ADMIRAL GROUP plc

annual report **2007**

Directors and advisors

Directors

Alastair Lyons CBE (Non-executive Chairman)
Henry Engelhardt (Chief Executive)
Kevin Chidwick (Finance Director)
David Stevens (Chief Operating Officer)
Manfred Aldag (Non-executive Director)
Martin Jackson (Non-executive Director)
Keith James OBE (Non-executive Director)
Margaret Johnson (Non-executive Director)
Lucy Kellaway (Non-executive Director)
John Sussens (Senior Independent Non-executive Director)

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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. admiral.com

AdmiralDirekt is the Group's second overseas brand and launched in Germany in 2007. admiraldirekt.de

Balumba is the Group's first overseas brand and launched in Spain in 2006. balumba.es

Bell was set up in 1997 – its main target market being drivers with zero or low no claims bonus. 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. confused.com

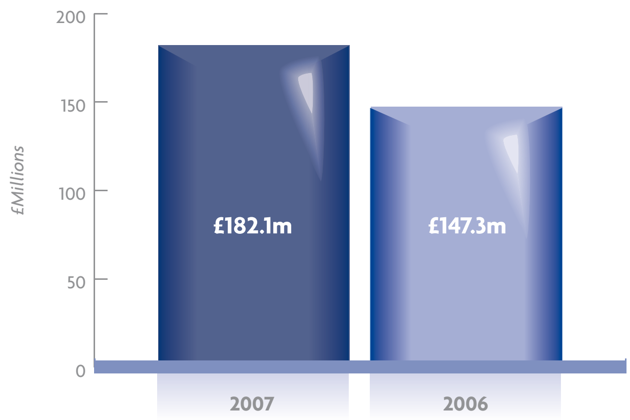
Diamond was created for women in response to a need in the market place for insurance specifically for young women drivers, which is not only good value, but also as hassle free as possible. diamond.co.uk

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. elephant.co.uk

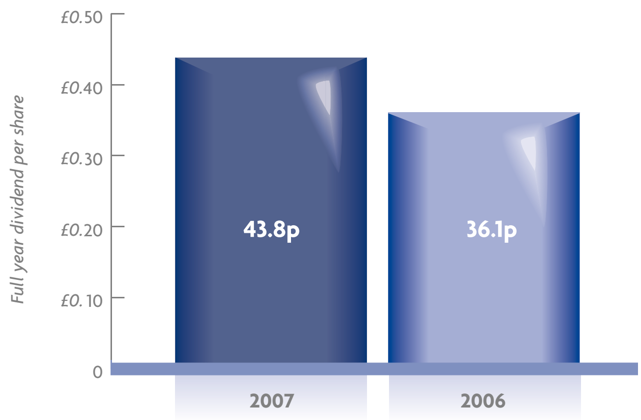
Gladiator is the Group's commercial vehicle insurance broker that was launched in April 1998. The Company acts on behalf of several of the largest commercial vehicle insurers in the UK. gladiator.com

Financial highlights

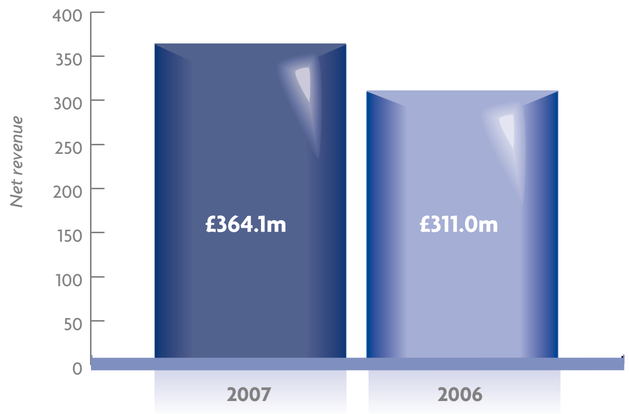
Profit before tax



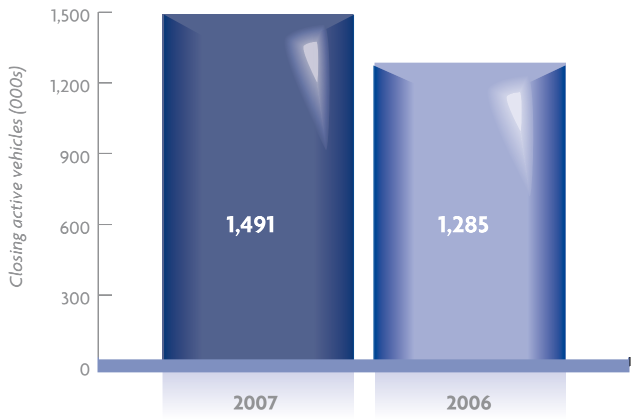
Full year dividend



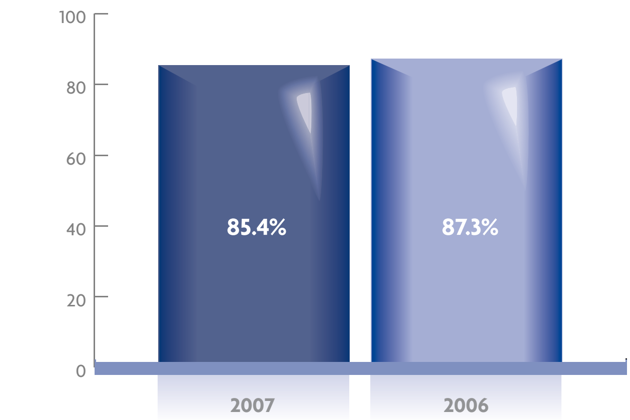
Net revenue



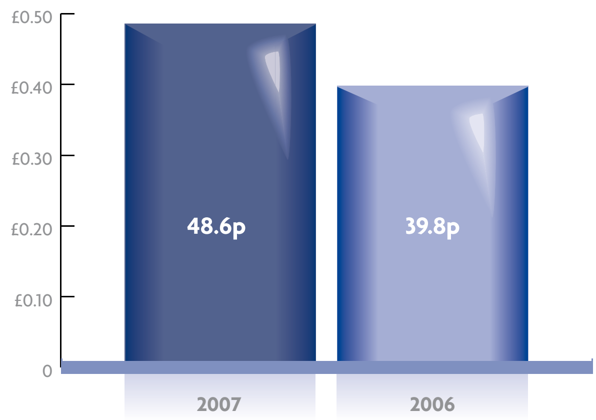
Closing active vehicles



Combined ratios



Earnings per share



“A highlight of 2007 was our admission in December to the FTSE 100”

Alastair Lyons CBE

Chairman's statement

I ended my statement last year by saying that our strategy remained clear and straightforward – to continue to grow our share of the UK direct private motor market, maximising the value derived from each customer relationship, whilst also identifying profitable opportunities, in particular our expansion overseas, to exploit the knowledge, skills and resources attaching to our core business. As Henry Engelhardt sets out in detail in his statement, 2007 was a year in which the Group made significant progress in that strategic direction.

In the UK, despite market conditions remaining challenging, Admiral increased both underwriting and ancillary profits whilst substantially growing the number of vehicles insured. At the end of the year our brands covered 1.49 million vehicles, 16% up on December 2006. The 13% increase achieved in profit derived from ancillary products and services is testament to the success we continue to derive from our focus on maximising the value of each customer relationship.

An upward trend in pricing does now seem to have become established with a general increase of 4% over the year as a whole. Whilst only sufficient to offset general claims inflation, this breaks a 5 year pattern of flat or even slightly falling rates. Against this backdrop we were happy to take back 5% of the underwriting risk when it came available at the end of last year, increasing the proportion of gross premiums underwritten by Admiral in 2008 from 22½% to 27½%.

We have made significant progress during 2007 with our international strategy. Balumba.es, the on-line Spanish motor insurer that we launched in October 2006, ended 2007 with 47,000 customers – a great achievement in little over a year from a standing start. We followed this with the launch in October 2007 of AdmiralDirekt.de, our new on-line German motor insurer based in Cologne, and we announced at the time of our half-year results that we were well advanced with plans to launch into Italy during 2008. Our teams in each country have built on the learning of their colleagues who launched before them and I would take this opportunity to give them credit for their enthusiasm, resilience, and consequent achievements. Staying with the international theme I should also mention the establishment of our new customer service centre in Halifax, Canada where we now employ directly over 100 staff helping to share the load of our long opening hours with our teams in the UK.

During the year we announced that we had entered discussions with potential private equity investors regarding the sale of a minority interest in our price comparison business, Confused.com. Having, however, understood in detail the implications of such an investment for the flexibility of Confused's ongoing management, the Board determined that taking such a step would materially constrain our ability to maximise Confused's contribution to the Group in the medium to long term. We, therefore, determined that it was in our shareholders' best interests to terminate the discussions and retain a 100% interest in Confused. We will continue our strategy of maintaining Confused's strong market position in car insurance price comparison and developing its potential to extend into price comparison within other product areas. 2007 was another very successful year for Confused, profits growing by 59% to £37million. As we have said previously, there is growing competition in this sector and we will continue to work hard to defend our leadership position in this rapidly expanding market.

In a strongly competitive market we are pleased to be able to announce a 24% increase in Group pre-tax profits to £182million off an 11% growth in total written premiums. Taking into account the increased solvency capital required by the higher underwriting retained in 2008, this allows us to lift our dividends for the year by 22% to 43.8p per share (23.2p final: 20.6p interim).

We have maintained our approach of considering dividends in two parts. The first element, being the normal dividend, is based on a 45% pay-out ratio. The second element - the special dividend - derives from our principle of returning to shareholders available surpluses, calculated as the Group's net assets less its required solvency; cover against any specific expansion plans, being at this year-end £5m in respect of overseas; and a prudent margin - currently £25m - against contingencies. Special dividends since flotation in September 2004 amount to £146.6m, this being in addition to £149.5m normal dividends over the same period.

A highlight of 2007 was our admission in December to the FTSE 100, an achievement of which the executive team can be justifiably proud in slightly over three years since flotation. Over this period, taking dividends and share appreciation together, we achieved a 335% total return for shareholders.

Alignment of the interests of our staff and our shareholders is one of our core principles. Our Free Share Schemes are designed to strengthen that alignment over time. We are delighted that strong out-performance against our plan during 2007 resulted in eligible employees once again realising the maximum award of £3,000 free shares under our Approved Scheme. The 2007 financial year marked the end of the first 3-year period for the Discretionary Free Share Scheme. A 54.8% outperformance of growth in earnings per share over and above the risk-free return qualified the scheme to vest the maximum share entitlement under the individual awards. Following the 2007 awards there are now 1,645 employees participating in the Discretionary Free Share Scheme, itself consistent with our philosophy of achievement through teamwork.

As at the end of the year we employed 2,500 staff, 90% of whom live and work in South Wales. This makes Admiral a significant part of the local community and we encourage our staff to be associated with the local projects that are important to both them and their families. During 2007 we provided financial support to 110 such projects. In addition Admiral sponsored a number of high profile local events within South Wales - the Admiral Cardiff Big Weekend and the Swansea Waterfront Winterland, of both of which Admiral was the main sponsor in 2007, together attracted over 365,000 visitors. More details of which will be found in the report on corporate responsibility. This report also describes the steps we take to minimise the impact of our operations on the environment.

May I end by thanking everyone who has contributed so much to achieve the successes that I have been able to outline above – first and foremost our staff who make Admiral the Company it is: our executive management team whose quality of leadership justifies our being placed for 8 consecutive years amongst The Sunday Times Top 100 Companies to Work For in the UK: and our Non-executive Directors for their commitment and wise counsel.

Alastair Lyons
Chairman

"We had a bumper year in absolute terms AND we made great strides towards the creation of an even better future"

Henry Engelhardt

Chief Executive's statement

2007 was a good year for the Admiral Group.

I should quit right there!

But I won't. Why was it a good year? Well, the Group made more money than ever before. A lot more. We made more money by serving more customers than ever before, which resulted in a larger turnover than ever before. All these new records were set within the context of a challenging, highly competitive environment.

But those items don't tell the whole story. As compelling as they may be, they only account for part of the reason why I think the year was successful. For me, the reason it was such a good year is that we did all the good things already mentioned while simultaneously making large investments of time and money in our future. These investments could easily have retarded our 2007 trading performance. But they didn't. We had a bumper year in absolute terms AND we made great strides towards the creation of an even better future.

The list of achievements:

- Profit before tax up 24% to £182m;
- Number of customers up 16% to 1.5m;
- Net revenue up 17% to £364m;
- Turnover* up 16% to £825m;
- Confused record pre-tax profit of £37m on 13m quotes;
- Combined ratio improved to 85% from 87%;
- Top 10 in the FT Best Companies To Work For; 57th in The Sunday Times Best Companies To Work For in the UK;
- Invested in Balumba in Spain where we ended the year with 47,000 customers and £16.6m turnover;
- Invested in AdmiralDirekt.de, our new operation in Germany that launched on October 16 and had 9,000 customers on January 1, 2008;
- Began investing in an operation in Italy which is planned to launch in 2008.

- Turnover is defined and reconciled in the financial review below

Only in a few years time, when Spain, Germany, Italy, etc. are running at full throttle, will we really appreciate how good 2007 was. Here's a closer look at our results and the UK car insurance market.

UK Car Insurance: Sloth-like

The UK car insurance market cycle is turning with sloth-like speed. Have you ever seen a sloth up close? Their muscle control is quite incredible. You try moving that slowly! (See http://animals.nationalgeographic.com/animals/mammals/three-toed-sloth.html) Sloths are an appropriate metaphor for the UK car insurance market today. The market is moving. But slooooowwwwlllllyyyy.

It is just possible that in 2007, on a written basis, premium inflation for the market will have outpaced claims inflation for the first time since 2000. But, when all the results are tallied, I think that this move will be modest, and, as an earned basis lags rate movements, it won't fully flow through to the market's results until 2008.

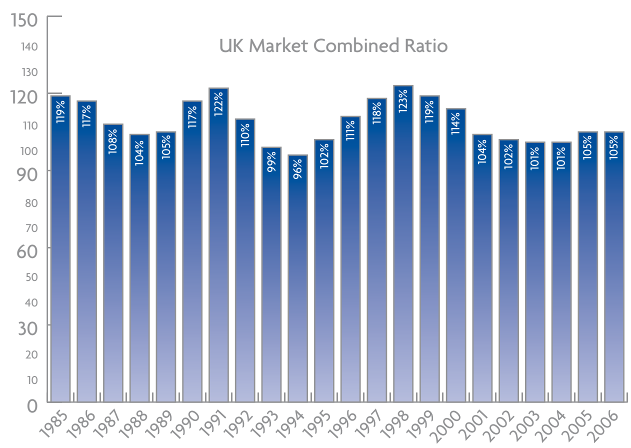
We put 4% on our rates during the year against a claims inflation factor above 3%.

So the market is moving, keeping up with claims inflation, but will we see a definitive improvement in results? It looks like the market has found the corner and is, well, considering turning. But it hasn't quite turned yet. It is somewhat reminiscent of what happened in 1997-98-99 (showing my age). In 1997 the market moved up, maybe a bit faster than claims costs but in 1998 the market failed to follow through on those increases, leading to a combined ratio in excess of 120%. Only in 1999 did the market start to move in earnest. 1997 – 98 was something of a false dawn, which we might see again in the 2007 – 08 years.

According to Deloitte, the UK market average pure year combined ratio for 2006 (latest data available) was 113%, again confirming the UK's status as one of (if not the) most competitive car insurance markets in the world; a market where companies are willing to subsidise consumers. This is the true power of a free market. For those that think regulation is the key to lower prices, just look at the UK. Strange as it might seem, collectively UK Insurers seem happy to subsidise consumers, not once in a while, but for years on end.

As we are fond of saying: Admiral's different. We actually are not keen to subsidise consumers. We're very happy to offer a precise rate for every risk and give a great service to every customer, but we believe we should do these things without making a loss ourselves. The sustainable way to offer consumers lower rates is to operate more efficiently than the competition.

This philosophy manifests itself in our advantage over the market in both claims ratio and loss ratio in the UK. Our UK loss ratio for the year was 66.7% and our expense ratio was 16.7% for a combined ratio of 83.4%. On a comparable basis Deloitte predicts that the market loss ratio will be 79% and the expense ratio will be 28%, resulting in a combined ratio, including releases, of 107%.



Sources - 1985 - 1991 ML Research 1991 - 2004 Deloitte analysis of UK motor 2005 - 2006 Deloitte analysis of UK Private motor

" The UK car insurance market cycle is turning with sloth-like speed "

In addition to a combined ratio more than 20 points better than the market average, we also grew the business. Our UK turnover increased by 14% (£708m to £808m) and the number of vehicles we insure rose 13% (1.28m to 1.44m).

Our conservative reserving philosophy meant we released £29.5m from prior years into this year's profit. We build claims reserves because history tells us that this is an area that changes quite quickly. It has not been unusual to see changes in the claims environment result in additional costs to all your open claims, some of which are four or more years old. So there is a method to our madness, we reserve in case the world changes and then release if it does not. From what I know at the moment, I do not see any reason to believe that this pattern will not continue.

The biggest development in the market in 2007 has been the rapid growth of price comparison websites as a leading channel of distribution in the industry. With the growth in the number of price comparison sites during the year and with more sites planned to launch in 2008, I can only see this growth trend accelerating.

The important point of this change in distribution is that small insurers can get exposure to consumers equal to that of big insurers. Previously smaller insurers wouldn't have the muscle to get equal exposure. The big insurers, who could spend a lot of money advertising and/or be on lots of broker sites, could dominate the market by the very fact that they were always visible to consumers. Now small insurers, without spending a penny of marketing money, can get equal time. For car insurance this is revolutionary stuff.

This means that the market is pinned to the lowest quote for any given risk. That is, a single firm could undercut the entire market or, for any given risk, one firm could undercut the rest. Either way, this chain is going to move only as quickly as the slowest link.

Typically the UK cycle is around seven years (1985 cyclical worst point, to 1991 worst point, to 1998 worst point).

On an earned basis it looks like 2007 or 2008 will be the worst point in this cycle, which is 9 or 10 years on from the previous worst point of 1998. Think sloths. And if the 2007 rate rises prove to be a false dawn, think slow-moving sloths!

Changing Distribution: The Growth of Price Comparison

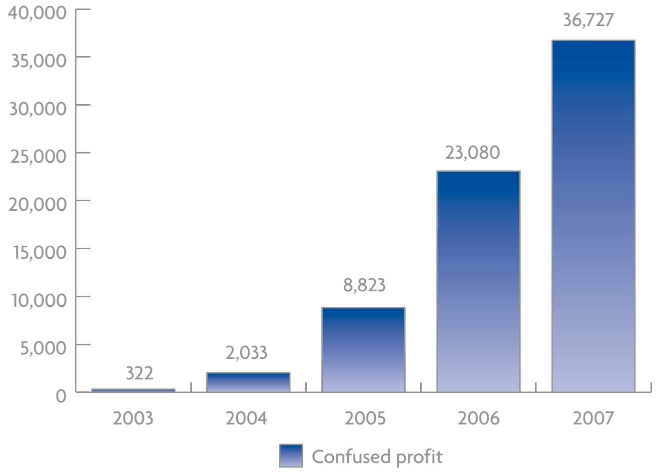
However, when one bemoans the effect of price comparison sites on the market keep in mind that the leader in car insurance price comparison is our own Confused.com.

Confused had it rather cosy for a number of years, amassing a market share of some 65%. But we predicted back in March 2006 that this market would be a competition magnet and we've only been surprised at how long it took for the competition to materialise. But materialise it has!

At last count there were more than half a dozen price comparison sites actively touting for business. Not surprisingly, consumers have been seduced by the ease in which they can now get countless quotes. Overall ad spend in the market, which had been on the decline in 2006 began to rise again in 2007 and continues to rise, setting new records along the way. Price comparison sites accounted for approximately 35% of the car insurance tv and press spend in 2007. However, this figure grew throughout the year and in January 2008 it was

67%. Advertising as a stand-alone car insurance brand to generate direct quotes has become awfully expensive, as it is almost impossible for a single brand to better the proposition of multiple quotes put forward by price comparison sites.

Balumba's combined ratio totalled 232%, with a loss ratio of 141% and an expense ratio of 91%. The ratio of expenses to premium written during the year was 50%, a very credible figure. Balumba's result was helped by contribution from ancillary products.



Given the development of the price comparison sector, it is not surprising that Confused's market share declined during 2007. However, this decline has been into a growing market and as a result its quote and sale volumes have held up rather well. We accept that some erosion of share is unavoidable in the short term but, as we've said previously, we will spend money to defend our market-leading position.

Beyond the UK: Spain, Germany and Italy

2007 was a dramatic year in the development of the Group's business beyond the UK. Balumba in Spain, which launched at the end of October 2006, grew quickly. A year after Balumba's start, AdmiralDirekt.de successfully launched in Germany and during the year we began implementation of our plan to launch in Italy during 2008.

Balumba in Spain ended the year with 47,000 policyholders and a turnover of £16.6m. It posted a loss of just £0.7m in its first full year of trading.

As you can imagine, there is still a lot of work to do on Balumba, particularly in the pricing and claims areas, although high loss ratios are not unusual in a Company's first year of trading. The key question surrounding Balumba beginning the year was: could it market to consumers efficiently? It appears that the answer to that question is a resounding 'yes' as we gave over 396,000 quotes in the year.

The launch in Germany, some 50 weeks after the launch in Spain, was very satisfying. Most of the German market renews its car insurance on January 1. In addition, consumers have to give their insurers one month notice if they are planning to switch. So the window for attracting new business is about 8 weeks long, from early October through early December.

It was imperative that we launch the operation in October to get some experience in the 'season'.

Once again, the key test was marketing. And, once again, we were pleased by the results. AdmiralDirekt.de made 9,000 sales with income of £1.7m, all with a policy start date of January 1, 2008. Lo and behold, the first claim occurred the morning of January 2, 2008, when one of our customers hit a boar at 5:30 a.m. I suspect this will be a first claim not soon forgotten!

Project Chianti, otherwise known as The Italian Job, is moving forward at pace with an anticipated launch later in 2008. The operation will be based in Rome.

Gladiator grows and we begin to take calls in Canada

Other notable accomplishments during the year include the growth in customer numbers of Gladiator Commercial and the creation of a call centre in Halifax, Nova Scotia primarily to handle evening calls from the UK.

Gladiator is our commercial vehicle intermediary and it turned in a profit before tax of £2m. However, Gladiator increased its customer base significantly during the year and now boasts over 62,000 customers up from 43,000 last year (+44%), which bodes well for the future

A combination of a strong service ethic and a four-hour time difference led us to open a call centre in eastern Canada. We now have almost 100 agents on the phones, taking over from the UK in the early evening (mid-afternoon there).

Almost the end of the report

I'm proud to say that it was another very good year for return on capital. This is the benefit of our model, where we have reinsurers put up the capital pro-rata for their share of the underwriting, but we get profit commissions from them when we make profits and we keep the revenue from everything else we do, like Confused, for ourselves. Although we do sacrifice some profit to get this reinsurance support it gives us a layer of protection against losses and serves to make us capital efficient. A good measure of this is our return on capital, which in 2007 was 58% (2006: 57%). Another important indicator is our return on income - 57% in 2007, up from 53% in 2006.

Finally, the best possible tribute to our staff: the first lot of free shares distributed since our 2004 float will vest in 2008. We want all our staff to feel like they own part of the Company and the best way to do that is to give them part of the Company to own. We are very pleased that those who qualified in 2005 and earned free shares will take control of those shares later this year. Our staff give a lot of themselves to the organisation and it is great to share the fruits of our communal efforts with every person in the Company.

Last point of note, at the end of 2007 we joined the FTSE 100. We are the only Welsh Company in this elite club. In fact, we are only the second Welsh Company in history to be in the 100, the first one having been a member for 9 months back in 1992-93. (I hope that by the time you read this we're still a member!) Our rapid rise into the FTSE 100 is a tribute to all the staff across our six sites in five countries who are building a great business by working hard every day to give customers great service.

This is a very exciting time for the Admiral Group and we're looking forward to another great year in 2008.

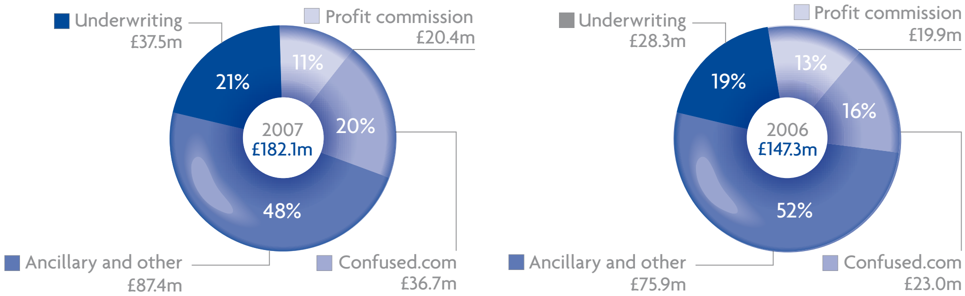
Henry Engelhardt
Chief Executive Officer

Financial review

Key financial highlights

Group profit before tax again grew strongly in 2007 – moving up 24% to £182.1m from £147.3m last year. Earnings per share grew 22% to 48.6p from 39.8p.

	2007 £000	2006 £000
Underwriting profit	37,502	28,351
Profit commissions	20,448	19,926
Ancillary and other net income	93,363	79,262
Confused.com profit	36,727	23,080
Share scheme, pre-launch and other charges	(5,942)	(3,277)
Profit before tax	**182,098**	**147,342**



Group underwriting profits grew significantly in 2007 (by around one third) – this despite a very slowly turning pricing environment in the UK motor market and the inclusion of a first full year's result for Balumba.es (the Group's Spanish motor insurer).

In UK motor, the Group reduced its share of the underwriting to 22.5% (from 25.0%) in a year when this cycle possibly hit its worst point. The number customers grew significantly once again:

	2007 000s	2006 000s
UK private vehicle count	1,382	1,240
Spanish private vehicles	47	2
Gladiator Commercial vehicles	62	43
Total vehicle count	**1,491**	**1,285**

Within the overall increase of 16%, UK vehicles insured grew by 11½%, and Gladiator grew by 47%. Balumba increased its customer base to end the year at 47,000 (having ended 2006, two months after launch with around 2,200)

October 2007 saw the successful launch of AdmiralDirekt.de – the Group's German car insurer, based in Cologne. In the relatively short period before the end of the year, AdmiralDirekt sold 9,000 policies, generating around £1.7m in premium and ancillary income. Cover for these risks started 1 January 2008.

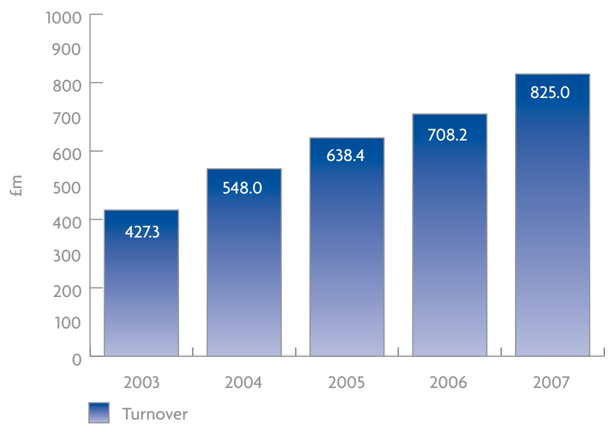
A more detailed split of Group profit, including geographical analysis follows below. Each element is discussed in the following notes.

	2007 UK GROUP £000	2007 EUROPE £000	2007 TOTAL £000	2006 UK GROUP £000	2006 EUROPE £000	2006 TOTAL £000
Underwriting profit	39,976	(2,474)	37,502	28,541	(190)	28,351
Profit commissions	20,448	-	20,448	19,926	-	19,926
Ancillary and other net income	91,517	1,846	93,363	79,186	76	79,262
Confused.com profit	36,727	-	36,727	23,080	-	23,080
Share scheme, pre-launch and other charges	(4,534)	(1,408)	(5,942)	(2,782)	(495)	(3,277)
Profit before tax	**184,134**	**(2,036)**	**182,098**	**147,951**	**(609)**	**147,342**

Europe figures include the results of Balumba in Spain, and set up and pre-launch costs relating to AdmiralDirekt (Germany) and the Italian business.

Turnover, comprising total premiums written (including premium underwritten by co-insurers), gross other income and net investment return (as a measure of the combined size of the Group's businesses) continued to grow strongly:

	2007 UK GROUP £000	2007 EUROPE £000	2007 TOTAL £000	2006 UK GROUP £000	2006 EUROPE £000	2006 TOTAL £000
Total premium written	617,023	14,228	631,251	566,048	560	566,608
Other revenue	174,641	2,237	176,878	131,536	85	131,621
Net investment return	16,662	133	16,795	9,925	-	9,925
Turnover	808,326	16,598	824,924	707,509	645	708,154



A reconciliation of turnover to figures appearing in the income statement is shown at the end of this review.

Overall growth of 16% was made up of an 11% increase in total premium, a 34% rise in other revenue (predominantly ancillary income and Confused.com revenue) and a 69% increase in investment return after a disappointing investment year in 2006. Net revenue in the income statement increased by 17% to £364m.

Balumba (providing all the European figures above) contributed 2% of total Group turnover.

Underwriting

Underwriting arrangements

During 2007 the Group retained 22.5% (2006: 25%) of UK motor underwriting on a net basis. 60% of the total is underwritten by Great Lakes Reinsurance (UK) Plc (a subsidiary of Munich Re) under a long term co-insurance arrangement. The remaining 17.5% is ceded to two reinsurers – Swiss Re, 10.0% and Partner Re, 7.5%.

The nature of the co-insurance arrangement is such that 60% of all motor premium and claims for the 2007 year accrues directly to Great Lakes and does not appear in the Group's income statement. Similarly, Great Lakes reimburses the Group for its proportional share of expenses.

The Group also retains 35% of the risks generated by Balumba in Spain and AdmiralDirekt in Germany, with 65% being reinsured.

In 2008, the share of the UK motor underwriting retained increases to 27.5% as Great Lakes' share declines by the 5% set out in the revised co-insurance arrangement.

Underwriting results

Total premiums increased by around 11% to £631m from £567m – Balumba accounted for around £14m of this total (having written less than £1m in 2006). The total number of vehicles insured (excluding Gladiator) rose by around 15% to 1.43m from 1.24m. Balumba grew its customer count from around 2,000 to 47,000 at the end of the year.

Vehicle growth exceeded premium growth due in part to lower average premiums in Spain and also in the UK due to mix effects. As noted above, German motor risks sold in the latter part of 2007 do not incept until 2008 and are not included in the premium or results.

Premium rate rises of around 4% have been implemented in the UK and data suggests similar increases have been seen across the market.

Net insurance premium revenue fell marginally to £142m - due to the decrease in the proportion of UK premium retained.

The overall loss ratio improved to 68% - four points down from the 72% reported in 2006. The UK motor ratio improved significantly to 67% from 72%. Balumba's reported loss ratio in its first full year of trading is 141%.

Positive development of prior year reserves continued, and the 2007 result includes releases of almost £30m (up from £21m last year) – improving the loss ratio by around 21 percentage points. The pure year loss ratio (including Balumba) declined to 88% from 86% in 2006.

The UK expense ratio was 16.7%, up 1 percentage point on the previous year primarily as a result of lower average premiums resulting from changes in the mix of the portfolio. When the Balumba figures are included, the Group expense ratio totals 17.7%.

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

As a consequence, the Group's combined ratio improved by two points to 85% (87% in 2006). Taken together with the increase in premiums, this resulted in a 32% rise in underwriting profits, to £37.5m from £28.4m.

Part VII transfer

During November 2007, the Group completed the transfer of the remaining liabilities of Syndicate 2004 (through which the Group underwrote UK private motor insurance from 2000 to 2002) into one of its active insurers - Admiral Insurance Company Limited. Whilst the transfer has a number of advantages in terms of simplifying Group structure and administrative requirements, the transfer has not had a material financial impact on the results in 2007.

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.

Around £20.4m was recognised in 2007, which is £0.5m higher than 2006, although as reported last year, the 2006 total included £2.0m relating to earlier year contracts (£0.5m in 2007).

The reinsurance contracts entered into with Munich Re in Spain and Germany also have profit commission clauses, though these require the underwriting results to move into cumulative profitability before any commission will be earned.

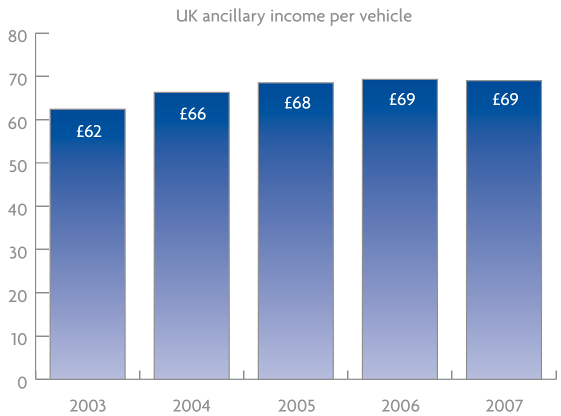
Ancillary and other net income

			2007			2006
	UK GROUP £000	EUROPE £000	TOTAL £000	UK GROUP £000	EUROPE £000	TOTAL £000
Ancillary profit	75,836	1,767	77,603	66,946	76	67,022
Interest income	7,745	32	7,777	4,539	-	4,539
Instalment income	5,936	47	5,983	5,676	-	5,676
Gladiator Commercial profit	2,000	-	2,000	2,025	-	2,025
	91,517	1,846	93,363	79,186	76	79,262

Ancillary profit & instalment income

This is primarily made up of commissions and fees earned on sales of insurance products and services complementing the motor policy, but which are underwritten by external parties. It continues to be a major component of Group profit.

Net ancillary contribution increased by 16% in 2007 to £78m from £67m, broadly in line with the growth in vehicles insured. Gross UK ancillary income per average active vehicle was £69 for both years, with no notable change in the component elements. Balumba has also been successful in selling ancillary products, with income per policy sold of around £45.



Gladiator Commercial

Gladiator made a contribution to profit of £2m in 2007, consistent with 2006. In a highly competitive market, Gladiator grew market share by increasing its customer base by 44% to 62,000. This was partly as a result of new distribution through price comparison sites, and partly the result of improved conversion from a larger and more comprehensive panel.

Gladiator offered 230,000 quotes in 2007, up 68% on last year. Increased investment in new business growth meant that Gladiator's net margin reduced to 27% from 34% in 2006.

Confused.com

	2007 £000	2006 £000
Confused.com profit	36,727	23,080

Confused enjoyed another year of significant growth in 2007. Increased media activity (along with the return of large numbers of previous visitors to the site) led to an increase in the total number of insurance quotes provided by Confused of 43%, to 13.0m from 9.1m in 2006. Revenue increased by 81% to £69.2m from £38.5m.

Operating profit rose 59% to £36.7m from £23.1m in 2006.

Confused also increased its share of the home and travel insurance markets by improving market coverage and panel depth, and revenue growth has also been achieved in a number of other general insurance areas including van and motorbike insurance. Home insurance quotes increased by almost 80% to 0.9m from 0.5m, whilst Confused also gave 0.5m travel insurance quotes (up substantially from just over 0.1m last year).

As noted in the Chief Executive's statement, Confused faced a significant increase in the level of competition in the motor insurance price comparison market during 2007. In spite of this, Confused maintained its position as market leader. Advertising spend by the main competitors in this market has grown substantially over the past year and continues to grow into 2008.

International operations

Balumba has completed its first full year of trading and has progressed well. Management are pleased with the development of the business, which has grown ahead of plan and is well positioned to continue to grow market share and move towards profitability. The European figures above show Balumba made a loss of around £0.7m in the year (the net effect of the underwriting loss, offset by ancillary profits).

AdmiralDirekt launched successfully in Cologne, Germany during October, just under one year after Balumba. The German market brings new challenges, not least the large proportion of motor policies that incept 1 January. AdmiralDirekt sold around 9,000 policies in its short period of trading, managing to commence operating in time to target the January renewals. The business will continue to develop its infrastructure over the coming months, building towards the next peak period in Q4 2008.

The Group's Italian motor insurer is expected to launch later in the year. The business, based in Rome, is making made good progress towards launch in all the key areas (management team, premises, IT system, pricing and marketing).

Earnings per share (EPS)

Earnings per share rose 22% to 48.6p from 39.8p in 2006. The difference in the increase compared to pre-tax profit growth (which was 23.5%) is due to the issue of new share capital in the year to the trustees of the Group's share schemes.

Taxation

The taxation charge reported in the income statement is £54.7m (2006: £43.6m) representing 30.0% of pre-tax profit (2006: 29.6%).

Refer to note 13 to the financial statements for further detail on taxation.

Investments and cash

The Group invests its insurance funds in three AAA-rated sterling liquidity funds, which have performed very consistently in 2007. Against a background of extreme volatility in other asset classes during the year, the three funds delivered a net return of 5.6%, with the variance between the highest and lowest fund's performance in the year being just 0.1%.

The funds target a 7-day LIBID return with capital security and low volatility and they continue to achieve this.

Of the total Group cash and investments of £491m at the end of the year (2006: £449m), £336m (2006: £258m) was held in these money market funds.

Total investment return and interest income was £24.6m up substantially from the £14.5m earned last year. This increase is due in part to the higher level of cash and investments held, but more to the increase in investment return rates.

Dividends

The Directors propose a final dividend for 2007 of 23.2p per share, which is made up of 11.6p per share normal element, plus 11.6p per share special distribution based on the Group's resources at the end of the year.

The total distribution for 2007 will be 43.8p per share – up 21% on the 36.1p declared in 2006.

Reconciliation of turnover

	2007 £000	2006 £000
Insurance premium revenue	233,075	188,288
Change in gross unearned premium provision	27,826	8,090
Group premiums written	260,901	196,378
Add: co-insurer's share of premium written	370,350	370,230
Total premiums written	631,251	566,608
Other revenue	176,878	131,621
Net investment return	16,795	9,925
Turnover	824,924	708,154

Reconciliation of underwriting profit

	2007 £000	2006 £000
Net insurance premium revenue	142,236	144,955
Net insurance claims	(99,795)	(107,145)
Net expenses related to insurance contracts	(21,734)	(19,384)
Investment return (see note 8)	16,795	9,925
Underwriting profit	37,502	28,351

Reconciliation of loss ratios reported

	2007 £000	2006 £000
Net insurance claims	99,795	107,145
Deduct: claims handling costs	(3,471)	(3,538)
Adjusted net insurance claims	96,324	103,607
Net premium revenue	142,236	144,955
Loss ratio	67.7%	71.5%

Reconciliation of alternative operating ratios

	2007 £000	2006 £000
Profit before tax	182,098	147,342
Income:		
Net insurance premium revenue	142,236	144,955
Other revenue	176,878	131,621
	319,114	276,576
Return on income	57%	53%

Corporate governance

The Combined Code on Corporate Governance

This report explains key features of the Group's governance structure, how it applies the principles set out 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.

The Board complied with the Combined Code in all respects during 2007 except for Code D.1.1, which requires that the Senior Independent Director should attend meetings with a range of shareholders. 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 issues or concerns of major shareholders should any be raised. Feedback from shareholders suggests that these arrangements for communication between the Company and its shareholders continue to be viewed by them as effective. 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 Admiral Group Board

The Board is the principal decision making forum for the Group providing leadership either directly or through its Committees of Directors and delegated authority. It is responsible to shareholders for setting and achieving its strategic objectives and for its financial and operational performance. The Board has adopted a formal schedule of matters specifically reserved to it including corporate strategy, approval of budgets and financial results, policies in relation to risk management, health and safety and environmental matters, new Board appointments, proposals for dividend payments and the approval of major transactions. This schedule is reviewed on an annual basis and was last reviewed on 30 January 2008.

The Board met on eight occasions in 2007. In addition the Board held a strategy day and visited its operations in Germany. Agendas and papers are circulated to the Board 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. All Directors are, therefore, able to bring independent judgement to bear on issues such as strategy, performance, and resources. Additional meetings are called when required and there is frequent contact between meetings, where necessary, to progress the Company's business.

During the year the Board carried out an evaluation of itself and its Committees. An external consultant facilitated the evaluation process. The process consisted of the completion of a questionnaire followed by one-to-one discussions between each Director and the facilitator. A final detailed report was discussed at a separate meeting in January 2008 at which the Chairman presented the findings and the Board had an open discussion resulting in a number of agreed recommendations. The evaluation concluded that the Board and its Committees performed well during the year and are effective in meeting their objectives and fulfilling their obligations. The main recommendations were related to the focus of Board meeting discussions and improving the process by which Non-executive Directors can arrange to spend time informally with senior management within the Group.

The Chief Executive, to whom they report, appraises the performance of the individual Executive Directors annually. The Chairman, taking into account the views of the other Directors, conducts the performance appraisal of the Chief Executive. The performance of the Chairman is reviewed by the Non-executive Directors, led by the Senior Independent Non-executive Director (John Sussens), taking into account the views of the Executive Directors.

John Sussens 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 number of full Board meetings and Committee meetings attended by each Director during 2007 is provided in the table below.

	Scheduled Board meetings	Audit Committee meetings	Nominations Committee meetings	Remuneration Committee meetings
Total meetings held	8	4	2	5
Alastair Lyons (Chairman)	8		2	
Henry Engelhardt (Chief Executive)	8			
David Stevens (Chief Operating Officer)	8			
Kevin Chidwick (Finance Director)	8			
Manfred Aldag	6			
Martin Jackson	8	4		5
Keith James	8	4	2	
Margaret Johnson	7	4		5
Lucy Kellaway	8		2	
John Sussens	8			5

The roles of the Chairman and Chief Executive

The Board has approved a statement of the division of responsibilities between the Chairman and the Chief Executive. The Chairman is primarily responsible for the workings of the Board and is not involved in the day-to-day aspects of the business. Save for matters reserved for decision by the Board, the Chief Executive, with the support of the other Executive Directors, is responsible for the running of the business, carrying out the agreed strategy adopted by the Board and implementing specific Board decisions relating to the operation of the Group. The statement of division of responsibilities and matters reserved for decision by the Board were reviewed in January 2008.

Board balance and independence

The Board currently comprises ten Directors, the Chairman (who was independent on appointment), three Executive Directors, five independent Non-executive Directors and one Non-executive Director who is employed by a significant shareholder and is not, therefore, considered independent. The Board has accepted the Nominations Committee's assessment of the independence of the five Non-executive Directors and is not aware of any relationships or circumstances which are likely to affect, or could appear to affect, the judgement of any of them.

Independent Non-executive Directors are currently appointed for fixed periods of three years, subject to election by shareholders.

The initial three-year period may be extended for one further three-year period and the Board may invite the Non-executive Director to serve for a further three-year period, subject to re-election by shareholders. Their letters of appointment may be inspected at the Company's registered office or can be obtained on request from the Company Secretary.

In the view of the Board, the Independent Non-executive 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 his duties within the Group.

John Sussens has been appointed as the Senior Independent Non-executive Director. He is available to shareholders if they have concerns that contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

In accordance with the Company's Articles, which provide that a set number of Directors retire by rotation and stand for re-election at each AGM, David Stevens and John Sussens will retire by rotation and seek re-election by shareholders at the forthcoming AGM.

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.

This induction is supplemented by visits to the Group's head office in Cardiff and meetings with members of the senior management team and their departments. Throughout their period in office the Directors are regularly updated on the Group's business; legal matters concerning their role and duties; the competitive environments in which the Group operates; and any other significant 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.

Relations with shareholders

The Investor Relations team has day-to-day primary responsibility for managing communications with institutional shareholders through a combination of briefings to analysts and institutional shareholders, both at the half-year and full year results. Site visits and individual discussions with the Executive Directors are also arranged throughout the year with individual shareholders. 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 Nominations 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 principal Committees of the Board - Audit, Remuneration and Nominations - all comply fully with the requirements of the Combined Code. They are all chaired by an independent Director and exclusively comprise, or, in the case of the Nominations Committee (where the Chairman of the Board is a member), have a majority of, independent Directors. The Committees are constituted with appropriate written terms of reference that are reviewed annually and minutes of the Committee meetings are circulated to the Board.

The Audit Committee

Constitution and membership

The membership at the year-end was Martin Jackson (Chairman), Keith James, and Margaret Johnson. The Company Secretary acts as Secretary to the Committee. Appointments to the Committee are for a period of up to three years, which may be extended for two further three year periods, provided the Director remains independent. The Committee meets at least three times per year and has an agenda linked to events in the Company's financial calendar.

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 having held the position of Group Finance Director of Friends Provident Plc between 2001 and 2003 and being a Fellow of the Institute of Chartered Accountants, which imposes requirements for Continuing Professional Development. 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.

Other individuals such as the Finance Director, Chief Operating Officer, Chief Executive, Chairman of the Board, the Heads of Risk, Compliance and Internal Audit and representatives from within the Company may be invited to attend all or part of any meeting as and when appropriate. The external auditors will be invited to attend meetings of the Committee on a regular basis.

Summary of key activities during 2007

During the year the Committee reviewed the following:

- Annual report and interim results;
- Reports from the Group's internal audit department on the effectiveness of the Group's risk management procedures, details of key audit findings and actions taken by management;
- Effectiveness of the Group's system of internal control;

- Reports from the external auditors on their audit, proposed audit scope, fees and auditor independence;
- Performance of the internal audit department through self assessment (the internal audit department is subject to external assessment once every five years);
- The Group's 'whistleblowing' procedures.

The Committee adopted a policy on non-audit services that, amongst other things, requires that the Committee approve all proposals for expenditure of over £30,000 on non-audit services. The policy was last reviewed on 28 November 2007. The Group's auditors, KPMG Audit plc, provide some non-audit services, the majority of which comprise compliance services on the various taxation issues within the Group, and which are not considered by the Committee to compromise their independence as auditors. In addition, the Committee reviewed the fees with respect to VAT services in relation to the Group's Gibraltan insurance Company and agreed that the work carried out did not compromise the auditor's independence. The level of non-audit fees is reviewed at each Committee meeting and details are included in note 10 of the Report and Accounts.

The Head of Internal Audit is invited to all Committee meetings and provides a range of presentations and papers to the Committee, through which the Committee monitors the effectiveness of the Group's internal controls. Committee members receive copies of all internal audit reports and are given the opportunity to raise questions on the content and recommendations contained within the reports. The Committee approves the internal audit programme at the start of each calendar year and monitors the progress made in achieving the plan.

During the year, the Committee received a presentation from the Group's external actuaries, Ernst & Young, on reserving methodologies used in assessing the Group's claims reserves.

The Committee also approves the annual compliance review plan and receives copies of these reports. The Group's Company Secretary, who has responsibility for the Compliance and Risk management functions, provides the Committee with a quarterly Compliance Officer's report summarising the activities in this area.

The Committee has a policy that provision of external audit services be tendered every five years. This was last carried out in 2006 when the decision was made to retain the services of the incumbent external auditors. At the same time the external audit partner was rotated.

The Nominations Committee

The membership at the year-end was Keith James (Chairman), Lucy Kellaway and Alastair Lyons. The Company Secretary acts as Secretary to the Committee. The Committee normally invites the Chief Executive to attend meetings.

The Committee has formal terms of reference, which were last reviewed on 22 November 2007. The Committee met on two occasions during 2007.

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 reviews the plans for other senior management positions. Responsibility for making senior management appointments rests with the Chief Executive.

During 2007, the Committee advised the Executive team on the expectations for succession planning. Planning for the most senior management positions was formerly in place but below this, succession planning within the Group was not well documented. The People Services Manager has started a process of documenting and improving the approach taken by the Group to assess and monitor succession planning throughout the Group.

The Committee reviewed the current Board size, structure, and composition and confirmed that no further 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.

The Remuneration Committee

The membership at the year-end was John Sussens (Chairman), Martin Jackson and Margaret Johnson. The Company Secretary acts as Secretary to the Committee. The Committee invites the Chief Executive and Chairman to attend the meetings where it deems appropriate.

The Committee has formal terms of reference, which were last reviewed on 22 November 2007. The Committee met five times during 2007.

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 Company Secretary;
- Reviewed the rules and performance measures of the Group share schemes and recommended for approval the grant, award, allocation or issue of shares under such schemes.

A separate remuneration report is included within the Report and Accounts.

The Committee did not use the services of any external consultants during the year but did receive reports produced by various external agencies to enable it to make judgements on the levels of remuneration for the Directors and to review the remuneration of the Group's senior executives.

Internal control and risk management

The Board is ultimately responsible for the Group's system of internal control and, through the Audit Committee, has reviewed the effectiveness of these systems. The systems of internal control over business, operational, financial and compliance risks are 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 internal controls; that it has been in place for the year ended 31 December 2007; and that, up to the date of approval of the annual report and accounts, it is regularly reviewed by the Board and accords with the internal control guidance for Directors provided in the Code.

A key element of the control system is that the Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clearly defined lines of responsibility.

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).

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 effectively be controlled. The Company Secretary 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 head of each business unit or business area is required, with the support of the Risk Manager, to undertake a full assessment process to identify and quantify the risks that their departments face or pose to the Group and the adequacy of the controls in place to mitigate or reduce those risks. Reports are produced showing the most significant risks identified and the controls in place. Internal Audit and the Compliance function use the risk registers to plan their programme of audits to ensure that the controls described are actually in place.

The RMC receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms that are embedded within the operational units. 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 primarily confined to a high-level review of the arrangements for internal control although at its discretion the Committee may well request more detailed information on specific issues should they arise. 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 2008 meeting, the Board carried out the annual assessment for the 2007 year by considering documentation from the Audit Committee, taking account of events since 31 December 2007.

The Audit Committee's ability to provide the appropriate assurance to the Board depends on the provision of periodic and independent confirmation, primarily by Internal Audit, 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 Board confirms that there were no significant issues arising during the year under review.

The Risk Management Committee

The Committee's members include the three Executive Directors, the Group Company Secretary (who chairs the meetings), the Deputy Compliance Officer, the Risk Manager and senior management representatives.

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 has formal terms of reference and is required to manage regulatory issues, assess and monitoring reinsurance protection, and ensure that a risk management strategy is effectively employed by the Group. The Committee meets around 8 times a year and each Committee member receives an agenda and papers in a timely manner allowing the Committee to make informed decisions and actions.

The Committee develops policies to ensure compliance with 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

Scope of report

The remuneration report summarises the Group's remuneration policy and particularly its application with respect to the Directors. The report also describes how the Group applies the principles of good corporate governance in relation to Directors' remuneration in accordance with the Combined Code and Directors Remuneration Report Regulations 2002.

Remuneration Committee

The Committee is appointed by the Board and comprises only Non-executive Directors. The Committee is chaired by John Sussens, the Senior Independent Non-executive Director, with the other members being Martin Jackson and Margaret Johnson. The Chairman and Chief Executive are invited to meetings where the Committee considers it appropriate to obtain their advice on the matters under review. During the year ended 31 December 2007, the Committee met on five separate occasions. Its remit includes recommending the remuneration of the Chairman, the Executive Directors, and the Company Secretary; review of the remuneration of senior management; review of the awards made under the performance related incentive schemes.

The Committee's terms of reference, which are reviewed at least annually and approved by the Board, are available on the Group's corporate website and are summarised in the Corporate Governance Report.

The members of the Committee do not have any personal financial interests or any conflicts from cross-directorships that relate to the business of the Committee. The members do not have any day-to-day involvement in the running of the Group.

During the year the Committee did not purchase any consultancy services but the Company Secretary circulates market survey results as appropriate.

Remuneration policy

The Group is committed to the primary objective of maximising shareholder value over time. The Committee reviews the framework and remuneration packages of the Executive Directors and the most senior managers. The main principles underlying the remuneration policy are:

- Competitive – The Group pays below-median salaries but with attractive incentives which provide opportunity for highly competitive total reward packages for superior performance.
- Performance linked – A significant part of Executive Directors' and senior managers' reward is determined by the Group's earnings growth. Failure to achieve threshold levels of growth in the Group's earnings results in reduced or no payout under the Group's Long-term incentive plan.
- Shareholder aligned – A considerable part of the reward is related to the growth in earnings versus LIBOR. Executive Directors have agreed to retain a minimum shareholding equal to at least 100% of base salary which can be built up over a period of five years from the date of appointment.
- Transparent – All aspects of the remuneration structure are clear to employees and openly communicated.
- Death in Service scheme, paying three times salary available to all employees following completion of their probationary period.
- Group Personal Pension Plan, matching employee contributions up to a maximum 6% of base salary with a total annual cap of £4,800. Available to all employees with one year's service.
- Private Medical Cover, available to approximately 100 management level staff.
- Permanent Health Insurance policy covering the same staff who are eligible for Private Medical Cover.

- Approved Free Share Incentive Plan (SIP). The SIP is available to all staff (Henry Engelhardt and David Stevens have declined to be included in the plan). The maximum annual award under the SIP is £3,000 per employee. Shares awarded under the SIP are forfeited if the employee leaves within three years of the award. Awards are made twice a year, based on the results of each half-year. During 2005, 2006 and 2007 the Group's results have meant that qualifying staff have received maximum awards in each year.
- Discretionary Free Share Scheme (DFSS). Awards under the DFSS are distributed on a wider basis than most plans of this type. The Committee believes that as the DFSS develops and awards begin to vest in 2008, it will have the effect of reducing staff attrition and creating a definite alignment of the interests of staff and shareholders.

  Of the Group's current Executive Directors, only Kevin Chidwick (Finance Director) participates in this scheme.

  The performance criterion in determining how many shares vest under the DFSS is 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 Committee feels that this is a good indicator of long-term shareholder return with which to align staff incentivisation. The Committee recommends for approval by the Board awards to the Finance Director and other employees under the DFSS. 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 16% per annum (assuming LIBOR averages 5% over the period). Only 10% of shares vest for matching LIBOR over the three-year period. The plan allows for a maximum award of £400,000 or 600% of basic salary if lower.

The Committee is conscious of the maximum allowable awards under both share schemes and controls are in place to ensure that neither scheme is issued shares in excess of 5% of the Group's issued share capital over the 10 year period from 1 January 2005.

The Committee determines the fees for the Chairman of the Board after consultation with the Executive Directors and review of market data. The fees of the Chairman were not subject to review in 2007. The Chairman waives 25% of his fee.

Non-executive Directors' remuneration is set by the Chairman and Executive Directors and approved by the Board as a whole. A summary of their contracts and remuneration is shown below.

Executive Directors are allowed, or though none currently do, to accept appointments as Non-executive Directors of companies with prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the wider exposure gained will be beneficial to the development of the individual. Where fees are payable in respect of each appointment these will be retained by the Company.

Executive Directors' remuneration

Two of the three Executive Directors (Henry Engelhardt and David Stevens) are 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 below-median base salary (compared to 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 these Executive Directors, and they have not, nor is it intended that they will participate in any Group share schemes. Their remuneration was reviewed in September 2007. Henry Engelhardt was awarded a rise of 5.2% taking his salary to £305,000 and David Stevens awarded a rise of 6% taking his salary to £265,000

The Committee aims to ensure that the remuneration of the Finance Director is fair and in total, in-line with market rates, and is designed to provide rewards for achieving increases in shareholder value.

In addition to benefits such as private medical cover, permanent health insurance, death in service cover and eligibility to the Group's Personal Pension Plan, there are two main elements to the Finance Director's remuneration package:

- Basic annual salary
- Awards under the DFSS.

It is the Committee's general strategy to pay salaries at or slightly below median levels together with awards under the DFSS bringing the total remuneration to competitive levels for superior performance. With effect from 1 October 2007 Kevin Chidwick's base salary was increased to £240,000, an increase of 20%. Kevin Chidwick received an award of 23,000 free shares on 18 April 2007 with a value at the date of the award of £241,500. The awards are the maximum number of shares that could vest after a three-year period and are subject to performance criteria as described above.

Directors' service contracts

The following table summarises the notice periods relating to the service contracts of the Executive Directors serving at 31 December 2007.

	Notice – Director (months)	Notice – Company (months)
Kevin Chidwick	12	12
Henry Engelhardt	12	12
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 periods are included below.

Term and notice	
Alastair Lyons	3 years commencing 1 July 2007, terminable by either party giving three months' written notice.
Manfred Aldag	Indefinite (terminable on one months' notice from either party) – automatically terminates should he cease employment with Munich Re.
Martin Jackson	3 years commencing 1 December 2006, terminable by either party giving one months' written notice.
Keith James	3 years commencing 1 December 2006, terminable by either party giving one months' written notice.
Margaret Johnson	3 years commencing 4 September 2006, terminable by either party giving one months' written notice.
Lucy Kellaway	3 years commencing 4 September 2006, terminable by either party giving one months' written notice.
John Sussens	3 years commencing 1 December 2006, terminable by either party giving one months' written notice.

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

Non-executive Directors' remuneration

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 when Non-executive Director fees are discussed.

The following tables set out Non-executive fees and expected time commitments.

Expected time commitment (in days) for the Board and Committees:

	Audit	Remuneration	Nominations	Senior Independent Director	Board
Member	3	1	1		18
Chairman	4-5	2-3	2-4		As required
Other				1-3	

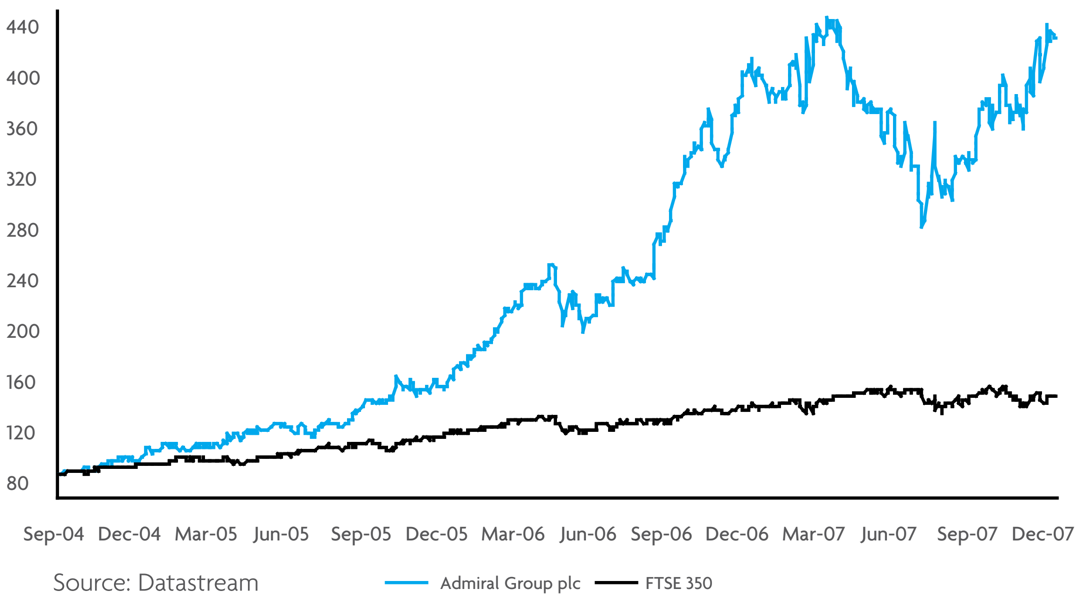
Fees payable (£'000) with respect to Board and Committee membership are as follows:

	Audit	Remuneration	Nominations	Senior Independent Director	Board
Member	3	1	1		30
Chairman	5	3	3		120
Other				5	

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 2007. TSR is defined as the percentage change over the period, assuming reinvestment of income.

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



Source: Datastream

Directors' shareholdings - Audited

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

	Ordinary shares of 0.1p	
	31 December 2007	31 December 2006
Executive Directors		
Kevin Chidwick*	1,796	213
Henry Engelhardt **	40,466,720	40,466,720
David Stevens ***	10,084,000	19,768,000
Non-executive Directors		
Alastair Lyons	615,600	615,600
Manfred Aldag	-	-
Martin Jackson	-	-
Keith James	44,500	44,500
Margaret Johnson	-	-
Lucy Kellaway	-	-
John Sussens	8,000	8,000

* Kevin Chidwick holds 546 shares (2006: 213) within the Group's SIP details of which are shown below
** Include amounts held by family members and in trusts settled by family members
*** David Stevens and his wife transferred 9,884,000 shares to The Waterloo Foundation, a charitable foundation they established in February 2007

Directors' remuneration - Audited

Remuneration for the year ended 31 December 2007 was as follows:

	Base salary and fees	Bonuses and other	Benefits	2007 Total	2006 Total
Executive Directors	(£000)	(£000)	(£000)	(£000)	(£000)
Kevin Chidwick *	210	34	3	247	75
Henry Engelhardt	298	-	-	298	285
David Stevens	254	-	-	254	250
Chairman and Non-executive Directors					
Alastair Lyons **	90	-	-	90	75
Manfred Aldag	6	-	-	6	6
Martin Jackson	36	-	-	36	30
Keith James ***	46	-	-	46	38
Margaret Johnson	34	-	-	34	11
Lucy Kellaway	31	-	-	31	10
John Sussens	38	-	-	38	35
Totals	1,043	34	3	1,080	815

* £34,000 of other payments to Kevin Chidwick relate to relocation expenses
** Alastair Lyons waives 25% of his annual fee which is currently £120,000
*** Keith James also received £5,000 for chairing the Board of Admiral Insurance Company Limited and £5,000 for chairing the Board of Inspop.com Limited

Awards made under the Discretionary Free Share Scheme (DFSS) and Free Share Incentive Plan (SIP)

The table below sets out the awards made to Directors under the DFSS and SIP, including the dates of the awards, the value at the time of the award and vesting date.

Awards to Kevin Chidwick under the DFSS and SIP

	------------Number of shares------------							
Type	At start of year	Awarded during year	Vested during year	At end of year	Price at award (£)	Value at award (£)	Date of award	Final vesting date
DFSS	28,103	-	-	28,103	£4.37	£122,810	31/10/05	31/10/08
DFSS	21,186	-	-	21,186	£6.136	£130,000	18/04/06	18/04/09
DFSS	18,480	-	-	18,480	£6.764	£125,000	04/09/06	04/09/09
DFSS	-	23,000	-	23,000	£10.50	£241,500	18/04/07	18/04/10
SIP	213	-	-	213	£6.764	£1,440	06/09/06	06/09/09
SIP	-	151	-	151	£10.284	£1,552	09/03/07	09/03/10
SIP	-	182	-	182	£8.264	£1,504	04/09/07	04/09/10

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

This report was approved by the Board of Directors on 3 March 2008 and is signed on its behalf by the Committee Chairman:

John Sussens
Remuneration Committee Chairman

Corporate responsibility

The Admiral Group is committed to dealing fairly and with a high level of integrity with all its stakeholders. The corporate responsibility report sets out our approach and the way we measure our success in dealing with each group of stakeholders:

Customers

The Group has always regarded its customers as central to the success of the business. As at 31 December 2007 the Group insured 1.5m vehicles, up 16% from 1.3m the year before. We focus on open communication with our customers providing high standards of service at all points in the customer cycle from new business, customer service, renewals, claims and complaints. The Group's commitment to quality is demonstrated through its Quality Measures Programme. Everyone in the organisation has a part to play in ensuring a high standard of quality. Every department in the Group has a unique set of quality measures to gauge performance.. The measures are updated each year to challenge staff to make continual improvements. The programme is reported every month in the internal Company magazine and awards are presented each year for the best departments. The annual measures bonus provides a financial incentive for staff to drive incremental change throughout the business and was paid out in full for the 2007 year.

As well as this programme, quality representatives throughout the Group monitor the service the Company provides through the thousands of comment forms it receives back from customers every month. By listening to customer comments, Admiral can improve the quality of service it provides.

The Group's Compliance department is now working on a Treating Customers Fairly management information pack pulling together specific measures that will demonstrate that we are consistently treating our customers fairly.

Employees

We believe the happier our staff are, the better they will do their job. This means that we constantly work to improve our staff's working environment. We also try to make sure that the working day for our staff is as fun and rewarding as we can make it.

It is important for employees to understand the Company's goals and objectives. We work to communicate this in as many ways as possible. As an example, we encourage staff to attend our Annual Staff General Meeting (SGM). The SGM is arranged to enable staff to hear the views of the executive directors and some of the non-executive directors on a wide range of subjects including the performance of the Group and the market within which we operate; the experiences of non-executive directors within and outside of the Group; and the Group's share plans. We believe that employing well-informed staff will improve motivation and make Admiral a better place to work.

The best measures of our staff's assessment of their working environment are the surveys that they have completed. Following independent measurement by the organisations involved Admiral has received the following awards:

Staff celebrate the opening of new Swansea office

The Sunday Times 100 Best Companies to Work For – Admiral has been included in all eight years of the publication and was ranked 57th overall in the last list published.

	2001	2002	2003	2004	2005	2006	2007	2008
Position	32	42	46	60	20	20	21	57

The Financial Times 50 Best Workplaces in the UK – we have been included in all five years of the publication, which has not yet been published for 2008.

	2003	2004	2005	2006	2007
Position	7	16	17	8	Top 10*

* Individual positions within the top 10 were not provided in 2007.

The Group also carries out its own annual internal web-based survey both to collect employees' views on what it is like working for Admiral and to address areas where issues are raised. In 2007, 85% of staff completed the survey (2006, 85%). Overall, the results continued to show that 91% of employees feel proud to be associated with Admiral, 82% feel that morale is high in their department and 89% feel that morale is high throughout the Company as a whole.

The survey results are split down by department and each manager is expected to share the survey results with their team, explore issues and concerns, and then make recommendations to address them.

Community

Admiral has adopted a charitable giving policy, which supports the local communities in which its employees live and work. During 2007, 110 local organisations were helped with a total donation of £25,000.

Financial support is an important part of our commitment to our local communities and our customers. We contribute both as a Company and as individuals through a variety of schemes.

Admiral sponsored Champion Child of Courage Award

Custard pie throwing for charity

Environment

The Group's impact on the environment stems from its use of resources to run its offices in Cardiff and Swansea and its communications with customers. In addition, the Group now has operations in Spain, Germany and will launch in Italy later in 2008. It also operates a call centre in Halifax, Canada, which employs over 100 staff. The Group does not own the properties that it occupies and is, therefore, reliant upon the cooperation of the managing agents of the properties to make changes that could reduce the consumption of energy and water. The figures quoted for energy use do not yet include overseas properties but travel to and from these businesses is included within the figures quoted in the table below. In 2008 reporting will be included by country.

The Group Company Secretary is responsible for the Group's approach to its impact upon the environment and during 2007 steps were taken to ensure that systems were put in place to collect the information necessary to report fully on the Group's UK operations.

- Raising and maintaining staff awareness of, and ensuring that employees are actively engaged in, activities to reduce the impact of the Group's operations on the environment.
- Measuring, monitoring and reporting on the key aspects of the Group's environmental performance and regularly reviewing progress to reduce the amount of resources consumed per employee.
- Reporting key environmental performance indicators, taking into account the ABI's Guidelines on Responsible Investment Disclosure and guidance provided by the Department for Environment, Food and Rural Affairs (Defra).

Impact Area	Usage	Consumption measure 2007
Energy ('000 Kwh)	6,997	381 Kwh/m2
CO_2 (tonnes)	4,033	1.71 tonnes per employee
Water (m3)	14,836	6.28 per employee
Waste management:		
Total waste	239,139 KG	
Waste to landfill	128,278 KG	
Waste recycled	110,861 KG	46% recycled
Travel		
Car miles	279,920	118 miles per employee
Rail miles	213,357	90 miles per employee
Air Miles	1,120,537	474 miles per employee

* The figures above are for the Group's UK operations.

Energy

The main source of the Group's carbon emissions is the consumption of electricity and gas for its three UK offices . The Cardiff head office is the older and least efficient , built in the 1960's and housing just over 1,200 people. The Swansea office, housing 1,100 staff was built in 2006 and is therefore a much more efficient building. The third office is also located in Cardiff housing 130 staff.

During the last quarter of 2007 electricity supply to the Cardiff office was switched to 'Green electricity' which is defined in the The Renewables Obligation Order 2002 as the following types of electricity (in order of importance in 2006-07): landfill gas, On-shore wind, small Hydro <20 MW DNC, Co-firing of biomass with fossil fuel, Biomass, Off-shore wind, Sewage gas, Micro hydro, Biomass and waste using advanced conversion technology, Photovoltaics and Wave power.

During the year the Group started purchasing re-cycled paper for all internal use and is investigating sources of recycled paper for communications with customers.

Environmental risks

The Group has reviewed the risks facing its business operations as a result of climate change. The volume of motor insurance claims for any given portfolio of business is to a large degree dependent upon weather conditions. The risk associated with climate change is the potential change to claims frequency through the impact of more extreme weather patterns. It is virtually impossible to model the potential impact of climate change on claims frequency as the actual climate change induced outcome for the UK is unknown. However, the Group does assess the potential costs associated with a number of disaster scenarios such as a major storm in the South East, major flood on the East Coast, and a complete flooding of the Thames in the London area. The Group maintains sufficient reinsurance cover to provide protection in the event of catastrophes of this nature.

The Admiral Group plc Board

KEY

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

Alastair Lyons CBE (54)
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 Dunnett Shaw 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 (50)
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.

Kevin Chidwick (44)
Finance Director

Kevin is responsible for finance, information technology, facilities and investments. He joined Admiral in 2005, becoming a Director in September 2006.

Prior to Admiral, Kevin has been in UK financial services for over 20 years. He has held a number of senior roles in other insurance organisations including, most recently, Finance Director of Engage Mutual Assurance and Cigna UK.

He is a fellow of the Chartered Institute of Certified Accountants and has an MBA from London Business School.

David Stevens (46)
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.

Directors **(names from left to right)**

Manfred Aldag
Stuart Clarke (Company Secretary)
Margaret Johnson
Keith James
Kevin Chidwick
Alastair Lyons
Henry Engelhardt
Lucy Kellaway
David Stevens
Martin Jackson
John Sussens

Manfred Aldag (57)
Non-executive Director (N)

Manfred was appointed a Non-executive Director of the Company in 2003 as a representative of Munich Re. He graduated from University of Essen and has a degree in Economics/Business Management (Diplom-Kaufmann).

He has worked for Munich Re since September 1981 and is currently the Senior Executive Manager responsible for United Kingdom / Ireland.

Martin Jackson (59)
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 is also a Non-executive Director of IG Holdings plc, Homeserve GB Limited and Rothesay Life Limited

He is a Fellow of the Institute of Chartered Accountants.

Margaret Johnson (49)
Non-executive Director (A,R)

Margaret was appointed Non-executive Director of the Company in September 2006. She is currently Group CEO of the international advertising agency Leagas Delaney and has been with that Company for the past 12 years.

Margaret joined the Group's Audit and Remuneration Committees on appointment to the Board.

Keith James OBE (63)
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 and is Non-executive Chairman of Atlantic Venture Capital Limited and International Greetings plc.

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.

Lucy Kellaway (48)
Non-executive Director (N)

Lucy joined the board as a Non-executive Director in September 2006. She is the management columnist on the Financial Times and author of various books. In 20 years on the FT she has been oil correspondent, a Lex columnist and Brussels correspondent.

Lucy also joined the Nominations Committee on appointment to the Board.

John Sussens (62)
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.

Financial statements

Directors' report

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2007.

Business review

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.

The information that fulfils the requirements of the Business review, as required by Section 234 ZZB of the Companies Act 1985, and which should be treated as forming part of this report by reference are included in the following sections of the annual report:

- Chairman's statement.
- Chief Executive's statement.
- Financial review.
- Principle risks and uncertainties as contained in note 18
- Corporate responsibility report.

Group results and dividends

The profit for the year, after tax but before dividends, amounted to £127.4m (2006: £103.7m).

The Directors declared and paid dividends of £116.0m during 2007 (2006: £70.1m) – refer to note 14 for further details.

The Directors are proposing a final dividend of £60.9m (23.2p per share), payable on 7th May 2008.

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 4 March 2008:

	Number of shares	%
Munich Re	39,579,400	15.07%
Newton Investment Managers	15,032,472	5.72%
Fidelity	13,465,622	5.13%
BlackRock Inc	13,019,317	4.96%
Capital Group	12,766.870	4.86%
Jupiter Asset Management	12,361,744	4.71%
Legal & General Group Plc	7,950,924	3.03%

Financial Instruments

The objectives and policies for managing risks in relation to financial instruments held by the Group are set out in note 18 to the financial statements.

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 £87,000 (2006: £38,000) 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 15 days purchases (2006: 18).

Additional information for shareholders

Where not provided previously in this Directors' Report, the following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK law.

At 31 December 2007, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the share capital and shares issued during the year can be found in note 25.

On a show of hands at a general meeting of the Company every holder of shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the general meeting specifies deadlines for exercising voting rights either by proxy notice or present in person or by proxy in relation to resolutions to be passed at general meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the annual general meeting and published on the Company's website after the meeting.

There are no restrictions on the transfer of ordinary shares in the Company other than:

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws) and:
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require the approval of the Company to deal in the Company's securities.

The Company has not purchased any of its own shares during the period.
There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

There are a number of agreements that alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts. None is considered to be significant in terms of their impact on the business of the Group as a whole except for the long-term co-insurance agreement in place with Great Lakes Resinsurance (UK) Plc. Details relating to this agreement are contained in the Financial Review.

Power to issue shares

At the last annual general meeting, held on 16 May 2007, authority was given to the Directors to allot unissued relevant securities in the Company up to a maximum of an amount equivalent to one third of the shares in issue. This authority expires on the date of the annual general meeting to be held on 29 April 2008 and the Directors will seek to renew this authority for the following year.

A further special resolution passed at that meeting granted authority to the Directors to allot equity securities in the Company for cash, without regard to the pre-emption provisions of the Companies Act 1985. This authority also expires on the date of the annual general meeting to be held on 29 April 2008 and the Directors will seek to renew this authority for the following year.

Appointments of Directors

The Company's Articles of Association ("the Articles") give the Directors power to appoint and replace Directors. Under the terms of reference of the Nominations Committee, any appointment must be recommended by the Nominations Committee for approval by the Board of Directors. The Articles also require Directors to retire and submit themselves for election at the first annual general meeting following appointment and all Directors who held office at the time of the two preceding annual general meeting, to submit themselves for re-election.

Articles of Association

The Articles may only be amended by special resolution of the shareholders.

Power of the Directors

The Directors are responsible for managing the business of the Company and may exercise all powers of the Company subject to the provisions of relevant statutes, to any directions given by special resolution and to the Company's Memorandum and Articles. The Articles for example, contain specific provisions and restrictions concerning the Company's power to borrow money. Powers relating to the issuing of new shares are also included in the Articles and such authorities are renewed by shareholders at the annual general meeting each year.

Annual General Meeting

It is proposed that the next AGM be held at Cardiff City Hall, Cathays Park, Cardiff CF10 3ND on Tuesday 29 April 2008 at 2.00pm, notice of which will be sent to shareholders with the Annual Report.

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 they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 judgements 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.

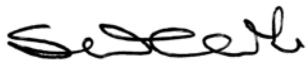
Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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 2008

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

We have audited the Group and Parent Company financial statements (the "financial statements") of Admiral Group plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Parent Company Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expenses and the related notes. These 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.

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 (IFRSs) as adopted by the EU, and for preparing the Parent Company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities in the Directors' Report.

Our responsibility is to audit the 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 financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's statements, the Chief Executive's statement and the financial review that is cross referred from the business review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 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 the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. 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 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 financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2007 and of its profit for the year then ended;
- 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; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Cardiff

3 March 2008

Consolidated income statement

	Note:	Year ended: 31 December 2007 £000	31 December 2006 £000
Insurance premium revenue		233,075	188,288
Insurance premium ceded to reinsurers		(90,839)	(43,333)
Net insurance premium revenue	5	**142,236**	**144,955**
Other revenue	6	176,878	131,621
Profit commission	7	20,448	19,926
Investment and interest income	8	24,572	14,464
Net revenue		**364,134**	**310,966**
Insurance claims and claims handling expenses		(172,611)	(136,472)
Insurance claims and claims handling expenses recovered from reinsurers		72,816	29,327
Net insurance claims		**(99,795)**	**(107,145)**
Expenses	9	(78,986)	(54,528)
Share scheme charges	9, 25	(2,971)	(933)
Total expenses		**(181,752)**	**(162,606)**
Operating profit		**182,382**	**148,360**
Finance charges	12	(284)	(1,018)
Profit before tax	10	**182,098**	**147,342**
Taxation expense	13	(54,682)	(43,620)
Profit after tax attributable to equity holders of the Company		**127,416**	**103,722**
Earnings per share:			
Basic	15	48.6p	39.8p
Diluted	15	48.6p	39.8p
Dividends declared (total)	14	116,016	70,104
Dividends declared (per share)	14	44.6p	27.0p

Consolidated balance sheet

	Note	As at: 31 December 2007 £000	31 December 2006 £000
ASSETS			
Property, plant and equipment	16	7,708	7,448
Intangible assets	17	69,063	66,757
Financial assets	18	481,848	395,938
Reinsurance assets	19	131,668	74,689
Deferred income tax	24	1,629	-
Trade and other receivables	20, 18	22,633	16,931
Cash and cash equivalents	21, 18	155,773	191,242
Total assets		**870,322**	**753,005**
EQUITY			
Share capital	25	263	261
Share premium account	26	13,145	13,145
Retained earnings	26	223,828	205,682
Other reserves	26	396	(33)
Total equity attributable to equity holders of the Company		**237,632**	**219,055**
LIABILITIES			
Insurance contracts	19	363,060	294,425
Deferred income tax	24	-	981
Trade and other payables	22, 18	239,593	215,137
Current tax liabilities		30,037	23,407
Total liabilities		**632,690**	**533,950**
Total equity and total liabilities		**870,322**	**753,005**

These financial statements were approved by the Board of Directors on 3 March 2008 and were signed on its behalf by:

Kevin Chidwick
Director

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Consolidated statement of recognised income and expense

	31 December 2007 £000	31 December 2006 £000
Exchange differences on translation of foreign operations	429	(50)
Net income / (expense) recognised directly in equity	**429**	**(50)**
Profit for the period	127,416	103,722
Total recognised income and expense for the period	**127,845**	**103,672**

Consolidated cash flow statement

	Note	31 December 2007 £000	31 December 2006 £000
Profit after tax		**127,416**	**103,722**
Adjustments for non-cash items:			
- Depreciation		3,227	2,489
- Amortisation of software		725	446
- Unrealised gains on investments		(1,123)	(624)
- Share scheme charge	25	5,560	2,667
Loss on disposal of property, plant and equipment and software		6	151
Change in gross insurance contract liabilities		68,635	40,295
Change in reinsurance assets		(56,979)	(20,523)
Change in trade and other receivables, including from policyholders		(14,772)	(23,150)
Change in trade and other payables, including tax and social security		25,506	33,652
Interest expense		284	1,018
Taxation expense		54,682	43,620
Cash flows from operating activities, before movements in investments		**213,167**	**183,763**
Net cash flow into investments held at fair value		(76,849)	(1,073)
Cash flows from operating activities, net of movements in investments		136,318	182,690
Interest payments		(284)	(1,018)
Taxation payments		(49,477)	(40,931)
Net cash flow from operating activities		**86,557**	**140,741**
Cash flows from investing activities:			
Purchases of property, plant and equipment and software		(5,390)	(6,046)
Net cash used in investing activities		**(5,390)**	**(6,046)**
Cash flows from financing activities:			
Repayments of borrowings		-	(22,000)
Capital element of new finance leases		457	1,519
Repayment of finance lease liabilities		(1,506)	(2,970)
Equity dividends paid		(116,016)	(70,104)
Net cash used in financing activities		(117,065)	(93,555)
Net (increase) / decrease in cash and cash equivalents		(35,898)	41,140
Cash and cash equivalents at start of period		191,242	150,152
Effects of changes in foreign exchange rates		429	(50)
Cash and cash equivalents at end of period	21	**155,773**	**191,242**

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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 (together referred to as the Group) for the year ended 31 December 2007 and comparative figures for the year ended 31 December 2006. 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. The Parent Company financial statements present information about the Company as a separate entity and not about its Group. In accordance with International Accounting Standard (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). The Company has elected to prepare its Parent Company financial statements in accordance with UK Generally Accepted Accounting Practice (GAAP).

The Group has applied all adopted IFRS and interpretations endorsed by the EU at 31 December 2007, including all amendments to extant standards that are not effective until later accounting periods, except for those listed below:

- IFRS 8 (Operating Segments); and

- IFRIC 11 (IFRS 2: Group and Treasury Share Transactions')

IFRS 8 becomes effective for the period commencing 1 January 2009, whilst IFRIC 11 will become effective for the period commencing 1 January 2008. The application of either the standard or the interpretation would not have had a material impact on these financial statements.

There are a number of standards, amendments to standards and interpretations that were issued by 31 December 2007 but have yet to be endorsed by the EU. Of these, only the amendment to IAS 1 (Presentation of financial statements: a revised presentation) is expected to have any impact on the Group's financial statements. This amendment introduces a number of changes to the primary financial statements, but does not change the recognition, measurement or disclosure of transactions or events that are required by other IFRS.

The following IFRS have been adopted and applied by the Group for the first time in these financial statements:

- IFRS 7 (Financial instruments: Disclosure); and

- Amendment to IAS 1 (Capital disclosures)

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

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.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The preparation of financial statements in conformity with adopted 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.

2. Critical accounting judgements and estimates

Judgements:

In applying the Group's accounting policies as described in note 3, management has primarily applied judgement in the classification of the Groups contracts with reinsurers as quota share reinsurance contracts. A contract is required to transfer significant insurance risk in order to be classified as such. Management reviews all terms and conditions of the contract, and if necessary obtains the opinion of an independent expert at the negotiation stage in order to be able to make these judgements.

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. They 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 income 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.

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) Segment reporting

The Group's primary format for segment reporting is business segments. There is no secondary segment. A business segment is defined as a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from other business segments.

For the Group, the risks and returns of its insurance broking activities, namely Gladiator Commercial and Confused.com, are clearly distinguishable from its motor insurance segment. This is reflected in the Group's management and organisation structure and internal financial reporting systems.

Management classify the private motor insurance underwriting and private motor insurance ancillary income results as one business segment (private motor insurance). This is because although the results are distinguishable between underwriting and non-underwriting, the activities carried out in generating the income are not independent of each other and are carried on as one business. This mirrors the approach in management reporting.

c) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in thousands of pounds sterling, which is the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items are included in the fair value reserve in equity.

Translation of financial statements of foreign branches

The financial statements of foreign branches whose functional currency is not pounds sterling are translated into the Group presentation currency (sterling) as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transaction); and

(iii) All resulting exchange differences are recognised as a separate component of equity.

d) 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.

Co-insurance:

The Group has entered into certain co-insurance contracts under which insurance risks are shared on a proportional basis, with the co-insurer taking a specific percentage of each premium written and being responsible for the same proportion of each claim. As the contractual liability is several and not joint, neither the premiums nor claims relating to the co-insurance are included in the income statement. Under the terms of these agreements the co-insurers reimburse the Group for the same proportionate share of the costs of acquiring the business.

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 significant insurance 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.

e) 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.

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.

The Goodwill held on the balance sheet at 31 December 2007 is allocated solely to the private motor insurance segment.

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. The discount rate applied to the cashflow projections in the value in use calculations is 10.3%, based on the Group's weighted average cost of capital.

The key assumptions used in the value in use calculations are those regarding growth rates and expected changes in pricing and expenses incurred during the period. Management estimates growth rates and changes in pricing based on past practices and expected future changes in the market.

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 premiums provision at the balance sheet date. This balance is held as an intangible asset. It is amortised over the term of the contract as premium is earned.

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.

f) 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.

g) 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.

h) Financial assets – investments and receivables

Financial assets are classified according to the purpose for which they were acquired. The Group's investments in money market liquidity funds are designated as financial assets at fair value through profit or loss (FVTPL) at inception.

This designation is permitted under IAS 39, as the investments in money market funds are managed as a group of assets and internal performance evaluation of this group is conducted on a fair value basis.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised through the income statement. Receivables are stated at their historic cost (discounted if material) unless they are impaired. Impairment losses are recognised through the income statement.

i) Cash and cash equivalents

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.

j) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets.

k) 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.

l) 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 as determined at the grant date (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.

Refer to note 25 for further details on share schemes.

m) 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 that have been enacted or substantively enacted by 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. It is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

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.

The principal temporary differences arise from depreciation of property and equipment, share scheme charges and the tax treatment of Lloyd's profits. The resulting deferred tax is charged or credited in the income statement, except in relation to share scheme charges where the amount of tax benefit credited to the income statement is limited to an equivalent credit calculated on the accounting charge. Any excess is recognised directly in equity.

n) Government grants

Government grants are recognised in the financial statements in the period where it becomes reasonably certain that the conditions attaching to the grant will be met, and that the grant will be received.

Grants relating to assets are deducted from the carrying amount of the asset. The grant is therefore recognised as income over the life of the depreciable asset by way of a reduced depreciation charge.

Grants relating to income are shown as a deduction in the reported expense.

4. Segment reporting

Revenue and results for the year ended 31 December 2007, split by business segment are shown below. Consolidation adjustments represent the elimination of inter-segment trading, specifically interest charged on inter-company loans.

As noted above, the Directors consider there to be two business segments. These are private motor insurance and insurance broking (Confused.com and Gladiator Commercial). No geographical business split has been presented as the results of the Group's European operations are not material to the 2007 figures.

				31 December 2007
	Private motor insurance	Insurance broking	Consolidation adjustment	Group
	£000	£000	£000	£000
Net revenue	286,451	77,683	-	364,134
Profit after tax	99,644	27,772	-	127,416
Other segment items :				
Depreciation	3,011	216	-	3,227
Amortisation	9,174	-	-	9,174

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year are as follows. Consolidation adjustments represent the elimination of inter-company balances.

				31 December 2007
	Private motor insurance	Insurance broking	Consolidation adjustment	Group
	£000	£000	£000	£000
Total assets excluding deferred tax balances	842,742	27,722	(1,771)	868,693
Total liabilities excluding current and deferred tax balances	597,647	6,778	(1,771)	602,654
Capital expenditure:				
Intangible assets	11,480	-	-	11,480
Plant, property and equipment	3,099	394	-	3,493

Revenue and results for the corresponding business segments for the year ended 31 December 2006 are reported below.

	Private motor insurance	Insurance broking	Consolidation adjustment	Group
				31 December 2006
	£000	£000	£000	£000
Net revenue	266,168	45,069	(271)	310,966
Profit after tax	85,699	18,023	-	103,722
Other segment items:				
Depreciation	2,366	123	-	2,489
Amortisation	6,508	-	-	6,508

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year are as follows.

	Private motor insurance	Insurance broking	Consolidation adjustment	Group
				31 December 2006
	£000	£000	£000	£000
Total assets	736,160	18,780	(1,935)	753,005
Total liabilities excluding current and deferred tax balances	506,426	5,071	(1,935)	509,562
Capital expenditure:				
Intangible assets	6,764	-	-	6,764
Plant, property and equipment	5,088	364	-	5,452

5. Net insurance premium revenue

	31 December 2007 £000	31 December 2006 £000
Total motor insurance premiums before co-insurance	631,251	566,608
Group gross premiums written after co-insurance	260,901	196,378
Outwards reinsurance premiums	(119,049)	(57,731)
Net insurance premiums written	141,852	138,647
Change in gross unearned premium provision	(27,826)	(8,090)
Change in reinsurers' share of unearned premium provision	28,210	14,398
Net insurance premium revenue	142,236	144,955

The Group's share of the UK and Spanish private motor insurance 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 2007 £000	31 December 2006 £000
Ancillary revenue	94,216	81,527
Revenue from Confused.com	69,159	38,517
Instalment income earned	5,983	5,676
Revenue from Gladiator Commercial	7,520	5,901
Total other revenue	176,878	131,621

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

7. Profit commission

	31 December 2007 £000	31 December 2006 £000
Total profit commission	20,448	19,926

8. Investment and interest income

	31 December 2007 £000	31 December 2006 £000
Net investment return	16,795	9,925
Interest receivable	7,777	4,539
Total investment and interest income	24,572	14,464

9. Expenses and share scheme charges

	31 December 2007			31 December 2006		
	Insurance contracts £000	Other £000	Total £000	Insurance contracts £000	Other £000	Total £000
Acquisition of insurance contracts	8,420	-	8,420	7,375	-	7,375
Administration and other marketing costs	13,314	57,252	70,566	12,009	35,144	47,153
Expenses	21,734	57,252	78,986	19,384	35,144	54,528
Share scheme charges	-	2,971	2,971	-	933	933
Total expenses and share scheme charges	21,734	60,223	81,957	19,384	36,077	55,461

Analysis of other administration and other marketing costs:

	31 December 2007 £000	31 December 2006 £000
Ancillary sales expenses	16,613	14,505
Confused.com operating expenses	32,432	15,437
Gladiator Commercial operating expenses	5,520	3,876
Central overheads	2,687	1,326
Total	57,252	35,144

The £13,314,000 (2006: £12,009,000) administration and marketing costs allocated to insurance contracts is principally made up of salary costs.

The gross amount of expenses, before recoveries from co-insurers and reinsurers is £167,773,000 (2006: £122,343,000). This amount can be reconciled to the total expenses and share scheme charges above of £81,957,000 (2006: £55,461,000) as follows:

	31 December 2007 £000	31 December 2006 £000
Gross expenses	167,773	122,343
Co-insurer share of expenses	(66,430)	(59,075)
Expenses, net of co-insurer share	101,343	63,268
Adjustment for deferral of acquisition costs	(3,687)	(1,044)
Expenses, net of co-insurer share (earned basis)	97,656	62,224
Reinsurer share of expenses (earned basis)	(15,699)	(6,763)
Total expenses and share scheme charges	81,957	55,461

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

	31 December 2007 £000	31 December 2006 £000
Insurance contract expenses from above	21,734	19,384
Add: claims handling expenses	3,471	3,538
Adjusted expenses	25,205	22,922
Net insurance premium revenue	142,236	144,955
Reported expense ratio	17.7%	15.8%

10. Staff costs and other expenses

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

	31 December 2007 £000	31 December 2006 £000
Salaries	45,022	36,083
Social security charges	6,231	3,337
Pension costs	588	517
Share scheme charges (see note 25)	5,560	2,667
Total staff expenses	57,401	42,604

Depreciation charge:		
- Owned assets	2,127	1,009
- Leased assets	1,100	1,480
Amortisation charge:		
- Software	725	446
- Deferred acquisition costs	8,449	6,062
Operating lease rentals:		
- Buildings	3,018	3,292
Auditor's remuneration:		
- Fees payable for the audit of the Company's annual accounts	25	19
- Fees payable for the audit of the Company's subsidiary accounts	169	154
- Fees payable for other services	85	60
Loss on disposal of property, plant and equipment	6	151
Net foreign exchange gains	171	-

Analysis of fees paid to the auditor for other services:

Tax services	85	45
Other services	-	15
Total as above	85	60

The amortisation of software and deferred acquisition cost assets is charged to expenses in the income statement.

11. Staff numbers (including Directors)

	Average for the year 2007 Number	2006 Number
Direct customer contact staff	1,839	1,593
Support staff	525	404
Total	2,364	1,997

12. Finance charges

	31 December 2007 £000	31 December 2006 £000
Term loan interest	-	166
Finance lease interest	243	481
Letter of credit charges	41	221
Other interest payable	-	150
Total finance charges	284	1,018

13. Taxation

	31 December 2007 £000	31 December 2006 £000
UK Corporation tax		
Current charge at 30%	56,194	45,430
Over provision relating to prior periods – corporation tax	(87)	(648)
Current tax charge	56,107	44,782
Deferred tax		
Current period deferred taxation movement	(1,422)	(1,249)
(Over) / Under provision relating to prior periods – deferred tax	(3)	87
Total tax charge per income statement	54,682	43,620

Factors affecting the tax charge are:

	31 December 2007 £000	31 December 2006 £000
Profit before taxation	**182,098**	**147,342**
Corporation tax thereon at 30%	54,629	44,203
Adjustments in respect of prior year insurance technical provisions	-	17
Expenses and provisions not deductible for tax purposes	178	114
Other differences	(36)	(153)
Adjustments relating to prior periods	(89)	(561)
Tax charge for the period as above	54,682	43,620

14. Dividends

Dividends were declared and paid as follows:

	31 December 2007 £000	31 December 2006 £000
March 2006 (14.9p per share, paid May 2006)	-	38,667
September 2006 (12.1p per share, paid October 2006)	-	31,437
March 2007 (24.0p per share, paid May 2007)	62,412	-
September 2007 (20.6p per share, paid October 2007)	53,604	-
Total dividends	116,016	70,104

The dividends declared in March represent the final dividends paid in respect of the 2006 and 2005 financial years. Dividends declared in September are interim distributions in respect of 2007 and 2006.

A final dividend of 23.2p per share has been proposed in respect of the 2007 financial year. Refer to the Chairman's statement and financial review for further detail.

15. Earnings per share

	31 December 2007	31 December 2006
Profit for the financial year after taxation (£000s)	127,416	103,722
Weighted average number of shares – basic	261,981,843	260,632,740
Earnings per share – basic	48.6p	39.8p
Weighted average number of shares – diluted	262,291,843	260,906,740
Earnings per share – diluted	48.6p	39.8p

The difference between the basic and diluted number of shares at the end of 2007 (being 310,000) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 25 for further detail.

16. Property, plant and equipment

	Improvements to short leasehold buildings	Computer equipment	Office equipment	Furniture and fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 1 January 2006	680	9,534	2,623	1,372	12	14,221
Additions	1,655	1,672	1,684	441	-	5,452
Disposals	(2)	(15)	(138)	(1)	-	(156)
At 31 December 2006	2,333	11,191	4,169	1,812	12	19,517
Depreciation						
At 1 January 2006	428	5,603	2,320	1,230	4	9,585
Charge for the year	220	1,750	396	120	3	2,489
Disposals	-	(5)	-	-	-	(5)
At 31 December 2006	648	7,348	2,716	1,350	7	12,069
Net book amount						
At 1 January 2006	252	3,931	303	142	8	4,636
Net book amount						
At 31 December 2006	1,685	3,843	1,453	462	5	7,448
Cost						
At 1 January 2007	2,333	11,191	4,169	1,812	12	19,517
Additions	413	2,129	781	170	-	3,493
Disposals	-	(6)	-	(3)	-	(9)
At 31 December 2007	2,746	13,314	4,950	1,979	12	23,001
Depreciation						
At 1 January 2007	648	7,348	2,716	1,350	7	12,069
Charge for the year	577	1,858	611	178	3	3,227
Disposals	-	(2)	-	(1)	-	(3)
At 31 December 2007	1,225	9,204	3,327	1,527	10	15,293
Net book amount						
At 31 December 2007	1,521	4,110	1,623	452	2	7,708

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

	31 December 2007 £000	31 December 2006 £000
Computer equipment	2,149	2,996

17. Intangible assets

	Goodwill £000	Deferred acquisition costs £000	Software £000	Total £000
Carrying amount:				
At 1 January 2006	62,354	3,328	808	66,490
Additions	-	6,179	596	6,775
Amortisation charge	-	(6,062)	(446)	(6,508)
At 31 December 2006	62,354	3,445	958	66,757
Additions	-	9,584	1,896	11,480
Amortisation charge	-	(8,449)	(725)	(9,174)
At 31 December 2007	62,354	4,580	2,129	69,063

18. Financial instruments

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

Financial assets and liabilities	31 December 2007 £000	31 December 2006 £000
Investments held at fair value	335,608	257,634
Receivables – amounts owed by policyholders	146,240	138,304
Total financial assets per consolidated balance sheet	481,848	395,938
Trade and other receivables	22,633	16,931
Cash and cash equivalents	155,773	191,242
Financial liabilities:	660,254	604,111
Trade and other payables	239,593	215,137

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

All investments held at fair value are invested in AAA-rated money market liquidity funds. These funds (spread across three very large providers) target a 7day LIBID return with capital security and low volatility and continue to achieve these goals.

Objectives, policies and procedures for managing financial assets and liabilities

The Group's activities expose it primarily to the significant financial risks of credit risk, liquidity risk, interest rate risk and foreign exchange risk. The Board of Directors has delegated the task of supervising risk management and internal control to the Risk Management Committee (RMC). There is also an Investment Committee that makes recommendations to the Board on the Group's investment strategy.

There are several key elements to the risk management environment throughout the Group. These are detailed in full in the corporate governance statement. Specific considerations for the risks arising from financial assets and liabilities are detailed below.

Interest rate risk

The Group considers interest rate risk to be the risk that unfavourable movements in interest rates could adversely impact on the capital values of financial assets and liabilities. This relates primarily to investments held at fair value.

The Group has a policy of investing in AAA-rated money market liquidity funds, which invest in a mixture of very short dated fixed and variable rate securities, such as certificates of deposits, floating rate notes and other commercial paper.

The funds are not permitted to have an average maturity greater than 60 days and hence are not subject to large movements in yield and value resulting from changes in market interest rates (as longer duration fixed income portfolios experience). Returns are likely to closely track the 7 day LIBID benchmark and hence while the Group's investment return will vary according to market interest rates, the capital value of the investment funds will not be impacted by rate movements. The interest rate risk arising is therefore considered to be minimal.

Although the Group had no financial liabilities at 31 December 2007 or 31 December 2006, it currently holds a facility of £30m which allows it to draw down interest bearing borrowings on demand. Any such borrowings would be subject to variable interest rate changes, at LIBOR plus a margin. However the Group has not held any drawn down amounts on this facility since 2005.

Credit risk

The Group defines credit risk as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion.

Amounts recoverable from reinsurers expose the Group to credit risk. To mitigate this risk, the Group only conducts business with companies of specified financial strength ratings. In addition, management also contract with certain reinsurers on a funds withheld basis, which substantially reduces credit risk.

The other principal form of credit risk is in respect of amounts due from policyholders due to the potential for default on credit card payments. The impact of this is mitigated by the large customer base and low average level of balance recoverable. There is also mitigation by the operation of numerous high and low level controls in this area, including payment on policy acceptance as opposed to inception and automated cancellation procedures for policies in default.

The fair value of receivables from policyholders represents the maximum exposure to credit risk. The Group does not use credit derivatives or similar instruments to mitigate exposure. The amount of bad debt expense relating to policyholder debt charged to the income statement in 2006 and 2007 is insignificant.

There are no specific concentrations of credit risk with respect to investment counterparties due to the structure of the liquidity funds which invest in a wide range of very short duration, high quality securities.

There were no significant financial assets that were past due at the close of either 2007 or 2006.

Foreign exchange risks

Foreign exchange risks arise from unfavourable movements in foreign exchange rates that could adversely impact the valuation of overseas assets.

The Group may be exposed to foreign exchange risk through its expanding operations in Europe. However, given the relative size of the European operations, the risks are relatively small. Assets held to fund insurance liabilities are held in the currency of the liabilities.

A sensitivity analysis based on fluctuations in foreign exchange risk has not been presented on materiality grounds.

Liquidity risk

Liquidity risk is defined as the risk that the Group does not have sufficient, available, financial resources to enable it to meet its obligations as they fall due, or can only secure them at excessive cost.

The Group has traditionally been strongly cash generative due to the large proportion of profit arising from non-underwriting activity. Further, as noted above, insurance funds are invested in money market liquidity funds with same day liquidity features, meaning that the vast majority of the Group cash and investments are immediately available. The current uncertainty in credit markets is not likely to impact this. Liquidity risk is therefore considered to be insignificant.

Fair value

The carrying value of all of the Group's financial assets equate to fair value. For money market funds, cash at bank and deposits, the fair value approximates to the book value due to their short maturity.

Objectives, policies and procedures for managing capital

The Group manages its capital to ensure that all entities within the Group are able to continue as going concerns and also to ensure that regulated entities meet regulatory requirements Excess capital above these levels within subsidiaries is paid up to the Group holding Company in the form of dividends on a regular basis.

At Group level, capital is managed in conjunction with dividend policy. As noted in the financial review, the policy is to make distributions after taking into account capital that is required to be held for regulatory purposes, for expansion activities and also holding a general capital buffer £25m (2006: £25m). This policy gives the Directors flexibility in managing the capital requirements of the Group.

The Group's capital is all in equity form, with no debt.

External capital requirements

The Group's business is subject to regulatory and solvency requirements in two main jurisdictions:

Admiral Insurance (Gibraltar) Limited is the only subsidiary incorporated outside the UK. It is an insurance Company registered in Gibraltar and is regulated by the Commissioner of Insurance of the Gibraltar Financial Services Commission (FSC).

All other subsidiaries as detailed in Note 29 are incorporated in the UK and most are subject to the regulatory regime of the Financial Services Authority (FSA).

Both the FSA and the FSC impose specific solvency requirements for capital resources on regulated subsidiary companies. All companies have comfortably exceeded agreed solvency targets at all times during the years ended 31 December 2006 and 2007.

19. Reinsurance assets and insurance contract liabilities

A) Objectives. policies and procedures for the 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.

The Board of Directors is responsible for the management of insurance risk, although as mentioned in note 18, it has delegated the task of supervising risk management to the RMC.

The Board implements certain policies in order to mitigate and control the level of insurance risk accepted by the Group. These include underwriting partnership arrangements, pricing policies and claims management and administration policies.

A number of the key elements of these policies and procedures are detailed below:

i) Co-insurance and reinsurance:

As noted in the underwriting structure section of the financial review above, the Group passes out a significant amount of the motor insurance business written to external underwriters. In 2007, 60% of the risk was shared under a co-insurance contract, under which the primary risk is borne by the co-insurer.

A further 17.5% was ceded under quota share reinsurance contracts.

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 lower than average 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. This is because, although the Group only writes one line of insurance business, the risks are spread across a large number of people and a wide regional base.

B) Sensitivity of recognised amounts to changes in assumptions:

The following table sets out the impact on equity at 31 December 2007 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					
	2003	2004	2005	2006	2007	Total
Loss ratio	56.0%	62.5%	74.0%	86.0%	89.0%	
Impact of 1% change (£000s)	1,214	1,552	2,017	1,822	529	7,134

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 2007 £000	31 December 2006 £000
Gross:		
Claims outstanding	242,576	202,421
Unearned premium provision	120,484	92,004
Total gross insurance liabilities	363,060	294,425
Recoverable from reinsurers:		
Claims outstanding	76,055	47,710
Unearned premium provision	55,613	26,979
Total reinsurers' share of insurance liabilities	131,668	74,689
Net:		
Claims outstanding	166,521	154,711
Unearned premium provision	64,871	65,025
Total insurance liabilities – net	231,392	219,736

D) Analysis of re-estimation of claims provisions:

The following tables set out the cumulative impact, to 31 December 2007, of the retrospective re-estimation of claims provisions initially established at the end of the financial years stated. Figures are shown gross and net of reinsurance. These tables present data on an accident year basis.

	Financial year ended 31 December				
	2003	2004	2005	2006	2007
Gross amounts:	£000	£000	£000	£000	£000
Gross claims provision as originally estimated	115,169	142,968	170,216	202,421	242,576
Provision re-estimated as of:					
One year later	111,599	137,075	162,205	192,283	-
Two years later	105,748	127,613	149,317	-	-
Three years later	100,880	119,625	-	-	-
Four years later	97,850	-	-	-	-
Five years later	-	-	-	-	-
As re-estimated at 31 December 2007	97,850	119,625	149,317	192,283	-
Gross cumulative overprovision	(17,319)	(23,343)	(20,899)	(10,138)	-

Net amounts:	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000
			Financial year ended 31 December		
Net claims provision as originally estimated	75,549	98,120	128,631	154,711	166,521
Provision re-estimated as of:					
One year later	72,579	93,910	122,423	146,435	-
Two years later	67,726	87,761	111,964	-	-
Three years later	63,954	82,004	-	-	-
Four years later	61,620	-	-	-	-
Five years later	-	-	-	-	-
As re-estimated at 31 December 2007	61,620	82,004	111,964	146,435	-
Net cumulative overprovision	(13,929)	(16,116)	(16,667)	(8,276)	-

E) Analysis of net claims provision 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.

Underwriting year:	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000
			Financial year ended 31 December		
2000	5,176	1,480	370	1,110	740
2001	7,938	2,967	5,043	1,879	1,483
2002	2,975	3,229	5,166	2,260	1,292
2003	-	1,513	4,622	5,084	3,235
2004	-	-	2,076	7,948	7,589
2005	-	-	-	2,623	12,545
2006	-	-	-	-	2,588
Total net release	16,089	9,189	17,277	20,904	29,472
Net premium revenue	79,327	107,501	139,454	144,955	142,236
Release as % of net premium revenue	20.3%	8.5%	12.4%	14.4%	20.7%

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F) Reconciliation of movement in net claims provision:

	31 December 2007 £000	31 December 2006 £000
Net claims provision at start of period	154,711	128,631
Net claims incurred	96,324	103,607
Net claims paid	(84,514)	(77,527)
Net claims provision at end of period	166,521	154,711

G) Reconciliation of movement in net unearned premium provision:

	31 December 2007 £000	31 December 2006 £000
Net unearned premium provision at start of period	65,025	71,333
Written in the period	141,851	138,647
Earned in the period	(142,005)	(144,955)
Net unearned premium provision at end of period	64,871	65,025

20. Trade and other receivables

	31 December 2007 £000	31 December 2006 £000
Trade receivables	20,747	14,982
Prepayments and accrued income	1,886	1,949
Total trade and other receivables	22,633	16,931

21. Cash and cash equivalents

	31 December 2007 £000	31 December 2006 £000
Cash at bank and in hand	150,902	164,989
Cash on short term deposit	4,871	26,253
Total cash and cash equivalents	155,773	191,242

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.

22. Trade and other payables

	31 December 2007 £000	31 December 2006 £000
Trade payables	5,960	4,601
Amounts owed to co-insurers and reinsurers	134,659	124,238
Finance leases due within 12 months	345	1,337
Finance leases due after 12 months	4	61
Other taxation and social security liabilities	8,557	4,742
Other payables	15,545	13,708
Accruals and deferred income (see below)	74,523	66,450
Total trade and other payables	239,593	215,137

Analysis of accruals and deferred income:

	31 December 2007 £000	31 December 2006 £000
Premium receivable in advance of policy inception	38,477	31,772
Accrued expenses	26,948	25,456
Deferred income	9,098	9,222
Total accruals and deferred income as above	74,523	66,450

23. Obligations under finance leases

Analysis of finance lease liabilities:

	At 31 December 2007			At 31 December 2006		
	Minimum lease payments £000	Interest £000	Principal £000	Minimum lease payments £000	Interest £000	Principal £000
Less than one year	360	15	345	1,383	46	1,337
Between one and five years	4	-	4	63	2	61
More than five years	-	-	-	-	-	-
	364	15	349	1,446	48	1,398

The average term of leases outstanding is two years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates to their carrying amount.

24. Deferred income tax (asset) / liability

	31 December 2007 £000	31 December 2006 £000
Brought forward at start of period	981	3,550
Movement in period	(2,610)	(2,569)
Carried forward at end of period	(1,629)	981

The net balance provided at the end of the year is made up as follows:

Analysis of net deferred tax (asset) / liability:	31 December 2007 £000	31 December 2006 £000
Tax treatment of Lloyd's Syndicates	541	1,936
Tax treatment of share scheme charges	(2,091)	(853)
Capital allowances	126	149
Other differences	(205)	(251)
Deferred tax (asset) / liability at end of period	(1,629)	981

The amount of deferred tax income / (expense) recognised in the income statement for each of the temporary differences reported above is:

Amounts credited to income or expense:	31 December 2007 £000	31 December 2006 £000
Tax treatment of Lloyd's Syndicates	1,395	1,880
Tax treatment of share scheme charges	53	(239)
Capital allowances	23	(541)
Other differences	(46)	62
Net deferred tax credited to income	1,425	1,162

The closing deferred tax balance reflects the change in UK corporation tax rate from 30% to 28% which becomes effective on 1 April 2008. The change in rate does not have a significant impact on the value of the asset.

25. Share capital

	31 December 2007 £000	31 December 2006 £000
Authorised:		
500,000,000 ordinary shares of 0.1p	500	500
Issued, called up and fully paid:		
262,721,426 ordinary shares of 0.1p	263	-
261,186,599 ordinary shares of 0.1p	-	261
	263	261

During 2007, 1,534,827 new ordinary shares of 0.1p were issued to the trusts administering the Group's share schemes.

570,827 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.

964,000 were issued to the Admiral Group Employee Benefit Trust for the purposes of the Discretionary Free Share Scheme. 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 costs (per income statement):

	31 December 2007 £000	31 December 2006 £000
SIP charge (note i)	1,268	495
DFSS charge (note ii)	1,703	438
Total share scheme charges	2,971	933

The share scheme charges reported above are net of the co-insurance share and therefore differ from the gross charge reported in note 10 (2007: £5,560,000, 2006: £2,667,000) and the gross credit to reserves reported in note 26.

The consolidated cashflow statement also shows the gross charge in the reconciliation between 'profit after tax' and 'cashflows from operating activities'. The co-insurance share of the charge is included in the 'change in trade and other payables' line.

(i) 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).

The awards are made with reference to the Group's performance against its budget. Employees must remain in employment for the holding period (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.

(ii) The Discretionary Free Share Scheme (the DFSS)

Under the scheme, details of which are contained in the remuneration report, individuals receive an award of free shares at no charge. A total of 1,645 employees received awards under this scheme during 2007. Staff must remain in employment until the vesting date in order to receive shares. The maximum number of shares that can vest relating to the 2007 scheme is 964,000.

Individual awards are calculated based on the growth in the Group'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 36 points higher than RFR over the three year period

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

Awards under the DFSS 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 as stated in the remuneration report.

Number of free share awards committed at 31 December 2007:

	Awards outstanding (*1)	Vesting date
SIP H105 scheme	581,565	September 2008
SIP H205 scheme	330,306	March 2009
SIP H106 scheme	316,328	September 2009
SIP H206 scheme	224,808	April 2010
SIP H107 scheme	346,019	September 2010
SIP H207 scheme	310,000	April 2011
DFSS 2005 scheme	685,000	June 2008
DFSS 2006 scheme, 1st award	604,187	April 2009
DFSS 2006 scheme, 2nd award	77,248	September 2009
DFSS 2007 scheme	964,000	June 2010
Total awards committed	4,439,461	

*1 – being the maximum number of awards expected to be made before accounting for expected staff attrition. Of the 4,439,461 share awards outstanding above, 4,129,461 have been issued to the trusts administering the schemes, and are included in the issued share capital figures above.

26. Analysis of movements in capital and reserves

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Foreign exchange reserve £000	Retained profit and loss £000	Total equity £000
As at 1 January 2006	260	13,145	17	-	167,990	181,412
Retained profit for the period	-	-	-	-	103,722	103,722
Dividends	-	-	-	-	(70,104)	(70,104)
Issues of share capital	1	-	-	-	-	1
Currency translation differences	-	-	-	(50)	-	(50)
Share scheme charges	-	-	-	-	2,667	2,667
Deferred tax credit on share scheme charges	-	-	-	-	1,407	1,407
As at 31 December 2006	261	13,145	17	(50)	205,682	219,055
Retained profit for the period	-	-	-	-	127,416	127,416
Dividends	-	-	-	-	(116,016)	(116,016)
Issues of share capital	2	-	-	-	-	2
Currency translation differences	-	-	-	429	-	429
Share scheme charges	-	-	-	-	5,560	5,560
Deferred tax credit on share scheme charges	-	-	-	-	1,186	1,186
As at 31 December 2007	263	13,145	17	379	223,828	237,632

The capital redemption reserve arose in 2002 on the redemption of shares previously in issue at below par.

The foreign exchange reserve represents the net gains or losses on translation of the Group's net investment in foreign operations.

27. Financial commitments

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

Operating leases expiring:	31 December 2007 £000	31 December 2006 £000
Within one years	-	-
Within two to five years	2,139	-
Over five years	27,357	33,425
Total commitments	29,496	33,425

Operating lease payments represent rentals payable by the Group for its office properties.

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

	31 December 2007 £000	31 December 2006 £000
Expenditure contracted to	489	1,539

28. Group subsidiary companies

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

Subsidiary	Country of incorporation	Class of shares held	Principal activity
EUI Limited	England and Wales	Ordinary	General insurance intermediary
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 insurance intermediary

29. Related party transactions

There were no related party transactions occurring during 2007 that require disclosure. Details relating to the remuneration and shareholdings of key management personnel are set out in the remuneration report, which will be included in the statutory accounts referred to below. Key management personnel are able to obtain discounted motor insurance at the same rates as all other Group staff, typically at a reduction of 15%.

The Board considers that only the Board of Directors of Admiral Group plc are key management personnel.

Consolidated financial summary

The 2007, 2006, 2005 and 2004 figures below are as stated in the financial statements preceding this financial summary and issued previously. Only selected lines from the income statement and balance sheet have been included.

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

Income statement

	IFRS				UK GAAP
	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Total motor premiums	**631.3**	**566.6**	**533.6**	**470.4**	**371.6**
Net insurance premium revenue	142.2	145.0	139.5	107.5	79.3
Other revenue	176.9	131.6	93.4	69.5	50.8
Profit commission	20.5	19.9	14.7	21.7	1.4
Investment and interest income	24.6	14.5	15.5	11.9	6.8
Net revenue	**364.2**	**311.0**	**263.1**	**210.6**	**138.3**
Net insurance claims	(99.8)	(107.1)	(100.5)	(74.3)	(43.5)
Total expenses	(82.0)	(55.5)	(40.9)	(28.9)	(34.4)
Operating profit	**182.4**	**148.4**	**121.7**	**107.4**	**60.4**

Balance sheet

	IFRS				UK GAAP
	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Property, plant and equipment	7.7	7.5	4.6	3.3	5.8
Intangible assets	69.1	66.8	66.5	66.5	62.4
Financial assets	481.8	395.9	378.7	300.7	241.6
Reinsurance assets	131.7	74.7	54.2	66.1	56.7
Deferred income tax	1.6	-	-	-	-
Trade and other receivables	22.6	16.9	9.4	16.7	12.5
Cash and cash equivalents	155.8	191.2	150.2	119.3	70.1
Total assets	**870.3**	**753.0**	**663.6**	**572.6**	**449.1**
Equity	237.6	219.1	181.4	144.6	108.1
Insurance contracts	363.1	294.4	254.1	216.1	174.8
Financial liabilities	-	-	22.0	33.1	35.4
Provisions for other liabilities and charges	-	-	-	-	11.7
Deferred income tax	-	1.0	3.6	4.8	6.4
Trade and other payables	239.6	215.1	182.9	164.3	104.0
Current tax liabilities	30.0	23.4	19.6	9.7	8.7
Total liabilities	**870.3**	**753.0**	**663.6**	**572.6**	**449.1**

Parent Company financial statements

Parent Company balance sheet

	Note:	31 December 2007 £000	As at: 31 December 2006 £000
Fixed asset investments	4	106,604	103,804
Current assets			
Debtors	5	4,354	91
Cash at bank and in hand		48,114	55,616
		52,468	55,707
Creditors – falling due within one year			
Other creditors	7	(9,987)	(6,857)
Accruals and deferred income		(16)	(183)
		(10,003)	(7,040)
Net current assets		42,465	48,667
Total assets less current liabilities		149,069	152,471
Creditors – falling due after one year			
Loans	6	-	-
Net assets		**149,069**	**152,471**
Capital and reserves	8		
Called up share capital	9	263	261
Share premium account		13,145	13,145
Capital redemption reserve		17	17
Profit and loss account		135,644	139,048
		149,069	**152,471**

These financial statements were approved by the Board of Directors on 3 March 2008 and were signed on its behalf by:

Kevin Chidwick
Director

Notes to the Parent Company financial statements

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 and accounting policies

In these financial statements the following new standards have been adopted for the first time:

- FRS 29 'Financial Instruments: Disclosures';

The adoption of this standard has not had a material impact on either the current year or comparative figures as the standard exempts parent companies in their single-entity financial statements from preparing such disclosures. Refer to Note 18 in the Admiral Group consolidated accounts, which precede these accounts, for disclosures that comply with this standard.

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 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 Parent Company audit fee is not disclosed in these accounts as it is disclosed in the consolidated Group accounts, which precede them at note 10.

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.

4. Fixed asset investments

	31 December 2007 £000	31 December 2006 £000
Investments in subsidiary undertakings	106,604	103,804

The Company's principal subsidiaries (all of which are 100% directly owned) are disclosed in note 28 of the Group financial statements.

5. Debtors

	31 December 2007 £000	31 December 2006 £000
Amounts owed by subsidiary undertakings	4,348	86
Deferred tax asset	6	5
	4,354	91

6. Loans

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

7. Other creditors – due within one year

	31 December 2007 £000	31 December 2006 £000
Corporation tax payable	9,931	6,775
Amounts owed to subsidiary undertakings	-	10
Other creditors	56	72
	9,987	6,857

8. 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 2006	260	13,145	17	110,269	123,691
Retained profit for the period	-	-	-	96,216	96,216
Dividends	-	-	-	(70,104)	(70,104)
Issues of share capital	1	-	-	-	1
Share scheme charges	-	-	-	2,667	2,667
As at 31 December 2006	261	13,145	17	139,048	152,471
Retained profit for the period	-	-	-	107,052	107,052
Dividends	-	-	-	(116,016)	(116,016)
Issues of share capital	2	-	-	-	2
Share scheme charges	-	-	-	5,560	5,560
As at 31 December 2007	263	13,145	17	135,644	149,069

9. Share capital

Full details of the Company's share capital are included in the consolidated financial statements above.

Notes

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