per Share[1] | 13.1p | 13.8p | (5.1%) |
| Basic earnings per share from continuing operations | (14.5p) | 13.1p | (210.7%) |
| Proposed full year dividend | 4.0p | 9.0p | (55.6%) |
| Available operating cash flow[1] | £180.6m | £175.5m | 2.9% |
| Net debt[2] | £391.3m | £432.0m | 9.4% |
| Debt ratio (net debt to Trading EBITDA) | 1.7x | 1.7x | - |

[1] Alternative performance measure – refer to the glossary on pages 55-56 for definition and explanation
[2] Bank debt and borrowings, excluding any overdrafts held by restricted trading subsidiaries, net of available cash

**Performance in 2018**

- Underlying Profit Before Tax down 5.4% at £180.3m reflecting strong reserve releases but disappointing Retail Broking result
  - Retail Broking down 19.1% at £105.8m
  - Underwriting up 9.3% at £86.7m, supported by underlying reserve releases of £78m
  - Travel up 2.4% at £21.1m, with strong forward bookings in Cruise

- Emerging businesses and central costs (excluding finance costs) improved by 21.5% to (£21.6m)

- Loss before tax of (£134.6m) after Goodwill impairment of £310m
- Available operating cash flow £180.6m
- Net debt reduced to £391.3m with net debt to trading EBITDA at 1.7x
- Proposed full year dividend reduced to 4.0p with expected future payout of approximately 50%

**Strategic Change**

- Fundamental shift in strategy to address long term challenges
- Saga to refocus on its heritage as a direct to consumer brand with membership at its core, providing differentiated products and services that customers can't get elsewhere
- Launch of new Insurance approach focused on growing direct channels, with the launch of a 3 year fixed price proposition, and with a new approach to renewal pricing
- Accelerating transformation of Tour Operations
- Continue the Cruise transformation
- Investment behind new products and membership to build on early signs of traction
- 2019/20 Underlying profit before tax expected to be £105-£120m due to a reduction in reserve releases, as well as a decline in Broking gross margins (less marketing costs) from £80 to between £71-£74 per policy
- Action on dividend and amendments to banking facilities provide robust balance sheet to support strategic change

**END**

*A presentation to analysts and investors on the preliminary results and the change in strategy will be held at 09.00 at the offices of Numis, 10 Paternoster Square, London, EC4M 7LT. The presentation will be broadcast via a webcast and a conference call for registered participants. Registration for the webcast can be completed at http://corporate.saga.co.uk/. The conference call can be accessed on:* UK: 020 3936 2999, all other locations: +44 20 3936 2999. Participant Password: 484709.

For further information please contact:

**Saga plc**
Mark Watkins, Investor Relations Director
Tel: 07738 777 479
Email: mark.watkins@saga.co.uk

**MHP Communications**
Tim Rowntree/Simon Hockridge
Tel: 020 3128 8100
Email: saga@mhpc.com

**Notes to editors**

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

## Chairman's statement

### Strategy

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

### Performance in 2018

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

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

### Dividend and Goodwill impairment

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

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

We have also re-assessed the carrying value of the goodwill relating to the Group's Insurance operations. This has resulted in a non-cash impairment charge of £310.0m, representing 22% of the Insurance goodwill, and has led to an overall loss before tax for the financial year 2019/20 of £134.6m and a loss after tax of £162.0m.

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

### Changes to the Board

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

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

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

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

**The future**

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

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

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

**Group CEO's statement**

**Summary**

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

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

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

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

- We are changing our approach to selling insurance. This will move our Insurance business from one that, like the majority of the industry, wins new customers on price and recoups initial losses through increased renewal pricing. Instead, we will offer a differentiated insurance product on the basis of unique and attractive features. The significance of this change should not be underestimated in today's insurance market.
- Our Cruise offering is a brilliant example of a product that is already highly differentiated and competitively priced. The transition to two new ships and resultant upgrade in the offering is an example of how we are changing Saga. We need to do the same thing in Tour Operations, and move faster to become a differentiated, niche provider of great customer experiences. This might mean that overall volumes remain at current levels, but we expect our margins to increase in line with those of best in class specialist travel companies, reflecting the quality of the product.
- We will invest more in supporting our new product propositions. We have started this and are seeing some green shoots from our first TV advertising campaign.
- And we will wrap all of this in our Membership proposition, Saga Possibilities, to help us build loyalty and multi-product holdings, and as a means of attracting new customers.

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

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

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

**A fundamental shift in our Retail Broking business**

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

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

The result has been a decline in profit and policies.

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

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

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

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

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

**Our Travel Strategy**

In 2018, the Travel division had its fifth successive year of profit growth, beating £21m Underlying Profit Before Tax for the first time. However, Brexit is putting a clear dampener on customers' willingness to commit to holidays in 2019.

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

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

**Our Membership Strategy**

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

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

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

**The Saga Brand**

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

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

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

**Looking Forward**

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

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

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

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

**Operating and Financial Review**

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

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

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

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

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

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

***Operating Performance***

***Group Income Statement***

| £m | 12m to Jan 2019 | *Growth* | 12m to Jan 2018 (restated)[3] |
|---|---|---|---|
| **Revenue[4]** | **841.5** | ***(2.2%)*** | **860.2** |
| **Underlying Profit Before Tax[1]** | | | |
| Total Retail Broking (earned) | 105.8 | *(19.1%)* | 130.7 |
| Underwriting | 86.7 | *9.3%* | 79.3 |
| Total Insurance | 192.5 | *(8.3%)* | 210.0 |
| Travel | 21.1 | *2.4%* | 20.6 |
| Emerging Businesses | 3.1 | *287.5%* | 0.8 |
| Central Costs | (18.5) | *21.5%* | (26.7) |
| Net finance costs[5] | (11.7) | *6.4%* | (12.5) |
| | **180.3** | ***(5.4%)*** | **190.6** |
| Net fair value gains / (losses) on derivatives | 1.0 | | (0.6) |
| Debt issue costs | - | | (4.3) |
| Restructuring costs | - | | (4.8) |
| Impairment of cruise ships | (5.9) | | - |
| Impairment of goodwill | (310.0) | | - |
| **(Loss) / profit before tax from continuing operations** | **(134.6)** | ***(174.4%)*** | **180.9** |
| Tax expense | (27.4) | *19.2%* | (33.9) |
| Loss after tax for the year from discontinued operations | - | | (7.6) |
| **(Loss) / profit after tax** | **(162.0)** | ***(216.2%)*** | **139.4** |
| **Basic earnings per share:** | | | |
| Underlying earnings per share from continuing operations[1] | 13.1p | *(5.1%)* | 13.8p |
| Earnings per share from continuing operations | (14.5p) | *(210.7%)* | 13.1p |
| Earnings per share | (14.5p) | *(216.0%)* | 12.5p |

[3] The Group has adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments and is reporting its performance for the twelve months to 31 January 2019 against a restated comparative period for the 12 months to 31 January 2018 under these new standards. For further details, see note 2.2 on pages 30-35

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

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

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

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

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

Total customer spend[1] reconciles to revenue as follows:

| £m | 12m to Jan 2019 | *Growth* | 12m to Jan 2018 (restated) |
|---|---|---|---|
| **Total customer spend[1]** | **1,210.1** | ***0.1%*** | **1,208.8** |
| Net premiums paid to insurance underwriters | (296.6) | | (278.3) |
| Insurance premium tax | (72.0) | | (70.3) |
| **Revenue[1]** | **841.5** | ***(2.2%)*** | **860.2** |

***Underlying Profit Before Tax[1]***
Underlying Profit Before Tax decreased by 5.4% to £180.3m (2018: £190.6m).

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

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

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

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

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

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

***Retail Broking***

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

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

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

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

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

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

| £m | 12m to Jan 2019 Motor Broking | Home Broking | Other Broking | Total | *Growth* | 12m to Jan 2018 (restated) Motor Broking | Home Broking | Other Broking | Total |
|---|---|---|---|---|---|---|---|---|---|
| GWP | | | | | | | | | |
| Broked | 132.9 | 161.4 | 123.0 | 417.3 | *6.0%* | 105.4 | 164.3 | 123.9 | 393.6 |
| Underwritten | 219.0 | 0.0 | 4.1 | 223.1 | *(13.8%)* | 254.0 | 0.0 | 4.7 | 258.7 |
| | 351.9 | 161.4 | 127.1 | 640.4 | *(1.8%)* | 359.4 | 164.3 | 128.6 | 652.3 |
| Broker revenue | 30.7 | 43.7 | 44.4 | 118.8 | *(20.6%)* | 42.3 | 52.9 | 54.5 | 149.7 |
| Instalment revenue | 7.5 | 2.9 | 0.1 | 10.5 | *4.0%* | 7.1 | 2.8 | 0.2 | 10.1 |
| Add-on revenue | 27.9 | 10.6 | 0.1 | 38.6 | *(5.4%)* | 28.9 | 11.8 | 0.1 | 40.8 |
| Other revenue | 43.7 | 17.3 | 24.2 | 85.2 | *13.4%* | 39.5 | 13.9 | 21.7 | 75.1 |
| **Written revenue** | **109.8** | **74.5** | **68.8** | **253.1** | ***(8.2%)*** | **117.8** | **81.4** | **76.5** | **275.7** |
| **Written gross profit** | **107.6** | **74.5** | **55.9** | **238.0** | ***(8.9%)*** | **115.3** | **81.4** | **64.6** | **261.3** |
| Marketing expenses | (20.9) | (7.1) | (8.8) | (36.8) | *(3.7%)* | (17.5) | (6.0) | (12.0) | (35.5) |
| Other operating expenses | (51.9) | (22.3) | (20.4) | (94.6) | *7.5%* | (58.5) | (22.7) | (21.1) | (102.3) |
| **Written Underlying PBT** | **34.8** | **45.1** | **26.7** | **106.6** | ***(13.7%)*** | **39.3** | **52.7** | **31.5** | **123.5** |
| Written to earned adjustment | (0.8) | - | - | (0.8) | *(111.1%)* | 3.6 | 3.6 | - | 7.2 |
| **Earned Underlying PBT** | **34.0** | **45.1** | **26.7** | **105.8** | ***(19.1%)*** | **42.9** | **56.3** | **31.5** | **130.7** |
| Number of policies sold[6] | | | | | | | | | |
| Core | 1,237 | 683 | 284 | 2,204 | *(3.1%)* | 1,281 | 679 | 314 | 2,274 |
| Add-ons | 1,488 | 560 | 10 | 2,058 | *(3.9%)* | 1,572 | 559 | 10 | 2,141 |
| | 2,725 | 1,243 | 294 | 4,262 | *(3.5%)* | 2,853 | 1,238 | 324 | 4,415 |
| Core policies sold[6] | | | | | | | | | |
| Saga branded | 964 | 683 | 284 | 1,931 | *(2.5%)* | 988 | 679 | 314 | 1,981 |
| Non-Saga branded | 273 | - | - | 273 | *(6.8%)* | 293 | - | - | 293 |
| | 1,237 | 683 | 284 | 2,204 | *(3.1%)* | 1,281 | 679 | 314 | 2,274 |
| Core policies sold[7] | | | | | | | | | |
| Saga branded | 964 | 1,190 | 284 | 2,438 | *(2.0%)* | 988 | 1,186 | 314 | 2,488 |
| Non-Saga branded | 273 | - | - | 273 | *(6.8%)* | 293 | - | - | 293 |
| | 1,237 | 1,190 | 284 | 2,711 | *(2.5%)* | 1,281 | 1,186 | 314 | 2,781 |
| Third-party panel share[8] | 23.7% | | | | *6.7%* | 17.0% | | | |

[6] Combined buildings and contents home core policies count as one policy
[7] Combined buildings and contents home core policies count as two policies
[8] Third-party underwriter's share of the motor panel for Saga branded policies

***Motor Broking***

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

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

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

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

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

***Home Broking***

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

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

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

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

***Other Broking***

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

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

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

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

***Insurance underwriting***

| £m | | 12m to Jan 2019 Reported | Quota Share | Underlying | *Growth* | 12m to Jan 2018 (restated) Reported | Quota Share | Underlying |
|---|---|---|---|---|---|---|---|---|
| Net earned premium | | 80.8 | (124.0) | 204.8 | (5.0%) | 84.2 | (131.3) | 215.5 |
| Other revenue | | 12.5 | 10.3 | 2.2 | (78.2%) | 14.8 | 4.7 | 10.1 |
| **Revenue** | **A** | **93.3** | **(113.7)** | **207.0** | ***(8.2%)*** | **99.0** | **(126.6)** | **225.6** |
| Claims costs | **B** | (73.1) | 108.6 | (181.7) | *6.0%* | (79.0) | 114.3 | (193.3) |
| Reserve releases | **C** | 71.1 | (6.8) | 77.9 | *29.8%* | 60.0 | 0.0 | 60.0 |
| Claims handling and levies | **D** | (6.3) | 11.5 | (17.8) | *18.3%* | (9.0) | 12.8 | (21.8) |
| | **E** | (8.3) | 113.3 | (121.6) | *21.6%* | (28.0) | 127.1 | (155.1) |
| **Gross profit** | | **85.0** | **(0.4)** | **85.4** | ***21.1%*** | **71.0** | **0.5** | **70.5** |
| Operating expenses | **F** | (2.5) | 4.3 | (6.8) | *(23.6%)* | (2.3) | 3.2 | (5.5) |
| Investment return | | 4.2 | (5.7) | 9.9 | *(39.6%)* | 10.6 | (5.8) | 16.4 |
| Quota share net cost | | 0.0 | 1.8 | (1.8) | *14.3%* | 0.0 | 2.1 | (2.1) |
| **Underlying Profit Before Tax** | | **86.7** | **-** | **86.7** | ***9.3%*** | **79.3** | **-** | **79.3** |
| Reported loss ratio | **(B+C)/A** | 2.1% | | 50.1% | (9.0%) | 19.2% | | 59.1% |
| Expense ratio | **(D+F)/A** | 9.4% | | 11.9% | (0.2%) | 11.4% | | 12.1% |
| Reported COR | **(E+F)/A** | 11.6% | | 62.0% | (9.2%) | 30.6% | | 71.2% |
| Pure COR | **(E+F-C)/A** | 87.8% | | 99.7% | 1.9% | 91.2% | | 97.8% |
| Number of earned policies | | | | 839k | *(8.4%)* | | | 916k |

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

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

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

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

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

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

In addition, £30m of the reserve releases in the year have arisen from recognition of improved development patterns within the actuarial 'best estimate' reserving methodology (2018: £20m). While there has been no change in the reserve margin held over best estimate in percentage terms, the declining level of absolute

reserves, the changes made to best estimate reserving, and the unusually low level of large reported losses in the year mean that it is highly unlikely that reserve releases will continue at 2017/18 or 2018/19 levels.

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

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

***Travel***

| | 12m to Jan 2019 | | | | 12m to Jan 2018 (restated) | | |
|---|---|---|---|---|---|---|---|
| **£m** | **Tour Operations** | **Cruise** | **Total Travel** | ***Growth*** | **Tour Operations** | **Cruise** | **Total Travel** |
| **Revenue** | **360.8** | **96.6** | **457.4** | ***1.9%*** | **360.5** | **88.2** | **448.7** |
| **Gross profit** | **70.2** | **23.1** | **93.3** | ***0.5%*** | **69.8** | **23.0** | **92.8** |
| Marketing expenses | (19.3) | (9.5) | (28.8) | *(9.9%)* | (18.4) | (7.8) | (26.2) |
| Other operating expenses | (36.8) | (6.8) | (43.6) | *5.6%* | (37.4) | (8.8) | (46.2) |
| Investment return | 0.1 | 0.1 | 0.2 | *0.0%* | 0.1 | 0.1 | 0.2 |
| **Underlying Profit Before Tax** | **14.2** | **6.9** | **21.1** | ***2.4%*** | **14.1** | **6.5** | **20.6** |
| Average revenue per passenger (£) | 2,050 | 3,715 | 2,264 | *5.0%* | 1,959 | 3,675 | 2,157 |
| Holidays passengers ('000) | | | | | | | |
| Stays | 80 | | 80 | *(7.0%)* | 86 | | 86 |
| Escorted tours | 64 | | 64 | *(4.5%)* | 67 | | 67 |
| River cruise | 22 | | 22 | *4.8%* | 21 | | 21 |
| Third-party ocean cruise | 10 | | 10 | *0.0%* | 10 | | 10 |
| | 176 | | 176 | *(4.3%)* | 184 | | 184 |
| Cruise passengers ('000) | | 26 | 26 | *8.3%* | | 24 | 24 |
| Cruise passenger days ('000) | | 334 | 334 | *3.4%* | | 323 | 323 |
| Load factor | | 82% | 82% | *(1.2%)* | | 83% | 83% |
| Per diems (£) | | 262 | 262 | *5.2%* | | 249 | 249 |

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

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

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

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

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

***Forward Travel sales***

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

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

**Trading to week ended 23 March 2019**

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

**Emerging Businesses and Central Costs**

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

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

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

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

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

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

***Cash flow and liquidity***

Available operating cash flow[1] is made up of the unrestricted cash flows from Retail Broking, Emerging Businesses and Central Costs, plus any dividends paid by restricted businesses, AICL and Travel. As well as a regulatory restriction on the cash within the Travel business, the initial instalments for the Spirit of Discovery and Spirit of Adventure have until now been funded from Travel cash. Therefore, until both ships are delivered, Travel is not expected to contribute to the Group's available operating cash flow.

The Group delivered a strong cash flow performance in the year to 31 January 2019, achieving an available operating cash flow of £180.6m, 78.1% of Trading EBITDA[1]. Operating cash flow increased by £5.1m compared to the previous year, due to increased dividends from AICL and a positive working capital inflow that is expected to reverse in the 2019/20 financial year. This was partially offset by the reduction in available Trading EBITDA, which is due to reduced earnings from the Retail Broking business.

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

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

***Available Cash Flow***

| **£m** | **12m to Jan 2019** | ***Growth*** | **12m to Jan 2018 (restated)** |
|---|---|---|---|
| Retail Broking Trading EBITDA[1] | 116.7 | *(17.0%)* | 140.6 |
| Underwriting Trading EBITDA[1] | 87.2 | *10.4%* | 79.0 |
| Travel Trading EBITDA[1] | 41.1 | *6.5%* | 38.6 |
| Emerging Businesses and Central Costs Trading EBITDA[1] | (13.7) | *(9.0%)* | (7.6) |
| **Group Trading EBITDA[1]** | **231.3** | ***(7.7%)*** | **250.6** |
| Less Trading EBITDA[1] relating to restricted businesses | (128.3) | *(9.1%)* | (117.6) |
| Intra-group transfers from restricted businesses | 78.5 | *12.1%* | 70.0 |
| Working capital and non-cash items | 19.9 | *1,758.3%* | (1.2) |
| Capital expenditure funded with available cash | (20.8) | *20.9%* | (26.3) |
| **Available operating cash flow[1]** | **180.6** | ***2.9%*** | **175.5** |
| *Available operating cash flow %* | *78.1%* | | *70.0%* |

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

| | **12m to Jan 2019 £m** | **12m to Jan 2018 (restated) £m** |
|---|---|---|
| Net cash flow from operating activities (reported) | 138.0 | 135.2 |
| Exclude cash impact of: | | |
| Trading of restricted divisions | (68.7) | (56.0) |
| Non-trading costs | 5.5 | 8.7 |
| Interest paid | 13.3 | 11.1 |
| Tax paid | 34.8 | 32.8 |
| | (15.1) | (3.4) |
| Net cash released from restricted divisions | 78.5 | 70.0 |
| Include capital expenditure funded from available cash | (20.8) | (26.3) |
| **Available operating cash flow[1]** | **180.6** | **175.5** |

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

| £m | 12m to Jan 2019 | *Growth* | 12m to Jan 2018 (restated) |
|---|---|---|---|
| **Trading EBITDA[1]** | **231.3** | ***(7.7%)*** | **250.6** |
| Depreciation & amortisation (excluding acquired intangibles) | (33.0) | | (33.9) |
| Non-trading costs | (2.3) | | (3.4) |
| Amortisation of acquired intangibles | (3.6) | | (4.7) |
| Pension charge IAS19R[9] | (0.4) | | (5.5) |
| Net finance costs[5] | (11.7) | | (12.5) |
| **Underlying Profit Before Tax[1]** | **180.3** | ***(5.4%)*** | **190.6** |
| Net fair value gains / (losses) on derivatives | 1.0 | | (0.6) |
| Debt issue costs | - | | (4.3) |
| Restructuring costs | - | | (4.8) |
| Impairment of cruise ships | (5.9) | | - |
| Impairment of goodwill | (310.0) | | - |
| **(Loss) / profit before tax from continuing operations** | **(134.6)** | ***(174.4%)*** | **180.9** |
| Tax expense | (27.4) | *19.2%* | (33.9) |
| Loss after tax for the year from discontinued operations | - | | (7.6) |
| **(Loss) / profit after tax** | **(162.0)** | ***(216.2%)*** | **139.4** |

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

***Balance Sheet***

***Goodwill***

| £m | 31 Jan 2019 | 31 Jan 2018 |
|---|---|---|
| Insurance, excluding Bennetts | 1,088.6 | 1,398.6 |
| Insurance, Bennetts | 13.6 | 13.6 |
| Travel, excluding Destinology | 59.8 | 59.8 |
| Travel, Destinology | 13.0 | 13.0 |
| | **1,175.0** | **1,485.0** |

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

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

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

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

***Investment portfolio***

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

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

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

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

***Insurance reserves***

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

| £m | 12m to Jan 2019 Gross | 12m to Jan 2019 Reinsurance Assets[10] | 12m to Jan 2019 Net | 12m to Jan 2018 (restated) Gross | 12m to Jan 2018 (restated) Reinsurance Assets[10] | 12m to Jan 2018 (restated) Net |
|---|---|---|---|---|---|---|
| Reported claims | 280.4 | (73.5) | 206.9 | 306.5 | (76.1) | 230.4 |
| Incurred but not reported[11] | 103.0 | (17.7) | 85.3 | 149.3 | (17.9) | 131.4 |
| Claims handling provision | 9.2 | 0.0 | 9.2 | 10.6 | 0.0 | 10.6 |
| Total claims outstanding | 392.6 | (91.2) | 301.4 | 466.4 | (94.0) | 372.4 |
| Unearned premiums | 98.0 | (5.6) | 92.4 | 115.0 | (6.2) | 108.8 |
| Total | 490.6 | (96.8) | 393.8 | 581.4 | (100.2) | 481.2 |

[10] Excludes funds-withheld quota share agreement (please refer to note 15 on page 51 for further detail)
[11] Includes amounts for reported claims that are expected to become periodical payment orders

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

***Financing***

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

| ***Net debt*** | Maturity date | 31 Jan 2019 £m | 31 Jan 2018 £m |
|---|---|---|---|
| Corporate bond | May 2024 | 250.0 | 250.0 |
| Term loan | May 2022 | 160.0 | 180.0 |
| Revolving credit facility | May 2023 | 30.0 | 15.0 |
| Less available cash[12] | | (48.7) | (13.0) |
| Net debt | | 391.3 | 432.0 |

[12] Refer to note 22 of the financial statements for information as to how this reconciles to a statutory measure of cash

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

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

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

There are no financial covenants associated with the corporate bond.

***Pensions***

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

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

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

***Net assets***

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

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

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

***Regulation***

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

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

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

Saga welcomes the approach of the FCA and expects this to lead to a significant change across the industry in the coming years. As a business which is focused on direct distribution channels, with a higher

number of older customers, and with a strategy that is increasingly focused on rewarding customer loyalty, the Group is anticipating implementing further changes on a proactive basis. These steps are expected to reduce the near-term profitability of the Retail Broking business.

***Brexit***

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

***Dividends***

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

Within this assessment, the Board has taken account of several positive factors. Specifically, Saga's business model remains highly cash generative, absolute levels of leverage have been reduced successfully since the 2014 IPO, and none of the Group's debt is due to mature for another 3 years. This is further supported by recent changes to the terms of the covenants within the term loan and revolving credit banking facility, which provide the Group with greater financial flexibility.

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

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

Further, while the Board has a high level of confidence in the revised strategy, and a level of prudence has been factored into plan projections, the future dividend policy needs to balance cash returns to investors with the objective of maintaining a stable and secure balance sheet.

This is particularly important given the increase in debt that will result from the addition of two new ships. While cruise cash flows are expected to cover debt and interest repayments on the ships, and to enable a resumption of capital repatriations from the Travel business from the end of the 2021/22 financial year.

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

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

**Financial priorities for 2019/20**

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

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

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

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

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

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

## Consolidated income statement
## for the year ended 31 January 2019

| | Note | **2019 £'m** | 2018 (restated) £'m |
|---|---|---|---|
| Revenue | 3 | 841.5 | 860.2 |
| Cost of sales | 3 | (405.7) | (412.8) |
| **Gross profit** | | **435.8** | **447.4** |
| Administrative and selling expenses | | (244.5) | (254.3) |
| Impairment of assets | | (315.9) | - |
| Investment income | | 0.7 | 7.6 |
| Finance costs | | (11.7) | (19.1) |
| Finance income | | 1.0 | 1.5 |
| Share of loss of joint ventures | | - | (2.2) |
| **(Loss)/profit before tax from continuing operations** | | **(134.6)** | **180.9** |
| Tax expense | 5 | (27.4) | (33.9) |
| **(Loss)/profit for the year from continuing operations** | | **(162.0)** | **147.0** |
| Loss after tax for the year from discontinued operations | | - | (7.6) |
| **(Loss)/profit for the year** | | **(162.0)** | **139.4** |
| Attributable to: | | | |
| Equity holders of the parent | | **(162.0)** | **139.4** |
| **Earnings per share:** | | | |
| Basic | 7 | (14.5p) | 12.5p |
| Diluted | 7 | (14.5p) | 12.4p |
| **Earnings per share for continuing operations:** | | | |
| Basic | 7 | (14.5p) | 13.1p |
| Diluted | 7 | (14.5p) | 13.1p |

Revenue of £841.5m (2018: £860.2m) is stated net of ceded reinsurance premiums earned on business underwritten by the Group of £136.0m (2018: £139.9m).

## Consolidated statement of comprehensive income for the year ended 31 January 2019

| | **2019 £'m** | 2018 (restated) £'m |
|---|---|---|
| **(Loss)/profit for the year** | **(162.0)** | **139.4** |
| **Other comprehensive income** | | |
| ***Other comprehensive income to be reclassified to income statement in subsequent years*** | | |
| Net gains/(losses) on hedging instruments during the period | 0.5 | (5.3) |
| Recycling of previous gains to income statement on matured hedges | (2.9) | (18.8) |
| Total net loss on cash flow hedges | (2.4) | (24.1) |
| Associated tax effect | 0.4 | 4.1 |
| Net losses on fair value financial assets during the period | (1.3) | (0.3) |
| Recycling of previous gains to income statement on sale of fair value financial assets during the year | - | (4.4) |
| Total net loss on fair value financial assets | (1.3) | (4.7) |
| Associated tax effect | 0.2 | 0.8 |
| Total other comprehensive losses with recycling to income statement | (3.1) | (23.9) |
| ***Other comprehensive income not to be reclassified to income statement in subsequent years*** | | |
| Re-measurement gains on defined benefit plans | 2.1 | 10.2 |
| Associated tax effect | (0.4) | (1.7) |
| Total other comprehensive gains without recycling to income statement | 1.7 | 8.5 |
| **Total other comprehensive losses** | **(1.4)** | **(15.4)** |
| **Total comprehensive (losses)/income for the year** | **(163.4)** | **124.0** |
| Attributable to: | | |
| Equity holders of the parent | **(163.4)** | **124.0** |

## Consolidated statement of financial position as at 31 January 2019

| Assets | Note | 2019 £'m | 2018 (restated) £'m |
|---|---|---|---|
| Goodwill | 9 | 1,175.0 | 1,485.0 |
| Intangible fixed assets | 10 | 62.8 | 61.2 |
| Property, plant and equipment | 11 | 183.9 | 163.4 |
| Financial assets | 12 | 426.2 | 513.5 |
| Deferred tax assets | 5 | 14.2 | 13.7 |
| Reinsurance assets | 15 | 96.8 | 100.2 |
| Inventories | | 4.0 | 5.8 |
| Trade and other receivables | | 216.6 | 215.1 |
| Assets held for sale | | - | 6.8 |
| Cash and short-term deposits | 13 | 122.9 | 83.2 |
| **Total assets** | | **2,302.4** | **2,647.9** |
| **Liabilities** | | | |
| Retirement benefit scheme obligations | 14 | 2.8 | 7.0 |
| Gross insurance contract liabilities | 15 | 490.6 | 581.4 |
| Provisions | | 10.3 | 4.7 |
| Financial liabilities | 12 | 457.0 | 468.5 |
| Current tax liabilities | | 17.2 | 15.2 |
| Deferred tax liabilities | 5 | 7.8 | 17.0 |
| Contract liabilities | | 144.7 | 142.7 |
| Trade and other payables | | 207.7 | 185.9 |
| **Total liabilities** | | **1,338.1** | **1,422.4** |
| **Equity** | | | |
| Issued capital | | 11.2 | 11.2 |
| Share premium | | 519.3 | 519.3 |
| Retained earnings | | 404.8 | 664.8 |
| Share-based payment reserve | | 13.3 | 11.4 |
| Fair value reserve | | (1.8) | (0.7) |
| Hedging reserve | | 17.5 | 19.5 |
| **Total equity** | | **964.3** | **1,225.5** |
| **Total liabilities and equity** | | **2,302.4** | **2,647.9** |

## Consolidated statement of changes in equity for the year ended 31 January 2019

| | Attributable to the equity holders of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Issued capital £'m | Share premium £'m | Retained earnings £'m | Share-based payment reserve £'m | Fair value reserve £'m | Hedging reserve £'m | Total £'m |
| At 1 February 2018 (as reported) | 11.2 | 519.3 | 662.8 | 11.4 | (0.6) | 19.4 | 1,223.5 |
| Effect of adoption of IFRS 9 and 15 | - | - | 2.0 | - | (0.1) | 0.1 | 2.0 |
| **At 1 February 2018 (restated)** | **11.2** | **519.3** | **664.8** | **11.4** | **(0.7)** | **19.5** | **1,225.5** |
| Loss for the year | - | - | (162.0) | - | - | - | (162.0) |
| Other comprehensive income/(losses) excluding recycling | - | - | 1.7 | - | (1.1) | 0.4 | 1.0 |
| Recycling of previous gains to income statement | - | - | - | - | - | (2.4) | (2.4) |
| Total comprehensive losses | - | - | (160.3) | - | (1.1) | (2.0) | (163.4) |
| Dividends paid (note 6) | - | - | (100.9) | - | - | - | (100.9) |
| Share based payment charge (note 17) | - | - | - | 3.8 | - | - | 3.8 |
| Exercise of share options | - | - | 1.2 | (1.9) | - | - | (0.7) |
| **At 31 January 2019** | **11.2** | **519.3** | **404.8** | **13.3** | **(1.8)** | **17.5** | **964.3** |
| | | | | | | | |
| At 1 February 2017 (as reported) | 11.2 | 519.3 | 607.8 | 15.6 | 3.3 | 38.0 | 1,195.2 |
| Effect of adoption of IFRS 9 and 15 | - | - | 0.1 | - | (0.1) | 1.5 | 1.5 |
| **At 1 February 2017 (restated)** | **11.2** | **519.3** | **607.9** | **15.6** | **3.2** | **39.5** | **1,196.7** |
| Profit for the year | - | - | 139.4 | - | - | - | 139.4 |
| Other comprehensive income excluding recycling | - | - | 8.5 | - | (0.3) | (4.4) | 3.8 |
| Recycling of previous gains to income statement | - | - | - | - | (3.6) | (15.6) | (19.2) |
| Total comprehensive income | - | - | 147.9 | - | (3.9) | (20.0) | 124.0 |
| Dividends paid (note 6) | - | - | (98.5) | - | - | - | (98.5) |
| Share based payment charge (note 17) | - | - | - | 4.0 | - | - | 4.0 |
| Exercise of share options | - | - | 7.5 | (8.2) | - | - | (0.7) |
| **At 31 January 2018** | **11.2** | **519.3** | **664.8** | **11.4** | **(0.7)** | **19.5** | **1,225.5** |

## Consolidated statement of cash flows
## for the year ended 31 January 2019

| | Note | 2019<br>£'m | 2018<br>(restated)<br>£'m |
|---|---|---|---|
| (Loss)/profit before tax from continuing operations | | (134.6) | 180.9 |
| Loss before tax from discontinued operations | | - | (7.8) |
| (Loss)/profit before tax | | (134.6) | 173.1 |
| Depreciation, impairment and loss on disposal of property, plant and equipment | | 25.1 | 20.0 |
| Amortisation and impairment of intangible assets | | 329.6 | 18.5 |
| Share-based payment transactions | | 3.6 | 3.0 |
| Accelerated amortisation of debt issue costs | | - | 4.3 |
| Impairment of investment in joint venture | | - | 1.9 |
| Impairment of financial assets | | - | 6.6 |
| Profit on assets held for sale | | (3.8) | - |
| Finance costs | | 11.7 | 14.9 |
| Finance income | | (1.0) | (1.5) |
| Share of loss of joint ventures | | - | 0.5 |
| Interest income from investments | | (0.7) | (7.7) |
| Movements in other assets and liabilities | | (44.5) | (62.1) |
| | | 185.4 | 171.5 |
| Interest received | | 0.7 | 7.4 |
| Interest paid | | (13.3) | (10.9) |
| Income tax paid | | (34.8) | (32.8) |
| **Net cash flows from operating activities** | | **138.0** | **135.2** |
| | | | |
| **Investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 0.1 | 0.4 |
| Purchase of and payments for the construction of property, plant and equipment, and intangible fixed assets | | (63.0) | (82.5) |
| Net (purchase)/disposal of financial assets | | (36.9) | 93.1 |
| Investment in joint venture | | - | (1.0) |
| **Net cash flows (used in)/from investing activities** | | **(99.8)** | **10.0** |
| | | | |
| **Financing activities** | | | |
| Proceeds from exercise of share options | | - | 0.3 |
| Payment of finance lease liabilities | | (2.0) | (1.1) |
| Proceeds from borrowings | | 58.0 | 485.0 |
| Repayment of borrowings | | (63.0) | (520.0) |
| Debt issue costs | | - | (5.1) |
| Dividends paid | | (100.9) | (98.8) |
| **Net cash flows used in financing activities** | | **(107.9)** | **(139.7)** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(69.7)** | **5.5** |
| Cash and cash equivalents at the start of the year | | 227.0 | 221.5 |
| **Cash and cash equivalents at the end of the year** | 13 | **157.3** | **227.0** |

# Notes to the consolidated financial statements

## 1 Corporate information

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

The consolidated financial statements of Saga plc and the entities controlled by the Company (its subsidiaries, collectively 'Saga Group' or 'the Group') for the year ended 31 January 2019 were approved for issue by the Board of Directors on 4 April 2019 and will be made available on the Company's website in due course.

## 2.1 Basis of preparation

The results in this preliminary announcement have been taken from the Group's 2019 Annual report and accounts. The consolidated financial statements of the Group have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and with the Companies Act 2006.

The basis of preparation, basis of consolidation and summary of significant accounting policies applicable to the Group's consolidated financial statements can be found in the notes to the consolidated financial statements in the 2019 Annual report and accounts.

The preliminary announcement for the year ended 31 January 2019 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The consolidated financial statements for the full year ended 31 January 2019 have been audited by KPMG LLP (KPMG). Their report was unqualified and did not contain any statement under section 498(2) or section 498(3) of the Companies Act 2006.

## 2.2 Summary of significant accounting policies

There have been no significant changes to the accounting policies of the Group during the year ended 31 January 2019 except for changes required as a result of the transition to two new accounting standards, IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. Full details of the accounting policies of the Group can be found in the Annual report and accounts for the year ended 31 January 2019 available at www.corporate.saga.co.uk.

**Revenue recognition**

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

i) Insurance

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

Brokerage revenue received in connection with insurance policies not underwritten by the Group is recognised on inception of the policy when the obligation to arrange insurance for the customer has been satisfied. The portion of insurance premiums received for risks which are not underwritten by the Group that is passed to a third-party insurer is not recognised in the income statement.

Insurance premiums and sales revenues received in advance of the inception date of a policy are treated as advance receipts and included as contract liabilities in the statement of financial position.

Premiums in respect of insurance policies underwritten by the Group that are live at the reporting date and which relate to the period after the reporting date are treated as unearned and included in insurance contract liabilities in the statement of financial position.

# Notes to the consolidated financial statements

**2.2 Summary of significant accounting policies (continued)**
**Revenue recognition (continued)**

i) Insurance (continued)

Changes to premiums are recognised on the effective date of a mid-term adjustment. For those policies that are underwritten by the Group, these changes are recognised on a straight-line time-apportioned basis over the period remaining on the policy. Reduction in premiums from mid-term cancellations are recognised on the effective date of the cancellation. Fee income from mid-term adjustments and cancellations is recognised on the date which the mid-term adjustment or cancellation occurs.

A provision is made for the potential for policies to cancel or lapse after the balance sheet date based on the historical run rate for such an event. The provision is recognised as a reduction in revenue in the Group's income statement and as a provision in the Group's statement of financial position.

Income from credit provided to customers to facilitate payment of their insurance premiums over the life of their policy is treated as part of the revenue from insurance operations and recognised over the period of the policy in proportion to the outstanding premium balance.

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

For revenue earned from credit hire and repair services for non-fault claims ('credit hire' and 'credit repair'), the Group initially recognises the associated financial asset at fair value, based on a historical assessment of debt recovery, including any discounts offered retrospectively. Credit hire revenue is recognised from the date a vehicle is placed on hire equally over the duration of the hire. Credit repair revenue represents income from the recovery of the costs of repair of customers' vehicles. Credit repair revenue is recognised when the work has been completed. Late payment penalties afforded under the terms of the Association of British Insurers General Terms of Agreement (ABI GTA) are recognised as they become payable by the insurance company.

ii) Travel

Revenue from tour operations and cruise holidays where the Group does not operate the cruise ship is recognised in line with the performance obligations that are included in a package holiday, namely the provision of flights, accommodation, transfers and travel insurance. Revenue is recognised as and when each performance obligation is satisfied.

Revenue in respect of cruise holidays where the Group operates the cruise ship is also recognised in line with the performance obligations being the cruise itself, flights (where applicable), travel insurance and transfers. The portion of revenue allocated to the cruise itself is recognised on a per diem basis over the duration of the cruise in line with when the performance obligation is satisfied. The portion of revenue allocated to each of flights (where applicable), travel insurance and transfers is recognised as and when each performance obligation is satisfied.

An element of revenue which represents the non-refundable deposit received at the time of booking is recognised in the income statement immediately in line with the prevailing rate of cancellation.

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

Revenue from tour operations and cruising holidays received in advance of when each performance obligation is satisfied is included as other liabilities in the statement of financial position.

iii) Emerging Businesses and Central Costs

Personal finance

Revenue from personal finance products is recognised when the customer contracts with the provider of the relevant personal finance product where the revenue comprises a one-off payment by the provider of the product. Where the personal finance product is one that delivers a recurring income stream, the present value of the future expected revenue to be received is recognised when the customer contracts with the provider of the relevant personal finance product and it is highly probable that a significant reversal of revenue recognised will not occur.

Healthcare

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

**2.2 Summary of significant accounting policies (continued)**
**Revenue recognition (continued)**
iii) Emerging Businesses and Central Costs (continued)

Magazine subscriptions
Magazine subscription revenue is recognised on a straight-line basis over the period of the subscription. Revenue generated from advertising within the magazine is recognised when the magazine is provided to the customer.

The element of subscriptions and advertising revenue relating to the period after the reporting date is treated as unearned and included within other liabilities in the statement of financial position.

*Retirement Villages*
Sales commission from Retirement Villages is recognised on the legal completion of a property.

*Printing and mailing*
Revenue from printing and mailing services is recognised in line with the performance obligations within customer contracts.

**Financial instruments**
The Group has adopted IFRS 9 Financial Instruments for the first time for the year ended 31 January 2019. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. As such, the Group has changed its accounting policy and applied it retrospectively, for financial instruments as detailed below.

i) Financial assets
On initial recognition, a financial asset is classified as either amortised cost; Fair Value Through Other Comprehensive Income (FVOCI); or Fair Value Through Profit and Loss (FVTPL). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

| | *Initial recognition* | *Subsequent measurement* |
|---|---|---|
| Amortised cost | A financial asset is measured at amortised cost if it meets both of the following conditions and is not elected to be designated as FVTPL:<br>• It is held within a business model whose objective is to hold assets to collect contractual cash flows; and<br>• Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by any impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss as they are incurred. Any gain or loss on derecognition is recognised in profit or loss immediately. |
| FVOCI | A debt investment is measured at FVOCI if it meets both of the following conditions and is not elected to be designated as FVTPL:<br>• It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and<br>• Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. | Debt instruments are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairments are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are recycled to profit or loss. |
| | On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. | Equity investments are measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. |

### 2.2 Summary of significant accounting policies (continued)

**Financial instruments (continued)**

i) Financial assets (continued)

| | | |
|---|---|---|
| FVTPL | All financial assets not classified as amortised cost or FVOCI as described above are classified as FVTPL and held at fair value. This includes all derivative financial assets.<br><br>On initial recognition, the Group may irrevocably elect to designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. This election is made on an individual instrument basis. | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss, unless such instrument is designated in a hedging relationship (see (vi) below). |

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or when the Group has transferred substantially all the risks and rewards relating to the asset to a third party.

ii) Impairment of financial assets

The IFRS 9 expected credit loss (ECL) impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI.

The Group measures loss allowances at an amount equal to 12-month ECLs, except for the following, which are measured as lifetime ECLs:

- Debt securities that are determined to have high credit risk at the reporting date;
- Other debt securities and bank balances for which credit risk has increased significantly since initial recognition; and
- Trade receivables and contract assets that result from transactions within the scope of IFRS 15.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the definition of 'investment grade'. The Group considers this to be BBB or higher as per Standard & Poor's rating scale.

Measurement of ECLs

ECLs are measured as a probability-weighted estimate of credit losses. Credit losses are measured as the probability of default in conjunction with the present value of the Group's exposure. Loss allowances for ECLs on financial assets measured at amortised cost are recognised as a provision in the statement of financial position with a corresponding charge to the income statement. For debt instruments measured at FVOCI the loss allowance is recognised in the statement of other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. In such an event, the lifetime ECL will be recognised in lieu of the 12-month ECL.

**2.2 Summary of significant accounting policies (continued)**
**Financial instruments (continued)**
iii) Financial liabilities
Initial recognition and measurement
All financial liabilities are classified as financial liabilities at amortised cost on initial recognition except for derivatives which are classified at FVTPL, the gains or losses for which are recognised through other comprehensive income if the instrument is designated as a hedging instrument in an effective hedge.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, derivative financial instruments, obligations under finance leases and hire purchases.

Subsequent measurement
After initial recognition, interest bearing loans and borrowings and other payables are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

iv) Derivatives
Derivatives are measured at fair value both initially and subsequent to initial recognition. All changes in fair value of non-designated derivatives are recognised in the income statement immediately. Changes in fair value of derivatives designated as hedges are initially recognised in other comprehensive income until such a point that they are recycled to profit or loss in the same period as the hedged item is recognised in profit or loss, or immediately if the hedged item is no longer expected to occur.

Derivatives are presented as assets when the fair values are positive and as liabilities when the fair values are negative. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

v) Fair values
The Group measures financial instruments, such as derivatives and financial instruments not designated as a hedge classified as FVOCI and at FVTPL, at fair value at each reporting date.

Fair value is the price that would be required to sell an asset or to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market accessible by the Group for the asset or liability or, in the absence of a principal market, in the most advantageous market accessible by the Group for the asset or liability.

The fair values are quoted market prices where there is an active market or are based on valuation techniques when there is no active market, or the instruments are unlisted. Valuation techniques include the use of recent arm's length market transactions, discounted cash flow analysis and other commonly used valuation techniques.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level possible for each instrument.

**2.2 Summary of significant accounting policies (continued)**
**Financial instruments (continued)**

v) Fair values (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

vi) Hedge accounting

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

The Group has elected to adopt the general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses forward foreign exchange contracts and commodity swap contracts to hedge the variability in cash flows arising from changes in foreign currency rates and oil prices respectively. For foreign exchange contracts, the Group designates the fair value change of the full forward price as the hedging instrument in cash flow hedging relationships. For commodity hedging, the Group designates the fair value change of the benchmark price. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity. Any ineffective portion of the fair value gain or loss is recognised immediately within the income statement.

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

**2.3 Standards issued but not yet effective**

The following is a list of standards and amendments to standards that are in issue but are not effective or adopted as at 31 January 2019.

**i. IFRS 16 'Leases'**

The new accounting standard on leases, IFRS 16 Leases, ensures that all lease contracts are now recognised "on balance sheet" and require the recognition of the present value of future lease payments as a liability and corresponding recognition of a right-of-use asset for many leases that were previously only ever recognised as an operating expense. IFRS 16 Leases will replace the existing standard, IAS 17.

The new standard is applicable for accounting periods commencing from 1 January 2019 and is required to be adopted by the Group from 1 February 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17.

On initial application of IFRS 16, the Group will for all lease contracts:

a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

# Notes to the consolidated financial statements (continued)

### 2.3 Standards issued but not yet effective (continued)

#### i. IFRS 16 'Leases' (continued)

The Group will recognise new assets and liabilities for its current operating leases of river cruise ships, leased properties, shipping telecommunications equipment and car leases. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities, instead of a periodic operating lease expense.

No significant impact is expected for the Group's finance leases, as currently defined by IAS 17.

The group intends to apply the standard retrospectively to all accounting periods using the full retrospective approach (FRA). For all leases held at the date of transition (being 1 February 2018 for the Group) the recognition and measurement provisions of IFRS 16 will be applied in full, and hence comparative financial information will be restated, and an adjustment will be made to equity at the beginning of the earliest period presented.

The estimated impact of adopting IFRS 16 on the financial statements for the year ended 31 January 2019 (had IFRS 16 been applied already) is summarised in the following table:

| | Financial year ended 31 January 2018 | Financial year ended 31 January 2019 |
|---|---|---|
| | **FRA** | **FRA** |
| | **£m** | **£m** |
| Balance sheet impact | | |
| Right-of use asset | 26.2 | 29.7 |
| Lease liability | (28.3) | (32.1) |
| **Net assets** | (2.1)* | (2.4) |
| Income statement impact | | |
| Depreciation | | (11.3) |
| Lease interest cost | | (0.6) |
| Reverse operating lease expenses | | 11.6 |
| **Loss before tax** | | (0.3) |

*to be recognised as an adjustment to opening retained earnings.

Under the FRA, it has been estimated that an additional right of use asset of £29.7m as at 31 January 2019 would need to be recognised. A corresponding lease liability at the same date of £32.1m has been calculated, resulting in a reduction to net assets of £2.4m. This would result in a £0.3m additional expense needing to be recognised in the income statement for the twelve months ended 31 January 2019, and a £2.1m debit to opening P&L reserves as at 1 February 2018.

The additional expense arises due to the different amortisation profiles between the depreciation of the right of use asset on a straight-line basis and the amortisation of the lease liability using an effective interest rate method.

# Notes to the consolidated financial statements (continued)

### 2.3 Standards issued but not yet effective (continued)

#### ii. IFRS 17 'Insurance Contracts'

IFRS 17 was issued in May 2017 and established a principles-based accounting approach for insurance contracts and will replace IFRS 4. The impact of this standard on the Group's financial statements is still being assessed. The standard is effective for annual reporting periods beginning on or after 1 January 2022, although this is yet to be endorsed by the EU.

#### iii. Amendments to 'References to the Conceptual Framework in IFRS Standards'

Together with the revised Conceptual Framework published in March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS. The amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application being permitted, although this is yet to be endorsed by the EU.

#### iv. Amendments to IAS 28 'Long-term interest in Associates and Joint Ventures'

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

#### v. Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement'

The amendments to IAS 19 are if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendments are effective for annual periods beginning on or after 1 January 2019, although this is yet to be endorsed by the EU and is not likely to have a material effect on the Group's financial statements.

#### vi. IFRIC 23 'Uncertainty over Income Tax Treatments'

This interpretation of IAS 12 sets out how to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates where there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after 1 January 2019, with earlier application being permitted, although this is yet to be endorsed by the EU and will have no effect on the Group's financial statements.

#### vii. Definition of a Business (Amendments to IFRS 3)

The amendments in Definition of a Business clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and substantive process that together significantly contribute to the ability to create outputs. The definitions of a business and outputs are narrowed by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. The amendments are effective for annual periods beginning on or after 1 January 2020, although this is yet to be endorsed by the EU.

#### viii. Definition of Material (Amendments to IAS 1 and IAS 8)

The amendments in Definition of Material clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards. The amendments are effective for annual periods beginning on or after 1 January 2020, although this is yet to be endorsed by the EU.

# Notes to the consolidated financial statements (continued)

## 2.4 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the Group to select accounting policies and make estimates and assumptions that affect items reported in the primary consolidated financial statements and notes to the consolidated financial statements.

The major areas of judgement used as part of accounting policy application are summarised below:

**Significant judgements**

| Acc. policy | Items involving judgement | Critical accounting judgement |
|---|---|---|
| 2.3a | Revenue recognition – performance obligations | Identification of performance obligations within contracts with customers, and the subsequent allocation of the transaction price to each performance obligation. |
| 2.3ai | Classification of insurance contracts | Assessment of whether significant insurance risk is transferred, and in particular assessment of whether reinsurance arrangements constitute a reinsurance contract under IFRS 4, for example the funds-withheld quota share contract. |
| 2.3f | Intangible assets | Assessment of whether expenditure is eligible for capitalisation under IAS 38. |
| 2.3h | Impairment testing of goodwill and other major classes of asset | The Group determines whether goodwill needs to be impaired on an annual basis or more frequently as required. In the year to 31 January 2019, management have deemed it necessary to impair the goodwill allocated to the Insurance CGU.<br><br>In the year to 31 January 2019, management have exercised their judgement in relation to the impairment of each of the two cruise ships, the Saga Pearl II and the Saga Sapphire. |
| 2.3l | Financial instruments | Classification of financial instruments, including assessment of market observability of valuation inputs. |

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results may therefore differ from those estimates.

The table below sets out those items the Group considers susceptible to changes in critical estimates and assumptions together with the relevant accounting policy.

**Significant estimates**

| Acc. policy | Items involving estimation | Sources of estimation uncertainty |
|---|---|---|
| 2.3bii | Cost recognition – incremental costs of obtaining an insurance contract | Incremental costs of obtaining an insurance contract not underwritten by the Group, namely fees charged by price-comparison websites, are recognised as an asset on the statement of financial position.<br><br>Such costs are amortised in line with the pattern of revenue for the related insurance contract, which incorporate the propensity for that contract to renew in future periods based on the prevailing rate of renewal for these types of contract. |
| 2.3h | Goodwill impairment testing | The Group determines whether goodwill needs to be impaired on an annual basis. This requires an estimation of the value in use of the CGUs to which goodwill is allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs, discounted at a suitably risk-adjusted rate in order to calculate present value.<br><br>Sensitivity analysis has been undertaken to determine the effect of changing the discount rate, the terminal value and future cash flows on the present value calculation, which is shown in note 9 on page 46. |

# Notes to the consolidated financial statements (continued)

### 2.4 Significant accounting judgements, estimates and assumptions (continued)

**Significant estimates (continued)**

| | | |
|---|---|---|
| 2.3f & 2.3j | Useful economic lives of intangible assets and PPE | The useful economic lives and residual values of intangible assets and property, plant and equipment are assessed upon the capitalisation of each asset and at each reporting date and are based upon the expected consumption of future economic benefits of the asset.<br><br>Assets which are in the course of construction are not amortised and are assessed for impairment in line with the requirements of IAS 36. |
| 2.3h | Impairment of cruise ships | In the year to 31 January 2019, management have exercised their judgement in relation to the impairment of each of the two cruise ships, the Saga Pearl II and the Saga Sapphire. In light of the delivery of the Spirit of Discovery and the Spirit of Adventure in July 2019 and August 2020 respectively, management have obtained updated third-party valuations of each of the existing cruise ships with a view to selling them once they are no longer in use.<br><br>The valuations obtained were significantly below those obtained by management in the previous year and as such an impairment charge of £1.7m on the Saga Pearl II and £4.2m on the Saga Sapphire has been recognised, which includes £1.6m impairment of technical stocks in respect of the Saga Pearl II. |
| 2.3r | Valuation of insurance contract liabilities | For insurance contracts, estimates have to be made both for the expected cost of claims known but not yet settled (case reserves) and for the expected cost of claims incurred but not yet reported (IBNR), as at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. For some types of policies, IBNR claims form the majority of the liability in the statement of financial position.<br><br>The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years. Historical claims development is primarily analysed by accident year, geographical area, significant business line and peril. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the best estimate of the ultimate cost of claims.<br><br>On 27 February 2017, the UK Government announced its decision to reduce the Ogden discount rate from 2.5% to -0.75%. Subsequently, the UK Government has launched a full consultation regarding the Ogden discount rate. The proposed changes mean the rate would be set by reference to "low risk" rather than "very low risk" and will ensure the rate is reviewed more regularly in future. If the proposed framework were to be applied immediately, the rate may increase to between 0% and 1%.<br><br>The ultimate cost of claims is not discounted except for those in respect of PPOs, which have been discounted at -1.5% for the year ended 31 January 2019 (2018: -1.5%). The valuation of these claims involves making assumptions about the rate of inflation and the expected rate of return on assets to determine the discount rate. Due to the size of PPO claims, the ultimate cost is highly sensitive to changes in these assumptions. The assumptions are reviewed at each reporting date.<br><br>Similar judgements, estimates and assumptions are employed in the assessment of the adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment. |

# Notes to the consolidated financial statements (continued)

### 2.4 Significant accounting judgements, estimates and assumptions (continued)

**Significant estimates (continued)**

| | | |
|---|---|---|
| 2.3u | Valuation of pension benefit obligation | The cost of defined benefit pension plans, and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. |

### 3 Segmental information

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

- *Insurance*: the segment primarily comprises general insurance products. Revenue is derived primarily from insurance premiums and broking revenues. This segment is further analysed into four product sub-segments:
  - Retail Broking, consisting of:
    - Motor broking
    - Home broking
    - Other insurance broking
  - Underwriting
- *Travel*: the segment primarily comprises the operation and delivery of package tours and cruise holiday products. The Group owns and operates two cruise ships. All other holiday products are packaged together with third party supplied accommodation, flights and other transport arrangements.
- *Emerging Businesses and Central Costs*: the segment comprises the Group's other businesses, its central cost base and membership scheme. The other businesses primarily include the financial services product offering, the domiciliary care services offering, the sale of retirement village properties where the Group acts as an agent only, a monthly subscription magazine product and the Group's internal mailing house.

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

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

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

## Notes to the consolidated financial statements (continued)

### 3 Segmental information (continued)

| 2019 | Insurance: Motor broking | Insurance: Home broking | Insurance: Other insurance broking | Insurance: Under-writing | Insurance: Total | Travel | Emerging Businesses and Central Costs | Adjustments | Total |
|---|---|---|---|---|---|---|---|---|---|
| | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m |
| **Revenue** | **113.4** | **74.5** | **68.8** | **93.3** | **350.0** | **457.4** | **40.5** | **(6.4)** | **841.5** |
| Cost of sales | (2.2) | - | (12.9) | (8.4) | (23.5) | (364.1) | (18.1) | - | (405.7) |
| **Gross profit** | **111.2** | **74.5** | **55.9** | **84.9** | **326.5** | **93.3** | **22.4** | **(6.4)** | **435.8** |
| Administrative and selling expenses | (77.2) | (29.4) | (29.2) | (2.5) | (138.3) | (72.4) | (40.2) | 6.4 | (244.5) |
| Investment income | - | - | - | 4.3 | 4.3 | 0.2 | (3.8) | - | 0.7 |
| Finance costs | - | - | - | - | - | - | (11.7) | - | (11.7) |
| Finance income | - | - | - | - | - | - | - | - | - |
| **Underlying profit before tax** | **34.0** | **45.1** | **26.7** | **86.7** | **192.5** | **21.1** | **(33.3)** | **-** | **180.3** |
| Net fair value gain on derivative financial instruments | - | - | - | - | - | 1.0 | - | - | 1.0 |
| Impairment of cruise ships | - | - | - | - | - | (5.9) | - | - | (5.9) |
| Impairment of goodwill | - | - | - | - | - | - | - | (310.0) | (310.0) |
| **Profit/(Loss) before tax from continuing operations** | **34.0** | **45.1** | **26.7** | **86.7** | **192.5** | **16.2** | **(33.3)** | **(310.0)** | **(134.6)** |
| **Total assets less liabilities** | | | | | **335.9** | **73.8** | **(181.2)** | **735.8** | **964.3** |

| 2018 (restated) | Insurance: Motor broking | Insurance: Home broking | Insurance: Other insurance broking | Insurance: Under-writing | Insurance: Total | Travel | Emerging Businesses and Central Costs | Adjustments | Total |
|---|---|---|---|---|---|---|---|---|---|
| | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m |
| **Revenue** | **121.4** | **85.0** | **76.5** | **99.0** | **381.9** | **448.7** | **36.4** | (6.8) | **860.2** |
| Cost of sales | (2.5) | - | (11.9) | (28.0) | (42.4) | (355.9) | (14.5) | - | (412.8) |
| **Gross profit** | **118.9** | **85.0** | **64.6** | **71.0** | **339.5** | **92.8** | **21.9** | (6.8) | **447.4** |
| Administrative and selling expenses | (76.0) | (28.7) | (33.1) | (2.3) | (140.1) | (72.4) | (43.8) | 6.8 | (249.5) |
| Investment income | - | - | - | 10.6 | 10.6 | 0.2 | (3.2) | - | 7.6 |
| Finance costs | - | - | - | - | - | - | (14.2) | - | (14.2) |
| Finance income | - | - | - | - | - | - | 1.5 | - | 1.5 |
| Share of loss of joint ventures | - | - | - | - | - | - | (2.2) | - | (2.2) |
| **Underlying profit before tax** | **42.9** | **56.3** | **31.5** | **79.3** | **210.0** | **20.6** | **(40.0)** | - | **190.6** |
| Net fair value loss on derivative financial instruments | - | - | - | - | - | (0.6) | - | - | (0.6) |
| Accelerated amortisation of debt issue costs | - | - | - | - | - | - | (4.3) | - | (4.3) |
| Restructuring costs | - | - | - | - | - | - | (4.8) | - | (4.8) |
| **Profit before tax from continuing operations** | **42.9** | **56.3** | **31.5** | **79.3** | **210.0** | **20.0** | **(49.1)** | - | **180.9** |
| **Total assets less liabilities** | | | | | 353.8 | 60.4 | (224.0) | 1,035.3 | 1,225.5 |

All revenue is generated solely in the UK. Cost of sales within the insurance segment comprises claims costs incurred on insurance policies underwritten by the Group (see note 3b).

## Notes to the consolidated financial statements (continued)

### 3 Segmental information (continued)

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

| | **2019** | 2018 |
|---|---|---|
| | **£'m** | £'m |
| Goodwill (note 9) | 1,175.0 | 1,485.0 |
| Bank loans (note 16) | (439.2) | (443.0) |
| Deferred tax – non-pension scheme related | - | (6.7) |
| | **735.8** | **1,035.3** |

### a Disaggregation of revenue

In the following table, the Group's revenue has been disaggregated by major product line, analysed by Group's three operating segments.

| | **2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Insurance** | | | **Travel** | **EB&CC** | **Total** |
| Major product lines | **Earned premium on insurance underwritten by the Group** | **Other revenue** | **Total insurance** | | | |
| | **£'m** | **£'m** | **£'m** | **£'m** | **£'m** | **£'m** |
| Gross earned premiums on insurance underwritten by the Group | 238.1 | | 238.1 | | | 238.1 |
| Less: ceded to reinsurers | (136.0) | | (136.0) | | | (136.0) |
| Net revenue on: | | | | | | |
| - Motor broking | 19.9 | 93.5 | 113.4 | | | 113.4 |
| - Home broking | - | 74.5 | 74.5 | | | 74.5 |
| - Other broking | 1.4 | 67.4 | 68.8 | | | 68.8 |
| - Underwriting | 80.8 | 12.5 | 93.3 | | | 93.3 |
| -Tour operations | | | | 360.8 | | 360.8 |
| - Cruise | | | | 96.6 | | 96.6 |
| - Personal finance | | | | | 8.2 | 8.2 |
| - Healthcare | | | | | 6.0 | 6.0 |
| - Media | | | | | 18.6 | 18.6 |
| - Other | | | | | 1.3 | 1.3 |
| | **102.1** | **247.9** | **350.0** | **457.4** | **34.1** | **841.5** |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Insurance | | | Travel | EB&CC | Total |
| Major product lines | Earned premium on insurance underwritten by the Group | Other revenue | Total insurance | | | |
| | £'m | £'m | £'m | £'m | £'m | £'m |
| Gross earned premiums on insurance underwritten by the Group | 259.6 | | 259.6 | | | 259.6 |
| Less: ceded to reinsurers | (139.9) | | (139.9) | | | (139.9) |
| Net revenue on: | | | | | | |
| - Motor broking | 30.4 | 91.0 | 121.4 | | | 121.4 |
| - Home broking | 3.6 | 81.4 | 85.0 | | | 85.0 |
| - Other broking | 1.5 | 75.0 | 76.5 | | | 76.5 |
| - Underwriting | 84.2 | 14.8 | 99.0 | | | 99.0 |
| -Tour operations | | | | 360.5 | | 360.5 |
| - Cruise | | | | 88.2 | | 88.2 |
| - Personal finance | | | | | 7.7 | 7.7 |
| - Healthcare | | | | | 5.6 | 5.6 |
| - Media | | | | | 14.1 | 14.1 |
| - Other | | | | | 2.2 | 2.2 |
| | 119.7 | 262.2 | 381.9 | 448.7 | 29.6 | 860.2 |

## Notes to the consolidated financial statements (continued)

### b Analysis of insurance cost of sales

| | 2019 £'m | 2018 (restated) £'m |
|---|---|---|
| Gross claims incurred on insurance underwritten by the Group | 129.7 | 156.1 |
| Less: ceded to reinsurers | (120.1) | (127.1) |
| Net claims incurred on insurance underwritten by the Group | | |
| - Motor broking | 2.2 | 2.5 |
| - Underwriting | 7.4 | 26.5 |
| | 9.6 | 29.0 |
| Other cost of sales | 13.9 | 13.4 |
| | **23.5** | **42.4** |

### 4 Non-trading items

| | 2019 £'m | 2018 £'m |
|---|---|---|
| Share-based payment costs (note 17) | 0.2 | 0.3 |
| Redundancy costs | 1.6 | 1.4 |
| Joint venture closure costs | 0.6 | - |
| Profit on sale of property | (3.9) | - |
| Other | (0.1) | - |
| Non–trading items included within Administrative and Selling expenses | (1.6) | 1.7 |
| | | |
| Impairment of joint venture | - | 1.7 |
| Non-trading items included within share of loss of joint venture | - | 1.7 |
| | | |
| Total non-trading costs | **(1.6)** | **3.4** |

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

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

Profit on sale of property relates to the sale of Buckingham Gate property in the year which was previously held for sale in the statement of financial position (£6.8m as at 31 January 2018).

# Notes to the consolidated financial statements (continued)

## 5 Tax

The major components of the income tax expense are:

| | **2019** | 2018 (restated) |
|---|---|---|
| | **£'m** | £'m |
| **Consolidated income statement** | | |
| **Current income tax** | | |
| Current income tax charge | 36.5 | 34.3 |
| Adjustments in respect of previous years | 0.4 | (1.0) |
| | **36.9** | **33.3** |
| **Deferred tax** | | |
| Relating to origination and reversal of temporary differences | (8.9) | 0.6 |
| Adjustments in respect of previous years | (0.6) | - |
| **Tax expense in the income statement** | **27.4** | **33.9** |

The Group's tax expense for the year was £27.4m (2018: £33.9m) representing a tax effective rate of 19.4% before the impairment of goodwill and associated deferred tax (2018 restated: 18.7%).

Adjustments in respect of previous years includes an adjustment for the over provision of tax charge in previous years of £0.2m (2018: £1.0m).

**Reconciliation of net deferred tax assets / (liabilities)**

| | **2019** | 2018 (restated) |
|---|---|---|
| | **£'m** | £'m |
| **At 1 February** | (3.3) | (5.9) |
| Tax credit/(charge) recognised in the income statement | 9.5 | (0.6) |
| Tax charge recognised in other comprehensive income | 0.2 | 3.2 |
| **At 31 January** | **6.4** | **(3.3)** |

Measures were enacted in the Finance Act 2015 to reduce the corporation tax rate from 20% to 19% from 1 April 2017, and to 18% from 1 April 2020. A further reduction to 17% from 1 April 2020 was announced on 16 March 2016 and has been enacted at the balance sheet date. As a result, the closing deferred tax balances have been reflected at 17%. We expect net deferred tax assets/liabilities to be normally settled within 12 months.

The Group has tax losses which arose in the UK of £4.2m (2018: £4.2m) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group. They have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future. If the Group were able to recognise all unrecognised deferred tax assets, the profit would increase by £0.7m (2018: £0.7m).

## 6 Dividends

During the year, the Company paid an ordinary dividend of 6.0p per share (2018: 5.8p per share), relating to the year ended 31 January 2018, and also paid an interim dividend of 3.0p per share (2018: 3.0p per share) for the year ended 31 January 2019. The total dividends paid for the year were £100.7m (2018: £98.4m).

The Directors propose a final dividend for the year ended 31 January 2019 of 1.0p per share, which is subject to approval by shareholders at the Annual General Meeting on 19 June 2019 and would be paid on 28 June 2019. These financial statements do not reflect this dividend payable.

Saga offers a share alternative in the form of a dividend re-investment plan ("DRIP") for those shareholders who wish to elect to use their dividend payments to purchase additional shares in the Group, rather than receiving a cash payment. The last date for shareholders to elect to participate in the DRIP will be 3 June 2019. The record date will be 17 May 2019 and the final dividend will be paid on 28 June 2019. Payment of the final dividend of 1.0p per share remains subject to shareholder approval at the Company's 2019 Annual General Meeting.

## Notes to the consolidated financial statements (continued)

### 7 Earnings per share

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

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

The calculation of basic and diluted EPS is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **£'m** | £'m |
| (Loss)/Profit attributable to ordinary equity holders | (162.0) | 139.4 |
| (Loss)/Profit from continuing operations | (162.0) | 147.0 |
| Weighted average number of ordinary shares | 'm | 'm |
| Shares in issue at 1 February | 1,118.1 | 1,114.0 |
| IPO share options exercised | - | 3.1 |
| LTIP share options exercised | 0.9 | 0.9 |
| Other share options exercised | 0.1 | 0.1 |
| Weighted average number for Basic EPS | 1,119.1 | 1,118.1 |
| Dilutive options | | |
| IPO share options not yet exercised | - | 0.4 |
| Other share options not yet vested | - | - |
| LTIP share options not yet vested | - | 4.7 |
| Deferred bonus plan | - | 0.4 |
| Weighted average number for Diluted EPS | **1,119.1** | **1,123.6** |
| **Basic EPS** | **(14.5p)** | 12.5p |
| **Basic EPS for continuing operations** | **(14.5p)** | 13.1p |
| **Diluted EPS** | **(14.5p)** | 12.4p |
| **Diluted EPS for continuing operations** | **(14.5p)** | 13.1p |

The table below reconciles between basic EPS and underlying EPS:

| | **2019** | 2018 |
|---|---|---|
| **Basic EPS for continuing operations** | **(14.5p)** | 13.1p |
| **Adjusted for:** | | |
| Derivative gains/(losses) | **-** | - |
| Restructuring costs | **-** | 0.4p |
| Debt issue costs | **-** | 0.3p |
| Impairment of cruise ships | **0.5p** | - |
| Impairment of goodwill and associated deferred tax | **27.1p** | - |
| **Underlying EPS for continuing operations** | **13.1p** | 13.8p |

### 8 Acquisitions

There were no acquisitions in the year ended 31 January 2019.

## Notes to the consolidated financial statements (continued)

### 9 Goodwill

Goodwill acquired through business combinations has been allocated to CGUs for the purpose of impairment testing. The carrying value of goodwill by CGU is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **£'m** | £'m |
| Insurance, excluding Bennetts | **1,088.6** | 1,398.6 |
| Insurance, Bennetts | **13.6** | 13.6 |
| Travel, excluding Destinology | **59.8** | 59.8 |
| Travel, Destinology | **13.0** | 13.0 |
| | **1,175.0** | 1,485.0 |

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

The recoverable amount of each CGU has been determined based on a value-in-use calculation using cash flow projections from the Group's Board-approved five-year plan to 2023/24. Terminal values have been included using 2.25% as the expected long-term average growth rate of the UK economy, and calculated using the Gordon Growth Model. The cash flows have then been discounted to present value using a suitably risk-adjusted discount rate derived from the Group's weighted average cost of capital. The pre-tax discount rates used for each CGU were as follows:

| | **2019** | 2018 |
|---|---|---|
| Insurance, excluding Bennetts | **9.6%** | 9.7% |
| Insurance, Bennetts | **11.6%** | 10.6% |
| Travel, excluding Destinology | **11.8%** | 10.1% |
| Travel, Destinology | **12.2%** | 10.1% |

The value-in-use calculation is most sensitive to the assumptions used for forecast cash flows, the long-term growth rate and the discount rate selected, all of which require significant judgement. Accordingly, stress testing has been performed on these key assumptions as part of the impairment review to determine whether any reasonably foreseeable change in those assumptions would cause the recoverable amount of the CGU to be lower than its carrying amount. Stress testing as to possible Brexit outcomes has also been considered.

The resultant headroom/(deficit) for each of the CGUs against the brought forward carrying value is as follows:

| | Headroom / (Deficit) £'m |
|---|---|
| Insurance, excluding Bennetts | (310.0) |
| Insurance, Bennetts | 30.9 |
| Travel, excluding Destinology | 374.0 |
| Travel, Destinology | 10.5 |

Due to the deficit calculated for the Insurance excluding Bennetts CGU and taking into account the likelihood of each of the sensitivities, management consider it necessary to impair the Insurance excluding Bennetts CGU to its value-in-use of £1,157.9m, from which the value of PPE and intangibles assets of £69.3m must also be deducted. Therefore, a reduction to the carrying value of goodwill allocated to the Insurance excluding Bennetts CGU of £310.0m has been recognised in the year to 31 January 2019.The impairment charge has been determined using a prudent view of forecast cash flows for the Insurance business, removing the benefit of future strategies that are not yet reflective of the asset in its current condition. No impairment is considered necessary for the three other CGUs.

The headroom calculated is most sensitive to the discount rate and terminal growth rate assumed. A quantitative sensitivity analysis for each of these as at 31 January 2019 and its impact on the headroom against brought forward goodwill carrying values is as follows:

| | Pre-tax discount rate | | Terminal growth rate | |
|---|---|---|---|---|
| | +1.0ppt. | -1.0ppt. | +1.0ppt. | -1.0ppt. |
| | £'m | £'m | £'m | £'m |
| Insurance, excluding Bennetts | (130.8) | 171.5 | 134.0 | (102.0) |
| Insurance, Bennetts | (4.6) | 5.8 | 4.3 | (3.4) |
| Travel, excluding Destinology | (93.8) | 116.7 | 89.2 | (72.3) |
| Travel, Destinology | (2.9) | 3.6 | 2.6 | (2.1) |

# Notes to the consolidated financial statements (continued)

## 10 Intangible fixed assets

During the year, the Group capitalised £21.5m (2018: £25.9m) of software assets and charged £19.6m of amortisation to its intangible assets (2018: £18.5m).

## 11 Property, plant and equipment

During the year, the Group capitalised assets with a cost of £45.3m (2018: £59.2m), disposed of assets with a net book value of £nil (2018: £0.4m) and charged £25.1m of depreciation and impairment to its property, plant and equipment (2018: £20.1m).

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

Four stage payments for Spirit of Discovery were made between February 2016 and July 2018. The remaining element of the contract price is due on delivery of the ship, and the Group entered into appropriate financing for this on 21 December 2015.

The first two stage payments for Spirit of Adventure were made between December 2017 and January 2019. Two similar stage payments will be made during the construction period (18 months and 12 months prior to delivery), funded via cash resources of the Group. The remaining element of the contract price is due on delivery of the ship, and the Group entered into appropriate financing for this on 20 September 2017.

As at 31 January 2019, the capital amount contracted but not provided for in the financial statements in respect of the ships amounted to £543.5m (2018: £583.8m).

## 12 Financial assets and financial liabilities

### a) Financial assets

| | 2019 £'m | 2018 (restated) £'m |
|---|---|---|
| **Fair value through profit or loss** | | |
| Foreign exchange forward contracts | 0.4 | 0.1 |
| Fuel oil swaps | 0.6 | 1.8 |
| Loan funds | 6.2 | 6.4 |
| Money market funds | 37.1 | 153.2 |
| Unlisted equity shares | - | 1.7 |
| Hedge funds | - | 7.5 |
| Equities | - | 31.4 |
| | **44.3** | **202.1** |
| **Fair value through profit or loss designated in a hedging relationship** | | |
| Foreign exchange forward contracts | 31.2 | 35.2 |
| Fuel oil swaps | 1.2 | 1.3 |
| | **32.4** | **36.5** |
| **Fair value through other comprehensive Income** | | |
| Debt securities | 280.2 | 159.4 |
| | **280.2** | **159.4** |
| **Amortised cost** | | |
| Deposits with financial institutions | 69.3 | 115.5 |
| | **69.3** | **115.5** |
| **Total financial assets** | **426.2** | **513.5** |
| Current | 111.4 | 229.4 |
| Non-current | 314.8 | 284.1 |
| | **426.2** | **513.5** |

### b) Financial liabilities

| | 2019 £'m | 2018 (restated) £'m |
|---|---|---|
| **Fair value through profit or loss** | | |
| Foreign exchange forward contracts | 0.5 | 1.0 |
| Fuel oil swaps | 0.1 | 0.1 |
| | **0.6** | **1.1** |
| **Fair value through profit or loss designated in a hedging relationship** | | |
| Foreign exchange forward contracts | 10.1 | 11.4 |
| Fuel oil swaps | 1.4 | 0.2 |
| | **11.5** | **11.6** |
| **Amortised cost** | | |
| Bond and bank loans (note 16) | 439.2 | 443.0 |
| Obligations under finance leases and hire purchase | 3.0 | 3.4 |
| Bank overdrafts | 2.7 | 9.4 |
| | **444.9** | **455.8** |
| **Total financial liabilities** | **457.0** | **468.5** |
| Current | 41.4 | 34.8 |
| Non-current | 415.6 | 433.7 |
| | **457.0** | **468.5** |

# Notes to the consolidated financial statements (continued)

## 12 Financial assets and financial liabilities (continued)

### c) Fair value hierarchy

| | As at 31 January 2019 | | | | As at 31 January 2018 (restated) | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 £'m | Level 2 £'m | Level 3 £'m | **Total £'m** | Level 1 £'m | Level 2 £'m | Level 3 £'m | **Total £'m** |
| **Financial assets measured at fair value** | | | | | | | | |
| Foreign exchange forwards | - | 31.6 | - | **31.6** | - | 35.3 | - | **35.3** |
| Fuel oil swaps | - | 1.8 | - | **1.8** | - | 3.1 | - | **3.1** |
| Loan funds | 6.2 | - | - | **6.2** | 6.4 | - | - | **6.4** |
| Equities | - | - | - | **-** | 31.4 | - | - | **31.4** |
| Hedge funds | - | - | - | **-** | 7.5 | - | - | **7.5** |
| Debt securities | 280.2 | - | - | **280.2** | 159.4 | - | - | **159.4** |
| Money market funds | 37.1 | - | - | **37.1** | 153.2 | - | - | **153.2** |
| Unlisted equity shares | - | - | - | **-** | - | - | 1.7 | **1.7** |
| **Financial liabilities measured at fair value** | | | | | | | | |
| Foreign exchange forwards | - | 10.6 | - | **10.6** | - | 12.4 | - | **12.4** |
| Fuel oil swaps | - | 1.5 | - | **1.5** | - | 0.3 | - | **0.3** |
| **Financial assets for which fair values are disclosed** | | | | | | | | |
| Deposits with institutions | - | 69.3 | - | **69.3** | - | 115.5 | - | **115.5** |
| **Financial liabilities for which fair values are disclosed** | | | | | | | | |
| Bond and bank loans | - | 439.2 | - | **439.2** | - | 443.0 | - | **443.0** |
| Finance leases and hire purchase obligations | - | 3.0 | - | **3.0** | - | 3.4 | - | **3.4** |
| Bank overdrafts | - | 2.7 | - | **2.7** | - | 9.4 | - | **9.4** |

### d) Other information

Debt securities, money market funds and deposits with financial institutions relate to monies held by the Group's insurance business and are subject to contractual restrictions and are not readily available to be used for other purposes within the Group.

Following a review of the Group's investment portfolio during the prior year, loan funds, hedge funds and money market funds have been transferred from Level 2 to Level 1 in the hierarchy. There have been no non-recurring fair value measurements of assets and liabilities during the year (2018: none).

The Group operates a programme of economic hedging against its foreign currency and fuel oil exposures. During the year, the Group designated 675 foreign exchange forward currency contracts as hedges of highly probable foreign currency cash expenses in future periods and designated 44 fuel oil swaps as hedges of highly probable fuel oil purchases in future periods. As at 31 January 2019, the Group has designated 822 forward currency contracts and 170 fuel oil swaps as hedges.

During the year, the Group recognised net gains of £5.3m (2018: £2.8m losses) on cash flow hedging instruments through other comprehensive income into the hedging reserve. Additionally, the Group recognised net losses of £6.3m (2018: £1.1m) through other comprehensive income into the hedging reserve, in relation to the specific hedging instrument for the acquisition of two new ships. The overall net losses of £1.0m (2018: £3.9m) are offset by a net £1.5m gain (2018: £0.3m gain) on forecast transactions recognised in the financial statements. The Group has recognised no amount through the income statement in respect of the ineffective portion of hedges measured during the year (2018: £0.2m loss).

There has been no de-designation of hedges during the year ended 31 January 2019 as a result of cash flows forecast that are no longer expected to occur. During the year, the Group recognised a £2.9m gain (2018: £18.8m gain) through the income statement in respect of matured hedges, which has been recycled from other comprehensive income. No amounts have been removed from the hedging reserve to be included in the carrying value of non-financial assets and liabilities.

## Notes to the consolidated financial statements (continued)

### 13 Cash and cash equivalents

| | **2019** | 2018 |
|---|---|---|
| | **£'m** | £'m |
| Cash at bank and in hand | 91.9 | 33.4 |
| Short-term deposits | 31.0 | 49.8 |
| **Cash and short-term deposits** | **122.9** | **83.2** |
| Money markets funds | 37.1 | 153.2 |
| Bank overdraft | (2.7) | (9.4) |
| **Cash and cash equivalents in the cash flow statement** | **157.3** | **227.0** |

Included within cash and cash equivalents are amounts held by the Group's travel and insurance businesses which are subject to contractual or regulatory restrictions. These amounts held are not readily available to be used for other purposes within the Group and total £108.6m (2018: £214.0m).

### 14 Retirement benefit schemes

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

a. Defined contribution plans

There are a number of defined contribution schemes in the Group. The total charge for the year in respect of the defined contribution schemes was £2.2m (2018: £0.9m). The assets of these schemes are held separately from those of the Group in funds under the control of Trustees.

b. Defined benefit plans

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

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

| | **2018** | 2017 |
|---|---|---|
| | **£'m** | £'m |
| Fair value of scheme assets | 312.4 | 307.3 |
| Present value of defined benefit obligation | (315.2) | (314.3) |
| **Defined benefit scheme obligation** | **(2.8)** | **(7.0)** |

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

During the year ended 31 January 2019, the net liability of the Saga scheme has improved by £4.2m to a total liability of £2.8m.

# Notes to the consolidated financial statements (continued)

## 15 Insurance contract liabilities and reinsurance assets

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

| | **2019** | 2018 |
|---|---|---|
| **Gross** | **£'m** | £'m |
| Claims outstanding | 392.6 | 466.4 |
| Provision for unearned premiums | 98.0 | 115.0 |
| **Total gross liabilities** | **490.6** | **581.4** |

| | **2019** | 2018 |
|---|---|---|
| **Recoverable from reinsurers** | **£'m** | £'m |
| Claims outstanding | 91.2 | 94.0 |
| Provision for unearned premiums | 5.6 | 6.2 |
| **Total reinsurers' share of insurance liabilities (as presented on the face of the statement of financial position)** | **96.8** | **100.2** |
| Amounts recoverable under funds withheld quota share agreements recognised within trade payables: | | |
| - Claims outstanding | 118.6 | 100.2 |
| - Provision for unearned premiums | 57.9 | 63.2 |
| **Total reinsurers' share of insurance liabilities after funds withheld quota share** | **273.3** | **263.6** |
| **Analysed as:** | | |
| Claims outstanding | 209.8 | 194.2 |
| Provision for unearned premiums | 63.5 | 69.4 |
| **Total reinsurers' share of insurance liabilities after funds withheld quota share** | **273.3** | **263.6** |

| | **2019** | 2018 |
|---|---|---|
| **Net** | **£'m** | £'m |
| Claims outstanding | 301.4 | 372.4 |
| Provision for unearned premiums | 92.4 | 108.8 |
| **Total net insurance liabilities** | **393.8** | **481.2** |
| Amounts recoverable under funds withheld quota share agreements recognised within trade payables: | | |
| - Claims outstanding | (118.6) | (100.2) |
| - Provision for unearned premiums | (57.9) | (63.2) |
| **Total net insurance liabilities after funds withheld quota share** | **217.3** | **317.8** |
| **Analysed as:** | | |
| Claims outstanding | 182.8 | 272.2 |
| Provision for unearned premiums | 34.5 | 45.6 |
| **Total net insurance liabilities after funds withheld quota share** | **217.3** | **317.8** |

## Notes to the consolidated financial statements (continued)

### 15 Insurance contract liabilities and reinsurance assets (continued)

**Reconciliation of movements in claims outstanding**

| | **2019 £'m** | 2018 £'m |
|---|---|---|
| Gross claims outstanding at 1 February | 466.4 | 516.1 |
| Less: reinsurance claims outstanding | (194.2) | (149.3) |
| Net claims outstanding at 1 February | 272.2 | 366.8 |
| | | |
| Gross claims incurred | 124.4 | 156.4 |
| Less: reinsurance recoveries | (114.8) | (127.1) |
| Net claims incurred (note 3b) | 9.6 | 29.3 |
| | | |
| Gross claims paid | (198.2) | (206.1) |
| Less: received from reinsurance | 99.2 | 82.2 |
| Net claims paid | (99.0) | (123.9) |
| | | |
| Gross claims outstanding at 31 January | 392.6 | 466.4 |
| Less: reinsurance claims outstanding | (209.8) | (194.2) |
| Net claims outstanding at 31 January | **182.8** | **272.2** |

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

| Accident Year | Financial Year ended 31 January | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 2010 | 79% | 79% | 77% | 76% | 74% | 73% | 73% | 72% | 71% | 71% |
| 2011 | | 80% | 80% | 78% | 77% | 72% | 70% | 69% | 68% | 67% |
| 2012 | | | 77% | 71% | 63% | 62% | 57% | 55% | 52% | 52% |
| 2013 | | | | 76% | 72% | 62% | 56% | 53% | 52% | 51% |
| 2014 | | | | | 75% | 70% | 63% | 61% | 58% | 55% |
| 2015 | | | | | | 81% | 80% | 78% | 75% | 71% |
| 2016 | | | | | | | 87% | 88% | 82% | 75% |
| 2017 | | | | | | | | 67% | 69% | 65% |
| 2018 | | | | | | | | | 75% | 75% |
| 2019 | | | | | | | | | | 80% |

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

| Accident Year | Financial Year ended 31 January | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 2010 | 73% | 73% | 72% | 70% | 68% | 67% | 66% | 64% | 63% | 63% |
| 2011 | | 78% | 78% | 76% | 75% | 71% | 69% | 67% | 65% | 64% |
| 2012 | | | 76% | 70% | 62% | 62% | 57% | 54% | 53% | 52% |
| 2013 | | | | 75% | 72% | 66% | 62% | 58% | 56% | 54% |
| 2014 | | | | | 75% | 71% | 65% | 62% | 59% | 56% |
| 2015 | | | | | | 67% | 69% | 66% | 63% | 58% |
| 2016 | | | | | | | 70% | 71% | 66% | 59% |
| 2017 | | | | | | | | 56% | 56% | 53% |
| 2018 | | | | | | | | | 66% | 66% |
| 2019 | | | | | | | | | | 70% |

Favourable claims development over the year has resulted in a £71.1m (2018: £60.0m) reduction in net claims incurred in respect of prior years.

## Notes to the consolidated financial statements (continued)

### 16 Loans and borrowings

| | **2019** | 2018 |
|---|---|---|
| | **£'m** | £'m |
| Bond | 250.0 | 250.0 |
| Bank loans | 160.0 | 180.0 |
| Revolving credit facility | 30.0 | 15.0 |
| Accrued interest payable | 2.2 | 2.2 |
| | 442.2 | 447.2 |
| Less: deferred issue costs | (3.0) | (4.2) |
| | **439.2** | **443.0** |

The Group's bank facilities consist of a £250.0m seven-year senior unsecured bond, a £200.0m five-year term loan facility and a £100.0m five-year revolving credit facility with an option to extend. In March 2019, the Group's banks agreed to extend the term on the revolving credit facility by one year with expiry in May 2023. The bond is listed on the Irish Stock Exchange.

At 31 January 2019, the Group had drawn £30.0m of its £100.0m revolving credit facility and since the refinancing £40.0m of the term loan has been repaid.

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

During the period, the Group charged £11.5m (2018: £13.5m) to the income statement in respect of fees and interest associated with the bonds, term loan and revolving credit facility. In addition, finance costs recognised in the income statement includes £0.2m (2018: £0.7m) relating to interest on finance lease liabilities, net finance expense on pension schemes and other interest costs, £nil (2018: £0.6m) of net fair value losses on derivatives and £nil (2018: £4.3m) of accelerated amortisation of debt issue costs in relation to previous debt held.

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

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

Both hedges have been designated as cash flow hedges and remain outstanding as at 31 January 2019.

## Notes to the consolidated financial statements (continued)

### 17 Share-based payments

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

a) On 1 May 2018, options over 4,314,573 shares were issued under the Long-Term Incentive Plan to certain Directors and other senior employees which vest and become exercisable on the third anniversary of the grant date and are 30% linked to organic EPS performance, 30% linked to ROCE and 40% linked to TSR performance.

b) On 11 July 2018, 700,815 shares were awarded to eligible staff on the 4th anniversary of the IPO and allocated at £nil cost; these shares become beneficially owned over a three-year period from allocation subject to continuing service.

c) On 1 October 2018, options over 253,530 shares were issued under the Long-Term Incentive Plan to certain Directors and other senior employees which vest and become exercisable on the third anniversary of the grant date and are 30% linked to organic EPS performance, 30% linked to ROCE and 40% linked to TSR performance.

The fair values of all awards are assessed using techniques based upon the "Black-Scholes" pricing model. The Group charged £3.8m during the year (2018: £3.8m) to the income statement in respect of equity-settled share-based payment transactions. Of this, £0.2m (2018: £0.3m) is included within non-trading items (note 4), which represents the share-based payment charge on options awarded at the IPO that are still vesting.

## Alternative Performance Measures Glossary

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

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

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

**Underlying Profit Before Tax**

Underlying Profit Before Tax represents profit before tax from continuing operations excluding unrealised fair value gains and losses on derivatives and the impairment of the carrying value of cruise ships and goodwill. In the prior year it also excludes the one-off costs associated with the unamortised facility fees of the previous banking facilities and one-off restructuring costs. It is reconciled to statutory profit before tax within the Operating and Financial Review on page 9.

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

**Trading EBITDA**

Trading EBITDA is defined as earnings before interest payable, tax, depreciation and amortisation, and excludes the amortisation of acquired intangibles, non-trading costs and impairments. It also excludes the non-cash impact of IAS19R current service costs in line with the Group's debt covenants. It is reconciled to profit before tax within the Operating and Financial Review on page 19.

This measure has been presented by the Group in every annual report since it became a listed Group in 2014 and is linked to the Group's debt covenants, being the denominator in the Group's leverage ratio calculation.

**Underlying basic earnings per share from continuing operations**

Underlying basic earnings per share from continuing operation represents basic earnings per share from continuing operations excluding the post-tax effect of unrealised fair value gains and losses on derivatives and the impairment of the carrying value of cruise ships and goodwill. In the prior year it also excludes the post-tax effect of the one-off non-cash costs associated with the unamortised facility fees of the previous banking facilities and the post-tax effect of one-off restructuring costs. This measure is reconciled to the statutory basic earnings per share from continuing operations in note 7.

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

**Customer spend**

Customer spend represents the total amount that customers spent on products provided by the Saga Group of companies, including gross written premiums, ancillary income and Insurance Premium Tax for all of the core policies and add-ons sold in the period. It is reconciled to statutory revenue within the Operating and Financial Review on page 10.

**Available operating cash flow**

Available operating cash flow is net cashflow from operating activities after capital expenditure but before tax, interest paid and non-trading items, which is available to be used by the Group as it chooses and is not subject to regulatory restriction. It is reconciled to statutory net cash flow from operating activities within the Operating and Financial Review on page 18.

**Net debt**

Net debt is the sum of the carrying values of the Group's debt facilities less the amount of available cash it holds. It is linked to the Group's debt covenants, being the numerator in the Group's leverage ratio calculation, and is analysed further within the Operating and Financial Review on page 21.