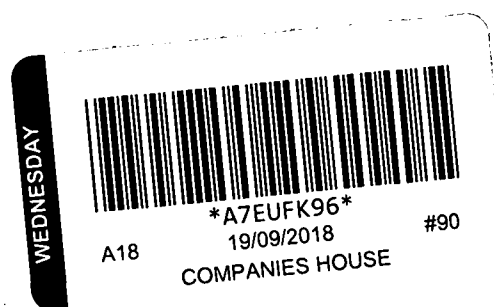


SAGA CRUISES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 JANUARY 2018



SAGA CRUISES LIMITED
Company information

Directors: L H L Batchelor
J S Hill
T Allan
A C Donald
P R Shaw
A J P Strong (resigned 1 December 2017)
R J Vogel (resigned 31 December 2017)

Secretary: V Haynes

Registered Office: Enbrook Park, Folkestone, Kent CT20 3SE

Company Registration no: 3267858

Auditor: KPMG LLP, 15 Canada Square, London E14 5GL

SAGA CRUISES LIMITED

Strategic report

The Directors submit the Annual Report and the audited Financial Statements of Saga Cruises Limited ("the Company") for the year ended 31 January 2018.

Review of Business Developments and Principal Activity

The Company's principal activity is the chartering and operation of cruise ships. During the previous year the Company operated two cruise ships – the Saga Pearl II and the Saga Sapphire, which were chartered from its subsidiary undertakings Enbrook Cruises Limited and Saga Cruises IV Limited respectively.

The Company's key financial and other performance indicators during the year were as follows:

	2018	2017	Change
	£'000	£'000	%
Turnover	88,359	81,892	7.9
Gross profit	20,264	12,253	65.4
Gross margin	23.0%	15.0%	8pts
Profit before taxation	<u>5,128</u>	<u>5,897</u>	(13.0)

Turnover for the year to 31 January 2018 was £88,359,000 (2017 - £81,892,000), an increase of 7.9% on the previous year due to a pre-planned Sapphire wet dock in 2017. All turnover arose from the Company's principal activity.

For decision making and internal performance management, management's key performance metric is Underlying Profit Before Tax.

The profit before taxation for the year amounts to £5,128,000 (2017 – £5,897,000). The reduction in profit before taxation is due to financial income decreasing from £5,030,000 to £1,372,000, due to a reduction in net fair value gain on derivative financial instruments. After taxation, a profit of £4,172,000 (2017 – £4,604,000) has been transferred to reserves. No dividends have been paid in the year (2017 – £nil).

Principal Risks and Uncertainties

The Company follows a structured risk identification and assessment process that involves all of its Directors and which is updated on an ongoing basis.

The principal risks facing the Company have been grouped under the following three headings:

1. *Legislative Risks*

The two cruise ships operated by the Company have to comply with maritime regulations and ensure that regulatory changes are responded to.

A failure to comply with these regulations could cause the Company to incur fines or be prevented from trading.

2. *Operational Risks*

The cruise ships operated by the Company operate internationally throughout the year and are at risk of damage through collision, fire, grounding or extreme weather conditions. Customers' safety and health are of primary importance in the event of these risks occurring. Additionally the risk of the ships causing environmental damage by pollution is also a key concern. If these risks were to crystallise, the cost of repairs and repatriation would adversely affect future profits, and if not managed appropriately, damage the Company brand.

3. *Market Risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to commodity price risk. Financial instruments affected by market risk include fuel oil swaps.

4. *Brand Risk*

The Company recognises Saga as a quality brand is a source of competitive advantage, and has in place policies and procedures to protect it at all times. The Company has zero appetite and a very low tolerance for brand and reputation risks and will look wherever possible to eliminate them. The Company also has zero appetite and very low tolerance for systemic unfair customer outcomes as a result of failures in the product, marketing, sales or service delivery systems and processes, or cultural shortcomings.

In order to manage these risks, the Company has put in place rigorous procedures and controls designed to prevent these risks occurring or, where this is not possible, to mitigate their effects.

These controls are monitored by the Group Internal Audit function to ensure they are working effectively.

SAGA CRUISES LIMITED
Strategic report (continued)

Future Developments

The Directors intend to continue to expand and refresh the range of cruise itineraries offered to the Company's customers. The Company will operate a two new cruise ships. The first from July 2019 which has cruises already on sale and the second from August 2020, which the Directors expect cruises to be on sale during 2018.

Policy on use of financial instruments

The Company enters into derivative transactions (commodity swaps). The purpose is to manage the commodity price risks arising from the Company's operations. The board sets policies for managing these risks and these policies are summarised at accounting policy 2(r).

The Company is exposed to the market price of fuel relating to the consumption of fuel on the Company's cruise ships. The Company uses fuel swap agreements, and occasionally caps, to mitigate this exposure. The agreements hedge all the anticipated fuel requirements of the Company and are transacted to coincide with committed itineraries.

By order of the Board



P R Shaw
Director
31 May 2018

SAGA CRUISES LIMITED

Directors' report

The Directors submit the Directors' Report of the Company for the year ended 31 January 2018.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report, Strategic Report and Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

It is the Group's policy to maintain indemnity insurance for Directors and officers.

SAGA CRUISES LIMITED
Directors' report (continued)

Going concern

The Directors believe that the Company, with the support of the Saga group, is well placed to successfully manage its business risks and the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Disclosure of information to the auditors

Each current Director has made enquiries of their fellow directors and the Company's auditor and taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Relevant audit information is that information needed by the auditor in connection with preparing its report. So far as each director approving this report is aware, and based on the above steps, there is no relevant audit information of which the auditor is unaware.

Auditors

At the Saga plc Annual General Meeting ("AGM") last year KPMG LLP were appointed as the Group's statutory auditors. The Company Board of Directors ratified the decision of the Saga plc Board. Pursuant to section 487(2) of the Companies Act 2006, the Auditor KPMG LLP is deemed re-appointed.

By order of the Board



P R Shaw
Director
31 May 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGA CRUISES LIMITED

Opinion

We have audited the financial statements of Saga Cruises Limited ("the Company") for the year ended 31 January 2018 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") an applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and Directors' report

The Directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGA CRUISES LIMITED (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

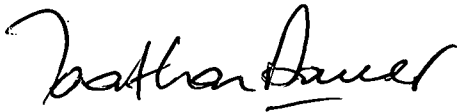
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGA CRUISES LIMITED (continued)

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Jonathan Downer (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

~~May~~ 2018
5 June

SAGA CRUISES LIMITED**Income statement for the year ended 31 January 2018**

	Notes	2018	2017
		£'000	£'000
Turnover	3	88,359	81,892
Cost of sales		(68,095)	(69,639)
Gross profit		<u>20,264</u>	<u>12,253</u>
Administrative and marketing expenses		(16,508)	(11,386)
Profit on ordinary activities before interest & taxation	4	<u>3,756</u>	<u>867</u>
Finance income	5	1,372	5,030
Profit on ordinary activities before taxation		<u>5,128</u>	<u>5,897</u>
Taxation	9	(956)	(1,293)
Retained profit for the financial year		<u>4,172</u>	<u>4,604</u>

Notes 1 to 25 form an integral part of these financial statements.

SAGA CRUISES LIMITED**Balance sheet as at 31 January 2018**

	Notes	2018 £'000	2017 £'000
Fixed assets			
Intangible fixed assets	10	65	41
Tangible fixed assets	11	222	-
Investment in subsidiary undertakings	12	20	-
		<u>307</u>	<u>41</u>
Current Assets			
Stocks	13	5,326	5,132
Debtors	14	95,271	93,385
Cash at bank and in hand		1,068	765
		<u>101,665</u>	<u>99,282</u>
Creditors - amounts falling due within one year	15	(48,791)	(40,371)
Net current assets		<u>52,874</u>	<u>58,911</u>
Total assets less current liabilities		53,181	58,952
Creditors - amounts falling due after more than one year	16	(298)	(18)
Provisions for liabilities	17	(4,681)	(6,406)
Net assets		<u>48,202</u>	<u>52,528</u>
Capital and reserves			
Called-up share capital	19	7,000	7,000
Capital contribution reserve	20	260	197
Hedging reserve		23,899	32,460
Retained earnings		17,043	12,871
Shareholders' funds		<u>48,202</u>	<u>52,528</u>

Signed for and on behalf of the Board by



P R Shaw

Director

31 May 2018

Notes 1 to 25 form an integral part of these financial statements.

SAGA CRUISES LIMITED**Statement of changes in equity for the year ended 31 January 2018**

	Called-up Share Capital £'000	Capital Contribution Reserve £'000	Hedging Reserve £000	Retained Earnings £'000	Total Equity £'000
At 1 February 2016	7,000	77	8,733	8,267	24,077
Profit for the financial year	-	-	-	4,604	4,604
Other comprehensive income	-	-	23,727	-	23,727
Share based payment charge	-	120	-	-	120
At 31 January 2017	<u>7,000</u>	<u>197</u>	<u>32,460</u>	<u>12,871</u>	<u>52,528</u>
Profit for the financial year	-	-	-	4,172	4,172
Other comprehensive income	-	-	(8,561)	-	(8,561)
Share based payment charge	-	63	-	-	63
At 31 January 2018	<u>7,000</u>	<u>260</u>	<u>23,899</u>	<u>17,043</u>	<u>48,202</u>

Notes 1 to 25 form an integral part of these financial statements.

SAGA CRUISES LIMITED
Notes to the financial statements

1. General information

Saga Cruises Limited (the "Company") is a company incorporated and domiciled in the UK.

2. Significant Accounting policies

a) Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and in accordance with applicable accounting standards. The financial statements are prepared under the historical cost convention, as modified by derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The Company's financial statements are presented in the Company's functional currency, Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Saga plc. These financial statements present information about the Company as an individual undertaking and not about its group.

The consolidated financial statements of Saga plc, within which this Company is included, can be obtained from the address given in note 23.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 "Share Based Payment" because the share based payment arrangement concerns the instruments of another group entity.
- b) the requirements of IFRS 7 "Financial Instruments: Disclosures".
- c) the requirements of paragraphs 91 to 99 of IFRS 13 "Fair Value Measurement".
- d) the requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of:
 - i) paragraph 79(a)(iv) of IAS 1;
 - ii) paragraph 73(e) of IAS 16 "Property, Plant and Equipment"; and
 - iii) paragraph 118(e) of IAS 38 "Intangible assets".

SAGA CRUISES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

a) Basis of preparation (continued)

- e) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B-D, 39(c), 40A-D, 111 and 134-136 of IAS 1 "Presentation of Financial Statements".
- f) the requirements of IAS 7 "Statement of Cash Flows".
- g) the requirements of paragraphs 30 and 31 of IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors".
- h) the requirements of paragraph 17 of IAS 24 "Related Party Disclosures".
- i) the requirements in IAS 24 "Related Party Disclosures" to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

b) Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as the balance sheet date and the amounts reported for revenues and expenses during the previous year, that are not readily apparent from other sources. However, the nature of estimation means that actual outcomes may differ from those estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no estimates, assumptions and judgements at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

c) Turnover

Turnover from cruising is recognised as earned, on a daily basis.

d) Stocks

Stocks are stated at the lower of cost and net realisable value. Costs include all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

SAGA CRUISES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

e) Advance receipts

All booking fees and balance payments for cruises with starting dates after the year end are treated as receipts in advance at the balance sheet date and are separately disclosed within creditors.

f) Trade and other debtors

Trade debtors, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

g) Cash at bank and in hand

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

h) Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and where the time value of money is material, subsequently measured at amortised cost using the effective interest method.

i) Pension benefits

The Company is a member of the Saga Pension Scheme which is a defined benefit scheme.

The Company is one of a number of Saga companies participating in the Scheme, and its contributions are affected by the financial position of the Scheme as a whole. As it is unable to identify its share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis, the Company accounts for its pension expense on a defined contribution basis. The IAS 19 deficit (gross of deferred taxation) of the Scheme at 31 January 2018 was £7.0 million (2017 - £13.7 million).

Further details of the Scheme can be found in the financial statements of the ultimate parent company, Saga plc.

SAGA CRUISES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

j) Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is dealt with in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

SAGA CRUISES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

k) Leases

Leases under which substantially all of the risk and rewards of ownership are transferred to the Company are finance leases. All other leases are operating leases.

Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

Income arising from operating leases where the Company acts as lessor is recognised on a straight-line basis over the lease term and included in operating income due to its operating nature.

l) Share-based payments

Saga plc, the ultimate parent company of the Saga group, provides benefits to employees of the Company (including Directors) in the form of long term incentives whereby employees render services in consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is measured at fair value and is recognised as an expense over the relevant vesting period, ending on the date on which the employee becomes fully entitled to any award.

In valuing equity settled transactions, assessment is made of any vesting conditions to categorise these into market performance conditions, non-market performance conditions, and service conditions.

Where the equity settled transactions have market performance conditions (that is, performance which is directly or indirectly linked to the share price of Saga plc), the fair value of the award is assessed at the time of grant and is not changed, regardless of the actual level of vesting achieved, except where an employee ceases to be employed prior to the vesting date.

For service conditions and non-market performance conditions, the fair value of the award is assessed at the time of grant and is reassessed at each reporting date to reflect updated expectations for the level of vesting. No expense is recognised for awards that ultimately do not vest.

The Company records the cost of share options granted to employees by Saga plc during the year as a capital contribution from Saga plc within Shareholders' funds. Upon exercise, the cost of the share options is transferred from the capital contribution reserve and retained earnings.

SAGA CRUISES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

m) Provisions for liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

n) Foreign currencies

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value are translated using the exchange rate at the date when the fair value is determined. The gains or losses arising on translation of non-monetary items measured at fair value are treated in line with the recognition of gains or losses arising on a change in the fair value of the item (i.e. the translation differences on items whose fair value gain or loss is recognised in other comprehensive income or the income statement are also recognised in other comprehensive income or the income statement, respectively).

o) Marketing expenditure

Expenditure on holiday brochures and advertising is expensed.

p) Non-trading items

Items which derive from events or transactions that fall outside of the ordinary activities of the Company and which are material, or if of a similar type are material in aggregate, are treated as non-trading. Non-trading items are charged or credited to the income statement as appropriate.

SAGA CRUISES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

q) Financial instruments

i) Financial assets

Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition and are accounted on a trade date basis. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. The Company has fair value through profit or loss, loans and receivables financial assets and derivative assets designated as hedging instruments in an effective hedge.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at FVTPL are assets:

- which upon initial recognition are designated at fair value through the income statement to eliminate or significantly reduce a measurement recognition inconsistency; or
- which are acquired principally for the purpose of selling in the near term or forming part of the portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

Derivative financial instruments not designated as hedging instruments are classified as FVTPL. Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised through the income statement. The fair values are quoted market prices (where there is an active market) or are based on valuation techniques (where there is no active market or the securities are unlisted). Valuation techniques include the use of recent arm's length transactions, discounted cash flow analysis and other commonly used valuation techniques.

The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

SAGA CRUISES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

q) Financial instruments (continued)

i) Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in Interest payable and similar costs.

Derecognition

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

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors are experiencing significant financial difficulty, or where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or other factors that correlate with defaults.

Loans and receivables

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets, discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are assessed individually where significant, or collectively for assets that are not individually significant.

Impairment losses are recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

SAGA CRUISES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

q) Financial instruments (continued)

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

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

The Company's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss (FVTPL):

Derivative financial instruments not designated as hedging instruments are classified as FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised through the income statement.

Loans and borrowings and other payables:

After initial recognition, interest bearing loans and borrowings and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in Interest payable and similar costs in the income statement.

Derecognition

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

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

SAGA CRUISES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

q) Financial instruments (continued)

iii) Derivatives

Derivatives are measured at fair value both initially and subsequent to initial recognition. All changes in fair value are recognised in the income statement. Derivatives are presented as assets when the fair values are positive and as liabilities when the fair values are negative. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

iv) Fair values

The Company measures financial instruments such as derivatives, at FVTPL at fair value at each reporting date.

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

The fair values are quoted market prices where there is an active market or are based on valuation techniques when there is no active market or the instruments are unlisted. Valuation techniques include the use of recent arm's length market transactions, discounted cash flow analysis and other commonly used valuation techniques. An analysis of the fair values of financial instruments and further details as to how they are measured are provided within the financial statements of Saga plc.

SAGA CRUISES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

q) Financial instruments (continued)

v) Hedge accounting

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

Where a derivative financial instrument is designated as a hedge, the effective part of any fair value gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately within the income statement.

When a hedged forecast transaction subsequently results in the recognition of a financial asset or a financial liability, any associated cumulative gain or loss is removed from the hedging reserve and reclassified into the income statement in the same period in which the asset or liability affects profit or loss. When a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, any associated cumulative gain or loss is removed from the hedging reserve and is included in the initial cost or other carrying amount of the non-financial asset or liability.

For fuel-oil hedges, prospective hedge effectiveness testing is performed at the inception of the hedging relationship, and subsequently at each balance sheet date, using regression analysis. This method involves calculating the strength of the correlation between the price of the derivative and the price of the fuel oil being purchased. Retrospective hedge testing is also performed at each reporting date using the same technique.

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

r) Investment in subsidiaries

Investments in subsidiaries are held at cost less accumulated impairment losses.

s) Impairment of investment in subsidiaries

The Company undertakes a full impairment review of the carrying value of investment in subsidiaries at each reporting date. If such an indication exists, the recoverable amount is estimated and compared to the carrying amount. If the recoverable amount is less than the carrying amount, the asset is considered impaired and is written down to its recoverable amount and the impairment loss is recognised immediately in the income statement.

SAGA CRUISES LIMITED**Notes to the financial statements (continued)****3. Turnover**

Turnover comprises sales to third parties for cruising. Turnover is stated net of VAT. All business is carried out in the UK.

4. Profit on ordinary activities before interest & taxation

	2018 £'000	2017 £'000
Operating profit is stated after charging:		
Cost of sales – non-trading items:		
Redundancies	214	55
Legal dispute	(53)	(669)
Operating lease rentals – plant and machinery	15,103	14,121
Auditor's remuneration – audit of financial statements	47	43

During the year, the Company received amounts following the successful outcome of a legal dispute.

Any fees paid to the Company's auditor, KPMG LLP, for services other than the statutory audit of the Company are not disclosed in these financial statements since the consolidated financial statements of the ultimate parent undertaking, Saga plc, are required to disclose non-audit fees on a consolidated basis.

The Company has borne the fees for the audit of its following subsidiaries: Saga Cruises IV Limited, Saga Cruises V Limited, Saga Cruises VI Limited and Enbrook Cruises Limited.

5. Finance income

	2018 £'000	2017 £'000
Bank interest receivable	73	-
Net fair value gain on fuel oil derivative financial instruments	1,299	5,030
	<u>1,372</u>	<u>5,030</u>

SAGA CRUISES LIMITED**Notes to the financial statements (continued)****6. Directors' remuneration**

The remuneration of the Directors of the Company during the year was as follows:

	2018 £'000	2017 £'000
Aggregate remuneration in respect of qualifying services	<u>458</u>	<u>60</u>
Number of directors who received shares under long term incentive schemes	<u>3</u>	<u>-</u>
Members of defined benefit pension scheme	<u>4</u>	<u>5</u>

Among the Directors remunerated by the Company, the amounts paid in respect of the highest paid Director were as follows:

	2018 £'000	2017 £'000
Aggregate remuneration in respect of qualifying services	<u>385</u>	<u>33</u>
Defined benefit pension scheme:		
Accrued pension at end of year	<u>15</u>	<u>-</u>

7. Staff costs

	2018 £'000	2017 £'000
Wages and salaries	2,702	1,526
Social security costs	262	135
Pension costs	280	147
Other costs	-	30
	<u>3,244</u>	<u>1,838</u>

Included in wages and salaries is a total expense of share-based payments of £63,000 (2017: £120,000).

	2018 No.	2017 No.
The monthly average number of employees during the year was as follows:-		
Operations	51	32
Administration and management	<u>5</u>	<u>5</u>
	<u>56</u>	<u>37</u>

SAGA CRUISES LIMITED

Notes to the financial statements (continued)

8. Pension benefits

The Company is a member of the Saga Pension Scheme which is a defined benefit scheme.

The Company is one of a number of Saga companies participating in the Scheme, and its contributions are affected by the financial position of the Scheme as a whole. As it is unable to identify its share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis, the Company accounts for its pension expense on a defined contribution basis. The IAS 19 deficit (gross of deferred taxation) of the Scheme at 31 January 2018 was £7.0 million (2017 - £13.7 million).

Further details of the Scheme can be found in the financial statements of the ultimate parent company, Saga plc.

SAGA CRUISES LIMITED
Notes to the financial statements (continued)

9. Taxation	2018 £'000	2017 £'000
Tax charged in the income statement		
Current tax		
UK corporation tax at 19.17% (2017 – 20.00%)	957	1,172
Adjustment in respect of prior periods	(80)	(1)
Total current income tax	<u>877</u>	<u>1,171</u>
Deferred tax		
Origination and reversal of timing differences	80	75
Adjustments in respect of prior periods	(1)	-
Effect of tax rate change on opening balances	-	47
Total deferred tax	<u>79</u>	<u>122</u>
Tax expense on profit on ordinary activities	<u>956</u>	<u>1,293</u>

	2018 £'000	2017 £'000
Tax relating to items charged to other comprehensive income		
Deferred tax		
On foreign currency forward cash flow hedges	(1,725)	4,149
On fuel-oil cash flow hedges	(29)	582
Tax charge in the statement of other comprehensive income	<u>(1,754)</u>	<u>4,731</u>

Reconciliation of Total Tax Charge:	2018 £'000	2017 £'000
Pre-tax profit at 19.17% (2017 – 20.00%)	983	1,179
Non-taxable dividend income	-	-
Expenses not deductible for tax purposes	68	81
Effect of tax rate change on opening balances	-	47
Adjustments in respect of prior periods	(81)	(1)
Rate change adjustment on temporary differences	(14)	(13)
Total tax expense in the income statement	<u>956</u>	<u>1,293</u>

The corporation tax charge for the current and prior year is entirely made up of payments to other group companies for group relief.

SAGA CRUISES LIMITED
Notes to the financial statements (continued)

10. Intangible fixed assets

	Software
	£'000
Cost	
At 1 February 2017	41
Additions	24
At 31 January 2018	<u>65</u>
Amortisation	
At 1 February 2017	-
Charge for year	-
Reclassification	-
At 31 January 2018	<u>-</u>
Net book value	
At 31 January 2018	<u>65</u>
At 31 January 2017	<u>41</u>

11. Tangible fixed assets

	Land and Buildings
	£'000
Cost	
At 1 February 2017	-
Additions	222
At 31 January 2018	<u>222</u>
Amortisation	
At 1 February 2017	-
Charge for year	-
Reclassification	-
At 31 January 2018	<u>-</u>
Net book value	
At 31 January 2018	<u>222</u>
At 31 January 2017	<u>-</u>

SAGA CRUISES LIMITED**Notes to the financial statements (continued)****12. Investment in subsidiary undertakings**

	2018	2017
Cost	£	£
At 31 January	<u>19,885</u>	<u>106</u>

The subsidiary undertakings of the Company, all of which are wholly owned with a registered office address in England of Enbrook Park, Sandgate, Folkestone, Kent, CT20 3SE, are Saga Cruises I Limited, Saga Cruises II Limited, Saga Cruises III Limited, Saga Cruises IV Limited, Saga Cruises V Limited, Saga Cruises VI Limited and Enbrook Cruises Limited. The registered office address of Saga Cruises GmbH is Industriegebiet Süd, 26871, Papenburg, Niedersachsen, Germany. The principal activity of Saga Cruises IV Limited and Enbrook Cruises is the chartering of cruise ships to the Company.

13. Stocks

	2018	2017
	£'000	£'000
Fuel and oil	732	723
Technical stocks	3,273	2,534
Passenger and crew food stocks	1,008	1,066
Bar and other sundry stocks	313	809
	<u>5,326</u>	<u>5,132</u>

14. Debtors

	2018	2017
	£'000	£'000
Amount owed by group undertaking	62,631	51,606
Other debtors	519	502
Prepayments	1,024	611
Fuel oil swap derivative financial instruments	3,125	2,495
Foreign currency forward derivative financial instruments	27,533	37,682
Deferred taxation	439	489
	<u>95,271</u>	<u>93,385</u>

Deferred taxation comprises an excess of depreciation over capital allowances of £73,000 (2017 - £84,000) and of short-term timing differences of £366,000 (2017 - £405,000).

A reduction in the UK Corporation Tax rate from 21% to 20% took effect on 1 April 2015, and further reductions were enacted in the Finance Act 2015 to reduce the rate to 19% from 1 April 2017 and 18% from 1 April 2020.

On 16 March 2016 the Chancellor presented the 2016 budget in which he announced a further reduction in the future corporation tax rate. Instead of the UK corporation tax rate reducing from 19% to 18%, on 1 April 2020, the rate will now fall to 17%. As the new rate of 17% has been enacted at the balance sheet, the closing deferred tax balances have been reflected at 17%.

Recognition of Company deferred tax assets is based on profitability of other group companies and anticipated group relief claims.

SAGA CRUISES LIMITED**Notes to the financial statements (continued)****14. Debtors (continued)**

All amounts above are due in less than one year, except for deferred tax, fuel oil swap derivative financial instruments and foreign currency forward derivative financial instruments of £1,277,000 (2017 - £1,752,000).

15. Creditors - amounts falling due within one year	2018	2017
	£'000	£'000
Advance receipts	37,275	25,849
Trade creditors	6,941	7,082
Other creditors	-	-
Fuel oil swap derivative financial instruments	-	317
Accruals and deferred income	4,575	7,123
	<u>48,791</u>	<u>40,371</u>

16. Creditors - amounts falling due after one year	2018	2017
	£'000	£'000
Fuel oil swap derivative financial instruments	298	18
	<u>298</u>	<u>18</u>

17. Provisions for liabilities	Deferred tax
	£'000
At 1 February 2017	6,406
Charge for the year through OCI on derivatives	(1,725)
At 31 January 2018	<u>4,681</u>

SAGA CRUISES LIMITED**Notes to the financial statements (continued)****18. Commitments and contingencies**

The total commitment under non-cancellable plant and machinery operating leases is as follows:

	2018 £'000	2017 £'000
Leases expiring:		
Within one year	15,975	14,600
In two to five years	193	806
	<u>16,168</u>	<u>15,406</u>

On 17 February 2017, certain entities in the Group were served with legal proceedings by the broker engaged in the committed purchase of Spirit of Discovery. The claimant has brought a claim alleging that these Saga companies are liable to pay commission on the first ship, plus interest and legal costs and, separately, commission on Spirit of Adventure now that the option has been exercised. The amount of the claim is up to €7 million. A trial date of 9 – 13 July 2018 has been set and Saga is contesting the claim.

It is too early in the litigation process to evaluate Saga's position on liability and quantum. As such, no amounts have been provided for this in the financial statements. Furthermore, in the event the claim is successful, the commission will be capitalised as part of assets in the course of construction within property, plant and equipment.

19. Called up share capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid		
7,000,000 ordinary shares of £1 each	7,000	7,000
	<u>7,000</u>	<u>7,000</u>

20. Capital contribution reserve

The capital contribution reserve is in respect of contributions from the ultimate parent company, Saga plc, in relation to share-based awards made by it to the Company's employees. Further information can be found in note 29 of the financial statements of Saga Plc.

SAGA CRUISES LIMITED

Notes to the financial statements (continued)

21. Share-based payments

Saga plc, the ultimate parent of the Saga group, uses equity-settled share plans to grant options and shares to the Company's Directors and employees. Equity-settled share-based payments issued to the Company's employees are measured at fair value and that this value is expensed over the vesting period.

Share options are granted under the Saga plc Long-Term Incentive Plan (LTIP).

The LTIP is a discretionary executive share plan. Under the LTIP, the Saga plc Board may, within certain limits and subject to applicable performance conditions, grant options over shares in Saga plc. These options have a non-market vesting condition (50%) and a market vesting condition (50%). The fair value of the options has been calculated using a Black-Scholes valuation.

The table below summarises the movements in the number of share options outstanding for the employees of the Company and their weighted average exercise price:

	LTIP
Outstanding at 1 February 2017	342,810
Granted during the year	253,878
Forfeited during the year	(67,812)
Outstanding at 31 January 2018	<u>528,876</u>
Exercise price	<u>£nil</u>
Exercisable at 31 January 2018	<u>4,861</u>
Average remaining contractual life	<u>15 years</u>
Average fair value at grant	<u>£1.83</u>

Details of the information relevant in determining the fair value of options granted is available in the financial statements of Saga plc.

SAGA CRUISES LIMITED

Notes to the financial statements (continued)

22. Cross company guarantees

The Company, along with certain of its fellow group entities, will act as guarantor on bank loans to Saga Cruises V Limited and Saga Cruises VI Limited. These bank loans will amount to the Sterling Equivalent of €622.0 million.

23. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries in the Saga group of companies.

24. Ultimate parent undertaking

The financial statements of the Company have been consolidated in the group financial statements of ST&H Limited (the immediate parent undertaking) and Saga plc (the ultimate parent undertaking), both of which are registered in England and Wales.

A copy of the financial statements of Saga plc for the year ended 31 January 2018 may be obtained from the corporate website www.corporate.saga.co.uk or from the Company Secretary, Saga plc, Enbrook Park, Folkestone, Kent, CT20 3SE.

ST&H Limited is the parent company of the smallest group of which the Company is a member and for which group financial statements are prepared.

The Company is wholly owned by ST&H Limited.

25. Ultimate controlling party

The Directors consider the ultimate controlling party to be Saga plc.