Admiral Group plc

~~A~~ Another year of success

Annual Report 2005/6

Directors and advisors

Directors

Alastair Lyons CBE (Non-executive Chairman)
Henry Engelhardt (Chief Executive)
Kevin Chidwick (Finance Director, appointed 4 September 2006)
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, appointed 4 September 2006)
Lucy Kellaway (Non-executive Director, appointed 4 September 2006)
John Sussens (Senior Independent Non-executive Director)

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Stuart Clarke

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London EC1A 1HQ

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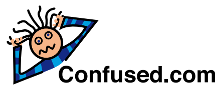
Our brands

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. www.admiral.com

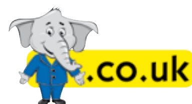
Balumba is the Group's first overseas brand and launched in Spain in 2006. www.balumba.es

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



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

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

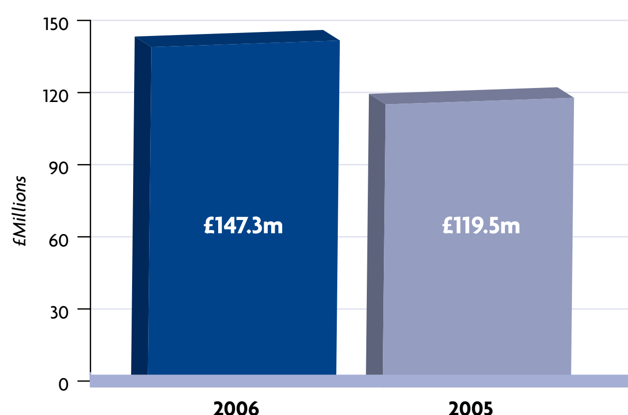


Elephant.co.uk is the Group's main online car insurance service. Elephant passes on cost savings generated by being an online brand to customers in the form of lower premiums. www.elephant.co.uk

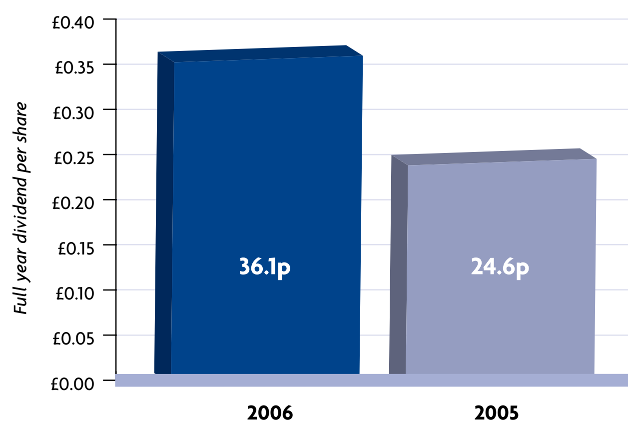
Gladiator is the Group's commercial vehicle insurance broker that was launched in April 1998. The Company acts on behalf of several of the largest commercial vehicle insurers in the UK. www.gladiator.com

Financial highlights

Profit before tax

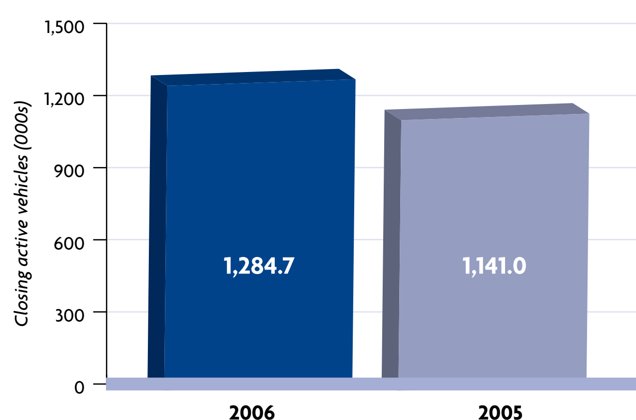


Full year dividend

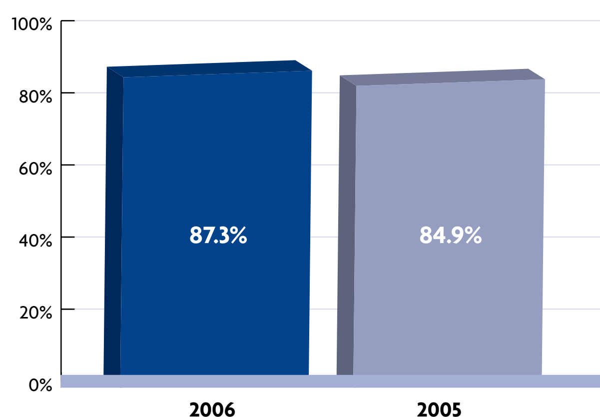


Group turnover[1]

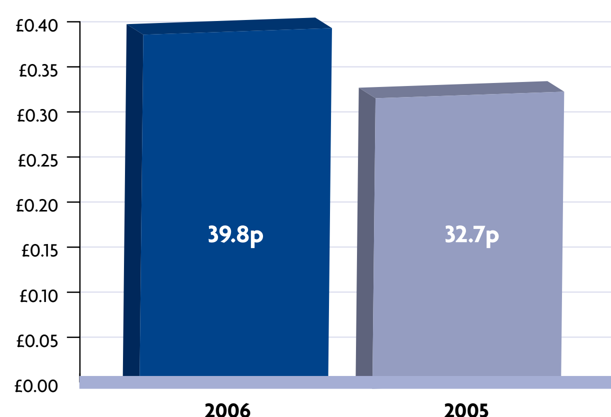
Closing active vehicles



Combined ratios



Earnings per share



1 Group turnover includes total premiums, other revenue plus net investment return.
Total premiums comprise gross motor insurance premiums written by the Group, before co-insurance and reinsurance.

Chairman's statement

" This year we will distribute in total £93.7m, 47% up on 2005 "

Alastair Lyons CBE

2006 was a year when we not only continued to develop our direct UK private motor business but also moved forward significantly our outlined strategy to identify profitable opportunities that exploit the knowledge, skills, and resources attaching to that core business.

Confused, our intelligent automated car insurance shopper, handled an amazing 9 million quotes contributing £23m to pre-tax profits, up from £9m in 2005. We estimate that Confused now accounts for approaching 30% of the on-line UK private motor market. At the end of October, as planned, we launched Balumba, our on-line Spanish motor insurer, the first leg of our overseas expansion, and plans are already well developed to launch in Germany towards the end of this year.

With the 2006 motor market remaining in the poor part of the cycle we set ourselves modest growth ambitions, finishing the year with 1.3 million insured vehicles, 13% up on December 2005. However, continuing strong ancillary income, tight control of expenses, and the contribution from Confused allowed pre-tax profits to move 23% ahead to £147m despite underwriting profits being behind last year on a 6% growth in total premiums.

Proportional support by Munich Re and other leading reinsurers has underpinned Admiral's strategy since the Group's formation in late 1999. It has allowed us to combine rapid growth with strong cash generation and significant dividend payments. In addition, it has helped us to deliver to our shareholders a higher quality, lower risk profit stream by providing a material level of protection against the cycle. The extension in December 2006 to the end of 2014 of our long-term co-insurance agreement with Munich Re therefore represents a significant milestone in the development of our business.

The new agreement is both more flexible and, for 2010 onwards, potentially materially more profitable. The progressive reduction in the share of our underwriting committed to Munich Re makes it possible for Admiral, should we so choose, to keep for our own account a larger share of the premium written, this increasing progressively to as much as 60% by 2011. Munich Re has been a fantastic partner and we look forward to a long and mutually beneficial relationship in the years to come. We are also pleased to deepen our reinsurance relationships with Swiss Re and Partner Re, with whom we entered into quota-share contracts at the same time.

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 three specific elements - 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.

This year we will distribute in total £93.7m, 47% up on 2005, in part reflecting the release of £13.5m of the £23.5m funds previously held at Lloyd's. We are retaining the balance whilst we see how the cycle develops during 2007. We will then decide the level of growth appropriate for 2008 and whether or not to take back 5% of the underwriting risk at the end of this year during which we are only carrying 22.5% ourselves.

Going forward we would anticipate maintaining this approach to dividend distribution. We will be looking to add subordinated debt to our available solvency capital so that we have the capacity in future years to increase, should it be appropriate, the share of our motor book that we underwrite ourselves without materially restricting our ability to return trading surpluses to shareholders in the form of dividends.

Our total dividends for the year at 36.1p per share (24.0p final : 12.1p interim) represent a yield of 3.6% based on the closing share price on 1 March 2007. Admiral's share price has again sustained material growth over the last year, the business being valued at £2.7Bn on 1 March 2007, 76% higher than a year previous. We led the FTSE350 as the Company with the greatest percentage gain in share price during 2006. Taking dividends and share appreciation together, we achieved a 151% total return for shareholders during 2006, itself part of an overall 318% since flotation in September 2004.

Alignment of the interests of our staff and our shareholders is one of our core principles. Our Approved and Executive Share Schemes are designed to strengthen that alignment over time. We are delighted that strong out-performance against our plan during 2006 resulted in eligible employees realising the maximum award of £3,000 free shares under our Approved Scheme. The Executive Share Scheme is based on growth in earnings per share over three years and will, therefore, first vest after the 2007 financial year. Our being placed, for the seventh consecutive year, amongst the Sunday Times Top 100 Companies To Work For in the UK is testament to the strength of Admiral's relationship with its employees.

The Company is also closely involved with the communities within which our staff live and work. We encourage them to be associated with the local projects that are important to both them and their families, and during 2006 provided financial support to 109 such projects. Admiral also sponsored a number of high profile local events within South Wales, more details of which will be found in the report on corporate responsibility. This also describes the steps we take to minimise the impact of our operations on the environment.

In September last year we said goodbye to Andrew Probert who had been the Group's Finance Director for fourteen years, over which period he made an enormous contribution to our successful growth, taking the Company through both management buy-out and flotation. His clear thinking, straightforwardness, energy and consistent good humour will be much missed. His place on our Board has been taken by Kevin Chidwick who joined Admiral in September 2005 as Deputy Finance Director, having previously been Finance Director of Engage Mutual. I am delighted that Kevin is already making his clear mark on our Board deliberations.

In my report last year I advised that Gillian Wilmot would step down as a Non-executive Director at the 2005 AGM. In September we welcomed two new Non-executives, Margaret Johnson and Lucy Kellaway. Margaret has been Group Managing Director of the international advertising agency Leagas Delaney since 2002 and brings us extensive marketing experience gained during her 11 years with that Company. Lucy is the management columnist at the Financial Times, with whom she has been for the last twenty years.

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

Alastair Lyons
Chairman

Alastair Lyons
Chairman

Chief Executive's statement

"On 31 October, 2006, almost 14 years after Admiral started trading, Admiral Group went international with the launch of Balumba.es in Spain."

Henry Engelhardt

'2006: Adios Amigo'

I have no doubt that when we look back in, say, five or ten years, we will point to two events that took place in 2006 as key in the development of Admiral Group.

The first event was one that was long overdue. Back in 1991 when we prepared the first draft of the Admiral business plan we planned on opening our UK operation first, followed soon after by a second European country and then another country soon after that, etc. Continental domination! However, before that draft ever saw the light of day we wisely decided to temper our ambitions and present a business plan dedicated solely to a UK operation. But the dream has lived on.

On 31 October 2006, some 15 years after that first draft and almost 14 years after Admiral started trading, Admiral Group went international with the launch of Balumba.es in Spain. Our newly formed Business Development Team based in Cardiff and our Spanish Directora General along with the team she developed in Seville did a brilliant job to create something from nothing.

Balumba sold 25 policies on its first day, which compares quite favourably to the 13 policies Admiral sold when it launched on 2 January 1993. (So the pressure's really on Balumba now!) In just the last two months of the year Balumba sold over 2,000 policies with premium income of around €1m.

Okay, so we were over a decade behind our original schedule, but we are moving forward and I promise you that the launch of our next European operation won't be another decade away.

The second key event was the extension and renegotiation of our partnership with Munich Re. I am pleased to say that we will continue to have a close partnership with Munich Re until at least 2014. This is a partnership that began in 2000 with an agreement for five years. That agreement was re-written in 2002 to go for eight years, through 2009. Now we have re-re-written the agreement, such that it goes to the middle of the next decade. In the first seven years of the agreement Munich Re has taken nearly £2 billion of risk through Admiral and, as the business is expected to grow, there should be a few more billion to come.

For a business partnership to last for 15 years, as this one will by the year 2014, it must be good for both parties. From my point of view, Munich is a great partner. What makes a partner great? First off, they can handle billions of pounds of risk! More to the point, they understand we're in the risk business and that there are good days (years) and less good days (years). They understand the cyclical nature of our industry and adapt their expectations accordingly. Lastly, they realise that our success is their success.

These two major events not withstanding, 2006 on its own merits was a pretty good year in a very competitive environment. Here, in a nutshell, are the highlights:

- Made a record profit of £147m, up 23% from £119m in 2005
- Total turnover for the year was £708m, up 11% from 2005
- Total motor premium written grew to £567m, up 6% from 2005
- Produced a combined ratio of 87% up from 85% in 2005
- Ended the year with more than 1.28m customers (+ 12.6%)
- Direct brands gave more than 15m quotes, of which almost all of them started on the internet (96%) many of which came from Confused
- Confused.com gave more than 9m quotes and made a profit of over £23m
- Set up a new operation in Spain from scratch, launched on 31 October and sold more than 2,000 policies
- Named to The Sunday Times list of Top 100 Places To Work in the UK for the seventh year in a row (every year it's been run)
- Named by the Financial Times as the eighth Best Workplace in the UK and one of the Top 100 Workplaces in the EU

What We Do

For those of you looking through our accounts for the first time, Admiral's primary business is to sell car insurance direct to the public in the UK and now Spain. We do everything involved in the process of acquiring and servicing our customers. However, we are not your typical insurance operation, as we share the income and commensurate risk with several reinsurance partners. In 2006 we took 25% of the underwriting risk for our own account (in 2007 we'll take 22.5%). We operate through a number of targeted brands: Admiral (general and multi-car households), Diamond (women drivers), elephant.co.uk (internet users) and Bell (zero no claims bonus). We have three other brands, Confused.com, the leading car insurance aggregator in the UK, Gladiator, which operates as an intermediary in the commercial vehicle market, and, in Spain, Balumba.es, which targets internet users.

2006 was our 14th year of trading. The first seven were in a Lloyd's of London environment. However, toward the end of 1999 Management teamed up with Barclays Private Equity to buy the business. The result of this transaction was the creation of Admiral Group Ltd. (AGL) as the holding Company. In September of 2004 we floated AGL on the London Stock Exchange and created Admiral Group plc.

As already noted, we have a close relationship with Munich Re. The recently signed agreement for the UK is a perpetual contract with first break potential after 2014. We also have a similar, but separate, agreement in place for Spain. Munich Re is also a major shareholder in the Group, a position it established in 2002. It currently owns 14% of the Group. Management and staff currently own around 27% of the Group.

"The UK Car Insurance Market: A Game of Chicken, or a Game of Leapfrog?"

Henry Engelhardt

Key Performance Information

Our total written premium for 2006, before sharing it with our reinsurance partners, was £567m, accounting for 80% of our total turnover. The number of customers we service rose to 1,285,000 from 1,141,000 (+12.6%). All our growth throughout our history has been organic.

In 2006 75% of our premium was underwritten by a number of reinsurers: Munich Re (65%), Swiss Re (5%) and Axis Re (5%). The remaining 25% was kept by the Group. Our net written premium for 2006 was £139m. In 2007 Admiral Group will take 22.5% of the premium income to its own account. Munich Re, through Great Lakes, will take 60%, Swiss Re will take 10% and Partner Re will take 7.5%. The Swiss Re and Partner Re agreements are both for multiple years.

Some key numbers from the accounts which follow:

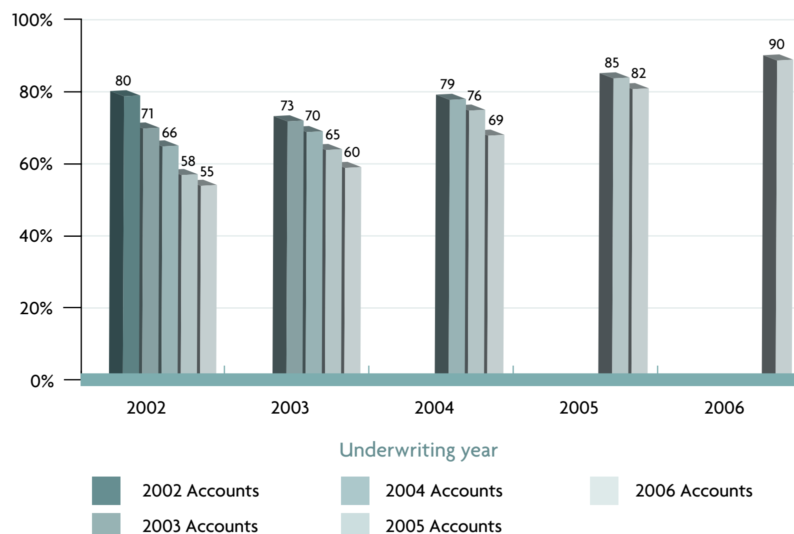
- Loss ratio 72% up from 70% in 2005
- Earned expense ratio, excluding regulatory levies, up to 12.9% from 12.3%
- Combined ratio, including all levies, 87%, up from last year's 85%
- Revenue from products and services we do not underwrite totalled £131.6m up from £93.4m (+41%)

The increase in the loss ratio from 70% last year to 72% in 2006 is to be expected. There was very little, if any, upward price movement in the market in 2006. As claims inflation is running well ahead of the retail price index a modest decline in claims frequency could not offset the net rise in claims costs. The result is a deteriorating loss ratio. Without any releases taken into account the loss ratio moved from 82% to 86%.

The bar chart below shows the development of the loss ratios for the back years on an underwriting year basis. The years noted at the bottom of the chart are the underwriting years. The coloured bars represent the reported loss ratios published in the Annual Accounts over the last five years. So, for example, in the 2005 Accounts the loss ratio for the 2002 underwriting year was 58%, down from 66% in the previous year's accounts. This year the result for the 2002 year has matured to 55%.

The expense ratio, not including government levies, moved up by 0.6% from 2005. This reflects no growth in the average price at which we sell our product against inflation in our costs, partially offset by some modest productivity gains. Despite the small upward move in the expense ratio, we are still one of, if not the, most efficient firm in the market.

Loss Ratio Development



In the first nine months of the year we raised our new business rates a total of 1%, and that happened gradually and grudgingly. We did move rates upwards almost 3% in the fourth quarter but it is not clear if those rate increases will hold in the early part of 2007. Please note, rate changes at the end of a year have little or no effect on the result of the year they are implemented. Our conversion rate, which is a measure of our prices versus the market, did not fluctuate much during the year, indicative that our rate moves were consistent with the market.

Ancillary income (income from products and services where we take no underwriting risk) per customer moved up by £1 in 2006 versus 2005, from £56.60 to £57.60. There were no major changes within these figures from the year before.

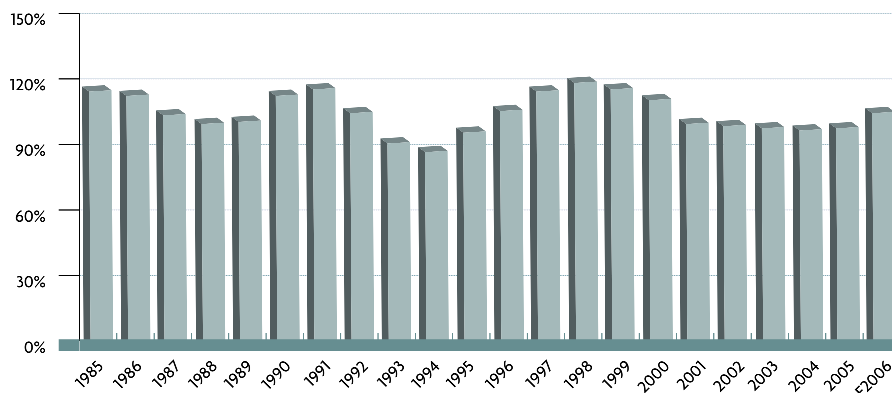
To put all this income into context, I've done a little calculation where the non-underwriting income is added to earned premium to give a 'big picture' combined ratio. I think this gives an interesting measure of the entire business. Expressed in this way, the combined ratio would have been 58%! Here's another interesting calculation: we made £147m on income of £277m, a return on income of 53% (2005 51%).

The UK Car Insurance Market: A Game Of Chicken, Or A Game Of Leapfrog?

Yes, I know, frogs again. This time we're not boiling them, but possibly jumping over them. The UK car insurance market is at that critical moment that seems to occur in every cycle, when prices are expected to rise but don't. Prices are expected to rise because, simply, underwriting results aren't good. It would be very rational for prices to rise now. There has been and continues to be claims inflation eating away at premiums. All the while that premiums don't go up results deteriorate. Even if premiums rise, they have to rise circa 5% just to maintain the status quo. If you're writing a piece of business at the market average today the combined ratio for that piece of business is somewhere around 115%. Maybe more. That's not profitable and not sustainable; eventually rates must go up. Right?

However, the market dynamics resemble a classic game of chicken. This seems to be a market full of James Deans. Who will blink first? Who will knowingly raise their rates, make themselves uncompetitive, shed share and reduce volumes in an effort to enhance or protect profits? And if one firm gives up the game of chicken, will the others follow suit?

UK Motor – Combined Ratios



Well, some of those questions were answered in the middle of the year when Norwich Union, the market's second biggest player, announced it had moved rates up and would continue to move rates up. On average, NU said, rates would rise some 16%. It was a very brave step. But the rest of the market continued to play chicken. In particular, the market leader, Royal Bank of Scotland, which holds some 35% market share, appeared to hold the line.

Late in the year RBS announced that it too would be moving rates up. How much RBS has moved or will move its rates is not clear. At the time of writing I cannot confirm what RBS has done on rates although it appears, based on our conversion data and data on where customers were insured before joining us versus where customers go when they leave us, that they have moved their rates up at least a little bit.

If RBS continues to raise rates, then the market might move from a game of chicken to one where companies which don't raise rates see their volumes increase. When that happens these firms then raise their rates, which means that the companies that had raised rates and had seen their volumes decrease see their volumes increase, so they raise rates again, etc. etc. A game of chicken then becomes a game of leapfrog.

As I write this, with 2007 just getting underway, there seems to be very little of this barnyard activity taking place. Rates may have moved up a touch, but certainly not as much as claims inflation and the game of chicken continues.

The idea that the market as a whole is not moving much on rates may be a sign of a fundamental change in market dynamics. The power of RBS, despite its 35% market share, appears to have been diluted over time by the growth of aggregators, the largest of which is our own Confused.com. The growth of aggregators means increased transparency of rates and gives the consumer a better chance of finding the lowest possible rate than ever before.

In the days before aggregators, if the lowest rate in the market was being offered by a small company that couldn't spend a lot of money advertising or operated through a small broker network, that company could not anchor rates, no matter how cheap they might be. Bigger companies, like RBS, could raise rates because the vast majority of consumers never knew a better rate was available.

But in the new, aggregator world, small companies that are listed on aggregators do not need to invest up front in expensive marketing campaigns and they can, much more easily, anchor the market by not raising rates. The small companies get the same exposure to consumers that the big companies get. Over the longer term these companies might find out that, actually, whoops, they really should have raised rates. But this information will take a few years to come to light.

I believe that the rise of aggregators and changing shape of distribution will put ever-greater pressure on insurers to be efficient. Insurers who run high expense ratios will have nowhere to hide in a marketplace with such a level of price transparency.

The pattern of results for the market for all motor insurance in 2005 (most recent market data available) was similar to 2004. The overall result wasn't all that bad (102.2%), but this was flattered by large back year releases (6.5%). Private motor performed a bit worse, with a combined ratio of 105% and releases of 5.7%. The underlying trend of higher

bodily injury costs more than offset a modest reduction in claims frequency. Overall claims inflation continues to mount, over the last two years the average is roughly 5% a year, pushed up in no small part by the cost of care.

The market expense ratio certainly didn't make up for the increase in claims costs, in fact, it rose 0.3%, to 27.6%.

Without the 6.5% of reserve releases the pure year loss ratio was 81% and the combined ratio was almost 109%, an increase of 5% on the comparable figure from 2004.

Given that there was almost no net increase in prices in 2006 that would affect the 2006 result (increases late in the year have very little effect on that year), it implies that the pure year combined ratio for 2006 will be north of 110%. Ouch. I'm sure you'd agree, this is not a particularly good result. However, it is yet unclear how big the reserve releases will be and therefore what the headline result will be. The UK market has something of a history of not moving on price until reserve releases are exhausted.

Will history repeat itself? One might look at 2007 as one looked at 1998. At the end of 1997 it was clear to one and all that the market was unprofitable and that price increases were required. But prices didn't move in 1998 while claims costs rose, and most industry observers gave up hope that the market would ever move, predicting a future of perpetual losses. It was only in 1999, when everyone had seemingly given up on the market altogether, that it began to move. When prices did start to rise in 1999 they went up fast, some 20% in that year alone.

So which year will 2007 most resemble? 1998 or 1999? If marketing spend is anything to go by then we're still at 1998. The spend on TV and press has come off its highs, but it certainly hasn't fallen sharply. And the amounts being paid to internet search engines like Google (cost per click) are ever growing.

Bids for key search terms are as high in January 2007 as they were in January 2006. Not only are the bids for key terms as high as they were last year, but the number of terms being bid on is ever-rising. All in all it seems to add up to at least as much money being spent on advertising now as a year ago.

Fortunately, our own business is somewhat insulated from this deterioration by two factors. First, our results historically have been far better than the market average and therefore, despite tighter margins, our result is still rather profitable.

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

Moving Forward To Maintain Our Advantage

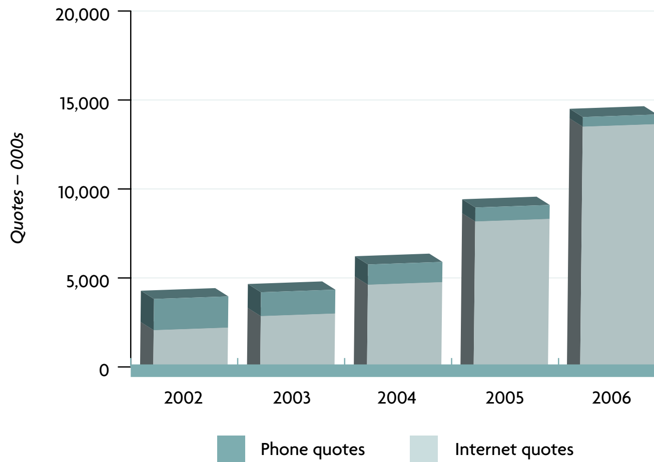
Last year and the year before I wrote about the internet being a key factor to our good results. Today I think the internet is a given. Every company is concentrating on this distribution channel, etc. The focus now is on creating new, more interesting products for consumers.

"Confused's growth in 2006 made 2005 look absolutely pedestrian."

Henry Engelhardt

What do I mean by 'products'? After all, the 'product' is car insurance and that doesn't change radically from one year to the next. Last year we launched two different types of car insurance for consumers to choose from.

Quote Volumes Split By Phone And Internet



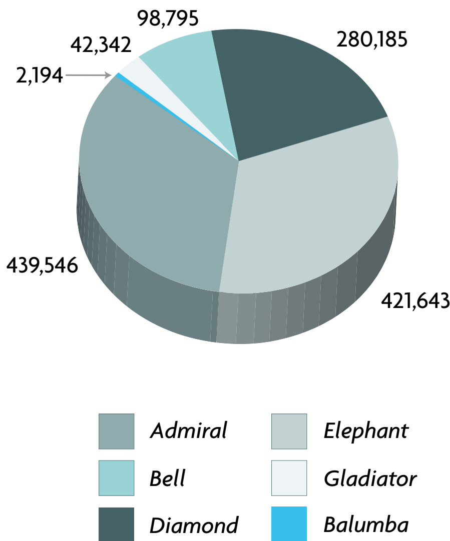
First was Admiral MultiCar, which takes a look at all the vehicles in a household before generating a price. It's more than just a volume discount. In many cases the knowledge we gain from knowing about all the vehicles and drivers in a household can lead to lower prices overall and usually those discounts go not only to the second and third vehicle brought on cover, but also to the first vehicle. The popularity of this concept meant that 12% of all our new vehicles last year were on MultiCar policies.

The second innovation was FlexiBell. Here we took everything we could out of a comprehensive policy such that it was still a comprehensive policy and then offered the items we had taken out in an optional, menu-like list. In this way consumers could build their own policies but only pay for the parts of the cover they felt were valuable to them. For example, we made driving other cars optional. For those who never drive another car it was something not worth paying for. While those who did need to drive another car could add it back in. FlexiBell launched in the second half of the year and is being rolled out slowly.

The Admiral brand regained the crown as the Group's biggest brand largely because of the efficient growth in MultiCar policies. The number of vehicles insured in Admiral grew 26% to 440,000. Elephant, which held the crown since 2004 but isn't present on aggregators, grew 3% to 422,000. In percentage terms, Bell grew the most, 29%, while Diamond grew 4%.

It was also yet another good year for Gladiator. Gladiator sells van insurance, largely to private tradesmen, as an intermediary. Admiral Group does not take any underwriting risk with this business. At the end of 2006 Gladiator's customer count stood at 42,000 and it contributed £2m to the Group's bottom line, up 9%.

Customers By Brand - 31 December 2006



Changing The Way Car Insurance Is Bought In The UK – Confused.com: Consumer Champ

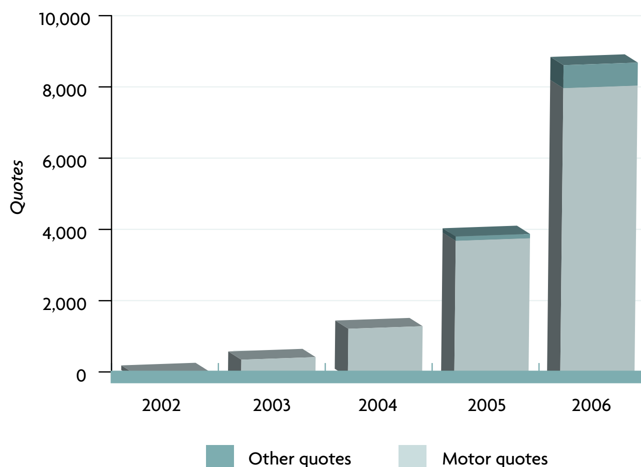
Last year I wrote that 2005 was really a huge growth year for Confused.com. Well, I was wrong. Confused's growth in 2006 made 2005 look absolutely pedestrian. Confused delivered 8.4 million motor quotes during the year, an increase of 110% over 2005. It also delivered over 525k quotes for home insurance.

For those who don't know, Confused, launched in its current form in the middle of 2002, is an intelligent, automated car insurance shopper. Simply put, all a customer has to do is put his or her details into Confused and Confused then goes out to the major car insurance websites, populates the appropriate fields, and, in real time, brings the customer back a list of prices. Confused goes out to direct operations as well as intermediary sites. One-stop shopping!

Not only did Confused generate a lot of quotes, but it also made money. Confused made a profit of £23.1m compared to £8.8m last year and £2.0m the year before. It has also gotten off to a flying start in 2007. January saw it deliver over 1 million quotes to its insurance partners for the first time and it also set a new, monthly record for profits.

During the year Confused also added products and now delivers prices for home insurance, gas & electricity, travel insurance, breakdown cover, life insurance, credit cards and mortgages.

Confused.com Quotes



Where Next?

We're in the UK. We're now up and running in Spain. So where next? Germany, that's where.

We hope to launch a direct operation in Germany late in 2007. The German market is huge, some 45m vehicles. It is also a good internet market for many things, although, currently, car insurance isn't one of them. However, we see that situation evolving and our strategy of entering new markets has not changed: we plan to use the experience we've gained in the UK of delivering car insurance efficiently via the internet in other markets, Germany next.

2006 – More Change

2006 was a challenging, but productive year. Challenging because of the cyclical nature of our industry, productive because we still turned in a good result. In addition, it was productive because of the things we did that had no real effect on the results for the year itself, but will have a big effect on our future.

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

During the year two key managers stepped back into part-time roles. Kate Armstrong who joined Admiral on April Fool's Day 1992 and was the Group's sixth member of staff, is now doing management training a couple of days each month and she continues as a Director of Confused. In her years with us Kate wore many hats, including: MD of Confused, IT Manager and Marketing Manager. Kate's final role with us was as MD of MDs.

Kate's wide array of talents coupled with her fearlessness in tackling any challenge allowed her to step down holding an important Admiral record: most desk changes in a career. Kate is now busy taking care of a young family while also working to get her PhD.

The other retiree was our Finance Director, Andrew Probert. Andrew was actually our second FD, the first one being unable to move his family to Cardiff from the South East back in 1992. Andrew, a Cardiff native, was living near Gloucester when we came looking, which was very helpful.

Andrew did everything for Admiral. He takes great pride in relating the story of buying the first company kettle when we moved into our Cardiff offices in September, 1992. He also enjoys explaining that he bought the second kettle as well, because the first one didn't work! Andrew led finance, planning, property management, legal, audit, facilities, accounts and was, from time to time, the Director responsible for People Services and Confused. He did everything but polish the doorknobs and I have no doubt that if the doorknobs had really needed polishing he would have been the first to volunteer to do that too.

We'll certainly miss the experience and big personalities of Kate and Andrew. I wish them all the best in their new lives.

The good news is that their replacements, Kevin Chidwick as Finance Director and Nicolas Weng Kan as MD of MDs, are talented, intelligent and keen.

A big thanks goes out to all our staff for all their effort in 2006, with a special mention to those further afield servicing our customers from Canada and India. We're lucky to have such a motivated, enthusiastic workforce.

Henry Engelhardt
Chief Executive

P.S. For those keeping score, we set a new attendance record at our Staff Children's Christmas Party (always the best party of the year!) with 461 kids, up 28% on last year (360). We're nothing if not fertile.

Henry Engelhardt
Chief Executive

Financial review

Key financial highlights

The Group's pre-tax profit showed another significant increase in 2006 – rising 23% from £119.5m to £147.3m. Earnings per share grew by 22% from 32.7p to 39.8p.

The results of the four key elements of the Group's business were as follows:

	2006 £000	2005 £000
Underwriting profit	28,351	32,361
Profit commission	19,926	14,735
Ancillary and other net income	75,985	65,516
Confused.com profit	23,080	6,882
Pre-tax profit	**147,342**	**119,494**

During 2006 the Group retained 25% of the UK motor business it generated, and hence limited downside exposure to the motor cycle. The Group participates in the upside through the profit commission arrangements within these contracts. Using co-insurance and reinsurance significantly reduces the amount of capital the Group is required to hold and frees up resources either for distribution to shareholders or growing the business.

Ownership of the 1.2m UK policy base remains with the Group and significant non-insurance profits continue to be generated. These ancillary profits continue to be the single largest contributor to the Group's result.

The Group is able to deliver continued and significant profit growth even at times when the motor insurance cycle is in its worst years because of the significant contribution made by non-underwriting income, and also the fact that the Group's underwriting has returned superior results compared to the market as a whole.

The proportion of the profit earned from non-underwriting activity continues to rise, moving up from 73% in 2005 to over 80% in 2006. This is partly a factor of the further deterioration of the UK motor insurance cycle, but is more a reflection of the continued absolute growth in non-underwriting profits, most notably ancillaries and Confused.com.

Turnover – which comprises total premiums written, gross other income and net investment return (and measures the combined size of the Group's businesses) continued to show double digit growth:

	2006 £000	2005 £000
Total premium written	566,608	533,616
Other revenue	131,621	93,405
Net investment return	9,925	11,342
Group turnover	**708,154**	**638,363**

Other revenue (which is made up predominantly of ancillary revenue and Confused.com income) grew by over 40% in the year. Confused.com was a key factor in this growth (refer to below). Total premiums written grew by around 6%, also discussed below.

Underwriting

Underwriting arrangements

The Group's UK underwriting structure for 2006 was as follows:

65% of the business was underwritten by Great Lakes (a UK subsidiary of Munich Re) under a long-term co-insurance contract.

35% of the business was underwritten by the Group through Admiral Insurance (Gibraltar) Limited (AIGL) and Admiral Insurance Company Limited (AICL). 10% (of the total business) was ceded via quota share contracts that qualify for deductions in required solvency capital (5% to Axis Re Europe and 5% to Swiss Reinsurance Company UK Limited). The Group retained 25% of 2006 underwriting on a net basis.

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

For the 2000 to 2002 underwriting years, the Group's retained share of the motor business was underwritten through the Group's Syndicate (Syndicate 2004) at Lloyd's of London. During early July 2006, the Group achieved the release of a significant proportion of the profits earned by the Group's Syndicate – amounting to around £24m, net of amounts retained to meet corporation tax liabilities.

New co-insurance and reinsurance arrangements, 2007 onwards

During 2007, the Group concluded the successful renegotiation of the long-term UK motor reinsurance treaty with Great Lakes, and also put in place new quota share reinsurance arrangements for 2007 and beyond. The new Great Lakes contract will run until the end of 2014 at the earliest, and the percentage of business underwritten under the contract will decline by 5% per annum until 2011, so that in that year and beyond, Great Lakes will underwrite 40% of the total.

The declining share passed to Great Lakes allows the Group to position itself for an upturn in the cycle and retain more of the profitable business it has historically generated. Flexible use of quota share reinsurance allows the Group to reduce its own retention (to a minimum of 25% after 2007) where this is appropriate.

The new contract is also on improved terms – most notably:

- A more flexible growth cap, allowing the Group to vary the speed of policy growth in response to cyclical changes in underwriting profitability

- Revision of the profit commission structure: Although these new terms are not expected to have a material impact on the results from 2007 to 2009, they could potentially lead to substantial increases in the level of profit commission earned in 2010 and beyond, should the cycle turn as expected

The new quota share contracts (with Swiss Re and Partner Re) provide protection against a negative insurance result. Whilst there is a cap on the extent of protection provided by the Swiss Re contract, cover exists throughout the range of probable loss ratio outcomes.

The profit commission arrangements under these two contracts allow Admiral a greater share of the underwriting result than the 2006 quota share contracts with Swiss Re and Axis Re.

The potential split of the net UK motor business over the next three years is as follows:

	2007	2008	2009
Great Lakes	60.0%	55.0%	50.0%
Swiss Re 10.0%	10.0%	10.0%	10.0%
Partner Re	7.5%	7.5%	-
Maximum available to Admiral	22.5%	27.5%	40.0%
	100.0%	100.0%	100.0%

The Group retains 35% of the Spanish motor risks, with 65% being reinsured by Munich Re under a long term treaty on similar terms to the UK contract.

Underwriting results

Total premiums increased by 6% from £534m to £567m, and all Group brands again increased in size. Premium growth was somewhat lower than policy count growth, due primarily to lower average premiums resulting from a mix effect. Premium rates were again broadly flat across the year. The Group's Spanish motor insurance business generated around £0.6m of premium during 2006, in two months of trading.

The number of quotes the UK direct brands gave showed another large increase in 2006 – up almost 60% from 9.7m to 15.4m. Continued and substantial growth in Confused.com (further detail below) and other aggregator volume were the principal reasons.

Net insurance premium revenue increased by around 4% from £139.5m to £145.0m. This increase was lower than the rise in written premiums due to the reduction in the retention of premium from 30% in 2005 to 25% in 2006.

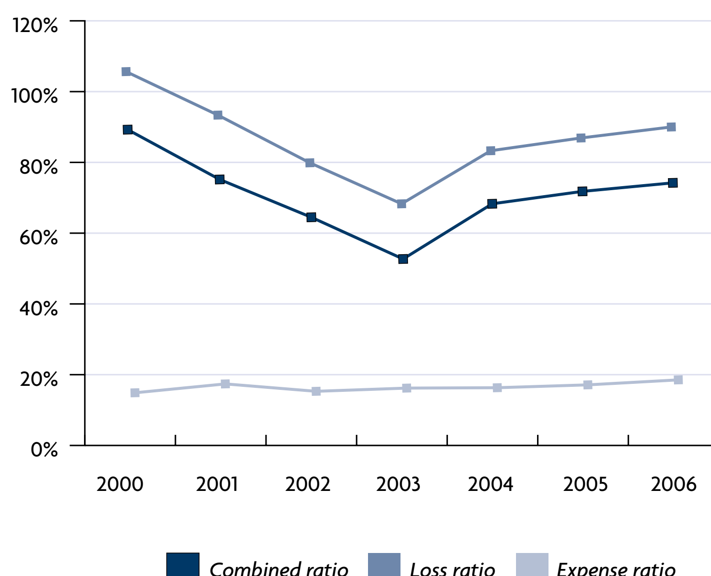
The reported loss ratio increased by around 2 points from 70% to 72%. Reserve releases continued to form a significant part of the underwriting result, rising from £17.3m to £20.9m in 2006 (refer to note 19). In relative terms, the 2006 release improves the loss ratio by around 14 points, whereas 2005's release contributed 12 points. This means the pure year loss ratio has worsened by around 4 points, from 82% to 86%. This increase is broadly in line with claims inflation experience. Movements in loss ratios are further discussed in the Chief Executive's statement.

The motor expense ratio increased from 15.1% to 15.8% in 2006, reflecting expense inflation with little movement in premium rates. Excluding regulatory levies, the figures are 12.3% in 2005 and 12.9% in 2006.

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.

Combined ratio development

The Group's combined ratio (being the aggregation of the loss and expense ratios above) has risen by around 2 points, from 85% to 87%. This compares to an expected combined ratio for the overall UK motor market in 2006 of around 109% (source – Deloitte) - an outperformance consistent with previous years of around 20 points. Further detail on market results is set out in the Chief Executive's statement.



The underwriting result (including investment income) fell by £4m in 2006 (£28.4m v £32.4m). This was due to the increased combined ratio (87% v 85%) and also a fall in investment income.

Some additional ratios are noted in the Chief Executive's statement – firstly the ratio of total outgoings to net income at 58% (2005: 60%) and secondly the ratio of profit to net income at 53% (2005: 51%). Reconciliations to the figures in the accounts are set out at the end of this review.

Profit commission

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

Profit commission – co-insurance

The principal source of profit commission is the long-term co-insurance contract with Great Lakes. £15.4m has been recognised in 2006, compared to £11.1m in 2005. The increase compared to last year reflects additional income recognised resulting from improvements in reported loss ratios on earlier underwriting years (predominantly 2003 and 2004).

A further £2.0m of profit commission (2005: £0.5m) relating to earlier underwriting years (2000 – 2002) contracts with Hibernian Re has also been recognised in these results. No further material amounts are anticipated relating to these contracts due to the relative maturity of the underwriting results of these years.

Profit commission – quota share reinsurance

A total of £2.5m has been recognised during 2006 (2005: £3.1m) from quota share profit commission arrangements.

As noted above, the new quota share deals for 2007 and beyond include scope for the Group to earn a larger share of the underwriting result than the 2006 and earlier contracts.

Ancillary and other net income

This figure can be broken down as follows:

	2006 £000	2005 £000
Ancillary profit	67,022	59,092
Interest income	4,539	4,176
Instalment income	5,676	3,768
Gladiator profit	2,025	1,871
Other expenses and share scheme costs	(3,277)	(3,391)
Ancillary and other net income	**75,985**	**65,516**

Ancillary profit and instalment income

This primarily involves commissions and fees earned on sales of insurance products and services complementing the motor policy, but which are underwritten by external parties. Net contribution from these sales grew by 13% in 2006 – from £59.1m to £67.0m. Average gross income per motor policy sold in the UK increased from £56 in 2005 to just under £58 in 2006. Ancillary income per average active vehicle rose from £68.5 to £69.3.

Gladiator

Gladiator enjoyed another good year, contributing £2.0m to the Group, up from £1.9m in 2005. 2006 was a transitional year for Gladiator as the commercial vehicle market shifted towards a predominately internet based distribution channel. This has predictably led to increased competition within the sector, which has in turn led to increases in acquisition costs and softening of premium rates.

Gladiator successfully managed this change and increased new business volumes by 27% whilst maintaining its expense ratio. During 2006, Gladiator also grew its overall active policy base by 16% and returned a 34% net operating margin (36% in 2005).

Confused.com

	2006 £000	2005 £000
Confused.com profit	23,080	6,882*

*Confused.com earns a proportion of its revenue from Group brands in the form of commission charged at normal commercial rates. The 2006 Confused result includes these transactions, with a corresponding reduction in the underwriting profit. Previously an adjustment was made for these intra-group sales. The impact of this adjustment on the 2005 figures was to decrease Confused profit by £1.9m.

Confused enjoyed a year of substantial growth in 2006. Increased media activity led to an increase in the number of quotes provided by Confused of almost 120%, from 4.1m in 2005 to 9.0m in 2006. Revenue (including payments from Admiral Group brands) increased by around 150% to £38.5m.

Profit (including intra-Group sales) rose 162% to £23.1m from £8.8m in 2005. The 2005 figure differs from that in the table due to the £1.9m adjustment referred to above.

Despite a number of new entrants entering the market during 2006, Confused has successfully maintained its share of total motor sales generated by aggregators and remains the market leader in motor insurance aggregation.

In addition to its core motor insurance offering, Confused's home insurance product also grew significantly in 2006 – quotes rising almost fivefold to 0.5m. New price comparison solutions for breakdown, travel insurance and utilities were also added to the Confused website.

Balumba.es

At the end of October 2006, the Group successfully launched its first operation outside of the UK. Balumba.es, a direct motor insurer based on the Group's UK model, is located in Seville, Spain and generated around £0.6m of premium in the short period before the year-end, making a pre-tax loss (including start-up costs) of around £0.6m. Balumba trades via two branches of UK companies – EUI Limited and Admiral Insurance Company Limited.

Whilst it is still very early days for Balumba, management are encouraged by the results to date, and hope to replicate the model in other markets in the future.

Earnings per share (EPS)

Earnings per share rose 22% from 32.7p to 39.8p in 2006, broadly in line with the increase in profits.

Taxation

The total taxation charge reported in the income statement is £43.6m (2005: £34.8m), representing 29.6% (2005: 29.1%) of pre-tax profit. The lower effective rate in 2005 arose from utilisation of losses brought forward.

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

Investments and cash

The Group continues to generate significant amounts of cash from all aspects of its operations. At the end of the year, the Group held a total of £448.9m in cash and investments – an increase of 11% on the £406.1m held at the end of 2005. This increase is after distributions to shareholders of £70.1m during 2006 (£49.2m in 2005).

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

	2006	2005
Liquid funds in underwriting companies:	£000	£000
Money market funds	257,634	-
Government and sovereign bond holdings	-	83,071
Corporate bonds and similar instruments	-	172,866
Deposits with credit institutions	26,253	40,646
Cash at bank	63,337	39,824
	347,224	336,407
Liquid funds held outside underwriting companies:		
Cash at bank	101,652	69,682
	448,876	**406,089**

During the last quarter of 2006, the Group changed its investment strategy, moving away from fixed income mandates and into money market funds. This decision was motivated by the disappointing and volatile returns generated by the bond portfolios during 2006 and a desire for stable, relatively risk free returns in 2007 as the UK motor market cycle potentially hits its worst point.

To this end, a number of money market fund accounts have been set up, into which the existing funds were transferred and future cashflows will be invested. The bond portfolios were fully liquidated before the year-end.

Dividends

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

Having regard to this policy, as outlined in the Chairman's statement, the Directors have declared a final dividend for 2006 of 24.0p per share, which is made up of 9.6p per share normal element, plus 14.4p per share special distribution based on the Group's resources at the end of the year.

The distribution includes £13.5m (5.2p) relating to the release of capital previously held at Lloyd's, which was achieved during the second half of the year. £10m of this release has been retained in order to assess the potential need for additional capital to support growth over the short term.

Taken together with the interim dividend (12.1p), this final payment results in a total distribution for 2006 of 36.1p (2005: 24.6p) per share.

Employee share schemes

The Board continues to take the view that actual or prospective share ownership plays a vital role in staff incentivisation across all levels of employee. The Group has two share schemes – an Inland Revenue approved Share Incentive Plan (the SIP) and the Senior Executive Restricted Share Plan - The 'Unapproved Free Share Scheme'.

1. The Approved Share Incentive Plan (SIP)

This SIP is open to all staff of Admiral Group plc (Henry Engelhardt and David Stevens have declined to be included in the plan).

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

Awards are made twice a year, based on the results of each half-year. During 2005 and 2006, the Group's results have meant that qualifying staff have received maximum awards in both years.

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

Further details of the awards - actual and anticipated - are included in note 26 below.

2 – The Unapproved Free Share Scheme (UFSS)
The UFSS is not Inland Revenue approved. Awards under the plan are made at the discretion of the Chief Executive and Senior Managers, with approval being obtained from the Remuneration Committee. Awards under the plan are distributed on a wider basis than most plans of this type. The Board believes that as the UFSS 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 participates in this scheme.

The main performance criterion in determining awards under the Unapproved Plan will be the growth in earnings per share (EPS) in excess of a risk free return, defined as average 3-month LIBOR, over a three year period. The Board feels that this is a good indicator of long-term shareholder return with which to align staff incentivisation.

Although no shares have yet vested under the UFSS, awards totalling 685,000 shares were made in 2005 and 681,000 in 2006. This represents 0.5% of the Group's issued share capital over the two years.

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%. Only 10% of shares vest for matching LIBOR over the three year period.

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

Reconciliation of underwriting profit

	2006 £000	2005 £000
Net insurance premium revenue	144,955	139,454
Net insurance claims	(107,145)	(100,526)
Net expenses related to insurance contracts	(19,384)	(17,909)
Investment return (see note 8)	9,925	11,342
Underwriting profit	**28,351**	**32,361**

Reconciliation of loss ratios reported

	2006 £000	2005 £000
Net insurance claims	107,145	100,526
Deduct: claims handling costs	(3,538)	(3,202)
Adjusted net insurance claims	103,607	97,324
Net premium revenue	144,955	139,454
Loss ratio	**71.5%**	**69.8%**

Reconciliation of alternative operating ratios

	2006	2005
Outgoings:	**£000**	**£000**
Net insurance claims	107,145	100,526
Insurance contract expenses	19,384	17,909
Ancillary / Confused / Gladiator expenses	33,818	21,792
	160,347	**140,227**
Income:		
Net insurance premium revenue	144,955	139,454
Other revenue	131,621	93,405
	276,576	**232,859**
Outgoings to income	**58%**	**60%**
Profit before tax to income	**53%**	**51%**

Corporate governance

The Combined Code on Corporate Governance

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

In September 2006 the Group announced the appointment of two new independent Non-executive Directors. This brings the total number of independent Directors to five and makes the Board fully compliant with Code A.3.2. The appointments were made on 4 September 2006. Throughout 2006 up to this date the Audit, Nominations and Remuneration Committees did not comply with the Combined Code requirements with respect to their membership (Codes A.3.2 C.3.1, A.4.1 and B.2.1).

The Group has now put in place specified terms for its independent Non-executive Directors. Details are contained within the remuneration report. All Non-executive Directors are appointed for fixed terms of three years.

Code D.1.1 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 any 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 satisfactory and 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 has a formal schedule of matters specifically reserved to it for decision, including corporate strategy, approval of budgets and financial results, new Board appointments, proposals for dividend payments and the approval of all major transactions. This schedule is reviewed on an annual basis and was last reviewed on 5 March 2007.

The Board met on nine occasions in 2006. In addition the Board held a strategy day and also visited its operations in Spain. 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. In 2005 the evaluation consisted of detailed questionnaires completed by all Directors. The Board has decided that given the results of the process carried out in 2005, the 2006 evaluation would consist of one-to-one discussions between the Chairman and all Directors and a meeting between the Chairman and the Non-executive Directors without the Executive Directors being present.

The results of the evaluation were discussed at a Board meeting in November 2006 at which the Chairman presented his findings and the Board had an open discussion on the performance of the Board resulting in a number of recommendations. No major issues were identified during the process but some changes have been made to the structure of the Board meetings and the amount of time devoted to meeting senior managers within the Group.

The performance of the individual Executive Directors is appraised annually by the Chief Executive, to whom they report. 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.

A meeting was held in November 2006 under the Chairmanship of John Sussens to discuss the results of this review. John Sussens also gave individual feedback to the Chairman and was able to confirm that the performance of the Chairman continues to be effective, and that the Chairman continues to demonstrate commitment to his role.

The number of full Board meetings and Committee meetings attended by each Director during 2006 is provided in the table below. The figures in brackets show the number of meetings that the Director could have attended.

	Scheduled Board meetings	Audit Committee meetings	Nominations Committee meetings	Remuneration Committee meetings
Total meetings held	9	4	3	4
Alastair Lyons (Chairman)	9 (9)		3 (3)	
Henry Engelhardt (Chief Executive)	9 (9)			
David Stevens (Chief operating Officer)	9 (9)			
Kevin Chidwick** (Finance Director)	3 (3)			
Andrew Probert *	6 (7)			
Manfred Aldag	9 (9)		3 (3)	
Martin Jackson	9 (9)	4 (4)		4 (4)
Keith James	9 (9)	4 (4)	3 (3)	
Margaret Johnson**	3 (3)	1 (1)		1 (1)
Lucy Kellaway**	3 (3)		1 (1)	
John Sussens	8 (9)			4 (4)
Gillian Wilmot *	3 (4)	1 (1)		2 (2)

*Gillian Wilmot and Andrew Probert resigned from the Board on 18 May 2006 and 4 September 2006 respectively.

**Kevin Chidwick, Margaret Johnson and Lucy Kellaway were appointed to the Board on 4 September 2006.

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.

Directors and Directors' independence

The Board currently comprises the Chairman, five independent Non-executive Directors, one Non-executive Director who is employed by a significant shareholder and is not, therefore, independent, and three Executive Directors.

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.

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 the Chairman's 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 which 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, Martin Jackson, and Keith James will retire by rotation and seek re-election by shareholders at the forthcoming AGM. In addition Kevin Chidwick, Lucy Kellaway and Margaret Johnson will also stand for re-election due to their appointments occurring after the last 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.

The 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 continually updated on the Group's business, legal matters concerning their role and duties, the competitive environments in which the Group operates and any other 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 as a component of the ongoing development of the Non-executive Directors.

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. In December 2006 major investors were given the opportunity to meet with the Chairman and a number of Non-executive Directors. A number of investors took part in the meeting. It is intended to carry out a similar meeting in September 2007.

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

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

Board Committees

The terms of reference of the principal Committees of the Board - Audit, Remuneration and Nominations - are available on the corporate website. Those terms of reference are reviewed annually.

The Audit Committee

Constitution and membership

The membership at the year-end was Martin Jackson (Chairman), Keith James, and Margaret Johnson (appointed 4 September 2006). The Company Secretary acts as Secretary to the Committee. For the period between 18 May 2006 and 4 September 2006 the Committee comprised of Martin Jackson and Keith James. Two meetings were held between those dates. There have been a total of four meetings during 2006.

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.

Summary of key activities during 2006

During the year the Committee reviewed the interim and audited final year-end Report and Accounts prior to approval by the Board. The external auditors were present at both meetings and the external actuaries attended the meeting in February 2007 at which the 2006 Report and Accounts were reviewed.

The Committee also reviewed the performance and independence of the Group's relationship with the external auditor both through its own assessment of the relationship and also the controls in place within the external auditors business. The Committee has reviewed the nature and extent of non-audit work services provided by the external auditor. The Committee has in place a policy 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 5 December 2006. 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 are not considered by the Committee to compromise their independence as auditors. The level of non-audit fees is reviewed at each Committee meeting and details are included in note 10 to 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.

The Committee receives reports from the Group's Company Secretary who has responsibility for the Compliance and Risk management functions to enable it to monitor the risk management policies and systems.

The Executive Directors, Head of Internal Audit, and external auditors are invited to all meetings The Non-executive Directors are entitled to attend any meeting. At least once a year the Committee meets with the external auditor without any Executive Directors present.

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 has formal terms of reference, which were last reviewed on 19 October 2006. The Committee met on three occasions during 2006. From 19 October 2006, following the appointment of Lucy Kellaway on 4 September 2006 and resignation from the Committee of Manfred Aldag, the Committee as required by the Code contains a majority of independent Non-executive Directors.

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 2006, the Committee instructed external search consultants to provide support in relation to the appointment of two Non-executive Directors. Detailed role specifications were drawn up with reference to the mix of skills, knowledge and experience of the existing Directors and the requirements of the Board. Interviews were carried out with a range of potential candidates, by the external agency, members of the Committee, and other members of the Board. As a result of the process, the Committee recommended to the Board, and the Board agreed, that Margaret Johnson and Lucy Kellaway be appointed to the Board as Non-executive Directors with effect from 4 September 2006. The anticipated time commitments for the role were discussed and agreed with both candidates.

The Committee also reviewed the progress of the Deputy Finance Director, recruited in September 2005 and following the retirement of Andrew Probert on 4 September 2006 recommended that the Board appoint Kevin Chidwick as Finance Director.

The Committee reviewed the current Board size, taking into account the changes noted above, 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.

Remuneration Committee

The membership at the year-end was John Sussens (Chairman), Martin Jackson and Margaret Johnson (appointed 4 September 2006). The Company Secretary acts as Secretary to the Committee.

The Committee has formal terms of reference, which were last reviewed on 4 September 2006. The Committee met four times during 2006.

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

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

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Group's internal controls, that it has been in place for the year ended 31 December 2006 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 be effectively 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 to undertake a full assessment process to identify and quantify the risks that their areas 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 uses the risk registers to plan its 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, which 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 2007 meeting, the Board carried out the annual assessment for the 2006 year by considering documentation from the Audit Committee, taking account of events since 31 December 2006.

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 Officer 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 monitor reinsurance protection and to ensure that a risk management strategy is effectively employed by the Group. The Committee meets approximately eight 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 it with timely, independent assurance that the controls established are operating effectively. This includes regular reviews of internal control systems and business processes, including compliance systems and procedures and identification of control weakness and recommendations to management on improvements.

Going concern

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

Remuneration report

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

Section 1: Information not subject to audit

The Remuneration Committee

The Committee is chaired by John Sussens, the Senior Independent Non-executive Director, with the other members being Martin Jackson and Margaret Johnson. Margaret Johnson was appointed to the Committee on 4 September 2006. Gillian Wilmot who resigned from the Committee and Board on 18 May 2006 had previously been the third Non-executive member. None of the Committee has any personal financial interest in the matters to be decided other than as shareholders. The Chairman and Chief Executive are invited to meetings where the Committee considers it appropriate to obtain their advice on the matters under review.

The Committee determines the Admiral Group Executive Board Directors' remuneration. The Committee also reviews and approves the fees of the Chairman of the Board. The Committee also reviews and recommends any changes proposed to the Group's share plans, as well as having an overview of shares awarded under the terms of the Group's Senior Executive Restricted Share Plan (The "Unapproved Free Share Plan").

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

Policy on 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 base salary (reviewed against market rates by the Committee) and benefits such as private medical cover, permanent health insurance and death in service cover. The Group does not contribute to any pension arrangements on behalf of these Executive Directors, and it is not intended that they will participate in any Group share schemes. Their remuneration was reviewed in May 2006 and Henry Engelhardt was awarded a rise of 5.5% taking his salary to £290,000. David Stevens declined to accept a rise in his remuneration, which stayed at £250,000.

There is only one other Executive Director. Kevin Chidwick joined the Board on 4 September 2006 as the Finance Director, replacing the retiring Andrew Probert. The Committee aims to ensure that the remuneration of the Finance Director is fair and in line with market rates and is designed to provide rewards for achieving increases in shareholder value.

There are two main elements to the Finance Director's remuneration package:

- Basic annual salary
- Awards under the Unapproved Free Share Plan.

It is the Committee's general strategy to pay salaries at or slightly below median levels with increased remuneration coming from the value of the awards under the Unapproved Free Share Plan. In addition to his salary of £200,000 Kevin Chidwick received an award of 21,186 shares on 18 April 2006 and a further 18,480 on 5 September 2006 on his appointment to the Board. The awards are the maximum number of shares that could vest after a three year period and are subject to performance criteria. Maximum awards vest if the Group's earnings per share growth over the three year period is significantly better than a LIBOR return. Further details of the Unapproved Free Share Plan are set out in the Financial Review.

Awards to staff under the Unapproved Free Share Plan are made upon the advice of the Chief Executive. The Committee reviews the approach taken and approves any awards greater than 100% of salary. The actual number of shares that vest under the scheme is dependent upon meeting the performance criteria with regard to earnings per share growth.

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.

A summary of their contracts and remuneration is shown in the following section.

There is no minimum shareholding requirement for any Director, although the Board encourages directors to buy shares in the Company should they wish to.

Directors' service contracts

The following table summarises the notice periods relating to the service contracts of the Executive Directors serving at 31 December 2006:

	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 are included below.

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

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

The following table sets out the results of a review of 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	

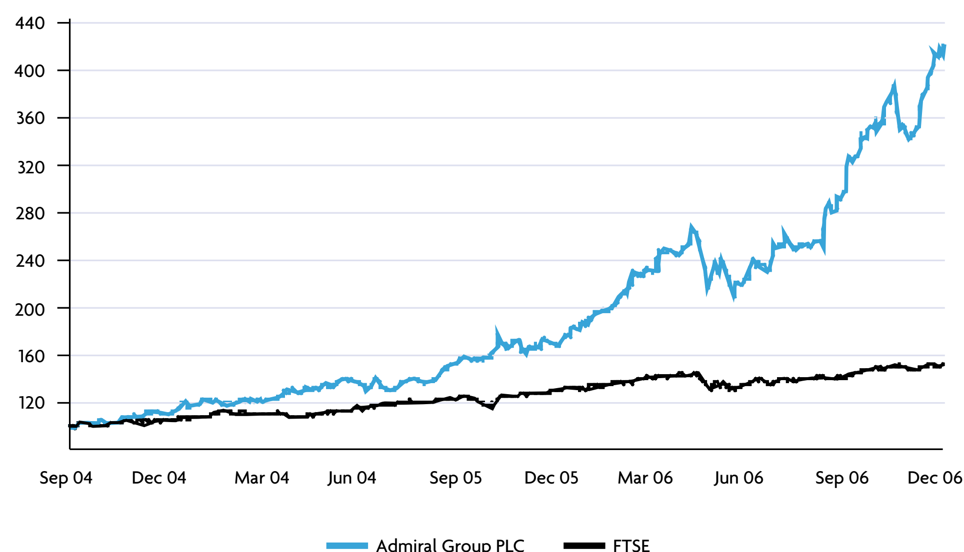
Fees payable (£'000) with respect to Board and Committee membership are as follows:

	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 2006. 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

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

	Ordinary shares of 0.1p	
	31 December 2006	31 December 2005
Executive Directors		
Kevin Chidwick	250	250
Henry Engelhardt *	40,466,720	40,466,720
David Stevens *	19,768,000	19,768,000
Non-executive Directors		
Alastair Lyons	615,600	715,600
Manfred Aldag	-	-
Martin Jackson	-	-
Keith James *	44,500	44,500
Margaret Johnson	-	-
Lucy Kellaway	-	-
John Sussens	8,000	8,000

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

Section 2: Information subject to audit

Directors' emoluments

Remuneration for the year ended 31 December 2006 was as follows:

Executive Directors	Base salary and fees (£000)	Bonuses and other (£000)	Benefits (£000)	2006 Total (£000)	2005 Total (£000)
Kevin Chidwick (appointed 4 September 2006)	65	9	1	75	-
Henry Engelhardt	285	-	-	285	268
Andrew Probert (resigned 4 September 2006)	159	-	-	159	224
David Stevens	250	-	-	250	240
Non-executive Directors					
Alastair Lyons *	75	-	-	75	60
Manfred Aldag	6	-	-	6	6
Martin Jackson	30	-	-	30	30
Keith James	38	-	-	38	38
Margaret Johnson (appointed 4 September 2006)	11	-	-	11	-
Lucy Kellaway (appointed 4 September 2006)	10	-	-	10	-
John Sussens	35	-	-	35	35
Gillian Wilmot (resigned 18 May 2006)	15	-	-	15	28
Totals	979	9	1	989	929

*Alastair Lyons waives 25% of his annual fee, which is currently £120,000.

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

This report was approved by the Board of Directors on 5 March 2007 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. This includes its actions and policies towards staff, the local communities in which both the business operates and our staff live, and the environment.

Workplace

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. During 2006 the Group relocated 650 people to brand new offices in Swansea Bay from offices within the town centre. We also try to make sure that the working day for our staff is as fun and rewarding as we can make it.

We are one of the leading employers in the South Wales region, and employ people from a wide range of communities. The Group encourages staff to get involved in local communities and projects that are important to both them and their families. This can range from the local football club to an amateur dramatics society.

This initiative is supported by "Henry's Pot". This fund started in 1999 and allows staff to apply for a donation or sponsorship toward an organisation of their choice. In 2006, 109 awards were made from this fund to all kinds of different interests.

We also believe that it is important for our staff to understand what are the Company's goals and objectives: consequently 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 provide the best possible service to our customers.

Top Departments Award Winners

Born Free & Childline Recycling

Admiral Sponsored Festival of Sport

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:

The Sunday Times 100 Best Companies to Work For – Admiral has been included in all seven years of the publication and was ranked 21st overall in the last list published.

The Financial Times 100 Best Workplaces in the UK – we have been included in all four years of the publication

100 Best Workplaces in the EU – again Admiral has been included in all four years.

Staff share schemes

The Group operates two share schemes that give staff actual and prospective share ownership. All staff are eligible to receive shares under the Approved Share Incentive Plan (SIP) as long as they commenced their employment at the start of the relevant performance period. Staff who were working for the Group at the start of 2005 have received £6,000 worth of free shares under the SIP, which had a value of £11,252 at 9 March 2007. The Group also operates a Senior Executive Restricted Share Plan, although the name is somewhat misleading as awards approved by the Board in 2006 amounted to over 681,000 free shares, which were distributed amongst 380 staff, including those in our Spanish operation. Both schemes have overall Group performance criteria applied to them.

Further detail on these schemes is set out in the Financial Review.

Disability

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

Tusk expedition to South Africa

External sponsorship

Admiral has also sponsored a number of high profile local events in 2006.

- Wales National Waterfront Museum
- Swansea Bay Festival 2006
- The Swansea Jazz Festival 2006
- The 2006 Swansea 10K
- The Admiral Cardiff Big Weekend 2006
- Admiral Calenning Family Fireshow
- The Welsh Business Awards
- The 2006 South Wales Echo Champion Child of Courage Award

Charitable contributions

In addition to sponsoring these local initiatives, we have continued to support several larger charities:

- ***WellBeing of Women*** through the Diamond Brand. This charity is the only national charity that funds obstetric and gynaelogical research by supporting research projects. Wellbeing of Women's mission is to bring an end to fear and suffering caused by reproductive health problems.

- ***Born Free Foundation and Tusk*** through elephant.co.uk. Born Free Foundation is an international wildlife charity that works to reduce animal suffering and to encourage people to treat animals with respect.

  It is involved in campaigns against cruelty in zoos, and dedicated to aiding conservation of elephants, big cats, wolfs, dolphins, primates and bears.

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

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. 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 Group Company Secretary has taken responsibility for the Group's approach to its impact upon the environment and has set up a project team to take forward a more robust approach to environmental reporting. 2006 is the first year the Group has focussed its attention on measuring its environmental footprint and the table below provides the initial data gathered for that year.

The Project Team will review the Group's processes with a view to consuming less natural resource per employee; recycle more of the waste produced; and ensure that waste that cannot be recycled is disposed of in compliance with relevant legislation. The Group is committed to improving its performance in the following areas:

- Minimising consumption of natural resources, including energy, water and other raw materials

Admiral Sponsored Champion Child of Courage Award

Admiral Sponsored Swansea Pantomime

- Reducing the waste produced, encouraging recycling and minimising the use of landfill sites, whilst ensuring compliance with all relevant legislation

- Achieving the most efficient means of travel to business meetings in the UK and abroad with the objective of reducing the environmental impact of the resulting journeys

- Encouraging staff to support initiatives that positively impact the local, national and global environments

- Raising and maintaining staff awareness of this policy and ensuring that employees are actively engaged in supporting the resulting practices

- 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

We have not been able to accurately assess the CO_2 emissions generated by the Group's direct activities. Improved measurement of resource usage will enable the Project Team to provide estimated CO_2 emissions for 2007.

Energy

We have based our energy usage on our head offices in Cardiff, built in the 1960's and housing just over 1,200 people. Measures to reduce resource consumption have to be discussed and agreed with the building's managing agent and other tenants. Up until the end of 2006 our Swansea staff were located in an ageing building with inefficient electricity and water supply.

As noted above, the Group has taken a long-term lease on a newly constructed building on a brownfield site in Swansea Bay. Future reporting on energy usage will combine both buildings.

Within the Group we have worked hard with our staff and our managing agents to reduce the use of energy and have introduced a number of measures to help lower energy usage such as:

- All the lights in the building go off after working hours
- Screen savers on all PCs
- Communicating the advantages of switching PCs off each evening

Impact Area	Measure	Performance
Energy	Electricity	280 KWh/m^2
Water	Water consumption	11.2 m^3 per person
Waste management	Total waste generated Wastage recycled by weight Waste to landfill	77,180 Kg 57,993Kg 19,187Kg
Resource management	Paper use Cartridges	5,732 sheets per person 0.4 cartridges per person
Travel	Mileage by rail Mileage by air	213,900 621,240

* As the Group moved its Swansea workforce to new offices in quarter two of 2006, the figures are shown based on the resources used for Cardiff office only and where usage per employee is stated, is based on an average of 1,200 employees working in the Cardiff office. Both offices will be included in the 2007 calculation.

Water consumption

As noted above, the Group is reliant on the co-operation of the managing agent with respect to any changes to its use of water. In future years, water consumption per employee will be measured and compared to similar office environments to ensure that consumption within our offices is within reasonable limits.

Waste management

We have run a recycling programme for a number of years, to which our staff have shown considerable commitment. Throughout the Company we advertise our recycling facilities and every floor has an area for recycling. As a result, we currently only send 25% of our waste to landfill.

We are currently in the process of trialling the use of recycled paper within photocopiers and printers as this is the source of the vast majority of the Group's internal printing. The Project Team will also review the current printing usage to seek ways to reduce the amount of internal printing.

Policyholder documentation is not currently printed on recycled paper. The Project Team will revisit the sourcing of recycled paper and will test its use for communications with customers.

Travel

We have based our offices centrally in Cardiff and Swansea to enable staff to take advantage of public transport.

We also provide all staff with the benefit of an interest free loan for public transport passes.

The Group only operates two company cars for its engineers and has no plans to increase this.

A central booking facility is provided for staff to request train and airline tickets, avoiding the need for them to fund the costs up front and to encourage staff to use the service.

Monitoring systems are being put in place to more accurately measure business travel by employees.

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.

Henry's Pot supports Penarth Badminton Club

The Board of Directors

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

Alastair Lyons CBE (53)
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, (49)
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, (43)
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 (45)
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.

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

Manfred Aldag (56)
Non-executive Director (N)

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

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

Margaret Johnson (47)
Non-executive Director (A,R)

Margaret was appointed Non-executive Director of the Company in September 2006. She is currently Group Managing Director of the international advertising agency Leagas Delaney and has been with that Company for the past 11 years.

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

Lucy Kellaway (46)
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.

Martin Jackson (58)
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.

He is a fellow of the Institute of Chartered Accountants.

Keith James OBE (62)
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.

John Sussens (61)
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.

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Director's report

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2006.

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.

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

Group results and dividends

The profit for the year, after tax but before dividends, amounted to £103.7m (2005: £84.7m).

The Directors declared and paid dividends of £70.1m during 2006 (2005: £49.2m) – refer to note 14 for further details.

The Directors are proposing a final dividend of £62.3m (24.0p per share), payable on 25 May 2007.

Share capital

Other than the holdings of the Directors as disclosed in the remuneration report, so far as the Directors are aware, or have been notified pursuant to section 198 of the Companies Act 1985, the following shareholders have interests in 3% or more of the ordinary share capital of the Company at 28 February 2007:

	Number of shares	%
Munich Re	37,540,469	14.36%
Capital Group Companies Inc	12,766,870	4.88%
Jupiter Asset Management	12,361,774	4.73%
Fidelity Investments	12,244,822	4.68%
College Retirement Equities Fund	10,438,937	4.00%

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 £38,000 (2005: £108,000) 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 28 days purchases (2005: 30).

Annual General Meeting

It is proposed that the next AGM be held at The St David's Hotel and Spa, Cardiff on Wednesday 16 May 2007, at 3.00 pm, 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 judgments and estimates that are reasonable and prudent
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

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
5 March 2007

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 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense 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 (IFRS) 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 above.

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 IFRS as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 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 2006;
- 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
Chartered Accountants
Registered Auditor
Cardiff
5 March 2007

Consolidated income statement

	Note	Year ended: 31 December 2006 £000	31 December 2005 £000
Insurance premium revenue		188,288	176,214
Insurance premium ceded to reinsurers		(43,333)	(36,760)
Net insurance premium revenue	5	**144,955**	**139,454**
Other revenue	6	131,621	93,405
Profit commission	7	19,926	14,735
Investment and interest income	8	14,464	15,518
Net revenue		**310,966**	**263,112**
Insurance claims and claims handling expenses		(136,472)	(121,123)
Insurance claims and claims handling expenses recovered from reinsurers		29,327	20,597
Net insurance claims		**(107,145)**	**(100,526)**
Expenses	9	(54,528)	(40,492)
Share scheme charges	9, 26	(933)	(438)
Total expenses		**(162,606)**	**(141,456)**
Operating profit		**148,360**	**121,656**
Finance charges	12	(1,018)	(2,162)
Profit before tax	10	**147,342**	**119,494**
Taxation expense	13	(43,620)	(34,774)
Profit after tax attributable to equity holders of the Company		103,722	84,720
Earnings per share:			
Basic	15	39.8p	32.7p
Diluted	15	39.8p	32.7p
Dividends declared (total)	14	70,104	49,190
Dividends declared (per share)	14	27.0p	19.0p

Consolidated balance sheet

	Note	As at: 31 December 2006 £000	31 December 2005 £000
ASSETS			
Property, plant and equipment	16	7,448	4,636
Intangible assets	17	66,757	66,490
Financial assets	18	395,938	378,747
Reinsurance assets	19	74,689	54,166
Trade and other receivables	20	16,931	9,392
Cash and cash equivalents	21	191,242	150,152
Total assets		**753,005**	**663,583**
EQUITY			
Share capital	26	261	260
Share premium account	27	13,145	13,145
Retained earnings	27	205,682	167,990
Other reserves	27	(33)	17
Total equity		**219,055**	**181,412**
LIABILITIES			
Insurance contracts	19	294,425	254,130
Financial liabilities	22	-	22,000
Deferred income tax	25	981	3,550
Trade and other payables	23	215,137	182,935
Current tax liabilities		23,407	19,556
Total liabilities		**533,950**	**482,171**
Total equity and total liabilities		**753,005**	**663,583**

These financial statements were approved by the Board of Directors on 5 March 2007 and were signed on its behalf by:

Kevin Chidwick
Director

Consolidated statement of recognised income and expense

	As at: 31 December 2006 £000	As at: 31 December 2005 £000
Exchange differences on translation of foreign operations	(50)	-
Net expense recognised directly in equity	**(50)**	**-**
Profit for the period	103,722	84,720
Total recognised income and expense for the period	**103,672**	**84,720**

Consolidated cash flow statement

	Note	31 December 2006 £000	31 December 2005 £000
Profit after tax		**103,722**	**84,720**
Adjustments for non-cash items:			
- Depreciation		2,489	1,824
- Amortisation of software		446	896
- Unrealised (gains) / losses on investments		(624)	893
- Share scheme charge		2,667	1,247
Loss on disposal of property, plant and equipment and software		151	503
Change in gross insurance contract liabilities		40,295	38,023
Change in reinsurance assets		(20,523)	11,971
Change in trade and other receivables, including from policyholders		(23,150)	(18,693)
Change in trade and other payables, including tax and social security		33,652	18,041
Interest expense		1,018	2,162
Taxation expense		43,620	34,774
Cash flows from operating activities, before movements in investments		**183,763**	**176,361**
Net cash flow into investments held at fair value		(1,073)	(53,413)
Cash flows from operating activities, net of movements in investments		182,690	122,948
Interest payments		(1,018)	(2,617)
Taxation payments		(40,931)	(26,090)
Net cash flow from operating activities		**140,741**	**94,241**
Cash flows from investing activities:			
Purchases of property, plant and equipment and software		(6,046)	(3,999)
Net cash used in investing activities		**(6,046)**	**(3,999)**
Cash flows from financing activities:			
Repayments of borrowings		(22,000)	(10,667)
Capital element of new finance leases		(1,451)	1,201
Repayment of finance lease liabilities		-	(635)
Equity dividends paid		(70,104)	(49,190)
Net cash used in financing activities		**(93,555)**	**(59,291)**
Net increase in cash and cash equivalents		**41,140**	**30,951**
Cash and cash equivalents at 1 January		150,152	119,201
Effects of changes in foreign exchange rates		(50)	-
Cash and cash equivalents at end of period	21	**191,242**	**150,152**

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 two years ended 31 December 2005 and 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).

Other than those listed below, the Group has applied all adopted IFRS and interpretations adopted by the EU at 31 December 2006, including all amendments to extant standards that are not effective until later accounting periods.

The following IFRS adopted by the EU were available for early adoption but have not been applied by the Group in these financial statements:

- IFRS 7 (Financial instruments: Disclosure) – applicable for years commencing on or after 1 January 2007; and
- Proposed amendment to IAS 1 (Capital disclosures)

The application of IFRS 7 and the proposed amendment to IAS 1 in the current year would not have affected the balance sheet or the income statement as the standards are concerned only with disclosure. The Group plans to adopt these in 2007.

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. Significant estimates

Estimation techniques used in calculation of claims provisions:

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

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

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

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

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

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

3. Significant accounting policies

a) Revenue recognition

Premiums, ancillary income and profit commission:

Premiums relating to insurance contracts are recognised as revenue proportionally over the period of cover.

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

Under some of the co-insurance and reinsurance contracts under which motor premiums are shared or ceded, profit commission may be earned on a particular year of account, which is usually subject to performance criteria such as loss ratios and expense ratios. The commission is dependent on the ultimate outcome of any year, with 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 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.

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.

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 1.

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

The Goodwill held on the balance sheet at 31 December 2006 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 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 quoted fixed income and other debt securities are classified as financial assets at fair value through profit or loss at inception.

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

Trade and other receivables are stated at their 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 (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 26 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 in effect at the balance sheet date, and includes any adjustment to tax payable in respect of previous periods.

Deferred tax:

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

The principal temporary differences arise from depreciation of property and equipment, share scheme charges and the tax treatment of Lloyd's profits.

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

4. Segment reporting

Revenue and results for the year ended 31 December 2006, 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 Spanish operation are not material to the 2006 figures.

				31 December 2006
	Private motor insurance	Insurance broking	Consolidation adjustment	Group
	£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. Consolidation adjustments represent the elimination of inter-company balances.

				31 December 2006
	Private motor insurance	Insurance broking	Consolidation adjustment	Group
	£000	£000	£000	£000
Total assets	736,160	18,780	(1,935)	753,005
Total liabilities	525,932	9,953	(1,935)	533,950
Capital expenditure:				
Intangible assets	6,764	-	-	6,764
Plant, property and equipment	5,088	364	-	5,452

Revenue and results for the corresponding business segments for the year ended 31 December 2005 are reported below.

				31 December 2005
	Private motor insurance	Insurance broking	Consolidation adjustment	Group
	£000	£000	£000	£000
Net revenue	245,854	20,732	(3,474)	263,112
Profit after tax	76,773	7,947	-	84,720
Other segment items:				
Depreciation	1,739	85	-	1,824
Amortisation	7,769	-	-	7,769

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year are as follows.

				31 December 2005
	Private motor insurance	Insurance broking	Consolidation adjustment	Group
	£000	£000	£000	£000
Total assets	657,390	15,672	(9,479)	663,583
Total liabilities	485,782	5,868	(9,479)	482,171
Capital expenditure:				
Intangible assets	7,792	-	-	7,792
Plant, property and equipment	3,475	139	-	3,614

5. Net insurance premium revenue

	31 December 2006 £000	31 December 2005 £000
Total motor insurance premiums before co-insurance	**566,608**	533,616
Group gross premiums written after co-insurance	196,378	186,989
Outwards reinsurance premiums	(57,731)	(28,052)
Net insurance premiums written	138,647	158,937
Change in gross unearned premium provision	(8,090)	(10,775)
Change in reinsurers' share of unearned premium provision	14,398	(8,708)
Net insurance premium revenue	144,955	139,454

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 2006 £000	31 December 2005 £000
Ancillary revenue	81,527	72,470
Revenue from Confused.com	38,517	12,044
Instalment income earned	5,676	3,768
Revenue from Gladiator	5,901	5,123
Total other revenue	131,621	93,405

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 2006 £000	31 December 2005 £000
Total profit commission	19,926	14,735

8. Investment and interest income

	31 December 2006 £000	31 December 2005 £000
Net investment return	9,925	11,342
Interest receivable	4,539	4,176
Total investment and interest income	14,464	15,518

9. Expenses and share scheme charges

	31 December 2006			31 December 2005		
	Insurance contracts £000	Other £000	Total £000	Insurance contracts £000	Other £000	Total £000
Acquisition of insurance contracts	7,375	-	7,375	6,888	-	6,888
Administration and other marketing costs	12,009	35,144	47,153	11,021	22,583	33,604
Expenses	19,384	35,144	54,528	17,909	22,583	40,492
Share scheme charges	-	933	933	-	438	438
Total expenses and share scheme charges	19,384	36,077	55,461	17,909	23,021	40,930

Analysis of other administration and other marketing costs:

	31 December 2006 £000	31 December 2005 £000
Ancillary sales expenses	14,505	13,378
Confused.com operating expenses	15,437	5,162
Gladiator operating expenses	3,876	3,252
Central overheads	1,326	791
Total	35,144	22,583

The £12,009,000 (2005: £11,021,000) administration and marketing costs allocated to insurance contracts is principally made up of salary costs.

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

	31 December 2006 £000	31 December 2005 £000
Insurance contract expenses from above	19,384	17,909
Add: claims handling expenses	3,538	3,202
Adjusted expenses	22,922	21,111
Net insurance premium revenue	144,955	139,454
Reported expense ratio	15.8%	15.1%

10. Staff costs and other expenses

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

	31 December 2006 £000	31 December 2005 £000
Salaries	36,083	29,955
Social security charges	3,337	2,782
Pension costs	517	490
Share scheme charges (see note 26)	2,667	1,247
Total staff expenses	42,604	34,474
Depreciation charge:		
- Owned assets	1,009	446
- Leased assets	1,480	1,378
Amortisation charge:		
- Software	446	896
- Deferred acquisition costs	6,062	6,873
Operating lease rentals:		
- Buildings	3,292	2,969
Auditor's remuneration:		
- Fees payable for the audit of the Company's annual accounts	19	21
- Fees payable for the audit of the Company's subsidiary accounts	154	189
- Fees payable for other services	60	109
Loss on disposal of property, plant and equipment	151	503
Analysis of fees paid to the auditor for other services:		
Tax services	45	91
Other services	15	18
Total as above	60	109

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

There were no net exchange differences credited or charged to the income statement during the year.

11. Staff numbers (including Directors)

	Average for the year	
	2006	2005
	Number	Number
Direct customer contact staff	1,593	1,377
Support staff	404	339
Total	1,997	1,716

12. Finance charges

	31 December 2006	31 December 2005
	£000	£000
Term loan interest	166	1,520
Finance lease interest	481	388
Letter of credit charges	221	221
Other interest payable	150	33
Total finance charges	1,018	2,162

13. Taxation

	31 December 2006	31 December 2005
	£000	£000
UK Corporation tax		
Current charge at 30%	45,430	36,051
(Over) / under provision relating to prior periods – corporation tax	(648)	11
Current tax charge	44,782	36,062
Deferred tax		
Current period deferred taxation movement	(1,249)	(654)
Under / (over) provision relating to prior periods – deferred tax	87	(634)
Total tax charge per income statement	43,620	34,774

Factors affecting the tax charge are:

	31 December 2006 £000	31 December 2005 £000
Profit before taxation	**147,342**	**119,494**
Corporation tax thereon at 30%	44,203	35,848
Utilisation of brought forward tax losses	-	(421)
Adjustments in respect of prior year insurance technical provisions	17	(161)
Expenses and provisions not deductible for tax purposes	114	152
Other differences	(153)	(21)
Adjustments relating to prior periods	(561)	(623)
Tax charge for the period as above	43,620	34,774

14. Dividends

Dividends were declared and paid as follows.

	31 December 2006 £000	31 December 2005 £000
March 2005 (9.3p per share, paid May 2005)	-	24,049
September 2005 (9.7p per share, paid October 2005)	-	25,141
March 2006 (14.9p per share, paid May 2006)	38,667	-
September 2006 (12.1p per share, paid October 2006)	31,437	-
Total dividends	70,104	49,190

The dividends declared in March represent the final dividends paid in respect of the 2005 and 2004 financial years. Dividends declared in September are interim distributions in respect of 2006 and 2005.

A final dividend of 24.0p per share has been proposed in respect of the 2006 financial year. Refer to the Chairman's statement and financial review for further detail.

15. Earnings per share

	31 December 2006	31 December 2005
Profit for the financial year after taxation (£000s)	103,722	84,720
Weighted average number of shares – basic	260,632,740	258,987,515
Unadjusted earnings per share – basic	39.8p	32.7p
Weighted average number of shares – diluted	260,906,740	259,387,515
Unadjusted earnings per share – diluted	39.8p	32.7p

The difference between the basic and diluted number of shares at the end of 2006 (being 274,000) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 26 for further detail.

16. Property, plant and equipment

	Improvements to short leasehold buildings	Computer equipment	Office equipment	Furniture and fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 1 January 2005	1,931	6,792	2,978	1,627	12	13,340
Additions	567	2,742	155	150	-	3,614
Disposals	(1,818)	-	(510)	(405)	-	(2,733)
At 31 December 2005	680	9,534	2,623	1,372	12	14,221
Depreciation						
At 1 January 2005	1,554	4,424	2,467	1,545	1	9,991
Charge for the year	226	1,179	355	61	3	1,824
Disposals	(1,352)	-	(502)	(376)	-	(2,230)
At 31 December 2005	428	5,603	2,320	1,230	4	9,585
Net book amount						
At 31 December 2005	252	3,931	303	142	8	4,636
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 31 December 2006	1,685	3,843	1,453	462	5	7,448

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

	31 December 2006 £000	31 December 2005 £000
Computer equipment	2,996	2,380
Office equipment	-	767
	2,996	3,147

17. Intangible assets

	Goodwill £000	Deferred acquisition costs £000	Software £000	Total £000
Carrying amount:				
At 1 January 2005	62,354	2,794	1,319	66,467
Additions	-	7,407	385	7,792
Amortisation charge	-	(6,873)	(896)	(7,769)
At 31 December 2005	62,354	3,328	808	66,490
Additions	-	6,179	596	6,775
Amortisation charge	-	(6,062)	(446)	(6,508)
At 31 December 2006	62,354	3,445	958	66,757

18. Financial assets

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

	31 December 2006 £000	31 December 2005 £000
Investments held at fair value	257,634	255,937
Receivables – amounts owed by policyholders	138,304	122,810
Total financial assets	395,938	378,747

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

Analysis of investments held at fair value:

	31 December 2006 £000	31 December 2005 £000
Money market funds	257,634	-
Fixed income securities:		
Government bonds	-	83,071
Other listed securities	-	156,071
Variable interest securities:		
Other listed securities	-	16,795
	257,634	255,937

Management of credit and market risk

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

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

The Group switched investment strategy during the second half of 2006, away from short duration fixed income securities and into money market cash funds or cash deposits. Prior to this change, the Group was exposed to market risk in terms of the impact of movements in market interest rates on the carrying value of the investment funds. This risk has now been virtually eliminated, as the money market funds are designed to achieve stable net asset values.

The Group's investment returns should now directly track underlying market interest rates and hence will rise or fall in line with this benchmark. At 31 December 2006, the Group had fully liquidated the fixed income portfolios.

19. Reinsurance assets and insurance contract liabilities

A) Management of insurance risk:

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

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

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

i) Co-insurance and reinsurance:

As noted in the underwriting structure section of the financial review above, the Group passes out a significant amount of the motor insurance business written to external underwriters. In 2006, 65% of the risk was shared under a co-insurance contract, under which the primary risk is borne by the co-insurer.

A further 10% 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.

B) Sensitivity of recognised amounts to changes in assumptions:

The following table sets out the impact on equity at 31 December 2006 that would result from a 1 per cent change in the loss ratios used for each underwriting year for which material amounts remain outstanding.

	UNDERWRITING YEAR					TOTAL
	2002	2003	2004	2005	2006	
Loss ratio	54.5%	59.5%	69.0%	82.0%	89.5%	
Impact of 1% change (£000s)	465	1,214	1,552	1,798	529	5,558

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 2006 £000	31 December 2005 £000
Gross:		
Claims outstanding	202,421	170,216
Unearned premium provision	92,004	83,914
Total gross insurance liabilities	294,425	254,130
Recoverable from reinsurers:		
Claims outstanding	47,710	41,585
Unearned premium provision	26,979	12,581
Total reinsurers' share of insurance liabilities	74,689	54,166
Net:		
Claims outstanding	154,711	128,631
Unearned premium provision	65,025	71,333
Total net insurance liabilities	219,736	199,964

D) Analysis of re-estimation of claims provisions:

The following tables set out the cumulative impact, to 31 December 2006, 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				
	2002	2003	2004	2005	2006
Gross amounts:	£000	£000	£000	£000	£000
Gross claims provision as originally estimated	124,478	115,169	142,968	170,216	202,421
Provision re-estimated as of:					
One year later	114,051	111,599	137,075	162,205	-
Two years later	109,490	105,748	127,613	-	-
Three years later	101,910	100,880	-	-	-
Four years later	98,904	-	-	-	-
Five years later	-	-	-	-	-
As re-estimated at 31 December 2006	98,904	100,880	127,613	162,205	-
Gross cumulative overprovision	(25,574)	(14,289)	(15,355)	(8,011)	-

Net Amounts	Financial year ended 31 December 2002 £000	2003 £000	2004 £000	2005 £000	2006 £000
Net claims provision as originally estimated	71,071	75,549	98,120	128,631	154,711
Provision re-estimated as of:					
One year later	64,325	72,579	93,910	122,423	-
Two years later	61,167	67,726	87,761	-	-
Three years later	55,974	63,954	-	-	-
Four years later	53,857	-	-	-	-
Five years later	-	-	-	-	-
As re-estimated at 31 December 2006	53,857	63,954	87,761	122,423	-
Net cumulative overprovision	(17,214)	(11,595)	(10,359)	(6,208)	-

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:	Financial year ended 31 December 2002 £000	2003 £000	2004 £000	2005 £000	2006 £000
2000	6,188	5,176	1,480	370	1,110
2001	2,490	7,938	2,967	5,043	1,879
2002	-	2,975	3,229	5,166	2,260
2003	-	-	1,513	4,622	5,084
2004	-	-	-	2,076	7,948
2005	-	-	-	-	2,623
Total net release	8,678	16,089	9,189	17,277	20,904
Net premium revenue	81,336	79,327	107,501	139,454	144,955
Release as % of net premium revenue	10.7%	20.3%	8.5%	12.4%	14.4%

F) Reconciliation of movement in net claims provision:

	31 December 2006 £000	31 December 2005 £000
Net claims provision at start of period	128,631	98,120
Net claims incurred	103,607	97,325
Net claims paid	(77,527)	(66,814)
Net claims provision at end of period	154,711	128,631

G) Reconciliation of movement in net unearned premium provision:

	31 December 2006 £000	31 December 2005 £000
Net unearned premium provision at start of period	71,333	51,850
Written in the period	138,647	160,244
Earned in the period	(144,955)	(140,761)
Net unearned premium provision at end of period	65,025	71,333

20. Trade and other receivables

	31 December 2006 £000	31 December 2005 £000
Trade debtors	14,982	6,905
Prepayments and accrued income	1,949	2,487
Total trade and other receivables	16,931	9,392

21. Cash and cash equivalents

	31 December 2006 £000	31 December 2005 £000
Cash at bank and in hand	164,989	109,506
Cash on short term deposit	26,253	40,646
Total cash and cash equivalents	191,242	150,152

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. Financial liabilities

	31 December 2006 £000	31 December 2005 £000
Interest bearing bank loans	-	22,000

Analysis of borrowings:

	31 December 2006 £000	31 December 2005 £000
Repayments falling due within 12 months	-	-
Repayments falling due after 12 months	-	22,000
	-	22,000

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

23. Trade and other payables

	31 December 2006 £000	31 December 2005 £000
Trade payables	4,601	4,423
Amounts owed to co-insurers and reinsurers	124,238	98,054
Finance leases due within 12 months	1,337	1,963
Finance leases due after 12 months	61	886
Other taxation and social security liabilities	4,742	4,174
Other payables	13,708	10,066
Accruals and deferred income (see below)	66,450	63,369
Total trade and other payables	215,137	182,935

Analysis of accruals and deferred income:

	31 December 2006 £000	31 December 2005 £000
Premium receivable in advance of policy inception	31,772	30,471
Accrued expenses	25,456	24,559
Deferred income	9,222	8,339
Total accruals and deferred income as above	66,450	63,369

24. Obligations under finance leases

Analysis of finance lease liabilities:

	31 At December 2006			31 At December 2005		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	£000	£000	£000	£000	£000	£000
Less than one year	1,383	46	1,337	2,171	208	1,963
Between one and five years	63	2	61	921	35	886
More than five years	-	-	-	-	-	-
	1,446	48	1,398	3,092	243	2,849

It is the Group's policy to lease certain of its IT equipment under finance leases. The average lease term 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 their carrying amount.

25. Deferred income tax liability

	31 December 2006	31 December 2005
	£000	£000
Brought forward at start of period	3,550	4,838
Movement in period	(2,569)	(1,288)
Carried forward at end of period	981	3,550

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

	31 December 2006 £000	31 December 2005 £000
Tax treatment of Lloyd's Syndicates	1,936	3,816
Tax treatment of share scheme charges	(853)	315
Capital allowances	149	(392)
Other differences	(251)	(189)
Deferred tax liability at end of period	981	3,550

26. Share capital

	31 December 2006 £000	31 December 2005 £000
Authorised:		
500,000,000 ordinary shares of 0.1p	500	500
Issued, called up and fully paid:		
261,186,599 ordinary shares of 0.1p	261	-
259,861,965 ordinary shares of 0.1p	-	260
	261	260

During 2006, 1,324,634 new ordinary shares of 0.1p were issued to the trusts administering the Group's share schemes.

646,634 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.

678,000 were issued to the Admiral Group Employee Benefit Trust for the purposes of the Admiral Group Senior Executive Restricted Share Plan. The Trustees have waived the right to dividend payments, other than to the extent of 0.001p per share, unless and to the extent otherwise directed by the Company from time to time.

Staff share schemes:

Analysis of share scheme costs (per income statement):

	31 December 2006 £000	31 December 2005 £000
SIP charge (note i)	495	263
UFSS charge (note ii)	438	175
Total share scheme charges	933	438

(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). For the 2006 financial year, a maximum of 916,328 shares (2005: 1,181,565 shares) will vest under this scheme.

The awards are made with reference to the Group's performance against its budget. Employees must remain in employment until the vesting date (three years from the date of award), otherwise the shares will be forfeited.

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

(ii) The Unapproved Free Share Scheme (the UFSS)

This scheme is open to managers and exceptional performers within the Group (Henry Engelhardt and David Stevens have elected not to participate) with variable awards available.

Under the scheme, individuals receive an award of free shares at no charge. A total of 380 employees received awards under this scheme during 2006. Staff must remain in employment until the vesting date in order for the shares to vest. The maximum number of shares that can vest relating to the 2006 scheme is 681,375.

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

This initial hurdle has been removed for the 2006 scheme.

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

The range of awards is as follows:

- If the growth in EPS is less than the RFR, no awards vest
- EPS growth is equal to RFR – 10% of maximum award vests
- To achieve the maximum award, EPS growth has to be 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 UFSS are not eligible for dividends and hence the fair value of free shares to be awarded under this scheme has been revised downwards to take account of these distributions. The unadjusted fair value is based on the share price at the date on which awards were made (being £3.62 for the 2005 scheme and £6.71 for the 2006 scheme).

Number of free share awards committed at 31 December 2006:

	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	274,000	April 2010
UFSS 2005 scheme	685,000	June 2008
UFSS 2006 scheme 1st Award	604,187	April 2009
UFSS 2006 scheme 2nd Award	77,248	September 2009
Total awards committed	2,868,634	

*1 – being the maximum number of awards expected to be made before accounting for expected staff attrition. Of the 2,868,634 share awards outstanding above, 2,591,199 have been issued to the trusts administering the schemes, and are included in the issued share capital figures above.

27. Analysis of movements in capital and reserves

	Share capital	Share premium account	Capital redemption reserve	Foreign exchange reserve	Retained profit and loss	Total equity
	£000	£000	£000	£000	£000	£000
As at 1 January 2005	259	13,145	17	-	131,213	144,634
Retained profit for the period	-	-	-	-	84,720	84,720
Dividends	-	-	-	-	(49,190)	(49,190)
Issues of share capital	1	-	-	-	-	1
Share scheme charges	-	-	-	-	1,247	1,247
As at 31 December 2005	260	13,145	17	-	167,990	181,412
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

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.

28. Financial commitments

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

Operating leases expiring:	31 December 2006 £000	31 December 2005 £000
Within one year	-	434
Within two to five years	-	-
Over five years	33,425	29,523
Total commitments	33,425	29,957

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 2006 £000	31 December 2005 £000
Expenditure contracted to	1,539	1,342

29. 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

30. Related party transactions

There were no related party transactions occurring during 2006 that require disclosure. Details relating to the remuneration and shareholdings of key management personnel are set out in the remuneration report, above. 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%.

Consolidated financial summary

Basis of preparation:

The 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 2002 and 2003 have not been restated under IFRS, although have been reclassified into the formats used in these financial statements.

Income statement

	IFRS			UK GAAP	
	2006	2005	2004	2003	2002
	£m	£m	£m	£m	£m
Total motor premiums	**566.6**	**533.6**	**470.4**	**371.6**	**333.0**
Net insurance premium revenue	145.0	139.5	107.5	79.3	81.4
Other revenue	131.6	93.4	69.5	50.8	40.1
Profit commission	19.9	14.7	21.7	1.4	-
Investment and interest income	14.5	15.5	11.9	6.8	7.4
Net revenue	**311.0**	**263.1**	**210.6**	**138.3**	**128.9**
Net insurance claims	(107.1)	(100.5)	(74.3)	(43.5)	(52.6)
Total expenses	(55.5)	(40.9)	(28.9)	(34.4)	(28.5)
Operating profit	**148.4**	**121.7**	**107.4**	**60.4**	**47.8**

Balance sheet

	IFRS			UK GAAP	
	2006	2005	2004	2003	2002
	£m	£m	£m	£m	£m
Property, plant and equipment	7.5	4.6	3.3	5.8	6.7
Intangible assets	66.8	66.5	66.5	62.4	66.3
Financial assets	395.9	378.7	300.7	241.6	179.1
Reinsurance assets	74.7	54.2	66.1	56.7	53.4
Trade and other receivables	16.9	9.4	16.7	12.5	8.9
Cash and cash equivalents	191.2	150.2	119.3	70.1	63.0
Total assets	**753.0**	**663.6**	**572.6**	**449.1**	**377.4**
Equity	219.1	181.4	144.6	108.1	68.9
Insurance contracts	294.4	254.1	216.1	174.8	155.1
Financial liabilities	-	22.0	33.1	35.4	47.8
Provisions for other liabilities and charges	-	-	-	11.7	-
Deferred income tax	1.0	3.6	4.8	6.4	3.4
Trade and other payables	215.1	182.9	164.3	104.0	98.1
Current tax liabilities	23.4	19.6	9.7	8.7	4.1
Total liabilities	**753.0**	**663.6**	**572.6**	**449.1**	**377.4**

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Parent Company financial statements

Parent Company balance sheet

	Note	Year ended: 31 December 2006 £000	31 December 2005 £000
Fixed asset investments	4	103,804	103,804
Current assets			
Debtors	5	91	4
Cash at bank and in hand		55,616	59,808
		55,707	59,812
Creditors – falling due within one year			
Other creditors	7	(6,857)	(17,709)
Accruals and deferred income		(183)	(216)
		(7,040)	(17,925)
Net current assets		48,667	41,887
Total assets less current liabilities		152,471	145,691
Creditors – falling due after one year			
Loans	6	-	(22,000)
Net assets		**152,471**	**123,691**
Capital and reserves	8		
Called up share capital	9	261	260
Share premium account		13,145	13,145
Capital redemption reserve		17	17
Profit and loss account		139,048	110,269
		152,471	**123,691**

These financial statements were approved by the Board of Directors on 5 March 2007 and were signed on its behalf by:

Kevin Chidwick
Director

Parent Company accounting policies

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

1. Basis of preparation

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

- FRS 20 'Share-based payments';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The adoption of all three new standards did not have a material impact on either the current year or comparative figures.

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.

Notes to the Parent Company financial statements

4. Fixed asset investments

	31 December 2006 £000	31 December 2005 £000
Investments in subsidiary undertakings	103,804	103,804

The Company's principal subsidiaries (all of which are 100% directly owned) are disclosed in note 29 of the Group financial statements.

5. Debtors

	31 December 2006 £000	31 December 2005 £000
Amounts owed by subsidiary undertakings	86	-
Deferred tax asset	5	4
	91	4

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 2006 £000	31 December 2005 £000
Corporation tax payable	6,775	2,738
Amounts owed to subsidiary undertakings	10	14,971
Other creditors	72	-
	6,857	17,709

8. Reconciliation of movements in shareholders' funds

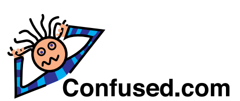
	Share capital £000	Share premium account £000	Capital redemption reserve £000	Retained profit and loss £000	Total equity £000
At 1 January 2005	259	13,145	17	79,812	93,233
Retained profit for the period	-	-	-	78,400	78,400
Dividends	-	-	-	(49,190)	(49,190)
Issues of share capital	1	-	-	-	1
Share scheme charges	-	-	-	1,247	1,247
As at 31 December 2005	260	13,145	17	110,269	123,691
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

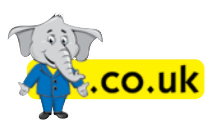
9. Share capital

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

Notes

Notes





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