Chairman's statement

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

Alistair Lyons CBE

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

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

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

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

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

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

The Group is well capitalised with a proven approach to reserving, and with solvency ratios in both the UK and Gibraltar which carry an appropriate margin over minimum solvency statutory requirements.

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

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

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

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

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

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

Alastair Lyons
Chairman

Alastair Lyons, Chairman