ADMIRAL GROUP plc

A year in focus

Annual Report 2004

Directors

Alastair Lyons CBE (Non-executive Chairman)
Henry Engelhardt (Chief Executive)
Andrew Probert (Finance and IT Director)
David Stevens (Chief Operating Officer)
Manfred Aldag (Non-executive director)
Martin Jackson (Non-executive director – appointed 19 August 2004)
Keith James OBE (Non-executive director)
John Sussens (Non-executive director – appointed 19 August 2004)

Resigning during 2004 (both 7 September):
Owen Clarke
Pratt Thompson

Company Secretary

Stuart Clarke

Registered Office

Capital Tower
Greyfriars Road
Cardiff CF10 3AZ

Auditor

KPMG Audit Plc
Marlborough House
Fitzalan Court
Cardiff CF24 0TE

Actuarial advisors

Ernst & Young
1 More Place
London SE1 2AF

Bankers

Lloyds TSB Bank Plc
City Office
Bailey Drive
Gillingham Business Park
Kent ME08 0LS

Bank of Scotland
Corporate Banking
55 Temple Row
Birmingham B2 LS

Joint Corporate Brokers

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ

Citigroup Financial Markets
UK Equity Limited
Citigroup Centre
33 Canada Square
London E14 5LB

Registrar

Capita IRG Plc
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Solicitor

Norton Rose
Kempson House
Camomile Street
London EC3A 7AN

Contents

Our brands

The Group's first brand, set up in 1993 – mainly targeting those who traditionally pay higher than average premiums, including drivers under-35 and those living in big cities. www.admiral.com

Bell was set up in 1997 – its main target market being drivers with zero or low no claims bonus. www.bell.co.uk

Confused.com is an intelligent, automated car insurance shopper. Customers input their details once, and receive quotes from major car insurance websites. www.confused.com

Diamond was created for women in response to a need in the market place for insurance specifically for young women drivers, which is not only good value, but also as hassle free as possible. www.diamond.co.uk

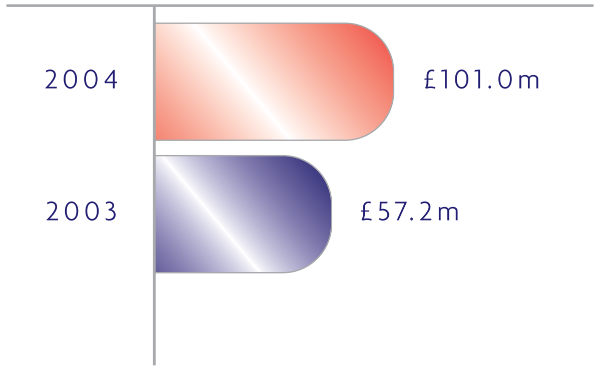
elephant.co.uk is the Group's main online car insurance service. Elephant passes on cost savings generated by being an online brand to customers in the form of lower premiums. www.elephant.co.uk

Gladiator Commercial is the Group's commercial vehicle insurance broker that was launched in April 1998. The company acts on behalf of several of the largest commercial vehicle insurers in the UK www.gladiator.com

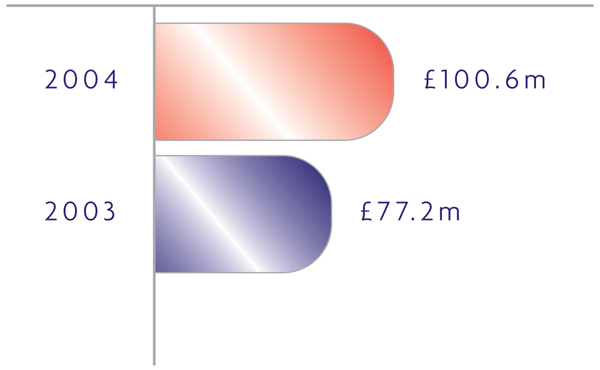
www.admiralgroup.co.uk

Financial highlights

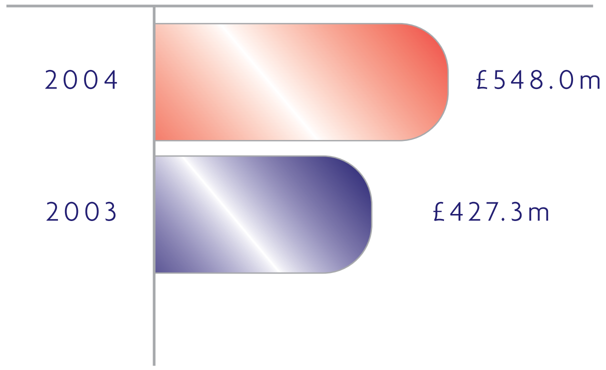
PROFIT BEFORE TAX



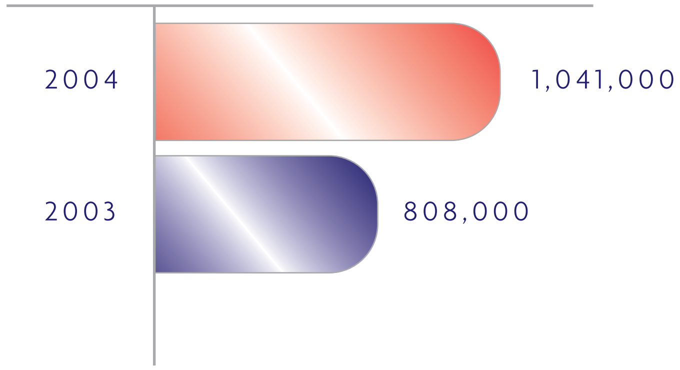
ADJUSTED GROUP CORE PROFITS[1]



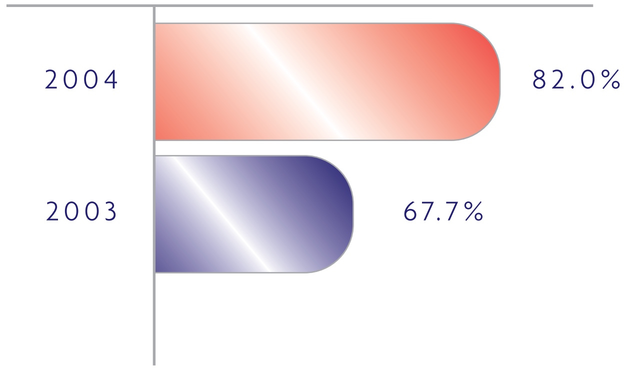
GROUP TURNOVER[2]



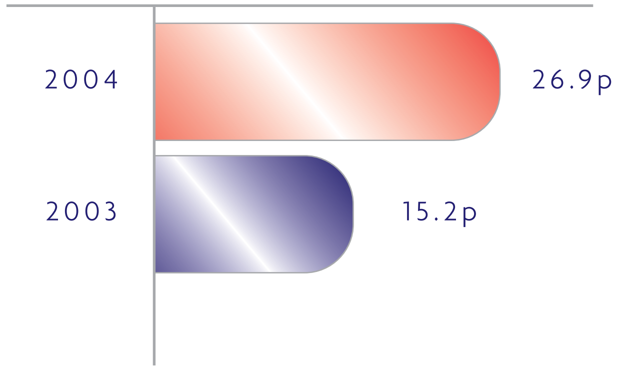
CLOSING ACTIVE CUSTOMERS



ADJUSTED COMBINED RATIOS[3]



ADJUSTED EARNINGS PER SHARE[4]



1. Refer to page 19 in the financial review

2. Group turnover includes *total premiums*, gross other income plus allocated investment return. *Total premiums* comprise gross motor insurance premiums written by the Group, before co-insurance and reinsurance

3. 2003 figure adjusted for non-recurring Lloyd's charges

4. 2004 EPS adjusted for exceptional tax credit on ESOT share award. Refer to note 20

CHAIRMAN'S STATEMENT

Chairman's statement

Alastair Lyons, Admiral Group plc Chairman

As one recent report on the ever changing role of the Chairman put it, the prime job of the Chairman is to run the Board, not the organisation: that is the job of the Chief Executive. It is for the Board, led by the Chairman, to ensure that the Company has strategies, quality of management, and all the resources – financial, human, technology – to create wealth on a consistent basis. At the same time, the Chairman has to ensure that the business is run with value and integrity, not only meeting governance codes but also the expectations of customers, employees, suppliers and wider stakeholders.

This is a remit that I am very happy to embrace as Chairman. I shall, therefore, leave it to Henry Engelhardt, our Chief Executive, to review in detail the achievements of the Group during an exceptional year and shall content myself with the headlines.

In every year since I became Chairman in 2000, following the Management Buy-out of Admiral backed by Barclays Private Equity, the Group has moved strongly forward, increasing both the value of business written and its profitability. During 2004 we have secured our 1 millionth customer, written £470m total premiums and achieved pre-tax profits of £101m, with an outstanding 82.0% combined ratio. The sustained growth in franchise and profitability that Admiral's distinctive business model has made possible underpinned the high point of 2004 – the Company's highly successful listing in a difficult market for new issues, valuing the business at £711m, some 12 years after it was first conceived by the senior executive team that leads it today.

"Our philosophy is to give people the opportunity to develop to their full potential."

It was hugely satisfying to follow this success by winning Business of the Year at the 2004 National Business Awards, a much deserved reflection of our listing positioning – "Admiral is different". To create that difference, Admiral combines commercial creativity, exemplified by its reinsurance structure, high ratio of ancillary sales, and multi-branding, with a distinctive culture of openness, informality, team work and delegation of responsibility made possible by excellent management information and effective control systems.

Our listing brought with it significant changes to our Board. Owen Clarke and Pratt Thompson, who respectively had represented the interests of Barclays Private Equity and XL, stepped down as non-executive directors. Our thanks to them for many years of active involvement and sound advice and support. In their place we have been joined by Martin Jackson and John Sussens. Martin brings a wealth of experience of financial management in the insurance sector, having, as Finance Director, taken Friends Provident through demutualisation. We are delighted to have him as Chairman of our Audit Committee. John's significant exposure to the quoted sector, having served for many years as Managing Director of Misys and now also as a non-executive director of Cookson, makes him well qualified to be our Senior Independent Director and Chairman of our Remuneration Committee. My thanks also to Manfred Aldag and Keith James for their continuing contributions during a year which made exceptional demands on our non-executives.

The combination of the different experiences and perspectives of our non-executives with the energy, clarity of purpose and depth of knowledge of our executive team gives me confidence in our Board's ability to chart an effective strategy for Admiral and identify correctly the resources we require to implement this strategy.

Admiral's strategy is clear and straightforward – to continue to grow our share of the direct private motor market, maximising the value derived from each customer relationship. Along the way we will identify profitable opportunities to exploit the knowledge, skills and resources attaching to our core business. As an example, Confused, the intelligent automated car insurance shopper that we set up in 2000, last year handled 1.4 million quotes.

"We are pleased to be able to propose a final dividend for 2004 of 9.3p per share."

Our continued successful development reflects not only the quality of our executive directors but also the strength in depth of Admiral's management and its whole team. Our philosophy is to give people the opportunity to develop to their full potential, and ongoing alignment of interest between staff and shareholders is one of our core principles. We were, therefore, delighted that so many of our staff – 1,418 out of a total of 1,616 – were able to participate in the distribution of shares on listing as a consequence of our Employee Share Ownership Trust (ESOT). As this ceased at listing we have established a replacement scheme under which all employees will receive a bi-annual grant of free shares subject to the achievement of challenging pre-determined performance criteria based on Group profitability. We have also established a senior executive share plan under which awards are determined according to growth in Group earnings per share.

The Group is well capitalised with a proven approach to reserving, and with solvency ratios in both the UK and Gibraltar, which carry an appropriate margin over minimum solvency statutory requirements. Our business model is strongly cash generative, with year-end non-regulated cash balances increasing from £30m to £50m. In addition relief for the cost of the ESOT distribution at listing created an abnormally low tax charge in the 2004 accounts which will reduce Admiral's tax payment in 2005.

Consistent with our principle of returning excess cash to our shareholders we are, therefore, pleased to be able to propose a two-part final dividend for 2004. The first element, representing 3.1 pence per share is based on a 45% pay-out ratio, the actual amount paid reflecting our listing part way through the financial year. The second special element of 6.2 pence per share reflects the abnormally low tax charge in 2004. We shall maintain a policy of reviewing our available free cash to determine whether or not the Company is able to pay further special dividends from time to time in addition to a consistent normal pay-out ratio.

In conclusion, I am very confident in Admiral's ability to pass the test of clarity of strategy, quality of management, and adequacy of resources to continue consistently to create value for all our shareholders.

Alastair Lyons
Chairman
18 March 2005

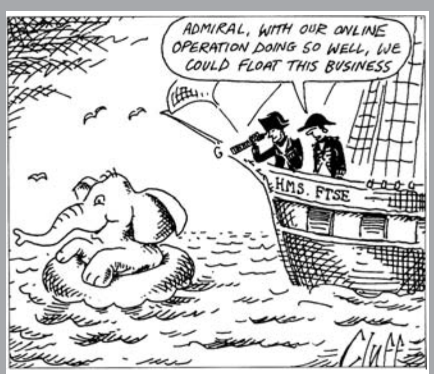
Admiral Group senior managers at the London Stock Exchange

Chief Executive's statement

Henry Engelhardt, CEO, with Andrew Probert, Finance Director and David Stevens, Chief Operating Officer at the London Stock Exchange

Have you ever had one of those days where everything seems to go right? You know, a day where there's hardly any traffic getting to the office and all the lights are green, a day where someone comes to your office for a meeting and brings you a really nice coffee, a day where the rain stops just when you come out of the building, a day where you tell the kids dinner's ready and they immediately turn off the telly and go to the table, a day where ... well, you get the picture: a day where everything seems to go spot on right?

Well, 2004 was that kind of year for the Admiral Group.



As you will see from reading these accounts, this was a smashing year for the Group. Smashing as in smashing records for things like: profit, premium income, expense ratio and more.

Clearly the highlight reel starts with our successful public offering and listing on the London Stock Exchange; changing our status from a private Company to a public Company.

What stands out for me is that a large number of investors who previously didn't know much (anything?) about us decided that ours was a Company worth buying a stake in. It was a highlight because everyone at Admiral (in particular, the finance and communications departments) pitched in and worked together to ensure that the process of going public was a smooth one. It was also a highlight because it was a validation of all the hard work we have put into our business over 12 years; becoming quoted was a tangible, cumulative measurement of our achievements. Admiral didn't just pop up in the summer of 2004 and decide to be a publicly quoted Company. Over 12 years a lot of people have put a lot of effort into making Admiral a great Company and the listing was another, albeit highly visible, tick in our scorecard of success.

So, let's get into the meaty bits. Let me try and list some of the other things that brought a smile to our faces in 2004:

- made a record core profit of £100.6m, up 30% from 2003
- core profit per share was 38.9p, up 30% from 29.9p in 2003
- total turnover for the year was £548m, up 28% from 2003
- premium income grew to £470m, up 27% from 2003
- produced a combined ratio of 82%
- gave more than 6.25m quotes, of which 5m started on the internet (82%)
- ended the year with more than 1,000,000 customers
- experienced continued improvement in loss ratios across all the back years
- crystallised the Staff Trust with a value of £57m upon listing
- won Business of the Year at the National Business Awards
- named by The Sunday Times as the 20th best place to work in the UK in its 'Top 100 Places To Work in the UK' competition. This listing is in its fifth year and we're one of only 11 firms to be in the list in all five years
- named by the Financial Times as the 16th Best Workplace in the UK and one of the Top 100 Workplaces in the EU
- winner of the Best small/mid cap IPO of the Year at the Financial News Awards
- had over 250 children at our Staff Children's Christmas party (up more than 25% on 2003)
- wow!

What We Do:

For those of you looking through our accounts for the first time, Admiral's primary business is to sell car insurance direct to the public in the UK. We are not your typical insurance underwriting operation as we primarily distribute insurance on behalf of reinsurance partners, taking only 25% of the underwriting risk for our own account. However, we do own all our customers and have the ability to sell other products and services to them.

We operate through a number of targeted brands: Admiral (younger drivers, London area), Diamond (women drivers), Elephant.co.uk (internet users) and Bell. We have two other brands, Gladiator Commercial, which operates as an intermediary in the commercial vehicle market, and Confused.com, which operates as an internet 'shopper' for car insurance.

2004 was our 12th year of trading. The first 7 were in a Lloyd's of London environment. However, toward the end of 1999 Management teamed up with Barclays Private Equity to buy the business. The result of this transaction was the creation of Admiral Group Ltd. (AGL) as the holding Company. In September of 2004 we listed the Company on the London Stock Exchange.

Admiral Group plc is named Business of the Year at the National Business Awards

This is our first set of accounts as Admiral Group plc, a public Company.

In 1999 we also put in place a long-term co-insurance agreement with Great Lakes UK, a wholly-owned subsidiary of Munich Re, the world's largest reinsurer. In 2001 we extended this agreement and it currently runs through at least 2008. In 2002 Munich Re also became a shareholder in AGL and it currently owns 14% of the Group.

Key Performance Information:

Our total premium written for 2004, before sharing premium with our reinsurance partners, was £470m, accounting for 86% of our total turnover. The number of customers we service rose to 1,041,000 from 808,000 (+29%). All our growth has been organic.

"There is the will to conquer, the impulse to fight, to prove oneself superior to others. There is the joy of creating, of getting things done, or simply exercising one's energy and ingenuity."

Joseph Shumpeter

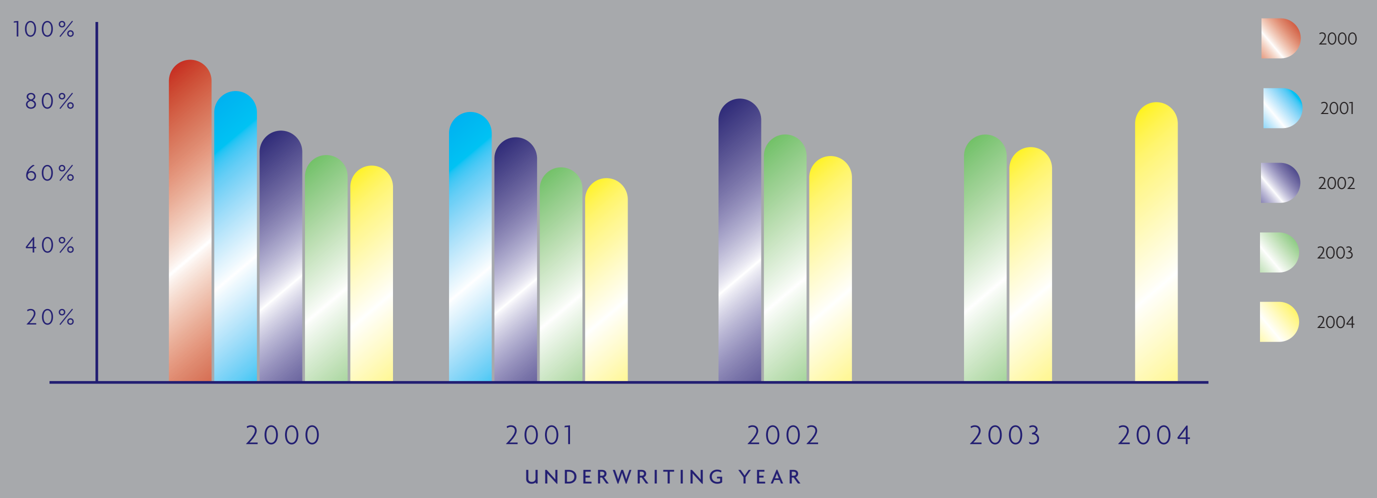
In 2004 75% of our premium was underwritten by two external reinsurers. Therefore, the Group's net premium written was £117m. In 2005 Admiral Group will once again take 25% of the premium income to its own account. Munich Re, through Great Lakes, will take 65%, Axis and Gen Re will each take 5% respectively.

Some key numbers from the accounts which follow:

- loss ratio 67% up from 52% in 2003
- earned expense ratio, less government levies, down to 12.5% from 13.5%
- combined ratio, including all levies, 82%, up from last year's phenomenal 67.7%
- income from products and services we do not underwrite totalled £69.5m up from £50.8m (+37%)

The movement in loss ratio from 52% last year to 67% in 2004 is to be expected. The 52% represented a year with a large percentage of releases from previous years. It is the reflection of the quality of those back year results which has been a catalyst to our explosive growth in 2004. It made sense to accelerate growth on the back of fantastic results. But such growth meant we had to sacrifice some margin. However, the 2004 loss ratio of 67% leaves plenty of margin and on a much larger base. This is a superb result and only pales when compared to 2003! The change in loss ratio across years is characterised by a slightly less good underlying trend, proportionally less substantial back-year releases and the aforementioned growth, in excess of 25%. Without any releases taken into account the loss ratio move was modest, from 72% to 75%.

DEVELOPMENT OF UNDERWRITING YEAR LOSS RATIOS (%)



The bar chart above shows the development of the loss ratios for the back years on an underwriting year basis. The years noted at the bottom of the chart are the underwriting years. The coloured bars represent the reported loss ratios published in the Annual Accounts over the last five years. So, for example, in the 2003 Accounts the loss ratio for the 2001 underwriting year was 63%, down from 71% in the previous year's accounts.

The expense ratio, not including government levies, moved downwards by 1.0% from 2003, a reduction of 7%. This reflects our continued efficiency improvements. However, do not expect swingeing cuts in the expense ratio going forward. It is one of our strengths that we use our efficiency to help our underwriting selectivity. Because we are efficient, particularly in generating quotes, we can afford to convert fewer quotes into business. In this way we are helping ensure that we only take the right risks at the right prices. The end result is a better combined ratio. If we concentrated on reducing the expense ratio it may turn out to be a false economy, as it might come at the expense of the loss ratio through reduced selectivity. So, for instance, we could cut the marketing budget and do fewer quotes, but then we'd need to convert more of them to hit target. To convert more quotes we'd have to be less selective. Clearly, the more selective we can be the better our loss ratio should be. As we've already said publicly, we intend to reduce our growth rate in 2005 through the use of selective price increases.

Ancillary income moved forward largely due to the increased customer count. To put this income into context, I've done a little calculation where the ancillary income is added to earned premium to give a 'big picture' combined ratio. I think this gives an interesting measure of the entire business. Expressed in this way, the combined ratio would have been 59%! Here's another interesting calculation: we made £101m on income of £195m, a ratio of 52%.

The UK Car Insurance Market Cycle: Drive Carefully

Last year I said that the car insurance market was turning, albeit slowly. I explained that premiums would not keep up with claims inflation in 2004. And this is, indeed, what has happened. On average, rates probably fell by 2-4% across the market, while claims costs continued to rise faster than inflation at 4-6%. Therefore, when all the results are tallied, the market should show deterioration of several points.

The private car market finished 2003 with a combined ratio around 102%. The result for 2004 is unlikely to be better than 104%. In previous cycles, the worst point in one cycle is typically seven years from the worst point in the next cycle. 1991 was the worst year of that cycle and seven years later 1998 was the worst year of the next cycle. In both 1991 and 1998 combined ratios were around 120%. We are now seven years on from 1998 and the market's combined ratio is nowhere near 120%. To my mind, this indicates the rise of a new cyclical pattern. I think this pattern will be characterised by being more gentle, less good in the good times and correspondingly less bad in the bad times. The reasons for this new pattern lie in the changing dynamics of the market. There are three key factors which have provoked such change:

- consolidation
- reduced investment returns
- the growth of direct writers

Market consolidation has meant that where previously it took some 10 firms to account for 50% market share, this figure is now accounted for by two firms (Royal Bank of Scotland and Aviva). As these two firms have a great deal to lose from large rate reductions and they are both under the watchful eye of the public arena, I believe that their large market share is a force for market stability.

The loss of large investment returns from the halcyon days of the 90s also puts more pressure on the insurance result, which in turn should provide more stability to the market.

The growth of direct writing which, I estimate, now accounts for more than 50% of the market, means quicker response times to changes in market pricing. In the past, changes in rates by competitors weren't visible to underwriters for several months and then couldn't be responded to for several months. I believe that this led to over-corrections in anticipation of continued trends. Now, direct writers see very quickly through their daily conversion data what the market as a whole is doing and individual firms can react by changing rates from one day to the next. I believe that this leads to a greater number of smaller corrections and serves to further reduce the volatility in the market.

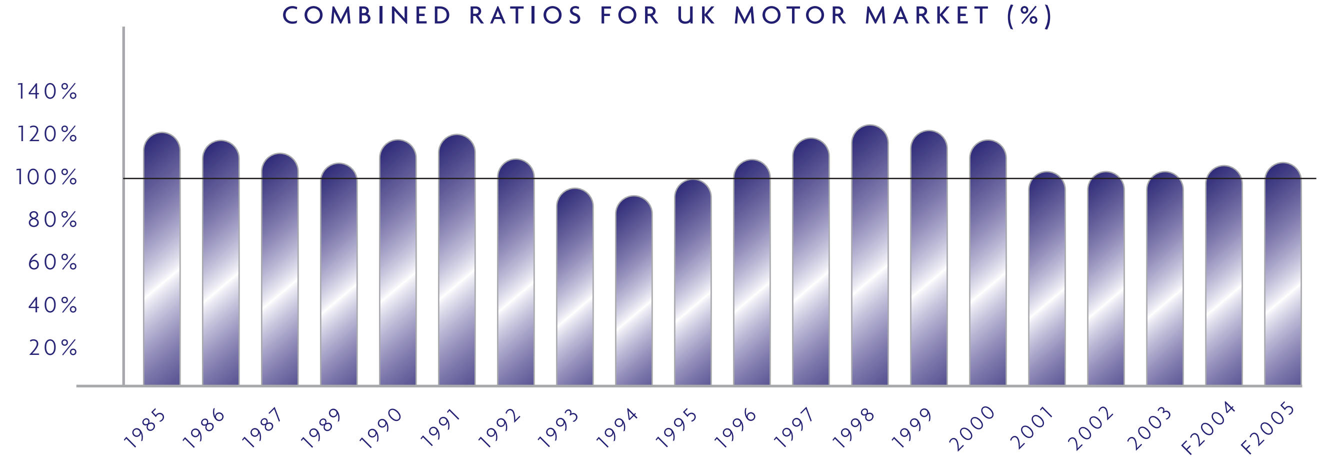
In short, I believe that the market is still cyclical and there is no reason to think that it won't remain so. However, I believe the movements of the market will be less severe, with the best times of the cycle less good than previous cycles and the worst times of the cycle less bad.

That's the long-range outlook for the market. Looking at the next 12 months, the good times the market has enjoyed over the last few years have resulted in more firms looking for greater market share. I believe that if you could add up the policy numbers from all the business plans of all the firms in the market you would account for more policies than actually exist. At the moment, the battle for market share is being waged in the media. As consumers can probably testify to, there does not seem to be a corner of the UK that doesn't seem to be submerged in car insurance advertising. The respective marketing coffers of companies in the market have been swollen and the result is a record spend, around £100m on TV and in the press alone in 2004. This figure is some 40% higher than the same figure in 2003. This increase partly ties into the share growth of direct operations, who use advertising to get custom rather than using intermediaries. But it is also a reflection of appetite for business.

I don't see a great deal of change to this landscape in 2005. Certainly the first half of the year will be characterised by intense marketing spend. When some companies begin to fall short of their respective targets (they can't all hit target!), while, simultaneously, the deterioration of results from previous years begins to filter through, it will result in two reactions: some firms will cut rates to ensure hitting volume targets, despite the offsetting reduction in margins, while others will reduce their targets to more achievable levels, while maintaining margins. On balance I believe rates will be static during the year.

Our own business is somewhat insulated from this deterioration by two factors. First, our results historically have been far better than the market average and therefore, despite tighter margins our result is still rather profitable. Second, our unique underwriting structure means we have a limited share of our own result, which reduces profits in the good times, but also reduces the effect of narrowing margins in the less good times. And, as we continue to grow our customer base, we continue to grow our ancillary revenues. All in all it should result in sustainable, profitable growth going forward.

COMBINED RATIOS FOR UK MOTOR MARKET (%)



Source: 1985 to 1997 Merrill Lynch Research analysis of DTI returns; 1998 to 2003 EMB analysis of Thesys data on FSA returns; 2004 & 2005 Deloitte

A Brief Explanation of Why Our Results Are So Good!

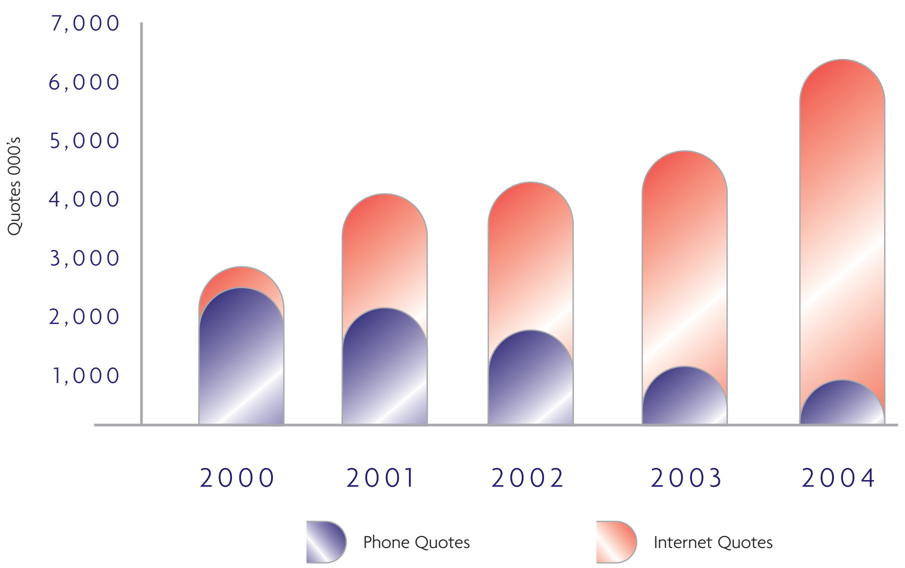
Some explanation of our excellent numbers lies with our ability to make the internet work. This is also a source of confidence in our future. Our 2004 internet results exceeded our forecasts and, in the absolute, are quite stunning. (Except for changing the year from 2003 to 2004 this was exactly what I wrote last year. It's not that I'm being lazy, it's just that it's still true!) Of the more than 6.2m quotes we did last year 82% started on the internet. Around 71% of all our sales came from these internet quotes. I believe that there is still growth to be had in internet distribution, albeit probably less rampant than before. As we are among the leaders in the internet delivery of car insurance we are well placed for continued success through this channel in the coming years. (In 2004 we had some 1 billion hits to our websites!)

Elephant's end-of-year customer count reached 360,000 (up over 75% from the year before). Elephant quote volumes were up from 2.0m in 2003 to 2.5m in 2004. Elephant is now the biggest brand in the Group. A tremendous achievement considering it launched only in August 2000. The other brands all grew the number of customers they service in 2004 as well, Diamond by 18%, Admiral by 11% and Bell by 4%.

Beyond Direct Response Car Insurance:

It was also yet another good year for Gladiator Commercial. Gladiator sells van insurance, largely to private tradesmen, as an intermediary. Admiral Group does not take any underwriting risk with this business. At the end of 2004 Gladiator's customer count stood at 33,000 and it contributed £1.8m to the Group's bottom line.

QUOTE VOLUMES SPLIT BY PHONE AND INTERNET



CUSTOMERS BY BRAND
31 DECEMBER 2004

2004 was a huge growth year for Confused.com. Confused.com is an intelligent, automated car insurance shopper. Simply put, all a customer has to do is put his or her details into Confused.com and Confused then goes out to the major car insurance websites, populates the appropriate fields, and brings the customer back a list of prices. One-stop shopping! Confused goes out to direct operations as well as intermediary sites. It generated over 1.37m quotes up from 590k in 2003. A great deal of Confused's growth is coming from word of mouth, the most powerful form of advertising. We fully expect Confused to grow substantially in 2005. Inspop.com Ltd, the trading Company which owns Confused.com, made a profit in 2004 of £2.1m, most of which is down to Confused. This compares to a profit of £300k last year.

CHIEF EXECUTIVE'S STATEMENT

Structural Changes:

In September 2004 we took the Company public on the London Stock Exchange. In spite of a difficult market for new offerings, the Admiral listing went well. We priced just above the middle of the range and the offer was more than 10 times oversubscribed. By the end of the year the share price had risen from the listing price of £2.75 to £3.23.

We did not take on any additional debt in the year. We did pay down the anticipated portion of our existing debt and the appropriate amount of interest (£4m). As at year-end our debt figure was £33m. To put this in context, interest cover was 42 times for 2004. (This means profits were 42 times the interest payable!)

2004 – Please Put It In An Aerosol Spray Can For Future Use

All in all it was a brilliant year. From the facts and figures at hand we still believe we are the most efficient and, pound for pound, the most profitable firm in the UK motor insurance market. Our goal is to continue to write the above sentence for the annual accounts year after year after year.

It's been a great year beyond the results too. Shortly after we did the Management Buyout (MBO) in 1999 we set up the Staff Trust. When the firm went public in September the value of this Trust was £57m. Over 1,400 members of staff shared in the value of this Trust. The amount each member of staff received was greatly influenced by how loyal they'd been to the Group.

The best day of my working life was the day after the listing when my fellow executive directors and I walked through our offices congratulating staff on their success. Staff were not only pleased because of the financial gain they were about to realise but, what impressed me most, was the fierce pride they showed in the Group and its success. All our staff have played a key part in the success of the business and the listing publicly recognised them for such. The staff were very grateful to management for going out of its way to include them in the financial side of the Group's success. In return management was very grateful to the staff for making Admiral such a success. As I said, it was a very special day, one I will never forget.

"All our staff have played a key part in the success of the business."

There were a number of firms and many individuals who helped make the listing a success. However, given my limited page count, I only have room to carve one individual from the pack. I'd like to say a personal thanks to Andrew Sibbald of Lexicon Partners. Andrew was key to this achievement, not only for the good advice he gave (note: he didn't really 'give' it, we did pay him!) but really for instilling in us the belief that the stock market would be open for a good Company with a good business and that we were such a Company.

As Alastair has noted, the makeup of our Board has changed. In particular two non-executive directors have stepped down, Pratt Thomson and Owen Clarke. We wish both gentlemen well and thank them for their respective contributions over the years. In particular, I'd like to thank Owen, who was the driving force behind Barclays Private Equity's investment in Admiral in 1999. Again, here was an individual who believed in our potential. Over the course of the last five years I've come to know Owen quite well and learned a number of things from him, most notably a) the art of stepping back to weigh alternatives, b) how to better blend rational thought with emotion and c) that you actually can trust a venture capitalist! I am sorry to lose him from our Board but certainly wish him continued success for the future. I'd also like to welcome Martin Jackson and John Sussens to the Board. I'm sure I have a lot to learn from both of these experienced (but still young!) businessmen.

Last, but in no way least, I'd like to thank Alastair for all his efforts and guidance in what was a very challenging year, and Manfred and Keith, our other non-executive directors for all their commitment to our business. I'd also like to say a special thanks to my fellow executive directors, David Stevens and Andrew Probert. We've come a long way together and as a team we only seem to get stronger with time. Finally, a thanks to all our brilliant senior managers for, as per usual, stepping in while we did that float thing and making the business sing.

Henry Engelhardt
Chief Executive Officer
18 March 2005

Financial review

Key financial highlights

Profit before tax increased significantly during 2004, up from £57.2m to £101.0m.

The Group also achieved significant core profit growth – of over 30% during 2004, as shown in the table below.

The directors use core profit as an effective assessment of the underlying profitability of the Group. This measure can be split into the three key elements of the Group's business model – 1) underwriting profits, 2) profit commissions and 3) net other income (in particular ancillary income).

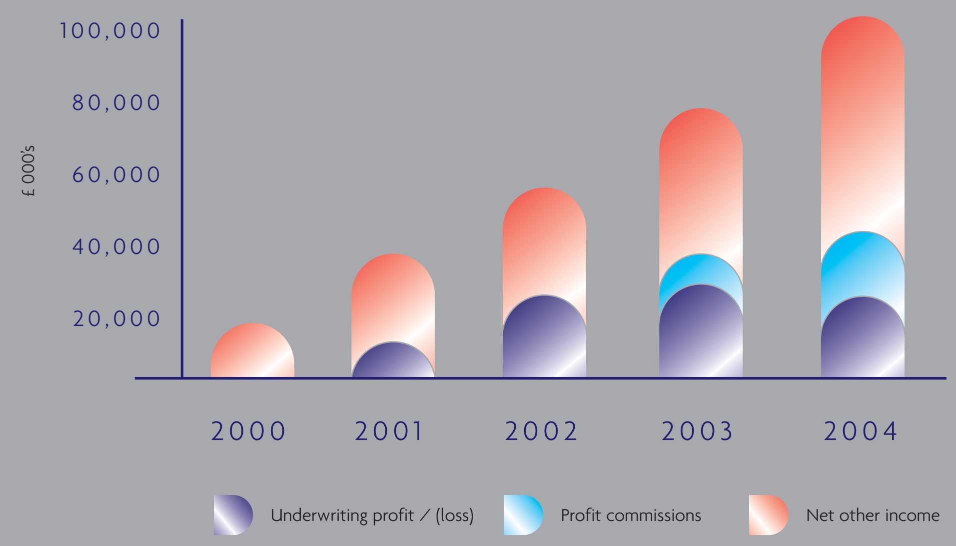
Analysis of core profit

	2004 £000	2003 £000
Underwriting profit	27,969	31,048
Profit commissions	21,673	1,447
Net other income	56,916	38,701
Unadjusted total	106,558	71,196
Profit commission adjustment[1]	(5,994)	5,994
Adjusted Group core profit	**100,564**	**77,190**

(1) During 2004 £5,994,000 of profit commission relating to the 2003 financial year became recognisable in accordance with the Group's accounting policy for such commissions and is, therefore, included in the 2004 results in the statutory accounts. The directors believe this amount should be reallocated back to 2003 for the purposes of comparing 2004 against 2003.

2004's core profit of £100.6m (a reconciliation to which is set out later in this section on page 19), equates to a growth rate of over 30% on 2003, and compounded annual growth of almost 51% since 2000 – the first year in which consolidated accounts were drawn up for the Group.

CORE PROFIT GROWTH



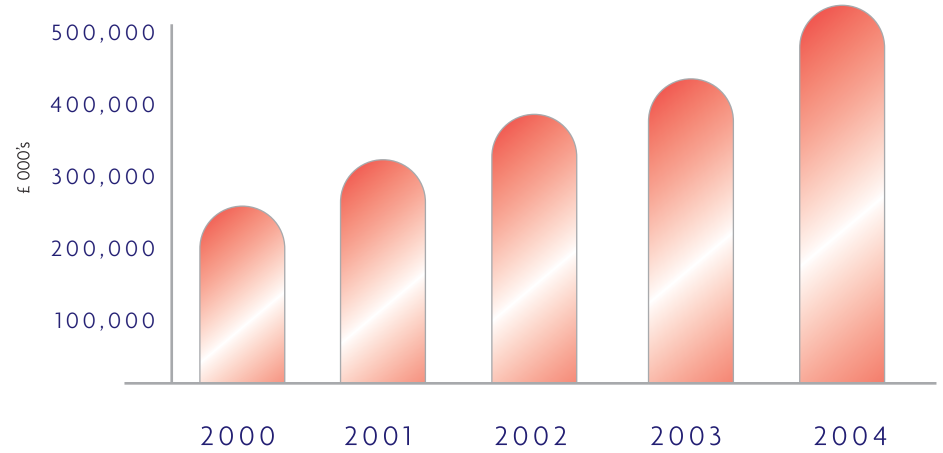
A further measure used by the directors to assess the growth in the size of the business is 'Group turnover' – which includes total premiums written, gross other income and net investment return, all as reported on the face of the profit and loss account. The Group has also achieved substantial growth in this measure, as shown below:

Analysis of group turnover

	2004 £000	2003 £000
Total premium	470,400	371,600
Gross other income	69,457	50,783
Net investment return	8,135	4,881
Group turnover	**547,992**	**427,264**

Turnover has increased by 28% in 2004 with compounded growth over the five years of over 20%.

GROUP TURNOVER



As noted, the Group generates profits from three principal sources:

- the share of the motor insurance business it retains and underwrites itself
- profit commission earned from the Group's co-insurance and reinsurance partners
- intermediary activities – primarily the selling of ancillary motor products, but also from Gladiator Commercial and Confused.com

The hybrid nature of the business significantly reduces the volatility of earnings inherent in motor insurance and has some important advantages. Firstly, the Group currently only underwrites 25% of the motor insurance it sells. The Group therefore, materially limits its downside exposure, whilst retaining the potential, through the profit commission arrangements in place, to generate potentially significant income from the other 75% of the business depending upon the underwriting results achieved.

The second key advantage comes from retaining ownership of the entire customer base. This means the Group is able to generate substantial non-insurance income from all policyholders.

Underwriting

Underwriting structure

The underwriting arrangements in place for 2004 were unchanged on the previous year. 65% of the total business was underwritten by Great Lakes Reinsurance (UK) Plc (Great Lakes – a UK subsidiary of Munich Re currently rated A+ by A M Best) under a co-insurance arrangement. (This is in contrast to a reinsurance contract and means Great Lakes is the primary risk carrier on this portion of the book.)

The remaining 35% is underwritten through two Admiral Group entities – Admiral Insurance Company Limited (AICL) and Admiral Insurance (Gibraltar) Limited (AIGL), both of which commenced trading in 2003. 10% of the total business was reinsured to Converium Re (Converium) under a proportional quota share contract through AIGL (as in 2003) on a funds withheld basis. The net effect of this is that the Group retained a net share of 25% of the total book.

The quota share contract with Converium was terminated at the end of 2004 and has been replaced with two new contracts (each for 5% of the total book) – with Gen Re (part of the Berkshire Hathaway Group and rated AAA by Standard & Poors) and Axis Re (rated A by Standard & Poors).

As well as proportional reinsurance, the Group has also arranged an excess of loss reinsurance programme with a number of reinsurers to protect itself (along with its co-insurance and reinsurance partners) against very large claims.

For the 2000 to 2002 underwriting years, the Group's retained share of the motor business was underwritten through the Group's Syndicate (Syndicate 2004) at Lloyd's of London. The Group is currently managing the run-off of Syndicate 2004, and the last year of account (2002) remained open at the end of 2004. A decision is to be made during 2005 as to the closure of the 2002 year, and the release of any remaining capital held at Lloyd's.

Underwriting results

In 2004, the Group has again generated significant underwriting profits, reflecting both superior loss and expense ratios. The aggregate of these – the combined ratio – is again expected to rank highly in the UK motor market and has led to an underwriting profit of £28.0m (before reinsurance profit commissions), compared to £31.0m in 2003. This decrease is due to a combination of the higher loss ratios experienced on the more recent underwriting years (a factor of the motor insurance cycle) and the higher level of reserve releases realised in 2003 following the favourable development of the earlier underwriting years.

Growth in total premium written was 27% in 2004, up from £371.6m to £470.4m. This was due to targeted increases in marketing spend, and the continuing, highly successful development of elephant.co.uk – the Group's internet-only brand. This growth generated an increase in the Group's market share, and an even more notable increase in its share of the internet motor market.

Premium rates were on average around 3% lower in 2004 than in 2003. This reduction was implemented as a strategy to take advantage of the Group's superior combined ratio to help achieve the substantial growth in both policies and premiums written while delivering attractive combined ratios, both for the Group and our reinsurers.

2004's loss ratio (excluding claims handling expenses – which are allocated to net claims incurred but are included in expenses for this analysis) is 67.0%, up from 52.1% in 2003. The 2003 ratio was flattered by substantial reserve releases (£16.1m) resulting from the favourable development of earlier underwriting years. The 2003 releases accounted for a reduction of over 20 points in the reported loss ratio, compared to £9.2m of releases, or an 8.5 point reduction in the loss ratio in 2004.

A full understanding of the impact of reserve releases on the Group's results is important. The table below sets out net reserve releases (by underwriting year) included in the financial statements since the 2001 financial year (no releases were included in the 2000 financial statements as this was the first year the Group underwrote premiums and prepared consolidated accounts):

Analysis of reserve releases

	2004 £000	2003 £000	2002 £000	2001 £000
Underwriting year				
2000	1,480	5,176	6,188	3,923
2001	2,967	7,938	2,490	-
2002	3,229	2,975	-	-
2003	1,513	-	-	-
Total net release	9,189	16,089	8,678	3,923
Net earned premium	107,501	79,327	81,336	84,135
Releases as % of premium	8.5%	20.3%	10.7%	4.7%

This pattern of releases reflects consistent downward revision of loss ratios across all underwriting years, in response to consistently favourable development of these years.

The Chief Executive's Statement refers to this development in some detail and presents a graph which sets out the development of the loss ratios by underwriting year over the past five years.

As regards expense ratios, the Group's direct distribution model, focussed on the internet and telesales, is highly cost effective – especially in terms of the cost of acquiring new business. Passing on a share of these costs to its co-insurance and reinsurance partners also means the Group is able to benefit from economies of scale.

Continued growth of internet sourced business has, along with tight control of costs within the Group, led to a further improvement in the expense ratio (including claims handling costs) to 15.0% in 2004, down from 15.6% in 2003. These ratios are derived as follows:

Adjusted expense ratio

	2004 £000	2003 £000
Net earned premium	107,501	79,327
Net operating expenses per technical account	13,796	10,308
add back: claims handling costs	2,352	2,230
deduct: non-recurring Lloyd's charges	-	(193)
Adjusted net technical expenses	16,148	12,345
Adjusted expense ratio	**15.0%**	**15.6%**

COMBINED RATIO DEVELOPMENT

The Group's adjusted combined ratio (being the aggregation of the loss and expense ratios above) for 2004 is 82.0%, compared to 67.7% in 2003. The increase is primarily due to the reserve releases in 2003 as discussed above. Once again it is expected that the combined ratio will rank the Group towards the top of the UK market.

Profit Commission

The Group receives profit commission through both its proportional co-insurance and reinsurance arrangements. The amount of commission receivable is dependent on the volume and profitability of the insurance business, measured by reference to loss and expense ratios.

Profit commission – Quota share reinsurance

For the 2003 and 2004 underwriting years, the Group earned profit commission from Converium, depending on the loss ratio returned on these underwriting years. During 2004, £3.1m of commission was recognised, compared to £1.2m in 2003. This contract is operated on a funds withheld basis.

The new quota share contracts that came into effect on 1 January 2005 have similar profit commission arrangements.

Profit commission – Co-insurance

The Group also receives profit commission from Great Lakes, based on the size and profitability of the business written. £16.7m of commission has been recognised in the 2004 results, although, as referred to in the financial highlights section above, £6.0m of this commission relates to premium earned in 2003.

A further £1.9m of profit commission was recognised during 2004 (£0.3m in 2003) under co-insurance arrangements relating to earlier underwriting year contracts with Swiss Re. An additional £1.2m should become due (based on current reported loss ratios) from Swiss Re when the 2002 year of account within the Syndicate is closed or the profit commission is received from Swiss Re. This did not occur at the end of 2004 as the Board of the Managing Agent, Admiral Syndicate Management Limited felt that a number of opportunities were still to be examined for closing the 2002 year.

Net other income

This figure can be further analysed as follows:

	2004		2003	
	£000	£000	£000	£000
Ancillary contribution		48,493		35,856
Instalment income		2,603		1,257
Gladiator contribution		1,756		1,575
Gross Inspop.com contribution	2,033		322	
Net Inspop.com consolidation adjustments*	(750)		(721)	
Net Inspop.com contribution / (deficit)		1,283		(399)
Aggregate interest receipts		3,348		1,166
Other Group / central overheads		(567)		(754)
Net other income		56,916		38,701

* adjustments relate to intra-group sales. Confused.com is a trading name of Inspop.com Limited.

As noted above, the Group is able to use its direct customer contact model to generate significant intermediary revenue through sales of ancillary products to the customer base. This represents the majority of net other income. The products involved are primarily insurance products that complement the motor policy, but which are underwritten by external parties. The contribution above is largely commission earned on such sales. Net contribution from ancillary sales grew by over 35% during the year, with average gross income per motor policy amounting to £51.20 (2003: £50.70).

Financial investments, cash and indebtedness

All aspects of the Group's business generate significant operating cash inflows. At 31 December 2004, the Group held a total of £322.6m in cash and financial investments (2003: £239.0m) – an increase of 35% on 2003:

	2004		2003	
	£000	£000	£000	£000
Non-regulated cash	50,096		30,035	
Regulated cash	38,515		40,040	
Total cash		88,611		70,075
Deposits with credit institutions	30,590		24,464	
Government and sovereign bond holdings	42,980		63,525	
Corporate bonds and similar instruments	160,438		80,936	
Total financial investments		234,008		168,925
Grand total cash plus investments		**322,619**		**239,000**

Financial investments, cash and indebtedness (cont.)

The Group has four managed investment funds in which the majority of the insurance funds are invested. Three of these (one each for Syndicate 2004, AICL and AIGL) are managed by Alliance Capital Management, whilst the fourth (another AIGL fund) is managed by Lloyds TSB International.

Investment strategy is set by the Group Investment Committee (and approved by the Boards of directors of the relevant entity). The strategy is conservative, with much of the funds invested in high quality corporate or government bonds. No investments are made in equity shares.

Group cash holdings earn interest at just below the UK base interest rate.

At 31 December 2004, the Group had £33.1m (2003: £35.4m) of debt in respect of a commercial loan facility drawn down in 2002. £4.3m in capital and interest was repaid during the year with a further £4.1m on 3 January 2005. The original arrangement included a £10m revolving credit facility that the directors cancelled in 2004 as it was unlikely to be required.

Refer to note 21 to the accounts for further details on the Group's debt.

Dividends

The directors have established a dividend policy based on the principle of returning excess cash to shareholders. In accordance with this principle they would expect to make a normal distribution of at least 45% of post-tax profits, and to review regularly the Group's available cash to determine whether it is appropriate for the Company to pay a further special dividend.

The directors have, therefore, declared final dividends totalling 9.3p per share on 18 March 2005. These comprise a normal dividend of 3.1p per share and a special dividend of 6.2p per share. The normal dividend took into account our listing part way through the financial year and is based on a 45% pay-out ratio, adjusted for the exceptional tax credit. The special dividend reflected the abnormally low tax charge in the 2004 accounts resulting from relief for the cost of the ESOT distribution on listing which will reduce the Group's tax payment in 2005.

In addition dividends of £52.0m were paid during 2004 prior to the Company's listing.

Taxation

The total taxation charge reported in the profit and loss account is £14.4m (2003: £18.0m) representing 14.3% (2003: 31.5%) of pre-tax profits. The significant decrease in the effective tax rate is mostly due to the impact of the ESOT share awards made during the year, which attracted a significant deduction for corporation tax purposes.

A charge for the employer's National Insurance contributions arising from the share provision (£7.2m) has been included in the profit and loss account. The tax deduction on this charge was accrued in previous years.

Refer to notes 8 and 20 to the accounts for further detail on taxation and the ESOT.

International Financial Reporting Standards (IFRS)

From 1 January 2005, EU regulations require companies listed on regulated markets in the EU to prepare their consolidated accounts under IFRS. The Admiral Group consolidated accounts for 2005 will, therefore be prepared under IFRS, as opposed to UK GAAP. 2004 comparative information must also be restated.

Reconciliations of profit and shareholders' equity will be provided in order to set out the major differences between the 2004 UK GAAP and IFRS numbers.

The Group has considered the impact of the 'stable platform' of IFRS standards on the financial results to 31 December 2004 and the position at the balance sheet date. The directors are confident that, based on the guidance currently in existence, no material reconciling items (other than in respect of accounting for dividends and goodwill amortisation) will be required when the 2004 figures are restated and reconciled in 2005.

Employee share schemes

This section is split into two – the first covers the Admiral Employee Share Ownership Trust (ESOT) established in 2000, and under which no further grants are to be made. The second section deals with the new schemes that will take effect in 2005, under which no awards have yet been made.

1. Admiral ESOT

The Group established an ESOT during 2000, under which a specified number of Admiral Group Limited shares were to be made available for issue to the Trust if the Group listed or if it was subject to take-over. Staff have been granted units since 2000, which gave them a proportional entitlement (at no cost) in the shares to be issued.

The listing in September 2004 triggered an issue of shares to the Trust immediately prior to the listing. Full details of the associated transaction (and the impact of share reorganisation) are set out in note 20 to the accounts. The effect of the listing on the Trust was that staff who held units became holders of shares in Admiral Group plc equating to an 8% stake worth £57m at listing.

2. New share scheme arrangements

The Board is strongly of the view that actual or prospective share ownership plays a key role in staff incentivisation (across all levels – not restricted to executives or senior management). Given that no further awards are possible under the ESOT, new arrangements have, therefore, been established in its place.

As noted above, the current executive directors, with the support of the Board, are of the opinion that their shareholdings provide appropriate incentivisation to maximise shareholder return. For this reason, none of the current executive directors will participate in the new share schemes (nor did they in the ESOT).

Two new schemes have been put in place under which awards will be made with effect from the 2005 financial year. The maximum annual award under these schemes will be no more than 1% of the issued share capital.

The Approved Share Incentive Plan (SIP)

This scheme is intended to replace the previous staff profit share scheme, and is open to all staff, (excluding current executive directors) of Admiral Group plc.

The maximum to be awarded under the SIP will be £3,000 per employee per annum, with the awards being subject to a three-year vesting period. As the scheme is Inland Revenue approved, the awards will be free of income tax after 5 years. The £3,000 limit will be based on the market value of the shares at the date of award.

Awards will be made twice a year, based on the stand-alone results of each half-year. Inland Revenue rules dictate that staff must hold the shares for three years before being able to sell them, but dividends will be payable during the vesting period. If a member of staff leaves the Group before the end of the three year period, without being a 'good leaver', they get no benefit from the shares not yet vested.

A linear relationship will exist between the size of the award and the percentage over the Group's budgeted core profit achieved. Awards will start to be made if the Group achieves over 90% of its budgeted core profit and full award will be made if the Group exceeds 111.5% of its budgeted core profit.

Admiral Group Senior Executive Restricted Share Plan

This scheme is not Inland Revenue approved, and is open to Group employees of a certain level of seniority, excluding the current executive directors of the Group.

The main performance criteria will be the growth in earnings per share (EPS) in excess of a risk free return (RFR), defined as average 3-month LIBOR, over a three year period. The Board feels that this is a good indicator of long-term shareholder return and aligns senior staff incentivisation with total shareholder return.

For any shares to vest, the Group's Total Shareholder Return (TSR) must at least match the TSR of the FTSE 350 over the three year vesting period.

If the Group's TSR matches or exceeds that produced by the FTSE 350, the following measures will be applied to the Group's growth in EPS to calculate the amount of shares to vest:

- if the Group's EPS growth over the vesting period equals the RFR then each individual will receive 10% of their maximum award
- to obtain the maximum award, the Group's EPS growth would have to average 10 percentage points better than the return available for a cash investment – the RFR

For the purposes of calculating EPS for 2004 as the base value for the computation of the awards, the tax credit resulting from the ESOT will be adjusted to reflect a more normalised tax charge. The 2004 EPS will also be adjusted to reflect changes arising from International Accounting Standards, specifically the goodwill write-off.

Approximately 250 staff will be included within the plan, commensurate with the Group's philosophy that real difference can be achieved by incentivising staff that have direct control over customer interaction as well as the Group's most senior managers.

Award proposals are submitted to the Remuneration Committee by the executive directors. Individual awards in excess of 100% of salary require individual discussion and justification to the Committee.

The plan includes provision for a maximum individual award equal to the lower of £400,000 or 600% of salary. Such an amount is included to provide flexibility for future succession planning in the most senior positions.

Reconciliation of profit before tax to adjusted core profit

	2004 £000	2003 £000
Profit before tax	101,000	57,244
Add back: interest payable	2,451	3,146
Add back: goodwill amortisation	3,906	3,906
(Deduct) / add back: share scheme (credit) / charges	(4,144)	6,900
Add back: bonuses paid in lieu of dividends	3,345	-
Core profit	106,558	71,196
Profit commission adjustment	(5,994)	5,994
Adjusted core profit	100,564	77,190

Corporate governance

Introduction

In the period leading up to the Company's listing on 28 September 2004, the Board implemented a number of changes to the governance environment. These were actioned in order to achieve a structure that ensured the interests of all shareholders were best served following the changes brought about by the listing, and further to ensure that the provisions of the Combined Code Principles of Good Governance and Code of Best Practice (the Combined Code) are fully complied with.

The changes primarily involved some restructuring of the Board and its sub-Committees. The Board is satisfied that the Group complied with the provisions of the Combined Code on corporate governance, issued by the Financial Reporting Council in July 2003, from the date of listing, with the exception relating to paragraphs C.3.1 and B.2.1 of the Combined Code, which state that the Audit and Remuneration Committees should comprise three independent non-executive directors. The Group's Committees had only two independent non-executive members. The Board is currently actively recruiting a new independent non-executive director who will join both Committees on appointment.

The details below focus on the structures that existed at the balance sheet date (and at the date the Annual Report was signed).

The Admiral Group Board

The Group is controlled by its Board of directors. The Board is responsible for the proper management of the Group as well as setting the Group's strategic goals and objectives, ensuring the necessary financial and other resources are made available to meet them, and measuring progress towards achieving them. The Board is ultimately responsible to shareholders for the financial and operational success of the Group.

The Board, which meets at least eight times a year, has a schedule of matters reserved for its approval which include:

- setting Group strategy and approving an annual budget and medium-term projections
- reviewing operational and financial performance
- approving major acquisitions, divestments and capital expenditure
- reviewing the Group's systems of financial control and risk management
- ensuring that appropriate management and succession plans are in place
- approving Board, Board Committee and Company Secretarial appointments
- approving policies relating to director's remuneration and the severance of director's contracts
- ensuring that a satisfactory dialogue takes place with shareholders

The Board has delegated the following responsibilities to the Executive Management team:

- the development and recommendation of strategic plans that reflect the longer-term objectives and priorities established by the Board
- implementation of the strategies and policies of the Group as determined by the Board
- day to day monitoring of the operating and financial results against plans and budgets
- prioritising the allocation of capital, technical and human resources
- developing and implementing risk management systems

The Board is aware of its responsibilities to carry out performance evaluation on itself, its Committees and individual directors and is committed to undertaking each on an annual basis.

The roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board, Alastair Lyons, and the Chief Executive, Henry Engelhardt, is clearly defined in written job specifications and has been approved by the Board.

Directors and Directors' independence

The Board currently comprises the Chairman (whom the Board considers to be independent), three independent non-executive directors, one non-independent non-executive director and three executive directors. Including the Chairman, the independent non-executive directors represent 50% of the Board.

The independent directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making.

John Sussens - Senior Independent Director

The Board has appointed John Sussens as Senior Independent Director. He is always available to meet shareholders on request and ensure that the Board is aware of shareholder concerns not resolved through the existing mechanisms for investor communication.

Details of the Chairman's professional commitments are included in the Chairman's biography. The Chairman does perform a number of other non-executive roles outside of the Group but the Board is satisfied that these are not such as to interfere with the performance of the Chairman's duties within the Group.

The Board considers that the Chairman and all but one of its non-executive directors are independent directors in accordance with the criteria set out in the Combined Code. The other, Manfred Aldag, by reference to his association with Munich Re, represents a significant shareholder and for this reason is not considered to be an independent non-executive director.

The directors are given access to independent professional advice at the Group's expense, should they deem it necessary, to carry out their responsibilities.

Professional development

On appointment, directors take part in a comprehensive induction programme where they receive financial and operational information about the Group, details concerning their responsibilities and duties, as well as an introduction to the Group's governance and control environment.

The induction is supplemented by visits to the Group's two locations and meetings with members of the senior management team and their departments. Throughout their period in office the directors are continually updated on the Group's business, legal matters concerning their role and duties, the competitive environments in which the Group operates and any other changes affecting the Group and the industry in which it operates.

Re-election

Subject to the Company's Articles of Association, the Companies Act and satisfactory annual performance evaluation, non-executive directors are appointed without a maximum period of appointment. Their contracts may, however, be terminated by either party giving one month's notice, or three months for the Chairman (without compensation).

The Board is conscious of the requirement of the Combined Code and at such a time as a non-executive director's length of service goes beyond that recommended to be considered independent, the board will review the position. Manfred Aldag's appointment is contingent upon his continued employment with Munich Re.

The Company Secretary

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. The directors have access to the advice and services of the Company Secretary. The Company's Articles of Association and the schedule of matters reserved to the Board for decision provide that appointment and removal of the Company Secretary is a matter for the Board.

Information

Reports and papers are circulated to the directors in a timely manner in preparation for Board and Committee meetings. These papers are supplemented by information specifically requested by the directors from time to time.

The non-executive directors receive monthly management accounts and other regular management reports and information, enabling them to scrutinise the Group's performance against agreed objectives and budgets.

CORPORATE GOVERNANCE

Relations with shareholders

In fulfilment of the Chairman's obligations under the new Combined Code, the Chairman gives feedback to the Board on issues raised with him by major shareholders, although to date there have been no such issues. This is supplemented by monthly feedback to the Board on meetings between management and investors. External analyst reports are circulated to all the directors.

All directors will attend the Annual General Meeting, and shareholders will be invited to ask questions during the meeting and to meet the directors after the formal proceedings have ended. The Company's first Annual General Meeting since listing will be held on 18 May 2005.

The Group maintains a corporate website (www.admiralgroup.co.uk) containing a wide range of information of interest to institutional and private investors. Management has regular discussions with institutional investors and responds to ad hoc requests for discussions and information from institutional shareholders.

Major shareholders will be given the opportunity to meet new non-executive directors on appointment.

Board Committees

The number of full Board meetings and Committee meetings attended by each director during 2004 was as set out below.

The figures in brackets indicate the maximum number of meetings during 2004 in which each director was a Board or Committee member.

Attendance at Board and Committee meetings

	Scheduled Board meetings	*Audit Committee meetings*	*Nominations Committee meetings*	*Remuneration Committee meetings*
Alastair Lyons (Chairman)	*10 (10)*	*3 (3)*	*2 (2)*	*1 (1)*
Henry Engelhardt (Chief Executive)	*10 (10)*			*1 (1)*
Andrew Probert	*10 (10)*			
David Stevens	*10 (10)*			
Manfred Aldag	*8 (10)*		*2 (2)*	
Martin Jackson	*4 (5)*	*2 (2)*		
Keith James	*9 (10)*	*5 (5)*	*0 (0)*	
John Sussens	*4 (5)*			
Owen Clarke	*6 (6)*		*2 (2)*	*1 (1)*
Pratt Thompson	*5 (6)*			

The Audit Committee

Constitution and membership

The constitution of the Audit Committee was amended prior to the Company's listing in order to establish a structure that best suited the Group's needs and moves towards compliance with the Combined Code and in particular the Smith Guidance on Audit Committees. The membership in place at the year-end was as set out below:

Martin Jackson - Audit Committee Chairman

The Audit Committee Structure	
Committee members (both independent non-executive directors)	Martin Jackson (Chairman) Keith James
Committee Secretary	The Company Secretary
Having the right to attend all meetings	The Chairman and any non-executive director of the Company
Invited to attend	The Internal Audit manager Andrew Probert (Group Finance Director) Henry Engelhardt (Group Chief Executive Officer) The Compliance Officer External audit partner/manager*

**A representative from the external auditor is required to attend the meeting at which the Annual Report is approved for recommendation to the Group Board.*

In addition to the above, other Group employees or external parties are invited to attend where the Committee considers this appropriate. The Internal Audit manager has unfettered access to the Committee.

The Committee is required to meet at least three times per annum, and has met five times during 2004. As noted above, all members attended all meetings.

Martin Jackson and Keith James receive £5,000 each in remuneration for their membership. This is included in their aggregate remuneration figures set out in the remuneration report.

The Board considers that the members of the Committee have the appropriate competence and experience to carry out their duties and further considers that Martin Jackson (Committee Chairman) has the appropriate recent and relevant experience as defined in the Combined Code.

Ongoing training is provided to all members, and this is intended to cover relevant developments in financial reporting, company law and the various regulatory frameworks.

The Committee's objective, authority and relationship with the Board

The terms of reference set out the objectives of the Committee and are available on the Group's website. This is to 'ensure the effectiveness and appropriateness of the systems of internal control and risk management by which the management of the Group and its subsidiaries ensure full compliance with the requirements of all relevant regulations and legislation'.

The Committee is authorised to investigate any activity within its terms of reference and to seek any information it requires from employees in order to discharge its duties. This includes full access to all records of the Group – including relevant external reports.

The Committee reviews its terms of reference annually, and also assesses its own effectiveness. The Group Board also performs a similar review of the Committee on an annual basis.

The Committee is authorised (at the Group's expense) to obtain independent legal or other professional advice if it feels this is necessary. The Board has undertaken to provide the Committee with all the appropriate resources to allow it to discharge its duties.

In the event of dispute or disagreement between the Committee and the Board, adequate time must be devoted to attempt to resolve the issue. In the event that no resolution can be reached, the Committee has the right to include a report on the issue to shareholders in the Group's Annual Report.

The Committee's Chairman is required to present to the Board, at least three times annually, on the Committee's activities.

Summary of key activities

The key activities within the remit of the Committee are as follows:

1. Financial reporting matters

The Committee is charged with monitoring the integrity of the Group's financial statements (including accompanying narrative statements) along with any formal announcements relating to the Group's financial performance – especially where this is of a price sensitive nature.

The Committee's reviews of the above focus on inter alia the following areas:

- critical accounting policies and any changes therein
- disclosure and treatment of significant transactions
- key areas of judgement
- issues and adjustments arising from audit
- compliance with relevant accounting, regulatory and legal requirements
- review of representation letters requested by the external auditors

The Committee, after due consideration of all relevant issues (including those set out above) makes recommendations to the Board as to whether the Annual Report (or other financial report) should be approved, and also reviews and makes recommendations on any report issued by the external auditor.

2. Internal control and Risk Management Strategy

The Committee regularly reviews the Group's approach to internal control and the overall Admiral Risk Management Strategy. In this context, the Committee works closely with the Group's Risk Management Committee, whose activities are described later in this statement.

The findings of all internal and external investigations into internal control and risk management are reviewed, along with management's response to the same.

The Committee also reviews the effectiveness of processes in place throughout the Group to identify, assess and manage business risks. It is also responsible for reviewing and approving the statement on internal control and risk management that is included later in this statement.

3. Internal audit

The Committee is responsible for monitoring and reviewing the effectiveness of the Group's Internal Audit function. This involves, inter alia:

- reviewing, assessing and approving the annual internal audit programme
- considering the appropriateness of the resource, remit and other terms of reference of the internal audit function
- receiving, on a regular basis, reports on the work of internal audit and updates on the progress through the work programme
- meeting with the Internal Audit Manager and Compliance Officer at least once annually, without the attendance of management

4. Auditor's independence and objectivity

The Audit Committee regularly monitors the non-audit services being provided to the Group by its external auditor and in 2005 will develop a formal Auditor Independence Policy.

The policy will include four key principles that underpin the provision of non-audit services by the external auditor. The auditor should not:

- audit its own firm's work
- make management decisions for the Group
- have a mutuality of financial interest with the Group, or
- be put in the role of advocate for the Group

Prior approval of the Committee is required for any services provided by the external auditor where the fee is likely to be in excess of £30,000. In any case, activities that may be perceived to be in conflict with the role of the external auditor must be submitted to the Committee for approval prior to engagement, regardless of the amounts involved.

Details of the amounts paid to the external auditor during the year for audit and other services are set out in the notes to the financial statements.

5. Whistleblowing

The Committee reviews and assesses the procedures put in place throughout the Group to enable employees to raise concerns (in confidence) over any possible wrongdoing in relation to financial reporting or other matters. The Committee ensures that the arrangements in place allow for reasonable, independent investigation of the matters and appropriate follow-up action.

The Nominations Committee

As with the Audit Committee, the current membership of the Committee was changed on 19 August 2004 prior to listing. The Committee is currently chaired by Keith James, with the other members being Manfred Aldag and Alastair Lyons. (Prior to this the members were Alastair Lyons, Manfred Aldag and Owen Clarke, who resigned from the Board on 7 September 2004).

During the year and prior to this re-organisation, the Committee initiated the search for two independent non-executive directors. The Board began the process by defining the requirements of the roles considering the plans for listing, and identifying the core competencies required of the candidates to carry out that role.

The selection process was initiated by an external recruitment firm and the Committee presented the Board with two recommended candidates after interviewing a number of possible candidates. The search resulted in the appointment of Martin Jackson and John Sussens.

The Nominations Committee's terms of reference can be found on the Group's website.

The key responsibilities of the Committee are:

- assessment of the current Board – including size, structure, membership, responsibilities
- recommend appointment of Board members
- succession planning for executives and senior management
- recommendation of candidates for senior positions within the Group
- ensuring that Committees of the Board are appropriately resourced

Any director appointed in the year is subject to automatic resignation and re-election by shareholders at the first Annual General Meeting of the Company after their appointment.

Remuneration Committee

As with the Audit and Nominations Committees, the current membership of the Committee was changed on 19 August 2004 prior to listing. The Committee is chaired by John Sussens, with the other member being Martin Jackson. Prior to this, membership consisted of Alastair Lyons, Henry Engelhardt and Owen Clarke (who resigned from the Board on 7 September 2004).

The Committee met once during the year to approve the individual remuneration packages for the executive directors.

The Committee's principal responsibilities are:

- setting, reviewing and recommending to the Board for approval the Group's overall remuneration policy and strategy
- setting, reviewing and approving individual remuneration packages for executive directors and the Chairman, including terms and conditions of employment and any changes to packages
- reviewing the salary structure and terms, conditions and benefits of employment of other Group Executive Committee members, and
- approving the rules and launch of any Group share, share option or cash based incentive scheme and the grant, award, allocation or issue of shares, share options or payments under such schemes

In addition the Committee will review the Group's remuneration policy in relation to:

- its competitors and industry norms
- compensation commitment
- contract periods

The Committee's terms of reference are available on the Group's website.

Other executive Committees

The Investment Committee

The Committee is chaired by the Group Finance Director, with the other members being the Chief Operating Officer and the Group Company Secretary.

The Committee's principal responsibilities are:

- determining and recommending investment strategy
- monitoring the performance of invested funds and external investment managers
- treasury management over all Group cash

In addition to the above, the Group's senior managers meet on a monthly basis, as do departmental managers. Brand managers meet with the Chief Executive on a weekly basis. These meetings cover a wide range and varying level of issues, including brand performance, operational matters and other business issues.

Internal control and risk management

Overall responsibility for risk and the Group's systems of internal control lies with the Board. In order to ensure these responsibilities are properly discharged, the Board has delegated the task of supervising risk management and internal control to the Risk Management Committee – which is discussed further below. In accordance with the Combined Code, the Board (through the Risk Management Committee and the systems and processes set out below) has ensured that there is an ongoing process for identifying, evaluating and managing the risks faced by the business. Such systems have operated during the financial year and up to the date of this report. The Group's Risk Management Strategy is regularly reviewed by the Board.

The Group's system of internal control is designed to manage, rather than eliminate the risk of failure to achieve business objectives, and is only designed to provide reasonable, not absolute assurance against material misstatement or loss. The Board has reviewed the effectiveness of internal controls during 2004.

There are several key elements to the risk management environment throughout the Group. These include the setting of risk management policy at Board level, enforcement of that policy by the Chief Executive, delivery of the policy by the Risk Management Committee via the Group's systems of internal control and risk management and the overall assurance provided by the Audit Committee that the systems operate effectively.

The Board recognises that the day-to-day responsibility for implementing these policies must lie with the management team, whose operational decisions must take into account risk and how this can be effectively controlled. The Compliance Officer takes responsibility for ensuring management are aware of their risk management obligations, providing them with support and advice and ensuring that the Risk Management Strategy is properly communicated.

The Audit Committee's ability to provide the appropriate assurance to the Board depends on the provision by Internal Audit of periodic and independent confirmation that the controls established by management are operating effectively. The Audit Committee reviews the wider aspects of internal control and risk management, providing a high level challenge to the steps being taken to implement the Risk Management Strategy.

The Risk Management Committee

The Committee's members include the three executive directors, the Compliance Officer and the Group Company Secretary.

One of the Committee's principal responsibilities is to ensure that the Risk Management Strategy approved by the Board is implemented throughout the Group. The Committee is expected to:

- assess the nature and extent of the risks facing the Group and determine an appropriate risk appetite in respect of these
- consider the likelihood of occurrence of the risks identified and assess the Company's ability to manage these risks
- prepare relevant and useful risk management information for use by the Audit Committee and Board

Another key responsibility is to assess the extent of regulation applying to authorised companies within the Group. The Committee develops policies to ensure compliance with such regulation and ensures that appropriate action is taken by the management team to implement compliant systems and procedures.

The Compliance Officer

The Compliance Officer provides support to the Risk Management Committee. Primarily he is responsible for interpreting regulatory requirements and determining how they apply to the regulated companies within the Admiral Group. He will recommend compliant courses of action for the Risk Management Committee to consider and if approved, adopt. He provides support and advice to the management team, helping them to comply with their regulatory responsibilities.

The Compliance Officer is responsible for developing and implementing a risk-based compliance monitoring programme. He monitors to ensure that compliance with regulatory requirements is maintained, reporting to the Risk Management Committee with recommended courses of action should he have any concerns. A quarterly Report of the Compliance Officer is issued to the Boards of the Group's regulated companies that highlights any compliance matters of note. In 2005 this report will also be issued to the Audit Committee.

The Compliance Officer also carries responsibility for the Risk Management controlled function. In this role, he assists in determining a suitable Risk Management Strategy and provides support and advice to the Risk Management Committee and to managers responsible for implementing the strategy.

Internal Audit

The Internal Audit function assists management by providing them with timely, independent assurance that the controls established are operating effectively. This includes:

- regular reviews of internal control systems and business processes, including compliance systems and procedures
- identification of control weakness and recommendations to management on improvements and fixes
- contributing to the design of the Risk Management Strategy, and supporting management in its implementation

The regulatory environment

As a provider of financial services, the Group (through its trading subsidiaries) is subject to a significant amount of regulation from a range of bodies. The Group is therefore exposed to a level of regulatory risk. Adherence to these regulations is the ultimate responsibility of the Boards of each regulated subsidiary and also the Approved Persons sponsored by that Company.

An overview of the regulatory regimes in which the Group operates is as follows:

Underwriting entities

Prior to the 2003 financial year, the insurance business retained by the Group was underwritten through Syndicate 2004, which, along with the Group's Lloyd's Managing Agency was regulated by Lloyd's of London. As such, the Group has been obliged to comply with Lloyd's Acts, Byelaws and Codes of Practice for some time and hence has operated a robust control and risk management environment since (and prior to) the MBO and formation of the Admiral Group in late 1999.

As discussed in the financial review, Syndicate 2004 is now in run-off, although this element of the business is still regulated by Lloyd's (which itself is now regulated by the FSA).

Since 2003, the Group's retained insurance risk has been underwritten through two insurance companies – Admiral Insurance Company Limited (AICL) and Admiral Insurance (Gibraltar) Limited (AIGL).

AICL is a UK incorporated company operating wholly in the UK, and is regulated by the FSA. The Company is subject to the rules set out in the FSA Handbook. This most notably included the Prudential Sourcebook for Insurers – IPRU (INS) until 31 December 2004, when the FSA 'switched-on' the Integrated Prudential Sourcebook (PRU). This guidance supersedes IPRU (INS) and related rules. The new rules have been in circulation for some time, and the Group has fully prepared for their arrival.

AIGL is incorporated and authorised in Gibraltar (although currently only underwrites UK motor insurance business), and is regulated by the Gibraltar Financial Services Commission (FSC). The rules and guidance applicable to AIGL issued by the FSC must comply with EU legislation (as must the FSA rules) and are similar to those applicable to AICL in the UK.

Intermediary businesses

Up to 14 January 2005, two of the Group's insurance intermediaries – Admiral Insurance Services Limited (AISL) and Able Insurance Services Limited (Able) were voluntarily regulated by the General Insurance Standards Council (GISC) and were obliged to comply with the GISC Private Customer Code.

From 14 January 2005, the GISC regime was replaced by statutory regulation of insurance intermediaries by the FSA. AISL and Able, along with a further Group intermediary, Inspop.com Limited (Inspop) have received Scope of Permission Notices and are authorised to trade under the new intermediary regime.

The three intermediaries are now also subject to the rules set out in the FSA Handbook, most notably, the Insurance Conduct of Business Sourcebook (ICOB).

The applicable rules add another level of regulatory burden on the Group, although this was anticipated and well planned for. A significant amount of the Compliance Officer's time and resource has been focussed on ensuring the intermediaries fully comply with the regulatory requirements. The Board is satisfied this was the case when the new intermediary regulation came into effect, a fortnight after the balance sheet date.

Going concern

The directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future and therefore consider it appropriate to prepare the financial statements on the going concern basis.

Remuneration report

The following report has been approved by the Remuneration Committee (the Committee) and the Board for submission to shareholders.

The Committee is chaired by John Sussens, with the other member being Martin Jackson. Both are independent non-executive directors. Prior to the Company's listing on the London Stock Exchange the members were Alastair Lyons, Henry Engelhardt and Owen Clarke (who resigned from the Board on 7 September 2004). The Chairman and Chief Executive are invited to meetings as appropriate.

During the year the Committee did not purchase any consultancy services.

Executive director remuneration policy

The current executive directors are all founding directors. They and the Committee have taken the view that the significant shareholdings held by them provide a sufficient alignment of their interest in the performance of the Group with the interests of other shareholders. The Committee has not, therefore, established a specific performance-related element within their total remuneration.

In light of this, their remuneration packages consist of base salary (benchmarked against market rates by the Committee) and benefits such as private medical cover, permanent health insurance and death in service cover. The Group does not contribute to any pension arrangements on behalf of the executive directors, and it is not intended that they will participate in any Group share schemes.

Directors' service contracts

The Company entered into new service contracts with the three executive directors in September 2004 which supersede all previous agreements. New notice periods have been agreed, which are set out opposite.

There is no provision in the executive directors' contracts for compensation to be payable on early termination of their contract over and above the notice period element.

The Company has also entered into letters of appointment with its non-executive directors. Summary details of terms and notice are set out opposite. Again, there is no provision for compensation for early termination of the appointments.

	Notice – director (month)	Notice – Company (months)
Henry Engelhardt	12	18
Andrew Probert	6	6
David Stevens	12	12

	Term and notice
Alastair Lyons	Indefinite (terminable on three months' notice from either party)
Manfred Aldag	Indefinite (terminable on one month's notice from either party) – automatically terminates should Manfred cease employment with Munich Re
Martin Jackson	Indefinite (terminable on one month's notice from either party)
Keith James	Indefinite (terminable on one month's notice from either party)
John Sussens	Indefinite (terminable on one month's notice from either party)

The remuneration of non-executive directors is decided by the full Board, the non-executive directors abstaining.

Directors' remuneration (audited)

Remuneration for the year ended 31 December is as set out opposite.

	Base salary and fees (£000)	*Bonuses (£000)*	*Benefits (£000)*	*2004 Total (£000)*	*2003 Total (£000)*
Executive directors					
Henry Engelhardt	260	–	–	260	270
Andrew Probert	180	–	–	180	162
David Stevens	216	–	–	216	210
Non-executive directors					
Alastair Lyons *	74	–	–	74	50
Manfred Aldag	12	–	–	12	–
Martin Jackson	11	–	–	11	–
Keith James	36	–	–	36	35
John Sussens	13	–	–	13	–
Non-executive directors resigning during 2004					
Owen Clarke	15	–	–	15	19
Pratt Thompson	–	–	–	–	–
Totals	817	–	–	817	746

** With effect from August 2004 Alastair Lyons has agreed to waive 25% of his annual fee.*

Directors' shareholdings (audited)

Directors' interests in the ordinary shares of the Company are as set out opposite. As a result of the listing on September 28 2004, the Company's share capital was significantly restructured. Refer to note 23 for further detail.

	31 Dec 2004 ordinary shares of 0.1p	*31 December 2003 A shares of 10p*	*B shares of 10p*	*C shares of 10p*	*Total*
Executive directors					
Henry Engelhardt *	40,466,720	–	33,201	2,930	36,131
Andrew Probert	5,250,000	–	4,150	850	5,000
David Stevens *	19,768,000	–	16,600	2,600	19,200
Non-executive directors					
Alastair Lyons	915,600	–	–	872	872
Manfred Aldag	–	–	–	–	–
Martin Jackson	–	–	–	–	–
Keith James	42,000	–	–	–	–
John Sussens	8,000	–	–	–	–
Non-executive directors resigning during 2004					
Owen Clarke	–	590	–	–	590
Pratt Thompson	–	–	–	–	–

** Include amounts held by family members and in trusts settled by family members.*

REMUNERATION REPORT

Share options (audited)

Keith James received and exercised options over 56,000 0.1p shares in Admiral Group plc on 7 and 9 September respectively. No other director received or holds share options.

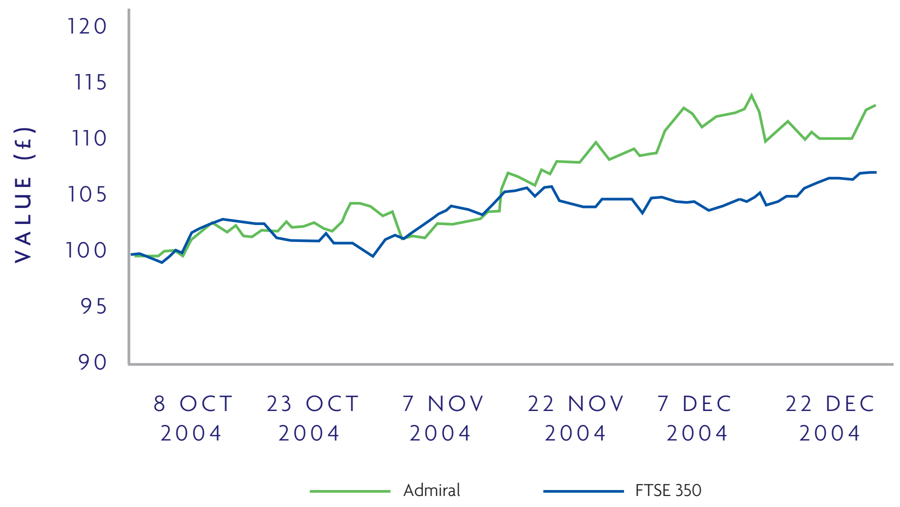
The exercise price was 0.1p per share and there was no charge for the grant of the options. The fair value of each share at exercise was £2.75. The gain on the exercise of the options was £154,000, which is not included in the detailed remuneration table above. The options were granted to recompense Keith James for time, over and above that required by his terms of appointment, spent working with the Board in preparation for the listing.

	Held at 1 January 2004	*Options granted*	*Options exercised*	*Held at 31 December 2004*
Keith James	–	56,000	(56,000)	–

Total shareholder return

The graph opposite sets out a comparison of total shareholder return for Admiral Group plc shares with that of the FTSE 350 Index, of which the Company is a constituent. The graph measures the period from the commencement of conditional listing on 23 September 2004 up to 31 December 2004.

The directors consider this is the most appropriate index against which the Company should be compared and the index is also the benchmark against which future Executive Restricted Share Plan awards will be assessed.



This report was approved by the Board of directors on 18 March 2005 and is signed on its behalf by the Committee Chairman.

John Sussens
Remuneration Committee Chairman
18 March 2005

focus on corporate responsibility

The Admiral Group is committed to maintaining high standards of integrity and fair dealing with all stakeholders and this translates into its actions and policies towards staff, the community in which the Group operates and in which staff live and also the impact of the Group's operations on the environment.

Workplace

The Group aims to provide a workplace which staff consider to be one of the best places to work and has a philosophy that staff are more productive if they enjoy what they do and where they do it. The Group's efforts to this end have been recognised with a growing number of awards including:

- **The Sunday Times 100 Best Companies to work for –** included in all five years (20th place in the latest list)
- **The Financial Times 100 Best Workplaces in the UK –** included in both years of the award
- **100 Best Workplaces in the EU –** included in both years lists

The Admiral Group is committed to maintaining high standards of integrity and fair dealing with all stakeholders

Admiral is once again named one of 100 Best Companies to Work For

In order to help achieve these aims, the Group provides employees with regular information on its financial performance, other information that concerns them and provides a forum for employee representatives to give their views on the Group's activities. Every member of staff is also invited to attend a Staff General Meeting where a variety of information concerning the Group is communicated.

As discussed in the remuneration report, the Board believes that equity shareholdings play a vital role in staff incentivisation (across all levels) and the original scheme which was set up in 2000 (the ESOT) crystallised during 2004 on the Company's listing. As has been well documented, a large majority of staff benefited from the ESOT, with average financial awards in the region of £40,000.

Ysgol Hendre Deaf Blind Centre received a donation from Henry's Pot

Oliver! - Port Talbot Youth Theatre received a donation from Henry's Pot

New schemes have been established to replace the ESOT, under which awards will be made in 2005. The Board feels strongly that this type of compensation is the most effective way to align the interests of Group employees with those of shareholders.

In considering applications for employment from disabled people, the Group ensures fair consideration is given to the abilities and aptitudes of the applicant, while having regard to the requirements of the job for which he or she has applied. Employees who become unable to carry out the job for which they are employed are given individual consideration and depending on the nature, severity and duration of the disability, may be considered for alternative work. The Group continues to train and encourage the career development of disabled persons in its employment.

Admiral Brand Manager, Jane Stone with the ugly sisters. Admiral sponsored one week of the Cinderella pantomime in Cardiff.

Admiral sponsored the massive Admiral Cardiff Big Weekend

Community

The Group is a leading employer in the South Wales region in which it operates and has staff living across a large number of communities. The Group encourages its employees to get involved within local communities and takes pride in the level of involvement.

The Group supports a large number of local charities and organisations through its 'Henry's Pot' scheme. This fund was started in 1999 and allows staff to apply for a donation or sponsorship towards organisations they or their families are connected with. During 2004, well over 80 awards were made to a wide variety or organisations.

As well as these contributions, the Group backs a large number of events within South Wales including:

- South Wales Echo Champion Child of Courage Award
- Admiral Cardiff Big Weekend
- the Swansea Bay Festival
- the cabaret marquee at the Cardiff Lesbian and Gay Mardi Gras
- Dylan Thomas literary prize
- the Christmas pantomime at the New Theatre in Cardiff
- free bus service for New Year's Eve in Cardiff

In addition to local initiatives, the Group also supports a number of much larger charities through its brands. During 2004, these included:

- the Sir Steve Redgrave Charitable Trust through the Admiral brand. The Trust aims to improve the quality of children's lives, especially in relation to medical, social, educational and economic needs within the UK

Henry Engelhardt and rugby legend, Gareth Edwards present the award for the South Wales Champion Child of Courage 2004

CORPORATE RESPONSIBILITY

Children having fun at the Admiral Kids Christmas Party in Swansea

- WellBeing of Women through the Diamond brand. This charity is the only national charity funding vital research into all aspects of women's reproductive health. WellBeing of Women's mission is to bring an end to the fear and suffering caused by reproductive health problems. Their work is dedicated to raising awareness and funds to invest in new medical research
- the Born Free Foundation through elephant.co.uk. This international wildlife charity works to reduce animal suffering and to encourage people around the world to treat all animals with respect. Born Free believes that wildlife belongs in the wild and is dedicated to the conservation of rare species in their natural habitat, and the phasing out of traditional zoos

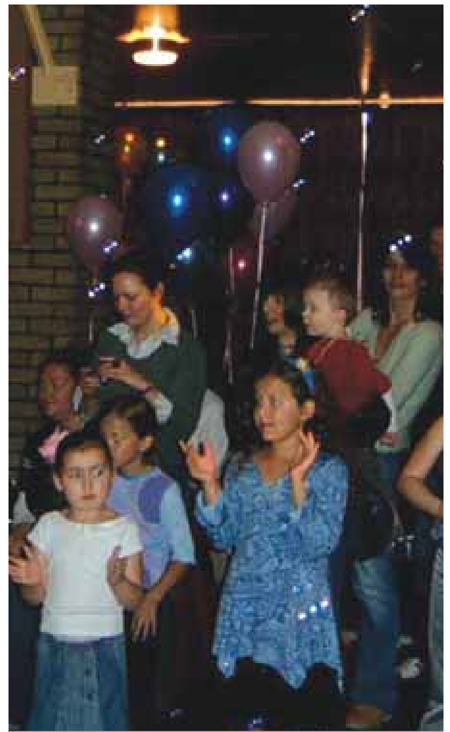
Total awards to these three organisations during 2004 were over £55,000.

Environment

As a large organisation, the Group recognises that whilst its operations do not impact on the environment as much as more industrial entities, it can put in place practices to minimise the impact its operations do have.

The key elements of the Group's environmental policies are:

- widespread recycling schemes (including paper, cups and cans, PCs, printing and photocopying cartridges)



Children having fun at the Admiral Kids Christmas Party in Cardiff

- use of energy efficient light bulbs
- use of water purifying machines instead of plastic bottles
- staff are offered loans and discounts to incentivise the use of public transport

Jane Stone with two drag queens, Admiral sponsors the Cabaret Marquee at the Cardiff Lesbian and Gay Mardi Gras

The Admiral Group plc Board

(left to right) David Stevens, Manfred Aldag, Stuart Clarke (Company Secretary), Henry Engelhardt, Alastair Lyons, Martin Jackson, Andrew Probert, Keith James and John Sussens

Alastair Lyons

Alastair Lyons CBE (51)
Chairman (N)

Alastair was appointed Chairman of the Company in July 2000. He is also currently Executive Chairman of Partners for Finance Limited, non-executive Chairman of Buy as you View Holdings Limited and a non-executive director of the Department for Transport.

He has previously been Chief Executive of the National Provident Institution and the National & Provincial Building Society, Managing Director of the Insurance Division of Abbey National plc, and Director of Corporate Projects at National Westminster Bank plc.

A Fellow of the Institute of Chartered Accountants, he was awarded a CBE in the 2001 Birthday Honours for services to social security.

Henry Engelhardt

Henry Engelhardt, (47)
Chief Executive Officer

Henry is a founder director of Admiral and was recruited by the Brockbank Group in 1991 to set up the Admiral business.

He was part of the management team that led the MBO in 1999. Prior to joining Admiral, he was Marketing and Sales Manager for Churchill Insurance.

He has substantial experience in direct response financial services in the United Kingdom, United States and France. He has an MBA from Insead.

Andrew Probert

Andrew Probert (52)
Finance & IT Director

Andrew is responsible for finance, information technology, facilities and commercial negotiations. He is a founder manager, joining Admiral in 1992, being appointed a director in 1995.

Prior to that, he was Chief Financial Officer of two life insurance companies and several Lloyd's brokers. He is a Fellow of the Institute of Chartered Accountants.

David Stevens

David Stevens (42)
Chief Operating Officer

David is a founder director of Admiral. Initially the Marketing Director, he was appointed director responsible for pricing in 1996 and claims and pricing in 1999. He was appointed as Chief Operating Officer in 2004.

He joined Admiral in 1991 from McKinsey & Co where he worked in the Financial Interest Group, London office. Prior to working for McKinsey & Co, he worked for Cadbury Schweppes in the United Kingdom and the United States.

David has an MBA from Insead.

Manfred Aldag

Manfred Aldag (53)
Non-executive director (N)

Manfred was appointed a non-executive director of the Company in 2003 as a representative of Munich Re. He graduated from University of Essen and has a degree in economics/business management (Diplom-Kaufmann).

He has worked for Munich Re since September 1981 and is currently the senior executive manager responsible for Northern Europe (United Kingdom, Ireland, Netherlands and the Nordic countries).

Martin Jackson

Martin Jackson (56)
Non-executive director (A, R)

Martin was appointed non-executive director and Chairman of the Audit Committee in August 2004.

He was the Group Finance Director of Friends Provident plc between 2001 and 2003 and Friends' Provident Life Office between 1999 and 2001. Prior to that he was the Group Finance Director at London & Manchester Group plc from 1992 to 1998, up to the date of its acquisition by Friends' Provident Life Office.

He is a Fellow of the Institute of Chartered Accountants.

Keith James

Keith James OBE (60)
Non-executive director (A, N)

Keith was appointed a non-executive director in December 2002. He is Chairman of the Nominations Committee.

He is also a non-executive director of Julian Hodge Bank Limited, HTV Group Limited, International Greetings plc and Atlantic Venture Capital Limited.

He is a solicitor and was the Chairman of Eversheds LLP (formerly Eversheds) from June 1995 to April 2004. He was a non-executive director of Bank of Wales plc between 1998 and 2001 and AXA Insurance Company Limited between 1992 and 2000. Keith was awarded on OBE in 2005 for services to business and the community in Wales.

John Sussens

John Sussens (59)
Non-executive director (R)

John was appointed the Senior Independent Non-Executive Director in August 2004, and is Chairman of the Remuneration Committee. He is also a non-executive director of Cookson plc, Phoenix IT Group plc, Searchspace Ltd and Anglo & Overseas Trust plc.

He was the Group Managing Director of Misys plc between 1998 and May 2004 having been on the board of the Company since 1989. Prior to joining Misys, he was Manufacturing Director at JC Bamford Excavators Limited. He was a non-executive director at Chubb plc between 2001 and 2003.

KEY	A - Audit Committee member	R - Remuneration Committee member	N - Nominations Committee member

Directors' report

The directors present their Annual Report and the audited financial statements for the year ended 31 December 2004.

Principal activity, business review and future developments

The Company is the holding Company for the Admiral Group of companies. The Group's principal activity continues to be the selling and administration of private motor insurance and related products.

Detailed descriptions of the Group's activities, results and prospects are contained in the Chairman's statement, the Chief Executive's statement and the financial review.

Group results and dividends

The profit for the year, after tax but before dividends, amounted to £86.6m (2003: £39.2m).

Dividends totalling £52.0m were paid during 2004. In addition, the directors are proposing a final dividend of 9.3p per share, payable on 25 May 2005.

Share Capital

As a consequence of the listing of the Company's shares on the London Stock Exchange in September 2004, the Company's share capital has been increased from 254,706 ordinary shares of 10p each to 258,595,400 ordinary shares of 0.1p each. Further details of share capital movements are set out in note 23 to the accounts.

Other than the holdings of the directors as disclosed in the remuneration report, so far as the directors are aware, or have been notified pursuant to section 198 of the Companies Act 1985, the following shareholders have interests in 3% or more of the ordinary share capital of the Company at 18 March 2005:

	Number of shares	%
Munich Re	37,479,400	14.49%
Barclays Plc	33,465,850	12.94%
Fidelity Investments	15,558,000	6.02%
Goldman Sachs Group, Inc	13,219,390	5.11%
Jupiter Asset Management	12,361,774	4.78%

Directors and their interests

The present directors of the Company are shown on the inside cover of this report, whilst directors' interests in the share capital of the Company are set out in the remuneration report.

Charitable and political donations

During the year the Group donated £75,000 (2003: £41,000) to various local and national charities. The Group has never made political donations. Refer to the corporate responsibility report for further detail.

Employee policies

Detailed information on the Group's employment practices is set out in the corporate responsibility report.

The Group purchases appropriate liability insurance for all staff and directors.

Creditor payment policy

It is the policy of the Group to pay all purchase invoices by their due date, and appropriate quality measures are in place to monitor and encourage this. At the end of the year outstanding invoices represented 24 days purchases (2003: 19).

Annual General Meeting

It is proposed that the next AGM be held at The Celtic Manor Resort, Coldra Woods, Chepstow Rd, Newport, Gwent NP18 1HQ on 18 May 2005, at 11.00 am, notice of which is set out at the back of the report and accounts.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The directors are responsible for keeping 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditor

The Company's auditor, KPMG Audit Plc, has indicated willingness to continue in office and as stated above, resolutions to reappoint it and to authorise the directors to fix its remuneration will be proposed at the Annual General Meeting.

By order of the Board

Stuart Clarke
Company Secretary
18 March 2005

Independent auditor's report
to the members of Admiral Group plc

We have audited the financial statements on pages 41 to 67. We have also audited the information in the directors' remuneration report that is described as having been audited.

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 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.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 38, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been 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 transactions with the group is not disclosed.

We review whether the corporate governance statement on page 20 to 27 reflects the company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 and the part of the directors' remuneration report to be audited. 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 group'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 and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2004 and of the profit of the group for the year then ended; and the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Registered Auditor
Cardiff
18 March 2005

Financial statements and notes

Consolidated profit and loss account – Technical account (general business)
For the year ended 31 December 2004

	Notes	2004 £000	2004 £000	2003 £000	2003 £000
Total premiums written	3		470,400		371,600
Gross premiums written	3	165,343		129,851	
Outwards reinsurance premiums		(48,606)		(38,555)	
Net premiums written			116,737		91,296
Change in the gross provision for unearned premiums		(13,479)		(29,015)	
Change in the provision for unearned premiums, reinsurers' share		4,243		17,046	
Change in net unearned premium provision			(9,236)		(11,969)
Earned premiums, net of reinsurance			107,501		79,327
Profit commission – insurance business	9		3,069		1,178
Allocated investment return transferred from the non-technical account			8,135		4,881
Interest receivable	7		401		705
Total technical income			119,106		86,091
Claims paid:					
- Gross amount		(74,805)		(55,233)	
- Reinsurers' share		23,104		16,154	
- Net claims paid			(51,701)		(39,079)
Change in the provision for claims:					
- Gross amount		(27,799)		9,309	
- Reinsurers' share		5,228		(13,787)	
- Net change in claims provisions			(22,571)		(4,478)
Claims incurred, net of reinsurance			(74,272)		(43,557)
Balance on technical account before net operating expenses			44,834		42,534
Net operating expenses	4		(13,796)		(10,308)
Balance on technical account			31,038		32,226

Consolidated profit and loss account – Non-technical account
For the year ended 31 December 2004

	Notes	2004 £000	2004 £000	2003 £000	2003 £000
Balance on the technical account			31,038		32,226
Investment income		8,602		7,599	
Net unrealised losses on investments		(197)		(2,518)	
Investment expenses and charges		(270)		(200)	
Other income	7	69,457		50,783	
Profit commission – agency business	9	18,604		269	
Other charges:					
- Amortisation of goodwill		(3,906)		(3,906)	
- ESOT / share scheme credit / (charges)	20	4,144		(6,900)	
- Bonuses in lieu of dividends		(3,345)		-	
- Other	7	(15,889)		(13,248)	
- Total other charges		(18,996)		(24,054)	
Allocated investment return transferred to the technical account		(8,135)		(4,881)	
			69,065		26,998
Operating profit			100,103		59,224
Interest receivable	7		3,348		1,166
Interest payable	7		(2,451)		(3,146)
Profit on ordinary activities before taxation			101,000		57,244
Taxation on ordinary activities excluding ESOT share award	8	(31,385)		(18,031)	
Exceptional tax credit on ESOT share award	8	16,985		-	
			(14,400)		(18,031)
Profit for the financial year after tax			86,600		39,213
Dividends paid and proposed	10		(76,045)		-
Retained profit for the financial year			10,555		39,213
Basic and diluted earnings per share - unadjusted	11		33.5p		15.2p
Basic and diluted earnings per share - adjusted	11		26.9p		15.2p

There were no acquisitions in the financial year, and no operations were discontinued. All income and expenditure therefore relates to continuing operations.

There are no recognised gains and losses in either year other than those reported above in the profit and loss account.

In accordance with the amendment to FRS 3 (Reporting Financial Performance), no note of historical cost profits has been prepared, as the Group's only material gains and losses on assets relate to the holding and disposal of investments.

Consolidated balance sheet
At 31 December 2004

Assets	Notes	2004 £000	2004 £000	2003 £000	2003 £000
Intangible assets	12		58,448		62,354
Other financial investments	14		234,008		168,925
Reinsurers' share of technical provisions					
Provision for unearned premiums	22	21,289		17,046	
Claims outstanding	22	44,848		39,620	
			66,137		56,666
Debtors					
Debtors arising out of direct insurance operations	16	99,390		73,611	
Debtors arising out of reinsurance operations		5,470		2,622	
Other debtors		7,549		5,099	
			112,409		81,332
Other assets					
Cash at bank and in hand		88,131		54,957	
Cash on short term deposit		480		15,118	
Tangible assets	15	4,668		5,849	
			93,279		75,924
Prepayments and accrued income					
Deferred acquisition costs		2,794		2,270	
Other prepayments and accrued income		1,634		1,561	
			4,428		3,831
Total assets			568,709		449,032

Consolidated balance sheet
At 31 December 2004

Liabilities	Notes	2004 £000	2004 £000	2003 £000	2003 £000
Capital and reserves					
Called up share capital	23	259		25	
Share premium account	24	13,145		15,746	
Capital redemption reserve	24	17		-	
Profit and loss account	24	103,258		92,395	
Shareholders' funds attributable to equity interests			116,679		108,166
Technical provisions					
Provision for unearned premiums		73,139		59,660	
Claims outstanding		142,968		115,169	
			216,107		174,829
Provisions for other risks and charges	19		4,838		18,105
Creditors – falling due within one year					
Creditors arising out of reinsurance operations		91,347		48,867	
Loans	21	11,455		6,423	
Other creditors including taxation and social security	17	54,114		24,833	
Accruals and deferred income	18	50,390		36,368	
			207,306		116,491
Creditors – falling due after one year					
Loans	21	21,667		29,000	
Other creditors	17	741		1,741	
Accruals and deferred income	18	1,371		700	
			23,779		31,441
Total liabilities			568,709		449,032

These financial statements were approved by the Board of directors on 18 March 2005 and were signed on its behalf by:

Andrew Probert
Director

Company balance sheet
At 31 December 2004

	Notes	2004		2003	
		£000	£000	£000	£000
Fixed asset investments	13		103,804		101,804
Current assets					
Debtors		2,519		21,555	
Cash at bank and in hand		25,587		5,090	
			28,106		26,645
Creditors – falling due within one year					
Loans	21	(11,455)		(6,423)	
Other creditors	17	(29,345)		(2,060)	
Accruals and deferred income	18	(258)		(252)	
			(41,058)		(8,735)
Net current (liabilities) / assets			(12,952)		17,910
Total assets less current liabilities			90,852		119,714
Creditors – falling due after one year					
Loans	21	(21,667)		(29,000)	
			(21,667)		(29,000)
Net assets			69,185		90,714
Capital and reserves					
Called up share capital	23		259		25
Share premium account	24		13,145		15,746
Capital redemption reserve	24		17		-
Profit and loss account	24		55,764		74,943
			69,185		90,714

These financial statements were approved by the Board of directors on 18 March 2005 and were signed on its behalf by:

Andrew Probert
Director

Consolidated cash flow statement
For the year ended 31 December 2004

	Notes	2004		2003	
		£000	£000	£000	£000
Net cash inflow from operating activities	27		157,517		96,229
Returns on investments and servicing of finance					
Interest received		3,348		1,166	
Interest paid		(2,418)		(4,120)	
			930		(2,954)
Taxation					
UK Corporation tax paid			(15,060)		(10,428)
Capital expenditure					
Purchases of fixed assets		(1,394)		(2,921)	
Sales of fixed assets		15		20	
			(1,379)		(2,901)
Equity dividends paid			(51,996)		-
Financing					
Issues of ordinary shares		-		-	
Expenses related to share issue		(2,354)		-	
Repayment of loan capital		(2,333)		(12,333)	
Net movement in finance lease capital		(1,509)		32	
			(6,196)		(12,301)
			83,816		67,645
Cash flows were invested as follows:					
Increase in cash			18,536		7,079
Debt and other fixed income securities			65,280		60,566
			83,816		67,645

Notes to the financial statements for the year ended 31 December 2004

1. Basis of preparation

The Group financial statements, which consolidate the financial statements of the Company and its wholly owned subsidiary undertakings, have been prepared in accordance with the provisions of Section 255A of, and Schedule 9A to, the Companies Act 1985. The balance sheet of the parent Company is prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985.

The financial statements have also been prepared in accordance with applicable accounting standards and comply with the Statement of Recommended Practice ("SORP") issued by the Association of British Insurers as revised in November 2003.

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent Company is not presented.

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the group's financial statements.

a) Basis of accounting for general insurance business

General insurance business is accounted for on an annual basis.

b) Premiums

General insurance business written premiums comprise the premiums on contracts entered into during the year, which incept during the current financial year. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums.

The provision for unearned premiums comprises the proportion of gross premiums written which, it is estimated, will be earned in the following or subsequent financial years. It is computed separately for each insurance contract using the daily pro-rata method.

c) Claims

Claims incurred in respect of general business consist of claims and claims handling expenses paid during the period together with the movement in the provision of outstanding claims.

The provision for claims outstanding comprises provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. Anticipated reinsurance recoveries are disclosed separately as assets.

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

d) Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred that corresponds to the unearned premiums provision at the balance sheet date.

e) Guarantee fund and other levies

Provision is made at the balance sheet date for levies declared by the Financial Services Compensation Scheme and Motor Insurers' Bureau before completion of the financial statements. Provision is also made if it is more likely than not that a levy will be raised based on premium income which has already been recognised in the financial statements.

f) Fixed assets and depreciation

Fixed assets are stated at cost less depreciation. Depreciation is provided to write off the cost less estimated residual value of tangible assets in equal instalments of their estimated useful economic lives as follows:

Motor vehicles	4 years
Fixtures, fittings and equipment	4 years
Computer equipment and software	2-4 years
Improvement to short lease-hold properties	4 years

g) Profit commission

Under some of the co-insurance and reinsurance contracts the Group is party to, profit commission may be earned on a particular year of account, which is usually subject to performance criteria such as loss ratios and expense ratios. The commission is dependent on the ultimate outcome of any year, with commission being recognised based on loss and expense ratios used in the preparation of the statutory accounts.

The income is allocated to the technical account (under the caption "Profit commission – insurance business") if the commission is earned by one of the Group's regulated insurance companies, or alternatively to the non-technical account (under the caption "Profit commission – agency business") if earned by other companies.

Profit commission is recognised in the profit and loss account when the right to consideration is achieved, and is capable of reliable measurement.

h) Leases

The rental costs relating to operating leases are charged to the profit and loss account on a straight-line basis over the life of the lease.

Assets acquired under finance leases or hire purchase contracts are included in tangible assets at fair value on acquisition and are depreciated in the same manner as equivalent owned assets. Finance lease and hire purchase obligations are included in creditors, and the finance costs are spread over the periods of the agreements based on the net amount outstanding.

i) Ancillary income, commission and other income

Ancillary income is credited to the profit and loss account over the period matching the Group's obligations to provide services. Where the Group has no remaining contractual obligations, the income is recognised immediately. A provision is made for expected cancellations where the customer may be entitled to a refund of ancillary amounts charged.

Instalment income is credited to the profit and loss account in line with the earning of the motor premium to which the instalment income relates. Provision is made for expected cancellations.

Commission from broking activities is credited to the profit and loss account on the sale of the underlying insurance policy.

j) Investments

Listed investments are stated at mid-market value on the balance sheet date, or on the last stock exchange trading day before the balance sheet date.

Investments in subsidiary undertakings are valued at cost less any provision for impairment in value.

k) Investment return

Income from investments is accounted for on an accruals basis.

Realised gains or losses represent the difference between net sales proceeds and purchase price or in the case of investments valued at amortised cost, the latest carrying value.

k) Investment return (cont.)

Unrealised gains and losses on investments represent the difference between the current value of investments at the balance sheet date and their purchase price. The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses on investments disposed of in the accounting period.

Investment return (including realised and the movement in unrealised investment gains and losses) on investments attributable to the general business and associated shareholders' funds is reported in the non-technical account. An allocation is made from the non-technical account to the general business technical account of the longer-term investment return on investments supporting the general insurance technical provisions and related shareholders' funds.

l) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. They are regarded as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

m) Goodwill

Goodwill arising on acquisitions, being the difference between the fair value of the purchase consideration and the fair value of net assets acquired, is capitalised in the balance sheet and amortised on a straight line basis over its estimated useful life. The useful life of each acquisition is determined at the time of acquisition, and reviewed annually to ensure the life assigned remains appropriate.

n) Pensions

The Group operates a number of defined contribution personal pension plans for its employees. The contributions payable to these schemes are charged in the accounting period to which they relate.

3. Analysis of underwriting results

All insurance business written during both financial years is direct private motor insurance written in the United Kingdom. During 2004, the Group's share of the business was underwritten by Admiral Insurance (Gibraltar) Limited (AIGL) and Admiral Insurance Company Limited (AICL).

	2004 £000	2003 £000
Motor insurance – total premiums written	470,400	371,600
Co-insurers' share of total premiums	(305,760)	(241,540)
Group share of total premiums	164,640	130,060
Adjustment for prior year cancellation premium	703	(209)
Gross premiums written per technical account	165,343	129,851

AIGL, which is registered in Gibraltar, had gross premiums written of £144,001,000 during 2004 (2003: £118,443,000), profit before taxation of £18,170,000 (2003: £4,851,000) and net assets of £36,032,000 (2003: £19,862,000).

4. Net operating expenses

	2004 £000	2003 £000
Total administrative expenses incurred	55,827	44,788
Expenses recovered from co-insurers	(45,098)	(37,002)
Gross acquisition costs payable	8,464	6,654
Movement in deferred acquisition costs	(688)	(1,402)
Gross expense and reinsurance commissions receivable	(4,873)	(3,710)
Movement in deferred element of gross reinsurance commission receivable	164	787
Lloyd's charges	-	193
Net operating expenses	13,796	10,308
Staff profit share scheme charges included in administrative expenses above	2,708	1,932

Under the terms of the group's co-insurance arrangements, a proportion of the Group's total expenses are incurred on behalf of the co-insurers, and are reimbursed.

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging the following items:

	2004 £000	2003 £000
Depreciation charge:		
- Owned assets	915	1,283
- Leased assets	1,641	1,575
Operating lease rentals:		
- Machinery and equipment	-	-
- Buildings	1,574	1,444
Auditor's remuneration:		
- Statutory audit fees (including Company £12,000 (2003: £6,000))	160	106
- Other audit fees (Company £nil)	16	11
- Other services (Company £nil, 2003: £23,000)	116	76
Loss on disposal of tangible assets	4	875

In 2004, fees of £827,000 were paid to the Group's auditor in respect of professional services relating to the listing, which have been debited against the share premium account.

Profit before tax, using longer-term investment return assumptions is not materially different to the reported profit before tax using actual investment returns.

6. Employee costs

Staff costs (including directors)

	2004 £000	2003 £000
Salaries	26,338	23,651
Social security costs	2,406	2,158
Pension costs	399	308
Staff profit share scheme charge	2,708	1,932
Sub total before share scheme charges	31,851	28,049
Employee and director share scheme (credit) / charges (also refer to note 20)	(4,144)	6,900

Staff numbers (including directors)	Average for the year 2004 Number	2003 Number
Direct customer contact staff	1,242	1,078
Support staff	301	284
Total	1,543	1,362

Details of directors' remuneration are set out in the remuneration report.

7. Net interest, other income and other charges

	2004 £000	2003 £000
Bank and other interest receivable		
Allocated to technical account	401	705
Allocated to non-technical account	3,348	1,166
	3,749	1,871

Interest receivable allocated to the technical account relates to interest earned on the Funds at Lloyd's (being regulatory capital held in support of the run-off of Syndicate 2004).

	2004 £000	2003 £000
Interest payable		
Commercial loan interest	2,020	2,142
Finance lease interest	256	270
Letter of credit charges	175	734
	2,451	3,146

	2004 £000	2003 £000
Other income		
Revenue from ancillary sales	59,175	44,687
Commission from broker operations	4,475	3,767
Instalment income	2,603	1,257
Other	3,204	1,072
	69,457	50,783

	2004 £000	2003 £000
Other charges		
Costs associated with ancillary sales	10,682	8,831
Broker operations operating costs	2,719	2,096
Other costs	2,488	2,321
	15,889	13,248

8. Taxation on profit on ordinary activities

	2004 £000	2003 £000
UK Corporation tax		
Current year charge at 30% (2003: 30%)	31,342	15,192
Tax relief in respect of ESOT share provision	(16,985)	-
Under / (over) provision relating to prior years – corporation tax	1,571	(107)
Current tax charge	15,928	15,085
Deferred tax		
Current year deferred taxation movement	(651)	2,946
(Over) provision relating to prior years – deferred tax	(877)	-
Total tax charge per profit and loss account	14,400	18,031

Factors affecting the current tax charge are as follows:

	2004 £000	2003 £000
Profit on ordinary activities before taxation	101,000	57,244
Corporation tax thereon at 30%	30,300	17,173
Exceptional ESOT tax relief (refer to note 20)	(16,985)	-
Utilisation of brought forward tax losses	(582)	(105)
Syndicate profits taxed on Lloyd's basis	4,270	(5,251)
Adjustments in respect of prior year insurance technical provisions	(216)	-
Provisions previously disallowed, now deductible for corporation tax	(3,485)	-
Expenses and provisions not deductible for tax purposes	1,201	3,291
Other timing differences	(138)	93
Impact of using lower tax rate	(8)	(9)
Adjustments relating to prior years	1,571	(107)
Current tax charge for the year	15,928	15,085

9. Profit commission

	2004 £000	2003 £000
Profit commission receivable		
Insurance business – allocated to the technical account	3,069	1,178
Agency business – allocated to the non-technical account	18,604	269
	21,673	1,447

During 2004, profit commission was recognised in relation to the Group's co-insurance and reinsurance arrangements, being credited to the technical and non-technical accounts respectively. Of the £18,604,000 recognised to 31 December 2004 in the non-technical account, £5,994,000 was attributable to premiums earned in the year to 31 December 2003.

The element relating to 2003 became capable of reliable measurement during 2004, as the basis of calculation of the profit commission was formalised and agreed between parties. Following this agreement, co-insurance profit commission will accrue in proportion to premiums earned.

Refer also to the financial review for details of further profit commission receivable on the closure of the Syndicate's final open year of account.

10. Dividends

	2004 £000	2003 £000
Dividends paid:		
1. 2 March 2004 (£55.67 per share)	14,179	-
2. 2 August 2004 (£148.45 per share)	37,817	-
Total dividends paid	51,996	-
Dividends proposed (9.3p per share) payable 25 May 2005	24,049	-
Total dividends	76,045	-

Dividends paid during 2004 were paid before the Company's share capital was reorganised (described in note 23) in advance of the listing. Both dividends paid per share figures above reflect share capital in issue at the time the dividend was paid.

11. Earnings per share

	2004 £000	2003 £000
Unadjusted EPS		
Profit for the financial year after taxation	86,600	39,213
Weighted average number of shares (basic and adjusted)	258,595,400	258,595,400
Unadjusted earnings per share (basic and diluted)	33.5p	15.2p
Adjusted EPS		
Profit for the financial year after tax	86,600	39,213
Deduct exceptional ESOT tax credit (note 20)	(16,985)	-
Adjusted profit after tax	69,615	39,213
Adjusted earnings per share (basic and diluted)	26.9p	15.2p

In accordance with the provision of FRS 14 (Earnings per share), the number of shares included in the EPS calculations for 2003 and 2004 has been adjusted to assume all bonus share issues arose at the start of 2003.

Details of the reorganisation of the Company's share capital that took place before the Company's flotation during September 2004 is set out in note 23.

The two elements of the capital reorganisation that were not bonus issues (i.e. the subscription for shares by the ESOT and the subdivision) had no impact on the resources of the Group, and hence it has been assumed these also arose at the start of 2003.

An adjusted EPS figure has been presented to eliminate the impact of the exceptional tax credit arising on the crystallisation of the ESOT which occurred during 2004.

12. Intangible assets

	Group £000
Cost	
At 31 December 2003 and 2004	78,879
Amortisation	
At 1 January 2004	16,525
Charged during the year	3,906
At 31 December 2004	20,431
Net book amount	
At 31 December 2004	58,448
At 31 December 2003	62,354

All of the above goodwill is currently being amortised over a 20 year useful life.

13. Investments in subsidiary undertakings

	2004 Company cost £000	2003 Company cost £000
Investments in group undertakings	103,804	101,804

The only movement in the year related to a £2m capital injection in Admiral Insurance Company Limited.

The Company's principal subsidiaries (all of which are 100% directly owned) are as follows:

Subsidiary	Country of incorporation	Class of shares held	Principal activity
Admiral Insurance Services Limited	England and Wales	Ordinary	Service company
Admiral Insurance Company Limited	England and Wales	Ordinary	Insurance company
Admiral Insurance (Gibraltar) Limited	Gibraltar	Ordinary	Insurance company
Admiral Syndicate Limited	England and Wales	Ordinary	Lloyd's corporate capital vehicle
Admiral Syndicate Management Limited	England and Wales	Ordinary	Lloyd's managing agency
Able Insurance Services Limited	England and Wales	Ordinary	Intermediary
Inspop.com Limited	England and Wales	Ordinary	Internet services

14. Other financial investments

Group	31 December 2004 Historic Cost £000	31 December 2004 Market Value £000	31 December 2003 Historic Cost £000	31 December 2003 Market Value £000
Debt and other fixed income securities	203,615	203,418	146,979	144,461
Deposits with credit institutions	30,590	30,590	24,464	24,464
	234,205	234,008	171,443	168,925

15. Tangible assets

	Improvements to short leasehold buildings	Computer equipment and software	Office equipment	Furniture and fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 1 January 2004	1,658	13,861	2,785	1,583	-	19,887
Additions	278	867	193	44	12	1,394
Disposals	(5)	(342)	-	-	-	(347)
At 31 December 2004	1,931	14,386	2,978	1,627	12	20,934
Depreciation						
At 1 January 2004	1,405	9,023	2,127	1,483	-	14,038
Charge for the year	149	2,004	340	62	1	2,556
Disposals	-	(328)	-	-	-	(328)
At 31 December 2004	1,554	10,699	2,467	1,545	1	16,266
Net book amount						
At 31 December 2004	377	3,687	511	82	11	4,668
At 31 December 2003	253	4,838	658	100	-	5,849

Net book amounts include the following amounts relating to leased assets:

	2004 £000	2003 £000
Computer equipment and software	2,849	4,187
Office equipment	83	125
Furniture and fittings	-	-
	2,932	4,312

16. Debtors arising out of direct insurance operations

	Group 2004 £000	Company 2004 £000	Group 2003 £000	Company 2003 £000
Amounts owed by policyholders	97,304	-	72,678	-
Commission due	2,086	-	933	-
	99,390	-	73,611	-

17. Other creditors including taxation and social security

	Group 2004 £000	Company 2004 £000	Group 2003 £000	Company 2003 £000
Amounts falling due within one year				
Corporation tax payable	9,585	5,246	8,717	1,455
Dividends payable	24,049	24,049	-	-
Other tax and social security	3,236	-	2,570	-
Finance leases	1,543	-	2,052	-
Other creditors	15,701	-	11,494	-
Amounts owed to subsidiary companies	-	50	-	605
	54,114	29,345	24,833	2,060

	Group 2004 £000	Company 2004 £000	Group 2003 £000	Company 2003 £000
Amounts falling due within one year				
Finance leases	741	-	1,741	-

18. Accruals and deferred income

	Group 2004 £000	Company 2004 £000	Group 2003 £000	Company 2003 £000
Amounts falling due within one year				
Premiums receivable in advance of policy inception	23,960	-	16,495	-
Claims handling expenses	5,865	-	5,289	-
Motor Insurers' Bureau levy	12,032	-	5,797	-
Deferred income	7,513	-	5,190	-
Other	1,020	258	3,597	252
	50,390	258	36,368	252

	Group 2004 £000	Company 2004 £000	Group 2003 £000	Company 2003 £000
Amounts falling due within one year				
Claims handling expenses	1,371	-	700	-
	1,371	-	700	-

19. Provisions for other risks and charges

	Deferred taxation[1] £000	ESOT[2] £000	Total £000
Balance at 1 January 2004	6,366	11,739	18,105
Movement in the financial year	(1,528)	(11,739)	(13,267)
Balance at 31 December 2004	4,838	-	4,838

1. Deferred tax

The net balance provided at the end of the current year is made up of a gross deferred tax liability of £5,132,000 (2003: £8,878,000) relating to the tax treatment of Lloyd's Syndicates, and a deferred tax asset of £294,000 (2003: £2,512,000) in respect of other timing differences.

At the year-end, there was an unprovided deferred tax asset of £531,000 (2003: £1,113,000) relating to losses carried forward.

There was a deferred tax asset provided in the Company accounts at the year-end of £5,000 (2003: £nil). There was an unprovided asset of £171,000 (2003: £171,000) relating to carried forward losses at the year-end.

2. Employee Share Ownership Trust (ESOT)

Refer to note 20.

20. Employee and director share schemes

	2004 £000	2003 £000
ESOT[1]	(4,452)	6,900
Directors' share options[2]	308	-
Total share scheme charges	(4,144)	6,900

1. Employee Share Ownership Trust (ESOT)

The Group established an ESOT during 2000, under which a number of Admiral Group shares were to be made available for subscription by the Trust on the event of a sale or listing of the Company's shares.

The flotation of the Company's shares on 23 September 2004 triggered an issue of shares to the Trust, prior to the listing taking place.

The number of shares that were initially to be made available to the Trust was 14,706 C ordinary shares. However, following the reorganisation of the Company's capital (as set out in note 23), the actual number of shares held in the Trust at flotation was 20,588,400 ordinary 0.1p shares. The Trust benefited from bonus issues to the same extent as ordinary shareholders.

The total value of shares issued to the Trust was £56.6m at flotation – representing 8% of the value of the Group at listing.

The cumulative charge recognised in the Group accounts up to 31 December 2004 in respect of the ESOT is £7.2m, being the employer's National Insurance charge on the share awards to employees. Up to 31 December 2003, the Group had made provision of £11.7m, in the expectation that it would have to fund the Trust's subscription for shares at their full market value. As the Trust was only eventually funded at the share's par value, the Group's 2004 profit and loss account includes a credit of £4.5m, representing the release of the provision made in excess of the employer's National Insurance charge.

No further awards are to be made to the ESOT and the provision in the balance sheet at 31 December 2004 is nil.

Tax relief

The Group benefited from a corporation tax deduction in respect of the award of shares to its employees under the ESOT. The tax credit of £17.0m (being 30% of the market value of the shares at listing) is shown as an exceptional item in the profit and loss account.

2. Directors' share options

Two non-executive directors within the Admiral group (one, Keith James, a director of Admiral Group plc) were issued with share options during September 2004. Each was granted (free of charge) options over 56,000 Admiral Group plc 0.1p ordinary shares, and each exercised their options shortly after grant, also during September 2004. The exercise price per share was 0.1p, and the fair value of each option at grant and exercise was £2.75.

The 2004 profit and loss account includes a charge of £308,000 in respect of these options.

No director was granted options during 2003 and no director held unexercised options at 31 December 2003 or 2004.

21. Loans

The Company's debt consists of a facility negotiated in 2002 with Lloyds TSB and Bank of Scotland. This consists of a £40m term loan (paid down during the year to £33m), along with a £10m revolving credit facility that was cancelled by the directors during 2004. The term loan is to be repaid according to a set repayment schedule over six years from October 2002.

Interest is charged on amounts drawn down based on three elements:

a) LIBOR

b) A margin – as set out in the facility agreement, varying between 1.25% and 2.25%

c) A "mandatory costs" contribution – currently around 0.01%

Accrued interest is paid off at the end of quarterly interest periods. Security granted in respect of the facility is in the form of fixed and floating charges over most Group assets (excluding assets subject to regulatory restriction) and charges over the shares in some subsidiary companies.

Amounts outstanding (including accrued interest) at 31 December were as follows:

	2004 £000	2003 £000
Repayable		
Within one year	11,455	6,423
Two to five years	21,667	29,000
Greater than five years	-	-
Total outstanding	33,122	35,423

22. Technical provisions and estimation techniques

	Gross £000	Reinsurance £000	Net £000
At 31 December 2004			
Claims outstanding	142,968	44,848	98,120
Unearned premiums	73,139	21,289	51,850
Total	216,107	66,137	149,970

	Gross £000	Reinsurance £000	Net £000
At 31 December 2003			
Claims outstanding	115,169	39,620	75,549
Unearned premiums	59,660	17,046	42,614
Total	174,829	56,666	118,163

22. Technical provisions and estimation techniques (cont.)

2004	Gross £000	Reinsurance £000	Net £000
Claims reserve brought forward	115,169	39,620	75,549
Provision movement – current year	42,040	10,280	31,760
Releases of prior year reserves	(14,241)	(5,052)	(9,189)
Claims reserve carried forward	142,968	44,848	98,120

2003	Gross £000	Reinsurance £000	Net £000
Claims reserve brought forward	124,478	53,407	71,071
Provision movement – current year	19,894	(673)	20,567
Releases of prior year reserves	(29,203)	(13,114)	(16,089)
Claims reserve carried forward	115,169	39,620	75,549

Estimation techniques used in calculation of claims reserves

Estimation techniques are used in the calculation of the technical provision for claims outstanding, which represents a projection of the ultimate cost of settling claims that have occurred prior to the end of 2004 and remain unsettled at the end 2004.

The key area where these techniques are used relates to the ultimate cost of reported claims. A secondary area relates to the emergence of claims that occurred prior to the end of 2004, but had not been reported at the year-end.

The estimates of the ultimate cost of reported claims are based on the accurate setting of claim reserves on a case by case basis, for all but the simplest of claims.

The sum of these reserves are compared with projected ultimate costs using a variety of different projection techniques (including incurred and paid chain ladder and an average cost of claim approach) to allow an actuarial assessment of their likely accuracy and to include allowance for unreported claims.

The most significant sensitivity in the use of the projection techniques arises from any future step change in claims costs, which would cause future claim cost inflation to deviate from historic trends. This is most likely to arise from a change in the regulatory or judicial regime that leads to an increase in awards or legal costs for bodily injury claims that is significantly above or below the historical trend.

The claims provisions are subject to annual independent review by the Group's actuarial advisors.

23. Share capital

Authorised	2004 £000	2003 £000
500,000,000 ordinary shares of 0.1p	500	-
132,488 A ordinary shares of 10p	-	13
60,176 B ordinary shares of 10p	-	6
27,500 C ordinary shares of 10p	-	3
29,836 D ordinary shares of 10p	-	3
20,164 E ordinary shares of 10p	-	2
	500	27

Issued, called up and fully paid	2004 £000	2003 £000
258,595,400 ordinary shares of 0.1p	259	-
132,488 A ordinary shares of 10p	-	13
60,176 B ordinary shares of 10p	-	6
12,042 C ordinary shares of 10p	-	1
29,836 D ordinary shares of 10p	-	3
20,164 E ordinary shares of 10p	-	2
	259	25

Share capital reorganisation

As a result of the re-registration of the Company as a public limited company and the listing during 2004, significant reorganisations of the share capital were effected during the year. These can be summarised as follows:

- On 7 September 2004, the authorised share capital was increased to £54,032.80 by the creation of 132,488 new A shares, 60,176 new B shares, 27,500 new C shares, 29,836 new D shares and 20,164 new E shares
- Also on 7 September, the directors capitalised £25,470.60 of the Company's share premium account and the sum was used to effect a one for one bonus issue. This resulted in the issued share capital being increased to 264,976 A shares, 120,352 B shares, 24,084 C shares, 59,672 D share and 40,328 E shares
- On 17 September 2004, according to the provisions of the Company's Articles, the Company re-purchased 123,104 A shares, 27,722 D shares and 18,736 E shares for aggregate consideration of one penny. These shares were then cancelled
- Also on 17 September, the ESOT subscribed for 29,412 new C shares, fully paid for consideration of £2,941.20
- On the same date, following the Company's re-registration as a public company, the share capital of the Company (issued and unissued) was re-designated ordinary shares of 10p and then each share sub-divided into 100 ordinary shares of 0.1p The authorised share capital was increased to 500,000,000 ordinary shares of 0.1p
- Also on the same date, the directors capitalised a further £221,557.20 of the share premium account and effected a further bonus issue of six new to one existing share. Following the exercise of options by two Group directors of 56,000 ordinary shares each, this resulted in the issued capital being increased to 258,595,400 ordinary shares of 0.1p each, which was the year-end position

All ordinary shares in issue at 31 December 2004 have the same rights.

24. Reconciliation of movements in shareholders' funds

	Share capital	Share premium account	Capital redemption reserve	Profit and loss account	Total
Group	£000	£000	£000	£000	£000
At 1 January 2004	25	15,746	-	92,395	108,166
Profit for the financial year	-	-	-	86,600	86,600
Issues of share capital[1]	251	(247)	-	-	4
Share issue expenses	-	(2,354)	-	-	(2,354)
Dividends	-	-	-	(76,045)	(76,045)
Share option charges[2]	-	-	-	308	308
Cancellation of shares[3]	(17)	-	17	-	-
At 31 December 2004	259	13,145	17	103,258	116,679

	Share capital	Share premium account	Capital redemption reserve	Profit and loss account	Total
Company	£000	£000	£000	£000	£000
At 1 January 2004	25	15,746	-	74,943	90,714
Profit for the financial year	-	-	-	56,558	56,558
Issues of share capital[1]	251	(247)	-	-	4
Share issue expenses	-	(2,354)	-	-	(2,354)
Dividends	-	-	-	(76,045)	(76,045)
Share option charges[2]	-	-	-	308	308
Cancellation of shares[3]	(17)	-	17	-	-
At 31 December 2004	259	13,145	17	55,764	69,185

Notes

1. Refer to note 23 for full details of share capital movements in 2004.
2. Relates to the exercise of options by two directors during 2004 – refer to note 20 for further detail.
3. As set out in note 23, the Company's Articles provided for the cancellation of a number of shares (the "deferred shares") immediately prior to a flotation of the Company's shares. These were repurchased at an amount below par, with the balance transferred to a capital redemption reserve.

25. Financial commitments

Annual commitments of the Group under non-cancellable operating leases are as follows:

	31 December 2004		31 December 2003	
Operating leases which expire:	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	-	-	16	-
In the second to fifth year inclusive	509	-	460	-
Over five years	1,465	-	1,147	-
	1,974	-	1,623	-

At the year-end, the Group had contracted to spend approximately £373,000 on tangible assets during 2005 (2003: £167,000 during 2004). The Company itself does not hold tangible assets, and was not committed to any expenditure after 31 December 2004.

26. Contingent liabilities

The Group had no contingent liabilities at the year-end, other than those arising out of insurance contracts, and other agreements entered into in the normal course of business.

27. Cash flow statement

a) Reconciliation of operating profit to net cash inflow from operating activities:

	2004 £000	2003 £000
Operating profit	100,103	59,224
Add back / (deduct):		
- Depreciation charge	2,556	2,858
- Amortisation charge	3,906	3,906
- Unrealised losses on investments	197	2,518
- Employer's National Insurance charge on share schemes	(7,284)	-
- ESOT (credit) / charge	(4,452)	6,900
- Share option charges	308	-
Loss on disposal of tangible assets	4	875
Change in gross technical provisions	41,278	19,706
Change in reinsurers' share of technical provisions	(9,471)	(3,259)
Change in debtors and prepayments	(31,674)	(7,992)
Change in creditors and accruals - excluding tax and social security	61,380	10,071
Change in tax and social security creditor	666	1,422
Net cash inflow from operating activities	157,517	96,229

b) Movement in opening and closing portfolio of investments, net of financing:

	2004 £000	2003 £000
Net cash inflow for the financial year:		
Cash flow	18,536	7,079
Portfolio investments	65,280	60,566
Movement in financing	3,810	12,384
Movement arising from cashflows	87,626	80,029
Changes in market values	(197)	(2,518)
Total movement in portfolio investments, net of financing	87,429	77,511
Opening portfolio investments, net of financing	199,784	122,273
Closing portfolio investments, net of financing	287,213	199,784

27. Cash flow statement (cont.)

c) Movements in cash, portfolio investments and financing:

2004	At 1 January 2004 £000	Cash Flow £000	Market Value changes £000	At 31 December 2004 £000
Cash at bank and in hand	54,957	33,174	-	88,131
Cash on short term deposit	15,118	(14,638)	-	480
	70,075	18,536	-	88,611
Fixed income and other debt securities	144,461	59,154	(197)	203,418
Deposits with credit institutions	24,464	6,126	-	30,590
Finance leases	(3,793)	1,509	-	(2,284)
Loans	(35,423)	2,301	-	(33,122)
Total	199,784	87,626	(197)	287,213

2003	At 1 January 2003 £000	Cash Flow £000	Market Value changes £000	At 31 December 2003 £000
Cash at bank and in hand	50,021	4,936	-	54,957
Cash on short term deposit	12,975	2,143	-	15,118
	62,996	7,079	-	70,075
Fixed income and other debt securities	90,099	56,880	(2,518)	144,461
Deposits with credit institutions	20,778	3,686	-	24,464
Finance leases	(3,761)	(32)	-	(3,793)
Loans	(47,839)	12,416	-	(35,423)
Total	122,273	80,029	(2,518)	199,784

28. Related party transactions

There were no related party transactions occurring during 2004 that require disclosure.

Profit and loss account	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
Total premiums written	470,400	371,600	333,000	284,415	232,000
Net earned premium	107,501	79,327	81,336	84,135	40,392
Profit commission – insurance business	3,069	1,178	-	-	-
Allocated investment return	8,536	5,586	6,145	4,055	2,095
Net claims incurred	(74,272)	(43,557)	(52,566)	(63,933)	(36,682)
Net operating expenses	(13,796)	(10,308)	(7,729)	(12,927)	(6,637)
Technical account balance	31,038	32,226	27,186	11,330	(832)
Profit commission – agency business	18,604	269	-	-	-
Net other income	50,461	26,729	19,388	19,936	15,246
Operating profit	100,103	59,224	46,574	31,266	14,414
Net interest	897	(1,980)	(3,623)	(3,831)	(3,654)
Profit before taxation	101,000	57,244	42,951	27,435	10,760
Taxation	(14,400)	(18,031)	(12,014)	(9,099)	(6,851)
Profit after taxation	86,600	39,213	30,937	18,336	3,909
Dividends	(76,045)	-	-	-	-
Retained profit	10,555	39,213	30,937	18,336	3,909

Balance sheet	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
Assets					
Intangible assets	58,448	62,354	66,260	71,945	75,545
Financial investments	234,008	168,925	110,877	93,912	45,985
Reinsurers' share of technical provisions	66,137	56,666	53,407	106,412	58,253
Debtors	112,409	81,332	73,728	82,272	77,699
Cash	88,611	70,075	62,996	33,218	28,356
Tangible assets	4,668	5,849	6,681	7,261	4,644
Prepayments and accrued income	4,428	3,831	3,443	10,492	8,993
Total assets	568,709	449,032	377,392	405,512	299,475
Liabilities					
Shareholders' funds	116,679	108,166	68,953	22,268	3,932
Gross technical provisions	216,107	174,829	155,123	208,495	116,507
Creditors due within one year	207,306	116,491	96,835	106,291	95,201
Creditors due after one year	23,779	31,441	48,222	68,458	83,835
Provisions for other risks and charges	4,838	18,105	8,259	-	-
Total liabilities	568,709	449,032	377,392	405,512	299,475

NOTICE OF ANNUAL GENERAL MEETING

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Admiral Group plc will be held on Wednesday 18 May at 11.00am at The Celtic Manor Hotel, Coldra Woods, Newport, South Wales, NP18 1HQ.

Ordinary Business

1. To receive the reports of the directors and the audited accounts of the Company for the year ended 31 December 2004
2. To approve the directors' remuneration report set out on pages 28 to 30 for the year ended 31 December 2004
3. To declare a final dividend on the ordinary shares of the Company for the year ended 31 December 2004 of 9.3 pence per ordinary share
4. To re-elect Alastair Lyons CBE (Non-executive Chairman and a member of the Nominations Committee) as a director of the Company
5. To re-elect Henry Engelhardt (Chief Executive Officer) as a director of the Company
6. To re-elect David Stevens (Chief Operating Officer) as a director of the Company
7. To re-elect Andrew Probert (Finance Director) as a director of the Company
8. To re-elect Manfred Aldag (Non-executive director and member of the Nominations Committee) as a director of the Company
9. To re-elect Martin Jackson (Non-executive director, Chairman of the Audit Committee and member of the Remuneration Committee) as a director of the Company
10. To re-elect Keith James OBE (Non-executive director, Chairman of the Nominations Committee and member of the Audit Committee) as a director of the Company
11. To re-elect John Sussens (Senior Independent Non-Executive Director and Chairman of the Remuneration Committee) as a director of the Company

Martin Jackson and John Sussens have joined the Board during the last year and none of the other current directors of the Company submitted themselves for retirement and re-election at the two Annual General Meetings of the Company that took place prior to the listing. Accordingly, as a matter of good order, all of the current directors of the Company believe that they should retire and submit themselves for re-election at this Annual General Meeting, the first such meeting following the listing.

Biographical details of all of the directors may be found in the Annual Report of the Company on pages 35 to 36.

12. To re-appoint KPMG Audit plc as the auditor of the Company from the conclusion of this meeting until the conclusion of the next General Meeting at which accounts are laid and to authorise the directors to determine their remuneration

Special Business

To consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:

13. That the directors be generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £86,200 provided that this authority shall expire (unless previously renewed, varied or revoked by the company in General Meeting) 15 months after the date of the passing of this resolution, or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the date of the passing of this resolution, but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the directors may allot relevant securities in pursuance of such offers or agreements.

Section 80 of the Companies Act 1985 provides that the directors of a company cannot issue new shares in its capital without the approval of its shareholders. Accordingly, the purpose of this resolution is to give the directors of the Company authority to issue new shares in the capital of the Company up to a maximum amount of £86,200, which is approximately equivalent to 33.3% of the issued share capital of the Company as at 11 April 2005. Authority for this already exists by virtue of a resolution dated 17 September 2004. However, the directors feel that as a matter of good order it should be reaffirmed. This resolution will allow the directors of the Company flexibility to act in the best interests of the Company and its shareholders by issuing new shares in appropriate circumstances.

To consider and, if thought fit, to pass the following resolutions which will be proposed as Special Resolutions:

14. Subject to passing Resolution 13, that the directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act and as amended by the Regulations) for cash pursuant to the authority conferred by Resolution 13 above as if section 89(1) of the Act did not apply to such an allotment provided that this power shall be limited to the allotment of such equity securities:
    a) in connection with an offer of equity securities by way of rights to the holders of the ordinary shares in proportion (as nearly as may be practicable) to their holdings on a record date fixed by the directors (but subject to exclusions or other arrangements as the directors may consider necessary or expedient to deal with any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever) and
    b) otherwise than pursuant to sub-paragraph a) above up to a maximum aggregate nominal amount equal to £12,930

    Provided that this power shall, unless previously revoked or varied by special resolution of the Company in General Meeting, expire 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the date of the passing of this resolution save that the Company may, before the expiry of such power, make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

    For the purposes of this resolution, the "Regulations" means The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003.

Section 89 of the Companies Act 1985 gives existing shareholders in a company certain pre-emption rights with respect to allotments of new shares. A company can only disapply these rights with the approval of its shareholders. Accordingly the purpose of this resolution is to allow the directors of the Company to allot ordinary shares in the Company for cash, or to transfer treasury shares for cash, other than to its existing shareholders on a pre-emptive basis up to a maximum amount of £12,930 which is equivalent to 5% of the issued ordinary share capital of the Company as at 11 April 2005 and is in line with the recommended guidelines issued by institutional investor bodies. As with Resolution 13, authority already exists for this by virtue of a resolution dated 17 September 2004. However, the directors feel that as a matter of good order it should be reaffirmed.

15. That the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) on the London Stock Exchange of ordinary shares of 0.1p in the capital of the Company (ordinary shares) provided that:
    a) the maximum aggregate number of ordinary shares authorised to be purchased is 12,900,000 (representing 4.99% of the issued ordinary share capital)
    b) the minimum price which may be paid for an ordinary share is 0.1p
    c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased, exclusive of expenses
    d) the authority conferred by this resolution shall, unless renewed, expire on the date falling 15 months after the date of the passing of this resolution, or, if earlier, at the conclusion of the next Annual General Meeting of the Company and
    e) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract

The directors consider, in certain circumstances, that it may be appropriate and in the best interest of shareholders generally for the Company to purchase its own shares. This resolution gives authority for the Company to purchase up to 12,900,000 ordinary shares which is approximately equivalent to 4.99% of the issued share capital of the Company as at 11 April 2005. The directors have no specific plans to exercise any authority granted by this resolution, but will keep the matter under review and will only make purchases where, in the light of prevailing market conditions, they consider it will result in an increase in earnings per ordinary share in the Company.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (which came into force on 1 December 2003) enable companies to retain any of their own shares they have purchased as treasury shares with a view to their possible re-issue at a later date, rather than cancelling them as the law previously required. The Company will consider holding any of its own shares that it purchases pursuant to this resolution as treasury shares, which will give the directors flexibility in the management of the capital base of the Company. No dividends will be paid on treasury shares while held in treasury, and no voting rights will attach to them.

16. That the Articles of Association of the Company be amended by the deletion of Article 168.1 and the substitution therefore of the following:

"168.1 Subject to the provisions of the Act, but without prejudice to any indemnity to which he may be otherwise entitled, each director, alternate director, secretary or other officer of the Company may, at the discretion of the Board, be indemnified out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him in the actual or purported execution and/or discharge of his duties or exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office, provided that this Article 168.1 shall be deemed not to provide for, or entitle any such person to, indemnification to the extent that it would cause this Article 168.1, or any element of it, to be treated as void under the Act".

The Companies (Audit, Investigations and Community Enterprise) Act 2004 makes changes to section 310 of the Companies Act 1985 in relation to the indemnification of directors by companies for liabilities arising in connection with the performance of their functions. Consequently the Company will be able, at the discretion of the Board and subject to the Companies Act 1985, to indemnify the directors for costs and losses incurred by them in facing and defending liability in civil, criminal and regulatory proceedings. This change comes into force on 6 April 2005.

Recommendation

Your Board considers each of the proposed resolutions to be in the best interests of the Company and its shareholders as a whole. Accordingly, your directors unanimously recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial shareholdings.

By order of the Board

Stuart Clarke
Company Secretary
11 April 2005

REGISTERED OFFICE
Capital Tower
Greyfriars Road
Cardiff CF10 3AZ
Registered No. 3849958

NOTICE OF ANNUAL GENERAL MEETING

Notes

1. A member entitled to attend and vote at the Annual General Meeting ('AGM') may appoint a proxy (who need not be a member of the Company) to attend and, on a poll, to vote on his or her behalf. In order to be valid an appointment of proxy must be returned by one of the following methods:
   - in hard copy form by post, by courier or by hand to the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or
   - if you hold your shares in certificated form and have your share certificate to hand, online at www.capitaregistrars.com by following the instructions provided or
   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below

   and in each case instructions must be received not less than 48 hours before the time of the meeting. Appointment of a proxy does not preclude a member from attending the meeting and voting in person.
2. For an appointment of proxy returned in hard copy to be valid, it must be completed and deposited (together with any power of attorney or other written authority under which it is signed or a copy of such authority notarially certified or in some other way approved by the directors) with Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the meeting.
3. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings
4. In the case of joint holdings, only one holder may sign and the vote of the senior who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders, seniority for this purpose being determined by the order in which the names stand in the Register of members in respect of joint holdings.
5. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, in order to be able to attend and vote at the AGM or any adjourned meeting, (and also for the purposes of calculating how many votes a person may cast), a person must have his/her name entered on the register of members of the Company by 6.00pm on 16 May 2005 (or 6.00pm on the date two days before any adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
6. The register of Directors' interests kept by the Company under Section 325 of the Companies Act 1985 will be available for inspection at the meeting from 10.45am until the conclusion of the meeting.
7. Copies of the executive directors' service contracts and the non-executive directors' terms of appointment will be available for inspection at the meeting from 10.45am until the conclusion of the meeting.