23 March 2022

**Saga plc**

**Preliminary results for the year ended 31 January 2022**

# Resilient performance delivered against challenging backdrop
# Strategically positioning Saga for growth

Saga plc (**Saga** or the **Group**), the UK's specialist in products and services for people over 50, announces its preliminary results for the year ended 31 January 2022.

| | 31 January 2022 | 31 January 2021 | Change |
|---|---|---|---|
| Underlying (Loss)/Profit Before Tax[1] | (£6.7m) | £17.1m | (139%) |
| Loss before tax | (£23.5m) | (£61.2m) | 62% |
| Available Operating Cash Flow[1] | £75.8m | £3.4m | 2,129% |
| Net debt | £729.0m | £760.2m | (4%) |

## Group and financial highlights

- Group delivered a resilient performance against the backdrop of COVID-19 challenges; continued delivery against our turnaround strategy.
- Strong liquidity position following actions taken over the last 12 months; Available Cash[1] of £186.6m and £100m undrawn revolving credit facility.
- Robust cash generation with Available Operating Cash Flow[1] of £75.8m following the resumption of Cruise operations.
- Net debt reduced by £31.2m, to £729.0m, despite the impact of the pandemic.
- Evolution of strategic approach following foundations laid over the last two years, focused on returning Saga to growth.

## Divisional performance

### Insurance – positive momentum with second year of policy growth

**Retail Broking**

- 1.6m motor and home policies in force at 31 January 2022, 1.4% ahead of the prior year.
- Customer retention continued to improve at 82.8%, 2.3ppts ahead of the prior year.
- Our three-year fixed-price product continued to grow in popularity, now representing 47% of the motor and home book (vs. 35% in 2020/21).
- Motor and home gross margin per policy remained stable at £74.
- The proportion of new business acquired directly, rather than through price-comparison websites, remains stable at 59%.
- Maintained disciplined approach to pricing following implementation of Financial Conduct Authority market study pricing rules.

**Underwriting**

- Underlying Profit Before Tax[1] of £54.1m, including £42.1m prior year reserve releases.
- Policies in force in relation to the Saga book are 3% ahead of the prior period, a return to growth for the first time since 2012.
- Current year combined operating ratio of 96.3% versus 91.4% in 2020/21, with motor claims frequency in the second half of the year broadly in line with pricing assumptions as claims frequency began to normalise following COVID-19 lockdowns.

[1] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

### Travel – Strong pipeline of Cruise bookings and move towards new Tour Operations operating model

#### Cruise

- Cruise generated positive EBITDA and cash in the second half, with a load factor of 68% and per diem of £299, despite pandemic-related operational challenges.
- Cruise Underlying Loss Before Tax[2] of £47.7m, within our guided range of £45-50m.
- External environment remains challenging but bookings for 2022/23 remain strong with a load factor of 73% and per diem of £319 for the full year, as at 20 March 2022.
- Achieved exceptional levels of customer satisfaction within Cruise of 9.1 out of 10.

#### Tour Operations

- Began the restructure of Tour Operations to deliver growth and create a lower-cost, more agile, customer-focused business.
- Secured 2022/23 bookings of £132m at 20 March 2022, 30% below the same point two years ago, with customer confidence still impacted by the pandemic but expected to recover over the course of this year.
- New hotel stays proposition to be launched later this year.

## Wider strategic progress

- Relaunched our brand through three new television adverts and refreshed websites, promoting 'Experience is Everything'.
- Brand net promoter score increased to 49, an increase of 5pts from 31 January 2021, reflecting improvements within our Insurance and Personal Finance businesses.
- Improved colleague engagement score to 7.7 out of 10 with participation rate of 93%.
- First major UK business to offer Grandparents' Leave, offering up to one week's leave per year for the birth of a new grandchild.
- Acquisition of The Big Window Consulting Limited, a market research business with a particular emphasis on the ageing process, further supporting our focus on deep customer insight.

*Euan Sutherland, Saga's Group Chief Executive Officer, said:*

"Over the last year, Saga has delivered a resilient performance, whilst laying the foundations for future growth. During 2021/22, we reduced our debt, strengthened our financial position and relaunched the brand. The Insurance business delivered a robust performance with the second year of policy growth after several years in decline, whilst in Travel, we resumed operations, secured positive Cruise bookings for 2022/23 and began the restructure of our Tour Operations business.

"This performance is a testament to the resilience and determination of our wonderful colleagues, and I would like to thank them for their hard work and dedication through what has been a challenging period.

"Looking to the future, I am both confident and excited about the opportunities ahead of us as we emerge stronger from the pandemic than we went in, whilst remaining mindful of the current challenging external environment. Against this backdrop, we are now looking to convert the foundations laid over the past two years into sustainable growth and are further evolving our strategic approach. Our growth plan will see us focused on maximising our existing businesses, reducing our debt while step-changing our ability to scale the business and positioning Saga as 'The Superbrand' for older people. We already have a strong brand, management team and financial position - all the tools required to return the business to sustainable growth and create long-term value for our stakeholders."

END

---

[2] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

Management will hold a presentation for analysts and investors at 9.30am today. The webcast can be accessed by registering at www.investis-live.com/saga-group/62288454f73bbc230024eeeb/prhaf. A copy of the presentation slides will be available at www.corporate.saga.co.uk/investors/results-reports-presentations/ shortly after the event.

A separate live presentation for retail investors will be held via the Investor Meet Company platform on 25 March 2022 at 10.30am. The presentation is open to all existing and potential investors. Questions can be submitted pre-event via the Investor Meet Company dashboard up until 9.00am on 24 March 2022, or at any time during the live presentation. Investors can sign up to Investor Meet Company for free and follow Saga plc via www.investormeetcompany.com/saga-plc/register-investor. Investors who already follow Saga plc on the Investor Meet Company platform will automatically be invited.

For further information, please contact:

**Saga plc**
Emily Roalfe, Head of Investor Relations
Tel: 07732 093 007
Email: emily.roalfe@saga.co.uk

**Headland Consultancy**
Susanna Voyle
Tel: 07980 894 557
Will Smith
Tel: 07872 350 428
Tel: 020 3805 4822
Email: saga@headlandconsultancy.com

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

## Chairman’s Statement

I am pleased with the progress we made last year despite the considerable challenges of the external environment.

Although it has clearly been a particularly difficult period for our Tour Operations business and our cruise ships were only able to start sailing with guests in late June and, even then, with significant restrictions on the number of berths we were able to fill, we made good progress throughout the year with our turnaround strategy. Saga’s Retail Broking business achieved a second consecutive year of motor and home policy growth following several years of decline and our Cruise business secured a very encouraging level of bookings for 2022/23.

As a result of the turbulence being experienced by the travel industry, we are making significant changes to our Tour Operations business in order to create a lower-cost, more agile and digitally-led operation, focused on the evolving needs of our customers. These changes will place us in a better position as our customer demand rebuilds and will help us in facing any further external challenges, such as the current war in Ukraine.

During the year, we prepared ourselves for the new regulatory changes in the insurance industry that came into force in January 2022. We also strengthened our systems and senior management teams and we are now retaining more of our customers at the point of policy renewal. We are now placing far greater focus on cross-selling our policies to our customers.

As a result of raising new capital in 2020 and the successful issue of our new bond last July, the Company is in a much stronger financial position and we have ended the year with lower net debt and more cash on our balance sheet.

The culture across Saga has continued to develop with colleagues reporting that they were feeling more engaged and supported than before. We announced the introduction of Grandparents’ Leave, the first initiative of its kind amongst major UK employers.  This is part of our work to challenge perceptions of ageing which is a central part of our new Environmental, Social and Governance (ESG) strategy.

Saga has always had a strong sense of purpose and has embraced our ESG responsibilities with enthusiasm. We have a diverse range of ESG initiatives and are currently engaged in developing a new and more ambitious plan that will have even greater impact.

### Shareholder returns

As a shareholder myself, I fully understand that some investors could be frustrated by the current share price. I would like to assure you that the Board is very focused on creating long-term sustainable growth in the value of Saga. I believe that, with our strengthened team and the growth strategy we now have in place, we will be successful.

In April 2020, to protect the Group’s financial position in light of the pandemic, the Board announced that it had suspended dividend payments to shareholders and that it did not expect to renew them until 2024 at the earliest. With this in mind, no dividend is proposed for the 2021/22 financial year. We are very aware of the importance of an annual dividend to many of our shareholders and will look to reinstate payments when it is appropriate to do so.

The continued disruption caused by the pandemic has highlighted the financial and operational resilience of Saga and the value of a diversified business. I am very pleased with the performance of our leadership team and our achievements, despite the external challenges we have faced. I am confident that we are emerging from the pandemic stronger than we were when it began. We have made good progress with our strategy and I am confident that our new growth plan will, in the long term, benefit all our stakeholders.

Finally, I would like to extend my thanks to everyone at Saga for the resilience they have shown throughout what has been another extraordinary year. Our colleagues have worked hard with dedication and determination to provide our customers with the very best support and service.

# Group Chief Executive Officer's Statement

## A year of transformation

During 2021/22, we continued to make strong progress against our turnaround strategy, enhancing our capability in Insurance and delivering another year of positive momentum, successfully resuming Cruise operations and beginning the restructure of our Tour Operations business. All of this was achieved while delivering a new brand campaign aimed at changing the perceptions of Saga.

## Our robust performance

Against the backdrop of the COVID-19 pandemic, the Group reported an Underlying Loss Before Tax[1] of £6.7m. While we reported a robust performance within Insurance, this reflects suspension of the Travel business for much of the first half of the year and the ongoing impact of the pandemic once operations were able to resume. After allowing for one-off extraneous items, the Group reported a loss before tax of £23.5m.

During 2021/22, we made strong progress in strengthening the Insurance business and ensuring that we continued to deliver exceptional experiences for our customers.

The Retail Broking business delivered a second year of positive momentum with 1.4% growth in motor and home policies after several years in decline, supported by increased customer retention.

Our in-house underwriter, Acromas Insurance Company Limited (AICL), reported positive momentum following action taken to strengthen our pricing capability and expand our footprint. AICL policies in force in relation to the Saga book, at 31 January 2022, were 3% ahead of the prior period, the first year of policy growth since 2012.

Throughout 2021/22, our Travel business continued to be impacted by the pandemic. Our Cruise business remained suspended until 27 June 2021, at which point, we were able to resume sailing within the UK with a limited number of guests onboard. Once UK restrictions were lifted in the summer and we were able to commence international sailing, we continued to navigate local restrictions at our ports of call, amending itineraries and reducing capacity as necessary.

In spite of these headwinds, customer demand remained strong, and for the year ended 31 January 2022, we delivered positive EBITDA and cash generation in the second half with a load factor of 68% and per diem of £299.

Looking to our Tour Operations business, our customers have been cautious about returning to this form of travel, with the need to move through airports and mix with a greater range of people. As such, we have taken a number of steps to amend our product set and ensure that we are well-positioned to offer customers the holidays they want today. We are confident that this will help return the business to growth as customer demand rebuilds.

The Group's performance was underpinned by our strong financial position following actions taken in 2021, with Available Cash at 31 January 2022 of £186.6m, and an undrawn revolving credit facility of £100.0m.

While 2021/22 was a challenging year, we have taken a number of key steps that will return Saga to sustainable growth.

## Strong strategic progress

I am pleased with the progress we have made against our turnaround strategy, *Transforming Saga – Experience is Everything*. Our brand relaunch means we have delivered on our promise to create a refreshed, contemporary and relevant brand which is at the heart of all our work to deliver the best possible experience for our customers. To do this, we were focused on delivery under each of the following five pillars.

### People and culture reset

Our people and culture transformation continued to be key, acknowledging that our colleagues are pivotal to the success of our business.

To foster a culture where colleagues feel like they belong, we continued to focus on diversity, equity and inclusion through events such as our Women in Leadership conference and introducing guest speakers for Black History Month, Men's Health Month, LGBTQi+ and National Menopause Day.

[1] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

Colleague wellbeing also continued to be a focus, with support provided through additional holiday entitlements, financial aid for those in need and increased emphasis on mental health. We also introduced a new colleague recognition scheme, the 'Saga Spotlight Awards', designed to celebrate the achievements of colleagues who showcase our values of precision pace, empathy, curiosity and collaboration.
In January 2022, we were proud to be the first business of our kind to introduce Grandparents' Leave, offering colleagues one week of paid leave per annum following the birth of a new grandchild. This new benefit reflects our belief in the value of experience in the workplace, alongside a recognition of the role of grandparents to their families and society.

Following the further progress made over the past year, we continue to receive positive feedback from colleagues which is reflected through an increase in our overall colleague engagement. The score from our latest survey was 7.7 out of 10, an increase of 0.4 from the same point last year.

**Data, digital and brand transformation**

As part of our data, digital and brand transformation, in October 2021, we relaunched our brand, showcased through three new television adverts and the relaunch of our websites and social media accounts. The 'Experience is Everything' campaign is aimed at reflecting the attitude of our customers rather than their age and represents a multi-year initiative designed to transform the views of Saga over the longer term.

Our progress to date across the data, digital and brand space continues to be recognised by our customers through a number of means, including an increased net promoter score of 49 and more widely though an award nomination for magazine 'cover of the year' and wins in seven categories at the Consumer Intelligence Awards.

In February 2022, although after the end of the financial year, we were pleased to announce the acquisition of The Big Window Consulting Limited (**the Big Window**), a specialist research and insight business focused on understanding older consumers. Having the Big Window as part of the Saga Group allows us to strengthen our insight and understanding of our consumers and ensure we are delivering the products and services that they want.

**Optimising our businesses**

*Insurance*

Within Retail Broking, we increased motor and home policies in force by 1.4%, representing the second year of growth following several years in decline. Customer retention improved by 2.3ppts to 82.8%, supported by increased uptake of our three-year fixed-price products which now account for 47% of our motor and home book. Motor and home margins per policy remained stable at £74 and the proportion of customers who came to us directly, rather than through price-comparison websites also remained stable, at 59%.

Our Underwriting business, AICL, reported an Underlying Profit Before Tax[2] of £54.1m, supported by £42.1m of reserve releases and a current year combined operating ratio (excluding reserve releases) of 96.3%. Over the past two years, we have significantly enhanced our Underwriting capability, strengthening the team and implementing new pricing models which have allowed us to expand the range of business we underwrite, further supporting the Retail Broking business.

In January 2022, the new pricing rules arising from the Financial Conduct Authority market study came into effect. Experience to date for home insurance is broadly in line with expectations, while motor insurance pricing has remained highly competitive. While we expect the new pricing rules to reduce motor and home profits, it is however too early to quantify the longer-term impact. We remain of the view that we are well-positioned to operate in a market that is focused more on propositions and service, alongside price.

In the second half of 2021/22, we launched Saga Plus, our enhanced three-year fixed-price cover with added extras including our claims promise, onward taxi travel, legal and key cover as standard.

More recently, we were rated as the number one insurance brand in the UK for customer satisfaction and the third highest sector-wide, by The Institute of Customer Service.

We were also pleased to welcome Steve Kingshott in November 2021 who was appointed as CEO of Insurance. Steve has a wealth of experience in the insurance industry, most recently from Tesco, and has hit the ground running in terms of optimising our Insurance businesses.

[2] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

*Travel*

2021/22 was a pivotal year for the Travel business as our Cruise operation successfully restarted in the summer following 15 months of suspension and we began the restructure of our Tour Operations business.

Throughout this time, customer safety was our first priority, ensuring that we were able to operate in a way which not only kept customers safe, but also gave them peace of mind. I am incredibly proud of the environment we have created and the demand we have subsequently seen for our offering.

In July 2021, our newest ocean cruise ship, Spirit of Adventure, was officially named and sailed her inaugural cruise. With both ocean cruise ships now back in service and operating our established health and safety protocols, we are receiving exceptionally positive feedback from our customers. Our guest satisfaction score from resumption, up until 31 January 2022 was 9.1 out of 10.

Since we resumed Cruise operations on 26 June 2021 and up until 31 January 2022, we completed 31 successful sailings onboard our two ships and we, and our guests, are learning to live with COVID-19 restrictions. While it was disappointing for those of our customers that were affected, we are pleased that only one sailing has been meaningfully impacted, with a cruise to the Caribbean (which took place after the financial year end) curtailed following a limited outbreak, due to the strict protocols at those ports.

We began the restructure of our Tour Operations business, adopting a new operating model. To maximise the efficiency within touring and create a lower-cost, more agile business, we have combined the operations of Saga Holidays and Titan Travel. In addition, the management of our river cruise operation has moved across to ocean cruise.

These actions place us in a strong position as travel restrictions ease and customer demand rebuilds.

**Driving simplicity and efficiency**

In order to deliver against our strategy, it is essential that we continually look for opportunities to simplify our business and maximise our efficiency.

We continued the rationalisation of our office space and reduced the number of offices in use from 11 to seven. We plan to reduce this even further with three more currently for sale.

For the period of Travel suspension in the early part of the year, we initially provided an indicative cost range of £7–9m per month across both the Cruise and Tour Operations businesses. As a result of tight cost control, we were pleased to report costs below this range, at £5.9m per month.

From a customer perspective, we introduced functionality to allow our Travel guests to provide their feedback digitally, enabling faster and deeper insight into customer satisfaction. We also launched a mid-term adjustment rebroking process in Insurance which provides customers with greater flexibility when making a policy change mid-way through their term.

**Reducing our debt**

Throughout 2021/22, despite the impact of the pandemic, our focus on debt reduction and strengthening our financial position remained at the forefront of our thinking.

In July 2021, we completed a series of financing transactions which provided us with greater flexibility through less-restrictive terms and ample liquidity to support the business through any ongoing period of uncertainty. These included the issue of a new five-year £250.0m bond and use of the proceeds to repay our £70.0m term loan and £100.0m of our existing bond, with the remainder held as Available Cash[3].

At 31 January 2022, our net debt was £729.0m, £31.2m lower than at 31 January 2021, reflecting resilient cash generation within Retail Broking and the restart of the Cruise business which were only partially offset by support provided to Tour Operations and debt servicing costs.

[3] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

## Our growth plan

In 2020, we announced our strategy to transform Saga and since then, we have continued to deliver against each of those five strategic priorities.

In order to build on our progress to date and convert the foundations already laid into sustainable growth, we are further evolving our strategic approach. This will see us focus on three strategic priorities, all of which are co-dependent and aligned in approach to maximise shareholder value:

1. **Maximise our existing businesses** - through specific growth plans for each, a franchise structure to enable focus, growth, accountability and efficiency, and the delivery of a common brand purpose.

2. **Step-change our ability to scale while reducing debt** – grow existing businesses while reducing debt and develop new businesses through innovation in a capital-light way.

3. **Create 'The Superbrand' for older people** – deliver a step-change in brand perception and loyalty through focus on four areas:

    a. Commercialising and growing our database.
    b. Building exceptional insights, supported by the acquisition of data and insights business, the Big Window.
    c. Delivering a brand re-positioning where 'Experience is Everything'.
    d. Creating a content platform where we reach millions of customers every day.

## Well-positioned for the future

Following the disruption caused by the pandemic over the past two years, we are emerging stronger than we went in.

Whilst mindful of the headwinds as we enter 2022/23, I am confident that we have the right strategy, structure and team in place to unlock the potential that exists within Saga and create long-term sustainable growth for our shareholders.

Finally, I would like to thank all of our colleagues for their continued commitment throughout what has been another challenging year. Against a backdrop of external headwinds, we are proud of what we have achieved and acknowledge that none of this would have been possible without their hard work and dedication.

## Environmental, Social and Governance (ESG)

Saga exists to deliver exceptional experiences for our customers every day, while being a driver of positive change in our markets and communities. We have a diverse range of ESG initiatives and are proud of what we have achieved to date. At the same time, we recognise that we need to do more and are currently engaged in the detailed work necessary to achieve a reset that will deliver an approach to ESG with greater scale, ambition – and importantly, impact.

At the heart of our new approach will be a focus on reducing our environmental impact, with a particular emphasis on our Cruise business where our two new ships are based on significantly more modern and efficient technology than our previous ships. Building on this successful fleet renewal, we have engaged V.Ships, a leading independent ship management company, to help us assess what more we can do in this area.

We are more advanced with regards to the S in ESG. Our Group business strategy has seen us working to reset Saga and its operations. At its heart, this strategy requires us to work harder, every day, to understand the lives and needs of people in our markets and then deliver for them. Central to our approach to transforming our business, is a focus on our people and the step-changes being made to strengthen our culture of customer delivery. Our enhanced ESG focus in this area will be clearly tied to this strategic approach, to our customers and to our colleagues.

Our distinct customer group is one of the most experienced in society; however, all our work has shown that they can face an uphill battle to get their voices heard, to be represented in society and to overcome the prejudices people have about ageing. People aged over 50 are the fastest growing demographic in the UK: 28.2 million people[1] will be over the age of 50 by 2031 and 63p[2] of every £1 will be spent by people over 65 in 2040. But despite the significance of this group, age is often left out of the national conversation.

We are determined to play our part in tackling what we see as a hidden area in the discrimination debate at a time when so much good work is being done to address issues around race, gender and disability. Saga is now focused on challenging perceptions of ageing and, specifically, on becoming the Champions of Experience in the Workplace. This will be the focal point of our work within the Social element of ESG and lead our wider strategic reset. This will, of course, be underpinned by best-in-class governance and by the detailed work necessary to ensure we are meeting and, where we can, exceeding all our environmental responsibilities and ensuring our businesses help lead the debates in their sectors.

A full update on our progress will be published as part of our 2022 Annual Report and Accounts.

[1] Office for National Statistics – 2018-based principal projections
[2] Maximising the longevity dividend – ILC Partners Programme

## Group Chief Financial Officer's Review

While Saga is in much better shape than it was 12 months ago, results for 2021/22 reflect the ongoing impact of the COVID-19 pandemic on our Travel operations, with an Underlying Loss Before Tax[1] in the Travel business of £79.3m, in line with the previous year. As a result, we reported an Underlying Loss Before Tax[1] of £6.7m and an overall loss before tax of £23.5m.

The Underlying Loss Before Tax[1] of £6.7m compares to a profit of £17.1m in the previous year, with the change mainly relating to higher marketing costs, as well as the impact of increased motor insurance claims frequency as miles driven returned closer to normal levels and other smaller factors such as lower private medical insurance profitability.

The Travel result sits between the base case and downside scenarios we modelled, consistent with an environment that remained constantly challenging but, where for the Cruise business, we were able to restart trading in mid-year. Cruise was EBITDA positive for the second half, and cash positive for the full year, which we believe puts us in a much better position than many of our, often much larger, competitors. The higher loss of the Cruise business compared with the prior year was mainly due to increased financing costs following delivery of our second ship in October 2020 and return to service costs in the first part of 2021, partially offset by much improved results following the resumption of trading from the end of June.

Insurance results were in line with expectations, and while profit was lower than in the prior year, this was in part due to increased marketing investment as we returned to television advertising in the later part of the year. Given the timing of the spend, as well as the lead time in translating improved brand awareness and consideration into hard sales, the benefits of almost all of this spend will be in future years. More generally however, the business is in a much stronger position than it was three years ago, with a second year of policy growth in the core motor and home products, and at stable margins.

The reported loss before tax for 2021/22 of £23.5m was materially better than the £61.2m loss in the prior year, mainly due to significantly lower restructuring costs, as well as the £59.8m goodwill impairment included in the 2020/21 results.

Looking to the future, 2022/23 should see improved performance, but we are still navigating external challenges. This is especially the case for Travel, where customer confidence is improving but is still impacted by COVID-19 uncertainty. For Tour Operations, we are aiming to achieve break even after two years of heavy losses, and clearly our ambition is to achieve a much better performance in the future. Similarly for Cruise, the current year will see some impact from COVID-19 in terms of itinerary disruption, the cost of the measures we are taking to protect customers and the earn through of customer discounts offered in 2020. However, Cruise demand continues to be strong and price increases should largely offset the impact of inflation on our costs. In Retail Broking, a very competitive motor market and regulatory changes equalising new business and renewals pricing will adversely impact profitability but this should reduce over time as customers see less need to shop around on renewal, and with more focus on product and service quality.

Overall, these factors make providing specific earning guidance very challenging for this year, but at a minimum we expect a return to positive profit contribution, with growth in sales and profits in future years from 2022/23 levels.

In terms of our financial position, this was a year of real progress. Despite the Underlying and reported loss before tax, we generated positive Available Operating Cash Flow[1] of £75.8m, compared with £3.4m in the prior year, and net debt reduced from £760.2m to £729.0m. The 2021/22 year benefited from positive working capital movements in Cruise, as the business recommenced trading, compared with significant cash injections into the Travel businesses in the prior year. Available Operating Cash Flow[1], excluding Travel, was £89.4m compared with £92.3m in the prior year, which again demonstrates how important it has been for the Group to have a fully operational Insurance business throughout the pandemic.

In July 2021, we concluded the issuance of a new five-year £250m fixed-rate unsecured bond, with the proceeds used to repay £100m of existing bonds and to repay in full the £70m term loan. After costs, these transactions increased Available Cash[1] by £76m. As a result, we have more than enough liquidity to cope with potential short-term risks as we emerge from the pandemic; we have no corporate debt maturities until 2024 and the bonds offer us much better flexibility than bank debt. Reducing debt remains a priority and we will restart repayments of ship debt from June 2022.

The past 12 months have been a time of considerable progress, and I would like to thank everyone in the finance team and all our other stakeholders, who have worked long hours in helping us navigate some choppy waters. Our goal now is to capitalise on Saga's opportunities, while keeping a tight focus on downside risks.

---

[1] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

## Operating performance

### Group income statement

| *£m* | 12m to Jan 2022 | *Change* | 12m to Jan 2021 |
|---|---|---|---|
| Revenue [2] | 377.2 | *11.7%* | 337.6 |
| Underlying (Loss)/Profit Before Tax [3] | | | |
| Total Retail Broking (earned) | 66.4 | *(12.5%)* | 75.9 |
| Underwriting | 54.1 | *(7.8%)* | 58.7 |
| Total Insurance | 120.5 | *(10.5%)* | 134.6 |
| Travel | (79.3) | *(1.0%)* | (78.5) |
| Other Businesses and Central Costs | (29.3) | *(30.8%)* | (22.4) |
| Net finance costs [4] | (18.6) | *(12.0%)* | (16.6) |
| **Total Underlying (Loss)/Profit Before Tax[3]** | **(6.7)** | ***(139.2%)*** | **17.1** |
| Net fair value (losses)/gains on derivatives | (2.7) | | 1.7 |
| (Impairment)/profit on disposal of assets | (4.3) | | 2.0 |
| Restructuring costs | (6.3) | | (30.8) |
| Charge on closure of defined benefit pension scheme | (2.0) | | - |
| Foreign exchange gains on river cruise ship leases | 0.9 | | - |
| Costs incurred for ship debt holiday | (2.4) | | - |
| Net profit on disposal of businesses | - | | 8.6 |
| Impairment of Travel goodwill | - | | (59.8) |
| **Loss before tax** | **(23.5)** | ***61.6%*** | **(61.2)** |
| Tax expense | (4.5) | *31.8%* | (6.6) |
| **Loss after tax** | **(28.0)** | ***58.7%*** | **(67.8)** |
| **Basic earnings per share:** | | | |
| Underlying (Loss)/Earnings Per Share[3] | (11.1p) | *(184.1%)* | 13.2p |
| Loss per share | (20.1p) | *70%* | (67.0p) |

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 composed of Tour Operations and Cruise. Other Businesses comprises Saga Personal Finance, Saga Publishing and MetroMail, a mailing and printing business.

### Revenue

Revenue increased by 11.7% to £377.2m (2021: £337.6m) due to the restart of the Travel business in the second half of the year, partially offset by lower Retail Broking revenues, largely as a result of the sale of the Bennetts business in August 2020.

### Underlying (Loss)/Profit Before Tax[3]

Underlying Profit Before Tax[3] decreased from £17.1m to an Underlying Loss Before Tax[3] of £6.7m. This was partly due to a reduction in Retail Broking profitability, mainly as a result of lower renewal margins in private medical insurance (PMI) and increased television advertising spend to support the relaunch of the brand in the Other Businesses and Central Costs segment.

Net finance costs in the year were £18.6m (2021: £16.6m), which excludes finance costs that are included within the Travel division of £19.5m (2021: £13.6m). The increase of 12.0% was largely due to the higher bond interest costs following the completion of the new bond issue in July 2021. This was partially offset by a reduction in bank debt interest costs due to a lower level of bank debt in the current year compared with the prior year.

[2] Revenue is stated net of ceded reinsurance premiums earned on business underwritten by the Group of £123.7m (2021: £142.8m)
[3] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation
[4] Net finance costs exclude Cruise finance costs, net fair value gains/(losses) on derivatives and IAS 19R pension interest costs

### Loss before tax

Loss before tax for the year of £23.5m includes a £2.7m fair value loss on derivatives de- designated in the year due to the suspension of Travel operations, £6.3m of restructuring costs, mainly relating to the Tour Operations business, a £2.0m charge due to the closure of the defined benefit pension scheme and £2.4m of costs incurred on the ship debt holiday, partially offset by £0.9m foreign exchange gains on river cruise ship leases.

The loss before tax for 2021/22 also includes a net impairment of assets of £4.3m that represents £10.2m and £0.5m of impairments and loss on disposals of software and property, plant and equipment respectively, mainly relating to the Tour Operations business, £1.0m of impairments on assets held for sale, a £7.1m profit on disposal of assets, after costs of £0.1m, in relation to a sale of property and a £0.3m gain on a lease modification within right-of-use assets.

The prior year includes a £59.8m impairment to Travel goodwill and £30.8m of restructuring costs, offset by an £8.6m profit on the disposal of non-core businesses, £2.0m net gains on the disposal of assets and a £1.7m fair value gain on derivatives de-designated in the prior year.

### Tax expense

The Group's tax charge for the year was £4.5m (2021: £6.6m), representing a tax effective rate of negative 19.1% (2021: negative 471.4%), excluding the goodwill impairment charge. In both the current and prior years, the difference between the Group's tax effective rate and the standard rate of corporation tax of 19%, is mainly due to the Group's Cruise business entering the tonnage tax regime on 1 February 2020.

There was an adjustment in the current year for the under provision of prior-year tax of £1.0m (2021: £1.6m under provision) and the impact of the change in the tax rate on opening deferred tax balances of £2.6m credit (2021: £1.7m credit).

### Earnings per share

The Group's Underlying Basic Loss Per Share[5] was 11.1p (2021: Profit 13.2p). The Group's reported basic loss per share was 20.1p (2021: loss of 67.0p).

[5] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

## Insurance

### 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 motor and home 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. AICL offers its underwriting capacity on the home panel through a coinsurance deal with a third party, and so the Group takes no underwriting risk for that product. Even if underwritten by a third party, the product is presented as a Saga product and the Group manages the customer relationship.

| | 12m to Jan 2022 | | | | | 12m to Jan 2021 | | | |
|---|---|---|---|---|---|---|---|---|---|
| £m | Motor Broking | Home Broking | Other Broking | Total | *Change* | Motor Broking | Home Broking | Other Broking | Total |
| Gross written premiums (GWP): | | | | | | | | | |
| Broked | 105.0 | 153.2 | 96.5 | 354.7 | *(5.0%)* | 131.3 | 151.9 | 90.2 | 373.4 |
| Underwritten | 205.5 | - | 3.4 | 208.9 | *0.4%* | 204.6 | - | 3.5 | 208.1 |
| GWP | 310.5 | 153.2 | 99.9 | 563.6 | *(3.1%)* | 335.9 | 151.9 | 93.7 | 581.5 |
| Broker revenue | 43.2 | 29.0 | 33.2 | 105.4 | *2.8%* | 37.6 | 28.7 | 36.2 | 102.5 |
| Instalment revenue | 6.6 | 3.2 | - | 9.8 | *(11.7%)* | 8.1 | 3.0 | - | 11.1 |
| Add-on revenue | 11.0 | 10.9 | - | 21.9 | *(13.1%)* | 14.5 | 10.7 | - | 25.2 |
| Other revenue | 27.4 | 17.1 | 2.1 | 46.6 | *(12.9%)* | 31.3 | 17.8 | 4.4 | 53.5 |
| **Written revenue** | **88.2** | **60.2** | **35.3** | **183.7** | ***(4.5%)*** | **91.5** | **60.2** | **40.6** | **192.3** |
| **Written gross profit** | **85.6** | **60.2** | **35.6** | **181.4** | ***(2.2%)*** | **88.8** | **60.2** | **36.5** | **185.5** |
| Marketing expenses | (17.5) | (7.1) | (3.6) | (28.2) | *(8.5%)* | (17.3) | (6.0) | (2.7) | (26.0) |
| **Written gross profit after marketing expenses** | **68.1** | **53.1** | **32.0** | **153.2** | ***(3.9%)*** | **71.5** | **54.2** | **33.8** | **159.5** |
| Other operating expenses | (38.0) | (27.9) | (20.7) | (86.6) | *(1.1%)* | (40.1) | (26.3) | (19.3) | (85.7) |
| **Written Underlying PBT**[6] | **30.1** | **25.2** | **11.3** | **66.6** | ***(9.8%)*** | **31.4** | **27.9** | **14.5** | **73.8** |
| Written to earned adjustment | (0.2) | - | - | (0.2) | *(109.5%)* | 2.1 | - | - | 2.1 |
| **Earned Underlying PBT** | **29.9** | **25.2** | **11.3** | **66.4** | ***(12.5%)*** | **33.5** | **27.9** | **14.5** | **75.9** |
| Saga branded policies in force | 884k | 682k | 129k | 1,695k | *2.6%* | 867k | 677k | 108k | 1,652k |
| Third-party panel share[7] | 30.1% | | | | *(0.3ppt)* | 30.4% | | | |

Retail Broking Underlying Profit Before Tax[6] on a written basis (which excludes the impact of the written to earned adjustment) reduced to £66.6m from £73.8m, and on an earned basis (which includes the impact of the written to earned adjustment), reduced to £66.4m from £75.9m.

The written to earned adjustment of negative £0.2m in the current year compares with a £2.1m positive adjustment in the prior year. The prior year broking result benefited from price reductions implemented by AICL in 2019 that improved broking margins, but with these improvements partially deferred during 2019/20 and earned during the 2020/21 financial year.

A key metric for the Retail Broking business is written gross profit, after deducting marketing expenses, but before overheads. This reduced from £159.5m in the prior year to £153.2m in the current financial year due to the sale of Bennetts in August 2020. Excluding Bennetts, written gross profit after marketing expenses increased by £0.3m, due to a £3.2m improvement in motor, offset by a £1.1m reduction in home and a £1.8m reduction in other broking.

For Saga-branded motor and home insurance, in terms of the total gross margin after marketing expenses, new business profits reduced by £6.2m, while there was a £8.3m improvement in renewal profits.

The reduction in new business profits is due to investment in television advertising and lower motor new business margins due to competitive market conditions. The increase in renewal profits is principally due to a 5% increase in motor renewal policies, coupled with higher renewal margins driven by the continued growth of our three-year fixed-price products. The higher renewal margins were, in part, due to low net rate inflation during the year compared with the inflation assumptions built into three-year fixed-price pricing.

[6] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

[7] Third-party underwriter's share of the motor panel for Saga-branded policies

The average gross margin per policy for Saga-branded motor and home combined, calculated as written gross profit less marketing expenses divided by the number of policies sold, was £74.2 in the year, compared with £73.8 in the prior year.

While Retail Broking earnings have reduced year on year, the Insurance business has shown good progress in the past 12 months:

- Saga-branded motor and home policies in force increased by 1.4% in the year.
- Sustained improvement in customer retention to 82.8% across motor and home, which was 2.3ppts higher than the prior year and 7.7ppts higher than 2019/20.
- 755k three-year fixed-price policies were sold in the year; 47% of total motor and home policies in force, with 57% of direct new business taking the product.
- Direct new business sales for motor and home were 59% of the total, stable on the prior year but around 9ppts higher than in the 2018/19 year.

Written profit and gross margin per policy for motor and home are stated after allowing for deferral of part of the revenues from three-year fixed-price policies, which is then recognised in profit or loss when the option to renew those policies at a predetermined fixed price is exercised or lapses, recognising inflation risk inherent in this product. As at 31 January 2022, £8.7m (2021: £9.9m) of income had been deferred in relation to three-year fixed-price policies, £7.3m (2021: £5.0m) of which related to income written in the year to 31 January 2022. The reduction in the amount deferred is due to new three-year fixed-price sales during the 2021/22 year being lower than in 2019/20, the year the product was launched, with the latter group of policies having all now passed the second renewal. The reduction in the number of three-year fixed-price policies within the first and second renewal was partially offset by higher assumed inflation assumptions.

***Motor Broking***

Gross written premiums decreased by 7.6% due to the sale of the Bennetts business on 7 August 2020, therefore the current year results include no trading results for Bennetts compared with six months' worth included in the prior year.

Excluding Bennetts, gross written premiums decreased by 0.3%. This reduction is due to lower average premiums per policy, partially offset by a 1.3% increase in the number of core Saga-branded policies. Gross written premiums from business underwritten by AICL increased 0.4% to £205.5m (2021: £204.6m), partly due to a 0.3ppt decrease in third-party panel share to 30.1% (2021: 30.4%). Other revenue declined by £3.9m, due primarily to the sale of Bennetts.

Written gross profit minus marketing expenses was £68.1m (2021: £71.5m), contributing £72.8/policy (2021: £66.9/policy). Excluding Bennetts results from the prior year, motor written gross profit minus marketing expenses for 2021 was £65.0m, contributing £70.3/policy.

The increase in written gross profits excluding Bennetts is mainly due to a 5% increase in motor renewal policies and higher renewal margins on the three-year fixed-price product, partially offset by investment in television advertising of £3.0m and competitive new business market conditions.

***Home Broking***

Gross written premiums increased by 0.9% due to a 0.3% increase in average premiums and a 0.6% increase in core policies.

Written gross profit minus marketing expenses was £53.1m (2021: £54.2m), and on a per policy basis this was £76.2/policy (2021: £78.2/policy). The decrease is due to £1.6m of television advertising spend compared with zero in the prior year.

***Other Broking***

The Other Insurance Broking business primarily comprises PMI and travel insurance.

Gross written premiums increased 6.6% as a result of higher sales of travel insurance, with policies in force increasing from 50k in the prior year to 77k as a result of increased customer confidence in the travel outlook and fewer restrictions on travel than in the prior year.

Gross profits after marketing costs relating to travel insurance products increased by £1.0m.

Sales for the PMI product were stable; however, gross profit after marketing costs was £6.0m lower. This reduction is a result of pricing changes that have reduced renewal margins, alongside a lower profit share which is in line with expectations as claims have risen post COVID-19 lockdowns.

Profitability of the Group's claims management and credit hire businesses were adversely impacted during the prior year due to lower claims volumes as a result of reduced repair activity during the COVID-19 lockdown, as well as the exit from a claims handling contract for a third party. This has again continued into this year due to a further COVID-19 lockdown but was more than offset by better-than-expected recovery against previously written down credit hire debt.

## Underwriting

| | | 12m to Jan 2022 | | | | 12m to Jan 2021 | | |
|---|---|---|---|---|---|---|---|---|
| £m | | Reported | Quota share | Underlying[9] | *Change* | Reported | Quota share | Underlying[9] |
| Net earned premium | | 51.5 | (110.0) | 161.5 | *(11.9%)* | 54.7 | (128.7) | 183.4 |
| Other revenue | | 33.2 | 28.8 | 4.4 | *540.0%* | 19.7 | 20.7 | (1.0) |
| **Revenue** | a | **84.7** | **(81.2)** | **165.9** | ***(9.0%)*** | **74.4** | **(108.0)** | **182.4** |
| Claims costs | b | (44.3) | 87.7 | (132.0) | *4.6%* | (42.2) | 96.1 | (138.3) |
| Reserve releases | c | 18.3 | (23.8) | 42.1 | *12.0%* | 30.6 | (7.0) | 37.6 |
| Other cost of sales | d | (3.9) | 12.7 | (16.6) | *6.7%* | (4.9) | 12.9 | (17.8) |
| | e | **(29.9)** | **76.6** | **(106.5)** | ***10.1%*** | **(16.5)** | **102.0** | **(118.5)** |
| **Gross profit** | | **54.8** | **(4.6)** | **59.4** | ***(7.0%)*** | **57.9** | **(6.0)** | **63.9** |
| Operating expenses | f | (4.2) | 6.9 | (11.1) | *(4.7%)* | (2.9) | 7.7 | (10.6) |
| Investment return | | 3.5 | (4.3) | 7.8 | *(6.0%)* | 3.7 | (4.6) | 8.3 |
| Quota share net cost | | – | 2.0 | (2.0) | *31.0%* | – | 2.9 | (2.9) |
| **Underlying Profit Before Tax[8]** | | **54.1** | **–** | **54.1** | ***(7.8%)*** | **58.7** | **–** | **58.7** |
| | | | | | | | | |
| Reported loss ratio | (b+c)/a | 30.7% | | 54.2% | *(1.0ppt)* | 15.6% | | 55.2% |
| Expense ratio | (d+f)/a | 9.6% | | 16.7% | *1.1ppt* | 10.5% | | 15.6% |
| Reported COR | (e+f)/a | 40.3% | | 70.9% | *0.1ppt* | 26.1% | | 70.8% |
| Current year COR | (e+f-c)/a | 61.9% | | 96.3% | *4.9ppt* | 67.2% | | 91.4% |
| Number of earned policies | | | | 711k | *(6.9%)* | | | 764k |
| Policies in force – Saga motor | | | | 629k | *3.5%* | | | 608k |

The Group's in-house underwriter, AICL, continues to play an important role on the motor panel, providing a significant source of competitively priced underwriting. AICL also underwrites a portion of the home panel, although all home underwriting risk is passed to third-party insurance and reinsurance providers. AICL also has excess of loss and funds-withheld quota share reinsurance arrangements in place relating to its motor underwriting line of business, which transfer a significant proportion of motor insurance risk to third-party reinsurers.

Excluding the impact of the quota share reinsurance arrangements[9], net earned premiums decreased by 11.9% to £161.5m (2021: £183.4m) reflecting a 6.9% reduction in the number of earned policies underwritten by AICL coupled with a 5.4% decrease in average earned premiums. The reduction in the number of earned policies was mainly due to lower volumes on non-Saga panels.

Also excluding the impact of the quota share arrangement, AICL saw an increase in the current year underlying combined operating ratio (COR) to 96.3% (2021: 91.4%). The prior year benefited from significantly reduced motor claims frequencies due to customers driving fewer miles during COVID-19 lockdowns. While this was also a factor in the first three months of 2021/22, motor claims experience for the latter nine months of the 2021/22 year was broadly in line with pricing assumptions.

[8] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

[9] Underlying within Insurance Underwriting shows the commercial position of the business by removing the impact of the proportional line-item accounting of the quota share reinsurance arrangements

Prior year reserve releases of £42.1m (2021: £37.6m) have resulted in an underlying reported COR of 70.9% (2021: 70.8%). The Group retains an economic interest in motor reserve development with reserve releases on other lines typically having limited net impact on AICL profit. Reserve releases for the past two years can be analysed as follows:

| | 12m to Jan 2022 | | | | 12m to Jan 2021 | | |
|---|---|---|---|---|---|---|---|
| £m | Reported | Quota share | Underlying[10] | *Change* | Reported | Quota share | Underlying[10] |
| Motor insurance | 16.0 | (26.5) | 42.5 | | 28.1 | (8.6) | 36.7 |
| Home insurance | - | 0.1 | (0.1) | | (0.4) | - | (0.4) |
| Other insurance | 2.3 | 2.6 | (0.3) | | 2.9 | 1.6 | 1.3 |
| | 18.3 | (23.8) | 42.1 | *12.0%* | 30.6 | (7.0) | 37.6 |

Reserve releases reflect continued favourable experience on large bodily injury claims relating to prior accident years. In addition, part of the additional component of reserve margin for the increased uncertainty over claims development held in respect of the 2020/21 accident year has been released in the current year.

While the Group remains prudently reserved and expects to see ongoing reserve releases in 2022/23, these are expected to be at a lower level than in 2021/22. Beyond 2022/23, the Group is targeting a reported combined ratio, before the quota share reinsurance arrangements[10], of around 97%, in line with previous expectations.

Excluding the impact of the quota share arrangement[10], the investment return decreased by £0.5m to £7.8m (2021: £8.3m) due to a reduced investment portfolio and lower reinvestment yields.

[10] Underlying within Insurance Underwriting shows the true commercial position of the business by removing the impact of the proportional line-item accounting of the quota share reinsurance arrangements

## Travel

| £m | 12m to Jan 2022 Tour Operations | Cruise | Total Travel | *Change* | 12m to Jan 2021 Tour Operations | Cruise | Total Travel |
|---|---|---|---|---|---|---|---|
| **Revenue** | **12.2** | **82.5** | **94.7** | ***83.5%*** | **32.7** | **18.9** | **51.6** |
| **Gross loss** | **(0.5)** | **(7.7)** | **(8.2)** | ***50.3%*** | **(2.6)** | **(13.9)** | **(16.5)** |
| Marketing expenses | (8.7) | (12.1) | (20.8) | *(39.6%)* | (7.8) | (7.1) | (14.9) |
| Other operating expenses | (21.7) | (9.2) | (30.9) | *8.3%* | (26.4) | (7.3) | (33.7) |
| Investment return | - | 0.1 | 0.1 | *(50.0%)* | - | 0.2 | 0.2 |
| Finance costs | (0.7) | (18.8) | (19.5) | *(43.4%)* | (0.1) | (13.5) | (13.6) |
| **Underlying Loss Before Tax**[11] | **(31.6)** | **(47.7)** | **(79.3)** | ***(1.0%)*** | **(36.9)** | **(41.6)** | **(78.5)** |
| Average revenue per passenger (£) | 1,356 | 3,750 | 3,055 | *12.5%* | 2,515 | 3,150 | 2,716 |
| Tour Operations passengers ('000) | 9 | | 9 | *(30.8%)* | 13 | | 13 |
| Cruise passengers ('000) | | 22 | 22 | *266.7%* | | 6 | 6 |
| Cruise passenger days ('000) | | 274 | 274 | *349.2%* | | 61 | 61 |
| Load factor | | 68% | 68% | *(15.0ppt)* | | 83% | 83% |
| Per diems (£) | | 299 | 299 | *24.1%* | | 241 | 241 |

The Group's Travel businesses were suspended in mid-March 2020 following government restrictions introduced as a result of the COVID-19 pandemic. The Cruise business resumed on 27 June 2021 with the first sailing of Spirit of Discovery, and Spirit of Adventure's inaugural cruise on 26 July 2021. The Cruise business operated Spirit of Discovery in UK waters through July with a government-enforced load factor restriction of 50%. This was removed from the end of July. In the second half, the Cruise business operated without interruption but in a continually changing environment that resulted in late itinerary changes for our customers and load factor restrictions at various ports in Europe. The Tour Operations business commenced a small number of UK-based holidays in June 2021 and international holidays, tours and river cruises, focused within Europe, commenced in September 2021, albeit with very low volumes due to ongoing COVID-19 travel restrictions.

Marketing expenses have increased by £5.9m to £20.8m (2021: £14.9m) to support the restart of operations and a return to a normalised trading in 2022/23, especially in Cruise. Other operating expenses have decreased by £2.8m as a result of actions taken after the decision to suspend operations in the prior year to downsize the overhead cost base whilst operations were paused. The overheads cost base has begun to scale up to support the return to service, but not to the same levels as before.

A significant number of changes have been made to how the Travel businesses operate to provide peace of mind and ensure the safety of customers and colleagues, including the requirement that all guests must be fully vaccinated against COVID-19, which means two doses plus a booster from 1 February 2022, at least 14 days before departure.

The Tour Operations business (comprising Saga Holidays and Titan Travel) continues to be significantly impacted by COVID-19, with passenger volumes well below pre-2019 levels. We are responding to these challenges by combining the operations of Saga Holidays and Titan to position ourselves for growth and create a lower-cost, more agile and dynamic operation which is focused on the changing needs of our customers.

This will maximise efficiency in touring, where the product offerings are highly complementary, and we will create a new hotel stay proposition to be launched later in 2022. Management of our river cruise operation is being transferred to our Cruise team, who have a demonstrable track record of operating cruise ships successfully, both in terms of customer service and commercial outcomes.

These actions place us in a strong position as travel restrictions ease and customer demand builds during 2022.

[11] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

### *Forward Travel sales*

Cruise bookings for 2022/23 are higher than the same point two years ago by 46% and 9ppts for revenue and load factor respectively due to high levels of pent-up demand for cruises and completion of the cruise transformation programme, with per diems also 15% higher than at the same point two years ago.

Tour Operations bookings for 2022/23 are below the same point two years ago by 30% and 35% for revenue and passengers respectively. This is due to continued customer caution in relation to overseas travel.

| | Current-year departures | | |
|---|---|---|---|
| | 20 March 2022 | *Change* | 22 March 2020 |
| Cruise revenue (£m) | 160.5 | *45.6%* | 110.2 |
| Load factor | 73% | *9ppts* | 64% |
| Per diem (£) | 319 | *14.7%* | 278 |
| | | | |
| Saga Holidays and Titan combined revenue (£m) | 131.9 | *(29.9%)* | 188.1 |
| Saga Holidays and Titan combined passengers ('000) | 53.8 | *(35.3%)* | 83.1 |

## Other Businesses and Central Costs

| | 12m to Jan 2022 | | | | 12m to Jan 2021 | | |
|---|---|---|---|---|---|---|---|
| £m | Other Businesses | Central Costs | Total | *Change* | Other Businesses | Central Costs | Total |
| Revenue: | | | | | | | |
| Personal Finance | 5.9 | - | 5.9 | *(1.7%)* | 6.0 | - | 6.0 |
| Healthcare | - | - | - | *(100.0%)* | 0.9 | - | 0.9 |
| Media and printing | 9.9 | - | 9.9 | *8.8%* | 9.1 | - | 9.1 |
| Other | - | 1.5 | 1.5 | *(25.0%)* | - | 2.0 | 2.0 |
| **Total revenue** | **15.8** | **1.5** | **17.3** | ***(3.9%)*** | **16.0** | **2.0** | **18.0** |
| **Gross profit** | **5.7** | **3.4** | **9.1** | ***(2.2%)*** | **5.6** | **3.7** | **9.3** |
| Operating expenses | (3.9) | (32.9) | (36.8) | *(26.5%)* | (2.8) | (26.3) | (29.1) |
| IAS 19R pension charge | - | (1.6) | (1.6) | *38.5%* | - | (2.6) | (2.6) |
| Net finance costs | - | (18.6) | (18.6) | *(12.0%)* | - | (16.6) | (16.6) |
| **Underlying Profit/(Loss) Before Tax[12]** | **1.8** | **(49.7)** | **(47.9)** | ***(22.8%)*** | **2.8** | **(41.8)** | **(39.0)** |

The Group's Other Businesses include Saga Personal Finance, the Saga Publishing business and MetroMail, a mailing and printing business.

Underlying Profit Before Tax[12] for Other Businesses combined is broadly in line with the prior year, with the prior year benefiting from one month's worth of trading from the Healthcare business that was divested in March 2020.

Central operating expenses increased to £32.9m (2021: £26.3m). Administration costs, adjusted for transfers to local business units, were flat on the prior year, but net costs increased by £6.6m due to lower Group recharges to the Travel division and a £3.2m increase in central marketing costs. This latter increase was due to the Group's rebranding exercise as well as production and other setup costs relating to the television advertising campaign launched in October 2021.

Net finance costs in the year were £18.6m (2021: £16.6m), which excludes finance costs that are included within the Travel division of £19.5m (2021: £13.6m). The increase was largely due to higher bond interest costs following the completion of the new bond issue in July 2021. This was partially offset by a reduction in bank debt interest costs following the repayment of all drawn bank facilities in July 2021.

[12] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

## Cash flow and liquidity

### Available Operating Cash Flow[13]

Available Operating Cash Flow[13] is made up of the cash flows of unrestricted businesses and the dividends paid by restricted companies, less any cash injections to those businesses. Unrestricted businesses include Retail Broking (excluding specific ring-fenced funds to satisfy FCA regulatory requirements), Other Businesses and Central Costs, and the Group's Cruise business. Restricted businesses include AICL and Tour Operations.

Excluding cash transfers to and from the Travel business, Group cash flows demonstrated considerable resilience in the year, with an Available Operating Cash Flow[13] of £89.4m compared with £92.3m in the prior year. Trading EBITDA[13] for unrestricted businesses reduced by £19.9m, partly due to reduced renewal margins in PMI within the Retail Broking segment and increased television advertising spend to support the brand. This was largely offset by an increase in working capital inflows from £7.0m to £15.2m, mainly due to the Retail Broking segment and a £10.5m increase in dividends paid by AICL.

Since the Group's Travel businesses were suspended in March 2020, the Group has provided additional liquidity into the Travel businesses to meet supplier and other trading payments, and to enable repayment of customer refunds where requested.

For Tour Operations, which now operates as a ring-fenced fund, the Group provided £36.4m of cash to the business to cover trading cash flows in the current year. This is a reduction of £27.7m when compared with the £64.1m funded in 2020/21, which is mainly due to the establishment of the stand-alone ring fence in 2020 as well as high level of supplier payments in the prior year. At 31 January 2022, the Tour Operations ring-fenced business held cash of £32.4m, of which £23.4m is held in trust. In the second half of the year, the Group agreed with the Civil Aviation Authority to hold a minimum of £5.6m of cash outside of trust within the ring-fenced businesses.

During the year, the Cruise business reported an operating cash inflow of £22.8m (2021: cash outflow £24.8m), with an increase in advance customer receipts of £28.5m (2021: reduction of £8.1m), offset by net trading costs of £2.7m (2021: £25.7m) and capital expenditure of £3.0m (2021: net inflow of £9.0m). Net of interest costs of £15.2m (2021: £8.6m), the Cruise business reported net cash inflow of £7.6m for 2021/22 compared to a net outflow of £33.4m in the prior year.

The improvement compared with the prior year is a result of the Cruise business resuming operations in the latter part of the first half, enabling the business to start collecting payments on the cruises that sailed in the second half of the year and the beginning of 2022.

As a result of the reduction in cash injections to the Travel business in the year when compared with the prior year, Available Operating Cash Flow[13] increased from an inflow of £3.4m in the prior year to £75.8m in the current year.

[13] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

| £m | 12m to Jan 2022 | *Change* | 12m to Jan 2021 |
|---|---|---|---|
| Retail Broking Trading EBITDA | 73.2 | *(10%)* | 81.6 |
| Other Businesses and Central Costs Trading EBITDA | (21.5) | *(115%)* | (10.0) |
| **Trading EBITDA from unrestricted businesses[14,15]** | **51.7** | ***(28%)*** | **71.6** |
| Dividends paid by Underwriting business | 35.0 | *43%* | 24.5 |
| Working capital and non-cash items[16] | 15.2 | *117%* | 7.0 |
| Capital expenditure funded with Available Cash[14] | (12.5) | *(16%)* | (10.8) |
| **Available Operating Cash Flow before cash injections to Travel operations[14]** | **89.4** | ***(3%)*** | **92.3** |
| Cash injection into Tour Operations business | (36.4) | *43%* | (64.1) |
| Cruise Available Operating Cash Flow | 22.8 | *192%* | (24.8) |
| **Available Operating Cash Flow[14]** | **75.8** | ***2,129%*** | **3.4** |
| Restructuring costs paid | (1.7) | *93%* | (23.0) |
| Interest and financing costs | (42.4) | *(55%)* | (27.3) |
| Business and property disposals | 4.5 | *(85%)* | 30.1 |
| Tax receipts | 5.7 | *104%* | 2.8 |
| Other payments | (10.7) | *(5%)* | (10.2) |
| Change in cash flow from operations | 31.2 | *229%* | (24.2) |
| Net proceeds from capital raise | - | *(100%)* | 138.7 |
| Change in bond debt | 150.0 | *100%* | - |
| Change in bank debt | (70.0) | *13%* | (80.0) |
| Cash at 1 February | 75.4 | *84%* | 40.9 |
| **Available Cash at 31 January[14]** | **186.6** | *147%* | **75.4** |

### Other cash flow movements

Non-operating cash flow movements in the prior year include significant cash costs relating to the restructuring activities undertaken in the first half of the prior year, which principally relate to redundancy costs.

Interest and financing costs increased due to the financing costs relating to the Spirit of Adventure debt facility which was drawn down at the end of September 2020, combined with an increase in debt issue costs relating to the fees associated with the new bond issue, the tender of the existing bond and the amendments to the existing revolving credit facility (RCF), along with the second ship debt holiday being more expensive than the first one in the prior year.

Business and property disposals relate to the cash received from the sale of property in the current year and from the sale of the Healthcare, Bennetts and Destinology businesses in the prior year, net of related sale costs and expenses.

The Group continued to make the agreed payments to the defined benefit pension fund as part of the deficit recovery plan of £4.2m (2021 £4.8m), with the prior year including a portion of the sales proceeds relating to the Healthcare and Bennetts businesses paid into the fund. These are included within other payments.

During the year, the Group agreed with the FCA to hold an additional restricted cash balance of £5.0m on a temporary basis. This was funded from Available Cash[14] and is included within other payments. The Group expects to be able to release this amount from restricted cash in the first half of 2022.

In June 2021, the Group issued a five-year £250m fixed-rate unsecured bond. The proceeds of the bond were used to fund the settlement of £100m of the existing bond and to repay in full the £70m term loan. The balance of the proceeds, together with the Available Cash[14] brought forward from the prior year, and the undrawn RCF provides the Group with significant free liquidity to support operations in the event of a re-emergence of COVID-19 in 2022 or 2023.

[14] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation
[15] Trading EBITDA includes the line-item impact of IFRS 16 with the corresponding impact to net finance costs included in net cash flows used in financing activities
[16] Adjusted to exclude IAS 19R pension current service costs

## Reconciliation between operating and reported metrics

Available Operating Cash Flow[17] reconciles to net cash flows from operating activities as follows:

| £m | 12m to Jan 2022 | 12m to Jan 2021 |
|---|---|---|
| Net cash flow from operating activities (reported) | 46.5 | (78.4) |
| Exclude cash impact of: | | |
| Trading of restricted divisions | 0.8 | 73.8 |
| Non-trading costs | 3.6 | 21.6 |
| Interest paid | 34.2 | 24.1 |
| Tax paid | 4.6 | 10.7 |
| | 43.2 | 130.2 |
| Cash released paid to restricted divisions | (1.4) | (26.8) |
| Include capital expenditure funded from Available Cash[17] | (12.5) | (10.8) |
| Include capital expenditure disposal proceeds | - | 6.9 |
| Include net impact of Spirit of Adventure purchase cash flows | - | (5.2) |
| Less non-cash net liabilities disposed as part of business disposals | - | (12.5) |
| **Available Operating Cash Flow[17]** | **75.8** | **3.4** |

Trading EBITDA[17] reconciles to Underlying (Loss)/Profit Before Tax[17] as follows:

| £m | 12m to Jan 2022 | *Change* | 12m to Jan 2021 |
|---|---|---|---|
| Retail Broking Trading EBITDA | 73.2 | | 81.6 |
| Underwriting Trading EBITDA | 54.3 | | 59.2 |
| Tour Operations Trading EBITDA | (28.1) | | (32.6) |
| Cruise Trading EBITDA | (12.7) | | (19.5) |
| Other Businesses and Central Costs Trading EBITDA | (21.5) | | (10.0) |
| **Trading EBITDA[17]** | **65.2** | *(17.2%)* | **78.7** |
| Depreciation and amortisation (excluding acquired intangibles) | (32.2) | | (28.8) |
| Pension charge IAS 19R | (1.6) | | (2.6) |
| Net finance costs (including Cruise) | (38.1) | | (30.2) |
| **Underlying (Loss)/Profit Before Tax[17]** | **(6.7)** | *(139.2%)* | **17.1** |

Adjusted Trading EBITDA[17] is used in the Group's leverage calculation and is calculated as follows:

| £m | 12m to Jan 2022 | *Change* | 12m to Jan 2021 |
|---|---|---|---|
| **Trading EBITDA[17]** | **65.2** | *(17.2%)* | **78.7** |
| Less Trading EBITDA of disposed companies not disclosed below Underlying Profit Before Tax[17] | - | | (1.6) |
| Impact of IFRS 16 'Leases' | (3.1) | | (3.0) |
| Spirit of Discovery and Spirit of Adventure Trading EBITDA[18] | 11.5 | | 18.7 |
| **Adjusted Trading EBITDA[17]** | **73.6** | *(20.7%)* | **92.8** |

[17] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation
[18] EBITDA includes central Cruise overheads

## Balance sheet

### Goodwill

At 31 January 2022, the carrying value of the Group's goodwill asset totalled £718.6m (31 January 2021: £718.6m) and is wholly attributable to the Insurance business. The Group performed its annual impairment review of the goodwill asset and the results demonstrated sufficient headroom against the carrying value of the asset in both management's base case and reasonable worst-case (RWC) scenarios, and so has concluded that no impairment is required. During the prior year, the Group wrote down the £59.8m goodwill asset attributable to its Travel businesses, the impairment review for which was affected adversely by the uncertain outlook for the Travel business at that point in time due to impact of COVID-19.

### Carrying value of ocean cruise ships

At 31 January 2022, the carrying value of the Group's ocean cruise ships totalled £621.3m (31 January 2021: £635.0m). Due to the continued impact of the COVID-19 pandemic on the Travel business and the continued uncertainty in the outlook for the Travel industry, the Group carried out an impairment review of both of its vessels. The results of the review showed that there was headroom in both the central and stress test scenarios for both Spirit of Discovery and Spirit of Adventure, with no impairment required. Please refer to Note 2.5 on page 42 for further details of the review that was undertaken.

### 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 amount held in invested funds decreased by £28.9m to £330.2m (31 January 2021: £359.1m) due to payment of £35.0m of dividends from AICL in the year. At 31 January 2022, 98% of the financial assets held by the Group were invested with counterparties with a risk rating of BBB or above, which is in line with the prior year and reflects the relatively stable credit risk rating of the Group's investment holdings.

| | | | Credit risk rating | | | |
|---|---|---|---|---|---|---|
| **At 31 January 2022** | **AAA £m** | **AA £m** | **A £m** | **BBB £m** | **Unrated £m** | **Total £m** |
| Underwriting investment portfolio: | | | | | | |
| Deposits with financial institutions | - | - | 14.0 | - | - | 14.0 |
| Debt securities | 20.2 | 94.4 | 68.0 | 98.2 | - | 280.8 |
| Money market funds | 29.2 | - | - | - | - | 29.2 |
| Loan funds | - | - | - | - | 6.2 | 6.2 |
| Total invested funds | 49.4 | 94.4 | 82.0 | 98.2 | 6.2 | 330.2 |
| Derivative assets | - | - | 1.8 | 0.1 | - | 1.9 |
| **Total financial assets** | **49.4** | **94.4** | **83.8** | **98.3** | **6.2** | **332.1** |

| | | | Credit risk rating | | | |
|---|---|---|---|---|---|---|
| **At 31 January 2021** | **AAA £m** | **AA £m** | **A £m** | **BBB £m** | **Unrated £m** | **Total £m** |
| Underwriting investment portfolio: | | | | | | |
| Deposits with financial institutions | - | 24.2 | - | - | - | 24.2 |
| Debt securities | 23.1 | 73.9 | 71.5 | 93.4 | - | 261.9 |
| Money market funds | 66.8 | - | - | - | - | 66.8 |
| Loan funds | - | - | - | - | 6.2 | 6.2 |
| Total invested funds | 89.9 | 98.1 | 71.5 | 93.4 | 6.2 | 359.1 |
| Derivative assets | - | - | 0.2 | 0.5 | - | 0.7 |
| **Total financial assets** | **89.9** | **98.1** | **71.7** | **93.9** | **6.2** | **359.8** |

### Insurance reserves

Analysis of insurance contract liabilities at 31 January 2022 and 31 January 2021 is as follows:

| | At 31 January 2022 | | | At 31 January 2021 | | |
|---|---|---|---|---|---|---|
| £m | Gross | Reinsurance assets[19] | Net | Gross | Reinsurance assets[19] | Net |
| Reported claims | 211.3 | (55.8) | 155.5 | 228.6 | (57.8) | 170.8 |
| Incurred but not reported[20] | 73.6 | (3.3) | 70.3 | 92.6 | (7.4) | 85.2 |
| Claims handling provision | 7.9 | - | 7.9 | 8.3 | - | 8.3 |
| Total claims outstanding | 292.8 | (59.1) | 233.7 | 329.5 | (65.2) | 264.3 |
| Unearned premiums | 93.9 | (6.3) | 87.6 | 96.8 | (6.4) | 90.4 |
| **Total** | **386.7** | **(65.4)** | **321.3** | **426.3** | **(71.6)** | **354.7** |

The Group's total insurance contract liabilities, net of reinsurance assets, have decreased by £33.4m in the year to 31 January 2022 from the previous year end, primarily due to a £15.3m reduction in reported net claims reserves, coupled with a £14.9m decrease in net incurred but not reported claims reserves. The reduction in net incurred but not reported claims reserves is due to reserve releases that reflect continued favourable experience on large bodily injury claims relating to prior accident years. In addition, part of the additional component of reserve margin held in respect of the 2020/21 accident year has been released in the current year.

### Financing

At 31 January 2022, the Group's net debt was £729.0m, which is £31.2m lower than at the beginning of the financial year.

The Group issued a new five-year £250m 5.5% fixed-rate unsecured bond in July 2021. The proceeds of the bond were used to fund the settlement of £100m of the existing outstanding unsecured 3.375% bond and to repay in full the £70m term loan. After transaction costs, these actions increased the Group's Available Cash[21] by £76m. As at 31 January 2022, the £100m RCF remained undrawn and available to the Group, and the maturity of the facility has been extended to May 2025. The terms also include a requirement to repay the RCF on 1 March 2024 if the remaining £150m of the 3.375% bond notes have not been redeemed prior to this date.

Excluding the impact of debt and earnings relating to the ocean cruise ships, the Group's leverage ratio was 3.0x as at 31 January 2022 (31 January 2021: 2.7x), well within the 4.25x covenant applicable to the Group's RCF.

No repayments were made on the ship loans during the year, with the Group agreeing a second debt holiday with its lenders in March 2021, as part of a package of proposals to support the wider cruise industry. The second debt holiday allowed for payments due in the year to 31 March 2022 to be deferred for a period of up to five years from the original repayment date. The Group intends to resume ship loan debt repayments after March 2022, with the first payment due in June 2022.

| £m | Maturity date[22] | 31 January 2022 | 31 January 2021 |
|---|---|---|---|
| 5.5% Corporate bond | July 2026 | 250.0 | - |
| 3.375% Corporate bond | May 2024 | 150.0 | 250.0 |
| Term loan | n/a | - | 70.0 |
| Revolving credit facility | May 2025[23] | - | - |
| Spirit of Discovery ship loan | June 2031 | 234.8 | 234.8 |
| Spirit of Adventure ship loan | September 2032 | 280.8 | 280.8 |
| Less Available Cash[21,24] | | (186.6) | (75.4) |
| **Net debt** | | **729.0** | **760.2** |

[20] Includes amounts for reported claims that are expected to become periodical payment orders
[21] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation
[22] Maturity date represents the date that the principal must be repaid, other than the ship loans, which are repaid in instalments over the next 12 years
[23] The terms also include a requirement to repay the RCF on 1 March 2024 if the remaining £150m of the 3.375% bond notes have not been redeemed prior to this date
[24] Refer to Note 13 of the financial statements for information as to how this reconciles to a statutory measure of cash

Adjusted Net Debt[25] is used in the Group's leverage calculation and reconciles to net debt as follows:

| £m | 31 January 2022 | 31 January 2021 |
|---|---|---|
| Net debt | 729.0 | 760.2 |
| Exclude ship loans | (515.6) | (515.6) |
| Exclude Cruise Available Cash | 4.7 | 2.3 |
| **Adjusted Net Debt[25]** | **218.1** | **246.9** |

## Pensions

The Group's defined benefit pension scheme deficit, as measured on an IAS 19R basis improved by £5.4m to a £1.1m surplus at 31 January 2022 (£4.3m deficit as at 31 January 2021).

| £m | 31 January 2022 | 31 January 2021 |
|---|---|---|
| Fair value of scheme assets | 412.0 | 411.2 |
| Present value of defined benefit obligation | (410.9) | (415.5) |
| **Defined benefit scheme surplus/(deficit)** | **1.1** | **(4.3)** |

The present value of defined benefit obligations decreased by £4.6m to £410.9m, primarily due to a 70bps increase in the discount rate based on high-quality bond yields, that was partially offset by a 100bps increase in RPI inflation, the fair value of scheme assets increased by £0.8m to £412.0m. The increase in asset values has been largely driven by employer contributions of £8.2m into the scheme including a £4.2m deficit funding contribution in February 2021, partially offset by a decrease in asset values, largely driven by the increase in interest rates in the year.

During the year, the pension Trustees and the Group concluded the triennial valuation of the scheme at 31 January 2020. The Company and Trustees agreed to a new deficit recovery plan totalling £39.0m over the next seven years, with the first payment of £4.2m paid in February 2021 and subsequent payments of £5.8m due each February thereafter until February 2027.

In July 2021, following the completion of a review of the Group's pension arrangements, a consultation process with active members was launched. With effect from 31 October 2021, the Group closed both its existing schemes to future accrual, the Saga Pension Scheme (its defined benefit plan) and the Saga Workplace Pension Plan (its defined contribution plan). In their place, the Group introduced a new defined contribution pension scheme arrangement that is operated as a Master Trust. This move will reduce the risk of further deficits developing in the future on the defined benefit scheme, while moving to a new scheme for all colleagues. Upon closure of the scheme in October 2021, a one-off charge of £2.5m was made to the income statement that crystallised from the rebasing of liability valuation assumptions from active to deferred members.

## Net assets

Since 31 January 2021, total assets have increased by £89.7m, which was offset by an increase in total liabilities of £117.5m, resulting in an overall decrease in net assets of £27.8m.

The increase in total assets is primarily due to an increase in cash and short-term deposits as the financing transaction completed in the first half of the year resulted in an increase in Available Cash[25] of £76m and an increase of right-of-use assets of £33.2m following delivery of the Spirit of the Rhine river cruise ship.

The increase in total liabilities reflects a £109.6m increase in financial liabilities, which was due to an increase in gross debt from the receipt of the £250m new bond proceeds offset by repayment of £100m of the existing bond and the full £70m of the outstanding term loan, along with a £30.9m increase in lease liabilities following the delivery of the Spirit of the Rhine river cruise ship. There was also an increase in contract liabilities of £32.4m and trade and other payables of £24.6m following the restart of Travel operations in the year, offset by a £39.6m reduction in insurance contract liabilities driven by favourable claims frequency.

[25] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

## Impact of COVID-19 and going concern

The impact of COVID-19 over the past two years has increased the level of uncertainty and earnings volatility for the Group, as it has done for many businesses, and particularly for the Group's Travel business. Since the start of the pandemic in the first half of 2020, the Group has increased the frequency and depth of its long-term financial forecasting and scenario modelling to allow the Directors to take appropriate action to ensure the ongoing liquidity and solvency of the business.

Over this period, the Group has undertaken a series of transactions to restructure its operations and capital structure. The Group's balance sheet has been strengthened to allow it to withstand a further period of uncertainty that may be faced in 2022 and beyond. The most notable of these transactions was the raising of £139m of net proceeds from the issuance of new equity shares in September 2020, followed by the issuance of a new £250m unsecured fixed-rate five-year bond in July 2021. These actions allowed the Group to fully repay its senior secured bank debt facilities, bolster Available Cash[26] reserves, which were £187m at 31 January 2022, increase financial flexibility and extend the maturity profile of Group debt. On its ship debt facilities, the Group deferred a number of capital repayments and there is a covenant testing holiday on these facilities until 31 July 2022.

The Group successfully recommenced operations in its Travel business during 2021, with UK-only cruises and holidays operating from July 2021, and a return to international cruises from the end of August 2021 and international tours from September 2021. The Travel business has continued to operate since, despite the increased disruption from the emergence of the Omicron variant in November 2021.

The Group announced at the end of January 2022 its plans to restructure the operations of its Travel business. The Saga Holidays and Titan Travel operations are being combined to maximise efficiency in touring, where the product offerings are highly complementary, and to create a new hotel stay proposition to be launched later in 2022. The river cruise product is now being managed by the Cruise management team, who have a demonstrable track record of operating the ocean cruise product successfully in a COVID-safe environment. These actions place the Travel business in a strong position as travel restrictions ease and customer demand continues to recover.

As in the prior year, the Insurance business' ability to trade continues to be largely unaffected by COVID-19, with resilient earnings in the Retail Broking business and some positive impacts on motor claims frequency during the first half of 2021 when the UK population was in lockdown. The Insurance business has also successfully implemented changes to pricing in line with the requirement of the regulations imposed by the FCA following its market study into insurance pricing, which came into force on 1 January 2022.

In the latest round of long-term financial forecasting, the Group updated its modelling assumptions to reflect:

- In the base case, which represents the Group's central plan and best estimate outlook, Cruise continues to see some impact of COVID-19 in the first half of 2022/23, with reduced load factors and higher return to service costs, but then largely returns to normal operation thereafter. The Tour Operations business is targeting to break even in 2022/23 and then return to pre-pandemic contribution levels from 2023/24, with a lower overhead cost base following completion of the recently announced restructuring plans. Insurance plans include an estimate of the impact of the FCA market study on customer pricing, which is expected to have an adverse impact on profit before tax for 2022/23 and 2023/24.
- In the RWC, which represents the Group's severe, but plausible, downside scenario, Cruise assumes a layup of both ships for a further two-month period during 2022/23 due to further potential travel restrictions, and with suppressed load factors for the remainder of 2022/23 and 2023/24, capped at 75% and 80% for each year respectively. Tour Operations also sees a much slower recovery from 2023/24 onwards than in the base case. Insurance is assumed to be impacted by a number of downside risks, including a more conservative outlook for the impact of the FCA market study compared with base case assumptions.

The Group has made an initial assessment of the potential impact that the Russia-Ukraine conflict could have on its outlook, and potential downsides are considered to be limited to short-term reductions to Travel bookings and inflationary pressures that are sufficiently covered by the assumptions within the base case and RWC.

[26] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

The Group has concluded discussions with its Cruise lenders to amend the covenants on the two ship debt facilities as set out in the table below. This is to ensure we have significant headroom against all scenarios modelled. As part of the modelling, the Group considered its compliance with the maintenance covenants attached to its banking facilities, which are summarised in the following table at each of the required testing dates:

| | Ship debt facilities | | RCF | | |
|---|---|---|---|---|---|
| | EBITDA to debt repayment *(minimum)* | EBITDA to cash interest *(minimum)* | Net debt to EBITDA (leverage) *(maximum)* | EBITDA to cash interest (interest cover) *(minimum)* | Cruise intercompany debt cap *(maximum)* |
| 31 July 2022 | 1.0x | 1.7x | 3.75x | 2.0x | £115m |
| 31 January 2023 | 1.0x | 2.0x | 3.75x | 2.5x | £115m |
| 31 July 2023 | 1.0x | 2.0x | 3.00x | 3.5x | £115m |
| 31 January 2024 | 1.0x | 2.0x | 3.00x | 3.5x | £115m |
| 31 July 2024 onwards | 1.2x | 2.0x | 3.00x | 3.5x | £115m |

Under the terms of the ship debt facilities, dividends remain restricted until the ship debt principal repayments that were deferred as part of the ship debt repayment holiday are fully repaid.

Under the terms of the RCF, dividends also remain restricted if leverage (excluding the Cruise debt) is above 3.0x and the Group remains subject to a minimum liquidity requirement of £40m, which can be met either through cash or undrawn and committed facilities (such as the RCF itself). The terms also include a requirement to repay the RCF on 1 March 2024 if the remaining £150m of bond notes that are due to mature in May 2024 have not been redeemed prior to this date. The RCF is expected to remain undrawn in both scenarios for the foreseeable future, and it can be cancelled with immediate effect at any point, which would remove all covenants attached to it.

The new unsecured bond that is due to mature in July 2026 includes an event-based fixed charge covenant ratio, of 2.0x EBITDA, which must be satisfied if, and when, the Group intends to issue new debt. The Group has no plans to issue any new debt. The definition of this covenant is comparable to the interest cover covenant within the RCF.

In both the scenarios modelled, the Group expects to be able to operate within its debt covenants and to maintain ample Available Cash[27] reserves until at least September 2023, being 18 months from the date of signing the financial statements, which more than accommodates the minimum 12-month assessment period for going concern. The Directors therefore have a reasonable expectation that the Group will continue to trade through the continued COVID-19 disruption and will have sufficient liquidity for at least the next 12 months, and accordingly have prepared the financial statements on a going concern basis.

## Dividends and financial priorities for 2022/23

### Dividends

Given the Group's priority of reducing net debt, the Board of Directors does not recommend payment of a final dividend for the 2021/22 financial year, nor would this currently be permissible during the period of the ship debt repayment holiday.

### Financial priorities for 2022/23

The Group's financial priorities for the current financial year are to reduce net debt, build on the already positive load factor and per diems in Cruise, complete the restructure of the Tour Operations business, and to continue progress in execution of its Insurance strategy. Given the continued uncertainty arising from COVID-19, the Group is not providing any earnings guidance for the 2022/23 financial year but would expect a return to profit in both the base case and RWC scenarios.

[27] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

## Principal risks and uncertainties (PRUs)

The PRUs shown below are the principal risks facing the Company, including those that would threaten its business model, future performance, solvency, or liquidity. The table also includes the mitigating actions being taken to manage these risks. The risk exposure outlook denotes the anticipated future direction of each risk after mitigation, which is influenced by known key external or internal factors. Saga takes a 'bottom-up' and 'top-down' approach to developing and reviewing its PRUs, which occurs at least twice a year with oversight from Executive Management and the plc Board. Each PRU has been aligned to the most relevant strategic priorities.

**Key to growth plan elements**

**1** Maximise our existing businesses
**2** Step-change our ability to scale while reducing debt
**3** Create 'The Superbrand' for older people

| Risk | Mitigation | Risk exposure outlook | Link to growth plan |
|---|---|---|---|
| **Macroeconomic uncertainty**<br>Heightened economic uncertainty arising from the Russian invasion of Ukraine leading to higher-than-expected inflation, delays in the supply chain, increased risk or decrease in demand for Saga's travel products. | Ongoing monitoring of the risks with agility to adapt quickly to changes in market conditions; strong cash position | Worsening (externally driven) | 1,2,3<br>Group-wide |
| **COVID-19 pandemic**<br>Continuation of COVID-19, or emergence of variants thereof, threatens the financial resilience of the Group or viability of the Travel business. | Completion of capital restructuring and continuation of remote working capability that is now integrated into our hybrid working model. | Improving | 1,2,3<br>Group-wide |
| **Cybercrime**<br>Cyber security breach resulting in system lockdown, ransom demands and/or compromise of confidential and/or personal data. | Continued investment in industry-leading tools and technologies to mitigate cyber attacks, industry benchmarking and external penetration tests.<br>Continued programme of colleague awareness to identify and prevent cyber threats and decommissioning of legacy systems, reducing our footprint of potential system targets. | Worsening (externally driven) | 1<br>Group-wide |
| **Delivery and execution**<br>Key business change initiatives fail to be delivered effectively, or at all, due to one, or a combination of, the following:<br>• Resource capability or capacity<br>• Unexpected business as usual risk issues<br>• New regulation<br>• Material defects in the delivery | Robust project governance covering how significant changes are prioritised and delivered, with close oversight from the ELT and Board with 2nd and 3rd line assurance conducted for the change initiatives carrying the greatest risk. | Improving | 1,3<br>Group-wide |
| **Capability**<br>Our strategy and purpose have created a new demand for capability to deliver the five-year plan, which requires new investment, leadership commitment and learning culture. There is a risk that this step-change is not achieved. | Increased focus on talent management, recruitment and succession planning. Reset learning programme and embedding a new reward framework that drives colleague performance and aligns to delivering fair customer outcomes. | Worsening (externally driven) | 1,2,3<br>Group-wide |
| **Saga brand and relevance**<br>The Saga brand and its products do not appeal sufficiently to our target customer group resulting in loss of appeal and market share. | Following the brand relaunch in 2021, we acquired The Big Window Consulting Limited, an agency that specialises in understanding our target consumer demographic. This allows us to prioritise products and services that most appeal to our customers, with specific focus on identification and resolution of pain points throughout the customer journey. | Improving | 3<br>Group-wide |

| | | | |
|---|---|---|---|
| **Regulatory landscape**<br>Risk of customer harm because of our actions/in-action or failure to implement regulatory change correctly. | Successful delivery of Financial Conduct Authority (FCA) changes. Continued focus on effective risk management aligned to our values and strategy alongside 1st line control testing within trading entities. Horizon scanning reports produced to identify upcoming regulatory changes and necessary action. | Stable | 1,2<br><br>Group-wide |
| **Operational resilience**<br>Failure in critical services or operations and inability to recover within defined parameters, made more complex by remote working arrangements. | Enhancements to technology and infrastructure, including replacement of legacy platform through which colleagues access our systems. Delivery of an Operational Resilience programme to meet FCA requirements. Change governance ensures system changes are delivered within risk appetite. | Stable | 1,2,3<br><br>Group-wide |
| **Environmental, Social and Governance (ESG)**<br>Failure to keep pace with increasing regulation around carbon emissions, coupled with industry and societal pressures causes reputational, or financial damage. | New cruise ships built in line with latest regulations and can operate to near-zero sulphur oxide and nitrogen oxide exhaust emissions. Our ESG strategy will be fully developed and integrated into our risk framework during 2022. | Stable | 1,2,3<br><br>Group-wide |
| **Third-party suppliers**<br>Reputational impact, business interruption and financial losses arising from the failure of key third parties to deliver required standards. | Third-party risk management ensures an appropriate risk-based approach for selecting third-party partners, for overseeing their performance and for their operational and financial resilience. | Stable | 1,3<br><br>Group-wide |
| **Fraud and financial crime**<br>Increased risk of internal or external fraud and financial crime driven by remote working and macroeconomic conditions. | 2nd line and 3rd line assurance reviews conducted with no significant issues identified. Ongoing monitoring of claims fraud in place, reinforced by colleague awareness communications. Operation of effective internal controls subject to regular testing and oversight.<br>Saga's Speak Up process enhanced, with regular data monitoring in place. | Stable | 1<br><br>Insurance and Personal Finance |
| **Insurance risk**<br>Exposure to reserving, premium and large or catastrophic claims risk through our underwriter, Acromas Insurance Company Limited. This may lead to insufficient claims reserves, higher losses than anticipated due to large or catastrophic loss events or premiums being insufficient to cover claims and other costs arising. | The use of coinsurance and reinsurance across underwritten business. Ensuring claims reserves are set with sufficient margin to cover uncertainty. Investment in advanced analytics across pricing and claims. | Improving | 1<br><br>Insurance |
| **Breach of Data Protection Act 2018/UK General Data Protection Regulation**<br>Failure to understand data privacy regulation and take reasonable steps to ensure personal data can be managed in line with customer expectations. | Prioritisation of projects to improve effective data management, coupled with simplification of our technology estate and strengthening of our Data Privacy Team and capabilities. | Stable | 1,2,3<br><br>Group-wide |

## Consolidated income statement
## for the year ended 31 January 2022

| | Note | 2022 £'m | 2021 £'m |
|---|---|---|---|
| Gross earned premiums | 3 | 203.0 | 221.7 |
| Earned premiums ceded to reinsurers | 3 | (123.8) | (142.8) |
| Net earned premiums | 3 | 79.2 | 78.9 |
| Other revenue | | 298.0 | 258.7 |
| **Total revenue** | 3 | **377.2** | **337.6** |
| Gross claims incurred | | (94.6) | (117.6)[1] |
| Reinsurers' share of claims incurred | | 63.3 | 99.4[1] |
| Net claims incurred | | (31.3) | (18.2) |
| Decrease in credit loss allowance | | 8.3 | 5.5 |
| Other cost of sales | | (120.3) | (87.5) |
| Total cost of sales | 3 | (143.3) | (100.2) |
| **Gross profit** | | **233.9** | **237.4** |
| Administrative and selling expenses | | (212.8) | (224.2) |
| Impairment of assets | | (11.2) | (65.0) |
| Gain on lease modification | 11 | 0.3 | 3.2 |
| Net profit on disposal of assets held for sale and businesses | 19, 7 | 7.2 | 8.6 |
| Net (loss)/profit on disposal of property, plant and equipment, right-of-use assets and software | | (0.4) | 6.6 |
| Investment income | | 0.3 | 0.7 |
| Finance costs | | (40.8) | (30.2) |
| Finance income | | - | 1.7 |
| **Loss before tax** | | **(23.5)** | **(61.2)** |
| Tax expense | 4 | (4.5) | (6.6) |
| **Loss for the year** | | **(28.0)** | **(67.8)** |
| Attributable to: | | | |
| Equity holders of the parent | | **(28.0)** | **(67.8)** |
| **Loss per share:** | | | |
| Basic | 6 | (20.1p) | (67.0p) |
| Diluted | 6 | (20.1p) | (67.0p) |

[1] Gross claims incurred and reinsurers' share of claims incurred for the year ended 31 January 2021 have been restated due to an incorrect allocation between these classifications. Gross claims incurred have decreased by £13.8m and reinsurers' share of claims incurred has decreased by £13.8m

## Consolidated statement of comprehensive income
## for the year ended 31 January 2022

| | 2022<br>£'m | 2021<br>£'m |
|---|---|---|
| **Loss for the year** | **(28.0)** | **(67.8)** |
| *Other comprehensive income* | | |
| *Other comprehensive income to be reclassified to income statement in subsequent years* | | |
| Net gains on hedging instruments during the year | 2.1 | 22.3 |
| Recycling of previous gains to income statement on matured hedges | (1.2) | (2.5) |
| Total net gains on cash flow hedges | 0.9 | 19.8 |
| Associated tax effect | 0.3 | (3.5) |
| Net (losses)/gains on fair value financial assets during the year | (10.3) | 3.2 |
| Recycling of previous losses to income statement on fair value financial assets during the year | 0.1 | - |
| Total net (losses)/gains on fair value financial assets during the year | (10.2) | 3.2 |
| Associated tax effect | 2.1 | (0.8) |
| Total other comprehensive (losses)/gains with recycling to income statement | (6.9) | 18.7 |
| *Other comprehensive income not to be reclassified to income statement in subsequent years* | | |
| Re-measurement gains/(losses) on defined benefit plans | 4.8 | (1.2) |
| Associated tax effect | (1.2) | 0.2 |
| Total other comprehensive gains/(losses) without recycling to income statement | 3.6 | (1.0) |
| **Total other comprehensive (losses)/gains** | **(3.3)** | **17.7** |
| **Total comprehensive losses for the year** | **(31.3)** | **(50.1)** |
| Attributable to: | | |
| **Equity holders of the parent** | **(31.3)** | **(50.1)** |

## Consolidated statement of financial position as at 31 January 2022

| | Note | 2022 £'m | 2021 £'m |
|---|---|---|---|
| **Assets** | | | |
| Goodwill | 8 | 718.6 | 718.6 |
| Intangible assets | 9 | 47.1 | 56.6 |
| Retirement benefit scheme surplus | 14 | 1.1 | - |
| Property, plant and equipment | 10 | 646.5 | 660.2 |
| Right-of-use assets | 11 | 36.0 | 2.8 |
| Financial assets | 12 | 332.1 | 359.8 |
| Current tax assets | | 4.3 | 3.1 |
| Deferred tax assets | 4 | 12.3 | 12.5 |
| Reinsurance assets | 15 | 65.4 | 71.6 |
| Inventories | | 6.3 | 3.5 |
| Trade and other receivables | | 169.5 | 183.1 |
| Trust accounts | | 23.4 | 22.4 |
| Cash and short-term deposits | 13 | 226.9 | 101.6 |
| Assets held for sale | 10, 19 | 12.9 | 16.9 |
| **Total assets** | | **2,302.4** | **2,212.7** |
| **Liabilities** | | | |
| Retirement benefit scheme obligations | 14 | - | 4.3 |
| Gross insurance contract liabilities | 15 | 386.7 | 426.3 |
| Provisions | | 6.7 | 11.7 |
| Financial liabilities | 12 | 936.2 | 826.6 |
| Deferred tax liabilities | 4 | 5.6 | 5.8 |
| Contract liabilities | | 114.6 | 82.2 |
| Trade and other payables | | 199.7 | 175.1 |
| **Total liabilities** | | **1,649.5** | **1,532.0** |
| **Equity** | | | |
| Issued capital | 17 | 21.1 | 21.0 |
| Share premium | | 648.3 | 648.3 |
| Retained earnings | | (22.4) | 0.2 |
| Share-based payment reserve | | 7.4 | 5.8 |
| Fair value reserve | | (0.8) | 7.3 |
| Hedging reserve | | (0.7) | (1.9) |
| **Total equity** | | **652.9** | **680.7** |
| **Total equity and liabilities** | | **2,302.4** | **2,212.7** |

## Consolidated statement of changes in equity for the year ended 31 January 2022

| | Attributable to the equity holders of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Issued capital £'m | Share premium £'m | Retained earnings £'m | Share-based payment reserve £'m | Fair value reserve £'m | Hedging reserve £'m | Total £'m |
| **At 1 February 2021** | **21.0** | **648.3** | **0.2** | **5.8** | **7.3** | **(1.9)** | **680.7** |
| Loss for the year | - | - | (28.0) | - | - | - | (28.0) |
| Other comprehensive income/(losses) excluding recycling | - | - | 3.6 | - | (8.2) | 3.3 | (1.3) |
| Recycling of previous losses/(gains) to income statement | - | - | - | - | 0.1 | (2.1) | (2.0) |
| Total comprehensive (losses)/income | - | - | (24.4) | - | (8.1) | 1.2 | (31.3) |
| Issue of share capital (Note 17) | 0.1 | - | - | - | - | - | 0.1 |
| Share based payment charge (Note 18) | - | - | - | 3.4 | - | - | 3.4 |
| Exercise of share options | - | - | 1.8 | (1.8) | - | - | - |
| **At 31 January 2022** | **21.1** | **648.3** | **(22.4)** | **7.4** | **(0.8)** | **(0.7)** | **652.9** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **At 1 February 2020** | **11.2** | **519.3** | **65.4** | **7.8** | **4.9** | **(20.4)** | **588.2** |
| Loss for the year | - | - | (67.8) | - | - | - | (67.8) |
| Other comprehensive (losses)/income excluding recycling | - | - | (1.0) | - | 2.4 | 18.4 | 19.8 |
| Recycling of previous gains to income statement | - | - | - | - | - | (2.1) | (2.1) |
| Total comprehensive (losses)/income | - | - | (68.8) | - | 2.4 | 16.3 | (50.1) |
| Recognition of non-financial asset from hedging reserve (Note 12) | - | - | - | - | - | 2.2 | 2.2 |
| Dividends paid (Note 5) | - | - | (0.1) | - | - | - | (0.1) |
| Issue of share capital (Note 17) | 9.8 | 140.6 | - | - | - | - | 150.4 |
| Transaction costs associated with issue of share capital | - | (11.6) | - | - | - | - | (11.6) |
| Share based payment charge (Note 18) | - | - | - | 2.4 | - | - | 2.4 |
| Exercise of share options | - | - | 3.7 | (4.4) | - | - | (0.7) |
| **At 31 January 2021** | **21.0** | **648.3** | **0.2** | **5.8** | **7.3** | **(1.9)** | **680.7** |

## Consolidated statement of cash flows for the year ended 31 January 2022

| | Note | 2022 £'m | 2021 £'m |
|---|---|---|---|
| Loss before tax | | (23.5) | (61.2) |
| Depreciation, impairment and loss on disposal, of property, plant and equipment and right-of-use assets | | 22.2 | 14.9 |
| Amortisation and impairment of intangible assets, and loss on disposal of software | | 20.6 | 72.5 |
| Impairment of assets held for sale | 19 | 1.0 | - |
| Gain on lease modification | | (0.3) | (3.2) |
| Share-based payment transactions | | 3.4 | 2.4 |
| Profit on disposal of assets held for sale | 19 | (7.2) | (12.2) |
| Loss on disposal of subsidiaries | | - | 3.6 |
| Finance costs | | 40.8 | 30.2 |
| Finance income | | - | (1.7) |
| Interest income from investments | | (0.3) | (0.7) |
| Increase in trust accounts | | (1.0) | (22.4) |
| Movements in other assets and liabilities | | 29.3 | (66.5) |
| | | 85.0 | (44.3) |
| Interest received | | 0.3 | 0.7 |
| Interest paid | | (34.2) | (24.1) |
| Income tax paid | | (4.6) | (10.7) |
| **Net cash flows from/(used in) operating activities** | | **46.5** | **(78.4)** |
| | | | |
| **Investing activities** | | | |
| Proceeds from sale of property, plant and equipment, and right-of-use assets | | 0.3 | 8.3 |
| Net proceeds from disposal of assets held for sale | 19 | 10.2 | - |
| Purchase of and payments for the construction of property, plant and equipment, and intangible assets | | (18.9) | (285.1) |
| Net disposal of financial assets | | (18.9) | 41.9 |
| Disposal of subsidiaries, net of cash in businesses disposed of | 7 | - | 23.1 |
| **Net cash flows used in investing activities** | | **(27.3)** | **(211.8)** |
| | | | |
| **Financing activities** | | | |
| Payment of principal portion of lease liabilities | | (3.6) | (4.0) |
| Proceeds from borrowings | | 250.0 | 330.8 |
| Repayment of borrowings | | (170.0) | (130.0) |
| Debt issue costs | | (6.8) | (17.4) |
| Proceeds from issue of share capital | 17 | - | 150.3 |
| Transaction costs associated with issue of share capital | | - | (11.6) |
| Dividends paid | | - | (0.1) |
| **Net cash flows from financing activities** | | **69.6** | **318.0** |
| **Net increase in cash and cash equivalents** | | **88.8** | **27.8** |
| Cash and cash equivalents at the start of the year | | 166.9 | 139.1 |
| **Cash and cash equivalents at the end of the year** | 13 | **255.7** | **166.9** |

## Notes to the consolidated financial statements

### 1 Corporate information

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

The consolidated financial statements of Saga plc and the entities controlled by the Company (its subsidiaries, collectively **Saga Group** or the **Group**) for the year ended 31 January 2022 were approved for issue by the Board of Directors on 22 March 2022 and will be made available on the Company's website in due course.

### 2.1 Basis of preparation

The results in this preliminary announcement have been taken from the Group's 2022 Annual Report and Accounts. The consolidated financial statements of the Group have been prepared in accordance with UK-adopted international accounting standards.

The basis of preparation, basis of consolidation and summary of significant accounting policies applicable to the Group's consolidated financial statements will be published in the Notes to the consolidated financial statements in the 2022 Annual Report and Accounts.

The consolidated financial statements have been prepared on a going concern basis. The Group has reviewed the appropriateness of the going concern basis in preparing the financial statements, particularly in light of the COVID-19 pandemic, details of which are included below. Based on those assumptions, the Directors have concluded that it remains appropriate to adopt the going concern basis in preparing the financial statements.

The preliminary announcement for the year ended 31 January 2022 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The consolidated financial statements for the full year ended 31 January 2022 and 31 January 2021 have been audited by KPMG LLP (KPMG). Their report was unqualified and did not contain any statement under Section 498(2) or Section 498(3) of the Companies Act 2006.

#### Going concern and liquidity

The Directors have considered the appropriateness of the going concern basis of preparation for the financial statements prepared to 31 January 2022 and, in doing so, have considered a range of possible scenarios that factor in the potential ongoing impact of the COVID-19 pandemic and other key risks and uncertainties.

The Group's business activities, together with the factors likely to affect its future development and performance, its exposure to risk and its management of these risks, details of its financial instruments and derivative activities, and details of other financial and non-financial liabilities, are described throughout the Annual Report (see principal risks and uncertainties; Group Chief Financial Officer's Review; Audit, risk and internal control; Audit Committee Report; Risk Committee Report; and Notes). As a consequence, the Directors believe that the Group is well-placed to successfully manage its business risks.

The impact of COVID-19 over the past two years has increased the level of uncertainty and earnings volatility for the Group, as it has done for many businesses, and particularly for the Group's Travel business. Since the start of the pandemic in the first half of 2020, the Group has increased the frequency and depth of its long-term financial forecasting and scenario modelling to allow the Directors to take appropriate action to ensure the ongoing liquidity and solvency of the business.

Over this period, the Group has undertaken a series of transactions to restructure its operations and capital structure. The Group's balance sheet has been strengthened to allow it to withstand a further period of uncertainty that may be faced in 2022 and beyond. The most notable of these transactions were the raising of £138.7m of net proceeds from the issuance of new equity shares in September 2020, followed by the issuance of a new £250.0m unsecured fixed-rate five-year bond in July 2021. These actions allowed the Group to fully repay its senior secured bank debt facilities, bolster Available Cash[2] reserves, which were £186.6m as at 31 January 2022, increase financial flexibility and extend the maturity profile of Group debt. On its ship debt facilities, the Group deferred a number of capital repayments and there is a covenant testing holiday on these facilities until 31 July 2022.

[2] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

## 2.1 Basis of preparation (continued)

### Going concern and liquidity (continued)

The Group successfully recommenced operations in its Travel business during 2021, with UK-only cruises and holidays operating from July 2021, and a return to international cruises from the end of August 2021 and international tours from September 2021. The Travel business has continued to operate since, despite the increased disruption from the emergence of the Omicron variant in December 2021.

The Group announced at the end of January 2022 its plans to restructure the operations of its Travel business. The Saga Holidays and Titan Travel operations are being combined to maximise efficiency in touring, where the product offerings are highly complementary, and to create a new hotel stay proposition to be launched later in 2022. The river cruise product is now being managed by the Cruise management team, who have a demonstrable track record of operating the ocean cruise product successfully in a COVID-safe environment. These actions place the Travel business in a strong position as travel restrictions ease and customer demand continues to recover.

As in the prior year, the Insurance business' ability to trade continues to be largely unaffected by COVID-19, with resilient earnings in the Retail Broking business and some positive impacts on motor claims frequency during the first half of 2021 when the UK population was in lockdown. The Insurance business has also successfully implemented changes to pricing in line with the requirement of the regulations imposed by the Financial Conduct Authority (FCA) following its market study into insurance pricing, which came into force on 1 January 2022.

In the latest round of long-term financial forecasting, the Group updated its modelling assumptions to reflect:

- In the base case, which represents the Group's central plan and best estimate outlook, Cruise continues to see some impact of COVID-19 in the first half of 2022/23, with reduced load factors and higher return to service costs, but then largely returns to normal operation thereafter. The Tour Operations business is targeting to break even in 2022/23 and then return to pre-pandemic contribution levels from 2023/24, with a lower overhead cost base following completion of the recently announced restructuring plans. Insurance plans include an estimate of the impact of the FCA market study on customer pricing, which is expected to have an adverse impact on profit before tax for 2022/23 and 2023/24.
- In the reasonable worst-case (RWC), which represents the Group's severe, but plausible, downside scenario, Cruise assumes a layup of both ships for a further two-month period during 2022/23 due to further potential travel restrictions, and with supressed load factors for the remainder of 2022/23 and 2023/24, capped at 75% and 80% for each year respectively. Tour Operations sees a much slower recovery from 2023/24 onwards than in the base case. Insurance is assumed to be impacted by a number of downside risks, including a more conservative outlook for the impact of the FCA market study compared with base case assumptions

The Group has made an initial assessment of the potential impact that the Russia-Ukraine conflict could have on its outlook, and potential downsides are considered to be limited to short-term reductions to Travel bookings and inflationary pressures that are sufficiently covered by the assumptions within the base case and RWC.

The Group concluded discussions with its Cruise lenders to amend the covenants on the two ship debt facilities as set out in the table below. This is to ensure we have significant headroom against all scenarios modelled. As part of the modelling, the Group considered its compliance with the maintenance covenants attached to its banking facilities, which are summarised in the following table at each of the required testing dates:

| | Ship debt facilities | | RCF | | |
|---|---|---|---|---|---|
| | EBITDA to debt repayment *(minimum)* | EBITDA to cash interest *(minimum)* | Net debt to EBITDA (leverage) *(maximum)* | EBITDA to cash interest (interest cover) *(minimum)* | Cruise intercompany debt cap *(maximum)* |
| 31 July 2022 | 1.0x | 1.7x | 3.75x | 2.0x | £115m |
| 31 January 2023 | 1.0x | 2.0x | 3.75x | 2.5x | £115m |
| 31 July 2023 | 1.0x | 2.0x | 3.00x | 3.5x | £115m |
| 31 January 2024 | 1.0x | 2.0x | 3.00x | 3.5x | £115m |
| 31 July 2024 onwards | 1.2x | 2.0x | 3.00x | 3.5x | £115m |

# Notes to the consolidated financial statements (continued)

## 2.1 Basis of preparation (continued)

### Going concern and liquidity (continued)

Under the terms of the ship debt facilities, dividends remain restricted until the ship debt principal repayments that were deferred as part of the ship debt repayment holiday are fully repaid. Under the terms of the revolving credit facility (RCF), dividends also remain restricted if leverage is above 3.0x (excluding Cruise debt) and the Group remains subject to a minimum liquidity requirement of £40.0m, which can be met either through cash or undrawn and committed facilities (such as the RCF itself). The terms also include a requirement to repay the RCF on 1 March 2024 if the remaining £150.0m of bond notes that are due to mature in May 2024 have not been redeemed prior to this date. The RCF is expected to remain undrawn in both scenarios for the foreseeable future, and it can be cancelled with immediate effect at any point, which would remove all covenants attached to it.

The new unsecured bond that is due to mature in July 2026 includes an event-based fixed charge covenant ratio, of 2.0x EBITDA, which must be satisfied if, and when, the Group intends to issue new debt. The Group has no current plans to issue any new debt. The definition of this covenant is comparable to the interest cover covenant within the RCF.

In both scenarios modelled, the Group expects to be able to operate within all of its debt covenants and to maintain sufficient liquidity until at least September 2023, being 18 months from the date of signing the financial statements, which more than accommodates the minimum 12-month assessment period for going concern. The Directors therefore have a reasonable expectation that the Group will continue to trade through the continued COVID-19 disruption and will have sufficient liquidity for at least the next 12 months, and accordingly have prepared the financial statements on a going concern basis.

## 2.2 Summary of significant accounting policies

There have been no significant changes to the accounting policies of the Group during the year ended 31 January 2022. Full details of the accounting policies of the Group will be published in the Annual Report and Accounts for the year ended 31 January 2022 available at www.corporate.saga.co.uk.

## 2.3 Standards issued but not yet effective

The following is a list of standards and amendments to standards that are in issue but are not effective or adopted as at 31 January 2022. Except where separately disclosed, these standards are yet to be endorsed by the UK Endorsement Board.

### i. IFRS 17 'Insurance Contracts'

IFRS 17 is a comprehensive new accounting standard that applies to all insurance and reinsurance contracts covering the principles of recognition and measurement, financial statement presentation and disclosure. It was issued in May 2017 and establishes a principles-based accounting approach for insurance contracts that will replace IFRS 4 'Insurance Contracts'. 'Amendments to IFRS 17' was issued in June 2020 and amends IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 'Insurance Contracts' was published. The standard is effective for annual reporting periods beginning on or after 1 January 2023, so it becomes effective for the Group from 1 February 2023. It is expected to have a material impact on the Group's financial statements as it represents a significant change to current insurance and reinsurance accounting requirements.

The Group has been undertaking a multi-year project to prepare for the adoption of the new standard and has now largely concluded the technical analysis required to appraise the impact that this will have on the Group's financial statements. As a general insurer only, the Group is expecting to be able to apply the simplified premium allocation approach permitted by the standard, instead of the more complex general measurement model. As such, the recognition and measurement of premium income is expected to remain largely unchanged from current accounting. The only potential significant change to earnings that is expected is the need to accelerate any anticipated future losses from unexpired risks from the new onerous contract assessment required under the new standard, although the Group does not anticipate that there will be the need to recognise any significant level of such onerous contract losses.

## Notes to the consolidated financial statements (continued)

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

#### i. IFRS 17 'Insurance contracts' (continued)

The recognition and measurement of insurance contract liabilities in relation to coverage provided before the statement of financial position date, now referred to as the liability for incurred claims, is likely to change significantly under the new standard. The Group expects to more closely align its measurement of the actuarial best estimate of claims liabilities for financial reporting to the principles of Solvency II, with a change to the application of discounting and the derivation of an appropriate discount rate in line with the requirements of the new standard. The derivation of the reserve margin held for uncertainty above the actuarial best estimate, now referred to as the risk adjustment, will also change, and will be based on selecting an appropriate confidence interval using the expected loss distribution for outstanding claims.

The Group is still assessing whether to exercise the option to expense acquisition costs immediately and the option to recognise discount rate movements through other comprehensive income (OCI). The Group intends to finalise its view of these, and the approach to all of the key judgements and estimates, towards the end of the calendar year 2022.

The standard is also expected to have a significant impact on the presentation of the Group's financial statements, particularly the Group's income statement, where the description of line items will change, and the recognition of certain transactions will be reflected within different line items to the ones they are now. The standard will also require new and changes to existing disclosure notes in relation to insurance and reinsurance contracts.

#### ii. Classification of liabilities as current or non-current (amendments to IAS 1)

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments are effective for annual periods beginning on or after 1 January 2023 and are not likely to have a material effect on the Group's financial statements.

#### iii. Reference to the Conceptual Framework (amendments to IFRS 3)

The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendment will have no effect on the Group's financial statements.

#### iv. Property, plant and equipment — proceeds before intended use (amendments to IAS 16)

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the Group's financial statements.

#### v. Onerous contracts — cost of fulfilling a contract (amendments to IAS 37)

The amendments specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the Group's financial statements.

#### vi. Annual improvements to IFRS 2018–2020

Makes minor amendments to the following standards: IFRS 1, IFRS 9, IFRS 16 and IAS 41. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments will have no effect on the Group's financial statements.

## Notes to the consolidated financial statements (continued)

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

#### vii. Disclosure of accounting policies (amendments to IAS 1 and IFRS Practice Statement 2)

The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The amendments are not expected to have a material impact on the Group's financial statements.

#### viii. Definition of accounting estimates (amendments to IAS 8)

he amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The amendments are not expected to have a material impact on the Group's financial statements.

#### ix. COVID-19-related rent concessions beyond 30 June 2021 (amendment to IFRS 16)

The amendment extends, by one year, the May 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 April 2021. The amendment has been endorsed by the UK Endorsement Board. The Group does not intend to take advantage of the exemption available under this amendment. The amendment will have no effect on the Group's financial statements.

#### x. Deferred tax related to assets and liabilities arising from a single transaction (amendments to IAS 12)

The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. They will typically apply to transactions such as leases of lessees and will require the recognition of additional deferred tax assets and liabilities. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The amendments are not expected to have a material impact on the Group's financial statements.

### 2.4 First time adoption of new standards and amendments

The Group has adopted 'Interest rate benchmark reform – phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' during the year. These amendments, issued in August 2020, introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the inter-bank offered rate (IBOR) reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed, how the entity manages those risks, the entity's progress in transitioning from IBORs to alternative benchmark rates and how the entity is managing this transition. The amendments are effective for annual reporting periods beginning on or after 1 January 2021.

In the UK, the London Interbank Offered Rate (LIBOR) was replaced by the Sterling Overnight Index Average (SONIA) from the end of 2021. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow pounds sterling overnight from other financial institutions and other institutional investors. The amendments have not had a material impact on the Group's financial statements.

Subsequent to these amendments being adopted, (a) interest payable on the Group's RCF, if drawn down, is incurred at a variable rate of SONIA plus a bank margin which is linked to the Group's leverage ratio (Note 16); (b) interest payable on the Group's cruise ship debt deferrals is incurred at a variable rate of SONIA plus a bank margin (Note 16); and (c) interest return on floating rate investments held by the Group's insurance underwriting business is linked to SONIA (Note 11).

The adoption of these amendments has had no impact on the Group's hedge accounting. In addition, no additional risks have arisen from the IBOR reform which the Group would be exposed to.

## Notes to the consolidated financial statements (continued)

### 2.5 Significant accounting judgements, estimates and assumptions

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

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

**Significant judgements**

| Acc. policy | Items involving judgement | Critical accounting judgement |
|---|---|---|
| 2.3a | Revenue recognition – identification of performance obligations within insurance contracts not underwritten by the Group | Identification of performance obligations within insurance contracts with customers. In particular, management has exercised judgement in defining separate performance obligations as part of the Group's insurance broking services, namely:<br>• the option to fix the customer's premium at renewal for three-year fixed-price insurance policies, which results in the deferral of a portion of revenue from policy years one and two to policy years two and three; and<br>• the arrangement of each insurance policy at the point the insurance cover is arranged, as separate from the premium charged in respect of the insurance cover, which occurs on or before the cover start date of each policy and results in a portion of revenue being recognised a number of days in advance of the cover start date.<br><br>Please refer to Note 2.3a of the Annual Report and Accounts for the year ended 31 January 2022 for further information on the Group's performance obligations relating to revenue recognition. |
| 2.3ai, 2.3r and 2.3s | Classification of insurance contracts | Management has exercised judgement in defining which insurance policies that it arranges and underwrites constitute an insurance policy that is subject to the accounting principles of IFRS 4. This assessment is based on whether significant insurance risk is transferred under each insurance contract and also includes the assessment of reinsurance contracts that the Group enters into.<br><br>Policies that are arranged and not underwritten by the Group, primarily a portion of the motor and home insurance panels, private medical insurance and travel insurance, are not deemed to constitute insurance policies as defined by IFRS 4, and so they are accounted for in line with the principles of IFRS 15.<br><br>Policies that are both arranged and underwritten by the Group, primarily a portion of the motor and home insurance panels, are deemed to constitute insurance policies as defined by IFRS 4 and so are accounted for in line with the requirements of that standard.<br><br>The Group's excess of loss and funds-withheld quota share reinsurance arrangements relating to its motor underwriting line of business are deemed to transfer significant insurance risk to the reinsurer, and so they are also accounted for in line with the requirements of IFRS 4. |

# Notes to the consolidated financial statements (continued)

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

### Significant judgements (continued)

| Acc. policy | Items involving judgement | Critical accounting judgement |
|---|---|---|
| 2.3h | Impairment testing of goodwill and other major classes of assets | Following the continued impact of the COVID-19 pandemic on the Group's operations, particularly in Travel, management concluded that indicators of impairment exist and conducted impairment reviews at 31 January 2022, 31 July 2021 and 31 January 2021 of the Group's two cruise ships, Spirit of Discovery and Spirit of Adventure. Management has considered a range of scenarios and used its judgement to conclude that no impairment was necessary. Please refer to Note 17a for further detail.<br><br>Given the delay in taking delivery of the river cruise ship, Spirit of the Rhine, along with the ongoing adverse impacts of the COVID-19 pandemic on the wider travel industry, management concluded that indicators of impairment exist and deemed it necessary to conduct an impairment review of the vessel at 31 January 2022. Management has considered a range of scenarios and used its judgement to conclude no impairment was necessary. Please refer to Note 18a for further detail.<br><br>The Group determines whether goodwill needs to be impaired on an annual basis, or more frequently as required.<br><br>In the year to 31 January 2022, management did not deem it necessary to impair goodwill.<br><br>In the year to 31 January 2021, management deemed it necessary to impair the goodwill allocated to the Cruise and Tour Operations cash generating units (CGUs) in full.<br><br>Following the continued impact of the COVID-19 pandemic on the travel industry, management decided to restructure the Group's Tour Operations CGU. In light of this exercise, management has exercised its judgement in relation to the impairment of software assets and performed an impairment review of software assets used by the Tour Operations business.<br><br>In the year to 31 January 2021, in light of the Group's decision to vacate most of its properties, management exercised its judgement in relation to the impairment of the freehold land and buildings.<br><br>In the year to 31 January 2022, in light of the Group obtaining updated freehold property market valuation reports, management exercised its judgement in relation to the impairment of the assets held for sale. Please refer to Note 38 for further detail.<br><br>In the year to 31 January 2021, in relation to the Destinology business, management also exercised its judgement in relation to the impairment of property, plant and equipment and right-of-use assets. |
| 2.3r | Insurance contract liabilities | Judgement as to areas of uncertainty that may give rise to claims costs in excess of the actuarial best estimate of claims incurred, and the level of additional reserve margin to recognise in the financial statements above that estimate.<br><br>In the years to 31 January 2022 and 31 January 2021, the Group considered the additional latency risk to claims cost development caused by the impact of COVID-19 and recognised an additional claims reserve above actuarial best estimate to cover this specific risk. |

Accounting policy references above are to the Notes to the Annual Report and Accounts for the year ended 31 January 2022.

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

### Significant estimates

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

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

| Acc. policy | Items involving estimation | Sources of estimation uncertainty |
|---|---|---|
| 2.3ai | Revenue recognition – three-year fixed-price insurance policies | The stand-alone selling price of the option to fix within the Group's three-year fixed-price insurance policies has been estimated using the expected cost plus a margin approach as set out in paragraph 79 (b) of IFRS 15.<br><br>An allowance has also been made for the likelihood that the option will be exercised by factoring in the expected rate of renewal at the first and second renewal dates. The amount of revenue deferred upon initial recognition is therefore reduced to the extent that it is estimated that customers will not exercise the option because they either decide not to renew or they make a claim that releases the Group from its obligation to fix the customer price. |
| 2.3f & 2.3i | Useful economic lives and residual values of software intangible assets and ocean cruise ships | The useful economic lives and residual values of software assets classified as intangible assets (Note 15), and ocean cruise ship assets classified as property, plant and equipment (Note 17) are assessed upon the capitalisation of each asset and at each reporting date and are based upon the expected consumption of future economic benefits of the asset. |
| 2.3h | Goodwill impairment testing | The Group determines whether goodwill needs to be impaired on an annual basis, or more frequently as required. This requires an estimation of the value-in-use of the CGUs to which goodwill is allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs, discounted at a suitably risk-adjusted rate to calculate present value.<br><br>In the prior year, the outcome of the impairment reviews concluded that an impairment charge of £59.8m be recognised against the Group's Cruise and Tour Operations CGUs, effectively writing them down to nil. This was due to increased estimation uncertainty in the Tour Operations and Cruise CGUs in light of the COVID-19 pandemic.<br><br>Sensitivity analysis was undertaken to determine the effect of changing the discount rate, the terminal value and future cash flows on the present value calculation, which is shown in Note 16a. |

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

### Significant estimates (continued)

| Acc. policy | Items involving estimation | Sources of estimation uncertainty |
|---|---|---|
| 2.3h | Impairment of ocean and river cruise ships | Following the continued impact of the COVID-19 pandemic on the Group's operations, management conducted impairment reviews at 31 January 2022, 31 July 2021 and 31 January 2021 of the Group's two ocean cruise ships, Spirit of Discovery and Spirit of Adventure. Based on these impairment reviews and looking at the probability of a range of outcomes, the Group remains comfortable that there is headroom over and above the carrying value of the two ocean cruise ship assets, and therefore concluded that no impairment charges were necessary.<br><br>Sensitivity analysis was undertaken to determine the effect of changing the residual value, load factor and useful economic life on the present value calculation, which is shown in Note 17a.<br><br>At 31 January 2022, management conducted an impairment review of its river cruise ship, Spirit of the Rhine. Based on this review, the Group is comfortable that there is sufficient headroom over and above the carrying value of the river cruise ship asset, and therefore concluded that no impairment charge was necessary. |
| 2.3r | Valuation of insurance contract liabilities | For insurance contracts, estimates have to be made for the expected cost of claims known but not yet settled (case reserves) and for the expected cost of claims incurred but not yet reported (IBNR), as at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty.<br><br>The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain-Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years. Historical claims development is primarily analysed by accident year, geographical area, significant business line and peril. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the best estimate of the ultimate cost of claims.<br><br>The ultimate cost of claims is not discounted except for those in respect of periodic payment orders (PPOs), which have been discounted at -1.5% for the year ended 31 January 2022 (2021: -1.5%). The valuation of these claims involves making assumptions about the rate of inflation and the expected rate of return on assets to determine the discount rate. Due to the size of PPO claims, the ultimate cost is highly sensitive to changes in these assumptions. The assumptions are reviewed at each reporting date, and the sensitivity of this assumption is shown in Note 20d.<br><br>In calculating the level of reserve margin to recognise above the actuarial best estimate of incurred claims, the Group considered an array of risks (including cost inflation) to future claims experience and estimated the financial impact that those risks could have to derive an appropriate level of margin to hold. This included an assessment of the magnitude of the claims latency risk due to the impact of the COVID-19 pandemic. |

## Notes to the consolidated financial statements (continued)

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

**Significant estimates (continued)**

| Acc. policy | Items involving estimation | Sources of estimation uncertainty |
|---|---|---|
| 2.3u | Valuation of pension benefit obligation | The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. Actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.<br><br>All significant assumptions and estimates involved in arriving at the valuation of the pension scheme obligation are set out in Note 27. |

Accounting policy references above are to the Notes to the Annual Report and Accounts for the year ended 31 January 2022.

### 3 Segmental information

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

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

  - Retail Broking, consisting of:
    - Motor Broking
    - Home Broking
    - Other Broking
  - Underwriting

  The Group classifies the CGU at its lowest level to be at the Insurance segment level.

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

- **Other Businesses and Central Costs**: comprises the Group's other businesses and its central cost base. The other businesses include the financial services product offering, a monthly subscription magazine and the Group's mailing and printing business.

Segment performance is evaluated using the Group's key performance measure of Underlying (Loss)/Profit Before Tax[3]. Items not allocated to a segment relate to transactions that do not form part of the ongoing segment performance or which are managed at a Group level.

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

Goodwill, corporate bond and bank loans are not allocated to segments as they are managed on a Group basis.

[3] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

## Notes to the consolidated financial statements (continued)

### 3 Segmental information (continued)

| 2022 | Insurance: Motor broking £'m | Insurance: Home broking £'m | Insurance: Other insurance broking £'m | Insurance: Under-writing £'m | Insurance: Total £'m | Travel £'m | Other Businesses and Central Costs £'m | Adjustments £'m | Total £'m |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **85.0** | **60.2** | **35.3** | **84.7** | **265.2** | **94.7** | **21.5** | **(4.2)** | **377.2** |
| Cost of sales | (2.6) | - | 0.3 | (29.9) | (32.2) | (102.9) | (8.2) | - | (143.3) |
| **Gross profit/(loss)** | **82.4** | **60.2** | **35.6** | **54.8** | **233.0** | **(8.2)** | **13.3** | **(4.2)** | **233.9** |
| Administrative and selling expenses | (52.4) | (35.0) | (24.3) | (4.2) | (115.9) | (54.9) | (46.2) | 4.2 | (212.8) |
| Impairment of assets | - | - | - | (1.0) | (1.0) | (9.7) | (0.5) | - | (11.2) |
| Gain on lease modification | - | - | - | - | - | - | 0.3 | - | 0.3 |
| Net profit on disposal of assets held for sale | - | - | - | - | - | - | 7.2 | - | 7.2 |
| Net (loss)/profit on disposal of property, plant and equipment, right-of-use assets and software | (0.1) | - | - | - | (0.1) | 0.1 | (0.4) | - | (0.4) |
| Investment income/(loss) | - | - | - | 3.5 | 3.5 | 0.1 | (3.3) | - | 0.3 |
| Finance costs | - | - | - | - | - | (22.2) | (18.6) | - | (40.8) |
| **Profit/(loss) before tax** | **29.9** | **25.2** | **11.3** | **53.1** | **119.5** | **(94.8)** | **(48.2)** | **-** | **(23.5)** |

**Reconciliation to Underlying Profit/(Loss) Before Tax[4]**

| | Motor broking £'m | Home broking £'m | Other insurance broking £'m | Under-writing £'m | Total £'m | Travel £'m | Other Businesses and Central Costs £'m | Adjustments £'m | Total £'m |
|---|---|---|---|---|---|---|---|---|---|
| **Profit/(loss) before tax** | **29.9** | **25.2** | **11.3** | **53.1** | **119.5** | **(94.8)** | **(48.2)** | **-** | **(23.5)** |
| Net fair value loss on derivative financial instruments | - | - | - | - | - | 2.7 | - | - | 2.7 |
| Impairment/loss on disposal of assets | - | - | - | 1.0 | 1.0 | 9.8 | 0.7 | - | 11.5 |
| Restructuring costs | - | - | - | - | - | 3.9 | 2.4 | - | 6.3 |
| Net profit on disposal of assets held for sale | - | - | - | - | - | - | (7.2) | - | (7.2) |
| Foreign exchange movement on lease liabilities | - | - | - | - | - | (0.9) | - | - | (0.9) |
| Costs incurred for ship debt holiday | - | - | - | - | - | - | 2.4 | - | 2.4 |
| Charge on closure of defined benefit pensions scheme | - | - | - | - | - | - | 2.0 | - | 2.0 |
| **Underlying Profit/ (Loss) Before Tax[4]** | **29.9** | **25.2** | **11.3** | **54.1** | **120.5** | **(79.3)** | **(47.9)** | **-** | **(6.7)** |
| **Total assets less liabilities** | | | | | **261.7** | **(63.2)** | **134.8** | **319.6** | **652.9** |

[4] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

## Notes to the consolidated financial statements (continued)

### 3 Segmental information (continued)

| 2021 | Insurance: Motor broking £'m | Insurance: Home broking £'m | Insurance: Other insurance broking £'m | Insurance: Under-writing £'m | Insurance: Total £'m | Travel £'m | Other Businesses and Central Costs £'m | Adjustments £'m | Total £'m |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **92.7** | **60.2** | **40.7** | **74.4** | **268.0** | **51.6** | **22.6** | **(4.6)** | **337.6** |
| Cost of sales | (2.7) | - | (4.2) | (16.5) | (23.4) | (68.1) | (8.7) | - | (100.2) |
| **Gross profit/(loss)** | **90.0** | **60.2** | **36.5** | **57.9** | **244.6** | **(16.5)** | **13.9** | **(4.6)** | **237.4** |
| Administrative and selling expenses | (56.5) | (32.3) | (22.0) | (2.9) | (113.7) | (64.4) | (50.7) | 4.6 | (224.2) |
| Impairment of assets | - | - | - | - | - | (0.2) | (5.0) | (59.8) | (65.0) |
| Gain on lease modification | - | - | - | - | - | - | 3.2 | - | 3.2 |
| Net (loss)/profit on disposal of businesses | - | - | - | - | - | (1.7) | 10.3 | - | 8.6 |
| Net profit/(loss) on disposal of property, plant and equipment, right-of-use assets and software | - | - | - | - | - | 6.8 | (0.2) | - | 6.6 |
| Investment income/(loss) | - | - | - | 3.7 | 3.7 | 0.2 | (3.2) | - | 0.7 |
| Finance costs | - | - | - | - | - | (13.6) | (16.6) | - | (30.2) |
| Finance income | - | - | - | - | - | 1.7 | - | - | 1.7 |
| **Profit/(loss) before tax** | **33.5** | **27.9** | **14.5** | **58.7** | **134.6** | **(87.7)** | **(48.3)** | **(59.8)** | **(61.2)** |

**Reconciliation to Underlying Profit/(Loss) Before Tax[5]**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Profit/(loss) before tax** | **33.5** | **27.9** | **14.5** | **58.7** | **134.6** | **(87.7)** | **(48.3)** | **(59.8)** | **(61.2)** |
| Net fair value gain on derivative financial instruments | - | - | - | - | - | (1.7) | - | - | (1.7) |
| Impairment of goodwill | - | - | - | - | - | - | - | 59.8 | 59.8 |
| (Profit) on disposal/ impairment of assets | - | - | - | - | - | (3.8) | 1.8 | - | (2.0) |
| Restructuring costs | - | - | - | - | - | 13.0 | 17.8 | - | 30.8 |
| Net loss/(profit) on disposal of businesses | - | - | - | - | - | 1.7 | (10.3) | - | (8.6) |
| **Underlying Profit/ (Loss) Before Tax[5]** | **33.5** | **27.9** | **14.5** | **58.7** | **134.6** | **(78.5)** | **(39.0)** | **-** | **17.1** |
| **Total assets less liabilities** | | | | | **284.4** | **19.3** | **(18.0)** | **395.0** | **680.7** |

All revenue is generated solely in the UK.

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

| | **2022 £'m** | 2021 £'m |
|---|---|---|
| Goodwill (Note 8) | 718.6 | 718.6 |
| Group bond and bank loans (Note 16) | (399.0) | (323.6) |
| | **319.6** | **395.0** |

[5] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

## 3 Segmental information (continued)

### a Disaggregation of revenue

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

| 2022 | | | | | | |
|---|---|---|---|---|---|---|
| | Insurance | | | | | |
| Major product lines | **Earned premium on insurance underwritten by the Group £'m** | **Other revenue £'m** | **Total insurance £'m** | **Travel £'m** | **Other Businesses and Central Costs £'m** | **Total £'m** |
| Gross earned premiums on insurance underwritten by the Group | 203.0 | | 203.0 | | | 203.0 |
| Less: ceded to reinsurers | (123.8) | | (123.8) | | | (123.8) |
| Net revenue on: | | | | | | |
| - Motor broking | 26.7 | 58.3 | 85.0 | | | 85.0 |
| - Home broking | - | 60.2 | 60.2 | | | 60.2 |
| - Other broking | 1.0 | 34.3 | 35.3 | | | 35.3 |
| - Underwriting | 51.5 | 33.2 | 84.7 | | | 84.7 |
| Tour Operations | | | | 12.2 | | 12.2 |
| Cruise | | | | 82.5 | | 82.5 |
| Personal Finance | | | | | 5.9 | 5.9 |
| Media | | | | | 9.9 | 9.9 |
| Other | | | | | 1.5 | 1.5 |
| | **79.2** | **186.0** | **265.2** | **94.7** | **17.3** | **377.2** |

| 2021 | | | | | | |
|---|---|---|---|---|---|---|
| | Insurance | | | | | |
| Major product lines | Earned premium on insurance underwritten by the Group £'m | Other revenue £'m | Total insurance £'m | Travel £'m | Other Businesses and Central Costs £'m | Total £'m |
| Gross earned premiums on insurance underwritten by the Group | 221.7 | | 221.7 | | | 221.7 |
| Less: ceded to reinsurers | (142.8) | | (142.8) | | | (142.8) |
| Net revenue on: | | | | | | |
| - Motor broking | 23.2 | 69.5 | 92.7 | | | 92.7 |
| - Home broking | - | 60.2 | 60.2 | | | 60.2 |
| - Other broking | 1.1 | 39.6 | 40.7 | | | 40.7 |
| - Underwriting | 54.6 | 19.8 | 74.4 | | | 74.4 |
| Tour Operations | | | | 32.7 | | 32.7 |
| Cruise | | | | 18.9 | | 18.9 |
| Personal Finance | | | | | 6.0 | 6.0 |
| Healthcare | | | | | 0.9 | 0.9 |
| Media | | | | | 9.1 | 9.1 |
| Other | | | | | 2.0 | 2.0 |
| | **78.9** | **189.1** | **268.0** | **51.6** | **18.0** | **337.6** |

Included in Insurance Broking other revenue is instalment interest income on premium financing of £9.8m (2021: £11.1m)

## 4 Tax

The major components of the income tax expense are:

| | 2022 £'m | 2021 £'m |
|---|---|---|
| **Consolidated income statement** | | |
| **Current income tax** | | |
| Current income tax charge | 3.4 | 3.5 |
| Adjustments in respect of previous years | (0.1) | (3.7) |
| | **(3.3)** | **(0.2)** |
| **Deferred tax** | | |
| Relating to origination and reversal of temporary differences | 2.7 | 3.2 |
| Effect of tax rate change on opening balance | (2.6) | (1.7) |
| Adjustments in respect of previous years | 1.1 | 5.3 |
| | **1.2** | **6.8** |
| **Tax expense in the income statement** | **4.5** | **6.6** |

The Group's tax expense for the year was £4.5m (2021: £6.6m expense) representing a tax effective rate of negative 19.1% before the impairment of goodwill and associated deferred tax (2021: negative 471.4%). In both the current and prior years, the difference between the Group's tax effective rate and the standard rate of corporation tax of 19%, is mainly due to the Group's Cruise business entering the tonnage tax regime on 1 February 2020.

Adjustments in respect of previous years includes a charge for the under-provision of tax charge in prior years of £1.0m (2021: £1.6m under-provision charge) and the impact of the change in the tax rate on opening deferred tax balances of £2.6m credit (2021: £1.7m credit)

No tax charge or credit arose in the prior year on the disposal of the Bennetts, Destinology and Healthcare businesses.

### Reconciliation of net deferred tax assets

| | 2022 £'m | 2021 £'m |
|---|---|---|
| **At 1 February** | 6.7 | 18.1 |
| Tax charge recognised in the income statement | (1.2) | (6.8) |
| Tax charge recognised in other comprehensive income | 1.2 | (4.1) |
| Tax charge recognised directly into the hedging reserve | - | (0.5) |
| **At 31 January** | **6.7** | **6.7** |

On 3 March 2021, it was announced that the corporation tax rate will increase from 19% to 25% from 1 April 2023. This increase was substantively enacted on 24 May 2021. As a result, the closing deferred tax balances at the statement of financial position date have been reflected at 25%. Net deferred tax assets/(liabilities) are expected to be normally settled in more than 12 months.

# Notes to the consolidated financial statements (continued)

## 5 Dividends

Given the restrictions on the declaration of dividends described below, the Board of Directors does not recommend the payment of a final dividend for the 2021/22 financial year (2021: nil pence per share).

For the current and prior year, no interim or final dividends were declared or paid during the year. Dividend equivalents of £nil have been paid during the year (2021: £0.1m). Dividend equivalents paid in the prior year relate to previously declared dividends which only become payable when certain share options are exercised.

The distributable reserves of Saga plc are £18.1m as at 31 January 2022 which are equal to the retained earnings reserve. If necessary, its subsidiary companies hold significant reserves from which a dividend can be paid. Subsidiary distributable reserves are available immediately with the exception of companies within the Tour Operations and Underwriting segments, which require regulatory approval before any dividends can be declared and paid. Under the terms of the ship debt facilities, dividends remain restricted until the ship debt principal repayments that were deferred as part of the ship debt repayment holiday are fully repaid (Note 16). In addition, under the terms of the RCF, dividends also remain restricted while leverage is above 3.0x (excluding Cruise debt). The Group maintained sufficient headroom under the RCF covenant during the year.

## 6 Loss per share

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

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

The calculation of basic and diluted loss per share is as follows:

| | **2022**<br><br>**£'m** | 2021<br>(restated)<br>£'m |
|---|---|---|
| Loss attributable to ordinary equity holders | (28.0) | (67.8) |
| Weighted average number of ordinary shares | 'm | 'm |
| Ordinary shares as at 1 February | 139.4 | 1,119.4 |
| Long-term incentive plan (LTIP) share options exercised | 0.1 | - |
| Issue of shares – 5 October 2020 (Note 17) | | |
| - First Firm Placing | - | 224.4 |
| - Second Firm Placing | - | 124.2 |
| - Placing and Open Offer | - | 623.3 |
| Share consolidation – 13 October 2020 (Note 17) | - | (1,951.9) |
| **Ordinary shares as at 31 January** | **139.5** | **139.4**[6] |
| **Weighted average number of ordinary shares for basic loss per share and diluted loss per share** | **139.5** | **101.2** |
| **Basic loss per share** | **(20.1p)** | **(67.0p)** |
| **Diluted loss per share** | **(20.1p)** | **(67.0p)** |

[6] Ordinary shares as at 31 January 2021 have been restated to 139.4m reflecting the incorrect inclusion of 0.5m shares issued on 18 November 2020 in the 139.9m total reported previously. Options relating to these shares had not been exercised as at 31 January 2021 and therefore should not have been included in the total ordinary shares previously reported at this date

## 6 Loss per share (continued)

The table below reconciles between basic loss per share and Underlying Basic (Loss)/Earnings Per Share[7]

| | 2022 | 2021 |
|---|---|---|
| **Basic loss per share** | **(20.1p)** | (67.0p) |
| **Adjusted for:** | | |
| Derivative losses/(gains) | **1.4p** | (1.9p) |
| Impairment, and loss/(profit) on disposal, of assets | **2.3p** | (2.2p) |
| Impairment of goodwill and associated deferred tax | **-** | 59.1p |
| Net profit on disposal of businesses | **-** | (8.5p) |
| Charge on closure of defined benefit pension scheme | **1.1p** | - |
| Foreign exchange movement on lease liabilities | **(0.5p)** | - |
| Costs incurred for cruise ship loan holiday | **1.3p** | - |
| Restructuring costs | **3.4p** | 33.7p |
| **Underlying Basic (Loss)/Earnings Per Share[7]** | **(11.1p)** | 13.2p |

## 7 Business combinations and disposals

### (a) Acquisitions

There were no business acquisitions in the years ended 31 January 2022 and 31 January 202

### (b) Disposals during the year ended 31 January 2022

There were no business disposals in the year ended 31 January 2022.

### (c) Disposals during the year ended 31 January 2021

*(i) Healthcare business*

During the year ended 31 January 2020, the Group made the decision to exit healthcare and initiated an active programme to locate a buyer for its Healthcare operation. Having met the requirements of IFRS 5, the associated assets and liabilities were consequently presented as a held for sale disposal group in the statement of financial position as at 31 January 2020. The disposal group did not meet the requirements of IFRS 5 to be classified as a discontinued operation.

On 3 March 2020 the Group reached agreement for the sale of its Country Cousins and Patricia White's branded healthcare businesses to Limerston Capital LLP for an enterprise value of £14.0m. Country Cousins and Patricia White's were introductory care agencies and represented two of the three divisions comprising the Group's Healthcare business. The remaining division, Saga Care at Home, was sold on 31 May 2020 to a third-party care provider, Care By Us, for a nominal sum of £1. This completed the Group's exit from healthcare.

Details of the sale of the Healthcare business operation are as follows:

| | 2021 £'m |
|---|---|
| Cash consideration received (net of transaction costs) | 12.8 |
| Cash and short-term deposits disposed of as part of the transaction | (1.4) |
| Carrying value of net assets disposed | (1.0) |
| Gain on disposal before tax | 10.4 |
| Tax expense on gain | - |
| **Gain on disposal after tax** | **10.4** |

[7] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

## 7 Business combinations and disposals (continued)

### (b) Disposals during the year ended 31 January 2021 (continued)

#### (ii) *Bennetts*

During the year ended 31 January 2020, the Group made the decision to initiate an active programme to locate a buyer for its insurance biking brand within the Insurance segment, Bennetts Motorcycling Services Limited (**Bennetts**). Having met the requirements of IFRS 5, the associated assets and liabilities were consequently presented as a held for sale disposal group in the statement of financial position as at 31 January 2020. The disposal group did not meet the requirements of IFRS 5 to be classified as a discontinued operation.

On 17 February 2020 the Group announced that it had reached agreement for the sale of Bennetts for an enterprise value of £26m to Atlanta Investment Holdings C Limited (**Atlanta**). Atlanta is part of The Ardonagh Group, one of the largest independent insurance brokers in the UK. Completion was subject to receiving regulatory approval and other closing conditions.

On 7 August 2020, the disposal of Bennetts to Atlanta was completed following the receipt of regulatory approvals, generating net disposal proceeds of £24.0m.

Details of the sale of Bennetts are as follows:

| | **2021** **£'m** |
|---|---|
| Cash consideration received (net of transaction costs) | 24.0 |
| Cash and short-term deposits disposed of as part of the transaction | (9.5) |
| Carrying value of net assets disposed | (12.7) |
| Gain on disposal before tax | 1.8 |
| Tax expense on gain | – |
| **Gain on disposal after tax** | **1.8** |

#### *(iii) Destinology*

During the year ended 31 January 2021, the Group made the decision to initiate an active programme to locate a buyer for its Travel segment business, Destinology. On 20 October 2020 the Group announced that it had sold Destinology Limited to Brooklyn Travel Limited for a nominal sum of £1. Net transaction costs of £0.2m were incurred in relation to the disposal.

Details of the sale of the Destinology are as follows:

| | **2021** **£'m** |
|---|---|
| Cash consideration received (net of transaction costs) | (0.2) |
| Cash and short-term deposits disposed of as part of the transaction | (1.6) |
| Expense of non-cash items relating to disposal | (1.0) |
| Carrying value of net liabilities disposed | 0.2 |
| Loss on disposal before tax | (2.6) |
| Tax expense on gain | – |
| **Loss on disposal after tax** | **(2.6)** |

#### *(iv) Other*

During the year ended 31 January 2021, transaction costs of £1.0m were incurred in relation to other business disposals that did not complete.

# Notes to the consolidated financial statements (continued)

## 8 Goodwill

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

| | 2022 | 2021 |
|---|---|---|
| | £'m | £'m |
| Insurance | 718.6 | 718.6 |
| | 718.6 | 718.6 |

The Group tests all goodwill balances for impairment at least annually, and twice yearly if there exist indicators of impairment at the interim reporting date of 31 July. The Group has duly tested the Insurance CGU goodwill balance for impairment as at 31 January 2022. In the prior year, due to the impact of the COVID-19 pandemic on the Group's earnings, the Group tested goodwill for impairment as at 31 July 2020 and 31 January 2021. The impairment test compares the recoverable amount of each CGU to the carrying value of its net assets including the value of the allocated goodwill. The Group now only has goodwill allocated to its Insurance CGU, following the write off in full of goodwill allocated to its Tour Operations and Cruise CGUs as at 31 July 2020.

The recoverable amount of the Insurance CGU has been determined based on a value-in-use calculation using cash flow projections from the Group's latest five-year financial forecasts to 2026/27, which are derived using past experience of the Group's trading combined with the anticipated impact of changes in macroeconomic and regulatory factors. A terminal value has been calculated using the Gordon Growth Model based on the fifth year of those projections and an annual growth rate of 2.0% (January 2021: 2.0%) as the expected long-term average growth rate of the UK economy. The cash flows have then been discounted to present value using a suitably risk-adjusted discount rate based on a market-participant view of the cost of capital and debt relevant to the insurance industry.

As at 31 January 2022, the pre-tax discount rate used for the Insurance CGU was 11.5% (2021: 9.8%). The Group's five-year financial forecasts incorporate the modelled impact of the publication of the FCA's findings from its market study into general insurance pricing and the impact this will likely have on new business pricing and retention rates. As per IAS 36.44, incremental cash flows directly attributable to growth initiatives not yet enacted at the statement of financial position date have then also been removed for the purpose of the value-in-use calculation.

Furthermore, the Group also considered an array of stress tests, both in terms of adverse impacts to the cash flow projections and to the discount rate. For the cash flow stress tests, the impact of a more prudent outlook for the impact of the FCA market study, further impact to travel insurance sales from COVID-19 disruption and further net rate pressures were assumed, in combination with a more cautious terminal growth rate of 1.5% reflecting a more conservative outlook for growth in the UK economy. For the discount rate stress test, the Group applied risk premia of c. +1.5ppt.

After considering the impact of cash flow and discount rate stresses to the recoverable amount, the Group remains comfortable that there remains headroom over and above the carrying value of the net assets including goodwill allocated to the Insurance CGU. This was the case at both the 31 January 2022 and 31 January 2021 testing points.

In the prior year, as a result of the continued uncertainty and adverse impact of the COVID-19 pandemic on the travel industry, the Group determined that the recoverable amounts of the goodwill allocated to the Tour Operations and Cruise CGUs were below their respective carrying values and took the decision to impair in full the £59.8m goodwill allocated to Tour Operations and Cruise in the Group's July 2020 interim results. Whilst the outlook for the travel industry has improved since then, characterised by an improvement in industry betas and cost of debt levels, goodwill impairments are irreversible.

# Notes to the consolidated financial statements (continued)

## 8 Goodwill (continued)

The headroom for the Insurance CGU against the brought forward carrying value is as follows:

| | Headroom £'m | | | | | |
|---|---|---|---|---|---|---|
| | Central scenario | | Cash flow stress test scenario | | Discount rate stress test scenario | |
| | **31 January 2022** | 31 January 2021 | **31 January 2022** | 31 January 2021 | **31 January 2022** | 31 January 2021 |
| Insurance | **146.3** | 216.4 | **89.7** | 72.4 | **(10.2)** | 108.0 |

The headroom calculated is most sensitive to the discount rate and terminal growth rate assumed, or to changes in the projected cash flow of the CGU. A quantitative sensitivity analysis for each of these as at 31 January 2022 and its impact on the headroom against the brought forward goodwill carrying value is as follows:

| | Pre-tax discount rate | | Terminal growth rate | | Cash flow (annual) | |
|---|---|---|---|---|---|---|
| | +1.0ppt £'m | –1.0ppt £'m | +1.0ppt £'m | –1.0ppt £'m | +10% £m | -10% £m |
| Insurance | (136.6) | 120.5 | 89.4 | (113.1) | 69.6 | (121.4) |

Given these headroom numbers, the Directors consider that there is no reasonable possible change in the key assumptions made in their impairment assessment that would give rise to an impairment.

## 9 Intangible fixed assets

During the year, the Group capitalised £11.2m (2021: £13.2m) of software assets, disposed of assets with a net book value of £0.2m (2021: £0.2m) and charged £20.5m of amortisation and impairment to its intangible assets (2021: £12.5m).

Following the continued impact of the COVID-19 pandemic on the travel industry, management decided to restructure the Group's Tour Operations CGU. As a result of this restructuring exercise, management performed an impairment review of software assets used by the Tour Operations business. The outcome of the impairment review concluded that an impairment charge of £9.4m be recognised against the Group's software assets as at 31 January 2022. In addition, the Group concluded that an impairment charge of £0.5m against software assets was required in the Group's Central Costs division.

In the prior year the Group concluded that an impairment charge of £0.1m to software assets was required in the Group's Central Costs division.

## 10 Property, plant and equipment

During the year, the Group capitalised assets with a cost of £7.1m (2021: £274.0m), disposed of assets with a net book value of £0.6m (2021: £4.8m) and charged £19.6m of depreciation and impairment to its property, plant and equipment (2021: £18.5m).

### a. Impairment review of property, plant and equipment

Due to the continued impact of the COVID-19 pandemic on the Group's operations, with the suspension of the Cruise businesses between March 2020 and June 2021, and an ongoing impact on the level of customer demand, management concluded that there continued to exist indicators of impairment for both of its ocean cruise ships, Spirit of Discovery and Spirit of Adventure. Management therefore conducted impairment reviews at 31 January 2022 for both vessels, following previous reviews conducted at 31 July 2021 and 31 January 2021.

## 10 Property, plant and equipment (continued)

### a. Impairment review of property, plant and equipment (continued)

The recoverable amount of each cruise ship was determined based on a value-in-use calculation using cash flow projections from the Group's five-year financial forecasts to 2026/27 and applying a constant annual growth rate of 2% thereafter for subsequent periods until the end of the ship's useful economic life of 30 years, at which point a residual value of 15% of original cost has been assumed. This has then been discounted back to present value using a suitably risk-adjusted discount rate. The underlying forecast cash flows were updated for the latest impact of the COVID-19 pandemic. In addition, a stress test of the potential adverse medium-term impact that the pandemic may have on demand for cruises was also considered, by assuming the need for a further two-month layup of both ships during April and May 2022, and with load factors capped at 75% for the remainder of 2022/23 and at 80% for the duration of 2023/24. The annual growth rate beyond the fifth year of management forecasts was also reduced to 1.5% in the stress test scenario, reflecting a more cautious outlook for long-term growth in the UK economy.

Potential environmental regulatory changes have also been considered as part of this assessment. The shipping industry has made a commitment to reduce $CO_2$ emissions by 40% by 2030 (from a 2008 baseline), and the UK Government has made commitments to reach net zero emissions by 2050. The EEXI/CII (carbon design/technical efficiency indicator) regulations are being introduced internationally to enable the industry to meet the 2030 target, and both of Saga's cruise ships will exceed the requirements of these regulations on implementation in 2023. The end of their useful economic lives of 30 years will have been reached by 2049 in the case of Spirit of Discovery and 2051 in the case of Spirit of Adventure.

The Group has not factored in any potential fuel modifications that may occur in the future into the cash flow forecasts used for the impairment assessment of either ship. Whilst alternative fuels may present a viable route to decarbonisation for the Cruise business, there are significant upstream supply challenges which will need to be resolved before these become viable for deployment. The main engines currently installed in the Group's ocean cruise ships are capable of being modified for use with certain alternative fuels. Being new vessels, the design and specification of the Group's cruise ships was guided by a desire to maximise efficiency through deployment of the most up-to-date technology. Their hull design maximises fuel efficiency, onboard technology minimises fuel consumption and catalytic converters reduce carbon emissions. Additionally, the Group is planning to retro-fit shore power connections to both vessels allowing them to use clean energy where available in ports of call and has commenced a study to evaluate other emerging technologies. The capital expenditure required for the shore power connections has been included in the forecast cash flows used in the assessment.

There is also currently no technological alternative to either oil or gas to power large vessels and it is not clear if such technology will ever be commercially viable, or in what time frame this might be achieved.

The cash flows were discounted to present value using a pre-tax discount rate of 9.9% (January 2021: 11.8%) for both vessels. As at 31 January 2022, the headroom for each of the ships against the carrying value was as follows:

| | Headroom £'m | |
|---|---|---|
| | Central scenario | RWC stress test scenario |
| Spirit of Discovery | **119.2** | **83.3** |
| Spirit of Adventure | **71.0** | **34.5** |

The headroom calculated is most sensitive to the discount rate and the load factor assumed within the forecast cash flows. Given both ships are relatively new, and so have relatively long remaining useful lives, the headroom is not sensitive to either changes in the useful economic life or the residual value of the vessel due to the degree of discounting that is applied in the impairment calculation. A quantitative sensitivity analysis has been set out below to illustrate the impact that changes in key assumptions within the value-in-use calculation would bring about on the calculated headroom as at 31 January 2022:

| | Discount rate | | Residual value | | Load factor | | Useful economic life | |
|---|---|---|---|---|---|---|---|---|
| | +1.0ppt £'m | -1.0ppt £'m | +5% £'m | -5% £'m | +1% £'m | -1% £'m | +5 years £'m | -5 years £'m |
| Spirit of Discovery | (34.8) | 40.4 | 0.2 | (0.2) | 11.1 | (13.3) | 16.6 | (23.9) |
| Spirit of Adventure | (36.1) | 42.1 | 0.2 | (0.2) | 11.5 | (14.2) | 15.4 | (22.2) |

## 10 Property, plant and equipment (continued)

### a. Impairment review of property, plant and equipment (continued)

Based on these impairment tests, and looking at the likelihood of a range of outcomes, the Group is satisfied that there was headroom over and above the carrying values of both Spirit of Discovery and Spirit of Adventure. Given the headroom in the test for both vessels and the degree of caution already adopted in the RWC stress scenario, the Directors concluded that no impairment of either vessel was necessary, and that there would need to be a reasonably significant change in the key assumptions for this to be the case.

In the prior year, as a result of the Group planning to vacate most of its properties (Note 19), management concluded that this constituted an indicator of impairment and duly conducted an impairment review of the Group's freehold land and buildings as at 31 January 2021, with the exception of the main Head Office building which was not intended to be vacated. In relation to these freehold properties, value-in-use was negligible and so the Group obtained market valuations to determine the fair value of each building. The outcome of these impairment reviews concluded that an impairment charge totalling £5.0m should be recognised against the Group's assets as at 31 January 2021. At 31 January 2021, the Group reclassified freehold land and buildings with a net book value of £16.9m to assets held for sale (Note 19).

During the current year, the Group declassified one of the properties classified as held for sale at 31 January 2021, to property, plant and equipment since it was no longer being actively marketed for disposal (Note 19). The carrying value of this property as at 31 January 2021 was £3.0m.

## 11 Right-of-use assets

During the year, the Group capitalised assets with a cost of £35.8m (2021: £0.8m), disposed of assets with a net book value of £0.8m (2021: £0.5m), reduced net book value for modification of lease terms by £0.1m (2021: £17.8m) and charged £2.3m of depreciation and impairment to its right-of-use assets (2021: £3.2m).

In the year ended 31 January 2021, modification of lease terms relating to river cruise ships resulted from the impact of the COVID-19 pandemic on the Travel business. The Group entered into multi-year agreements to lease the use of river cruise vessels to operate its river cruise tours. As such, the Group recognised a right-of-use asset and corresponding lease liability when those lease agreements became effective. From March 2020, the Group suspended its Travel operations, including its river cruise tours, as a result of the restrictions placed on international travel from the impact of the COVID-19 pandemic. The Group then subsequently curtailed its river cruise agreements during the financial year, and accordingly derecognised the right-of-use assets held on the statement of financial position in respect of those agreements. The Group also derecognised the corresponding lease liabilities, which contributed to a reduction in lease liabilities during the financial year ended 31 January 2021. Lease agreements that were modified in the year ended 31 January 2021, also ended within the same financial year.

River cruise ship additions in the year ended 31 January 2022 relate to the river cruise vessel, Spirit of the Rhine.

In the year ended 31 January 2021, modification of lease terms relating to long leasehold land and buildings resulted from the Group's decision to initiate an active programme to locate buyers for a number of its freehold properties (Note 19) due to a relationship existing between the use of one of these freehold properties and the use of one of the long leasehold land buildings. In addition, the modification of lease terms relating to long leasehold land and buildings resulted in a gain of £3.2m being reported in the income statement in the prior year.

In the year ended 31 January 2022, the modification of lease terms relating to long leasehold land and buildings resulted in a gain of £0.3m being reported in the income statement in the prior year.

## 11 Right-of-use assets (continued)

### a. Impairment review of right-of-use assets

During the year, the Group took delivery of the river cruise ship, Spirit of the Rhine, under a 10-year lease. The ship's first cruise season was initially planned to commence on 1 April 2021, but due to the impact of the COVID-19 pandemic, the start of the first season was delayed for several months. The Group did not therefore take control of the asset until the ship's inaugural cruise took place in September 2021, at which point a right-of-use asset was recognised and corresponding lease liability was capitalised on the statement of financial position.

Given the carrying value of the asset is quantitatively material to the Group, combined with the ongoing adverse impacts of the COVID-19 pandemic on the wider travel industry, which constitute an indicator of impairment, management deemed it necessary to conduct an impairment review on Spirit of the Rhine at 31 January 2022.

The recoverable amount of the vessel was determined based on a value-in-use calculation using cash flow projections from the Group's five-year financial forecasts to 2026/27 and applying a constant annual growth rate of 2% thereafter for subsequent periods until the end of the ship's useful economic life of 10 years. This has then been discounted back to present value using a suitably risk-adjusted discount rate. The underlying forecast cash flows were updated for the latest impact of the COVID-19 pandemic. In addition, a stress test of the potential adverse medium-term impact that the pandemic may have on demand for river cruises was also considered, by assuming the need for a two-month layup of the vessel in April and May 2022, and with load factors capped at 75% for the remainder of 2022/23 and at 80% for the duration of 2023/24. The annual growth rate beyond the fifth year of management forecasts was also reduced to 1.5% in the stress test scenario, reflecting a more cautious outlook for long-term growth in the UK economy.

The cash flows were discounted to present value using a pre-tax discount rate of 5.2%, which effectively represents a market-participant's view of the pre-tax cost of debt of the river cruise business. This is because by the very nature of how the carrying value of the right-of-use asset arises as the present value of future lease payments at the inception of the lease, a market-participant would expect to finance such an asset purely with debt. As at 31 January 2022, the headroom for the ship against its carrying value was as follows:

| | Headroom £'m | |
|---|---|---|
| | Central scenario | RWC stress test scenario |
| Spirit of the Rhine | **7.9** | **6.5** |

Based on these impairment tests, and looking at the likelihood of a range of outcomes, the Group is satisfied that there was headroom over and above the carrying value of Spirit of the Rhine. Management considered that there was no reasonable possible change in the key assumptions made in its  impairment assessment that would give rise to an impairment of the carrying value of this vessel.

## Notes to the consolidated financial statements (continued)

### 12 Financial assets and financial liabilities

#### a) Financial assets

| | 2022 £'m | 2021 £'m |
|---|---|---|
| **Fair value through profit and loss (FVTPL)** | | |
| Foreign exchange forward contracts | 0.4 | 0.6 |
| Loan funds | 6.2 | 6.2 |
| Money market funds | 29.2 | 66.8 |
| | **35.8** | **73.6** |
| **FVTPL designated in a hedging relationship** | | |
| Foreign exchange forward contracts | 0.3 | 0.1 |
| Fuel oil swaps | 1.2 | - |
| | **1.5** | **0.1** |
| **Fair value through other comprehensive income (FVOCI)** | | |
| Debt securities | 280.8 | 261.9 |
| | **280.8** | **261.9** |
| **Amortised cost** | | |
| Deposits with financial institutions | 14.0 | 24.2 |
| | **14.0** | **24.2** |
| **Total financial assets** | **332.1** | **359.8** |
| Current | 110.0 | 105.2 |
| Non-current | 222.1 | 254.6 |
| | 332.1 | 359.8 |

#### b) Financial liabilities

| | 2022 £'m | 2021 £'m |
|---|---|---|
| **FVTPL** | | |
| Foreign exchange forward contracts | 1.3 | 1.3 |
| | **1.3** | **1.3** |
| **FVTPL designated in a hedging relationship** | | |
| Foreign exchange forward contracts | 2.7 | 2.1 |
| Fuel oil swaps | - | 0.2 |
| | **2.7** | **2.3** |
| **Amortised cost** | | |
| Bond and bank loans (Note 16) | 896.5 | 817.1 |
| Lease liabilities | 35.3 | 4.4 |
| Bank overdrafts | 0.4 | 1.5 |
| | **932.2** | **823.0** |
| **Total financial liabilities** | **936.2** | **826.6** |
| Current | 56.1 | 10.4 |
| Non-current | 880.1 | 816.2 |
| | 936.2 | 826.6 |

## 12 Financial assets and financial liabilities (continued)

### c) Fair value hierarchy

| | As at 31 January 2022 | | | | As at 31 January 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | **Total** | Level 1 | Level 2 | Level 3 | **Total** |
| | £'m | £'m | £'m | **£'m** | £'m | £'m | £'m | **£'m** |
| **Financial assets measured at fair value** | | | | | | | | |
| Foreign exchange forwards | - | 0.7 | - | **0.7** | - | 0.7 | - | **0.7** |
| Fuel oil swaps | - | 1.2 | - | **1.2** | - | - | - | **-** |
| Loan funds | 6.2 | - | - | **6.2** | 6.2 | - | - | **6.2** |
| Debt securities | 280.8 | - | - | **280.8** | 261.9 | - | - | **261.9** |
| Money market funds | 29.2 | - | - | **29.2** | 66.8 | - | - | **66.8** |
| **Financial liabilities measured at fair value** | | | | | | | | |
| Foreign exchange forwards | - | 4.0 | - | **4.0** | - | 3.4 | - | **3.4** |
| Fuel oil swaps | - | - | - | **-** | - | 0.2 | - | **0.2** |
| **Financial assets for which fair values are disclosed** | | | | | | | | |
| Deposits with institutions | - | 14.0 | - | **14.0** | - | 24.2 | - | **24.2** |
| **Financial liabilities for which fair values are disclosed** | | | | | | | | |
| Bond and bank loans | - | 879.0 | - | **879.0** | - | 793.9 | - | **793.9** |
| Lease liabilities | - | 35.3 | - | **35.3** | - | 4.4 | - | **4.4** |
| Bank overdrafts | - | 0.4 | - | **0.4** | - | 1.5 | - | **1.5** |

### d) Other information

Debt securities, money market funds and deposits with financial institutions relate to monies held by the Group's Insurance business and are subject to contractual restrictions and are not readily available to be used for other purposes within the Group. The values of the debt securities, money market funds and loan funds are based upon publicly available market prices.

There have been no transfers between Level 1 and Level 2 and no non-recurring fair value measurements of assets and liabilities during the year (2021: none).

Foreign exchange forwards are valued using current spot and forward rates discounted to present value. They are also adjusted for counterparty credit risk using credit default swap (CDS) curves. Fuel oil swaps are valued with reference to the valuations provided by third parties, which use current Platts index rates, discounted to present value.

The Group operates a programme of economic hedging against its foreign currency and fuel oil exposures. During the year, the Group designated 298 foreign exchange forward currency contracts as hedges of highly probable foreign currency cash expenses in future periods and designated 36 fuel oil swaps as hedges of highly probable fuel oil purchases in future periods. As at 31 January 2022, the Group has designated 431 forward currency contracts and 36 fuel oil swaps as hedges.

During the year, the Group recognised net gains of £2.1m (2021: £6.0m gains) on cash flow hedging instruments through OCI into the hedging reserve. Additionally, the Group recognised net gains of £nil (2021: £16.3m gains) through OCI into the hedging reserve, in relation to the specific hedging instrument for the acquisition of two new ships. The overall net gains were £2.1m (2021: £22.3m gains). The Group has recognised £nil gains (2021: £nil) through the income statement in respect of the ineffective portion of hedges measured during the year.

## 12 Financial assets and financial liabilities (continued)

### d) Other information (continued)

During the year, the Group has de-designated 96 foreign currency forward contracts, with a transaction value of £18.8m, where forecast cash flows are no longer expected to occur with a sufficiently high degree of certainty to meet the requirements of IFRS 9. The accumulated gains in relation to these contracts of £0.7m have been reclassified from the hedging reserve into profit or loss during the year. The Group has not de-designated any fuel oil swaps during the year. During the year, the Group recognised a £1.2m gain (2021: £2.5m gain) through the income statement in respect of matured hedges which have been recycled from OCI. In the prior year the Group also recognised a £2.7m loss in property, plant and equipment, in respect of matured hedges which have been recognised directly from the hedging reserve.

## 13 Cash and cash equivalents

| | **2022** | 2021 |
|---|---|---|
| | **£'m** | £'m |
| Cash at bank and in hand | 174.6 | 94.4 |
| Short-term deposits | 52.3 | 7.2 |
| **Cash and short-term deposits** | **226.9** | **101.6** |
| Money markets funds | 29.2 | 66.8 |
| Bank overdraft | (0.4) | (1.5) |
| **Cash and cash equivalents in the cash flow statement** | **255.7** | **166.9** |

Included within cash and cash equivalents are amounts held by the Group's Travel and Insurance businesses which are subject to contractual or regulatory restrictions. These amounts held are not readily available to be used for other purposes within the Group and total £69.1m (2021: £91.5m). Available Cash[8] excludes these amounts and any amounts held by disposal groups.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The bank overdraft is subject to a guarantee in favour of the Group's bankers and is limited to the amount drawn. The bank overdraft is repayable on demand.

[8] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

## 14 Retirement benefit schemes

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

### a. Defined contribution plans

There are three defined contribution schemes in the Group at 31 January 2022 (2021: two). The total charge for the year in respect of the defined contribution schemes was £4.5m (2021: £3.2m).

The assets of these schemes are held separately from those of the Group in funds under the control of Trustees.

### b. Defined benefit plan

The Group operated a funded defined benefit scheme, the Saga Pension Scheme, which was closed to future accrual on 31 October 2021 (see below). From 1 November 2021, members moved from active to deferred status, with future indexation of deferred pensions before retirement measured by reference to the Consumer Price Index (CPI). During the year, a net expense of £2.0m was recognised as a past service cost (within administrative and selling expenses) relating to the closure. The assets of the scheme are held separately from those of the Group in independently administered funds.

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

| | **2022** | 2021 |
|---|---|---|
| | **£'m** | £'m |
| Fair value of scheme assets | 412.0 | 411.2 |
| Present value of defined benefit obligation | (410.9) | (415.5) |
| **Defined benefit scheme asset/(liability)** | **1.1** | **(4.3)** |

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

During the year ended 31 January 2022, the opening net liability of the Saga Pension Scheme of £4.3m has improved to end the year in an asset position of £1.1m.

### c. Pension consultation

In July 2021, following the completion of a review of the Group's pension arrangements, a consultation process with active members was launched. The consultation process concluded during October, and with effect from 31 October 2021, the Group closed both its existing schemes to future accrual: the Saga Pension Scheme (its defined benefit plan) and the Saga Workplace Pension Plan (its defined contribution plan). In their place, the Group launched a new defined contribution pension scheme arrangement, operated as a Master Trust. This move served to reduce the risk of further deficits developing in the future on the defined benefit scheme, whilst moving to a fairer scheme for all colleagues.

As a result of the Saga Pension Scheme closure, a £2.0m net expense has crystallised in the income statement as a past service cost. This expense was driven by a £2.5m debit from an increase in scheme liabilities due to all members becoming deferred members upon closure. This was offset by a £0.5m credit from the removal of the ill-health benefit post closure.

## 15 Insurance contract liabilities and reinsurance assets

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

| Gross | 2022 £'m | 2021 £'m |
|---|---|---|
| Claims outstanding | 292.8 | 329.5 |
| Provision for unearned premiums | 93.9 | 96.8 |
| **Total gross liabilities** | **386.7** | **426.3** |

| Recoverable from reinsurers | 2022 £'m | 2021 £'m |
|---|---|---|
| Claims outstanding | 59.1 | 65.2 |
| Provision for unearned premiums | 6.3 | 6.4 |
| **Total reinsurers' share of insurance liabilities (as presented on the face of the statement of financial position)** | **65.4** | **71.6** |
| Amounts recoverable under funds-withheld quota share agreements recognised within trade payables: | | |
| - Claims outstanding | 133.0 | 147.1 |
| - Provision for unearned premiums | 50.7 | 55.9 |
| **Total reinsurers' share of insurance liabilities after funds-withheld quota share** | **249.1** | **274.6** |
| **Analysed as:** | | |
| Claims outstanding | 192.1 | 212.3 |
| Provision for unearned premiums | 57.0 | 62.3 |
| **Total reinsurers' share of insurance liabilities after funds-withheld quota share** | **249.1** | **274.6** |

| Net | 2022 £'m | 2021 £'m |
|---|---|---|
| Claims outstanding | 233.7 | 264.3 |
| Provision for unearned premiums | 87.6 | 90.4 |
| **Total net insurance liabilities** | **321.3** | **354.7** |
| Amounts recoverable under funds-withheld quota share agreements recognised within trade payables: | | |
| - Claims outstanding | (133.0) | (147.1) |
| - Provision for unearned premiums | (50.7) | (55.9) |
| **Total net insurance liabilities after funds-withheld quota share** | **137.6** | **151.7** |
| **Analysed as:** | | |
| Claims outstanding | 100.7 | 117.2 |
| Provision for unearned premiums | 36.9 | 34.5 |
| **Total net insurance liabilities after funds-withheld quota share** | **137.6** | **151.7** |

## Notes to the consolidated financial statements (continued)

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

#### Reconciliation of movements in claims outstanding

| | 2022 £'m | 2021 £'m |
|---|---|---|
| Gross claims outstanding at 1 February | 329.5 | 352.1[9] |
| Less: reinsurance claims outstanding | (212.3) | (203.0)[9] |
| Net claims outstanding at 1 February | 117.2 | 149.1 |
| | | |
| Gross claims incurred | 94.6 | 117.6[9] |
| Less: reinsurance recoveries | (63.3) | (99.4)[9] |
| Net claims incurred | 31.3 | 18.2 |
| | | |
| Gross claims paid | (131.3) | (140.2) |
| Less: received from reinsurance | 83.5 | 90.1 |
| Net claims paid | (47.8) | (50.1) |
| | | |
| Gross claims outstanding at 31 January | 292.8 | 329.5 |
| Less: reinsurance claims outstanding | (192.1) | (212.3) |
| Net claims outstanding at 31 January | **100.7** | **117.2** |

[9] Gross claims incurred and reinsurers' share of claims incurred for the year ended 31 January 2021 have been restated due to an incorrect allocation between these classifications. Gross claims incurred have decreased by £13.8m and reinsurers' share of claims incurred has decreased by £13.8m. As a result of these changes, gross claims outstanding at 1 February 2020 have increased by £13.8m and reinsurance claims outstanding at 1 February 2020 have increased by £13.8m

## Notes to the consolidated financial statements (continued)

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

The re-presented development of the gross loss ratios (before deducting reinsurance recoveries) on an accident year basis over the last 10 years is as follows:

| | | Financial year ended 31 January | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Accident year | 2013 | 78% | 75% | 68% | 64% | 60% | 57% | 56% | 55% | 54% | 54% |
| | 2014 | | 76% | 72% | 67% | 63% | 61% | 58% | 57% | 56% | 56% |
| | 2015 | | | 70% | 73% | 70% | 66% | 61% | 58% | 55% | 55% |
| | 2016 | | | | 77% | 78% | 75% | 65% | 62% | 62% | 59% |
| | 2017 | | | | | 70% | 69% | 65% | 61% | 56% | 56% |
| | 2018 | | | | | | 76% | 78% | 74% | 70% | 67% |
| | 2019 | | | | | | | 78% | 80% | 79% | 75% |
| | 2020 | | | | | | | | 78% | 82% | 78% |
| | 2021 | | | | | | | | | 64% | 58% |
| | 2022 | | | | | | | | | | 67% |

The re-presented development of the net loss ratios (after deducting reinsurance recoveries) on an accident year basis over the last 10 years is as follows:

| | | Financial year ended 31 January | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Accident year | 2013 | 76% | 72% | 67% | 62% | 58% | 56% | 55% | 54% | 53% | 53% |
| | 2014 | | 75% | 71% | 65% | 62% | 59% | 56% | 55% | 54% | 54% |
| | 2015 | | | 67% | 69% | 66% | 63% | 58% | 56% | 54% | 53% |
| | 2016 | | | | 70% | 71% | 66% | 59% | 56% | 54% | 53% |
| | 2017 | | | | | 56% | 56% | 54% | 53% | 51% | 51% |
| | 2018 | | | | | | 66% | 65% | 64% | 62% | 60% |
| | 2019 | | | | | | | 71% | 71% | 71% | 69% |
| | 2020 | | | | | | | | 63% | 64% | 62% |
| | 2021 | | | | | | | | | 53% | 47% |
| | 2022 | | | | | | | | | | 55% |

Favourable claims development over the year has resulted in a £18.4m (2021: £30.6m) reduction in the net claims incurred in respect of prior years.

## 16 Loans and borrowings

| | 2022 £'m | 2021 £'m |
|---|---|---|
| Bond | 400.0 | 250.0 |
| Bank loan | - | 70.0 |
| Ship loan | 515.6 | 515.6 |
| Revolving credit facility | - | - |
| Accrued interest payable | 5.9 | 8.3 |
| | 921.5 | 843.9 |
| Less: deferred issue costs | (25.0) | (26.8) |
| | **896.5** | **817.1** |

### Term loan, RCF and bonds

As at 31 January 2021, the Group's financing facilities consisted of a £250.0m seven-year senior unsecured bond (repayable May 2024), a £200.0m five-year term loan facility (repayable May 2023) and a £100.0m five-year RCF (expiry in May 2023). The bond is listed on the Irish Stock Exchange.

In March 2021, the Group reached agreement with its banks to amend covenants on the term loan and RCF. Subsequently these were amended again in June 2021, when the Group announced a series of financing transactions intended to improve its financial flexibility by increasing available liquidity, extending debt maturities and providing greater headroom against covenants. On 2 July 2021, the Group completed the offering of a new £250.0m five-year senior unsecured bond and tendered £100.0m of the existing seven-year £250.0m senior unsecured 2024 bond. The new bond is guaranteed by Saga Services Limited and Saga Mid Co Limited. The proceeds of the new bond offering were used by the Group to repay in full its existing £70.0m term loan, to fund the settlement of £100.0m of its existing outstanding unsecured 2024 bond and for general corporate purposes.

As part of the above transactions, the Group also announced that it had reached agreement with its banks to amend the covenants on its RCF. The covenants within the Group's RCF were amended as follows:

- Increase in the leverage ratio (excluding Cruise debt) covenant at 31 July 2022 and 31 January 2023 from 3.00x to 3.75x.
- Reduction in the Group interest cover covenant at 31 January 2022 from 1.5x to 1.25x, at 31 July 2022 from 3.5x to 2.0x and at 31 January 2023 from 3.5x to 2.5x.

In addition, the following amendments were also made:

- Dividends remain restricted while leverage (excluding Cruise debt) is above 3.0x.
- The Group remains subject to a minimum liquidity requirement of £40.0m, which can be met either through cash or undrawn and committed facilities.
- The maximum amount of liquidity that can be used to fund the Cruise business was increased from £55.0m to £115.0m.
- The RCF maturity was extended to 31 May 2025. A requirement to repay the RCF on 1 March 2024 if the existing 2024 bond has not been redeemed prior to this date.

Interest on the 2024 Corporate bond is incurred at an annual interest rate of 3.375%. Interest on the 2026 Corporate bond is incurred at an annual interest rate of 5.5%. Interest on the term loan and RCF was incurred at a variable rate of LIBOR plus a bank margin which is linked to the Group's leverage ratio.

The Group adopted 'Interest rate benchmark reform – phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' during the year (Note 2.4). In the UK, LIBOR was replaced by SONIA from the end of 2021. The Group took the decision to transition to SONIA from LIBOR at the time it reached agreement with its banks to amend the covenants on its RCF (see above). Subsequent to these amendments being adopted, interest payable on the Group's RCF, if drawn down, is incurred at a variable rate of SONIA plus a bank margin which is linked to the Group's leverage ratio.

## 16 Loans and borrowings (continued)

### Term loan, RCF and bonds (continued)

At 31 January 2022, the Group's financing facilities consist of a £150.0m seven-year senior unsecured bond (repayable May 2024), a £250.0m five-year senior unsecured bond (repayable July 2026) and a £100.0m five-year RCF (expiry in May 2025). The bonds are listed on the Irish Stock Exchange.

At 31 January 2022, the Group had drawn £nil of its £100.0m RCF and since the May 2017 refinancing, the £200.0m five-year term loan has been repaid in full.

Accrued interest payable on the Group's term loan, RCF and bonds at 31 January 2022 is £2.8m (2021: £5.1m).

### Cruise ship loans

In June 2019, the Group drew down the financing for its cruise ship, Spirit of Discovery, of £245.0m. The financing for Spirit of Discovery represents a 12-year fixed rate sterling loan, backed by an export credit guarantee. The initial loan was repayable in 24 broadly equal instalments, with the first payment of £10.2m paid in December 2019. This financing is secured against Spirit of Discovery cruise ship asset.

The Board announced on 22 June 2020, that it had secured a debt holiday and covenant waiver for the Group's ship facilities. The Group's lenders agreed to a deferral of £32.1m in principal payments under the ship facilities that were due up to 31 March 2021. These deferred amounts were to be paid between June 2021 and December 2024 for Spirit of Discovery and between September 2021 and March 2025 for Spirit of Adventure, and interest remains payable.

On 29 September 2020, the Group drew down the financing for its new cruise ship, Spirit of Adventure, of £280.8m. The financing for Spirit of Adventure represents a 12-year fixed rate sterling loan, backed by an export credit guarantee. The loan is repayable in 24 broadly equal instalments, with the first payment originally due six months after delivery in March 2021, but initially deferred to September 2021 as a result of the debt holiday described above. This financing is secured against Spirit of Adventure cruise ship asset.

In March 2021, the Group reached agreement of a one-year extension to the debt deferral on its cruise ship facilities. As part of an industry-wide package of measures to support the cruise industry, an extension of the existing debt deferral was agreed to 31 March 2022. The key terms of this deferral are:

- all principal payments to 31 March 2022 (£51.8m) are deferred and repaid over five years;
- all financial covenants until 31 March 2022 are waived;
- dividends remain restricted while the deferred principal is outstanding; and
- the Group is now subject to a minimum liquidity requirement of £40.0 million, which can be met through either cash or undrawn and committed facilities.

After the year end, the Group concluded discussions with its Cruise lenders to amend the covenants on the two ship debt facilities as follows:

- Reduction in the EBITDA to debt repayment ratio from 1.2x to 1.0x for the periods from 31 July 2022 to 31 January 2024.
- Reduction in the EBITDA to cash interest ratio from 2.0x to 1.7x as at 31 July 2022.

Please refer to Note 2.1 for further detail.

Interest on the Spirit of Discovery ship loan is incurred at an effective annual interest rate of 4.31% (including arrangement and commitment fees). Interest on the Spirit of Adventure ship loan is incurred at an effective annual interest rate of 3.30% (including arrangement and commitment fees).

Interest on the Group's cruise ship debt deferrals was incurred at a variable rate of LIBOR plus a bank margin. As noted above, the Group adopted 'Interest rate benchmark reform – phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' during the year (Note 2.4). In the UK, LIBOR was replaced by SONIA from the end of 2021. Subsequent to these amendments being adopted, interest payable on the Group's cruise ship debt deferrals is incurred at a variable rate of SONIA plus a bank margin. Amendments to the cruise ship debt facilities were executed in December 2021.

## 16 Loans and borrowings (continued)

### Cruise ship loans (continued)

Accrued interest payable on the Group's Cruise ship loans at 31 January 2022 is £3.1m (2021: £3.2m).

### Total debt and finance costs

As at 31 January 2022, debt issue costs were £25.0m (2021: £26.8m). The movement in the year represents an increase following the issuance of the 2026 bond in July 2021, being more than offset by expense amortisation for the period.

During the year, the Group charged £37.4m (2021: £29.4m) to the income statement in respect of fees and interest associated with the bonds, term loan, ship loans and RCF. In addition, finance costs recognised in the income statement include £0.7m (2021: £0.8m) relating to interest and finance charges on lease liabilities and net fair value losses on derivatives are £2.7m (2021: £nil). The Group has complied with the financial covenants of its borrowing facilities during the current year and prior year.

## 17 Called up share capital

| | Ordinary shares | | |
|---|---|---|---|
| | Number | Nominal value £ | Value £'m |
| **Allotted, called up and fully paid** | | | |
| At 31 January 2020 | 1,122,003,328 | 0.01 | 11.2 |
| Issue of shares – 5 October 2020 | | | |
| - First Firm Placing | 224,400,000 | 0.01 | 2.2 |
| - Second Firm Placing | 124,183,026 | 0.01 | 1.2 |
| - Placing and Open Offer | 623,335,182 | 0.01 | 6.3 |
| | 971,918,208 | 0.01 | 9.7 |
| Sub-total before share consolidation | 2,093,921,536 | 0.01 | 20.9 |
| Share consolidation – 13 October 2020 | (1,954,326,767) | | |
| Issue of shares – 18 November 2020 | 507,458 | 0.15 | 0.1 |
| As at 31 January 2021 | 140,102,227 | 0.15 | 21.0 |
| Issue of shares – 12 November 2021 | 235,044 | 0.15 | 0.1 |
| **As at 31 January 2022** | 140,337,271 | 0.15 | 21.1 |

On 30 August 2020, the Group announced that it was at the advanced stage of a prospective £150.0m equity capital raise in order to strengthen its statement of financial position, improve liquidity and support the execution of its strategic plan. The prospective £150.0m equity raise was launched on 10 September 2020, structured as a Firm Placing and Open Offer.

The Group's Firm Placing was made up of two firm placings, both of which involved issuing shares to the Chairman, Roger De Haan. The First Firm Placing resulted in Roger De Haan subscribing for 224,400,000 new ordinary shares at a price of 27p per ordinary share. The Second Firm Placing resulted in Roger De Haan subscribing for 124,183,026 new ordinary shares at 12p per ordinary share (the Offer Price as if he were participating in the Open Offer as a qualifying shareholder). The Firm Placing was inter-conditional with the Placing and Open Offer.

Under the Placing and Open Offer, the Company invited its shareholders to subscribe to the issue of 623,335,182 ordinary shares at an issue price of 12p per ordinary share on the basis of five new shares for every nine ordinary shares held. In addition to the Firm Placing described above, Roger De Haan subscribed for 204,250,307 new shares in the Placing and Open Offer, and, as a result, from admission held 26.4% of the enlarged share capital of the Company.

Under the Firm Placing and Open Offer, on 5 October 2020 the Company issued 971,918,208 new ordinary shares, raising £150.3m of funds which were utilised to repay part of the Group's term loan and repay in full the drawn RCF, with the balance of the proceeds raised increasing Available Cash[10]. The issue was fully subscribed.

[10] Refer to the Alternative Performance Measures Glossary on page 68 for definition and explanation

## 17 Called up share capital (continued)

The share premium arising on the issue of the new ordinary shares was £140.6m. Transaction costs associated with the issue of the share capital of £11.6m were deducted from share premium.

On 13 October 2020, the Company undertook a consolidation of its shares, whereby for every 15 ordinary shares held of 1p nominal value, shareholders received one new consolidated share of 15p nominal value.

On 18 November 2020, Saga plc issued 507,458 new ordinary shares of 15p each, with a value of £0.1m, for transfer into an Employee Benefit Trust (EBT) to satisfy employee incentive arrangements.

On 12 November 2021, Saga plc issued 235,044 new ordinary shares of 15p each, with a value of £0.1m, for transfer into an EBT to satisfy employee incentive arrangements.

## 18 Share-based payments

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

a) On 9 April 2021, nil cost options over 713,343 shares were issued under the Restricted Share Plan to certain Directors and other senior employees which vest and become exercisable on the third anniversary of the grant date, subject to continuing employment.

b) On 29 April 2021, nil cost options over 236,815 shares were issued under the Deferred Bonus Plan to Executive Directors reflecting their deferred bonus in respect of 2020/21, which vest and become exercisable on the third anniversary of the grant date. Under the Deferred Bonus Plan, executives receive and maximum of two-thirds of the bonus award in cash and a minimum of one-third in the form of rights to shares of the Company.

c) On 16 November 2021, 212,326 shares were awarded to eligible employees on the seventh anniversary of the IPO and allocated at nil cost; these shares become beneficially owned over a three-year period from allocation, subject to continuing service.

The fair values of all awards are assessed using techniques based upon the “Black-Scholes” pricing model. The Group charged £3.4m (2021: £2.4m) during the year to the income statement in respect of equity-settled share-based payment transactions.

## 19 Assets held for sale

At the end of the year ended 31 January 2021, the Group made the decision to initiate an active programme to locate buyers for a number of its freehold properties. Immediately before the classification of the properties to held for sale, their recoverable amounts were ascertained and this resulted in an impairment charge of £4.5m being recognised against the Group's freehold land and buildings assets. At the point of reclassification to held for sale, the carrying values of £16.9m were considered to be equal to, or below, fair value less costs to sell and hence no revaluation at the point of reclassification was required. These properties are presented within the Insurance segment of the Group, and as at 31 January 2021 were being actively marketed and the disposals were expected to be completed within 12 months of the end of the financial year. No gains or losses were recognised with respect to the properties.

During the year, the Group declassified one of the properties classified as held for sale at 31 January 2021, to property, plant and equipment since it was no longer being actively marketed for disposal. The carrying value of this property as at 31 January 2021 was £3.0m. Other than this one property, there have been no changes in relation to the Group's intention to sell any of the properties classified as held for sale at 31 January 2021, and so the held for sale designation is considered to remain appropriate for the remaining properties as at 31 January 2022.

During the year, the Group disposed of a property classified as held for sale in the period. Cash consideration received (net of transaction costs) was £10.2m and the carrying value of the property at the date of disposal was £3.0m. Profit arising on disposal was £7.2m.

Management conducted an impairment review of the freehold property assets held for sale as at 31 January 2022. In relation to these freehold properties, value-in-use continued to be negligible and so the Group obtained updated market valuations to determine the fair value of each building. The outcome of these impairment reviews concluded that an impairment charge totalling £1.0m should be recognised against the Group's property assets held for sale as at 31 January 2022. As at 31 January 2022, the carrying values of the properties classified as held for sale, totalling £12.9m, are representative of either each property's fair value or historic cost, whichever is lower.

## 20 Related party transactions

On 6 April 2021, the Company entered into a working capital facility agreement with Roger De Haan, the Non-Executive Chairman of Saga plc, to allow the Company to draw down up to £10.0m with 20 days' notice to fund the short-term liquidity needs of its Cruise business. The agreement allowed the Company to select a loan period of one, two, three or six months, or any other period agreed with Roger De Haan. Interest on the working capital facility agreement would be incurred at a variable rate of LIBOR plus a bank margin that is linked to the Group's leverage ratio. Interest would accrue on the facility and be payable on the last day of the period of the loan. The facility was set to mature on 9 May 2023, at which point any outstanding amounts, including interest, must be repaid.

As explained in Note 16, in June 2021 the Group announced a number of financing transactions intended to improve its financial flexibility by increasing available liquidity, extending debt maturities and providing greater headroom against covenants. Following the completion of these transactions the working capital facility agreement with Roger De Haan was subsequently cancelled with effect from July 2021.

## 21 Events after the reporting period

After the year end, the Group concluded discussions with its Cruise lenders to amend the covenants on the two ship debt facilities as follows:

- Reduction in the EBITDA to debt repayment ratio from 1.2x to 1.0x for the periods from 31 July 2022 to 31 January 2024.
- Reduction in the EBITDA to cash interest ratio from 2.0x to 1.7x as at 31 July 2022.

Please refer to Note 16 for further details relating to the Group's cruise ship debt facilities.

## Alternative Performance Measures Glossary

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

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

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

### Underlying (Loss)/Profit Before Tax

Underlying (Loss)/Profit Before Tax represents the loss before tax excluding unrealised fair value gains and losses on derivatives, the net profit on disposal of assets, impairment of the carrying value of assets including goodwill, charge on closure of defined benefit pension scheme, foreign exchange gains on river cruise ship leases, costs incurred for ship debt holiday and restructuring costs. It is reconciled to statutory loss before tax within the Group Chief Financial Officer's Review on page 11.

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

### Trading EBITDA/Adjusted Trading EBITDA

Trading EBITDA is defined as earnings before interest payable, tax, depreciation and amortisation, and excludes the amortisation of acquired intangibles, non-trading costs and impairments. Adjusted Trading EBITDA also excludes the impact of IFRS 16 and the Trading EBITDA relating to the two cruise ships, Spirit of Discovery and Spirit of Adventure in line with the covenant on the Group's revolving credit facility (RCF). It is reconciled to Underlying (Loss)/Profit Before Tax within the Group Chief Financial Officer's Review on page 21. Underlying (Loss)/Profit Before Tax is reconciled to statutory loss before tax within the Group Chief Financial Officer's Review on page 11.

This measure is linked to the covenant on the Group's RCF, being the denominator in the Group's leverage ratio calculation.

### Underlying Basic (Loss)/Earnings Per Share

Underlying Basic (Loss)/Earnings Per Share represents basic loss per share excluding the post-tax effect of unrealised fair value gains and losses on derivatives, the net profit on disposal of assets, impairment of the carrying value of assets including goodwill, charge on closure of defined benefit pension scheme, foreign exchange gains on river cruise ship leases, costs incurred for ship debt holiday and restructuring costs. This measure is reconciled to the statutory basic loss per share in Note 6 to the accounts on pages 48-49.

This measure is linked to the Group's key performance indicator Underlying (Loss)/Profit Before Tax and represents what management considers to be the underlying shareholder value generated in the year.

### Available Cash

Available Cash represents cash held by subsidiaries within the Group that is not subject to regulatory restrictions, net of any overdrafts held by those subsidiaries. This measure is reconciled to the statutory measure of cash in Note 13 to the accounts on page 58.

### Available Operating Cash Flow

Available Operating Cash Flow is net cash flow from operating activities after capital expenditure but before tax, interest paid, restructuring costs, proceeds from business and property disposals and other non-trading items, which is available to be used by the Group as it chooses and is not subject to regulatory restriction. It is reconciled to statutory net cash flow operating activities within the Group Chief Financial Officer's Review on page 21.

### Adjusted Net Debt

Adjusted Net Debt is the sum of the carrying values of the Group's debt facilities less the amount of Available Cash it holds but excludes the ship debt and the Cruise business Available Cash. It is linked to the covenant on the Group's RCF, being the numerator in the Group's leverage ratio calculation, and is analysed further within the Group Chief Financial Officer's Review on page 23.