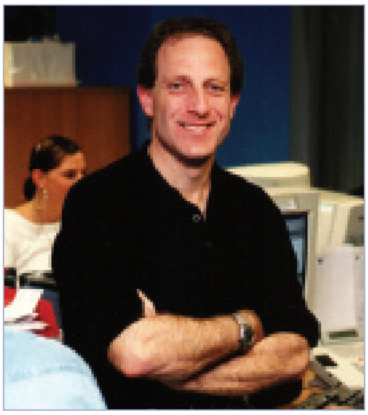
Chief Executive's statement



Henry Engelhardt
Chief Executive

2005? Not too shabby

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

Here in a nutshell are the highlights:

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

What we do

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

2005 was our 13th year of trading. The first seven were in a Lloyd's of London environment. However, towards the end of 1999 Management teamed up with Barclays Private Equity to buy the business. The result of this transaction was the creation of Admiral Group Ltd (AGL) as the holding Company. In September of 2004 we floated the Company on the London Stock Exchange and created Admiral Group plc.

In 1999 we also put in place a long-term co-insurance agreement with Great Lakes UK, a wholly-owned subsidiary of Munich Re. In 2001 we extended this agreement and it currently runs through at least 2008. In 2002 Munich Re also became a shareholder in AGL and it currently owns 14% of the Group. Management and staff currently own around 27% of the Group.

Key performance information

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

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

Some key numbers from the accounts which follow:

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

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

The bar chart below shows the development of the loss ratios for the back years on an underwriting year basis. The years noted at the bottom of the chart are the underwriting years. The coloured bars represent the reported loss ratios published in the Annual Accounts over the last five years. So, for example, in the 2003

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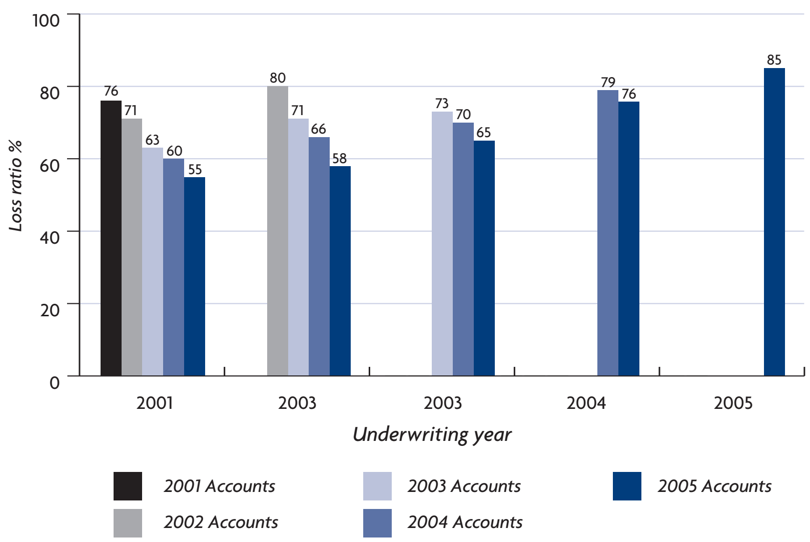
Loss ratio development



"Because we are efficient, particularly in generating quotes, we can afford to convert fewer quotes into business. In this way we are helping ensure that we only take the right risks at the right prices."

Henry Engelhardt

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

The expense ratio, not including regulatory levies, moved downwards by 0.2% from 2004, a reduction of 2%. This reflects our continued efficiency improvements. However, do not expect swingeing cuts in the expense ratio going forward. It is one of our strengths that we use our efficiency to help our underwriting selectivity. Because we are efficient, particularly in generating quotes, we can afford to convert fewer quotes into business. In this way we are helping ensure that we only take the right risks at the right prices. The end result is a better combined ratio. If we concentrated on reducing the expense ratio it may turn out to be a false economy, as it might come at the expense of the loss ratio through reduced selectivity. So, for instance, we could cut the marketing budget and do fewer quotes, but then we'd need to convert more of them to grow our premium income and customer numbers. To convert more quotes we'd have to be less selective. Clearly, the more selective you are the better your loss ratio should be.

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

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

To put this income into context, I've done a little calculation where the non-underwriting income is added to earned premium to give a 'big picture' combined ratio. I think this gives an interesting measure of the entire business. Expressed in this way, the combined ratio would have been 60%! Here's another interesting calculation: we made £122m on income of £233m, a ratio of 52%.

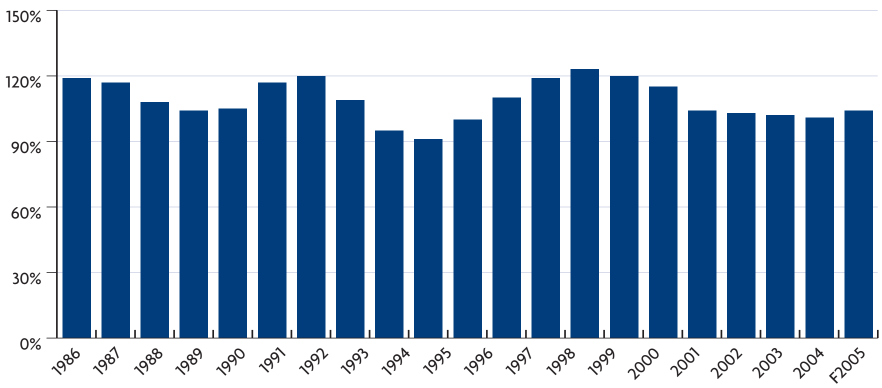
The UK car insurance market cycle: Boil a frog slowly

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

2004, the most recent year for which data is available, was a decent year for the market. Blimey, actually not too far from an underwriting profit! The official figure for the market combined ratio for 2004 was 101.3% (102.2% for 2003), but this was distorted by a very large release of prior year claims reserves, well beyond the norm for the market. The true year combined ratio was more like 105%, which is much

of claims inflation, albeit probably less than expected. The lower-than-expected claims inflation is down to two phenomena: first, a gradual decline in overall frequency, which has been happening for a number of years. This is probably caused by a combination of factors including: the increase of speed cameras, more traffic congestion and therefore people driving slower, growth in low-cost air travel which lets people travel abroad for holidays rather than driving in the UK and a growth in the number of households where the number of cars exceeds the number of drivers.

UK Motor – Combined Ratios



Source – Deloitte

more akin to a borderline break-even result. Typically, seven years on from the previous worst point in the cycle, the market is back to a combined ratio of 120%. So this, seven years on from 1998's 124% result, is clearly demonstrating the changing nature of the typical cyclical pattern.

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

Why did the market deteriorate a bit 2004 v 2003? Well, largely because there weren't any major movements in price. And there was a modest amount

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

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

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

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

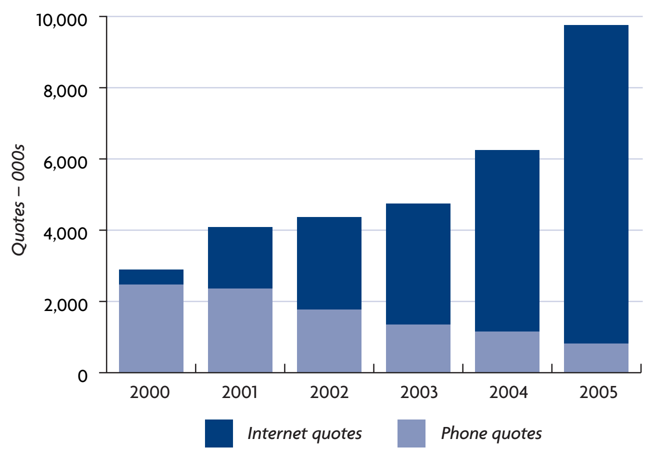
It is not clear to me whether this is a false dawn or a true indication that most insurers are keen to produce a profitable result. It easily could be a situation where a number of traditionally big spenders have just paused, taking time to assess their position and clean their weapons in anticipation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

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

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

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

Quote volumes split by phone and internet



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

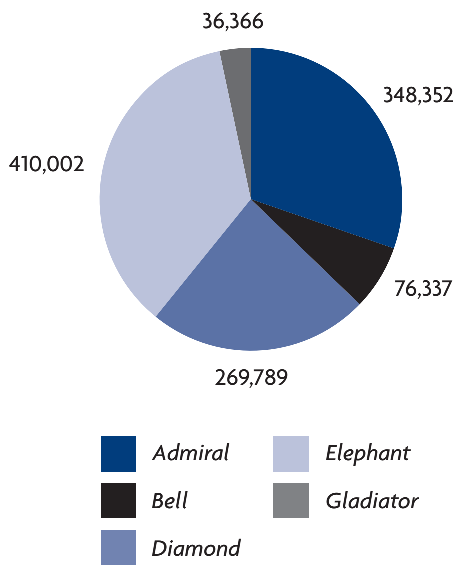
Second, our unique underwriting structure means we have a limited share of our own result, which reduces profits in the good times, but also reduces the effect of narrowing margins in the less good times, leaving us with a high return on capital. As we continue to grow our customer base, we continue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

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

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

Our ability to make the internet work goes a long way to explaining our excellent results. This is also a source of confidence in our future. Our 2005 internet results exceeded our forecasts and, in the absolute, are quite stunning. (Except for changing the year from '2004' to '2005' this was exactly what I wrote last year and the year before. It's not that I'm being lazy, it's just that it's still true!) Of the more than 9.7m quotes we did last year 92% started on the internet - that's almost 9,000,000 quotes on the internet! Around 82% of all our sales came from these internet quotes. I believe that there is still growth to be had in internet distribution, albeit probably less rampant than before. As we are among the leaders in the internet delivery of car insurance we are well placed for continued success through this channel in the coming years. (In 2005 we had around a billion hits to our websites!)

Customers by brand 31/12/05



Admiral sponsorship of the Cardiff Marathon 2005

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

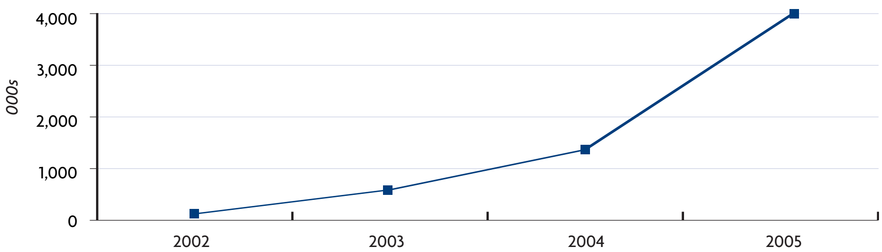
It was also yet another good year for Gladiator Commercial. Gladiator sells van insurance, largely to private tradesmen, as an intermediary. Admiral Group does not take any underwriting risk with this business. At the end of 2005 Gladiator's customer count stood at 36,000 and it contributed £1.9m to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

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

2005 was really a huge growth year for Confused.com. Confused is now a major force in the distribution of car insurance in the UK. Confused.com is an intelligent, automated car insurance shopper. Simply put, all a customer has to do is put his or her details into Confused.com and Confused then goes out to the major car insurance websites, populates the appropriate fields, and, in real time, brings the customer back a list of prices. Confused goes out to direct operations as well as intermediary sites. One-stop shopping!

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

Confused.com quotes



2005 – A year of change

So there you have it. 2005 wasn't too shabby, was it? From the facts and figures at hand we still believe we are the most efficient and, pound for pound, the most profitable firm in the UK motor insurance market. Our goal is to continue to write the above sentence for the annual accounts year after year after year.

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

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

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

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

360

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

Henry Engelhardt
Chief Executive

Children's Christmas Party 2005