Admiral Group plc

A year of success

Annual Report 2005

Directors and advisors

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)
Keith James OBE (Non-executive Director)
John Sussens (Senior Independent Non-executive Director)
Gillian Wilmot (Non-executive Director, appointed 26 April 2005)

Company Secretary

Stuart Clarke

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Gillingham Business Park
Kent ME08 0LS

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Birmingham B2 5LS

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London EC1A 1HQ

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Notes

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

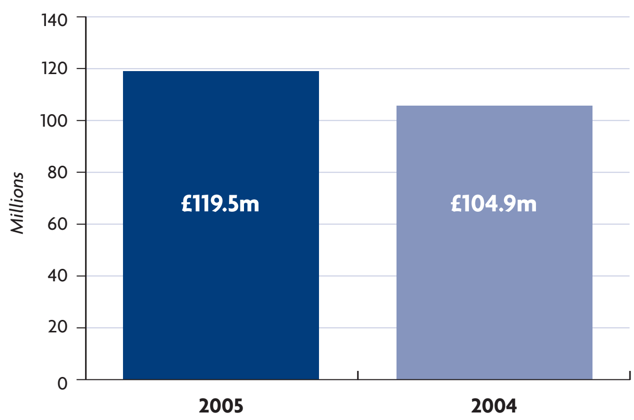
Diamond was created for women in response to a need in the market place for insurance specifically for young women drivers, which is not only good value, but also as hassle free as possible. www.diamond.co.uk

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

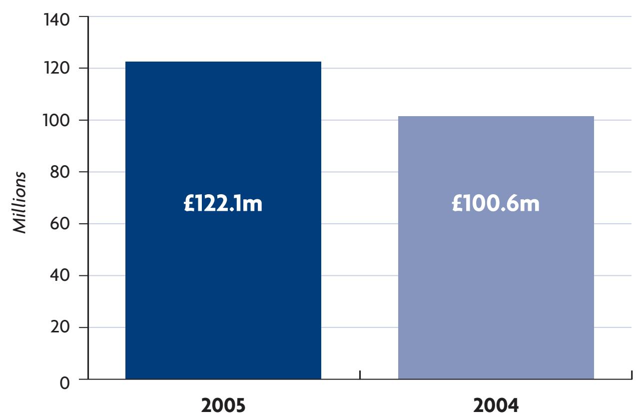
Gladiator Commercial is the Group's commercial vehicle insurance broker that was launched in April 1998. The Company acts on behalf of several of the largest commercial vehicle insurers in the UK. www.gladiator.com

Financial highlights

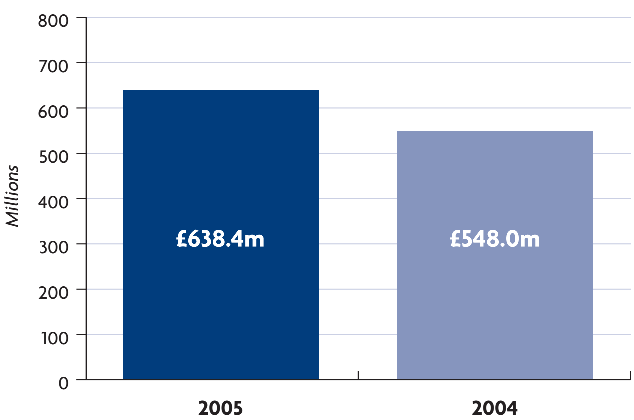
Profit before tax



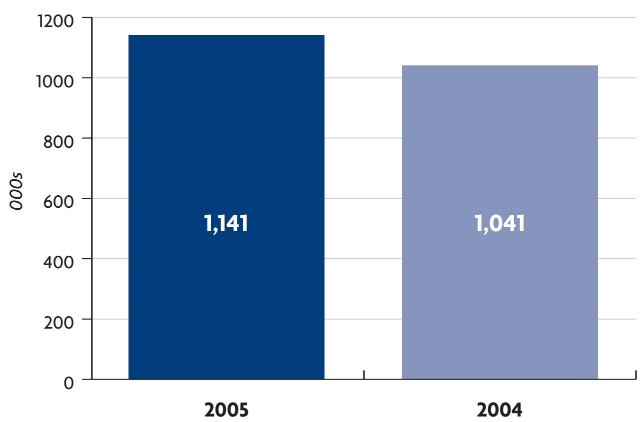
Adjusted Group core profit[1]



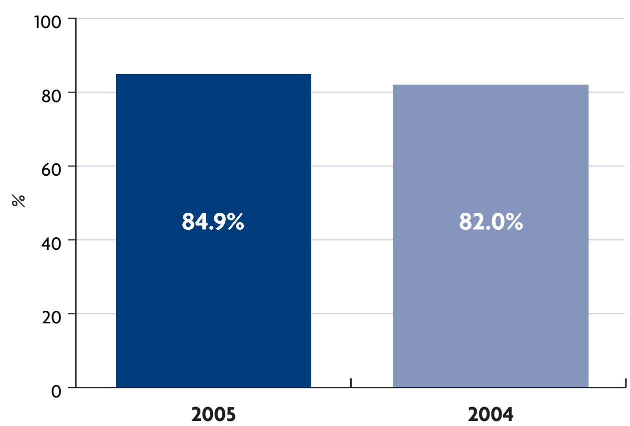
Group turnover[2]



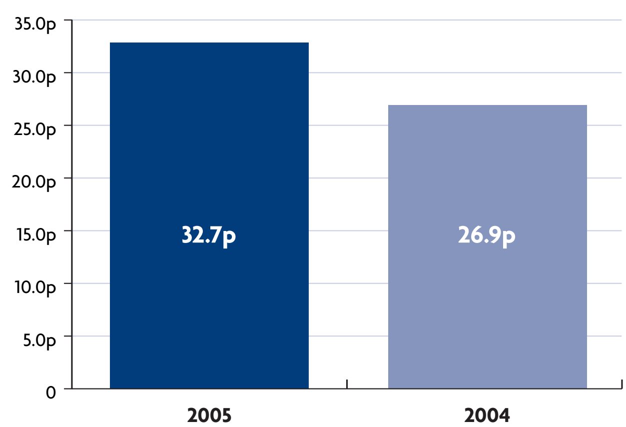
Closing active customers



Adjusted combined ratios



Adjusted earnings per share[3]



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

Chairman's statement

"We believe passionately that a business succeeds because people enjoy working for it. Enthusiasm is infectious, transmitting from our staff to our customers and to those thinking about coming to work for us."

Alistair Lyons CBE

2005, our first full year since coming to the market in September 2004, continued the sustained growth in customer franchise and profitability that the Group has achieved since it was launched in 1993. Henry Engelhardt, our Chief Executive, writes in detail about the achievements of the year in his own report – I shall, therefore, content myself with the headlines.

In a year when, given our assessment of where the motor market was in its cycle, we deliberately set out to grow less rapidly, we were pleased to add 10% to customer numbers and finish the year with 1.1 million policyholders. This growth, together with a continuing excellent expense ratio, helped offset the impact of the cycle on our claims ratio, whilst we achieved further strong growth in income from products and services that we do not underwrite. Profit before tax was up 14% at £119m whilst total premiums written, including those we share with our reinsurance partners, grew by 13% to £534m.

We were delighted with the 48.3% Total Return that we achieved for Shareholders during 2005, itself part of an overall 73.9% since flotation. The sustained growth in our share price has resulted in the business being valued at £1.5Bn on 1 March 2006, which compares against £711m when first listed just under 18 months previously.

During the year we paid dividends to shareholders totalling £49.2m, comprising a 9.3p per share final dividend for 2004 and a 9.7p per share interim dividend for 2005.

We consider dividends in two parts: the first element, being the normal dividend, is based on a 45% pay-out ratio. The second special element derives from our principle of returning excess cash to our shareholders, reflecting the strongly cash generative nature of our business model. We only retain in the business sufficient cash to provide both a prudent margin against contingencies, currently set at £25m, and cover for planned investments, this year being £6m for our expansion into Spain and moving our Swansea office into larger modern premises.

On this basis there is £38.7m available to distribute out of year-end non-regulated cash balances totalling £69.7m. A final dividend of 14.9p per share (7.8p normal; 7.1p special) is, therefore, proposed for 2005, which will bring total dividends for the year to 24.6p per share, a yield of 4.3% based on the closing share price on 1 March 2006. This is the first full dividend since flotation.

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.

We believe passionately that a business succeeds because people enjoy working for it. Enthusiasm is infectious, transmitting from our staff to our customers and to those thinking about coming to work for us. Quality is central to everything that we do: we measure the quality of every department on a monthly basis, and these quality scores translate into Quality Awards. Whilst quality cannot be achieved without effective training, it is also a mindset that depends upon people wanting to achieve a quality outcome.

We were, therefore, very proud to have been named Employer of the Year at the National Business Awards, to have won Welsh Company of the Year for the second time, and to have continued our uninterrupted series of being six years running in the Sunday Times list of Top 100 Places to Work in the UK. Being a leading employer of over 1,700 people in South Wales we recognise our wider responsibility to the communities of which we are a part and support a large number of local charities - details of our activity in this area can be found in the report on corporate responsibility.

Ongoing alignment of interest between our staff and our shareholders is one of our core principles. Our Approved and Executive Share Schemes are designed to strengthen that alignment over time and we are delighted that the strong out-performance against our plan for 2005 resulted in the Approved Scheme realising its maximum award of £3,000 free shares for each eligible employee. The Executive Share Scheme is based on growth in earnings per share over three years and will, therefore, first vest after the 2007 financial year.

In April of last year we welcomed Gillian Wilmot to our Board as a Non-executive Director, bringing us extensive marketing experience gained across a broad range of consumer-facing businesses. However, her subsequent appointment as Chief Executive of the privately owned credit retail business Buy-as-you-View results in her no longer being regarded as an Independent Director under the Combined Code, as I am also Chairman of that business. As a consequence she will not offer herself for re-election as a Director of Admiral at the forthcoming Annual General Meeting and we are currently seeking a new Non-executive Director with equivalent skills and experience. I would like to take this opportunity to thank Gillian for her contribution during her time with us.

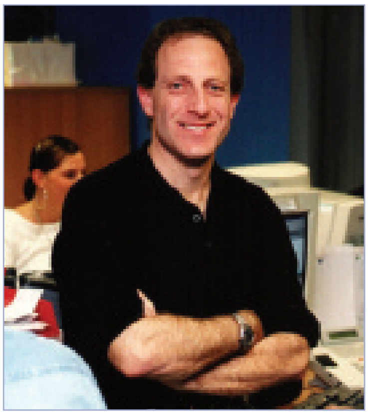
As I wrote last year, Admiral's strategy is clear and straightforward – to continue to grow our share of the direct private motor market, maximising the value derived from each customer relationship. Along the way we will identify profitable opportunities to exploit the knowledge, skills and resources attaching to our core business in the UK. Our plans to launch later this year in Spain, the first leg of our expansion into Europe, flow directly from this strategy, as does our continuing development of Confused, our intelligent automated car insurance shopper which last year handled 4 million quotes and added household and travel insurance to its core motor offering.

We look forward to continuing consistently to create value for all our shareholders.

Alastair Lyons
Chairman

Alastair Lyons, Chairman

Chief Executive's statement



Henry Engelhardt
Chief Executive

2005? Not too shabby

Our first full year as a publicly quoted Company was, by virtually any measure, a successful one.

Here in a nutshell are the highlights:

- Made a record core profit of £122.1m, up 21% from £100.6m in 2004
- Total turnover for the year was £638m, up 16% from 2004
- Total motor premium written grew to £534m, up 13% from 2004
- Produced a combined ratio of 85%
- Gave more than 9.7m quotes, of which almost 9 million started on the internet (92%)
- Ended the year with more than 1.1m customers (+ 10%)
- Experienced continued improvement in loss ratios across all the back years
- Confused.com gave more than 4m quotes and made a profit of £8.8m (including payments from Group brands)
- Named Employer of the Year at the National Business Awards
- Named to The Sunday Times list of Top 100 Places To Work in the UK for the sixth year in a row (every year it's been run)
- Named by the Financial Times as the 17th Best Workplace in the UK and one of the Top 100 Workplaces in the EU
- Welsh Company of the Year, for the second time in eight years
- The number of children at our Staff Children's Christmas party? ...I'm going to put this one at the end – make you work for it! Read on –

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 do everything involved in the process of acquiring and servicing our customers. However, we are not your typical insurance operation as we share the income and commensurate risk with several reinsurance partners, taking only 30% of the underwriting risk for our own account. We operate through a number of targeted brands: Admiral (younger drivers, London area), Diamond (women drivers), Elephant.co.uk (internet users) and Bell (zero no claims bonus). We have two other brands, Gladiator Commercial, which operates as an intermediary in the commercial vehicle market, and Confused.com, which is an internet 'shopper' for insurance products.

2005 was our 13th year of trading. The first seven were in a Lloyd's of London environment. However, towards 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 floated the Company on the London Stock Exchange and created Admiral Group plc.

In 1999 we also put in place a long-term co-insurance agreement with Great Lakes UK, a wholly-owned subsidiary of Munich Re. 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. Management and staff currently own around 27% of the Group.

Key performance information

Our total written premium for 2005, before sharing it with our reinsurance partners, was £534m, accounting for 84% of our total turnover. The number of customers we service rose to 1,141,000 from 1,041,000 (+10%). All our growth throughout our history has been organic.

In 2005 70% of our premium was underwritten by Munich Re (65%) and Axis Re (5%). The remaining 30% was kept by the Group. Our net written premium for 2005 was £159m. In 2006 Admiral Group will take 25% of the premium income to its own account. Munich Re, through Great Lakes, will continue to take 65%, Axis Re, as last year, has 5% and we have a new partner for 2006, Swiss Re, also taking 5%.

Some key numbers from the accounts which follow:

- Claims ratio 70%, up from 67% in 2004
- Earned expense ratio, excluding regulatory levies, down to 12.3% from 12.5%
- Combined ratio 85%, up from last year's 82%
- Revenue from products and services we do not underwrite totalled £93.4m up from £69.5m (+34%)

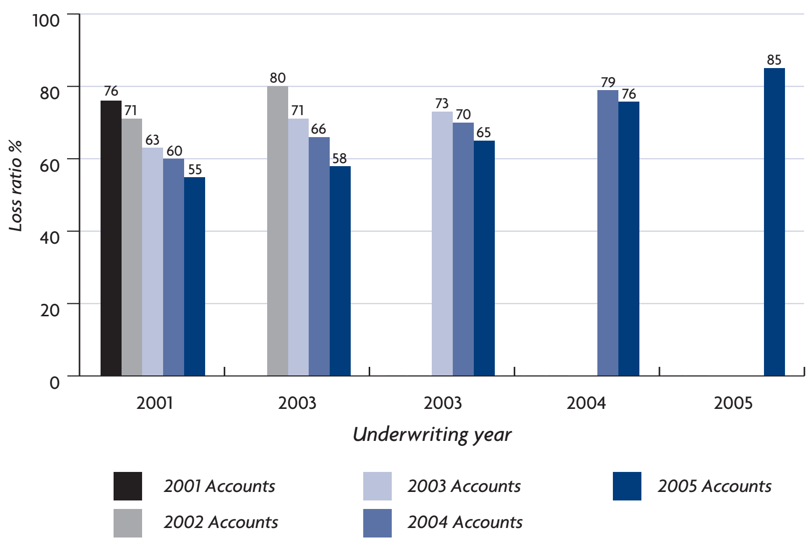
The movement in loss ratio from 67% last year to 70% in 2005 is to be expected. The market has not moved much on price in several years and there is a claims inflation factor at work. The change in loss ratio across years is characterised by a less good underlying trend reflecting the paucity of price increases. Without any releases taken into account the loss ratio moved from 75% to 82%.

The bar chart below 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

"Our first full year as a publicly quoted Company was, by virtually any measure, a successful one."

Henry Engelhardt

Loss ratio development



"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."

Henry Engelhardt

Accounts the loss ratio for the 2001 underwriting year was 63%, down from 71% in the previous year's accounts. This year the result for the 2001 year has matured to 54.9%.

The expense ratio, not including regulatory levies, moved downwards by 0.2% from 2004, a reduction of 2%. 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 grow our premium income and customer numbers. To convert more quotes we'd have to be less selective. Clearly, the more selective you are the better your loss ratio should be.

In last year's report I explained our intention to reduce our growth rate in 2005. We achieved our goal! We wound up reducing our growth rate in premium from 27% in 2004 to 13% in 2005. We did this because the best part of the market cycle was behind us and it would not have been beneficial to grow so rapidly into the poorest part of the cycle. We increased prices steadily in the first half of the year to put the brakes on, finishing the half-year 3% above where we'd started. However, the market lagged well behind these increases and our conversion rate suffered. Our choice was either to bring rates down or sacrifice profitable business. We chose the former and made selective rate decreases in the second half. The overall effect was a 1% increase in prices across the year and a year-on-year increase in our customer numbers of 10%.

Ancillary income moved forward, both through the increased number of customers and also through more income per customer. We finished the year with more than £56 of income per customer, not including Confused or Gladiator. We do not anticipate a further step-change in income per customer in 2006, although we'd be pleasantly surprised if it occurred. The splendid result from Confused.com certainly didn't hurt the 'other' income line either.

To put this income into context, I've done a little calculation where the non-underwriting 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 60%! Here's another interesting calculation: we made £122m on income of £233m, a ratio of 52%.

The UK car insurance market cycle: Boil a frog slowly

Did you know that if you want to boil a frog (note: no frogs have been boiled in the making of these accounts or the writing of this commentary) and you throw the frog into boiling water it will jump right out? But if you put the frog in a pot of cool water and turn up the heat, it will boil quite nicely? The UK car insurance market is now akin to that slowly boiling frog. Previous cycles were more like throwing the frog into the boiling pot. The market would scream and react. The current cycle is characterised by a gentle deterioration; a slow boil. The market result is just getting a bit worse each year, nothing overly dramatic, but....

2004, the most recent year for which data is available, was a decent year for the market. Blimey, actually not too far from an underwriting profit! The official figure for the market combined ratio for 2004 was 101.3% (102.2% for 2003), but this was distorted by a very large release of prior year claims reserves, well beyond the norm for the market. The true year combined ratio was more like 105%, which is much more akin to a borderline break-even result. Typically, seven years on from the previous worst point in the cycle, the market is back to a combined ratio of 120%. So this, seven years on from 1998's 124% result, is clearly demonstrating the changing nature of the typical cyclical pattern.

But although 105% is a good result considering the nature of the cycle, it is still a marginal proposition to write UK motor insurance at the average. And it is a worse result than 2003.

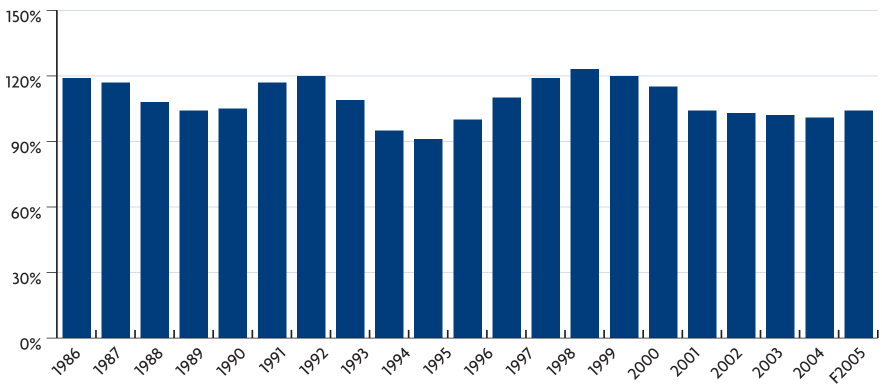
Why did the market deteriorate a bit 2004 v 2003? Well, largely because there weren't any major movements in price. And there was a modest amount of claims inflation, albeit probably less than expected. The lower-than-expected claims inflation is down to two phenomena: first, a gradual decline in overall frequency, which has been happening for a number of years. This is probably caused by a combination of factors including: the increase of speed cameras, more traffic congestion and therefore people driving slower, growth in low-cost air travel which lets people travel abroad for holidays rather than driving in the UK and a growth in the number of households where the number of cars exceeds the number of drivers.

Whatever the exact cause, it's a market-wide phenomena.

The second phenomenon is a reduction in the inflation rate of bodily injury costs. This is a much more volatile measure and subject to potential shock should, for instance, there be a change in the discount rate for calculation of long term liabilities. But at the moment inflation in this area is below the average for the last decade.

There isn't much to say about market rates in 2005 because they didn't move very much! We saw this lack of movement via our conversion rate and, as noted earlier, moved our own rates accordingly.

UK Motor – Combined Ratios



Source – Deloitte

"Our ability to make the internet work goes a long way to explaining our excellent results. This is also a source of confidence in our future."

Henry Engelhardt

However, the marketing spend seemed to have come off the boil in the second half of the year. The spend peaked in July 2005. Since then less was spent in each month of 2005 than the same month in 2004. Historically marketing spend has been a measure of appetite for business. It serves as a rough precursor for cyclical change, with a rise in the spend bringing about a poorer future underwriting result and a reduction in spend indicating a better future result. The last time the spend actually decreased, as it did in the latter part of 2005, was 1998. The spend then levelled off for two years, at which point the market was moving to the better phase of the cycle. The marketing spend started to rise again in 2001, when the market result was very good, and continued to rise, unabated, until the middle of 2005.

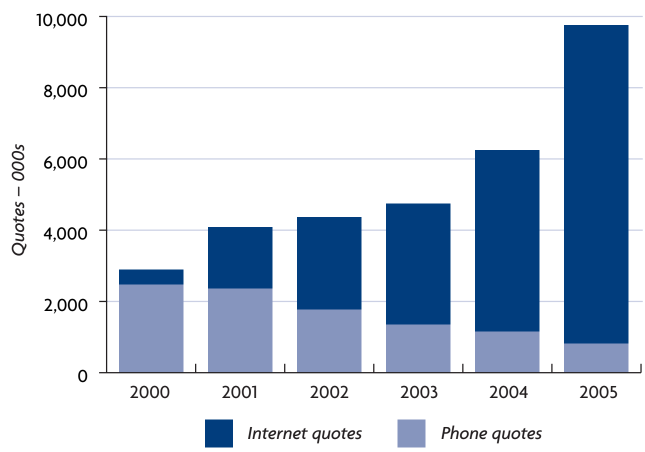
It is not clear to me whether this is a false dawn or a true indication that most insurers are keen to produce a profitable result. It easily could be a situation where a number of traditionally big spenders have just paused, taking time to assess their position and clean their weapons in anticipation of a major assault on the market in 2006.

Nothing has occurred to alter my thoughts on the long-range outlook for the market. It is still a cyclical market, but, versus historical patterns, I'd expect the good times to be less good and the bad times to be less bad. In large part this is due to consolidation in the market. The largest two players in the market combine to have around 45% market share, whereas in the mid-1990s, prior to consolidation, it took more than a handful of firms to account for 45% market share. These two firms, Royal Bank of Scotland (@34%) and Aviva Norwich Union (@11%), appear to be disciplined and keen to make good returns. This lends a great deal of stability to the market.

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

As the 'boil the frog' analogy indicates, I don't see a great deal of change to this landscape in 2006. I believe the market will continue to deteriorate, but not in a dramatic fashion. I think we'll see some firms trying to grow share through marketing, others through rate changes and others willing to sacrifice share to maintain a healthy bottom line. We might see some volatility in marketing spend for the market as a whole as from time to time individual firms step up the marketing to meet ambitious targets.

Quote volumes split by phone and internet



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.

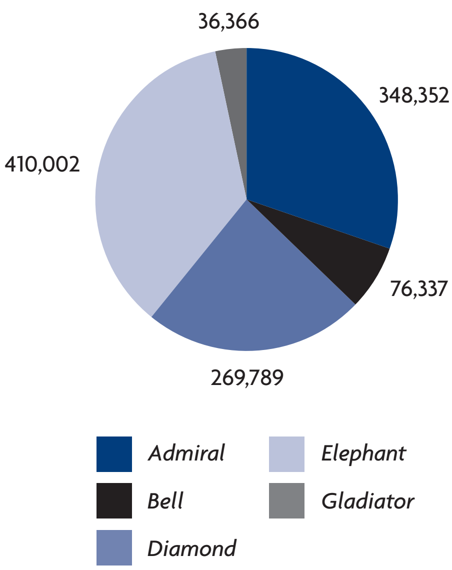
Second, our unique underwriting structure means we have a limited share of our own result, which reduces profits in the good times, but also reduces the effect of narrowing margins in the less good times, leaving us with a high return on capital. As we continue to grow our customer base, we continue to grow our ancillary revenues. All in all it should result in sustainable, profitable growth going forward.

At the very end of 2005 we launched Admiral MultiCar. This is a product targeted at households with more than one car. It is, in part, a volume discount product. However, we've taken the time and trouble to create something more involved than just that. MultiCar will take the information it gathers from the household and use it in rating all the vehicles. This will allow us to be much more precise in our rating and, in many cases, save deserving customers a lot of money. But there's more for the customer than just saving money. MultiCar will ease the burden a customer currently has of getting quotes and keeping track of different policies for their different cars, often with different insurers, often with different renewal dates. MultiCar will unite all the renewal dates on the anniversary date of the renewal of the first car. Changes will be easier too: if a customer moves house, he/she need but tell us once and all the cars in the policy will be updated. As you might be able to tell, we're excited about the prospects of MultiCar.

Once again, a brief explanation of why our results are so good!

Our ability to make the internet work goes a long way to explaining our excellent results. This is also a source of confidence in our future. Our 2005 internet results exceeded our forecasts and, in the absolute, are quite stunning. (Except for changing the year from '2004' to '2005' this was exactly what I wrote last year and the year before. It's not that I'm being lazy, it's just that it's still true!) Of the more than 9.7m quotes we did last year 92% started on the internet - that's almost 9,000,000 quotes on the internet! Around 82% 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 2005 we had around a billion hits to our websites!)

Customers by brand 31/12/05



Admiral sponsorship of the Cardiff Marathon 2005

Elephant, our pure internet brand, saw its end-of-year customer count reach 410,000 (up 14% from the year before). Elephant is still the biggest brand in the Group. The other brands all grew the number of customers they service in 2005 as well, Admiral by 11%, Bell by 18% and Diamond by 1%.

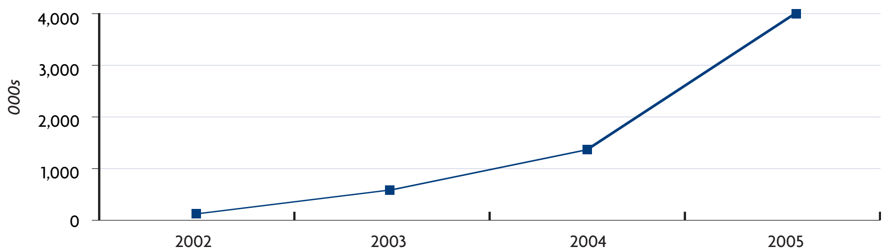
It was also yet another good year for Gladiator Commercial. Gladiator sells van insurance, largely to private tradesmen, as an intermediary. Admiral Group does not take any underwriting risk with this business. At the end of 2005 Gladiator's customer count stood at 36,000 and it contributed £1.9m to the Group's bottom line.

Changing the way car insurance is bought in the UK – Confused.com: The consumer champ

2005 was really a huge growth year for Confused.com. Confused is now a major force in the distribution of car insurance in the UK. 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, in real time, brings the customer back a list of prices. Confused goes out to direct operations as well as intermediary sites. One-stop shopping!

We launched Confused in its current form in the middle of 2002. 2005 saw Confused generate over 4m quotes up from 1.37m in 2004 (+192%). A great deal of Confused's growth is coming from word of mouth, the most powerful form of advertising. We fully expect Confused to continue growing in 2006. Not only did Confused generate a lot of quotes, but it also made money. Confused.com made a profit of £8.8m compared to £2.0m last year and £0.3m the year before.

Confused.com quotes



2005 – A year of change

So there you have it. 2005 wasn't too shabby, was it? 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.

One of the inevitable consequences of going public was that, for some managers, it was the culmination of their career. Of the 15 senior managers in the Group at the time of float six have now retired; even though some of them are not yet 40! The float has given them financial security and they felt it was the right time to dedicate themselves to family and other interests. All of this was communicated well in advance and we spent a good part of the year putting the appropriate replacements in place, either from the existing team or going outside to recruit.

All of the managers who retired had joined us prior to our January 2, 1993 launch. It should never be forgotten that these are the people who built the foundation upon which our current and future success rests. We will always be deeply indebted to the contributions from (in alphabetical order): Claire Carrel, Nicole Griffiths, Tanzie Oliver, Jane Stone (still with us part-time!), Dave Walker and Graham Wilson. I wish them all the very best with Life After Admiral.

Besides replacing people, we have also been busy recruiting highly motivated MBA graduates to help us grow our business inside and outside the UK. We are very pleased with our 'stable' of MBAs. They bring with them not only their intellect and analytical skills but also a fresh, ambitious spirit, which gives me great hope for our future. We are targeting Spain as the first country outside the UK in which we'll do business. I'm quite confident that when writing next year's report I will be able to describe in detail our successful launch there.

Not to be forgotten are all those who actually stayed or joined more recently! Many thanks to all our staff who made 2005 an excellent year.

360

360 is the number of children at our Staff Children's Christmas Party, an increase of 44% over 2004 (250).

Henry Engelhardt
Chief Executive

Children's Christmas Party 2005

Financial review

Key financial highlights

The Group recorded another significant increase in pre-tax profit in 2005 - a rise of 14% from £104.9m in 2004 to £119.5m. Core profit was also significantly higher - a jump of 21% from £100.6m to £122.1m.

Core profit is used as an effective measure of the three key elements of the Group's business: 1) underwriting profits, 2) profit commissions and 3) net other income (most notably ancillary income). Each element is discussed below.

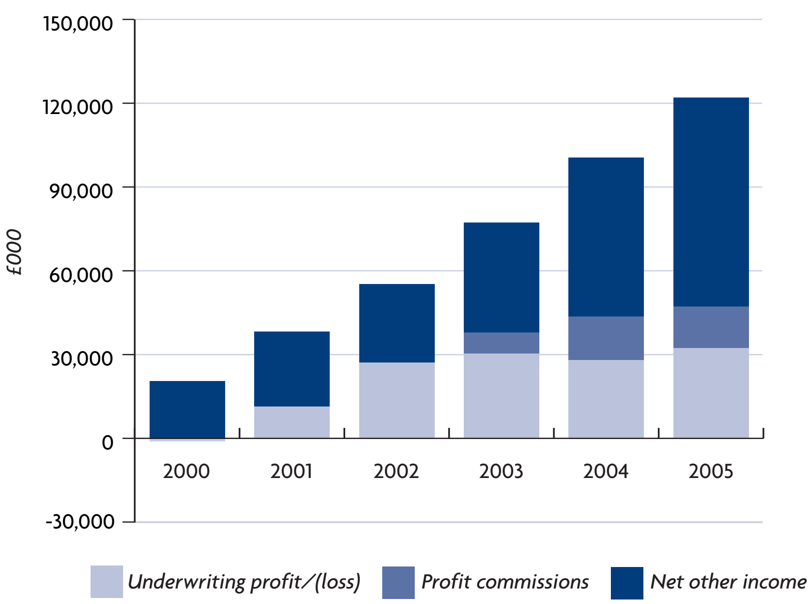
	2005 £000	2004 £000
Underwriting profit	32,361	27,969
Profit commissions[1]	14,735	15,679
Net other income	74,998	56,916
Adjusted Group core profit	122,094	100,564

[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 comparisons and it has been deducted above.

A reconciliation of core profit to figures reported in the income statement is set out later in this section. Since 2000, the Group has returned substantial core profit increases year-on-year, and the compounded annual rate of growth since 2000 is over 44%.

The proportion of the Group's core profits earned from non-underwriting increased again during 2005 - with 73% now arising from intermediary activities and profit commissions (72% in 2004).

Core profit growth



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. (Refer to the underwriting structure section below for further detail.)

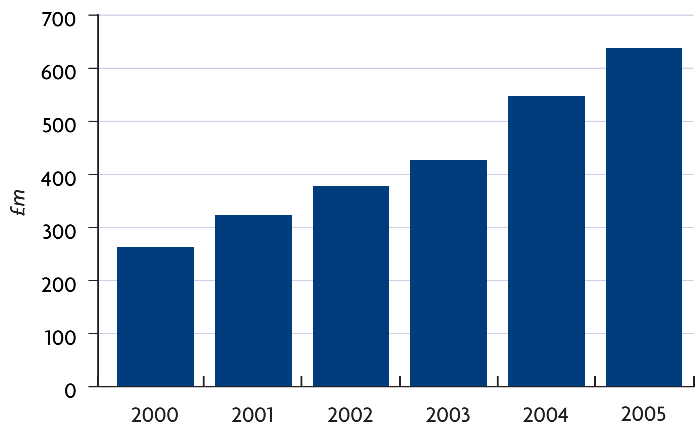
The second key advantage comes from retaining ownership of the entire customer base. This means the Group is able to generate substantial non-insurance income from the customer base.

Group turnover, which comprises total premiums written, gross other income and net investment return (and measures the combined size of the Group's businesses) also returned significant growth:

	2005 £000	2004 £000
Total premium written	533,616	470,400
Gross other income	93,405	69,457
Net investment return	11,342	8,135
Group turnover	638,363	547,992

The growth of 16% in the year contributes to compounded average annual growth since 2000 of around 20% shown by the steady growth trend in the graph below. Gross other income, which is made up predominantly of ancillary revenue (before allocation of overhead) and Confused.com income, demonstrated an especially high increase (over 34%) in the year - both are discussed further below.

Group turnover



Underwriting

Underwriting structure

The Group's underwriting structure is as follows:

65% of the business written continues to be underwritten by Great Lakes under a long-term co-insurance contract.

35% of the business is underwritten by the Group through Admiral Insurance (Gibraltar) Limited (AIGL) and Admiral Insurance Company Limited (AICL). 10% (of the total business) is ceded via quota share contracts that qualify for deductions in required solvency capital.

Of the 10%, 5% is ceded to Axis Re Europe under a contract covering 2005 and 2006 and 5% to Cologne Reinsurance Company (Dublin) Limited (part of Gen Re) for 2005 only.

The Gen Re contract was commuted with effect from 31 December 2005, and in line with accounting guidelines, has not been treated as reinsurance in the financial statements. This has the effect (for contracts incepted in 2005 only) of grossing-up premiums, claims and expenses retained by the Group to a net 30%.

A new quota share contract with Swiss Reinsurance Company UK Limited (Swiss Re) replaces the Gen Re contract for 2006 only.

As well as proportional reinsurance, the Group has also arranged an excess of loss reinsurance programme with a number of reinsurers to protect itself 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 2005.

The Group is currently pursuing the option of a transfer of the remaining liabilities for the 2000-2002 underwriting years into AICL under the provisions of Part VII to the Financial Services and Markets Act 2000. Should this project complete successfully, it is estimated that not less than £20m of funds currently maintained in the Syndicate would be released.

Underwriting results

Total premium written increased by 13.4% from £470m to £534m during the year. This has once again resulted from targeted marketing spend increases and the continued growth of elephant.co.uk, the Group's principal internet offering and largest brand. All Group brands increased in size during 2005. Note that whilst premium increased by 13.4%, the Group's closing policy base increased by around 10%. The differential consists of the overall rate increases effected over 2005, combined with a change in the mix of business which also led to higher average premiums.

Motor insurance quotes rose significantly from 6.2m in 2004 to 9.7m in 2005 (an increase of 56%). This growth has partly come about as a result of the notable increase in volume generated by Confused.com in the year - further analysis of which is set out below. Although selective rate changes have been implemented throughout the year, on average, premium levels at the end of 2005 are around 1% higher than those at the start of the year.

The accounting treatment adopted for the commutation of the Gen Re contract has meant that for contracts incepted in 2005, the Group effectively underwrites 30% of the total motor business. For this reason, net insurance premium revenue has increased by almost 30% in the year - although on a like for like basis (that is, had the Group underwrote 25% as opposed to 30% of 2005 business), the increase is 16% – much more in line with the written premium increase noted above.

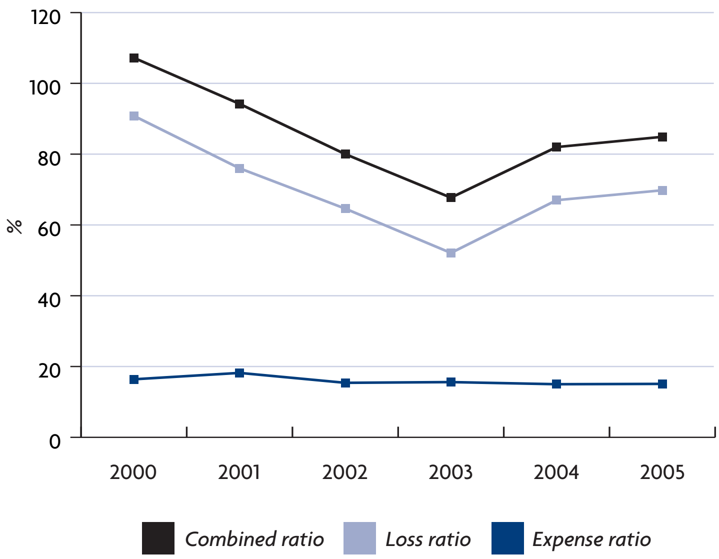
There was an increase in the underwriting result of around £4.4m in the year (£28.0m to £32.4m), although almost £3m of this is due to increased investment return (which in turn primarily resulted from higher levels of invested funds). 2005's reported loss ratio (excluding claims handling expenses) was 69.8%, up from 67.0% in 2004. Movements in loss ratios are discussed in the Chief Executive's statement.

Positive development of prior year claims provisions has continued, and the 2005 income statement contains £17.3m of net releases (up significantly from £9.2m in 2004). 2005's releases effectively reduce the reported loss ratio by 12.4 percentage points (8.5 points in 2004). Note 19 to the financial statements includes further detail on claims provision development.

The Group's expense ratio continues to run at competitive levels – 15.1% (including claims handling expenses) in 2005, relatively unchanged from 15.0% in 2004. Excluding regulatory levies, the figures are 12.3% in 2005 and 12.5% in 2004.

The expense ratio is reconciled to the figures included in the income statement in note 9 to the financial statements, whilst the underwriting result is reconciled later in this review.

Combined ratio development



The Group's combined ratio (being the aggregation of the loss and expense ratios above) is 84.9% up from 82.0% in 2004. The increase is due to the loss ratio move noted above. The Group's 85% compares to an expected market combined ratio in 2005 of around 105% (source – Deloitte) – an outperformance, consistent with previous years of around 20 points. Further detail on market combined ratios is set out in the Chief Executive's statement.

Some additional ratios are noted in the Chief Executive's statement – firstly the ratio of total outgoings to net income at 60% (2004: 58%) and secondly the ratio of core profit to net income at 52% (2004: 57%). Reconciliations to the figures in the accounts are set out at the end of this review.

Profit commission

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

Profit commission – co-insurance

The principal source of profit commission is the long-term co-insurance contract with Great Lakes. £11.2m has been recognised in 2005, compared to £10.7m in 2004 (after adjusting for the £6m noted above).

An additional £0.5m of profit commission relating to earlier underwriting year contracts with Hibernian Re (100% reinsured into Swiss Re) has been recognised in 2005 (£1.9m in 2004). It is expected that further amounts will be recognised when the Group closes the final year of account of Syndicate 2004.

Profit commission – quota share reinsurance

The Group earns profit commission from Converium (relating to 2003 and 2004 underwriting years) and Axis Re (on the 2005 year). A total of £3.1m has been recognised during 2005 (2004: £3.1m).

No commission will be earned on the Gen Re contract as this has been commuted. The new 2006 quota share contract with Swiss Re has similar profit commission arrangements to the current deals.

Net other income

This figure can be broken down as follows:

		2005		2004
	£000	£000	£000	£000
Ancillary contribution		59,092		48,493
Gross Confused.com contribution	8,823		2,033	
Intra-group adjustment*	(1,941)		(750)	
Confused.com contribution		6,882		1,283
Aggregate interest receipts		4,176		3,348
Instalment income		3,768		2,603
Gladiator contribution		1,871		1,756
Other Group/central overheads		(791)		(567)
Net other income		74,998		56,916

**Confused.com adjustment:*

Confused.com earns a proportion of its income from Admiral Group brands and hence an adjustment is made to the gross contribution. This is to reflect the fact that a proportion of Confused.com's costs are incurred in acquiring insurance business for the Group. The opposite side of the adjustment appears in the costs of acquiring insurance contracts.

Ancillary contribution & instalment income

This primarily involves commissions earned on sales of insurance products complementing the motor policy, but which are underwritten by external parties. Net contribution from these sales grew by 22% in 2005 - from £48.5m to £59.1m. Average gross income per motor policy sold also increased significantly during the year, from £51 in 2004 to £56 in 2005.

Instalment income represents charges for payment by instalments on motor policies sold which are paid for over the course of the policy life by direct debit.

Confused.com

As the profit figures suggest, Confused.com has seen substantial growth during 2005 - both in terms of volume and profitability. This was driven by efficient increases in marketing spend generating substantial increases in quote activity. Confused.com receives a commission from its partners and has a relatively small fixed cost base.

Gladiator Commercial

Gladiator had another profitable year, with relatively little change in the overall result or level of business. In spite of this, it has been a year of change for Gladiator - with the development of its own interactive quote facility that is expected to make the internet its principal distribution channel.

Taxation

The total taxation charge reported in the income statement is £34.8m (2004: £14.4m), representing 29.1% (2004: 13.7%) of pre-tax profits. The unusually low effective rate in 2004 is due to the impact of the ESOT share awards made during that year, which attracted a significant deduction (£17m) for corporation tax purposes. This tax deduction is the reason why post tax profits in 2004 were higher than in 2005.

Refer to note 13 to the accounts for further detail on taxation.

Earnings per share (EPS)

The tax deduction referred to above also has a distorting impact on the EPS figures presented in the income statement. Note 15 to the accounts sets out a calculation of adjusted EPS, which backs out the impact in the 2004 comparatives. EPS for 2005 is 32.7p, up from the adjusted 2004 figure of 28.4p - an increase of 15%, in line with the increase in pre-tax profits reported on the income statement.

Financial investments, cash and debt

A continuing feature of the Group's business is the significant generation of cash from all operations. At the end of the year, the Group held a total of £406.1m in cash and financial investments - up 26% on the £322.6m held at the end of 2004. This increase is after distributions to shareholders of £49.2m during 2005 (£52.0m in 2004).

The balances making up this total can be analysed as follows:

	2005 £000	2004 £000
Liquid funds in underwriting companies:		
Government and sovereign bond holdings	83,071	42,980
Corporate bonds and similar instruments	172,866	160,438
Deposits with credit institutions	40,646	31,070
Cash at bank	39,824	38,035
	336,407	272,523
Liquid funds held outside underwriting companies:		
Cash at bank	69,682	50,096
	406,089	322,619

The Group maintains four externally 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.

There have been no changes to investment strategy, which is set by the Group Investment Committee and approved by the Board of Directors of the relevant entity. The strategy is conservative, with all of the funds invested in either cash or short dated, high quality corporate or government bonds.

The Group restructured its loan facility during 2005 in order to reduce the interest margin being incurred on the debt and to increase its flexibility.

Refer to note 22 to the accounts for further details on the Group's debt.

Dividends

There has been no change in dividend policy, which is based on the principle of returning excess cash to shareholders. The Directors expect to make a normal distribution of at least 45% of post-tax profits each half-year, and will regularly review the Group's available cash to determine whether it is appropriate for the Company to pay a further special dividend.

In line with this policy, as outlined in the Chairman's statement, the Directors have declared a final dividend for 2005 of 14.9p per share, which is made up of 7.8p per share normal element, plus 7.1p per share special distribution based on the Group's cash resources at the end of the year.

This final payment combines with the interim dividend to make a total distribution for 2005 of 24.6p per share. The final dividend declared in respect of the post-flotation period of 2004 was 9.3p.

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. As such, these financial statements are the first full year accounts to be prepared under IFRS. The 2004 full year accounts were reported under IFRS in the 2005 interim accounts document, reported in September 2005.

Reconciliations and explanations are again provided in order to set out the major differences between the 2004 UK GAAP and IFRS numbers. Refer to note 4.

As reported in the interim statements, the only significant impacts on the income statement are the cessation of goodwill amortisation, the valuation of financial investments at bid as opposed to mid-market price, and the inclusion of dividends in the retained profits of the period in which they were declared as opposed to allocated. The changes have no impact on the Group's ability to pay dividends.

Employee share schemes

The Board continues to take the view that actual or prospective share ownership plays a vital role in staff incentivisation across all levels of employee. To this end, two new share schemes were established in late 2004 - an Inland Revenue approved Share Incentive Plan (the SIP) and the Unapproved Free Share Scheme (UFSS) under which the first awards were made during 2005.

1. The Approved Share Incentive Plan (SIP)
This plan is open to all staff of Admiral Group plc (the current Executive Directors have opted not to participate in the Scheme).

The maximum award under the SIP will be £3,000 per employee per annum, those shares being forfeited if staff leave within three years of the award. As the scheme is Inland Revenue approved, awards will be free of income tax after five years. The £3,000 limit is based on the market value of the shares at the date of award.

Awards are made twice a year, based on the results of each half-year. The first awards, in respect of the period to 30 June 2005 were made in September 2005, and the second, based on the second half's results will be made during the first half of 2006.

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.

Further details of the awards – actual and anticipated – are included in note 26 to the financial statements.

2. The Unapproved Free Share Scheme (UFSS)
This scheme is not Inland Revenue approved, and is open to Group employees of a certain level of seniority plus exceptional performers, again excluding the current Executive Directors of the Group.

The main performance criteria in determining awards under the UFSS will be the growth in earnings per share (EPS) in excess of a risk free return, 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 it.

In addition, 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.

Around 270 staff received awards during 2005, demonstrating the Directors' belief that a real difference can be made by incentivising staff that have direct control over customer interaction as well as the Group's most senior managers.

The performance criteria for future awards under the UFSS have been amended by removing the TSR hurdle. The Board considered that it would de-motivational for staff if a structure was in place whereby significant increases in EPS may not rewarded.

The Board believes that the EPS targets alone provide sufficient incentivisation and align the interests of staff and shareholders. The EPS targets are such that for full vesting of shares to occur, the average EPS growth over the three year performance period would have to be approximately 15% per annum, assuming LIBOR remains at approximately 4.5%. Only 10% of shares vest for matching the growth of LIBOR over the three year period.

Reconciliation of profit before tax to core profit	2005 £000	2004 £000
Profit before tax	119,494	104,906
Add back: finance charges	2,162	2,451
Add back/(deduct): share scheme charges/(credit)	438	(4,144)
Add back: bonuses paid in lieu of dividends	–	3,345
2003 profit commission adjustment	–	(5,994)
Core profit	122,094	100,564

Reconciliation of underwriting profit	2005 £000	2004 £000
Net insurance premium revenue	139,454	107,501
Net insurance claims	(100,526)	(74,272)
Net expenses related to insurance contracts	(17,909)	(13,796)
Investment return	11,342	8,536
Underwriting profit	32,361	27,969

Reconciliation of loss ratios reported	2005 £000	2004 £000
Net insurance claims from income statement	100,526	74,272
Deduct: claims handling costs	(3,202)	(2,352)
Adjusted net insurance claims	97,324	71,920
Net premium revenue	139,454	107,501
Loss ratio	69.8%	67.0%

Reconciliation of alternative operating ratios	2005 £000	2004 £000
Outgoings:		
Net insurance claims	100,526	74,272
Insurance contract expenses	17,909	13,796
Ancillary/Gladiator/Confused expenses	21,792	15,322
	140,227	103,390
Income:		
Net premium revenue	139,454	107,501
Gross other revenue	93,405	69,457
	232,859	176,958

Outgoings to income	60%	58%
Core profit (from above) to income	52%	57%

Corporate governance

The Combined Code on Corporate Governance

This Corporate Governance Report explains key features of the Group's governance structure, how it applies the principles in the revised Combined Code on Corporate Governance (the 'Code'), and the extent to which the Company has complied with the provisions of the Code.

In the 2004 Corporate Governance statement the Company made reference 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. At that time these Committees had only two independent Non-executive members and it was explained that the Board was actively recruiting a new independent Non-executive Director who would join both Committees on appointment. On 26 April 2005 Gillian Wilmot was appointed to the Board and the Audit and Remuneration Committees.

The provisions of the Code have been reviewed and where appropriate steps have been taken to ensure that the Company is in compliance with all of the provisions of the Code. As at the date of this Report the Company complies with all of the provisions of the Code, save the requirement in Code D.1.1 that the Senior Independent Director should attend meetings with a range of shareholders, Code A.7.2 that Non-executive Directors should be appointed for specified terms and Code A.3.2 that at least half of the Board, excluding the Chairman, should comprise Non-executive Directors determined by the Board to be independent.

Taking each item:

D.1.1 – Whilst the Senior Independent Director is always available to meet with individual shareholders on request to ensure the Board is aware of any shareholder concerns that cannot be resolved through the routine mechanisms for investor communications, the feedback from investors through the Company's programme of investor meetings is that regular meetings with the Senior Independent Director are not considered necessary.

A.7.2 – This is currently being reviewed by the Nomination Committee.

A.3.2 – As noted in the Chairman's statement Gillian Wilmot's appointment as Chief Executive of the privately owned credit retail business Buy-as-you-View in August 2005 results in her no longer being regarded as an independent Director under the Combined Code, the Chairman also being Chairman of that Company. As a consequence she will retire and not offer herself for re-election as a Director of Admiral at the forthcoming Annual General Meeting. The Nomination Committee has instigated a search for a new Non-executive Director with equivalent skills and experience.

The Company has a comprehensive programme of meetings and dialogue with institutional investors. The views of investors expressed through this dialogue are communicated to the Board as a whole through the investor relations report. All Directors can, therefore, develop an understanding of any issues and concerns of major shareholders should any be raised. Feedback from shareholders suggests that these arrangements for communication between the Company and its shareholders are considered to be satisfactory and effective.

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:

- approval of the annual report and accounts, including the corporate governance statement and remuneration report
- approval of preliminary announcements of interim and final results
- approval of the dividend policy, including the declaration of the interim dividend and recommendation of the final dividend
- 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 Directors' remuneration and the severance of Directors' contracts
- ensuring that a satisfactory dialogue takes place with shareholders
- commencement of significant new business activities

The Board has delegated the following responsibilities to the Executive Directors:

- 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

During the year the Board carried out an evaluation of itself and its Committees. The evaluation consisted of detailed questionnaires completed by all Directors and one-to-one discussions between the Chairman and Directors including meetings with the Non-executive Directors without the Executive Directors being present. The results of the evaluation were discussed at a Board meeting in November 2005 and an action plan produced. No major issues were identified.

The performance of the individual Executive Directors is appraised annually by the Chief Executive, to whom they report. The performance of the Chairman is reviewed by the Non-executive Directors, led by the Senior Independent Non-executive (John Sussens), taking into account the views of the Executive Directors. A meeting was held in November 2005 under the Chairmanship of John Sussens to discuss the results of this review. John Sussens also gave individual feedback to the Chairman and was able to confirm that the performance of the Chairman continues to be effective, and that the Chairman continues to demonstrate commitment to his role.

The Chairman, taking into account the views of other Directors, conducts the performance review of the Chief Executive.

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, three independent Non-executive Directors, one Non-executive Director who is employed by a significant shareholder and is not, therefore, independent, and one Non-executive Director deemed by the Combined Code not to be independent. There are three Executive Directors.

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

Details of the Chairman's other 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. Since the last annual report the Chairman was appointed Chairman of Higham Group Plc on 1 July 2005. During 2005 he resigned as a Non-executive Director of the Department of Transport.

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.

The Board receives presentations from senior managers from within the Group on a regular basis as a component of the ongoing development of the Non-executive Directors.

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.

At the Company's Annual General Meeting on 18 May 2005 all of the Directors were re-elected by shareholders except for Gillian Wilmot who was appointed on 26 April 2005, between the date of the AGM notice and the AGM. As noted above she will retire and not seek re-election at the forthcoming AGM. In accordance with the Company's Articles, which provide that a minimum of one third of Directors (or if this is not a whole number, the nearest number not exceeding one third) should resign and offer themselves for re-election at each AGM, Manfred Aldag and Henry Engelhardt will retire by rotation and seek re-election by shareholders at the forthcoming AGM.

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.

Relations with shareholders

The Investor Relations team has effective day-to-day primary responsibility for managing communications with institutional shareholders through a combination of briefings to analysts and institutional shareholders, both at the interim and year end results. Site visits and individual discussions with the Executive Directors are also arranged throughout the year. Regular dialogue with shareholders helps to ensure that the Company's strategy is understood and that any issues are addressed in a constructive way.

In fulfilment of the Chairman's obligations under the new Combined Code, the Chairman would give 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.

The Chairmen of the Audit, Remuneration and Nomination Committees attend the Company's Annual General Meeting along with other Directors, and are available to answer shareholders' questions on the activities of the Committees they chair.

The Group maintains a corporate website (www.admiralgroup.co.uk) containing a wide range of information of interest to institutional and private investors.

Board Committees

The number of full Board meetings and Committee meetings attended by each Director during 2005 is shown below.

The terms of reference of the principal Committees of the Board – Audit, Remuneration and Nomination – are available on the Company's corporate website. Those terms of reference are reviewed annually.

The Audit Committee

Constitution and membership

The membership in place at the year-end was, Martin Jackson (Chairman), Keith James, and Gillian Wilmot (appointed 26 April 2005). The Company Secretary or his nominated Deputy acts as Secretary to the Committee.

The Committee consisted entirely of independent Non-executive Directors until Gillian Wilmot's appointment to the Board of Buy-as-you-view in August 2005. It is required

	Scheduled Board meetings	Audit Committee meetings	Nominations Committee meetings	Remuneration Committee meetings
Total meetings held	9	4	1	4
Alastair Lyons (Chairman)	9 (100%)		1 (100%)	
Henry Engelhardt (Chief Executive)	9 (100%)			
Andrew Probert	9 (100%)			
David Stevens	9 (100%)			
Manfred Aldag	7 (78%)		1 (100%)	
Martin Jackson	9 (100%)	4 (100%)		4 (100%)
Keith James	9 (100%)	4 (100%)	1 (100%)	
John Sussens	8 (89%)			4 (100%)
Gillian Wilmot*	7(100%)	3 (100%)		2 (100%)

**Gillian Wilmot attended all of the meetings after her appointment date on 26th April 2005.*

to meet at least three times per annum. There have been four meetings during 2005. As noted above, all members attended all meetings. Gillian Wilmot attended all meetings following her appointment to the Admiral Board on 26 April 2005.

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 financial 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 Terms of Reference of the Audit Committee include all matters suggested by the Code.

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.

During the year the Committee has reviewed and advised the Board on the Group's interim and annual financial statements, its accounting policies and the control of its financial and business risks, the nature and scope of the work to be performed by the external auditor, and the results of this audit work.

2) Internal control and Risk Management Strategy

The Committee has reviewed the effectiveness of the Group's system of internal control and the overall 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 has reviewed 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 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 Committee has reviewed and made recommendations on the appointment and remuneration of the external auditor and monitored their performance. The Audit Committee regularly monitors the non-audit services being provided to the Group by its external auditor.

Both the Board and the external auditor have safeguards in place to prevent the auditor's independence and objectivity being compromised. The Audit Committee has put in place a comprehensive policy to regulate the use of the external auditor for non-audit services. This policy sets out the nature of the work the external auditor may not undertake.

For those services that are deemed appropriate for the auditor to carry out, the policy sets out the approval process that must be followed for each type of assignment.

The policy includes 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. The Committee monitors the amounts paid to the external auditor for non-audit services on a regular basis.

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.

During the year the Committee undertook an audit tender process. The decision to tender for the external audit was driven by a number of factors including governance requirements and the known rotation of the existing audit partner following the 2005 year-end. In addition KPMG had been appointed auditor upon the request of Barclays Private Equity in 1999. This gave the Committee an opportunity for objective reassessment of the incumbent auditor as well as alternative audit firms. The Audit Committee concluded that the incumbent auditor should be recommended to serve another term and that the tender process should be carried out at intervals of no longer than five years.

5) Whistle blowing

The Committee reviewed and assessed 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

The membership in place at the year-end was Keith James (Chairman), Alastair Lyons and Manfred Aldag. The Company Secretary acts as Secretary to the Committee.

The Committee as required by the Code contains a majority of independent Non-executive Directors.

The Committee has met on one occasion during the last twelve months with all members present at that meeting.

The Committee leads the process for making appointments to the Board or where the appointee is likely to become a Board member. The Committee ensures there is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board through a full evaluation of the skills, knowledge and experience of Directors. The Committee also ensures plans are in place for orderly succession for appointments to the Board, and to other senior management positions. Responsibility for making senior management appointments is vested in the Chief Executive.

During 2005, the Committee instructed external search consultants to provide support in relation to the appointment of a Non-executive Director. Detailed role specifications were drawn up with reference to the mix of skills, knowledge and experience of the existing Directors and the requirements of the Board. Interviews were carried out with a range of potential candidates, by the external agency, members of the Committee, and other members of the Board. As a result of the process, the Committee recommended to the Board, and the Board agreed, that Gillian Wilmot be appointed to the Board as a Non-executive Director with effect from 26 April 2005. The anticipated time commitments for the role were discussed and agreed with Gillian.

The Committee reviewed the current Board size, structure and composition and confirmed that no changes were required and that the leadership of the organisation was such that the Company could continue to compete effectively in the marketplace in which it operates.

Remuneration Committee

The membership in place at the year-end was John Sussens (Chairman), Martin Jackson and Gillian Wilmot (appointed 26 April 2005). The Company Secretary acts as Secretary to the Committee.

The Committee met four times during the year and all members attended the meetings. Gillian Wilmot attended the two meetings that were held after her appointment.

During the year the Committee carried out the following tasks;

- reviewed the Group's overall remuneration policy and strategy

- recommended for approval individual remuneration packages for Executive Directors and the Chairman including terms and conditions of employment and any changes to packages

- reviewed the rules and performance measures of the Group share schemes and the grant, award, allocation or issue of shares under such schemes

Internal control and risk management

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Group's significant risks, that it has been in place for the year ended 31 December 2005 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Board and that it accords with the internal control guidance for Directors on the Combined Code.

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 (RMC) – which is discussed further below.

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 RMC 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 and Risk Officer take 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 RMC receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the operational units and reinforced by risk awareness training. The RMC and the Audit Committee also receive regular reports from Internal Audit, which include recommendations for improvement in the control and operational environment. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Board's agenda includes a regular item for consideration of risk and control and receives reports thereon from the RMC and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its March 2006 meeting, the Board carried out the annual assessment for the 2005 year by considering documentation from the Audit Committee, taking account of events since 31 December 2005.

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 policy 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 ensure appropriate controls are in place to mitigate risks in line with the Risk Appetite Policy

- to empower all managers throughout the business to take responsibility for the management of risks in their areas and improve risk management decision making

- 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.

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 and identification of control weakness and recommendations to management on improvements.

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.

Section 1: Information not subject to audit

The Remuneration Committee

The Committee is chaired by John Sussens, the Senior Independent Non-executive Director, with the other members being Martin Jackson and Gillian Wilmot. Gillian Wilmot was appointed to the Board and Committee on 26 April 2005. The Chairman and Chief Executive are invited to meetings where the Committee considers it appropriate to obtain their advice on the matters under review.

The Admiral Group Board Directors' remuneration is determined by the Committee. The Committee also reviews and recommends any changes proposed to the Group's share schemes, as well as having an overview of shares issued by the Group's Senior Executive Restricted Share Scheme.

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

Policy on Executive Directors' remuneration

The current Executive Directors are all founding Directors. They and the Committee continue to hold 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.

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.

Executive Directors' remuneration is reviewed annually by the Committee, taking into account salary levels of comparable companies. Salaries were last reviewed in May 2005, when it was decided to give increases to Executive Directors which averaged 6.3%.

It is the Committee's general strategy, with agreement from the Executive Directors, to pay salaries at below median levels, their participation in the success of the Group coming from increases in the value of the shares held by each Executive Director.

Directors' service contracts

The Company entered into new service contracts with the three Executive Directors just prior to the Company's listing on the London Stock Exchange in September 2004. The notice from the Company required to terminate the Chief Executive's contract was reduced (with effect from 23 November 2005) from 18 months to 12 months - no compensation was requested or paid for this change.

The following table summarises the notice periods relating to the service contracts of the Executive Directors.

	Notice – Director (months)	Notice – Company (months)
Henry Engelhardt	12	12
Andrew Probert	6	6
David Stevens	12	12

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 entered into letters of appointment with its Non-executive Directors. Summary details of terms and notice are included below. Again, there is no provision for compensation for early termination of the appointments.

Term and notice	
Alastair Lyons	Indefinite *(terminable on three month's 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)*
Gillian Wilmot *(appointed 26 April 2005)*	Indefinite *(terminable on one month's notice from either party)*

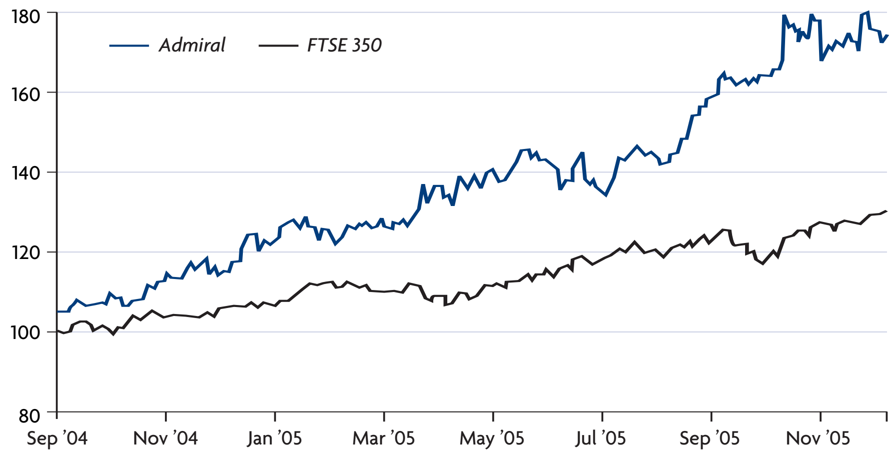
Given the short notice periods applicable, mitigation issues are unlikely to arise.

The remuneration of the Chairman is decided by the Remuneration Committee and that of the Non-executive Directors by the full Board. The Non-executive Directors do not participate in meetings where Non-executive Director fees are discussed.

As noted in the Corporate Governance Report, the Non-executive Directors' appointments are not for specified terms as recommended by the Combined Code (A.7.2). This is currently being reviewed by the Nominations Committee.

Total Shareholder Return (TSR)
The following graph 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 trading on 23 September 2004 up to 31 December 2005. TSR is defined as the percentage change over the period , assuming reinvestment of income and funding of liabilities.

The Directors consider this to be the most appropriate index against which the Company should be compared.



Source: Datastream

Section 2: Information subject to audit

Directors' emoluments

Remuneration for the year ended 31 December was as follows:

	Base salary and fees (£000)	Bonuses (£000)	Benefits (£000)	2005 Total (£000)	2004 Total (£000)
Executive Directors					
Henry Engelhardt	268	–	–	268	260
Andrew Probert	224	–	–	224	180
David Stevens	240	–	–	240	216
Non-executive Directors					
Alastair Lyons*	60	–	–	60	74
Manfred Aldag**	6	–	–	6	12
Martin Jackson	30	–	–	30	11
Keith James	38	–	–	38	36
John Sussens	35	–	–	35	13
Gillian Wilmot	28	–	–	28	–
Totals	929	–	–	929	817

*With effect from August 2004 Alastair Lyons waived 25% of his annual fee.
**The 2004 fees for Manfred Aldag included fees due for 2003 of £6,000 paid in 2004.

For details of Directors' responsibilities, please refer to the biographies section.

Directors' shareholdings

Directors' interests in the ordinary shares of the Company are set out below:

	Ordinary shares of 0.1p	
	31 December 2005	31 December 2004
Executive Directors		
Henry Engelhardt*	40,466,720	40,466,720
Andrew Probert	3,500,000	5,250,000
David Stevens*	19,768,000	19,768,000
Non-executive Directors		
Alastair Lyons	715,600	915,600
Manfred Aldag	–	–
Martin Jackson	–	–
Keith James*	44,500	42,000
John Sussens	8,000	8,000
Gillian Wilmot	–	–

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

This report was approved by the Board of Directors on 3 March 2006 and is signed on its behalf by the Committee Chairman:

John Sussens
Remuneration Committee Chairman

Corporate responsibility

Mission

The Admiral Group is committed to dealing fairly and with a high level of integrity with all its stakeholders. This includes its actions and policies towards staff, the local communities in which the business operates and our staff live, and the environment.

Employee wellbeing

The Group strives to create the best possible working environment for all its employees. This is consistent with the philosophy that the happier people are, the better they work. If employees enjoy what they do and the environment they do it in, they tend to have higher levels of productivity. The Group has achieved a number of awards in recognition of its working environment, including:

- **The Sunday Times 100 Best Companies to Work for** – included in all six years of the publication; ranked 20th overall in the last list published

- **The Financial Times 100 Best Workplaces in the UK** – included in all three years of the publication

- **100 Best Workplaces in the EU** – included in all three years' lists

The Group takes great pride in achieving these awards, and has a number of staff initiatives to ensure they continue. Employees regularly receive information on the Company's financial performance, as well as any other information deemed important to them. Every member of staff is invited to and encouraged to attend a Staff General Meeting where a variety of information about the Group is communicated to them. Employees also regularly have the chance to state their views on the Company.

New staff share schemes were established in 2004 to replace the Employee Share Trust Scheme that ceased following the Company's flotation in September 2004. The Board is strongly of the view that actual or prospective share ownership plays a key role in staff incentivisation. Therefore, two new schemes have been created:

The Approved Share Incentive Plan

This scheme is intended to replace the previous staff profit share, and is open to all staff.

Admiral Group Senior Executive Restricted Share Plan

This scheme is open to Group employees of a certain level of seniority and those achieving outstanding performance. It excludes the current Executive Directors of the Group. The Group feels strongly that this type of compensation is the most effective way to align the interests of staff with the interests of shareholders.

Further detail on these schemes is set out in the financial review and remuneration report.

Disability

The Group gives fair consideration to all applicants. The abilities and aptitudes of the applicant will be considered with regard to the

The winner of the Admiral sponsored Champion Child of Courage Award 2005

The Admiral Cardiff Big Weekend 2005

requirement of the job for which he or she has applied. Employees who find themselves no longer able to carry out the job for which they are employed will be given individual consideration. Depending on the nature, severity, and duration of the disability, they may be considered for an alternative post within the Group. Admiral continues to train and encourage the career developments of all disabled persons in its employment.

Community involvement

The Group is a leading employer in the South Wales region, and employs people from a wide range of communities. The Group encourages its employees to become involved in local communities and projects that are important to both them and their families. This can range from the local football club to an amateur dramatics society.

This initiative is supported by the unique idea of "Henry's Pot". The fund started in 1999 and allows staff to apply for a donation or sponsorship toward an organisation of their choice. In 2004, 80 awards were made from this fund to all kinds of different interests, with the number increasing to 113 in 2005.

A time-traveller at the National Waterfront Museum in Swansea

External sponsorship

The Group sponsored a number of high profile local events in 2005.

- National Waterfront Museum, Swansea
- Swansea Bay Festival 2005
- Cardiff Big Weekend 2005
- The 2005 Cardiff Marathon
- The 2005 Cardiff Lesbian and Gay Mardi Gras
- The 2005 South Wales Echo Champion Child of Courage Award
- Admiral Calennig Family Fireshow

Charitable Contributions

In addition to sponsoring these local initiatives, the Group supports the following larger charities:

WellBeing of Women through the Diamond Brand: This charity is the only national charity that funds obstetric and gynaecological research by supporting research projects.

Wellbeing of Women's mission is to bring an end to fear and suffering caused by reproductive health problems.

Born Free Foundation and **Tusk** through elephant.co.uk: The Born Free Foundation is an international wildlife charity which works to reduce animal suffering and to encourage people to treat animals with respect. It is involved in campaigns against cruelty in zoos, and dedicated to aiding conservation of elephants, big cats, wolfs, dolphins, primates and bears.

Over the last fifteen years Tusk has supported more than 30 projects in 15 African countries. Last year Tusk supported 21 different projects in 11 African countries. It's support comes in many different guises such as provision of 4x4 vehicles, wildlife clinics, rhino and cheetah sanctuaries, and chimpanzee enclosures.

Total awards to these organisations during 2005 were £44,000.

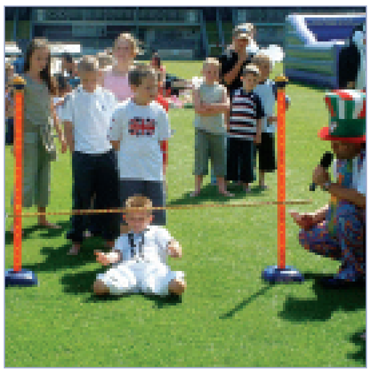
Environment

Whilst the Group's operations do not directly impact on the environment, the Group still strives to minimise any impact its operation may have. With that in mind some key environmental policies have been implemented:

- Widespread recycling schemes, including paper, cups, cans, PCs, printing, and photocopying cartridges
- 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

The elephant.co.uk Charity Fashion Show

Children's Summer Party 2005



The Board of Directors

Alastair Lyons CBE (52)
Chairman (N)

Alastair was appointed Chairman of the Company in July 2000. He is also Executive Chairman of Partners for Finance Limited, and Non-executive Chairman of Buy-as-you-View Holdings Limited, and of Higham Group plc.

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. Alastair has also been a Non-executive Director of the Department for Transport and of the Department for Work and Pensions.

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

Henry Engelhardt, (48)
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 (53)
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 (44)
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 (55)
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 the 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 (57)
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. Martin was appointed a Non-executive Director of IG Holdings plc in April 2005.

He is a fellow of the Institute of Chartered Accountants.

Keith James OBE (61)
Non-executive Director (A, N)

Keith was appointed a Non-executive Director in December 2002. He is Chairman of the Nominations Committee and is also the independent Chairman of Admiral Insurance Company Limited and Inspop.com Limited.

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

He is a solicitor and was the Chairman of Eversheds LLP from June 1995 to April 2004. He was a Non-executive Director of Bank of Wales plc between 1988 and 2001 and AXA Insurance Company Limited between 1992 and 2000. Keith was awarded an OBE in 2005 for services to business and the community in Wales.

John Sussens (60)
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, 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.

Gillian Wilmot (46)
Non-executive Director (A, R)

Gillian was appointed to the Board in April 2005. Gillian has significant experience in consumer-facing businesses at Marks and Spencer plc, Boots plc, Next plc, Sears plc, Avon Cosmetics, Littlewoods plc and the Royal Mail.

She is currently Chief Executive of Buy-As-You-View Limited and Non-executive Director of Land of Leather Plc.

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

Financial statements

Director's report

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2005.

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 £84.7m (2004: £90.5m).

The Directors declared and paid dividends of £49.2m during 2005 (2004: £52.0m) - refer to note 14 for further details.

The Directors are proposing a final dividend of £38.7m (14.9p per share), payable on 25 May 2006.

Share capital

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 28 February 2006:

	Number of shares	%
Munich Re	37,479,400	14.42%
Fidelity Investments	14,975,118	5.76%
Barclays Plc	12,717,131	4.89%
Jupiter Asset Management	12,361,774	4.76%
Goldman Sachs Group, Inc	10,015,179	3.85%

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 £108,000 (2004: £75,000) 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 30 days purchases (2004: 24).

Annual General Meeting

It is proposed that the next AGM be held at The Celtic Manor Resort, Coldra Woods, Chepstow Road, Newport, Gwent NP18 1HQ on 18 May 2006, at 2.00pm, notice of which is set out at the back of the report and accounts.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Parent Company.

In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' remuneration report and corporate governance statement that comply with that law and those regulations.

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

Auditor

The Company's auditor, KPMG Audit Plc, has indicated willingness to continue in office and 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
3 March 2006

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

We have audited the Group financial statements of Admiral Group plc for the year ended 31 December 2005, which comprise the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Admiral Group plc for the year ended 31 December 2005 and on 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' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) are set out in the statement of Directors' responsibilities above.

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

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' report is not consistent with the Group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group 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 Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and

- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Cardiff

3 March 2006

Consolidated income statement

	Note:	Year ended: 31 December 2005 £000	31 December 2004 £000
Insurance premium revenue		176,214	151,864
Insurance premium ceded to reinsurers		(36,760)	(44,363)
Net insurance premium revenue	5	**139,454**	**107,501**
Other revenue	6	93,405	69,457
Profit commission	8	14,735	21,673
Investment and interest income	7	15,518	11,884
Net revenue		**263,112**	**210,515**
Insurance claims and claims handling expenses		(121,123)	(102,604)
Insurance claims and claims handling expenses recovered from reinsurers		20,597	28,332
Net insurance claims		**(100,526)**	**(74,272)**
Expenses	9	(40,492)	(33,030)
Share scheme charges	9, 26	(438)	4,144
Total expenses		**(141,456)**	**(103,158)**
Operating profit		**121,656**	**107,357**
Finance charges	12	(2,162)	(2,451)
Profit before tax	10	**119,494**	**104,906**
Taxation expense	13	(34,774)	(14,400)
Profit after tax attributable to equity holders of the Company		**84,720**	**90,506**
Earnings per share:			
Basic	15	32.7p	35.0p
Diluted	15	32.7p	35.0p
Dividends declared (total)	14	49,190	51,996
Dividends declared (per share)	14	19.0p	20.1p

Refer to notes 1 and 4 for an explanation of the transition from UK GAAP to IFRS.

Also refer to basis of preparation and significant accounting policies sections below.

Consolidated balance sheet

		As at:	
		31 December 2005	31 December 2004
	Note:	£000	£000
ASSETS			
Property, plant and equipment	16	4,636	3,349
Intangible assets	17	66,490	66,467
Financial assets	18	378,747	300,722
Reinsurance assets	19	54,166	66,137
Trade and other receivables	21	9,392	16,739
Cash and cash equivalents	20	150,152	119,201
Total assets		**663,583**	**572,615**
EQUITY			
Share capital	26	260	259
Share premium account	27	13,145	13,145
Retained earnings	27	167,990	131,213
Other reserves	27	17	17
Total equity		**181,412**	**144,634**
LIABILITIES			
Insurance contracts	19	254,130	216,107
Financial liabilities	22	22,000	33,122
Provisions for other liabilities and charges	23	–	–
Deferred income tax	25	3,550	4,838
Trade and other payables	24	182,935	164,329
Current tax liabilities		19,556	9,585
Total liabilities		**482,171**	**427,981**
Total equity and total liabilities		**663,583**	**572,615**

Refer to notes 1 and 4 for an explanation of the transition from UK GAAP to IFRS.

Also refer to basis of preparation and significant accounting policies sections below.

These financial statements were approved by the Board of Directors on 3 March 2006 and were signed on its behalf by:

Andrew Probert
Director

Consolidated statement of recognised income and expense

No separate consolidated statement of recognised income and expense has been prepared. The profit for the period of £84.7m (2004: £90.5m) represents all recognised income and expenses for the period.

Consolidated cash flow statement

	Note:	31 December 2005 £000	31 December 2004 £000
Profit after tax		**84,720**	**90,506**
Adjustments for non-cash items:			
– Depreciation		1,824	1,576
– Amortisation of software		896	981
– Unrealised (gains)/losses on investments		893	200
– Share option charge		1,247	308
– Share scheme credit, net of employer's NIC		–	(4,452)
Employer's NIC charge on ESOT		–	(7,284)
Loss on disposal of property, plant and equipment and software		503	4
Change in gross insurance contract liabilities		38,023	41,278
Change in reinsurance assets		11,971	(9,471)
Change in trade and other receivables, including from policyholders		(18,693)	(31,675)
Change in trade and other payables, including tax and social security		18,041	62,048
Interest expense		2,162	2,451
Taxation expense		34,774	14,400
Cash flows from operating activities, before movements in investments		**176,361**	**160,870**
Net cash flow into investments held at fair value		(53,413)	(59,154)
Cash flows from operating activities, net of movements in investments		122,948	101,716
Interest payments		(2,617)	(2,423)
Taxation payments		(26,090)	(15,060)
Net cash flow from operating activities		**94,241**	**84,233**
Cash flows from investing activities:			
Purchases of property, plant and equipment and software		(3,999)	(1,394)
Proceeds from sales of property, plant and equipment		–	16
Net cash used in investing activities		**(3,999)**	**(1,378)**
Cash flows from financing activities:			
Repayments of borrowings		(10,667)	(2,333)
Capital element of new finance leases		1,201	447
Repayment of finance lease liabilities		(635)	(1,957)
Payments of transaction expenses		–	(2,354)
Equity dividends paid		(49,190)	(51,996)
Net cash used in financing activities		**(59,291)**	**(58,193)**
Net increase in cash and cash equivalents		**30,951**	**24,662**
Cash and cash equivalents at 1 January		119,201	94,539
Cash and cash equivalents at end of period	20	**150,152**	**119,201**

Refer to notes 1 and 4 for an explanation of the transition from UK GAAP to IFRS.

Notes to the financial statements

1. General information and basis of preparation

Admiral Group plc is a Company incorporated in England and Wales. Its registered office is at Capital Tower, Greyfriars Road, Cardiff CF10 3AZ and its shares are listed on the London Stock Exchange.

The financial statements comprise the results and balances of the Company and its subsidiaries (the Group) for the two years ended 31 December 2004 and 2005. The financial statements of the Company's subsidiaries are consolidated in the Group financial statements. The Company controls 100% of the voting share capital of all its subsidiaries. In accordance with IAS 24, transactions or balances between Group companies that have been eliminated on consolidation are not reported as related party transactions.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). These are the Group's first consolidated financial statements under IFRS and IFRS 1 (First Time Adoption) has been applied. The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP: these are presented later in this report.

The Group has applied all IFRS and interpretations adopted by the EU at 31 December 2005, including all amendments to extant standards that are not effective until later accounting periods. In particular, the Group has early adopted the amendments to IAS 39: *The Fair Value Option* in these financial statements.

An explanation of how the transition to adopted IFRS has affected the financial performance and cash flows of the Company is set out in note 4.

The financial statements are prepared on the historical cost basis, except for the revaluation of financial assets classified as at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is reviewed if this revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

An explanation of the impact of the transition to IFRS is set out in note 4. This includes detailed reconciliations of the following:

- profit for the year ended 31 December 2004 under previous GAAP to the comparative figures stated in the consolidated income statement above reported under IFRS

- equity as at 1 January 2004 and 31 December 2004 from previous GAAP to the comparatives included in the consolidated balance sheet above reported under IFRS

The Group is managed as one operation involving the sale and administration of private motor insurance and related products and is reported as one segment.

2. Significant estimates

Estimation techniques used in calculation of claims provisions:
Estimation techniques are used in the calculation of the provisions for claims outstanding, which represents a projection of the ultimate cost of settling claims that have occurred prior to the balance sheet date and remain unsettled at the balance sheet date.

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 balance sheet date, but had not been reported at that date.

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

The sum of these provisions 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 independent review by the Group's actuarial advisors.

3. Significant accounting policies

a) Revenue recognition

Premiums, ancillary income and profit commission
Premiums relating to insurance contracts are recognised as revenue proportionally over the period of cover.

Income earned on the sale of ancillary products and income from policies paid by instalments is credited to the income statement over the period matching the Group's obligations to provide services. Where the Group has no remaining contractual obligations, the income is recognised immediately. An allowance is made for expected cancellations where the customer may be entitled to a refund of ancillary amounts charged.

Under some of the co-insurance and reinsurance contracts under which motor premiums are shared or ceded, 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 financial statements.

Income is allocated to profit commission in the income statement when the right to consideration is achieved, and is capable of reliable measurement.

Revenue from Gladiator Commercial and Confused.com
Commission from these activities is credited to income on the sale of the underlying insurance policy having regard to the profile of services provided.

Investment income
Investment income from financial assets comprises interest income and net gains (both realised and unrealised) on financial assets classified as fair value through profit and loss.

b) Insurance contracts and reinsurance assets

Premium

The proportion of premium receivable on in-force policies relating to unexpired risks is reported in insurance contract liabilities and reinsurance assets as the unearned premium provision – gross and reinsurers' share respectively.

Claims

Claims and claims handling expenses are charged as incurred, based on the estimated direct and indirect costs of settling all liabilities arising on events occurring up to the balance sheet date.

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 income statement for the period in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

Provision for unexpired risks is made where necessary for the estimated amount required over and above unearned premiums to meet future claims and related expenses.

Reinsurance assets

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on the insurance contracts issued by the Group are classified as reinsurance contracts. A contract is only accounted for as an insurance or reinsurance contract where there is material risk transfer between the insured and the insurer.

The benefits to which the Group is entitled under these contracts are held as reinsurance assets.

The Group assesses its reinsurance assets for impairment on a regular basis, and in detail every six months. If there is objective evidence that the asset is impaired, then the carrying value will be written down to its recoverable amount.

c) Intangible assets

Goodwill

All business combinations are accounted for using the purchase method. Goodwill has been recognised in acquisitions of subsidiaries, and represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

The classification and accounting treatment of acquisitions occurring before 1 January 2004 have not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004 due to the exemption available in IFRS 1 (First Time Adoption).

In respect of acquisitions prior to 1 January 2004, goodwill is included at the transition date on the basis of its deemed cost, which represents the amount recorded under UK GAAP, which was tested for impairment at the transition date. On transition, amortisation of goodwill has ceased as required by IFRS 1.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units (CGU's) according to business segment and is reviewed annually for impairment.

Impairment of goodwill

The annual impairment review involves comparing the carrying amount to the estimated recoverable amount (by allocating the goodwill to CGU's) and recognising an impairment loss if the recoverable amount is lower. Impairment losses are recognised through the income statement and are not subsequently reversed.

The recoverable amount is the greater of the net realisable value and the value in use of the CGU.

The value in use calculations use cash flow projections based on financial budgets approved by management covering a three year period. Cash flows beyond this period are considered, but not included in the calculation.

Deferred 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 premium provision at the balance sheet date. This balance is held as an intangible asset.

Software

Purchased software is recognised as an intangible asset and amortised over its expected useful life (generally between two and four years). The carrying value is reviewed every six months for evidence of impairment, with the value being written down if any impairment exists. Impairment may be reversed if conditions subsequently improve.

d) Property, plant and equipment and depreciation

All property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write off the cost less residual values of the assets over their useful economic lives. These useful economic lives are as follows:

Motor vehicles	4 years
Fixtures, fittings and equipment	4 years
Computer equipment	2 to 4 years
Improvements to short leasehold properties	4 years

Impairment of property, plant and equipment

In the case of property, plant and equipment, carrying values are reviewed at each balance sheet date to determine whether there are any indications of impairment. If any such indications exist, the asset's recoverable amount is estimated and compared to the carrying value. The carrying value is the higher of the net realisable value and the asset's value in use. Impairment losses are recognised through the income statement.

e) Leased assets

The rental costs relating to assets held under operating leases are charged to the income statement on a straight-line basis over the life of the lease.

Leases under the terms of which the Group assumes substantially all of the risks and rewards of ownership are classed as finance leases. Assets acquired under finance leases are included in property, plant and equipment 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.

f) Financial assets – investments and receivables

Financial assets are classified according to the purpose for which they were acquired. The Group's investments in quoted fixed income and other debt securities are classified as financial assets at fair value through profit or loss at inception.

Financial assets classified at fair value through profit or loss are initially recorded at cost and subsequently carried at fair value (based on closing bid prices on the balance sheet date, or the last trading day before the balance sheet date) with changes in the fair value of these investments being recognised through the income statement.

Trade and other receivables are stated at their nominal amount (discounted if material) unless they are impaired. Impairment losses are recognised through the income statement.

g) Loans and borrowings

Interest bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the life of the borrowings on an effective interest basis.

h) Employee benefits

Pensions

The Group contributes to 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.

Employee share schemes

The Group operates a number of equity settled compensation schemes for its employees. For schemes commencing 1 January 2004 and after, the fair value of the employee services received in exchange for the grant of free shares under the schemes is recognised as an expense, with a corresponding increase in equity.

The total charge expensed over the vesting period is determined by reference to the fair value of the free shares granted (excluding the impact of non-market vesting conditions). Non-market conditions such as profitability targets as well as staff attrition rates are included in assumptions over the number of free shares to vest under the applicable scheme.

At each balance sheet date, the Group revises its assumptions on the number of shares to be granted with the impact of any change in the assumptions recognised through income.

Prior to 2005, only one equity based compensation scheme had been operated (the Employee Share Ownership Trust or ESOT). All benefits due under this scheme were settled during 2004 at the time of the Company's flotation on the London Stock Exchange. No further benefits will accrue. In accordance with the exemption available under IFRS 1, the transactions relating to this scheme have not been restated in accordance with IFRS 2 (Share Based Payment).

Refer to note 26 for further details on share schemes.

i) Taxation

Income tax on the profit or loss for the periods presented comprises current and deferred tax.

Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates in effect at the balance sheet date, and includes any adjustment to tax payable in respect of previous periods.

Deferred tax

Deferred tax is provided in full using the balance sheet liability method, providing for temporary differences arising between the carrying amount of assets and liabilities for accounting purposes, and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

4. Explanation of the transition to IFRS

As stated in note 1, these are the first financial statements prepared by the Group under IFRS and the accounting policies detailed in note 3 have been applied in preparing the financial statements, comparative data and the IFRS transition balance sheet at 1 January 2004.

An explanation of the impact of the transition from UK GAAP to IFRS is set out in the following reconciliations and notes.

A) Reconciliation of equity

There is no difference in equity reported on the transition balance sheet (i.e. at 1 January 2004) under IFRS and that under previous (UK) GAAP.

The following table contains a summary of the differences in the balance sheets at 31 December 2004:

(all £000)		At 31 December 2004		
	Note	UK GAAP	Impact	IFRS
ASSETS				
Property, plant and equipment		3,349	–	3,349
Intangible assets	(i)	62,561	3,906	66,467
Financial assets		300,722	–	300,722
Reinsurance assets		66,137	–	66,137
Trade and other receivables		16,739	–	16,739
Cash and cash equivalents		119,201	–	119,201
Total assets		**568,709**	**3,906**	**572,615**
EQUITY				
Share capital		259	–	259
Retained earnings	(ii)	103,258	27,955	131,213
Other reserves		13,162	–	13,162
Total equity		**116,679**	**27,955**	**144,634**
LIABILITIES				
Insurance contracts		216,107	–	216,107
Financial liabilities		33,122	–	33,122
Provisions for other liabilities and charges		–	–	–
Trade and other payables	(iii)	188,378	(24,049)	164,329
Deferred income tax		4,838	–	4,838
Corporation tax liabilities		9,585	–	9,585
Total liabilities		**452,030**	**(24,049)**	**427,981**
Total equity and total liabilities		**568,709**	**3,906**	**572,615**

Notes on table A:

(i) Intangible assets

The adjustments to goodwill relate to reinstating goodwill to the balance standing at the transition balance sheet date as required under the transition provisions of IFRS 3 (Business Combinations).

(ii) Retained earnings

The following table sets out the reconciling items to retained earnings:

	31 December 2004 £000
Retained earnings under UK GAAP	103,258
Reinstatement of goodwill (see note (i) above)	3,906
Elimination of dividend liability (see note (iii) below)	24,049
Retained earnings under IFRS	131,213

(iii) Trade and other payables

The adjustments to this balance relate to the elimination of dividends for which liabilities had been recognised under UK GAAP. Under IAS 10 (Events after the balance sheet date) liabilities for dividends are only recognised when the dividends are declared. At the balance sheet date, liabilities had been recognised for dividends declared after the balance sheet date. These liabilities have been eliminated.

B) Reconciliation of profit for 2004 comparatives

The following table reconciles the differences in profit after tax (but before distributions to equity shareholders), for the year ended 31 December 2004:

(all £000)		Year ended 31 December 2004		
	Note	UK GAAP	Impact	IFRS
Insurance premium revenue		151,864	–	151,864
Insurance premium ceded to reinsurers		(44,363)	–	(44,363)
Net insurance premium revenue		**107,501**	**–**	**107,501**
Other revenue		69,457	–	69,457
Profit commission		21,673	–	21,673
Investment and interest income		11,884	–	11,884
Net revenue		**210,515**	**–**	**210,515**
Insurance claims and claims handling expenses		(102,604)	–	(102,604)
Insurance claims and claims handling expenses recovered from reinsurers		28,332	–	28,332
Net insurance claims		**(74,272)**	**–**	**(74,272)**
Total operating expenses	(i)	(36,936)	3,906	(33,030)
Share scheme charges		4,144	–	4,144
Total expenses		**(107,064)**	**3,906**	**(103,158)**
Operating profit		**103,451**	**3,906**	**107,357**
Finance charges		(2,451)	–	(2,451)
Profit before tax		**101,000**	**3,906**	**104,906**
Taxation expense		(14,400)	–	(14,400)
Profit after tax attributable to equity holders of the Company		**86,600**	**3,906**	**90,506**

Notes on table B:

(i) Other operating expenses

The adjustment relates solely to the reinstatement of goodwill to the transition date balance. Refer to the reconciliation of equity above.

C) Reconciliation of cash flow statement

Aside from the reclassification of certain cash deposits from financial investments under UK GAAP to cash under IFRS, there are no differences to the cash flow statement presented under IFRS and that presented under UK GAAP. Therefore no reconciliation has been presented.

5. Net insurance premium revenue

	31 December 2005 £000	31 December 2004 £000
Total motor insurance premiums before co-insurance	533,616	470,400
Group gross premiums written after co-insurance	186,989	165,343
Outwards reinsurance premiums	(28,052)	(48,606)
Net insurance premiums written	158,937	116,737
Change in gross unearned premium provision	(10,775)	(13,479)
Change in reinsurers' share of unearned premium provision	(8,708)	4,243
Net insurance premium revenue	139,454	107,501

All insurance business written during all periods is direct private motor insurance written in the United Kingdom. The Group's share of the business was underwritten by Admiral Insurance (Gibraltar) Limited (AIGL) and Admiral Insurance Company Limited (AICL). All contracts are short-term in duration, lasting for 10 or 12 months.

6. Other revenue

	31 December 2005 £000	31 December 2004 £000
Ancillary revenue	72,470	59,175
Instalment income earned	3,768	2,603
Revenue from Gladiator Commercial	5,123	4,475
Revenue from Confused.com	12,044	3,204
Total other revenue	93,405	69,457

Ancillary revenue primarily constitutes commission from sales of insurance products that complement the motor policy, but which are underwritten by external parties.

7. Investment and interest income

	31 December 2005 £000	31 December 2004 £000
Net investment return	11,342	8,536
Interest receivable	4,176	3,348
Total investment and interest income	15,518	11,884

8. Profit commission

	31 December 2005 £000	31 December 2004 £000
Total profit commission	14,735	21,673

9. Expenses

	31 December 2005			31 December 2004		
	Insurance contracts £000	Other £000	Total £000	Insurance contracts £000	Other £000	Total £000
Acquisition of insurance contracts	6,888	–	6,888	5,772	–	5,772
Administration and marketing costs	11,021	22,583	33,604	8,024	19,234	27,258
Sub-total	17,909	22,583	40,492	13,796	19,234	33,030
Share scheme charges	–	438	438	–	(4,144)	(4,144)
Total expenses	17,909	23,021	40,930	13,796	15,090	28,886

Analysis of other administration and marketing costs:

	31 December 2005 £000	31 December 2004 £000
Ancillary sales expenses	13,378	10,682
Confused.com operating expenses	5,162	1,921
Gladiator Commercial operating expenses	3,252	2,719
Special unit-holder bonus	–	3,345
Central overheads	791	567
Total	22,583	19,234

The £11,021,000 (2004: £8,024,000) administration and marketing costs allocated to insurance contracts is principally made up of salary costs.

Reconciliation of expenses related to insurance contracts to reported expense ratio:

	31 December 2005 £000	31 December 2004 £000
Insurance contract expenses from above	17,909	13,796
Add: claims handling expenses	3,202	2,352
Adjusted expenses	21,111	16,148
Net insurance premium revenue	139,454	107,501
Reported expense ratio	15.1%	15.0%

10. Staff costs and other expenses

Included in profit, before co-insurance arrangements are the following:

	31 December 2005 £000	31 December 2004 £000
Salaries	29,955	29,046
Social security charges	2,782	2,406
Pension costs	490	399
Share scheme charges (see note 26)	1,247	308
ESOT credit	–	(4,452)
Total staff expenses	34,474	27,707
Depreciation charge:		
– Owned assets	894	915
– Leased assets	1,826	1,641
Operating lease rentals:		
– Buildings	2,969	1,574
Auditor's remuneration:		
– Statutory audit fees	210	160
– Other audit fees	18	16
– Other services	91	116
Loss on disposal of property, plant and equipment	503	4

Analysis of fees paid to the auditor for other services:

	31 December 2005 £000	31 December 2004 £000
Indirect tax consultancy	61	42
Corporate tax services	24	29
Internal audit advisory	–	20
Other	6	25
Total as above	91	116

During 2004, fees of £827,000 were paid to the Group's auditor in respect of professional services relating to the listing of the Company's shares on the London Stock Exchange, which were debited against the share premium account.

11. Staff numbers (including Directors)

	Average for the year 2005 Number	2004 Number
Direct customer contact staff	1,377	1,242
Support staff	339	301
Total	1,716	1,543

Transactions with key management personnel:
The compensation paid to key management personnel, being the Board of Directors of Admiral Group plc, is set out in the remuneration report.

12. Finance charges

	31 December 2005 £000	31 December 2004 £000
Term loan interest	1,520	2,020
Finance lease interest	388	256
Letter of credit charges	221	175
Other interest payable	33	–
Total finance charges	2,162	2,451

13. Taxation

	31 December 2005 £000	31 December 2004 £000
UK Corporation tax		
Current charge at 30%	36,051	31,342
Tax relief in respect of ESOT share provision	–	(16,985)
Under provision relating to prior periods – corporation tax	11	1,571
Current tax charge	36,062	15,928
Deferred tax		
Current period deferred taxation movement	(654)	(651)
Over provision relating to prior periods – deferred tax	(634)	(877)
Total tax charge per income statement	34,774	14,400

Factors affecting the tax charge are:

	31 December 2005 £000	31 December 2004 £000
Profit before taxation	**119,494**	**104,906**
Corporation tax thereon at 30%	35,848	31,472
ESOT tax relief	–	(16,985)
Utilisation of brought forward tax losses	(421)	(582)
Adjustments in respect of prior year insurance technical provisions	(161)	(216)
Expenses and provisions not deductible for tax purposes	152	29
Other timing differences	(21)	(4)
Impact of using lower tax rate	–	(8)
Adjustments relating to prior periods	(623)	694
Tax charge for the period as above	34,774	14,400

14. Dividends

Dividends were declared and paid as follows:

	31 December 2005 £000	31 December 2004 £000
January 2004 (5.5p per share, paid February 2004)*	–	14,179
July 2004 (14.6p per share, paid August 2004)*	–	37,817
March 2005 (9.3p per share, paid May 2005)	24,049	–
September 2005 (9.7p per share, paid October 2005)	25,141	–
Total dividends	49,190	51,996

*For comparability, the per-share amounts for these two dividends have been re-stated to reflect the share capital in issue at the 2004 year-end.

Both dividends included in the 2004 column were declared and paid before the Company's flotation in September 2004.

The dividend declared in March 2005 represents the final dividend paid in respect of the 2004 financial year. The dividend declared in September 2005 is the interim distribution in respect of 2005. Refer to the Chairman's statement and financial review for further detail.

15. Earnings per share (EPS)

	31 December 2005 £000	31 December 2004 £000
1) Unadjusted EPS		
Profit for the financial year after taxation	84,720	90,506
Weighted average number of shares – basic	258,987,515	258,595,400
Unadjusted earnings per share – basic	32.7p	35.0p
Weighted average number of shares – diluted	259,387,515	258,595,400
Unadjusted earnings per share – diluted	32.7p	35.0p
2) Adjusted EPS		
Profit for the financial year after tax	84,720	90,506
Deduct ESOT tax credit	–	(16,985)
Adjusted profit after tax	84,720	73,521
Adjusted earnings per share – basic	32.7p	28.4p
Adjusted earnings per share – diluted	32.7p	28.4p

The difference between the basic and diluted number of shares at the end of 2005 (being 400,000) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 26 for further detail.

16. Property, plant and equipment

	Improvements to short leasehold buildings £000	Computer equipment £000	Office equipment £000	Furniture and fittings £000	Motor vehicles £000	Total £000
Cost						
At 1 January 2004	1,658	6,542	2,785	1,583	–	12,568
Additions	278	588	193	44	12	1,115
Disposals	(5)	(338)	–	–	–	(343)
At 31 December 2004	1,931	6,792	2,978	1,627	12	13,340
Depreciation						
At 1 January 2004	1,405	3,729	2,127	1,483	–	8,744
Charge for the year	149	1,024	340	62	1	1,576
Disposals	–	(329)	–	–	–	(329)
At 31 December 2004	1,554	4,424	2,467	1,545	1	9,991
Net book amount						
At 31 December 2004	377	2,368	511	82	11	3,349
Cost						
At 1 January 2005	1,931	6,792	2,978	1,627	12	13,340
Additions	567	2,742	155	150	–	3,614
Disposals	(1,818)	–	(510)	(405)	–	(2,733)
At 31 December 2005	680	9,534	2,623	1,372	12	14,221
Depreciation						
At 1 January 2005	1,554	4,424	2,467	1,545	1	9,991
Charge for the year	226	1,179	355	61	3	1,824
Disposals	(1,352)	–	(502)	(376)	–	(2,230)
At 31 December 2005	428	5,603	2,320	1,230	4	9,585
Net book amount						
At 31 December 2005	252	3,931	303	142	8	4,636

The net book value of assets held under finance leases is as follows:

	31 December 2005 £000	31 December 2004 £000
Computer equipment	2,380	2,849
Office equipment	767	83
	3,147	2,932

17. Intangible assets

	Goodwill	Deferred acquisition costs	Software	Total
	£000	£000	£000	£000
Carrying amount:				
At 1 January 2004	62,354	2,270	2,025	66,649
Additions	–	6,271	275	6,546
Amortisation charge	–	(5,747)	(981)	(6,728)
At 31 December 2004	62,354	2,794	1,319	66,467
Additions	–	7,407	385	7,792
Amortisation charge	–	(6,873)	(896)	(7,769)
At 31 December 2005	62,354	3,328	808	66,490

18. Financial assets

The Group's financial assets can be analysed as follows:

	31 December 2005 £000	31 December 2004 £000
Investments held at fair value	255,937	203,418
Receivables – amounts owed by policyholders	122,810	97,304
Total financial assets	378,747	300,722

All receivables from policyholders are due within 12 months of the balance sheet date.

Analysis of investments held at fair value:

	31 December 2005 £000	31 December 2004 £000
Fixed income securities:		
Government bonds	83,071	42,980
Other listed securities	156,071	139,573
Variable interest securities:		
Other listed securities	16,795	20,865
	255,937	203,418

Management of credit and market risk

Amounts recoverable from reinsurers expose the Group to credit risk. To mitigate this risk, the Group only conducts business with companies with specified financial strength ratings.

The other primary form of credit risk is in respect of amounts due from policyholders. Credit risk arises due to the potential for default on credit card and direct debit payments. The impact of this is mitigated by the large customer base and the low level of the average balance recoverable. This risk is also mitigated by the operation of controls over this area including the automated cancellation procedures for those policies in default, resulting in minimal financial impact.

As the Group holds a significant proportion of its financial investments in the form of fixed income securities, it is also exposed to market risk – primarily the impact on investment return and the carrying value of investments that could result from shifts in interest rates. The Group's investment funds are managed on short duration strategies that effectively minimise the quantum of any impact that could arise. At 31 December 2005 and the same date in 2004, the average duration of the Group's investment funds was less than 17 months. The Group does not invest in equity securities.

19. Reinsurance assets and insurance contract liabilities

A) Management of insurance risk

The Group is involved in issuing motor insurance contracts that transfer risk from policyholders to the Group and its underwriting partners.

Insurance risk primarily involves uncertainty over the occurrence, amount and timing of claims arising on insurance contracts issued. The key risk is that the frequency and/or value of the claims arising exceeds expectation and the value of insurance liabilities established.

There are a number of elements forming part of the Group's strategy to manage insurance risk. These include:

i) Co-insurance and reinsurance

As noted in the underwriting structure section of the financial review above, the Group passes out a significant amount (currently 75%) of the motor insurance business written to external underwriters. 65% of the risk is shared under a co-insurance contract, under which the primary risk is borne by the co-insurer.

A further 10% is ceded under quota share reinsurance contracts (although as noted, the 5% Gen Re quota share agreement for 2005 was commuted at 31 December 2005).

As well as these proportional arrangements, an excess of loss reinsurance programme is also purchased to protect the Group against very large individual claims and catastrophe losses.

ii) Data driven pricing

The Group's underwriting philosophy is focused on a sophisticated data-driven approach to pricing and underwriting and on exploiting the competitive advantages direct insurers enjoy over traditional insurers through:

- collating and analysing more comprehensive data from customers
- tight control over the pricing guidelines in order to target profitable business sectors; and
- fast and flexible responsiveness to data analysis and market trends

The Group is committed to establishing premium rates that appropriately price the underwriting risk and exposure. Rates are set utilising a larger than average number of underwriting criteria.

The Directors believe that there is a strong link between the increase in depth of data that the Group has been able to collate over time and the historic reported loss ratios enjoyed by the Group.

iii) Effective claims management

The Group adopts various claims management strategies designed to ensure that claims are paid at an appropriate level and to minimise the expenses associated with claims management. These include:

- an effective, computerised workflow system (which along with the appropriate level of resources employed helps reduce the scope for error and avoids significant backlogs)
- use of an outbound telephone team to contact third parties aiming to minimise the potential claims costs and to ensure that more third parties utilise the Group approved repairers
- use of sophisticated and innovative methods to check for fraudulent claims

Concentration of insurance risk

The Directors do not believe there are significant concentrations of insurance risk.

B) Sensitivity of recognised amounts to changes in assumptions

The following table sets out the impact on equity at 31 December 2005 that would result from a 1 per cent change in the loss ratios used for each underwriting year for which material amounts remain outstanding.

	Underwriting year					Total
	2001	2002	2003	2004	2005	
Latest loss ratio	54.9%	58.0%	65.0%	75.8%	85.0%	
Impact of 1% change (£000s)	767	466	1,432	1,754	1,005	5,424

The impact is stated net of reinsurance and includes the change in net insurance claims along with the associated profit commission movements that result from changes in loss ratios. The figures are stated net of tax at the current rate.

C) Analysis of recognised amounts

	31 December 2005 £000	31 December 2004 £000
Gross:		
Claims outstanding	170,216	142,968
Unearned premium provision	83,914	73,139
Total gross insurance liabilities	254,130	216,107
Recoverable from reinsurers:		
Claims outstanding	41,585	44,848
Unearned premium provision	12,581	21,289
Total reinsurers' share of insurance liabilities	54,166	66,137
Net:		
Claims outstanding	128,631	98,120
Unearned premium provision	71,333	51,850
Total insurance liabilities – net	199,964	149,970

D) Analysis of re-estimation of claims provisions

The following tables set out the cumulative impact, to 31 December 2005, of the retrospective re-estimation of claims provisions initially established at the end of the financial years stated. Gross and net figures are shown. These tables present data on an accident year basis.

	Financial year ended 31 December				
Gross amounts:	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000
Gross claims provision as originally estimated	115,386	124,478	115,169	142,968	170,216
Provision re-estimated as of:					
One year later	105,186	114,051	111,599	137,075	–
Two years later	92,282	109,490	105,748	–	–
Three years later	87,840	101,910	–	–	–
Four years later	82,205	–	–	–	–
As re-estimated at 31 December 2005	82,205	101,910	105,748	137,075	–
Gross cumulative overprovision	(33,181)	(22,568)	(9,421)	(5,893)	–

Net amounts:	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000
	Financial year ended 31 December				
Net claims provision as originally estimated	55,529	71,071	75,549	98,120	128,631
Provision re-estimated as of:					
One year later	49,409	64,325	72,579	93,910	–
Two years later	42,927	61,167	67,726	–	–
Three years later	40,706	55,974	–	–	–
Four years later	37,890	–	–	–	–
As re-estimated at 31 December 2005	37,890	55,974	67,726	93,910	–
Net cumulative overprovision	(17,639)	(15,097)	(7,823)	(4,210)	–

E) Analysis of net claims reserve releases

The following table analyses the impact of movements in prior year claims provisions, in terms of their net value, and their impact on the reported loss ratio. This data is presented on an underwriting year basis.

	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000
	Financial year ended 31 December				
Underwriting year:					
2000	3,923	6,188	5,176	1,480	370
2001	–	2,490	7,938	2,967	5,043
2002	–	–	2,975	3,229	5,166
2003	–	–	–	1,513	4,622
2004	–	–	–	–	2,076
Total net release	3,923	8,678	16,089	9,189	17,277
Net insurance premium revenue	84,135	81,336	79,327	107,501	139,454
Release as % of net insurance premium revenue	4.7%	10.7%	20.3%	8.5%	12.4%

F) Reconciliation of movement in net claims reserve

	31 December 2005 £000	31 December 2004 £000
Net claims reserve at start of period	98,120	75,549
Net claims incurred	97,325	71,919
Net claims paid	(66,814)	(49,348)
Net claims reserve at end of period	128,631	98,120

G) Reconciliation of movement in net unearned premium provision

	31 December 2005 £000	31 December 2004 £000
Net unearned premium provision at start of period	51,850	42,614
Written in the period	160,244	118,102
Earned in the period	(140,761)	(108,866)
Net unearned premium provision at end of period	71,333	51,850

20. Cash and cash equivalents

	31 December 2005 £000	31 December 2004 £000
Cash at bank and in hand	109,506	88,131
Cash on short term deposit	40,646	31,070
Total cash and cash equivalents	150,152	119,201

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term deposits with original maturities of three months or less.

21. Trade and other receivables

	31 December 2005 £000	31 December 2004 £000
Trade debtors	6,905	15,105
Prepayments and accrued income	2,487	1,634
Total trade and other receivables	9,392	16,739

22. Financial liabilities

	31 December 2005 £000	31 December 2004 £000
Interest bearing bank loans	22,000	33,122

Analysis of borrowings:

	31 December 2005 £000	31 December 2004 £000
Repayments falling due within 12 months	–	11,455
Repayments falling due after 12 months	22,000	21,667
	22,000	33,122

During 2005, the Group renegotiated the terms of its debt with Lloyds TSB and Bank of Scotland. The new facility is a revolving credit arrangement that provides the Group with greater flexibility over use of the funds and also attracts lower interest charges.

The security (over Group assets and subsidiary shares) that was part of the former arrangement has also been withdrawn - the new facility is unsecured.

Interest continues to be charged on amounts drawn down based on LIBOR plus a margin.

23. Provisions for other liabilities and charges

Employee share trust (ESOT)	31 December 2005 £000	31 December 2004 £000
Brought forward at start of period	–	11,739
Utilised in period	–	(7,287)
Released to income statement in period	–	(4,452)
Carried forward at end of period	–	–

24. Trade and other payables

	31 December 2005 £000	31 December 2004 £000
Trade payables	4,423	3,381
Amounts owed to co-insurers and reinsurers	98,054	91,347
Finance leases due within 12 months	1,963	1,543
Finance leases due after 12 months	886	741
Other taxation and social security liabilities	4,174	3,236
Other payables	10,066	12,320
Accruals and deferred income (see over)	63,369	51,761
Total trade and other payables	182,935	164,329

Analysis of accruals and deferred income:

	31 December 2005 £000	31 December 2004 £000
Premium receivable in advance of policy inception	30,471	23,960
Accrued expenses	24,559	20,288
Deferred income	8,339	7,513
Total accruals and deferred income as above	63,369	51,761

Analysis of finance lease liabilities:

	At 31 December 2005			At 31 December 2004		
	Minimum lease payments £000	Interest £000	Principal £000	Minimum lease payments £000	Interest £000	Principal £000
Less than one year	2,171	208	1,963	1,798	255	1,543
Between one and five years	921	35	886	877	136	741
More than five years	–	–	–	–	–	–
	3,092	243	2,849	2,675	391	2,284

25. Deferred income tax liability

	31 December 2005 £000	31 December 2004 £000
Brought forward at start of period	4,838	6,366
Movement in period	(1,288)	(1,528)
Carried forward at end of period	3,550	4,838

The net balance provided at the end of the current year is made up of a gross deferred tax liability of £3,816,000 (2004: £5,132,000) relating to the tax treatment of Lloyd's Syndicates, and a deferred tax asset of £266,000 (2004: £294,000) in respect of other timing differences.

26. Share capital

	31 December 2005 £000	31 December 2004 £000
Authorised:		
500,000,000 ordinary shares of 0.1p	500	500
Issued, called up and fully paid:		
259,861,965 ordinary shares of 0.1p	260	–
258,595,400 ordinary shares of 0.1p	–	259
	260	259

During 2005, 1,266,565 new ordinary shares of 0.1p were issued to the trusts administering the Group's share schemes.

581,565 of these were issued to the Admiral Group Share Incentive Plan Trust for the purposes of this share scheme. These shares are entitled to receive dividends.

685,000 were issued to the Admiral Group Employee Benefit Trust for the purposes of the Admiral Group Senior Executive Restricted Share Plan. The Trustees have waived the right to dividend payments, other than to the extent of 0.001p per share, unless and to the extent otherwise directed by the Company from time to time.

Staff share schemes

Analysis of share scheme charges/(credit) per income statement:

	31 December 2005 £000	31 December 2004 £000
SIP charge*	263	–
UFSS charge**	175	–
ESOT credit	–	(4,452)
Non-executive Director option charges	–	308
Total share scheme charges/(credit)	438	(4,144)

Notes

The Approved Share Incentive Plan (the SIP)

Eligible employees qualify for awards under the SIP based upon the performance of the Group in each half-year against budget. The current maximum award for each half-year amounts to 600,000 shares (or a maximum annual award of £3,000 per employee if smaller). For the 2005 financial year, a maximum of 1,181,565 shares will be awarded under this scheme.

For maximum awards to be made, the Group's core profit must exceed budget by 11.5 per cent. Employees must remain in employment until the vesting date (three years from the date of award), otherwise the shares will be forfeited.

The fair value of shares awarded is either the share price at the date of award, or is estimated at the latest share price available when drawing up the financial statements for awards not yet made (and later adjusted to reflect the actual share price on the award date). Awards under the SIP are entitled to receive dividends, and hence no adjustment has been made to this fair value.

**The Unapproved Free Share Scheme (the UFSS)

This scheme is open to managers within the Group (excluding current Executive Directors) with variable awards available.

Under the scheme, individuals receive an award of free shares at no charge. A total of 269 employees received awards under this scheme during June 2005. Staff must remain in employment until the vesting date (in June 2008) in order for the shares to vest. The maximum number of shares that can be awarded relating to the 2005 scheme is 685,000.

For an award to vest, the Total Shareholder Return (TSR) of Admiral Group plc shares over the three years 2005 to 2007 must be at least equal to the TSR of the FTSE 350 index, of which the Company is a constituent. If the Company's TSR does not meet this target, no awards will vest under the 2005 UFSS scheme.

If this initial hurdle is overcome, individual awards are calculated based on the growth in the Company's earnings per share (EPS) relative to a risk free return (RFR), for which LIBOR has been selected as a benchmark. This performance is measured over the same three-year period.

The range of awards is as follows:

- if the growth in EPS is less than the RFR, no awards vest
- EPS growth is equal to RFR – 10% of maximum award vests
- to achieve the maximum award, EPS growth has to be approximately 15% per annum compound over the next three year period, assuming RFR remains at about 4.5%

Between 10% and 100% of the maximum awards, a linear relationship exists.

Awards under the UFSS are not eligible for dividends and hence the fair value of free shares to be awarded under this scheme has been revised downwards to take account of these distributions. The unadjusted fair value is based on the share price at the date on which awards were made (being £3.62).

As noted in the financial review, the criteria for UFSS awards have been amended for the 2006 scheme. Further details are contained in the financial review.

Number of free share awards committed at 31 December 2005

	Awards committed*	Vesting date
SIP H105 scheme	581,565	September 2008
SIP H205 scheme	400,000	March 2009
UFSS 2005 scheme	685,000	June 2008
Total awards committed	1,666,565	

*Being the maximum number of awards expected to be made before accounting for expected staff attrition. Of the 1,666,565 share awards committed above, 1,266,565 have been issued to the trusts administering the schemes, and are included in the issued share capital figures above.

27. Analysis of movements in capital and reserves

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Retained profit and loss £000	Total equity £000
At 1 January 2004 – as restated	25	15,746	–	92,395	108,166
Retained profit for the period	–	–	–	90,506	90,506
Issues of share capital	251	(247)	–	–	4
Share issue expenses	–	(2,354)	–	–	(2,354)
Dividends	–	–	–	(51,996)	(51,996)
Share option charges	–	–	–	308	308
Cancellation of shares	(17)	–	17	–	–
As at 31 December 2004	259	13,145	17	131,213	144,634
Retained profit for the period	–	–	–	84,720	84,720
Dividends	–	–	–	(49,190)	(49,190)
Issues of share capital	1	–	–	–	1
Share scheme charges	–	–	–	1,247	1,247
As at 31 December 2005	260	13,145	17	167,990	181,412

28. Financial commitments

The Group was committed to obligations under operating leases on land and buildings as follows:

Operating leases expiring:	31 December 2005 £000	31 December 2004 £000
Within one years	434	–
Within two to five years	52	509
Over five years	2,820	1,465
Total commitments	3,306	1,974

In addition, the Group had contracted to spend the following on property, plant and equipment at the end of each period:

	31 December 2005 £000	31 December 2004 £000
Expenditure contracted to	1,342	373

29. Related party transactions

There were no related party transactions occurring during 2005 that require disclosure. Details relating to the remuneration and shareholdings of key management personnel are set out in the remuneration report. Key management personnel are able to obtain discounted motor insurance at the same rates as all other Group staff, typically at a reduction of 20%.

Consolidated financial summary

Basis of preparation:
The 2004 and 2005 figures below are as stated in the financial statements preceding this financial summary. Only selected lines from the income statement and balance sheet have been included.

Figures for 2001 to 2003 have not been restated under IFRS, although have been reclassified into the formats used in these financial statements.

Income statement

	IFRS		UK GAAP		
	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Total motor premiums	**533.6**	**470.4**	**371.6**	**333.0**	**284.4**
Net insurance premium revenue	139.5	107.5	79.3	81.4	84.2
Other revenue	93.4	69.5	50.8	40.1	35.4
Profit commission	14.7	21.7	1.4	–	–
Investment and interest income	15.5	11.9	6.8	7.4	5.1
Net revenue	**263.1**	**210.6**	**138.3**	**128.9**	**124.7**
Net insurance claims	(100.5)	(74.3)	(43.5)	(52.6)	(63.9)
Total expenses	(40.9)	(28.9)	(34.4)	(28.5)	(28.4)
Operating profit	**121.7**	**107.4**	**60.4**	**47.8**	**32.4**

Balance sheet

	IFRS		UK GAAP		
	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Property, plant and equipment	4.6	3.3	5.8	6.7	7.3
Intangible assets	66.5	66.5	62.4	66.3	71.9
Financial assets	378.7	300.7	241.6	179.1	164.1
Reinsurance assets	54.2	66.1	56.7	53.4	106.4
Trade and other receivables	9.4	16.7	12.5	8.9	22.6
Cash and cash equivalents	150.2	119.3	70.1	63.0	33.2
Total assets	**663.6**	**572.6**	**449.1**	**377.4**	**405.5**
Equity	**181.4**	**144.6**	**108.1**	**68.9**	**22.2**
Insurance contracts	254.1	216.1	174.8	155.1	208.5
Financial liabilities	22.0	33.1	35.4	47.8	62.4
Provisions for other liabilities and charges	–	–	11.7	–	–
Deferred income tax	3.6	4.8	6.4	3.4	–
Trade and other payables	182.9	164.3	104.0	98.1	106.9
Current tax liabilities	19.6	9.7	8.7	4.1	5.5
Total liabilities	**663.6**	**572.6**	**449.1**	**377.4**	**405.5**

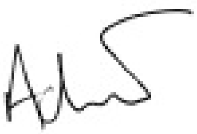
Parent Company financial statements

Parent Company balance sheet

		Year ended:	
		31 December 2005	31 December 2004 (Restated)
	Note:	£000	£000
Fixed asset investments	4	103,804	103,804
Current assets			
Debtors		4	2,519
Cash at bank and in hand		59,808	25,587
		59,812	28,106
Creditors – falling due within one year			
Loans	5	–	(11,455)
Other creditors	6	(17,709)	(5,297)
Accruals and deferred income		(216)	(258)
		(17,925)	(17,010)
Net current assets		41,887	11,096
Total assets less current liabilities		145,691	114,900
Creditors – falling due after one year			
Loans	5	(22,000)	(21,667)
Net assets		**123,691**	**93,233**
Capital and reserves	7		
Called up share capital	8	260	259
Share premium account		13,145	13,145
Capital redemption reserve		17	17
Profit and loss account		110,269	79,812
		123,691	**93,233**

Refer to note 1 for details on prior year restatement of balance sheet.

These financial statements were approved by the Board of Directors on 3 March 2006 and were signed on its behalf by:



Andrew Probert
Director

Parent Company accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements:

1. Basis of preparation

The Admiral Group plc Company financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention and in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985.

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Parent Company is not presented. Under FRS 1 (Cash Flow Statements) the Company is exempt from having to present a cash flow statement on the grounds that its cash flows are included in the Group's published consolidated financial statements.

The Company has taken advantage of the exemption in FRS 8 (Related Party Transactions) not to disclose transactions or balances with its 90% or more owned subsidiary undertakings on the basis that the consolidated accounts are publicly available.

The 2004 comparative figures have been restated to take account of changes resulting from FRS 21 (Events after the balance sheet date), which require dividends to be recorded as a liability only when the distribution is approved. The adjustment has the effect of reducing creditors due within one year by £24.0m (being the final dividend declared in 2004, but not approved until 2005) and increasing retained earnings by £24.0m.

2. Investments

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

3. 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 sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

Notes to the financial statements

4. Fixed asset investments

	31 December 2005 £000	31 December 2004 £000
Investments in subsidiary undertakings	103,804	103,804

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

5. Loans

Full details of the Company's debt are included in the consolidated financial statements earlier in this report at note 22. The note, whilst prepared under IFRS also conforms to UK GAAP.

6. Other creditors – due within one year

	31 December 2005 £000	31 December 2004 £000
Corporation tax payable	2,738	5,246
Amounts owed to subsidiaries	14,971	51
	17,709	5,297

7. Reconciliation of movements in shareholders' funds

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Retained profit and loss £000	Total equity £000
At 1 January 2004	25	15,746	–	74,943	90,714
Retained profit for the period	–	–	–	56,557	56,557
Issues of share capital	251	(247)	–	–	4
Share issue expenses	–	(2,354)	–	–	(2,354)
Dividends	–	–	–	(51,996)	(51,996)
Share option charges	–	–	–	308	308
Cancellation of shares	(17)	–	17	–	–
As at 31 December 2004	259	13,145	17	79,812	93,233
Retained profit for the period	–	–	–	78,400	78,400
Dividends	–	–	–	(49,190)	(49,190)
Issues of share capital	1	–	–	–	1
Share scheme charges	–	–	–	1,247	1,247
As at 31 December 2005	260	13,145	17	110,269	123,691

8. Share capital

Full details on the Company's share capital are included in the consolidated financial statements earlier in this report at note 26.

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

We have audited the Parent Company financial statements of Admiral Group plc for the year ended 31 December 2005, which comprise the Balance Sheet and the related notes. These Parent Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Admiral Group plc for the year ended 31 December 2005.

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' responsibilities for preparing the Annual Report, the Directors' remuneration report and the Parent Company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities above.

Our responsibility is to audit the Parent Company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company 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 Parent Company financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Parent Company 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 Parent Company financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005; and

- the Parent Company 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
Chartered Accountants
Registered Auditor
Cardiff

3 March 2006

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Admiral Group plc will be held on Thursday 18 May at 2.00pm 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 2005.

2. To approve the Directors' remuneration report set out on pages 33 to 36 for the year ended 31 December 2005.

3. To declare a final dividend on the ordinary shares of the Company for the year ended 31 December 2005 of 14.9 pence per ordinary share.

4. To re-elect Henry Engelhardt (Chief Executive Officer) as a Director of the Company.

5 .To re-elect Manfred Aldag (Non-executive Director and member of the Nomination Committee) as a Director of the Company.

According to the Articles of Association a minimum of one third of Directors (or if this is not a whole number, the nearest number not exceeding one third) should resign and offer themselves for re-election.

Biographical details of all of the Directors may be found in the Annual Report of the Company on pages 40 to 41.

6. 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:

7. 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 £86,000 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 £86,000, which is approximately equivalent to 33 per cent of the issued share capital of the Company as at 3 March 2006.

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

8. Subject to passing Resolution 7, 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 7 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:

   (i) 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

   (ii) otherwise than pursuant to sub-paragraph (i) above up to a maximum aggregate nominal amount equal to £13,000.

   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 £13,000 which is equivalent to 5% of the issued ordinary share capital of the Company as at 3 March 2006 and is in line with the recommended guidelines issued by institutional investor bodies.

9. 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 13,000,000 (representing 5.00% 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 13,000,000 Ordinary shares which is approximately equivalent to 5.00% of the issued share capital of the Company as at 3 March 2006. 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.

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 2006

REGISTERED OFFICE
Capital Tower, Greyfriars Road
Cardiff CF10 3AZ

Registered No. 3849958

Notes

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

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.

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

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.

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 6.00 p.m. on 16th May 2006 (or 6.00 p.m. 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.

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 1.45 p.m. until the conclusion of the meeting.

Copies of the Executive Directors' service contracts and the Non-executive Directors' terms of appointment will be available for inspection at the meeting from 1.45 pm until the conclusion of the meeting.

Notes

Registered Number: 03849958. Admiral Group plc, Capital Tower, Greyfriars Road, Cardiff CF10 3AZ
www.admiralgroup.co.uk