

Director's report

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2005.

Principal activity, business review and future developments

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 £84.7m (2004: £90.5m).

The Directors declared and paid dividends of £49.2m during 2005 (2004: £52.0m) - refer to note 14 for further details.

The Directors are proposing a final dividend of £38.7m (14.9p per share), payable on 25 May 2006.

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 2006:

	Number of shares	%
Munich Re	37,479,400	14.42%
Fidelity Investments	14,975,118	5.76%
Barclays Plc	12,717,131	4.89%
Jupiter Asset Management	12,361,774	4.76%
Goldman Sachs Group, Inc	10,015,179	3.85%

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 £108,000 (2004: £75,000) 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 30 days purchases (2004: 24).

Annual General Meeting

It is proposed that the next AGM be held at The Celtic Manor Resort, Coldra Woods, Chepstow Road, Newport, Gwent NP18 1HQ on 18 May 2006, at 2.00pm, notice of which is set out at the back of the report and accounts.

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 the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards.

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.

Auditor

The Company's auditor, KPMG Audit Plc, has indicated willingness to continue in office and resolutions to reappoint it and to authorise the Directors to fix its remuneration will be proposed at the Annual General Meeting.

By order of the Board



Stuart Clarke
Company Secretary
3 March 2006

Independent auditor's report

to the members of Admiral Group plc

We have audited the Group financial statements of Admiral Group plc for the year ended 31 December 2005, which comprise the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Admiral Group plc for the year ended 31 December 2005 and on 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 European Union (EU) are set out in the statement of Directors' responsibilities above.

Our responsibility is to audit the Group financial statements 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 Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' report is not consistent with the Group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's 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 FRC 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 other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group 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 Group financial statements. It also includes an assessment of the significant

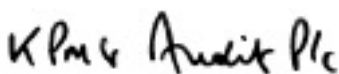
estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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 Group financial statements 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 Group financial statements.

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 2005 and of its profit for the year then ended; and
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation



KPMG Audit Plc
Chartered Accountants
Registered Auditor
Cardiff

3 March 2006

Consolidated income statement

		Year ended:	
		31 December	31 December
		2005	2004
		£000	£000
	Note:		
Insurance premium revenue		176,214	151,864
Insurance premium ceded to reinsurers		(36,760)	(44,363)
Net insurance premium revenue	5	139,454	107,501
Other revenue	6	93,405	69,457
Profit commission	8	14,735	21,673
Investment and interest income	7	15,518	11,884
Net revenue		263,112	210,515
Insurance claims and claims handling expenses		(121,123)	(102,604)
Insurance claims and claims handling expenses recovered from reinsurers		20,597	28,332
Net insurance claims		(100,526)	(74,272)
Expenses	9	(40,492)	(33,030)
Share scheme charges	9, 26	(438)	4,144
Total expenses		(141,456)	(103,158)
Operating profit		121,656	107,357
Finance charges	12	(2,162)	(2,451)
Profit before tax	10	119,494	104,906
Taxation expense	13	(34,774)	(14,400)
Profit after tax attributable to equity holders of the Company		84,720	90,506
<i>Earnings per share:</i>			
Basic	15	32.7p	35.0p
Diluted	15	32.7p	35.0p
Dividends declared (total)	14	49,190	51,996
Dividends declared (per share)	14	19.0p	20.1p

Refer to notes 1 and 4 for an explanation of the transition from UK GAAP to IFRS.

Also refer to basis of preparation and significant accounting policies sections below.

Consolidated balance sheet

		As at:		
		31 December	31 December	
		2005	2004	
		£000	£000	
Note:				
ASSETS				
	Property, plant and equipment	16	4,636	3,349
	Intangible assets	17	66,490	66,467
	Financial assets	18	378,747	300,722
	Reinsurance assets	19	54,166	66,137
	Trade and other receivables	21	9,392	16,739
	Cash and cash equivalents	20	150,152	119,201
	Total assets		663,583	572,615
EQUITY				
	Share capital	26	260	259
	Share premium account	27	13,145	13,145
	Retained earnings	27	167,990	131,213
	Other reserves	27	17	17
	Total equity		181,412	144,634
LIABILITIES				
	Insurance contracts	19	254,130	216,107
	Financial liabilities	22	22,000	33,122
	Provisions for other liabilities and charges	23	–	–
	Deferred income tax	25	3,550	4,838
	Trade and other payables	24	182,935	164,329
	Current tax liabilities		19,556	9,585
	Total liabilities		482,171	427,981
	Total equity and total liabilities		663,583	572,615

Refer to notes 1 and 4 for an explanation of the transition from UK GAAP to IFRS.

Also refer to basis of preparation and significant accounting policies sections below.

These financial statements were approved by the Board of Directors on 3 March 2006 and were signed on its behalf by:



Andrew Probert
Director

Consolidated statement of recognised income and expense

No separate consolidated statement of recognised income and expense has been prepared. The profit for the period of £84.7m (2004: £90.5m) represents all recognised income and expenses for the period.

Consolidated cash flow statement

	31 December 2005 £000	31 December 2004 £000
Profit after tax	84,720	90,506
Adjustments for non-cash items:		
– Depreciation	1,824	1,576
– Amortisation of software	896	981
– Unrealised (gains)/losses on investments	893	200
– Share option charge	1,247	308
– Share scheme credit, net of employer's NIC	–	(4,452)
Employer's NIC charge on ESOT	–	(7,284)
Loss on disposal of property, plant and equipment and software	503	4
Change in gross insurance contract liabilities	38,023	41,278
Change in reinsurance assets	11,971	(9,471)
Change in trade and other receivables, including from policyholders	(18,693)	(31,675)
Change in trade and other payables, including tax and social security	18,041	62,048
Interest expense	2,162	2,451
Taxation expense	34,774	14,400
Cash flows from operating activities, before movements in investments	176,361	160,870
Net cash flow into investments held at fair value	(53,413)	(59,154)
Cash flows from operating activities, net of movements in investments	122,948	101,716
Interest payments	(2,617)	(2,423)
Taxation payments	(26,090)	(15,060)
Net cash flow from operating activities	94,241	84,233
Cash flows from investing activities:		
Purchases of property, plant and equipment and software	(3,999)	(1,394)
Proceeds from sales of property, plant and equipment	–	16
Net cash used in investing activities	(3,999)	(1,378)
Cash flows from financing activities:		
Repayments of borrowings	(10,667)	(2,333)
Capital element of new finance leases	1,201	447
Repayment of finance lease liabilities	(635)	(1,957)
Payments of transaction expenses	–	(2,354)
Equity dividends paid	(49,190)	(51,996)
Net cash used in financing activities	(59,291)	(58,193)
Net increase in cash and cash equivalents	30,951	24,662
Cash and cash equivalents at 1 January	119,201	94,539
Cash and cash equivalents at end of period	150,152	119,201

Refer to notes 1 and 4 for an explanation of the transition from UK GAAP to IFRS.

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 (the Group) for the two years ended 31 December 2004 and 2005. 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. In accordance with 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). These are the Group's first consolidated financial statements under IFRS and IFRS 1 (First Time Adoption) has been applied. The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP: these are presented later in this report.

The Group has applied all IFRS and interpretations adopted by the EU at 31 December 2005, including all amendments to extant standards that are not effective until later accounting periods. In particular, the Group has early adopted the amendments to IAS 39: *The Fair Value Option* in these financial statements.

An explanation of how the transition to adopted IFRS has affected the financial performance and cash flows of the Company is set out in note 4.

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.

The preparation of financial statements in conformity with 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.

An explanation of the impact of the transition to IFRS is set out in note 4. This includes detailed reconciliations of the following:

- profit for the year ended 31 December 2004 under previous GAAP to the comparative figures stated in the consolidated income statement above reported under IFRS
- equity as at 1 January 2004 and 31 December 2004 from previous GAAP to the comparatives included in the consolidated balance sheet above reported under IFRS

The Group is managed as one operation involving the sale and administration of private motor insurance and related products and is reported as one segment.

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 commission being recognised based on loss and expense ratios used in the preparation of the financial statements.

Income is allocated to profit commission in the income statement when the right to consideration is achieved, and is capable of reliable measurement.

Revenue from Gladiator Commercial and Confused.com

Commission from these activities is credited to income on the sale of the underlying insurance policy having regard to the profile of services provided.

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) 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 material 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.

c) 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.

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.

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 premium provision at the balance sheet date. This balance is held as an intangible asset.

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.

d) 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.

e) 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.

f) 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 at fair value through profit or loss are initially recorded at cost 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 nominal amount (discounted if material) unless they are impaired. Impairment losses are recognised through the income statement.

g) 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.

h) 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.

Prior to 2005, only one equity based compensation scheme had been operated (the Employee Share Ownership Trust or ESOT). All benefits due under this scheme were settled during 2004 at the time of the Company's flotation on the London Stock Exchange. No further benefits will accrue. In accordance with the exemption available under IFRS 1, the transactions relating to this scheme have not been restated in accordance with IFRS 2 (Share Based Payment).

Refer to note 26 for further details on share schemes.

i) 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.

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. Explanation of the transition to IFRS

As stated in note 1, these are the first financial statements prepared by the Group under IFRS and the accounting policies detailed in note 3 have been applied in preparing the financial statements, comparative data and the IFRS transition balance sheet at 1 January 2004.

An explanation of the impact of the transition from UK GAAP to IFRS is set out in the following reconciliations and notes.

A) Reconciliation of equity

There is no difference in equity reported on the transition balance sheet (i.e. at 1 January 2004) under IFRS and that under previous (UK) GAAP.

The following table contains a summary of the differences in the balance sheets at 31 December 2004:

(all £000)	Note	At 31 December 2004		
		UK GAAP	Impact	IFRS
ASSETS				
Property, plant and equipment		3,349	–	3,349
Intangible assets	(i)	62,561	3,906	66,467
Financial assets		300,722	–	300,722
Reinsurance assets		66,137	–	66,137
Trade and other receivables		16,739	–	16,739
Cash and cash equivalents		119,201	–	119,201
Total assets		568,709	3,906	572,615
EQUITY				
Share capital		259	–	259
Retained earnings	(ii)	103,258	27,955	131,213
Other reserves		13,162	–	13,162
Total equity		116,679	27,955	144,634
LIABILITIES				
Insurance contracts		216,107	–	216,107
Financial liabilities		33,122	–	33,122
Provisions for other liabilities and charges		–	–	–
Trade and other payables	(iii)	188,378	(24,049)	164,329
Deferred income tax		4,838	–	4,838
Corporation tax liabilities		9,585	–	9,585
Total liabilities		452,030	(24,049)	427,981
Total equity and total liabilities		568,709	3,906	572,615

Notes on table A:

(i) Intangible assets

The adjustments to goodwill relate to reinstating goodwill to the balance standing at the transition balance sheet date as required under the transition provisions of IFRS 3 (Business Combinations).

(ii) Retained earnings

The following table sets out the reconciling items to retained earnings:

	31 December 2004
	£000
Retained earnings under UK GAAP	103,258
Reinstatement of goodwill (see note (i) above)	3,906
Elimination of dividend liability (see note (iii) below)	24,049
	<hr/>
Retained earnings under IFRS	131,213

(iii) Trade and other payables

The adjustments to this balance relate to the elimination of dividends for which liabilities had been recognised under UK GAAP. Under IAS 10 (Events after the balance sheet date) liabilities for dividends are only recognised when the dividends are declared. At the balance sheet date, liabilities had been recognised for dividends declared after the balance sheet date. These liabilities have been eliminated.

B) Reconciliation of profit for 2004 comparatives

The following table reconciles the differences in profit after tax (but before distributions to equity shareholders), for the year ended 31 December 2004:

(all £000)	Note	Year ended 31 December 2004		
		UK GAAP	Impact	IFRS
Insurance premium revenue		151,864	–	151,864
Insurance premium ceded to reinsurers		(44,363)	–	(44,363)
Net insurance premium revenue		<hr/> 107,501	–	<hr/> 107,501
Other revenue		69,457	–	69,457
Profit commission		21,673	–	21,673
Investment and interest income		11,884	–	11,884
		<hr/>		<hr/>
Net revenue		210,515	–	210,515
Insurance claims and claims handling expenses		(102,604)	–	(102,604)
Insurance claims and claims handling expenses recovered from reinsurers		28,332	–	28,332
Net insurance claims		<hr/> (74,272)	–	<hr/> (74,272)
Total operating expenses	(i)	(36,936)	3,906	(33,030)
Share scheme charges		4,144	–	4,144
Total expenses		<hr/> (107,064)	3,906	<hr/> (103,158)
Operating profit		103,451	3,906	107,357
Finance charges		(2,451)	–	(2,451)
		<hr/>		<hr/>
Profit before tax		101,000	3,906	104,906
Taxation expense		(14,400)	–	(14,400)
		<hr/>		<hr/>
Profit after tax attributable to equity holders of the Company		86,600	3,906	90,506

Notes on table B:**(i) Other operating expenses**

The adjustment relates solely to the reinstatement of goodwill to the transition date balance. Refer to the reconciliation of equity above.

C) Reconciliation of cash flow statement

Aside from the reclassification of certain cash deposits from financial investments under UK GAAP to cash under IFRS, there are no differences to the cash flow statement presented under IFRS and that presented under UK GAAP. Therefore no reconciliation has been presented.

5. Net insurance premium revenue

	31 December 2005 £000	31 December 2004 £000
Total motor insurance premiums before co-insurance	533,616	470,400
Group gross premiums written after co-insurance	186,989	165,343
Outwards reinsurance premiums	(28,052)	(48,606)
Net insurance premiums written	158,937	116,737
Change in gross unearned premium provision	(10,775)	(13,479)
Change in reinsurers' share of unearned premium provision	(8,708)	4,243
Net insurance premium revenue	139,454	107,501

All insurance business written during all periods is direct private motor insurance written in the United Kingdom. The Group's share of the 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 2005 £000	31 December 2004 £000
Ancillary revenue	72,470	59,175
Instalment income earned	3,768	2,603
Revenue from Gladiator Commercial	5,123	4,475
Revenue from Confused.com	12,044	3,204
Total other revenue	93,405	69,457

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

7. Investment and interest income

	31 December 2005 £000	31 December 2004 £000
Net investment return	11,342	8,536
Interest receivable	4,176	3,348
Total investment and interest income	<u>15,518</u>	<u>11,884</u>

8. Profit commission

	31 December 2005 £000	31 December 2004 £000
Total profit commission	<u>14,735</u>	<u>21,673</u>

9. Expenses

	31 December 2005			31 December 2004		
	Insurance contracts £000	Other £000	Total £000	Insurance contracts £000	Other £000	Total £000
Acquisition of insurance contracts	6,888	–	6,888	5,772	–	5,772
Administration and marketing costs	11,021	22,583	33,604	8,024	19,234	27,258
Sub-total	17,909	22,583	40,492	13,796	19,234	33,030
Share scheme charges	–	438	438	–	(4,144)	(4,144)
Total expenses	<u>17,909</u>	<u>23,021</u>	<u>40,930</u>	<u>13,796</u>	<u>15,090</u>	<u>28,886</u>

Analysis of other administration and marketing costs:

	31 December 2005 £000	31 December 2004 £000
Ancillary sales expenses	13,378	10,682
Confused.com operating expenses	5,162	1,921
Gladiator Commercial operating expenses	3,252	2,719
Special unit-holder bonus	–	3,345
Central overheads	791	567
Total	<u>22,583</u>	<u>19,234</u>

The £11,021,000 (2004: £8,024,000) 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 2005 £000	31 December 2004 £000
Insurance contract expenses from above	17,909	13,796
Add: claims handling expenses	3,202	2,352
Adjusted expenses	21,111	16,148
Net insurance premium revenue	139,454	107,501
Reported expense ratio	15.1%	15.0%

10. Staff costs and other expenses

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

	31 December 2005 £000	31 December 2004 £000
Salaries	29,955	29,046
Social security charges	2,782	2,406
Pension costs	490	399
Share scheme charges (see note 26)	1,247	308
ESOT credit	–	(4,452)
Total staff expenses	34,474	27,707
Depreciation charge:		
– Owned assets	894	915
– Leased assets	1,826	1,641
Operating lease rentals:		
– Buildings	2,969	1,574
Auditor's remuneration:		
– Statutory audit fees	210	160
– Other audit fees	18	16
– Other services	91	116
Loss on disposal of property, plant and equipment	503	4
Analysis of fees paid to the auditor for other services:		
Indirect tax consultancy	61	42
Corporate tax services	24	29
Internal audit advisory	–	20
Other	6	25
Total as above	91	116

During 2004, fees of £827,000 were paid to the Group's auditor in respect of professional services relating to the listing of the Company's shares on the London Stock Exchange, which were debited against the share premium account.

11. Staff numbers (including Directors)

	Average for the year	
	2005 Number	2004 Number
Direct customer contact staff	1,377	1,242
Support staff	339	301
Total	1,716	1,543

Transactions with key management personnel:

The compensation paid to key management personnel, being the Board of Directors of Admiral Group plc, is set out in the remuneration report.

12. Finance charges

	31 December 2005 £000	31 December 2004 £000
	Term loan interest	1,520
Finance lease interest	388	256
Letter of credit charges	221	175
Other interest payable	33	–
Total finance charges	2,162	2,451

13. Taxation

	31 December 2005 £000	31 December 2004 £000
	UK Corporation tax	
Current charge at 30%	36,051	31,342
Tax relief in respect of ESOT share provision	–	(16,985)
Under provision relating to prior periods – corporation tax	11	1,571
Current tax charge	36,062	15,928
Deferred tax		
Current period deferred taxation movement	(654)	(651)
Over provision relating to prior periods – deferred tax	(634)	(877)
Total tax charge per income statement	34,774	14,400

Factors affecting the tax charge are:

	31 December 2005 £000	31 December 2004 £000
Profit before taxation	119,494	104,906
Corporation tax thereon at 30%	35,848	31,472
ESOT tax relief	–	(16,985)
Utilisation of brought forward tax losses	(421)	(582)
Adjustments in respect of prior year		
insurance technical provisions	(161)	(216)
Expenses and provisions not deductible for tax purposes	152	29
Other timing differences	(21)	(4)
Impact of using lower tax rate	–	(8)
Adjustments relating to prior periods	(623)	694
	<hr/>	<hr/>
Tax charge for the period as above	34,774	14,400

14. Dividends

Dividends were declared and paid as follows:

	31 December 2005 £000	31 December 2004 £000
January 2004 (5.5p per share, paid February 2004)*	–	14,179
July 2004 (14.6p per share, paid August 2004)*	–	37,817
March 2005 (9.3p per share, paid May 2005)	24,049	–
September 2005 (9.7p per share, paid October 2005)	25,141	–
	<hr/>	<hr/>
Total dividends	49,190	51,996

*For comparability, the per-share amounts for these two dividends have been re-stated to reflect the share capital in issue at the 2004 year-end.

Both dividends included in the 2004 column were declared and paid before the Company's flotation in September 2004.

The dividend declared in March 2005 represents the final dividend paid in respect of the 2004 financial year. The dividend declared in September 2005 is the interim distribution in respect of 2005. Refer to the Chairman's statement and financial review for further detail.

15. Earnings per share (EPS)

	31 December 2005 £000	31 December 2004 £000
1) Unadjusted EPS		
Profit for the financial year after taxation	84,720	90,506
Weighted average number of shares – basic	258,987,515	258,595,400
Unadjusted earnings per share – basic	32.7p	35.0p
Weighted average number of shares – diluted	259,387,515	258,595,400
Unadjusted earnings per share – diluted	32.7p	35.0p
2) Adjusted EPS		
Profit for the financial year after tax	84,720	90,506
Deduct ESOT tax credit	–	(16,985)
Adjusted profit after tax	84,720	73,521
Adjusted earnings per share – basic	32.7p	28.4p
Adjusted earnings per share – diluted	32.7p	28.4p

The difference between the basic and diluted number of shares at the end of 2005 (being 400,000) 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 £000	Computer equipment £000	Office equipment £000	Furniture and fittings £000	Motor vehicles £000	Total £000
Cost						
At 1 January 2004	1,658	6,542	2,785	1,583	–	12,568
Additions	278	588	193	44	12	1,115
Disposals	(5)	(338)	–	–	–	(343)
At 31 December 2004	1,931	6,792	2,978	1,627	12	13,340
Depreciation						
At 1 January 2004	1,405	3,729	2,127	1,483	–	8,744
Charge for the year	149	1,024	340	62	1	1,576
Disposals	–	(329)	–	–	–	(329)
At 31 December 2004	1,554	4,424	2,467	1,545	1	9,991
Net book amount						
At 31 December 2004	377	2,368	511	82	11	3,349
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

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

	31 December 2005 £000	31 December 2004 £000
Computer equipment	2,380	2,849
Office equipment	767	83
	<u>3,147</u>	<u>2,932</u>

17. Intangible assets

	Goodwill	Deferred acquisition costs	Software	Total
	£000	£000	£000	£000
Carrying amount:				
At 1 January 2004	62,354	2,270	2,025	66,649
Additions	–	6,271	275	6,546
Amortisation charge	–	(5,747)	(981)	(6,728)
At 31 December 2004	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

18. Financial assets

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

	31 December 2005 £000	31 December 2004 £000
Investments held at fair value	255,937	203,418
Receivables – amounts owed by policyholders	122,810	97,304
Total financial assets	378,747	300,722

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

Analysis of investments held at fair value:

	31 December 2005 £000	31 December 2004 £000
Fixed income securities:		
Government bonds	83,071	42,980
Other listed securities	156,071	139,573
Variable interest securities:		
Other listed securities	16,795	20,865
	255,937	203,418

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 and direct debit 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.

As the Group holds a significant proportion of its financial investments in the form of fixed income securities, it is also exposed to market risk – primarily the impact on investment return and the carrying value of investments that could result from shifts in interest rates. The Group's investment funds are managed on short duration strategies that effectively minimise the quantum of any impact that could arise. At 31 December 2005 and the same date in 2004, the average duration of the Group's investment funds was less than 17 months. The Group does not invest in equity securities.

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 (currently 75%) of the motor insurance business written to external underwriters. 65% of the risk is shared under a co-insurance contract, under which the primary risk is borne by the co-insurer.

A further 10% is ceded under quota share reinsurance contracts (although as noted, the 5% Gen Re quota share agreement for 2005 was commuted at 31 December 2005).

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 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 2005 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
	2001	2002	2003	2004	2005	
Latest loss ratio	54.9%	58.0%	65.0%	75.8%	85.0%	
Impact of 1% change (£000s)	767	466	1,432	1,754	1,005	5,424

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 2005 £000	31 December 2004 £000
Gross:		
Claims outstanding	170,216	142,968
Unearned premium provision	83,914	73,139
Total gross insurance liabilities	254,130	216,107
Recoverable from reinsurers:		
Claims outstanding	41,585	44,848
Unearned premium provision	12,581	21,289
Total reinsurers' share of insurance liabilities	54,166	66,137
Net:		
Claims outstanding	128,631	98,120
Unearned premium provision	71,333	51,850
Total insurance liabilities – net	199,964	149,970

D) Analysis of re-estimation of claims provisions

The following tables set out the cumulative impact, to 31 December 2005, of the retrospective re-estimation of claims provisions initially established at the end of the financial years stated. Gross and net figures are shown. These tables present data on an accident year basis.

	Financial year ended 31 December				
	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000
Gross amounts:					
Gross claims provision as originally estimated	115,386	124,478	115,169	142,968	170,216
Provision re-estimated as of:					
One year later	105,186	114,051	111,599	137,075	–
Two years later	92,282	109,490	105,748	–	–
Three years later	87,840	101,910	–	–	–
Four years later	82,205	–	–	–	–
As re-estimated at 31 December 2005	82,205	101,910	105,748	137,075	–
Gross cumulative overprovision	(33,181)	(22,568)	(9,421)	(5,893)	–

Net amounts:	Financial year ended 31 December				
	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000
Net claims provision as originally estimated	55,529	71,071	75,549	98,120	128,631
Provision re-estimated as of:					
One year later	49,409	64,325	72,579	93,910	–
Two years later	42,927	61,167	67,726	–	–
Three years later	40,706	55,974	–	–	–
Four years later	37,890	–	–	–	–
As re-estimated at 31 December 2005	37,890	55,974	67,726	93,910	–
Net cumulative overprovision	(17,639)	(15,097)	(7,823)	(4,210)	–

E) Analysis of net claims reserve 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.

	Financial year ended 31 December				
	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000
Underwriting year:					
2000	3,923	6,188	5,176	1,480	370
2001	–	2,490	7,938	2,967	5,043
2002	–	–	2,975	3,229	5,166
2003	–	–	–	1,513	4,622
2004	–	–	–	–	2,076
Total net release	3,923	8,678	16,089	9,189	17,277
Net insurance premium revenue	84,135	81,336	79,327	107,501	139,454
Release as % of net insurance premium revenue	4.7%	10.7%	20.3%	8.5%	12.4%

F) Reconciliation of movement in net claims reserve

	31 December	31 December
	2005 £000	2004 £000
Net claims reserve at start of period	98,120	75,549
Net claims incurred	97,325	71,919
Net claims paid	(66,814)	(49,348)
Net claims reserve at end of period	128,631	98,120

G) Reconciliation of movement in net unearned premium provision

	31 December 2005 £000	31 December 2004 £000
Net unearned premium provision at start of period	51,850	42,614
Written in the period	160,244	118,102
Earned in the period	(140,761)	(108,866)
	<hr/>	<hr/>
Net unearned premium provision at end of period	71,333	51,850

20. Cash and cash equivalents

	31 December 2005 £000	31 December 2004 £000
Cash at bank and in hand	109,506	88,131
Cash on short term deposit	40,646	31,070
	<hr/>	<hr/>
Total cash and cash equivalents	150,152	119,201

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.

21. Trade and other receivables

	31 December 2005 £000	31 December 2004 £000
Trade debtors	6,905	15,105
Prepayments and accrued income	2,487	1,634
	<hr/>	<hr/>
Total trade and other receivables	9,392	16,739

22. Financial liabilities

	31 December 2005 £000	31 December 2004 £000
Interest bearing bank loans	22,000	33,122
	<hr/>	<hr/>

Analysis of borrowings:

	31 December 2005 £000	31 December 2004 £000
Repayments falling due within 12 months	–	11,455
Repayments falling due after 12 months	22,000	21,667
	<u>22,000</u>	<u>33,122</u>

During 2005, the Group renegotiated the terms of its debt with Lloyds TSB and Bank of Scotland. The new facility is a revolving credit arrangement that provides the Group with greater flexibility over use of the funds and also attracts lower interest charges.

The security (over Group assets and subsidiary shares) that was part of the former arrangement has also been withdrawn - the new facility is unsecured.

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

23. Provisions for other liabilities and charges

Employee share trust (ESOT)	31 December 2005 £000	31 December 2004 £000
Brought forward at start of period	–	11,739
Utilised in period	–	(7,287)
Released to income statement in period	–	(4,452)
	<u>–</u>	<u>–</u>

24. Trade and other payables

	31 December 2005 £000	31 December 2004 £000
Trade payables	4,423	3,381
Amounts owed to co-insurers and reinsurers	98,054	91,347
Finance leases due within 12 months	1,963	1,543
Finance leases due after 12 months	886	741
Other taxation and social security liabilities	4,174	3,236
Other payables	10,066	12,320
Accruals and deferred income (see over)	63,369	51,761
	<u>182,935</u>	<u>164,329</u>

Analysis of accruals and deferred income:

	31 December 2005 £000	31 December 2004 £000
Premium receivable in advance of policy inception	30,471	23,960
Accrued expenses	24,559	20,288
Deferred income	8,339	7,513
	<hr/>	<hr/>
Total accruals and deferred income as above	63,369	51,761

Analysis of finance lease liabilities:

	At 31 December 2005			At 31 December 2004		
	Minimum lease payments £000	Interest £000	Principal £000	Minimum lease payments £000	Interest £000	Principal £000
Less than one year	2,171	208	1,963	1,798	255	1,543
Between one and five years	921	35	886	877	136	741
More than five years	–	–	–	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	3,092	243	2,849	2,675	391	2,284

25. Deferred income tax liability

	31 December 2005 £000	31 December 2004 £000
Brought forward at start of period	4,838	6,366
Movement in period	(1,288)	(1,528)
	<hr/>	<hr/>
Carried forward at end of period	3,550	4,838

The net balance provided at the end of the current year is made up of a gross deferred tax liability of £3,816,000 (2004: £5,132,000) relating to the tax treatment of Lloyd's Syndicates, and a deferred tax asset of £266,000 (2004: £294,000) in respect of other timing differences.

26. Share capital

	31 December 2005 £000	31 December 2004 £000
Authorised:		
500,000,000 ordinary shares of 0.1p	500	500
	<hr/>	<hr/>
Issued, called up and fully paid:		
259,861,965 ordinary shares of 0.1p	260	–
258,595,400 ordinary shares of 0.1p	–	259
	<hr/>	<hr/>
	260	259

During 2005, 1,266,565 new ordinary shares of 0.1p were issued to the trusts administering the Group's share schemes.

581,565 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.

685,000 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 charges/(credit) per income statement:

	31 December 2005 £000	31 December 2004 £000
SIP charge*	263	–
UFSS charge**	175	–
ESOT credit	–	(4,452)
Non-executive Director option charges	–	308
	<hr/>	<hr/>
Total share scheme charges/(credit)	438	(4,144)

Notes

*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 2005 financial year, a maximum of 1,181,565 shares will be awarded under this scheme.

For maximum awards to be made, the Group's core profit must exceed budget by 11.5 per cent. 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.

**The Unapproved Free Share Scheme (the UFSS)

This scheme is open to managers within the Group (excluding current Executive Directors) with variable awards available.

Under the scheme, individuals receive an award of free shares at no charge. A total of 269 employees received awards under this scheme during June 2005. Staff must remain in employment until the vesting date (in June 2008) in order for the shares to vest. The maximum number of shares that can be awarded relating to the 2005 scheme is 685,000.

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.

If this initial hurdle is overcome, 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 approximately 15% per annum compound over the next three year period, assuming RFR remains at about 4.5%

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).

As noted in the financial review, the criteria for UFSS awards have been amended for the 2006 scheme. Further details are contained in the financial review.

Number of free share awards committed at 31 December 2005

	Awards committed*	Vesting date
SIP H105 scheme	581,565	September 2008
SIP H205 scheme	400,000	March 2009
UFSS 2005 scheme	<u>685,000</u>	June 2008
Total awards committed	<u>1,666,565</u>	

*Being the maximum number of awards expected to be made before accounting for expected staff attrition. Of the 1,666,565 share awards committed above, 1,266,565 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 £000	Share premium account £000	Capital redemption reserve £000	Retained profit and loss £000	Total equity £000
At 1 January 2004 – as restated	25	15,746	–	92,395	108,166
Retained profit for the period	–	–	–	90,506	90,506
Issues of share capital	251	(247)	–	–	4
Share issue expenses	–	(2,354)	–	–	(2,354)
Dividends	–	–	–	(51,996)	(51,996)
Share option charges	–	–	–	308	308
Cancellation of shares	(17)	–	17	–	–
As at 31 December 2004	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

28. Financial commitments

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

Operating leases expiring:	31 December 2005 £000	31 December 2004 £000
Within one years	434	–
Within two to five years	52	509
Over five years	2,820	1,465
Total commitments	3,306	1,974

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

	31 December 2005 £000	31 December 2004 £000
Expenditure contracted to	1,342	373

29. Related party transactions

There were no related party transactions occurring during 2005 that require disclosure. Details relating to the remuneration and shareholdings of key management personnel are set out in the remuneration report. Key management personnel are able to obtain discounted motor insurance at the same rates as all other Group staff, typically at a reduction of 20%.

Consolidated financial summary

Basis of preparation:

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

Figures for 2001 to 2003 have not been restated under IFRS, although have been reclassified into the formats used in these financial statements.

Income statement

	IFRS			UK GAAP	
	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Total motor premiums	533.6	470.4	371.6	333.0	284.4
Net insurance premium revenue	139.5	107.5	79.3	81.4	84.2
Other revenue	93.4	69.5	50.8	40.1	35.4
Profit commission	14.7	21.7	1.4	–	–
Investment and interest income	15.5	11.9	6.8	7.4	5.1
Net revenue	263.1	210.6	138.3	128.9	124.7
Net insurance claims	(100.5)	(74.3)	(43.5)	(52.6)	(63.9)
Total expenses	(40.9)	(28.9)	(34.4)	(28.5)	(28.4)
Operating profit	121.7	107.4	60.4	47.8	32.4

Balance sheet

	IFRS			UK GAAP	
	2005	2004	2003	2002	2001
	£m	£m	£m	£m	£m
Property, plant and equipment	4.6	3.3	5.8	6.7	7.3
Intangible assets	66.5	66.5	62.4	66.3	71.9
Financial assets	378.7	300.7	241.6	179.1	164.1
Reinsurance assets	54.2	66.1	56.7	53.4	106.4
Trade and other receivables	9.4	16.7	12.5	8.9	22.6
Cash and cash equivalents	150.2	119.3	70.1	63.0	33.2
Total assets	663.6	572.6	449.1	377.4	405.5
Equity	181.4	144.6	108.1	68.9	22.2
Insurance contracts	254.1	216.1	174.8	155.1	208.5
Financial liabilities	22.0	33.1	35.4	47.8	62.4
Provisions for other liabilities and charges	–	–	11.7	–	–
Deferred income tax	3.6	4.8	6.4	3.4	–
Trade and other payables	182.9	164.3	104.0	98.1	106.9
Current tax liabilities	19.6	9.7	8.7	4.1	5.5
Total liabilities	663.6	572.6	449.1	377.4	405.5

Parent Company financial statements

Parent Company balance sheet

	Note:	Year ended:	
		31 December 2005	31 December 2004 (Restated)
		£000	£000
Fixed asset investments	4	103,804	103,804
Current assets			
Debtors		4	2,519
Cash at bank and in hand		59,808	25,587
		<u>59,812</u>	<u>28,106</u>
Creditors – falling due within one year			
Loans	5	–	(11,455)
Other creditors	6	(17,709)	(5,297)
Accruals and deferred income		(216)	(258)
		<u>(17,925)</u>	<u>(17,010)</u>
Net current assets		41,887	11,096
Total assets less current liabilities		145,691	114,900
Creditors – falling due after one year			
Loans	5	(22,000)	(21,667)
Net assets		<u>123,691</u>	<u>93,233</u>
Capital and reserves	7		
Called up share capital	8	260	259
Share premium account		13,145	13,145
Capital redemption reserve		17	17
Profit and loss account		110,269	79,812
		<u>123,691</u>	<u>93,233</u>

Refer to note 1 for details on prior year restatement of balance sheet.

These financial statements were approved by the Board of Directors on 3 March 2006 and were signed on its behalf by:



Andrew Probert
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

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 (Related Party Transactions) 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 2004 comparative figures have been restated to take account of changes resulting from FRS 21 (Events after the balance sheet date), which require dividends to be recorded as a liability only when the distribution is approved. The adjustment has the effect of reducing creditors due within one year by £24.0m (being the final dividend declared in 2004, but not approved until 2005) and increasing retained earnings by £24.0m.

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 financial statements

4. Fixed asset investments

	31 December 2005 £000	31 December 2004 £000
Investments in subsidiary undertakings	103,804	103,804

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

5. Loans

Full details of the Company's debt are included in the consolidated financial statements earlier in this report at note 22. The note, whilst prepared under IFRS also conforms to UK GAAP.

6. Other creditors – due within one year

	31 December 2005 £000	31 December 2004 £000
Corporation tax payable	2,738	5,246
Amounts owed to subsidiaries	14,971	51
	17,709	5,297

7. 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 2004	25	15,746	–	74,943	90,714
Retained profit for the period	–	–	–	56,557	56,557
Issues of share capital	251	(247)	–	–	4
Share issue expenses	–	(2,354)	–	–	(2,354)
Dividends	–	–	–	(51,996)	(51,996)
Share option charges	–	–	–	308	308
Cancellation of shares	(17)	–	17	–	–
As at 31 December 2004	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

8. Share capital

Full details on the Company's share capital are included in the consolidated financial statements earlier in this report at note 26.

Independent auditor's report

to the members of Admiral Group plc

We have audited the Parent Company financial statements of Admiral Group plc for the year ended 31 December 2005, which comprise the Balance Sheet and the related notes. These Parent Company 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.

We have reported separately on the Group financial statements of Admiral Group plc for the year ended 31 December 2005.

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, the Directors' remuneration report and the Parent Company financial statements 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 Parent Company 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 Parent Company financial statements give a true and fair view and whether 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. We also report to you if, in our opinion, the Directors' report is not consistent with the Parent Company financial statements, if 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 read other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

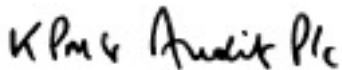
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements and the part of the Directors' 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 Parent Company financial statements, and of whether the accounting policies are appropriate to the 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 Parent Company 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 Parent Company financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005; and
- 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



KPMG Audit Plc
Chartered Accountants
Registered Auditor
Cardiff

3 March 2006