

**SAGA SERVICES LIMITED**  
**DIRECTORS' REPORT AND ACCOUNTS**  
**31 JANUARY 2006**

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**Company Registration Number: 732602**

## **SAGA SERVICES LIMITED**

### **Directors' report**

<b>Directors:</b>	J A Goodsell	(Chief Executive)
	S D Ashton	
	T B Bull	
	S M Howard	
	A E Jardin	(appointed 5 September 2005)
	M Offord	(appointed 6 December 2005)
	A J P Strong	

**Secretary:** S M Howard

**Registered Office:** The Saga Building, Enbrook Park, Folkestone, Kent CT20 3SE

The Directors submit their report together with the audited accounts for the year ended 31 January 2006.

### **Principal activities**

The Company's principal activity is the provision of insurance and financial services to people aged fifty and over. The Company has completed a very satisfactory year during which significant resources were invested in strengthening Saga's position as a key player in its chosen market. This process will continue during the course of the coming year leading to further strengthening of the Company's market position.

The Company is regulated by the Financial Services Authority.

### **Results and dividends**

The profit before taxation for the year amounts to £116,528,000. After taxation, an amount of £81,590,000 has been transferred to reserves. No dividends have been paid during the year.

### **Directors**

The Directors of the Company during the year were those listed above and Michael Cutbill who resigned and left the Saga group of companies on 31 March 2005 and James Cameron who resigned on 10 January 2006 and transferred to another Saga group company.

**SAGA SERVICES LIMITED**  
**Directors' report continued**

**Directors' interests**

T B Bull, J A Goodsell and S M Howard are Directors of the ultimate parent undertaking, Saga Holdings Limited, and their interests are set out in the accounts of that company. The other Directors have the following interests in parent undertakings:-

	Ordinary Shares of 1p each		Loan notes	
	2006 No.	2005 No.	2006 £	2005 £
S D Ashton	9,549	9,549	42,852	36,489
A J P Strong	9,613	9,613	58,652	49,943
A E Jardin	4,000	-	-	-

The ordinary share capital interests relate to the ultimate parent undertaking. The loan note interests relate to the penultimate parent undertaking, Saga 200 Limited.

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

**Employee involvement**

During the year the Company has maintained the practice of keeping employees informed about current activities and progress by various methods including a regular staff newsletter. Employee participation and involvement is encouraged.

**Employment of disabled persons**

It is the policy of the Company to develop a working environment and to offer terms and conditions of service to provide disabled persons, with the appropriate skills and qualifications, equal opportunities to seek and maintain employment with the Company. It is the Company's policy to retain in employment, whenever practicable, employees who become disabled and give all such employees equal consideration for training and career development to enable them to fulfil their promotion potential.

**Auditors**

Ernst & Young LLP have expressed their willingness to continue in office as auditors.

**SAGA SERVICES LIMITED**  
**Directors' report continued**

**Statement of directors' responsibilities**

The Directors are required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for the year.

The Directors confirm that the accounting policies are appropriate to the Company's business and have been applied consistently. In preparing the accounts for the year, the Directors have made reasonable and prudent judgements, have ensured that applicable accounting standards have been followed, and confirm that it is appropriate to prepare the accounts on a going concern basis.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

The Saga Building  
Enbrook Park  
Folkestone  
Kent  
CT20 3SE



S M Howard  
Secretary  
2006

31st May

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SAGA SERVICES LIMITED**

We have audited the Company's financial statements for the year ended 31 January 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

### **Respective responsibilities of directors and auditors**

The Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

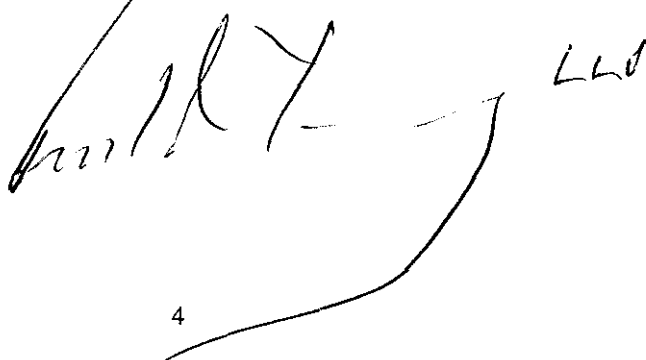
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 January 2006 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP  
Registered Auditor  
London  
31 May 2006



Handwritten signature and initials, including 'LLD'.

**SAGA SERVICES LIMITED****Profit and loss account for the year ended 31 January 2006**

	Note	2006 £'000	2005 £'000
Turnover		172,452	162,481
Exceptional item	4	21,144	-
<b>Turnover - total</b>	2	193,596	162,481
Other operating income	3	1,036	5,550
Staff costs	7	(29,134)	(25,468)
Depreciation of fixed assets	4	(774)	(413)
Other operating charges		(48,184)	(45,673)
<b>Operating profit</b>	4	116,540	96,477
Interest payable and similar charges	5	(12)	(100)
<b>Profit on ordinary activities before taxation</b>		116,528	96,377
Taxation	9	(34,938)	(28,965)
<b>Profit on ordinary activities after taxation</b>	19	81,590	67,412

There were no recognised gains or losses other than the amounts included above.

**Reconciliation of movements in shareholders' funds**

	Note	2006 £'000	2005 £'000
Total recognised gains and losses relating to the year		81,590	67,412
Dividends paid	10	-	(58,500)
Net movement in shareholders' funds		81,590	8,912
Shareholders' funds brought forward		39,603	30,691
Shareholders' funds carried forward		121,193	39,603

**SAGA SERVICES LIMITED**  
**Balance sheet as at 31 January 2006**

	Note	2006 £'000	2005 £'000
<b>Fixed assets</b>			
Tangible assets	11	2,199	1,293
		<u>2,199</u>	<u>1,293</u>
<b>Current assets</b>			
Stocks	12	571	332
Debtors	13	234,525	158,093
Cash on deposit	14	22,279	21,839
Cash at bank and in hand		8,325	7,585
		<u>265,700</u>	<u>187,849</u>
<b>Creditors – amounts falling due within one year</b>	15	(144,515)	(147,564)
<b>Net current assets</b>		<u>121,185</u>	<u>40,285</u>
<b>Total assets less current liabilities</b>		123,384	41,578
<b>Provisions for liabilities and charges</b>	17	(2,191)	(1,975)
<b>Net assets</b>		<u>121,193</u>	<u>39,603</u>
<b>Capital and reserves</b>			
Called up share capital	18	2,100	2,100
Profit and loss account	19	119,093	37,503
<b>Equity shareholders' funds</b>		<u>121,193</u>	<u>39,603</u>

J A Goodsell )

Directors

S M Howard )

31<sup>st</sup> May 2006

# **SAGA SERVICES LIMITED**

## **Notes to the accounts**

### **1. Accounting policies**

#### **a) Accounting convention**

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards as defined in Companies Act 1985 s.256.

#### **b) Turnover**

Commission income from third party insurers is recognised at the commencement of the period of risk. Additional commission from these insurers may be earned dependent upon the underwriting results of the business insured. This income is recognised when the results of this business can be determined reasonably. Income received in advance relating to long term commercial agreements is recognised when the Company has performed its contractual obligations.

Amounts charged to customers as interest under the Consumer Credit Act 1974 are earned over the term of the related instalment payment plans.

#### **c) Tangible fixed assets**

Tangible fixed assets are stated at cost less amounts written off. The cost of fixed assets less their expected residual value is depreciated by equal instalments over their useful economic lives. These lives are as follows:

Computer hardware	3 years
Computer software	3 years

#### **d) Operating leases**

Rentals in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

#### **e) Advance receipts**

Insurance premiums received which relate to insurance policies incepting after the year end are treated as receipts in advance at the balance sheet date and are separately disclosed within creditors.

#### **f) Stocks**

Stocks of paper consumables and marketing literature are valued at the lower of cost and net realisable value.

#### **g) Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that the Directors consider it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

#### **h) Pension benefits**

Annual contributions are made to the UK defined benefit pension scheme on the advice of actuaries for funding of retirement benefits in order to build up reserves for participating employees during the employee's working life to pay to the employee or dependent a pension after retirement. The costs of providing these benefits are charged to the profit and loss account on a regular basis. The company also operates a UK defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.



# SAGA SERVICES LIMITED

## Notes to the accounts

### 1. Accounting policies continued

#### i) Cash flow statement

The Directors have taken advantage of the exemption available under FRS 1 of the requirement to prepare a cash flow statement as a consolidated cash flow statement has been presented in the financial statements of the ultimate parent undertaking, Saga Holdings Limited.

### 2. Turnover

Turnover, which all relates to continuing business, primarily comprises initial and renewal commissions receivable from insurers and other institutions together with additional commissions that are linked to underwriting results. Turnover is stated net of value added tax. All business is carried out in the UK.

3. Other operating income	2006	2005
	£'000	£'000
Interest on deposits	1,031	1,193
Inter-company interest earned	-	4,332
Other interest receivable	5	25
	<u>1,036</u>	<u>5,550</u>

4. Operating profit	2006	2005
This is stated after charging/(crediting):	£'000	£'000
Depreciation of tangible fixed assets	774	413
Hire of plant & machinery	510	299
Auditors' remuneration - for audit services	155	150
Auditors' remuneration - for non-audit services	28	70
Exceptional item - turnover (profit share)	<u>(21,144)</u>	<u>-</u>

The exceptional item relates to a final profit share of £21,144,000 due from Groupama in relation to the run off of its motor insurance book for three years to 31 December 2004.

5. Interest payable and similar charges	2006	2005
	£'000	£'000
Other interest payable	<u>12</u>	<u>100</u>
	<u>12</u>	<u>100</u>

**SAGA SERVICES LIMITED**  
**Notes to the accounts**

<b>6. Directors' emoluments</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Emoluments	<u>524</u>	<u>8,806</u>
	<b>2006</b>	<b>2005</b>
Members of defined benefit pension scheme:	<u>7</u>	<u>6</u>

J A Goodsell, T B Bull and S M Howard are also Directors of the ultimate parent company, Saga Holdings Limited, and fellow subsidiaries. The remuneration received by J A Goodsell, T B Bull, J D Cameron and S M Howard was paid by Saga Group Limited, the immediate parent undertaking. Details of their remuneration can be found in the accounts of that company. The Directors do not believe that it is practicable to apportion the remuneration of J A Goodsell, T B Bull and S M Howard between their services as Directors of the ultimate parent company and fellow subsidiaries. Accordingly, the aggregate emoluments above exclude these Directors.

S D Ashton, A J P Strong and A E Jardin are, and J D Cameron and M A Cutbill were also Directors of the fellow subsidiary, Saga Investment Direct Limited. With the exception of J D Cameron, the remuneration received by these Directors was paid by the Company. The Directors do not believe that it is practicable to apportion the remuneration of these directors between their services as Director of the Company and Saga Investment Direct Limited.

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

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Emoluments	<u>223</u>	<u>6,207</u>
	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Defined benefit pension scheme:		
Accrued pension at end of year	<u>7</u>	<u>41</u>

**SAGA SERVICES LIMITED**  
**Notes to the accounts continued**

<b>7. Staff costs</b>	<b>2006</b>	<b>2005</b>
	£'000	£'000
Wages and salaries	23,051	22,014
Social security costs	1,979	1,903
Other pension costs	4,104	1,551
	<u>29,134</u>	<u>25,468</u>
 The monthly average number of employees during the year was as follows:-	 2006 No.	 2005 No.
Sales & marketing	455	431
Operations	627	537
Administration and management	109	113
	<u>1,191</u>	<u>1,081</u>

**8. Pension benefits**

The Company is a member of the Saga Group Pension and Life Assurance Scheme which has defined benefit and defined contribution sections.

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 is accounting for its pension expense on a defined contribution basis in accordance with paragraph 9 of FRS 17. The FRS17 deficit (gross of deferred taxation) of the Scheme at 31 January 2006 was £15.2 million (2005 - £23.0 million).

Further details of the Scheme can be found in the accounts of Saga Holdings Limited.

**9. Tax on profit on ordinary activities**

	<b>2006</b>	<b>2005</b>
	£'000	£'000
UK corporation tax – current year	35,507	28,664
Adjustments relating to prior years	(2)	110
Deferred tax – current year	(567)	191
	<u>34,938</u>	<u>28,965</u>
 Reconciliation of Current Tax Charge:-	 2006 £'000	 2005 £'000
Pre-Tax profits at 30%	34,958	28,913
Capital allowances in excess of depreciation	(111)	(190)
Permanent differences	(18)	50
Other items	-	(108)
Other timing differences	678	(1)
	<u>35,507</u>	<u>28,664</u>

The tax charge relating to the exceptional item amounts to £6,343,000 (2005 - £nil).

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

**SAGA SERVICES LIMITED**  
**Notes to the accounts continued**

**10. Dividends**

In the year ended 31 January 2005 a dividend of £27.857 per share was paid at a total cost of £58,500,000. No dividend has been paid during the year ended 31 January 2006. On 31 March 2006 a dividend of £27.857 per share was paid at a total cost of £58,500,000.

**11. Tangible fixed assets**

	Computers & other equipment £'000
<b>Cost</b>	
At 1 February 2005	3,884
Additions	1,680
At 31 January 2006	<u>5,564</u>
<b>Depreciation</b>	
At 1 February 2005	2,591
Charge for year	774
At 31 January 2006	<u>3,365</u>
<b>Net book amounts</b>	
At 31 January 2006	<u>2,199</u>
At 31 January 2005	<u>1,293</u>

**12. Stocks**

	2006 £'000	2005 £'000
Paper consumables & marketing literature	<u>571</u>	<u>332</u>
	<u>571</u>	<u>332</u>

**13. Debtors**

	2006 £'000	2005 £'000
Trade debtors	113,763	87,746
Amount owed by parent undertaking	117,653	68,598
Prepayments and accrued income	956	589
Corporation tax recoverable	451	-
Other tax and social security	106	131
Deferred taxation	1,596	1,029
	<u>234,525</u>	<u>158,093</u>

Deferred taxation comprises short-term timing differences of £925,000 (2005 - £247,000) and an excess of depreciation over capital allowances of £671,000 (2005 - £782,000).

**SAGA SERVICES LIMITED**  
**Notes to the accounts continued**

**14. Cash on deposit**

	2006	2005
	£'000	£'000
Deposits with financial institutions	<u>22,279</u>	<u>21,839</u>

At 31 January 2005 and 31 January 2006, cash on deposit consisted of client monies, which are subject to regulatory restrictions, held in separate bank accounts. This amount and the matching liability are included in the balance sheet.

**15. Creditors**

- amounts falling due within one year

	2006	2005
	£'000	£'000
Bank overdraft	172	295
Advance receipts	3,327	2,757
Trade creditors	128,170	129,356
Corporation tax	27	3,398
Other creditors	347	1,169
Accruals and deferred income	12,472	10,589
	<u>144,515</u>	<u>147,564</u>

**16. Lease commitments**

The annual commitment under non-cancellable operating leases for plant & machinery is as follows:

	2006	2005
	£'000	£'000
Leases expiring:		
Within one year	107	95
Between two and five years	172	194
	<u>279</u>	<u>289</u>

**17. Provisions for liabilities and charges**

	Other Provisions £'000
Balance at 1 February 2005	1,975
Charge for the year	216
Balance at 31 January 2006	<u>2,191</u>

The other provisions relate to repayments that the Company may have to make as a result of mid-term cancellation of policies.

**SAGA SERVICES LIMITED**  
**Notes to the accounts continued**

<b>18. Called up share capital</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Authorised</b>		
2,100,000 ordinary shares of £1 each	<u>2,100</u>	<u>2,100</u>
<b>Allotted and fully paid</b>		
2,100,000 ordinary shares of £1 each	<u>2,100</u>	<u>2,100</u>
<b>19. Profit and loss account</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
At 1 February	37,503	28,591
Profit for the year	81,590	67,412
Dividends paid	-	(58,500)
At 31 January	<u>119,093</u>	<u>37,503</u>
<b>20. Cross Company Guarantees</b>		
The Company along with certain of its fellow subsidiaries acts as Obligor on bank loans made to Saga 300 Limited and Saga 400 Limited. At the balance sheet date the principal and accrued interest outstanding on these bank loans was £834.4 million (2005 - £930.0 million).		
<b>21. Related party transactions</b>		
The Company has taken advantage of the exemption afforded by FRS8 in not disclosing transactions with other entities in the Saga group of companies.		
<b>22. Ultimate parent undertaking</b>		
The accounts of the Company have been consolidated in the group accounts of Saga Holdings Limited (the ultimate parent undertaking), a company which is registered in England.		
<b>23. Ultimate controlling party</b>		
The ultimate controlling party is Charterhouse General Partners (VII) Limited.		