

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

1. Basis of preparation

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

The balance sheet of the parent Company is prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985.

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

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

2. Accounting policies

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

a) Basis of accounting for general insurance business

General insurance business is accounted for on an annual basis.

b) Premiums

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

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

c) Claims

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

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

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

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

d) Acquisition costs

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

e) Guarantee fund and other levies

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

f) Fixed assets and depreciation

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

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

g) Profit commission

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

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

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

h) Leases

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

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

i) Ancillary income, commission and other income

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

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

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

j) Investments

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

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

k) Investment return

Income from investments is accounted for on an accruals basis.

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

NOTES TO THE FINANCIAL STATEMENTS

k) Investment return (cont.)

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

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

l) Taxation

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

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

m) Goodwill

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

n) Pensions

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

3. Analysis of underwriting results

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

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

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

4. Net operating expenses

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

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

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5. Profit on ordinary activities before taxation

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

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

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

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

6. Employee costs

Staff costs (including directors)

	2004 £000	2003 £000
Salaries	26,338	23,651
Social security costs	2,406	2,158
Pension costs	399	308
Staff profit share scheme charge	2,708	1,932
Sub total before share scheme charges	31,851	28,049
Employee and director share scheme (credit) / charges (also refer to note 20)	(4,144)	6,900
Staff numbers (including directors)	Average for the year	Average for the year
	2004	2003
	Number	Number
Direct customer contact staff	1,242	1,078
Support staff	301	284
Total	1,543	1,362

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

7. Net interest, other income and other charges

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

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

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

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

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

8. Taxation on profit on ordinary activities

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

Factors affecting the current tax charge are as follows:

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

9. Profit commission

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

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

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

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

10. Dividends

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

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

11. Earnings per share

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

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

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

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

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

12. Intangible assets

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

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

13. Investments in subsidiary undertakings

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

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

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

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

14. Other financial investments

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

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15. Tangible assets

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

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

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

16. Debtors arising out of direct insurance operations

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

17. Other creditors including taxation and social security

	Group 2004 £000	Company 2004 £000	Group 2003 £000	Company 2003 £000
Amounts falling due within one year				
Corporation tax payable	9,585	5,246	8,717	1,455
Dividends payable	24,049	24,049	-	-
Other tax and social security	3,236	-	2,570	-
Finance leases	1,543	-	2,052	-
Other creditors	15,701	-	11,494	-
Amounts owed to subsidiary companies	-	50	-	605
	54,114	29,345	24,833	2,060
Amounts falling due after one year				
Finance leases	741	-	1,741	-

18. Accruals and deferred income

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

	Group 2004 £000	Company 2004 £000	Group 2003 £000	Company 2003 £000
Amounts falling due after one year				
Claims handling expenses	1,371	-	700	-
	<hr/>			
	1,371	-	700	-

19. Provisions for other risks and charges

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

1. Deferred tax

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

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

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

2. Employee Share Ownership Trust (ESOT)

Refer to note 20.

20. Employee and director share schemes

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

1. Employee Share Ownership Trust (ESOT)

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

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

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

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

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

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

Tax relief

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

2. Directors' share options

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

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

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

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21. Loans

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

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

- a) LIBOR
- b) a margin – as set out in the facility agreement, varying between 1.25% and 2.25%
- c) a “mandatory costs” contribution – currently around 0.01%

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

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

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

22. Technical provisions and estimation techniques

	Gross £000	Reinsurance £000	Net £000
At 31 December 2004			
Claims outstanding	142,968	44,848	98,120
Unearned premiums	73,139	21,289	51,850
Total	216,107	66,137	149,970
	Gross £000	Reinsurance £000	Net £000
At 31 December 2003			
Claims outstanding	115,169	39,620	75,549
Unearned premiums	59,660	17,046	42,614
Total	174,829	56,666	118,163

22. Technical provisions and estimation techniques (cont.)

2004	Gross £000	Reinsurance £000	Net £000
Claims reserve brought forward	115,169	39,620	75,549
Provision movement – current year	42,040	10,280	31,760
Releases of prior year reserves	(14,241)	(5,052)	(9,189)
Claims reserve carried forward	142,968	44,848	98,120
2003	Gross £000	Reinsurance £000	Net £000
Claims reserve brought forward	124,478	53,407	71,071
Provision movement – current year	19,894	(673)	20,567
Releases of prior year reserves	(29,203)	(13,114)	(16,089)
Claims reserve carried forward	115,169	39,620	75,549

Estimation techniques used in calculation of claims reserves

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

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

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

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

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

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

23. Share capital

Authorised	2004 £000	2003 £000
500,000,000 ordinary shares of 0.1p	500	-
132,488 A ordinary shares of 10p	-	13
60,176 B ordinary shares of 10p	-	6
27,500 C ordinary shares of 10p	-	3
29,836 D ordinary shares of 10p	-	3
20,164 E ordinary shares of 10p	-	2
	<hr/> 500	<hr/> 27
	<hr/>	<hr/>
Issued, called up and fully paid	2004 £000	2003 £000
258,595,400 ordinary shares of 0.1p	259	-
132,488 A ordinary shares of 10p	-	13
60,176 B ordinary shares of 10p	-	6
12,042 C ordinary shares of 10p	-	1
29,836 D ordinary shares of 10p	-	3
20,164 E ordinary shares of 10p	-	2
	<hr/> 259	<hr/> 25
	<hr/>	<hr/>

Share capital reorganisation

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

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

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

24. Reconciliation of movements in shareholders' funds

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

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

Notes

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

NOTES TO THE FINANCIAL STATEMENTS

25. Financial commitments

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

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

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

26. Contingent liabilities

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

27. Cash flow statement

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

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

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

27. Cash flow statement (cont.)

c) Movements in cash, portfolio investments and financing:

2004	At 1 January 2004 £000	Cash Flow £000	Market Value changes £000	At 31 December 2004 £000
Cash at bank and in hand	54,957	33,174	-	88,131
Cash on short term deposit	15,118	(14,638)	-	480
	70,075	18,536	-	88,611
Fixed income and other debt securities	144,461	59,154	(197)	203,418
Deposits with credit institutions	24,464	6,126	-	30,590
Finance leases	(3,793)	1,509	-	(2,284)
Loans	(35,423)	2,301	-	(33,122)
Total	199,784	87,626	(197)	287,213
2003	At 1 January 2003 £000	Cash Flow £000	Market Value changes £000	At 31 December 2003 £000
Cash at bank and in hand	50,021	4,936	-	54,957
Cash on short term deposit	12,975	2,143	-	15,118
	62,996	7,079	-	70,075
Fixed income and other debt securities	90,099	56,880	(2,518)	144,461
Deposits with credit institutions	20,778	3,686	-	24,464
Finance leases	(3,761)	(32)	-	(3,793)
Loans	(47,839)	12,416	-	(35,423)
Total	122,273	80,029	(2,518)	199,784

28. Related party transactions

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