

Business review

UK Car Insurance

What we do

- We sell, administer and underwrite private car insurance in the UK through four brands – Admiral, Bell, Diamond and elephant.co.uk
- Our policies are distributed through direct channels – over the telephone, through our own websites and also increasingly via price comparison websites
- We are the third largest UK private car insurer, with around 1.6m vehicles insured, generating total premium of £690m. We estimate the combined market share of our brands is around 6%
- We also generate ancillary income from products and services that complement the motor insurance
- Our main locations are Cardiff, Swansea and Newport in Wales, though we also operate out of call centres in Nova Scotia, Canada and Bangalore, India

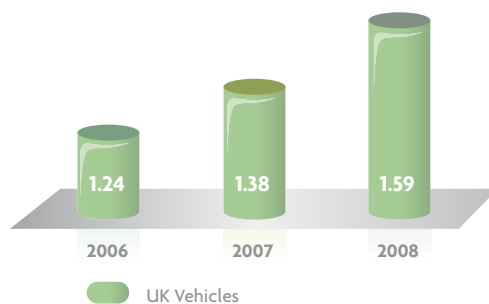
Our strategy

The strategy for our core car insurance business is relatively straightforward. We aim to manage our existing client base and future growth in order to maximise profitability over the medium to long term. At the same time, we endeavour to give excellent service to our customers, whilst providing a positive environment for our staff to work and develop in.

We measure customer and staff satisfaction through a number of key performance indicators (KPIs), some of which are outlined in the Customers and Employees sections below.

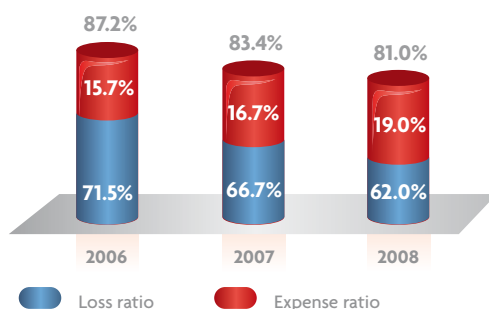
UK car insurance KPIs:

1) Vehicles insured and growth rate:



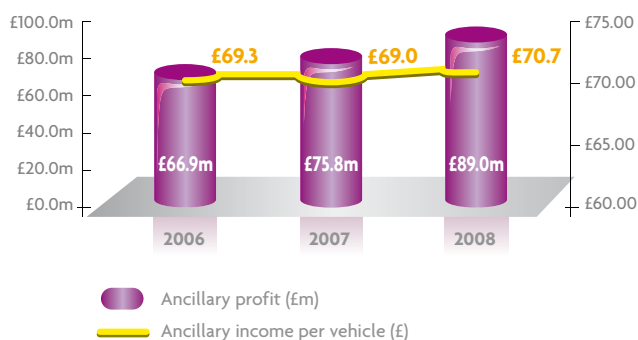
- Track record of consistent and significant growth
- Arises out of efficient marketing, focussed distribution and strong pricing activities
- Also boosted by innovative products, such as MultiCar and 10 month policies

2) Reported combined ratio:



- Consistent and significant outperformance against the market
- Loss ratio advantage arises from strong pricing and claims handling operations
- Expense ratio advantage is acquisition cost driven and also a focus on cost control

3) Ancillary profit and income per vehicle:



- Significant profit generated from non-underwriting activities
- Strong track record of introducing and growing non-underwriting income streams
- Continual development of products and services in response to changing customer needs and industry trends

Financial performance

Non-GAAP format income statement

£m	2006	2007	2008
Turnover* ¹	653.1	714.9	804.8
Total premiums written* ²	566.0	617.0	690.2
Net insurance premium revenue	144.9	140.2	161.9
Investment income	9.9	16.7	17.1
Net insurance claims	(107.1)	(97.0)	(105.1)
Net insurance expenses	(19.2)	(19.9)	(26.0)
Underwriting profit	28.5	40.0	47.9
Profit commission	19.9	20.4	34.7
Net ancillary income	66.9	75.8	89.0
Other revenue	5.8	6.0	8.3
UK car insurance result	121.1	142.2	179.9

Compound growth rate of 10%, year on year growth 12%

Significant increase in 2008 due to first recognition of income under improved arrangements

Compound growth rate 15%, year on year growth 17%

* 1 Turnover (a non-GAAP measure) comprises total premiums written and other revenue

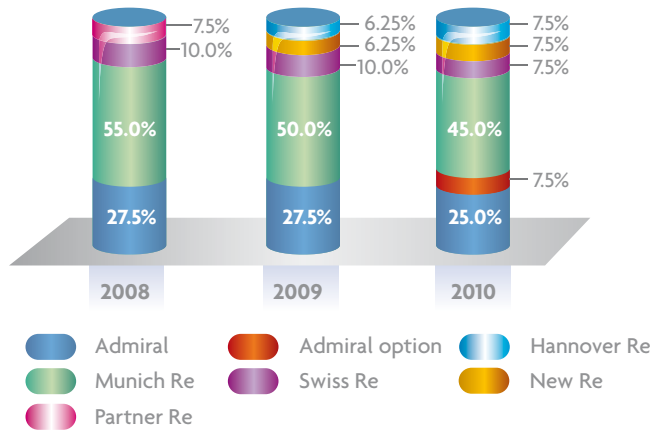
* 2 Total premiums written (non-GAAP) includes premium underwritten by co-insurers

Key performance indicators

	2006	2007	2008
Reported loss ratio	71.5%	66.7%	62.0%
Reported expense ratio	15.7%	16.7%	19.0%
Reported combined ratio	87.2%	83.4%	81.0%
Written basis expense ratio	15.8%	16.7%	16.7%
Claims reserve releases	£20.9m	£29.5m	£38.0m
Releases as % of premium	14.4%	21.0%	23.5%
Profit commission as % of premium	13.7%	14.6%	21.4%
Vehicles insured at year-end	1.24m	1.38m	1.59m
Ancillary income per vehicle	£69.3	£69.0	£70.7

Compound growth rate of 13%, year on year growth 15%

Co-insurance and reinsurance arrangements



For the 2008 year, Admiral underwrote 27.5% of the UK premium, up from 22.5% in 2007. 55% of the UK total is underwritten by the Munich Re Group (specifically Great Lakes Reinsurance (UK) Plc) through a co-insurance agreement, and 17.5% was reinsured to Swiss Re and Partner Re.

The nature of the co-insurance arrangement is such that 55% of all motor premium and claims for the 2008 year accrues directly to Great Lakes and does not appear in the Group's income statement. Similarly, Great Lakes reimburses the Group for its proportional share of expenses incurred in acquiring and administering the motor business.

The principal advantages of this significant use of co- and reinsurance are the reduced capital requirements and also reduced exposure to underwriting risk. This creates a high return on shareholder equity and strong cash flows, supporting regular dividends.

The profit commission arrangements in the agreements allow Admiral to participate to a large extent in the profitability of the total underwriting, and the most recent reinsurance contracts allow for a significant proportion of the profit to be remitted back to Admiral.

The underwriting arrangements for 2009 have changed compared to 2008: Admiral will continue to retain a net 27.5%, with Munich Re stepping down to 50% and the remaining 22.5% split between three reinsurers – Swiss Re (10.0%), Hannover Re (6.25%) and New Re (6.25%).

UK car insurance financial commentary

The UK business again grew strongly in 2008, increasing total premiums written by 12% from £617m to £690m and also growing the number of vehicles insured by 15% to 1.59m. A fall in average premiums accounted for the difference in the growth rates.

Admiral's premium rates actually increased by around 4% during 2008, but the continued growth in distribution via price comparison websites partly contributed to a fall in average premiums written. Also, the mix of the new business and renewal book has shifted very gradually towards slightly lower premium risks. Our own data on the competitiveness of Admiral's rates suggests that market price changes were broadly in line with our own.

The underwriting results of 2008 showed continued improvement, with a combined ratio of 81% coming in two points better than 83% for 2007. The private motor market reported a combined ratio (i.e. including the effect of reserve releases) for 2007 of 104% (115% before releases), meaning Admiral enjoyed a 21 point outperformance in reported results for that year. We do not expect a material change in the market's result for 2008.

Overall underwriting profit increased by 20% to £48m (representing just less than one quarter of total 2008 pre-tax profit).

The loss ratio improved to 62.0% from 66.7%, partly reflecting a larger impact resulting from prior year reserve surplus releases (positively contributing 23.5% in 2008 v 21.0% in 2007), but equally the 'pure year' ratio (i.e. the loss ratio without the benefit of releases) also improved, to 85.5% from 87.7%, reflecting better claims experience in the 2008 calendar year compared to 2007.

On the Group's own underwriting, we continue to reserve initially on a conservative basis, above actuarial projections of ultimate outcomes. This results in a significant margin being held in claims reserves to allow for any unforeseen adverse development in open claims. This creates a position whereby Admiral expects to be able to consistently make well above industry average reserve releases.

In addition to these releases, there is a significant amount of revenue not yet recognised arising from profit commissions earned on the premiums that Admiral does not underwrite itself. Proportionally these balances have become much more significant at the end of 2008 and consequently we now consider it more appropriate to consider these two parts together when we determine the quantum of reserve releases. We seek to achieve a consistent level of overall prudence.

The expense ratio increased to 19.0% from 16.7% in 2007. Part of the increase results from an accounting impact arising from Admiral retaining more of the 2008 premium (27.5%) than 2007 (22.5%). A further element of the increase arose due to the commission structures of the quota share reinsurance contracts. On a like for like basis, the expense ratio for 2008 was in line with 2007.

Aside from the underwriting result for Admiral's own account, another notable feature of the 2008 income statement is the significant increase in profit commission income (up 70% to £34.7m). This results from a number of factors, including growth in the overall level of premium written; a higher percentage of business co-/reinsured in 2007 than previous years and continued improvement in reported loss ratios for previous years. The main contributor however was the significantly improved profit commission terms to Admiral on co-/reinsurance contracts for the 2007 year and beyond. We recognised the first profit commission income on this year during 2008.

The new quota share contracts which came into effect in January 2009 (with Hannover Re and New Re) include even more favourable terms for Admiral.

Net income from ancillary products and services has for some time been a key source of profit for the Group, and 2008 was no exception. Ancillary profit increased by around 17% to £89.0m from £75.8m. Most of the growth came by way of an increase in the number of vehicles insured (+15%), whilst there was also a modest increase in the income per vehicle (£70.70 v £69.00).

Ancillary income

A large number of income streams combine to form what is known as 'ancillary' income. Most are products or services that complement the core car insurance product (including a number of insurance products that are not underwritten by Admiral). A portion of the total is discretionary.

Although Admiral does not underwrite all the car insurance generated for its own account, it does retain all ancillary income generated.

The major sources, along with a broad categorisation are set out below:

Discretionary – Breakdown insurance, personal accident insurance, car hire cover, zero exclusion payment protection insurance

Other – Legal expenses insurance, administration fees

(Discretionary is defined as a product or service in respect of which a customer makes a decision whether or not to purchase.)

Further detail on investment income is set out below.

Regulatory environment

The UK car insurance business operates mainly under the regulation of the UK Financial Services Authority, and also, by virtue of a Gibraltar based insurance company, under the Financial Services Commission in that territory.

The FSA regulates two Group companies involved in this business – EUI Limited (an insurance intermediary) and Admiral Insurance Company Limited (AICL, an insurer), whilst the FSC regulates Admiral Insurance (Gibraltar) Limited (AIGL, also an insurer).

All three companies are required to maintain capital to levels prescribed by the home regulator, and all three maintained significant surpluses above those required levels throughout the year.

Treating Customers Fairly (TCF):

FSA regulations require regulated companies to treat their customers fairly, and this has been an area of significant focus in recent years. Although the Group had a TCF culture along with management information in place prior to the FSA initiative, improvements have been made to the management information used in the business, and we report some of the data in the Customers section below.

Risks and uncertainties

There are a number of factors which could affect the business' future results and prospects and the main ones are set out below. This is not intended to be a comprehensive list of all risks and uncertainties and the business will always be impacted by its competitors and other factors.

The business may be affected by difficult economic conditions

There is a risk that the recession in the UK could adversely affect the UK car insurance business in a number of ways:

- a) Ancillary income – an element of this income stream is discretionary, and whilst it could be argued that protection products are more important in difficult economic conditions, consumers could choose to reduce the level of non-mandatory products, which would impact the Group's ancillary income
- b) Claims – there is a risk of increased fraudulent claims, which would affect the Group's underwriting results and also profit commission income

The Group's insurance business faces inherent claims risk

As with any insurance business, the value of future claims may be different to current expectations for a number of reasons, many of which are outside the Group's control. These could include claims frequency shocks resulting from bad weather, higher claims inflation resulting from legislative changes. Adverse changes would affect the Group's underwriting results and profit commission income.

The business faces operational risk

Operational risk arises across the business in a variety of forms, and if business processes do not function effectively and efficiently, losses may arise. Potential risk areas include: Claims handling; internal or external fraud; computer system failure. The Group has a well developed risk management framework, including a robust set of internal controls, although these can not be relied upon to completely eliminate the risk of loss.

The business faces regulatory risk

The business is subject to a range of regulatory supervision and should any of it change significantly, this could materially affect the Group's operations and the products offered.

Counterparty and other financial risks are discussed in the financial risks section in the notes to the accounts.

Price comparison

What we do

- Confused.com is an insurance and financial services comparison website
- Operating in the UK, the site allows consumers to compare a range of general insurance and financial services products across price and policy benefits
- Confused's income is primarily generated via commissions paid by the product provider on the sale of an insurance policy or financial product
- We are the UK's leading car insurance comparison website measured by sales generated. Confused delivered over 13 million insurance quotes in 2008

Strategy

Confused's strategy is to become the comparison website of choice in the UK for financial products, and to maximise the value to the business of each customer relationship.

The Group also plans to capitalise on our experience in the UK by establishing new price comparison operations overseas.

Success in delivering against this strategy is measured by a wide range of key performance indicators, including quote volumes, conversion rates, sales, income per sale and cost per sale.

Financial Performance

Non-GAAP format income statement

£m	2006	2007	2008
Revenue:			
Motor	34.3	58.8	52.9
Other	4.2	10.3	13.2
Total	38.5	69.1	66.1
Operating expenses	(15.4)	(32.4)	(40.5)
Operating profit	23.1	36.7	25.6

Compound growth rate of 24%, year on year decline 10%

Compound growth rate of 71%, year on year growth 28%

Price comparison financial commentary

Competition in UK price comparison intensified further during 2008, evidenced by substantial increases in media spends by the major players. The market also saw a number of new entrants.

At the same time, the size of the market (although somewhat difficult to measure precisely) also grew significantly. We estimate the number of car insurance policies sold through price comparison websites grew by nearly 60% during 2008 to a point where the channel now accounts for around 40% of all new business sales.

One of the main effects of the increased competition has been to remove a large amount of the market's profitability – as business becomes significantly more expensive to acquire, against only a modest increase in income per sale. As a dominant and highly profitable player in the market, Confused's results inevitably suffered against this backdrop.

In spite of the challenging market conditions, Confused achieved an operating profit of £26m, and an operating margin of 39%.

Confused did generate notable growth in its activities beyond car insurance. Household insurance and utilities were particularly strong and contributed to growth in other revenue of 28% (to £13.2m).

At the end of 2008, Confused launched its rebuilt website, which makes the quote process faster and easier for customers. It has also launched a new TV advertising campaign early in 2009, which led to January being a record month for quotes.

The Group is also currently in the process of developing a price comparison business to launch in Spain, and Rastreator.es (based in Madrid) is expected to start operating there in the first half of 2009.

Regulatory environment

As an insurance intermediary, Confused is regulated by the UK FSA and is required to comply with all relevant rules, including those on solvency capital.

The price comparison industry in the UK has attracted a lot of attention from a number of parties over the past year or two, including a review by the FSA. Confused contributed willingly to the review and actively responded to the issues raised by the regulator during its course.

Confused tries always to act in the best interests of its users. Price and benefit comparison in motor and home insurance have made what was a very time consuming process substantially easier for consumers, and in general the new industry has contributed to better decisions being made by consumers.

Risks and uncertainties

This section sets out a list of risks which could affect the business' future results and prospects. Again, it is not intended to cover all risks and uncertainties.

The business may be affected by difficult economic conditions

Recession in the UK potentially offers an opportunity for Confused as more and more consumers use comparison websites to search for the best deals. It could also, however, pose a threat with fewer new car and home purchases possibly leading to fewer price searches than would otherwise arise. As yet, Confused has seen little evidence of this.

The industry may continue to attract new entrants and fierce competition

As noted above, the price comparison market in the UK, especially in car insurance, has been extremely competitive over the past two years, leading to a position where the market overall is currently estimated to be unprofitable. Although these might not appear to be ideal conditions to attract new players, it remains possible that significant new companies might enter the market, further increasing competition.

The business faces regulatory risk

Price comparison has attracted attention from a number of bodies, including the FSA and it is possible that the industry becomes subject to more stringent regulation that is currently in place. Any such change in regulation might adversely affect Confused's business.

Counterparty and other financial risks are discussed in the notes to the accounts.

Non-UK car insurance

What we do

- The Group has three direct car insurance operations outside the UK – Balumba.es (based in Seville) launched in Spain in October 2006; AdmiralDirekt.de (Cologne) started trading a year later in October 2007 and more recently, ConTe.it (Rome) launched in May 2008
- The business models of each are based closely on the UK car insurance operation – distribution is through direct telephone and internet channels, and there is significant reinsurance support for each operation
- The combined operations insured 73,700 vehicles at 31 December 2008 and generated £26m of premium for the year

Our strategy

As we note above, a key element of the Group's strategy is to take what the Group does well in the UK and use this knowledge to establish profitable, sustainable businesses overseas. We do not expect to do this quickly and we do not target a set market share or revenue within fixed timeframes.

We expect our new car insurance operations to be relatively small, and loss making in their early years (how long will depend on the market), until the new business is established and scale is achieved. Use of proportional reinsurance across the three markets (65% of risks and expenses are underwritten by Munich Re) helps reduce the financial impact in the early years

The Group Board has also identified the US and France as further key markets in which it plans to launch. Current expectation is for a launch in the US sometime in late 2009 or early 2010, and in France some time after that.

Our overseas strategy is summarised in the table below, where we also comment on our progress to date.

Objective

- 1) Establish new, direct car insurance businesses in our five selected countries outside the UK (Spain, Germany, Italy, USA and France)
- 2) Develop each new operation into a profitable, sustainable business
- 3) Ensure financial impact on Group is minimised

Progress

- Spain, Balumba.es, October 2006
 - Germany, AdmiralDirekt.de, October 2007
 - Italy, ConTe.it, May 2008
 - USA, operation being developed, launch expected late 2009/early 2010
 - France, market being researched, launch date to be determined
- All three trading operations remain in early stages and as would be expected, none have yet reached profitability.
 - 65% reinsurance support secured for all three existing businesses
 - Average pre-launch costs < £1m
 - The Group takes a 'slow and steady' approach to expansion and aims to build sustainable businesses before pushing for significant growth

Financial performance**Non-GAAP format income statement**

£m	2006	2007	2008
Turnover	0.6	16.5	29.7
Total premiums written	0.6	14.2	26.0
Net insurance premium revenue	-	2.0	7.9
Investment income	-	0.1	0.7
Net insurance claims	-	(2.8)	(9.5)
Net insurance expenses	(0.2)	(1.8)	(6.2)
Underwriting result	(0.2)	(2.5)	(7.1)
Net ancillary income	0.1	1.8	2.8
Other revenue	-	-	0.2
Non-UK car insurance result	(0.1)	(0.7)	(4.1)

Year-on-year growth 83%

Note - Pre-launch costs excluded

Key performance indicators

	2006	2007	2008	
Loss ratio	-	141%	120%	
Expense ratio	-	91%	78%	
Combined ratio	-	232%	198%	
Vehicles insured at year-end	2,200	46,900	73,700	Year-on-year growth 57%
Ancillary income per policy	-	£45	£47	

Co-insurance and reinsurance arrangements

Underwriting arrangements for Balumba, AdmiralDirekt and ConTe are similar, with the Munich Re Group underwriting 65% of the risks in each. Admiral retains the remaining 35%.

Such strong reinsurance support is especially valuable in start up operations, as Munich Re also shares the (post-launch) expenses incurred. The contracts are long-term in nature and are designed to run for eight years. The reinsurer does have the option for an early exit, typically after four years, but not before.

The contracts contain profit commission clauses that allow Admiral to participate in the profitability of the business written by Munich Re, when that business reaches profitability on a cumulative basis.

Non-UK car insurance financial commentary

The non-UK operations remain a relatively small part of the overall Group result, with total premium accounting for less than 4% of the Group's total. Net insurance premium revenue (net earned premium) amounted to just under £8m.

Balumba:

Balumba accounted for the majority of the non-UK volume, contributing 80% of the total premium and 75% of the insured vehicles. Its net insurance premium revenue totalled £7.0m. The key focus at Balumba during 2008 was improving the loss ratio, and whilst significant progress has been made in this area, management recognise that more improvement is needed. The rate of growth has been deliberately slowed whilst work continues in this area.

Balumba loss ratio development

	Underwriting year	
	2007	2008
After 12 months	137%	102%
After 24 months	135%	-

Numerous measures have been implemented to address the loss ratio, including:

- Rating increases
- Improvements to the claims function (including resourcing, enhancing the garage network)
- Underwriting control improvements
- Joining the Spanish "knock for knock" claims system

The reported loss ratio for 2008 improved to 117%, from 141% in 2007. The overall loss for the period totalled £1.2m (up from a loss of £0.7m in 2007).

Regulatory environment

The Group has taken advantage of the ability to passport UK regulatory permissions into Europe in structuring the three new businesses. This means that whilst all three have to comply with local rules and regulations, the main regulator of each is either the FSA or the Gibraltar FSC, regimes that the Group is very familiar with. Capital requirements are also set by the UK and Gibraltar regulators.

Risks and uncertainties

Entering new markets

The Group is starting new businesses from scratch in relatively unfamiliar markets. There is a risk that one or more of these will take longer than planned to become profitable, or even that one or more will not become profitable.

The Group's approach to expansion is a 'slow and steady' one, aiming to establish profitable and sustainable businesses before taking on significant amounts of business. This means that the financial impact of start-up operations is not excessive. Reinsurance support also helps in this regard.

Insurance, operational and regulatory risks

The non-UK businesses face similar risks to those noted above in respect of the UK car insurance operation. Refer to page 20 for details.

Also refer to the section on financial risks for details on credit risk (page 30)

Other Group Items

Gladiator

Established in 1998 and based in Swansea, Gladiator is a commercial vehicle insurance broker offering van insurance and associated products, typically to small businesses. Distribution is via telephone and internet (including price comparison websites).

Non GAAP income statement and key performance indicators

£m	2006	2007	2008	
Revenue	5.9	7.5	9.5	Compound and year-on-year growth 27%
Expenses	(3.9)	(5.5)	(6.7)	
Operating profit	2.0	2.0	2.8	
Operating margin	34%	27%	29%	
Customer numbers	42,300	62,200	84,900	Compound growth 42%, year-on-year growth 36%

Gladiator has successfully grown its market share of the UK van insurance market over the past few years, and achieved a significant increase in profits in 2008 compared to 2007. A material amount of Gladiator's business is now distributed through price comparison websites, as this channel has become more important in the market.

Other income statement items**(Non-GAAP)**

£m	2006	2007	2008
Group net interest income	4.5	7.8	6.6
Share scheme charges	(0.9)	(3.0)	(5.9)
Expansion costs	(0.5)	(1.4)	(0.8)
Other central overheads	(0.8)	(1.3)	(1.6)

Interest income declined in 2008 compared to 2007 largely due to significant falls in the UK base interest rate in the last quarter of the year.

Share scheme charges have continued to increase, as additional awards are made under the Group's schemes, and the share price on which the charges are based has also increased over time. 2008 was also the first period in which existing awards vested. Refer to note 25 for further detail on the Group's share schemes.

Expansion costs relate to pre-launch expenses incurred in the development of the international businesses.

Investments and cash**Investment strategy**

The Group's conservative approach to investment was maintained during 2008, with no change in overall strategy, and little change in where funds were invested.

The key element of Group-wide investment strategy is capital preservation, with additional priorities focusing on low volatility in returns and high levels of liquidity. The majority of insurance funds continue to be invested in AAA-rated money market funds, offering cash-like returns, same day liquidity, low risk and good diversification.

Cash and investments analysis

	31 December 2008				
	UK car insurance £m	Price comparison £m	Non-UK car insurance £m	Other £m	Total £m
Liquidity money market funds	287.3	-	23.5	-	310.8
Long term cash deposits	100.0	-	-	-	100.0
Short term cash deposits	4.0	-	-	-	4.0
Cash	46.4	15.6	18.2	60.1	140.3
Total	437.7	15.6	41.7	60.1	555.1

31 December 2007					
	UK car insurance £m	Price comparison £m	Non-UK car insurance £m	Other £m	Total £m
Liquidity money market funds	335.6	-	-	-	335.6
Long term cash deposits	-	-	-	-	-
Short term cash deposits	16.4	11.0	-	18.0	45.4
Cash	63.7	4.9	10.0	31.8	110.4
Total	415.7	15.9	10.0	49.8	491.4

The Group generated total investment and interest income of £24.4m in 2008, similar to the £24.6m returned in 2007 despite an increase in the value of invested funds and cash in 2008 over 2007. The significant fall in interest rates in the UK and Europe towards the end of 2008 explains this anomaly. The average rate of return on the Group's invested sterling funds in 2008 was around 5.1%, compared to 5.6% in 2007.

The nature of the investments means that returns are closely linked to central bank target interest rates. The significant cuts in these to date (along with expectation of further cuts) will mean that the Group's investment and interest income is expected to be materially lower in 2009.

The Group continues to believe that capital preservation and low volatility are the most critical investment objectives, and there are no current plans to materially change investment strategy.

The Group continues to generate significant amounts of cash, enabling the Group to pay a large portion of after-tax profits to shareholders in the form of dividends. No debt financing is required to fund these payments.

£m	2006	2007	2008
Operating cash flow, before transfers to investments	183.8	213.2	251.6
Transfers to financial investments	(1.1)	(76.8)	(76.0)
Operating cash flow	182.7	136.4	175.6
Tax and interest payments	(41.9)	(49.8)	(57.0)
Investing cash flows	(6.0)	(5.4)	(11.3)
Financing cash flows	(93.6)	(117.1)	(128.7)
Foreign currency translation impact	(0.1)	0.4	9.9
Net cash movement	41.1	(35.5)	(11.5)
Net increase in cash and financial investments	42.8	42.5	63.8

Underwriting only a minority of the insurance generated means that the Group has less of its cash tied up to support claims reserves than traditional insurers. Cash generated from non-underwriting activities tends to match profits recognised.

Net cash declined in both 2007 and 2008, though this is offset by large flows into financial investments. All years show net increases in combined cash and financial investments.

The main items contributing to the significant operating cash inflow are as follows:

£m	2006	2007	2008
Profit after tax	103.7	127.4	144.9
Change in net insurance liabilities	19.8	11.7	37.6
Net change trade receivables and liabilities	10.6	10.7	(5.8)
Non-cash income statement items	5.1	8.4	17.3
Tax and net interest expense	44.6	55.0	57.6
Operating cash flow, before transfers to investments	183.8	213.2	251.6

Other financial items

Taxation

The taxation charge reported in the income statement is £57.6m, which equates to 28.4% of profit before tax.

Earnings per share

Basic earnings per share rose by 13% to 54.9p from 48.6p. This rate of growth is higher than the pre-tax profit growth (11%) due to the change in the rate of UK corporation tax from April 2008 (from 30% to 28%).

Dividends

The Directors are proposing a final dividend for 2008 of 26.5p. In line with the Group's dividend strategy, this comprises a 12.4p normal element and a 14.1p special distribution, representing an increase of 14% on the final dividend paid in respect of 2007.

The payment date is 27 May 2009, ex-dividend date 6 May and record date 8 May.

The total dividend for 2008 (52.5p) is 20% higher than the 43.8p distributed in respect of 2007.

Capital structure, financial position

The Group manages its capital to ensure that all entities within the Group are able to continue as going concerns and also to ensure that regulated entities comfortably meet regulatory requirements. Excess capital above these levels within subsidiaries is paid up to the Group holding company in the form of dividends on a regular basis.

At Group level, capital is managed in conjunction with dividend policy. As noted above, the policy is to make distributions after taking into account capital that is required to be held for regulatory purposes, for expansion activities and also holding a further prudent buffer for unseen events. This policy gives the Directors flexibility in managing the capital requirements of the Group.

The Group's capital continues to be all in equity form, with no debt.

Other than as stated below, as far as the Company is aware, there are no persons with significant direct or indirect holdings in the Company. Information provided to the Company pursuant to the Financial Services Authority's (FSA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website.

At 31 December 2008, the company had received notifications in accordance with the FSA's DTRs of the following notifiable interests, in the voting rights in the company's issued share capital:

	Number of shares	%
Munich Re	39,579,400	14.96%
Blackrock Inc	12,872,216	4.87%
Capital Group	12,766,870	4.83%
Fidelity	12,771,422	4.83%
Newton Investment Managers Ltd	10,547,511	3.99%
Jupiter Asset Management Ltd	9,675,157	3.66%
Legal & General Group plc	7,950,924	3.01%

The interests of Directors and Officers and their connected persons in the issued share capital of the company are given in the Remuneration Report.

Financial risk

Detailed analysis of the financial risks faced by the Group is set out in the notes to the accounts, starting at page 62.

Employees

We believe the happier our staff are, the better they will do their job. This means that we constantly work to improve our staff's working environment. We also try to make sure that the working day for our staff is as fun and rewarding as we can make it.

It is important for employees to understand the Company's goals and objectives. We work to communicate this in as many ways as possible. As an example, we encourage staff to attend our Annual Staff General Meeting (SGM). The SGM is arranged to enable staff to hear the views of the executive directors and some of the non-executive directors on a wide range of subjects including the performance of the Group and the market within which we operate; the experiences of non-executive directors within and outside of the Group; and the Group's share plans. We believe that employing well-informed staff will improve motivation and make Admiral a better place to work.

The best measures of our staff's assessment of their working environment are the surveys that they have completed. Following independent measurement by the organisations involved Admiral has received the following awards:

The Sunday Times 100 Best Companies to Work For – Admiral has been included in all nine years of the publication (one of only two Companies to achieve this) and was ranked 37th overall in the last list published.

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Position	32	42	46	60	20	20	21	57	37

The Financial Times 50 Best Workplaces in the UK – we have been included in all five years of the publication.

	2003	2004	2005	2006	2007	2008
Position	7	16	17	8	Top 10*	10

*Positions were not ranked in 2007

The Group also carries out its own annual internal web-based survey both to collect employees' views on what it is like working for Admiral and to address areas where issues are raised. The survey includes questions relating to a wide range of topics including staff morale, staff development, management, communication and social aspects of working at Admiral.

The table below sets out a number of key results from the survey over the last three years and clearly shows that staff feel morale is high within the Company and their own departments and that management listen to their issues. They also feel that Admiral is truly customer oriented and treats its customers fairly.

Survey question	2006	2007	2008
Morale is high within Admiral	76%	89%	90%
Morale is high in my department	87%	82%	90%
Taking everything into account I am happy at Admiral	92%	87%	90%
Every effort is made to understand the opinions and thinking of staff	74%	73%	86%
I am proud to be associated with Admiral	91%	91%	94%
I would recommend Admiral as a good place to work	90%	90%	94%
I am more likely to stay at Admiral because of the share schemes	69%	71%	71%
Admiral is truly customer oriented	90%	88%	90%
Admiral treats its customers fairly	86%	84%	87%

The survey results are analysed by department and each manager is expected to share the survey results with their team, explore issues and concerns, and then make recommendations to address them.

Customers

The Group has always regarded its customers as central to the success of the business. As at 31 December 2008 the Group had 1.75m customers, up 17% from 1.49m the year before. We focus on open communication with our customers providing high standards of service at all points in the customer cycle from new business, customer service, renewals, claims and complaints. The Group's commitment to quality is demonstrated through its Quality Measures Programme.

Everyone in the organisation has a part to play in ensuring a high standard of quality. Every department in the Group has a unique set of quality measures to gauge performance. The measures are updated each year to challenge staff to make continual improvements. The programme is reported every month in the internal company magazine and awards are presented each year for the best departments. The annual measures bonus provides a financial incentive for staff to drive incremental change throughout the business and was paid out in full for the 2008 year.

As well as this programme, quality representatives throughout the Group monitor the service the Company provides through the thousands of comment forms it receives back from customers every month. By listening to customer comments, Admiral can improve the quality of service it provides.

The Group's Compliance department has completed a Treating Customers Fairly Management Information pack pulling together specific measures that demonstrate that we are consistently treating our customers fairly. A detailed report is produced each month together with a summary providing details of measures that have been graded red. The report is discussed at the The Risk Management Committee (RMC - see Corporate Governance section of this report) and process or behavioural changes agreed where appropriate.

The table below contains some of the key measures from the TCF report:

TCF Measure	June 2008	December 2008	Average June-December 2008
Complaints per 1000 vehicles	1.14	0.95	1.14
% FOS complaints rejected	50%	63%	78%
Customer service call answer rate	93%	96%	95%
Claims call answer rate	97%	90%	92%
Comment form score	9.28	9.28	9.25
% Customer who would renew following a claim	90%	93%	93%

There are over 150 individual TCF measures, each of which is benchmarked to allow the RMC to take an overall view as to whether customers are being treated fairly. This has been in place since July 2008 and the average red grades amounted to 0.51%. 91% of the measures throughout the period achieved a green grade.

Each quarter the Central Complaints Department produce a report analysing the complaints received and causes. The report provides a summary of the root causes of the complaints and actions taken to reduce the risk of complaints due to specific procedures or staff behaviour.

Community

Admiral has adopted a charitable giving policy, which supports the local communities in which its employees live and work. During 2008, 211 local organisations were helped with a total donation of £42,791.

Financial support is an important part of our commitment to our local communities and our customers. We contribute both as a Company and as individuals through a variety of schemes including a matching scheme whereby the Company matches funds raised for charity in the workplace.

Environment

The Group's impact on the environment stems from its use of resources to run its offices in Cardiff, Swansea and Newport and its overseas branches in Spain, Germany, Italy and Canada. The Group does not own the properties that it occupies and is, therefore, reliant upon the cooperation of the managing agents of the properties to make changes that could reduce the consumption of energy and water. The figures quoted include all of the Group's offices.

The Group Company Secretary is responsible for the Group's approach to its impact upon the environment.

The Group is committed to:

- Raising and maintaining staff awareness of, and ensuring that employees are actively engaged in, activities to reduce the impact of the Group's operations on the environment.
- Measuring, monitoring and reporting on the key aspects of the Group's environmental performance and regularly reviewing progress to reduce the amount of resources consumed per employee.
- Reporting key environmental performance indicators, taking into account the ABI's Guidelines on Responsible Investment Disclosure and guidance provided by the Department for Environment, Food and Rural Affairs (Defra).

Impact Area	Usage 2007	Consumption measure 2007	Usage 2008	Consumption measure 2008
Energy ('000 Kwh)	6,997	321 Kwh/m ²	5,670	221 Kwh/m ²
Green Energy ('000 Kwh)	0	N/A	1,844	72 Kwh/m ²
CO ₂ (tonnes)**	4,033	1.71 tonnes per employee	3,497	1.06 tonnes per employee
Water (m ³)	14,836	6.28 per employee	19,859	6.03 per employee
Waste management:				
Total waste	239,139 KG		340,926 KG	
Waste to landfill	128,278 KG		176,596 KG	
Waste recycled	110,861 KG	46% recycled	164,330 KG	48% recycled
Travel:				
Car miles	279,920	118 miles per employee	272,656	83 miles per employee
Rail miles	213,357	90 miles per employee	405,630	223 miles per employee
Air Miles	1,120,537	474 miles per employee	1,789,535	543 miles per employee

The figures above are for the Group's worldwide operations.

** The Carbon emissions have been calculated using the Carbon Trust Calculator which uses the emissions factors published by Defra in April 2008.

Energy

The main source of the Group's carbon emissions is the consumption of electricity and gas for its two main UK offices. The Cardiff head office is the older and least efficient, built in the 1960s and housing just over 1,200 people. The Swansea office, housing 1,100 staff was built in 2006 and is therefore a much more efficient building. The other UK offices are located in Cardiff and Newport.

During the last quarter of 2007 electricity supply to the Cardiff office was switched to 'Green electricity' which has been excluded from the carbon emission calculation in the table above and has led to a significant reduction in the Group's absolute CO₂ emissions.

Environmental Risks

The Group has reviewed the risks facing its business operations as a result of climate change. The volume of motor insurance claims for any given portfolio of business is to a large degree dependent upon weather conditions. The risk associated with climate change is the potential change to claims frequency through the impact of more extreme weather patterns.

It is virtually impossible to model the potential impact of climate change on claims frequency as the actual climate change induced outcome for the UK is unknown. However, the Group does assess the potential costs associated with a number of disaster scenarios such as a major storm in the South East, major flood on the East Coast, and a complete flooding of the Thames in the London area. The Group purchases reinsurance cover to provide significant protection in the event of catastrophes of this nature.