Saga plc exists to help our customers lead the life they want to lead. In 2019/20, the Company is refocusing its strategy to return to its heritage as a direct to consumer brand, with Membership at its core.

Financial highlights[1]

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

↓ (174.4%)

2019	(134.6)
2018	180.9
2017	193.3

Dividend per share (pence)

↓ (55.6%)

2019	4.0
2018	9.0
2017	8.5

Underlying Profit Before Tax (£m)[1]

↓ (5.4%)

2019	180.3
2018	190.6
2017	187.4

Available operating cash flow (£m)[1]

↑ 2.9%

2019	180.6
2018	175.5
2017	217.6

Basic earnings per share for continuing operations (pence)

↓ (210.7%)

2019	(14.5)
2018	13.1
2017	14.1

Underlying earnings per share (pence)[1]

↓ (5.1%)

2019	13.1
2018	13.8
2017	13.7

Debt ratio (net debt to Trading EBITDA[1])

1.7x

2019	1.7x
2018	1.7x
2017	1.9x

Operational highlights

Number of members of Saga Possibilities

↑ 1.1m

2018: 0.536m

Average product holding

1.4

2018: 1.4

Brand net promoter score (NPS)

25

Brand NPS was established in 2018.

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

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

Insurance

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

- Insurance Retail Broking
- Insurance Underwriting

Retail Broking Underlying Profit Before Tax[1] (£m)

£105.8m

(2017/18: £130.7m; (19.1%))

Underwriting Underlying Profit Before Tax[1] (£m)

£86.7m

(2017/18: £79.3m; +9.3%)

Policy Count[2]

2,204k

(2017/18: 2,274k; (3.1%))

Underlying reserve releases (£m)

£77.9m

(2017/18: £60.0m; +29.8%)

Pure COR[3]

99.7%

(2017/18: 97.8%; +1.9ppt)

Insurance p 40-43

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

Travel

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

- Saga Cruises
- Saga Holidays
- Titan
- Destinology

Underlying Profit Before Tax[1] (£m)

£21.1m

(2017/18: £20.6m; +2.4%)

Passengers – Holidays

176k

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

Passengers – Cruise

26k

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

Travel p 43-44

Emerging Businesses

Emerging Businesses includes new development areas.

- Saga Personal Finance
- Saga Healthcare

Underlying Profit Before Tax (£m)[1]

£3.1m

(2018: £0.8m; +287.5%)

Emerging Businesses p 44-45

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

Patrick O' Sullivan
Chairman

Strategy

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

Performance in 2018

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

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

Dividend and Goodwill impairment

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

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

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

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

Changes to the Board

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

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

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

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

The future

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

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

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

Patrick O' Sullivan
Chairman
3 April 2019

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

Lance Batchelor
Group Chief Executive Officer

Summary

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

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

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

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

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

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

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

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

A fundamental shift in our Retail Broking business

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

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

The result has been a decline in profit and policies.

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

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

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

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

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

Our Travel strategy

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

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

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

Our Membership strategy

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

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

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

The Saga brand

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

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

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

Looking forward

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

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

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

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

Lance Batchelor
Group Chief Executive Officer
3 April 2019

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

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

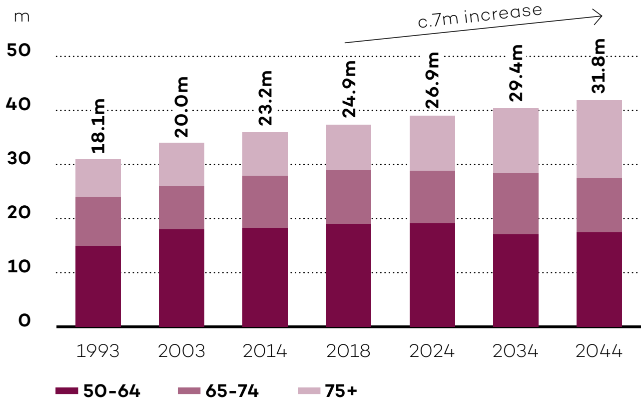
The Saga customer

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

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

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

Projected growth of the UK's over 50s



Vulnerable customers

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

Competition for customers

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

Regulatory developments

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

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

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

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

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

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

Political developments

Brexit

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

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

Our sources of value

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

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

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

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

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

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

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

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

Underpinned by our people, culture and values

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

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

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

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

Delivered through the Saga model

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

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

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

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

Creating value for our stakeholders

Saga is committed to maximising value for our key stakeholders.

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

Measurement:
- NPS
- Number of Possibilities members
- Average products held

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

Measurement:
- Employee engagement score

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

Measurement:
- Charitable donations
- Volunteer hours

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

Measurement:
- Dividend payout ratio
- Underlying Earnings Per Share

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

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

Strategic Priorities 2018/19

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

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

1. Becoming increasingly customer centric

Strategic priorities for 2018/19

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

Strategic delivery

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

2. Growing our Retail Insurance and Travel businesses

Strategic priorities for 2018/19

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

Strategic delivery

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

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

3. Investing for future growth

Strategic priorities for 2018/19

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

Strategic delivery

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

4. Maintaining our efficient operating model

Strategic priorities for 2018/19

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

Strategic delivery

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

5. Developing our people

Strategic priorities for 2018/19

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

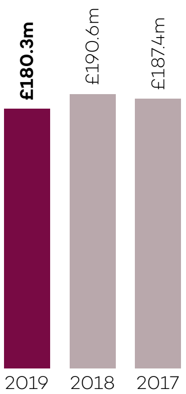
Strategic delivery

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

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

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

Underlying Profit Before Tax (£m)



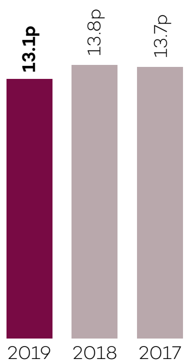
↓ (5.4%)

Definition
Refer to the Glossary on page 199 for definition and explanation.

Purpose
This measure is a meaningful representation of the Group's underlying trading performance as it excludes non-cash derivative adjustments and one-off financial impacts that are not expected to recur.

Performance
Refer to the Operating and Financial Review on page 39.

Underlying earnings per share (pence)



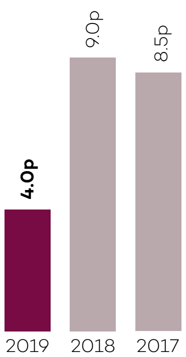
↓ (5.1%)

Definition
Refer to the Glossary on page 199 for definition and explanation.

Purpose
This measure is linked to the Group's KPI, Underlying Profit Before Tax, and represents what management considers to be the underlying shareholder value generated in the period.

Performance
Refer to the Operating and Financial Review on page 39.

Dividend per share (pence)



↓ (55.6%)

Definition
Calculated as cash returns per ordinary share.

Purpose
This measure highlights an element of shareholders' return.

Performance
Refer to the Operating and Financial Review on page 50.

Available operating cash flow (£m)

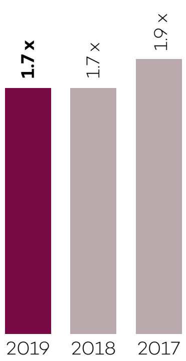
↑ 2.9%

Definition
Refer to the Glossary on page 199 for definition and explanation.

Purpose
This measure indicates the cash generation of the business.

Performance
Refer to the Operating and Financial Review on pages 45-46.

Debt ratio



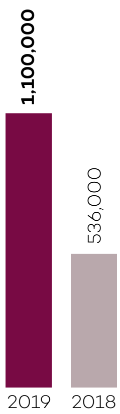
1.7x

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

Purpose
This measure represents the Group's financial flexibility.

Performance
Refer to the Operating and Financial Review on page 48.

Number of members



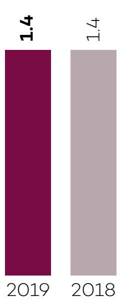
↑ 105.2%

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

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

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

Average products held



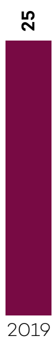
1.4

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

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

Performance
The Group held average products flat at 1.4.

Brand net promoter score



25

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

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

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

Strategic Priorities 2019/20

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

1. Relaunch Retail Broking with a compelling direct proposition

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

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

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

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

2. Complete the transformation of Cruise

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

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

3. Accelerate the transformation of our Tour Operations business

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

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

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

Measuring success over the medium-term

1. Relaunch Retail Broking

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

2. Cruise

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

3. Tour Operations

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

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

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

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

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

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

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

5. Complete implementation of key IT platforms

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

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

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

6. Develop our people

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

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

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

It offers its members access to exclusive experiences, unique events, and curated offers.
When asked, 84% of customers choose to join the programme. The success in activating customers has led to a membership base of over 1.1m Possibilities members. More than 90% of members have provided marketing consent in line with GDPR requirements.

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

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

Dining Possibilities

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

Travel Possibilities

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

Entertainment Possibilities

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

Possibilities members can enjoy:

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

The future of Possibilities

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

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

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

A fundamental shift in our Insurance model

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

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

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

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

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

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

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

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

3-Year Fixed price

"The price guarantee was a deciding factor."

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

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

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

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

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

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

"It's great to be able to lock in my next two years insurance premiums."

"This is UNIQUE!"

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

Launching a new era in boutique, British cruising

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

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

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

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

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

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

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

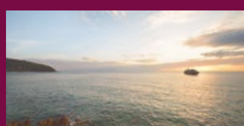
Spirit of Discovery

March 2019
Exterior and Interior
Work started to finish the fixtures and fittings on Spirit of Discovery

May 2019
Crew
The crew come aboard the new ship

May 2019
Conveyancing
Spirit of Discovery cruises along the River Ems during a fireworks display

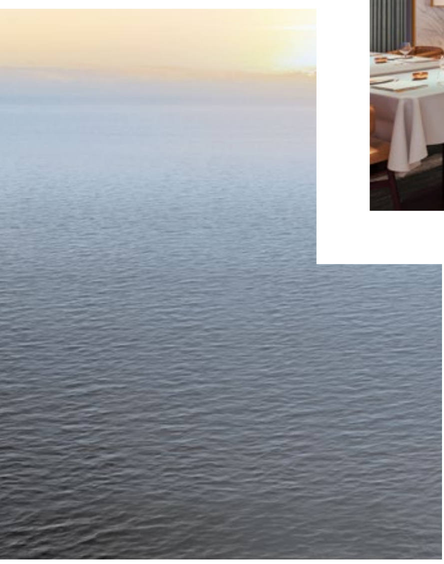
June 2019
Sea trials
The ship takes to the seas for operational and speed tests

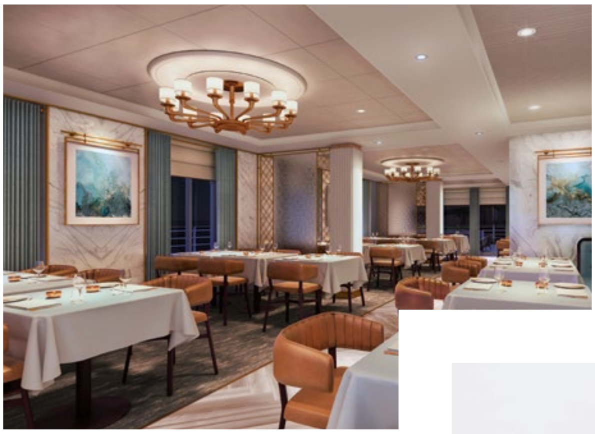


20 June 2019
Final delivery
Meyer Werft sign the ship over to Saga

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

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





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

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

Spirit of Adventure

5 July 2019

Naming ceremony

10 July 2019

Maiden cruise

The 13 night inaugural cruise departs from Dover

27 March 2019

Steel cutting

A ceremony signalling the start of production on Spirit of Adventure

June 2019

Keel laying

Including 'lucky' coins placed into the hull

August 2020

Maiden cruise

The 17 night inaugural cruise departs from Dover

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

Reporting requirement	Policies	Monitored through	Relevant information
1. Environmental matters	• Environmental and sustainability policy • Voluntarily report our energy performance figures to the Carbon Disclosure Project, see page 31	• Annual Board review • Risk committees throughout the Group	• Carbon/Greenhouse Gas emissions, pages 31-33 • Waste reduction, page 31 • We anticipate that the launch of our new ships will see a significant reduction in our emissions, see page 31
2. Employees	• Data protection policies • Diversity and dignity policy • Employee handbook • Health and safety policies • Personal standards and ethics policy • Transgender policy • Whistleblowing and open-door policy	• Audit Committee – regular whistleblowing reports • Audit Committee chair is whistleblowing champion and provides an annual report to the Board • Data Governance Forum (chaired by the Head of Data Operations) • Employee surveys • Health & Safety Committee (chaired by the Chief Risk and Compliance Officer, a member of the Group Executive Committee) • People Committee	• Business model, pages 12-13 • Chairman's statement, pages 4-5 • Developing our people, pages 15 and 28 • Diversity and dignity policy, pages 28, 69 and 98-107 • Employee engagement, page 28 • Gender diversity, pages 28-29 • Investing in our employees, page 28 • People and culture, page 28
3. Human rights	• Data protection policies • Data retention and inventory policy • Modern slavery statement and policy	• Data Governance Forum • Modern slavery policy and statement reviewed and approved by the Board • Risk Committees throughout the Group	• Human rights (including approach taken to modern slavery), page 29
4. Social matters	• Charitable donations policy • Corporate social responsibility policy • Seeking and representing views of our customers	• Corporate Social Responsibility Committee • Customer outcomes forums throughout the Group • Saga Charitable Trust	• Charity partnership with The Silver Line, page 30 • Community and social, page 30 • Customers and members representation, page 30 • Saga Charitable Trust, page 30 • Saga Populus Panel, page 30 • Vulnerable customers, page 10 • Volunteering, fundraising, matched giving and grants, page 30

Reporting requirement	Policies	Monitored through	Relevant information
5. Anti-corruption and anti-bribery	• Anti-bribery and anti-corruption policy • Anti-facilitation of tax evasion policy • Anti-fraud policy • Anti-money laundering and terrorist financing policy • Anti-sanctions policy • Competition policy • Conflict of interest policies (employees and Directors) • Contracts governance policy • Legal risk framework policy • Personal standards and ethics policy • Supplier risk management • Tax strategy • Treasury policy	• Financial Crime, Information Security and Data Protection Committee (chaired by the Group Chief Financial Officer) • Regular reports to the Audit Committee and Supplier Risk Committee (chaired by the Chief Risk and Compliance Officer)	• Anti-bribery and anti-corruption, page 29 • Audit Committee Report, pages 75-78 • Supplier partnerships, page 12
6. Business model			• Business model, pages 12-13
7. Principal risks and impact of business activity	• Group risk policy • Subsidiary risk policies	• Business Continuity Committee (chaired by Chief Risk and Compliance Officer) • Risk Committee • Subsidiary board audit and risk committees	• Business interruption risk, pages 36-37 • External regulatory landscape or political change risk, pages 36-37 • Macro-economic climate risk, pages 36-37 • Operation efficiency/change/innovation risk, pages 36-37 • Principal risks and uncertainties, pages 34-37 • Risk Committee Report, pages 79-81
8. Non-financial KPIs			• Carbon/Greenhouse Gas emissions, pages 31-33 • Customer satisfaction, page 17 • Employee engagement, page 28 • Supplier partnerships, page 12 • Vulnerable customers, page 10 • Volunteering and fundraising, page 30

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

People and culture

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

Investing in our employee capabilities

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

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

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

Building employee engagement

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

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

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

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

Gender diversity

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

Gender diversity January 2019

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

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

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

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

Human rights

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

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

Anti-bribery and anti-corruption

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

Health and safety

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

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

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

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

Community and social

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

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

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

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

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

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

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

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

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

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

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

Social matters

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

Environmental

Emissions

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

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

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

Waste management

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

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

Estate management

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

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

Greenhouse gas emissions

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

Our total GHG emissions have increased by 1% during the 2018/19 financial year compared to the year before. Saga PLC has emitted a total of 101,307 tCO_2e from fuel combustion (Scope 1 direct) and electricity purchased for our own use (Scope 2 indirect). This is equivalent to 83.7tCO_2e per £m customer spend.

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

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

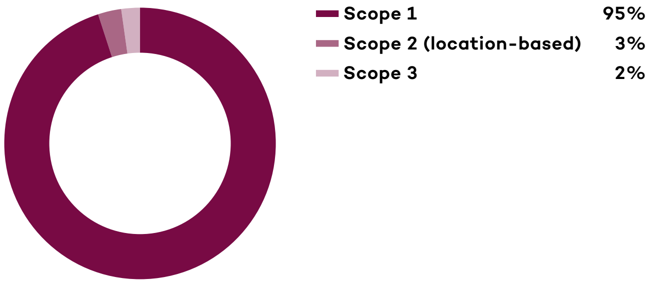
Greenhouse gas emissions in tonnes of carbon dioxide (tCO_2) or carbon dioxide equivalent (tCO_2e)

Emissions Source	2018/19 Emissions	2017/18 Emissions**
Scope 1	98,047 tCO_2e	95,013 tCO_2e
Scope 2 (location-based)	3,260 tCO_2e	4,053 tCO_2e
Total Scope 1 & 2	101,307 tCO_2e	99,067 tCO_2e
tCO_2e per £m customer spend	83.7	82.0
Scope 2 (market-based)*	260 tCO_2	221 tCO_2
Scope 3	1,825 tCO_2	2,758 tCO_2

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

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

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



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

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

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

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

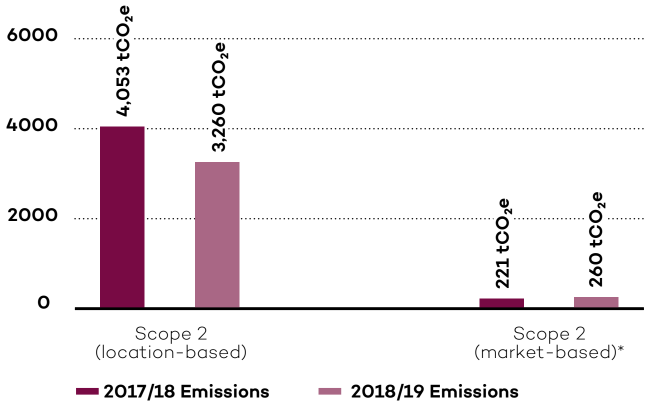
- Scope 1: Natural gas combustion within boilers, marine fuel combustion within ships, road fuel combustion within vehicles, fuel combustion within non-road mobile machinery, and fugitive refrigerants from air-conditioning equipment.
- Scope 2: Purchased electricity consumption for our own use.
- Scope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

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

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

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

Figure 1: Scope 2 electricity emissions by reporting type



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

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

Risk governance
The Board has agreed systems and processes to govern our approach to risk management These systems encompass ensuring that an effective risk assessment and management system is in place; agreeing the principal risks and uncertainties the business should accept in pursuit of its strategic objectives and regularly reviewing the status of these; ensuring that a suitable risk culture is embedded throughout Saga. Our approach and these processes are set out in more detail in the Accountability section of the Corporate Governance Statement on pages 70-74.

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

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

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

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

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

We describe our attitude towards the following main categories of risk that we encounter through carrying out our business:

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

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

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

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

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

Commercial performance risk
We operate in a dynamic business environment and accept that we are exposed to a number of commercial performance risks. We seek to grow our business in areas which present sustainable growth opportunities and in which we have demonstrable expertise.

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

Operational risk
We actively seek some logistical risks in areas in which we believe that we have expertise and will be rewarded for taking them. We have a very low appetite for risks which threaten our reputation. We only engage in regulated activities if we have the expertise to manage them effectively. We define our risk appetite for certain specific areas of operational risk as follows:

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

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

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

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

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

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

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

Mitigations	Future Outlook
Continued investment in industry leading tools and technologies to prevent cyber-attacks, benchmarking and external penetration tests.	↔
Oversight and prioritisation provided by the Group Change Management Function; external and internal independent assurance reviews of key projects; Board and Group Executive review and oversight of key project metrics including quality and delivery measures.	↔
Quota share arrangement; claims spend closely monitored; anti-fraud detection controls to get better net rates from the panel; 'rapid result' trials and product innovation focused on customers' needs.	↔
Brexit risks are monitored across the Group; action taken to minimise potential disruption to Tour Operations and Cruise businesses.	↑
Full and regularly tested emergency plans in place for all Tour Operations businesses; full resilience review and plans in place for the ships; New ship in 2019.	↔
Continued focus on trading and marketing efficiency and customer propositions; Possibilities paid for Membership launched; cross-sell opportunities from Possibilities Membership scheme; new Insurance proposition and products; new cruise ships to increase first-time buyers.	↔
Legal team in place with industry experience; review of key legal risks by 2nd and 3rd line of defence functions; external lawyers used.	↔
Possibilities Membership scheme; above the line advertising and investment for 2019.	↑
Continued investment in pricing strategy; product governance reviews of products for value for money; new insurance products and propositions.	↑

Key

1. Relaunch Retail Broking with a compelling direct proposition
2. Complete the transformation of Cruise
3. Accelerate the transformation of our Tour Operations business
4. Increase usage of and engagement with our Membership programme, Saga Possibilities
5. Complete implementation of key IT platforms
6. Develop our people

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

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

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

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

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

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

Operating Performance

Group Income Statement

£m	12m to Jan 2019	*Growth*	12m to Jan 2018 (restated)[1]
Revenue[2]	**841.5**	***(2.2%)***	**860.2**
Underlying Profit Before Tax[3]			
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[4]	(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[3]	13.1p	*(5.1%)*	13.8p
Earnings per share from continuing operations	(14.5p)	*(210.7%)*	13.1p
Earnings per share	(14.5p)	*(216.4%)*	12.5p

Notes:
1 The Group has adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments and is reporting its performance for the 12 months to 31 January 2019 against a restated comparative period for the 12 months to 31 January 2018 under these new standards. For further details, see note 37 on pages 189-191
2 Revenue is stated net of ceded reinsurance premiums earned on business underwritten by the Group of £136.0m (2018: £139.9m)
3 Alternative Performance Measure – refer to the Glossary on page 199 for definition and explanation
4 Net finance costs exclude net fair value gains/(losses) on derivatives and IAS19R pension interest costs

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

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

Revenue

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

Total customer spend[3] reconciles to revenue as follows:

£m	12m to Jan 2019	*Growth*	12m to Jan 2018 (restated)
Total customer spend[3]	**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[2]	**841.5**	***(2.2%)***	**860.2**

Underlying Profit Before Tax[3]

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

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

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

Loss before tax from continuing operations

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

Tax expense

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

Discontinued operations

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

Earnings per share

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

Retail Broking

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

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

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

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

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

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

	12m to Jan 2019					**12m to Jan 2018 (restated)**			
£m	**Motor Broking**	**Home Broking**	**Other Broking**	**Total**	***Growth***	**Motor Broking**	**Home Broking**	**Other Broking**	**Total**
GWP									
Broked	132.9	161.4	123.0	417.3	*6.0%*	105.4	164.3	123.9	393.6
Underwritten	219.0	0.0	4.1	223.1	*(13.8%)*	254.0	0.0	4.7	258.7
	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**

Thousands	12m to Jan 2019 Motor Broking	Home Broking	Other Broking	Total	*Growth*	12m to Jan 2018 (restated) Motor Broking	Home Broking	Other Broking	Total
Number of policies sold[5]									
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[5]									
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[6]									
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 [7]	23.7%				*6.7%*	17.0%			

5 Combined buildings and contents home core policies count as one policy
6 Combined buildings and contents home core policies count as two policies
7 Third party Underwriter share of the motor panel for Saga branded policies

Motor Broking

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

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

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

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

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

Home Broking

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

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

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

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

Other Broking

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

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

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

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

Insurance underwriting

		12m to Jan 2019				12m to Jan 2018 (restated)		
£m		**Reported**	**Quota Share**	**Underlying**	***Growth***	**Reported**	**Quota Share**	**Underlying**
Net earned premium		80.8	(124.0)	204.8	*(5.0%)*	84.2	(131.3)	215.5
Other revenue		12.5	10.3	2.2	*(78.2%)*	14.8	4.7	10.1
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.

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

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

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

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

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

Travel

	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	*4.9%*	1,959	3,675	2,157
Holidays passengers ('000)							
Stays	80		80	*(7.0%)*	86		86
Escorted tours	64		64	*(4.5%)*	67		67
River cruise	22		22	*4.8%*	21		21
Third party ocean cruise	10		10	*0.0%*	10		10
	176		176	*(4.3%)*	184		184
Cruise passengers ('000)		26	26	*8.3%*		24	24
Cruise passenger days ('000)		334	334	*3.4%*		323	323
Load factor		82%	82%	*(1.2%)*		83%	83%
Per diems (£)		262	262	*5.2%*		249	249

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

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

	12m to Jan 2019				12m to Jan 2018 (restated)		
£m	**Emerging Businesses**	**Central Costs**	**Total**	***Growth***	**Emerging Businesses**	**Central Costs**	**Total**
Revenue:							
Personal Finance	8.2	–	8.2	*6.5%*	7.7	–	7.7
Healthcare	6.0	–	6.0	*7.1%*	5.6	–	5.6
Media – Saga Magazine & printing	18.6	–	18.6	*31.9%*	14.1	–	14.1
Other	–	1.3	1.3	*(40.9%)*	0.6	1.6	2.2
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[3] is made up of the unrestricted cash flows from Retail Broking, Emerging Businesses and Central Costs, plus any dividends paid by restricted businesses, AICL and Travel. As well as a regulatory restriction on the cash within the Travel business, the initial instalments for the Spirit of Discovery and Spirit of Adventure have until now been funded from Travel cash. Therefore, until both ships are delivered, Travel is not expected to contribute to the Group's available operating cash flow.

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

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

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

Available Cash Flow

£m	12m to Jan 2019	*Growth*	12m to Jan 2018 (restated)
Retail Broking Trading EBITDA[3]	116.7	*(17.0%)*	140.6
Underwriting Trading EBITDA[3]	87.2	*10.4%*	79.0
Travel Trading EBITDA[3]	41.1	*6.5%*	38.6
Emerging Businesses and Central Costs Trading EBITDA[3]	(13.7)	*(9.0%)*	(7.6)
Group Trading EBITDA[3]	**231.3**	***(7.7%)***	**250.6**
Less Trading EBITDA[3] 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[3]	**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[3]	**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[3]	**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[8]	(0.4)		(5.5)
Net finance costs[4]	(11.7)		(12.5)
Underlying Profit Before Tax[3]	**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**

8 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 have resulted in more BBB rated invested funds and a reduction in the number of unrated invested funds.

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

						Risk rating
At 31 Jan 2018 (restated)	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**Unrated £m**	**Total £m**
Underwriting investment portfolio:						
Deposits with financial institutions	–	60.8	54.7	–	–	115.5
Debt securities	28.9	119.0	11.5	–	–	159.4
Money market funds	153.2	–	–	–	–	153.2
Equities	–	–	–	–	31.4	31.4
Hedge funds	–	–	–	–	7.5	7.5
Loan funds	–	–	–	–	6.4	6.4
Unlisted equity shares	–	–	–	–	1.7	1.7
Total invested funds	182.1	179.8	66.2	–	47.0	475.1
Hedging derivative assets	–	–	37.8	0.6	–	38.4
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[9]	12m to Jan 2019 Net	12m to Jan 2018 (restated) Gross	12m to Jan 2018 (restated) Reinsurance Assets[9]	12m to Jan 2018 (restated) Net
Reported claims	280.4	(73.5)	206.9	306.5	(76.1)	230.4
Incurred but not reported[10]	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

9 Excludes funds-withheld quota share agreement (please refer to note 25 on page 178 for further detail)
10 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[3]	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[11]		(48.7)	(13.0)
Net debt		391.3	432.0

11 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 FCA has implemented new requirements relating to how retail general insurance products are sold, and has launched an extensive market study into industry pricing practices.

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

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

Brexit

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

Dividends

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

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

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

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

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

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

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

Financial priorities for 2019/20

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

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

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

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

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

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

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