

“Admiral has been able to create 326 new jobs in Wales over the past 12 months.”

Alastair Lyons, CBE



Chairman's statement

Amid all the market turbulence it is pleasing to be able to report another year of sustained growth in turnover, profits, and dividend. Also that in the gloom of widespread job losses Admiral has been able to create 326 new jobs in Wales over the past 12 months, not to mention 290 posts outside the UK. 2008, therefore, marked another year of successfully advancing our strategy, being to grow our share of the UK private motor market and exploit the knowledge, skills and resources attaching to our core business to promote our expansion overseas and our position in price comparison.

We estimate that we now account for some 6% of the UK private motor market covering 1.6 million vehicles, 15% up on December 2007 and placing us third in terms of premium in this market. Since the business floated in September 2004 our vehicle count has grown by over 12% p.a. compound, testament to the relevance of our customer proposition; the effectiveness with which the business has seized the opportunities presented by the internet and the rise of aggregators; and continuing innovation such as Admiral MultiCar. This growth in our book in 2008 was accompanied by a 17% increase in profit derived from ancillary products and services.

The upward trend in pricing that started to emerge a year ago has been sustained during 2008. As Henry Engelhardt discusses more fully in his CEO's report, we increased our rates by around 4%, generally in line with the market as a whole, whilst claims frequency continued to fall. Our established reserving methodology under which we make a prudent assessment of claims in their early stages engendered further significant releases as these prior year claims aged.

In my statement last year I underlined the rapid growth of competition in car insurance price comparison.

With another enormous increase in marketing expenditure in this sector, it was inevitable that the market share held historically by Confused would reduce, albeit that the overall market has continued to expand rapidly, growing by an estimated 60% in 2008. In determining how much to commit ourselves we sought to balance our margin of profitability and defence of our leadership position. Across 2008 as a whole Confused's turnover held broadly steady, being down 4% on the year, but at a significantly higher marketing cost such that Confused profits fell from £37 million to £26 million. Price comparison now accounts for 38% of the private motor market, up from 24% in 2007, and shows no sign of stopping its growth which is good news both for Confused and for the Admiral brands, for which it represents the principal source of new business. We would, however, anticipate that this sector will remain highly competitive whilst some players continue to be prepared to incur losses to attempt to build share.

Having launched Balumba.es in Spain in 2006 and AdmiralDirekt.de in Germany in 2007, 2008 was the turn of ConTe.it in Italy at the end of May. It has always been the Admiral way to learn by doing, taking relatively small and inexpensive steps to test different approaches and identify the best way forward. Our expansion overseas is central to our long-term strategy of growth of our direct private motor franchise, and this will require sustained investment until we achieve the scale to support the infrastructure necessary in each country, and have selected the best model to write profitable business. In this context we congratulate our Spanish team on bringing their loss ratio at month 12 down from 137% for the 2007 underwriting year to 102% for 2008 whilst growing their book 18% to 55,000 customers by the year-end. Our teams in Germany and Italy are both at an early stage of determining how best to penetrate their respective markets, and we now also have a team working in Richmond, Virginia towards a launch in the US.

With a very prudent investment philosophy, only employing cash deposits or money market funds, it was inevitable that the sharp fall in general interest rates should have had an equivalent impact on our investment income. 100% of our, and our policyholders', money was, however, secure.

The result for the year was a pre-tax profit of £202.5 million, an 11% increase on 2007 off a 13% growth in total written premiums.

As a principle we return all available surpluses to shareholders after taking into account our required solvency, our overseas expansion plans, and a prudent margin – currently £25m – against contingencies. We, therefore, commit to pay a standard normal dividend that has grown in line with our growth in profits based on a 45% pay-out ratio, and pay whatever remains as available surplus as a special dividend which will, therefore, fluctuate from year to year.

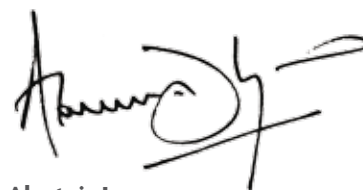
This year our normal dividend amounted to 24.7p per share, and our special to 27.8p per share, bringing to £220m the total we have declared as special dividends since flotation in September 2004, this being in addition to £215m normal dividends over the same period. Total dividends for the year, therefore, amounted to 52.5p per share, a 20% increase on last year, representing a yield of 6.1% based on the closing share price on 27 February 2009.

Our success reflects both excellent strategic leadership and first-class execution by our staff across all aspects of our operations. Our staff have been shareholders in Admiral for the last 9 years, initially under private equity ownership and now through the Free Share Schemes put in place at flotation. We see this alignment of the interests of our staff and our shareholders as fundamental to our success, and we are strongly of the view that there is a direct link between our staff being owners of the business and our having

been placed for 9 consecutive years amongst the Sunday Times Top 100 Companies to Work For in the UK. Our remuneration philosophy combines base salary and performance-related shares across our entire business and we are delighted that achievement in full of the objectives set for 2008 meant that eligible employees again realised the maximum award of £3,000 free shares under our Approved Scheme. The second 3-year period for the Discretionary Free Share Scheme significantly exceeded the performance conditions, qualifying the scheme to vest the maximum share entitlement under the individual awards.

Admiral is now one of the largest private employers in Wales and, as such, is a significant part of the local community. The contribution that the company has made to Wales was recognised by the award of an honorary CBE to Henry Engelhardt in April 2008, on which may I once again extend to him our hearty congratulations. We encourage our staff to work with local projects and we provided financial support during the year to such disparate events as the Admiral Cardiff Big Weekend offering 3 days of quality live music, and the South Wales Echo Community Champion Awards.

I would like to take this opportunity to extend the thanks of the Board to everyone who has contributed to another successful year – our staff at home and overseas; our Board, executive and non-executive; our suppliers; and above all our 1.7 million customers, whose satisfaction through great products and great service will provide the basis of our continuing success.



Alastair Lyons
Chairman