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The Gard Management Report

20th February 2004

Contents


Highlights

SUMMARY A strong financial result, further increases in tonnage and a key strategic investment in Gard Marine & Energy Limited.

FUNDS Total funds available to pay claims: USD 809 million (USD 675 million last year).

CONTINGENCY RESERVE The contingency reserve increased by USD 86 million to USD 328 million.

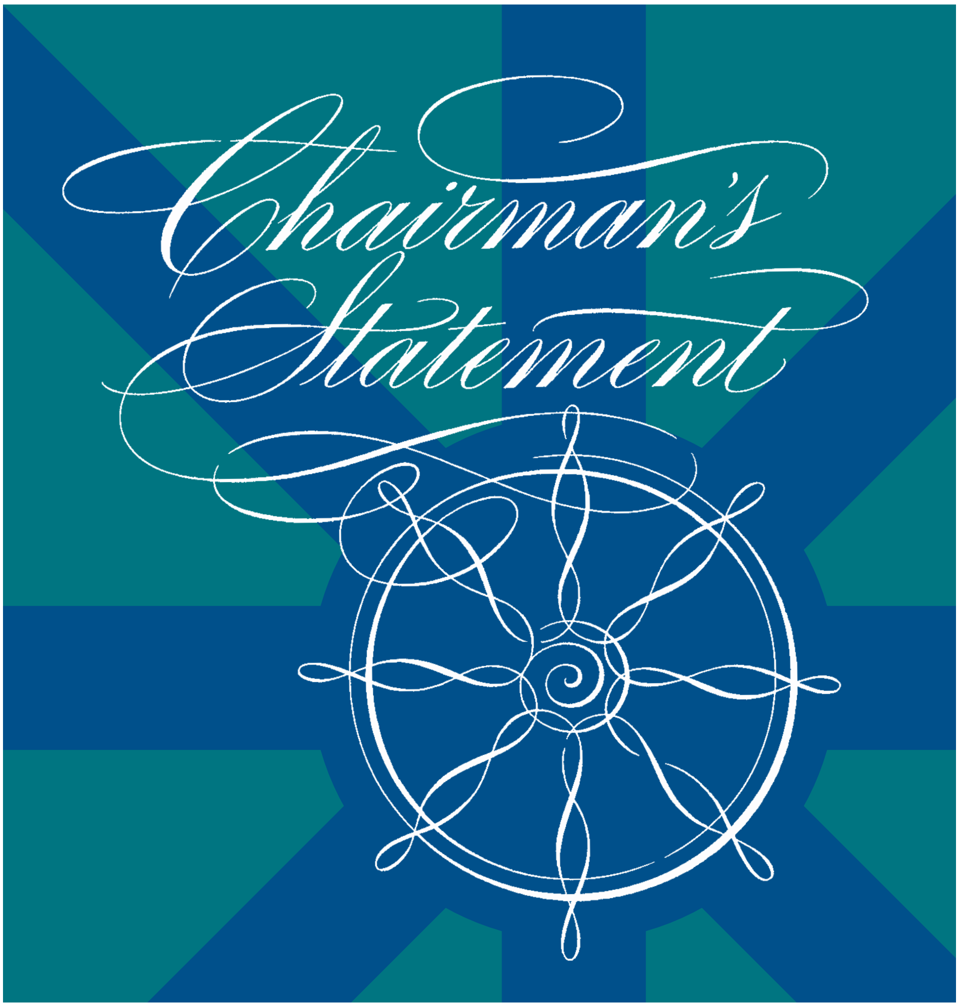
DEFERRED CALLS The full deferred call of 25 per cent has been ordered for the 2003 policy year. No further call is expected for any open year.

CLAIMS Claims rose sharply, but remained within budget.

ENTERED TONNAGE Tonnage growth continued with owners' entries reaching 76 million gt and the total portfolio, including charterers, passing 120 million gt spread over 6,300 vessels.

INVESTMENT RETURNS Investment returns reached a record level of almost 21 per cent.

GARD MARINE & ENERGY LIMITED USD 110 million for a 57.9 per cent stake invested in Gard Marine & Energy Limited, the company formed to take over If P&C Insurance Ltd (publ)'s marine and energy portfolios. Trading commenced on 28th January 2004.


Chairman's Statement

AGAINST A BACKGROUND of severe man-made and natural disasters, and an international climate that is in grave danger of deteriorating further, I hesitate to celebrate what has been for many shipowners and investors a record year. But so it has been and, I am pleased to report, also for Gard.

The current boom in shipping, which, if history is our guide, will surely lead to a sharp increase in claims, means that the need for vigilance in assessing the quality of shipping entered, not only in Gard, but in the International Group Clubs in general, is more pressing than ever. Some high profile claims where it appears that the vessels involved were clearly sub-standard have done much harm to the public's perception of the industry. This, in turn, could lead to hasty and ill-considered legislation or regulations to the detriment not just of the industry, but also to the 'consumers' it is intended to protect. It is essential that all elements involved in sea transportation, especially governments, class societies, shipowners and their clubs work together to raise quality and safety without overburdening the industry with regulations. Your Committee is keen that Gard, as a leading member of the International Group, should play its full part in this endeavour.

For many years, your Committee has emphasised the paramount importance of the Association's maintaining and enhancing its financial strength. This strength ensures that the Association has the ability to take advantage of strategic opportunities should they arise and it protects the Association in case of unexpected claims escalation or other mishaps. This financial strength should also enable the Association to reduce its reinsurance costs by retaining more risk. In this connection, it is reassuring that the International Group has taken steps in this direction by extending the upper limit of the Pool and we strongly support, in principle, the move to establish an International Group captive for greater risk retention in the future. We do, however, consider that the individual club retention, which has been unchanged at USD 5 million for ten years, must now rise to a more realistic level.

In view of the importance your Committee attaches to financial strength, it is gratifying to report that this year your Association, despite its deficit on technical account, has achieved a substantial increase in its reserves and has maintained its 'A' rating from Standard & Poor's, a rating exceeded by none of its competitors. Its insured tonnage has continued to rise without any lowering of underwriting standards and major initiatives have been taken internally to improve the education, efficiency and responsiveness of the staff in all offices. I am particularly pleased to report that, notwithstanding a very busy year for the management and a further increase in the Association's tonnage, the customer satisfaction survey that was independently commissioned shows that you believe service, already highly rated, continues to improve.

But the decision which I am confident will have the most beneficial effect on the fortunes of the Association and its Members in the longer term is to establish, and provide the majority of the equity capital for, Gard Marine & Energy Limited and to take back full control of the management company, Gard AS. This bold decision, which took the best part of a year to bring to fruition, enables Gard to offer shipowners a range of products unmatched elsewhere in the industry. By deploying the marine and energy competence built up over decades in the former Storebrand and Vesta organisations for the benefit of the Association, it places Gard in a uniquely strong strategic position. It provides a platform from which it will be able cost-effectively to further improve the range and depth of its services and, of course, it puts a leading marine and energy insurer in the ownership of the insured, extending significantly the mutuality of the whole enterprise. Having managed the business for the past four years, we have every reason to believe that it is likely to prove financially as well as strategically rewarding. Crucially, the capitalisation of the business, its historic record and its experienced management enabled Standard & Poor's to accord it an 'A minus' rating from inception.

It has been my intention in this brief statement just to touch on the highlights of a varied and successful year. More detail on all aspects of the business will be found in the pages that follow.

I shall retire from the Chairmanship and the Committee at the Annual General Meeting in August. I feel very privileged to have been involved with this fine and developing organisation and blessed to be leaving it in such good condition. This would not have been possible without the tremendous support of the Membership, countless professionals around the world and, of course, the staff. To all of you, my heartfelt thanks.

Leif Terje Løddesøl


Committees
& Boards of
the Gard Group

Membership

The Committees of Assuranceforeningen Gard – gjensidig

The Committee

Leif Terje Løddesøl, *Chairman***
Wilh. Wilhelmsen ASA, Oslo
Stephen Pan, *Deputy Chairman*
World-Wide Shipping Agency (S) Pte. Ltd., Singapore
Alain Bernard
Olympic Shipping and Management S.A., Athens
Pawel Brzezicki
Polish Steamship Company, Szczecin
Robert Gerald Buchanan
Wallem Shipmanagement Ltd., Hong Kong
K C Chang
Evergreen Marine Corp. (Taiwan) Ltd., Taipei
Ricardo Claro Valdés
Compañía Sud Americana de Vapores S.A. (CSAV), Valparaíso
Trond Eilertsen
Oslo
Nicolas Frangistas*
Franco Compania Naviera, Piraeus
Sjur Galtung*
Wilh. Wilhelmsen ASA, Oslo
Hannu Haapanen
Fortum Oil and Gas OY, Espoo
Herbjørn Hansson
Ugland Nordic Shipping AS, Sandefjord
Morten Høegh*
Leif Høegh & Co. AS, Oslo
Atle Jebsen
Jebsens Management AS, Bergen
Hans Peter Jebsen
Kristian Gerhard Jebsen Skipsrederi AS, Bergen
Tom Erik Klaveness
Torvald Klaveness & Co. A/S, Oslo
Øivind O Larsen**
The J.J. Ugland Companies, Grimstad
Jan Lissow*
Interorient/Alpha Tank, Limassol
Sergio Machado
Petroleo Brasileiro S.A. – Petrobras, Rio de Janeiro
Takeshi Matsui
The Sanko Steamship Co. Ltd., Tokyo
Nicolas Pateras
Pacific & Atlantic Corporation, Athens
Jamal A Al-Rammah
Saudi Arabian Oil Company, Dhahran
Heinrich Schulte
Bernhard Schulte, Hamburg
Oscar Spieler*
Frontline Management AS, Oslo
Peter Swift
OSG Ship Management (UK) Ltd., Newcastle
Jane Sy
Stolt-Nielsen Transportation Group Ltd., Rotterdam
Hans Ivar Vigen*
The J.J. Ugland Companies, Grimstad
Lynn White
Royal Caribbean Cruises Ltd., Miami
Shinichiro Yamashita
Tokyo

The Executive Committee

John Hatleskog, *Chairman*
Havinvest A/S, Oslo
Dieter Ostendorf, *Deputy Chairman***
Hamburg
Axel C Eitzen
Camillo Eitzen & Co., AS, Oslo
Hans Ditlef Martens
Bergesen d.y. ASA, Oslo
Bengt Hermelin
Saudi Maritime Holding Co, London
Claes Isacson, *Managing Director*
Arendal

The Board of Gard P&I (Bermuda) Limited

Leif Terje Løddesøl, *Chairman*
John Hatleskog, *Deputy Chairman*
Øystein Eskeland
Sir David Gibbons
Stephen Pan
Claes Isacson, *President*
Timothy C Faries, *Vice-President*

The Board of Gard Marine & Energy Limited

John Hatleskog, *Chairman*
Bengt Hermelin, *Deputy Chairman*
Timothy C Faries
Tom Melbye Eide, *If P&C Insurance Ltd (publ)*
Claes Isacson, *President*

The Board of Gard AS

John Hatleskog, *Chairman*
Trond Eilertsen
Bengt Hermelin
Claes Isacson
Sigrid Hansen-Tangen, *employee representative*
Reidar Ebbesvik, *employee representative*

* Nominated for election at the forthcoming Annual General Meeting of the Association.
** Retires at the forthcoming Annual General Meeting of the Association.

The Association wishes to record its appreciation of, and gratitude for, the considerable contributions made by those committee members that will retire at the Annual General meeting: Mr Leif Terje Løddesøl, a member of the Committee since 1995 and its Chairman since 1998; Mr Øivind O Larsen, a member of the Committee since 2002; Mr Dieter Ostendorf, a member of the Executive Committee since 1997, its Deputy Chairman since 2002 and previously a member of the Committee from 1992 to 1997; and Mr Kaare Borch, a member of the Supervisory Committee since 1991 and a member of the Committee from 1984 to 1998.

Meetings

The Committee of the Association

The Committee met on two occasions during the year to 20th February 2004 to conduct the business of the Association.

At the meetings held in London in the spring and Geneva in the autumn, reports were received and considered on, *inter alia,* tonnage entered and tonnage changes in the Association; claims falling on the Association and those reaching the Association through the Pool; the financial position of the Association and the management of the investment portfolio; the progress of all open policy years including the setting of release calls; the Association's reinsurances; major developments in maritime legislation; and, finally, the operation of Gard AS (formerly Gard Services AS), the Association's wholly owned management company which until 28th January 2004 was owned jointly by the Association and If P&C Insurance Ltd (publ) (If). Gard AS is responsible for managing the activities of the Association and the operational activities of Gard Marine & Energy Limited.

With regard to finances and fund management, the Committee confirmed the existing investment guidelines under which the Association pursues a broadly neutral stance in relation to currency exposure and holds no more than 35 per cent of the total investment funds in equities. The guidelines permit investments in futures, options and other derivatives, but only to manage risk and improve the efficiency and liquidity of the portfolio. All fund management is contracted out to specialist equity or bond managers.

At the May meeting the Committee received as usual a report from the Supervisory Committee and was pleased to note that the Supervisory Committee remained satisfied with the Executive Committee's administration of the daily business of the Association. The Committee accordingly accepted the Executive Committee's recommendation that the report and accounts for the year to 20th February 2003, which were prepared on the basis of a 25 per cent deferred call for the 2002 policy year, be approved. The Committee recommended the accounts to the Annual General Meeting where they were subsequently adopted. The Committee also received and approved the report of the Election Committee and, on the basis of that report, made its recommendations to the Annual General Meeting.

At the meeting held in October 2003, the Committee, based on recommendations made by the Executive Committee, determined changes to the Rules for the P&I Cover for Ships; the premium policy for the 2004 policy year and the closing of the 2000 policy year without the levying of a further call. At this meeting the Committee also resolved that the Association, together with its sister association, Gard P&I (Bermuda) Limited, and in co-operation with If, should establish a new company, Gard Marine & Energy Limited, to acquire If's marine and energy business and portfolio, which had been managed by Gard AS since 1st July 2000. The Committee, in conjunction with the Board of Gard P&I (Bermuda) Limited, authorised an investment of USD 110 million in the aggregate in the new company for 57.9 per cent of the equity. Furthermore, the Committee resolved that the Association should acquire, at book value, If's 40 per cent interest in Gard AS, making it a wholly-owned subsidiary.

The Executive Committee of the Association

The Executive Committee held six formal meetings in the course of the year, though, as usual, it remained in more frequent touch with the Administration. In addition to reviewing the daily business of the Association, including claims compensations and claims development; reinsurance contracts; tonnage entered; investment returns and the accounts; and the financial situation of the Association, the Executive Committee made recommendations to the Committee on a wide range of matters including the adoption of the accounts for the year to 20th February 2003; changes to the Rules; the closing of the 2000 policy year; deferred calls, supplementary calls and release calls for open policy years; and the premium policy for the 2004 policy year. The Executive Committee was also heavily involved in the process that led to the Committee's decisions to purchase the outstanding shares in Gard AS and to establish and invest in Gard Marine & Energy Limited.

The Board of Gard P&I (Bermuda) Limited

The Board of Gard P&I (Bermuda) Limited approved the financial statements for the year to 20th February 2004 and their inclusion in this report. The Board also reviewed the mandates and performance of the investment managers and considered possible changes to the fund management structure and, finally, Gard P&I (Bermuda) Limited's investment in Gard Marine & Energy Limited. The Bermuda Association owns 42.1 per cent of the shares in Gard Marine & Energy Limited.

The primary function of Gard P&I (Bermuda) Limited is the reinsurance of 30 per cent of the Association's retained risk and the proper management of its own funds.

The Board of Gard Marine & Energy Limited

The Board of Gard Marine & Energy Limited has held two formal meetings since the statutory General Meeting on 12th December 2003. In addition to reviewing the daily business of the company, including receiving reports on technical underwriting results; volume of written premium measured against the budgeted premium for the year; reinsurance contracts; investment returns and the accounts; and the financial situation of the company, the Board determined the overall investment guidelines and underwriting capacity restrictions for the 2004 underwriting year. The Board also approved the opening balance sheet of the company following agreement of the final adjustments to the reserves to be transferred from If to Gard Marine & Energy.

The Board of Gard AS

The Board of Gard AS met five times during the 12 months to 20th February 2004. In addition to approving the annual report and accounts for the year to 31st December 2003, the Board has been involved in the annual strategy process; the setting of employee bonus scheme targets; and has monitored the performance of the company as measured against the budgeted operating costs for the year. The proposed budget for operating costs for any year is reviewed and approved by the Board before the start of the year in question. At the meeting held towards the end of January 2004, the Board approved the transfer of the shares in Gard AS from If to Assuranceforeningen Gard.


Chief Executive
Officer's Report

IT HAS BEEN A GOOD YEAR for the Association. The Association's two most visible achievements, an excellent financial result and a major strategic initiative, are complemented by some hard paddling beneath the surface to improve the quality of service offered to Members and the efficiency with which it is provided. This is an ongoing undertaking that will particularly benefit from Gard AS having become, from 28th January 2004, a wholly-owned subsidiary of the Association.

Once again, significant gains were made in quality tonnage and premiums. The financial result, which saw the general contingency reserve rise to a record USD 328 million, was achieved, despite a sharp increase in claims and a resulting loss on technical account, thanks in large measure to a spectacular, and no doubt unrepeatable, return on investment. In a long-tail business such as P&I, a modest loss on technical account is acceptable, but without a full deferred call the loss would have been substantial. The level of the general contingency reserve is now modestly above the upper level of the 'comfort zone' set by the Committee. In view of the sustained high level of shipping activity generally leading to a higher level of claims, the increased Pool retention this year, the ever-harsher liability regimes facing shipowners and the proposals to raise solvency margins in due course, this level was considered appropriate by your Committee.

The strategic initiative to form and finance, in co-operation with If, a new company, Gard Marine & Energy Limited, to take over If's marine business and portfolio, previously managed by Gard Services AS, with effect also from 28th January 2004, presents significant new opportunities and challenges. Gard Marine & Energy is a leading provider of marine and energy insurance to the global market. In the future this report will contain a section on the operation and accounts of this new venture. At this crossroads, however, since the company has only been in operation for some 20 days at the time of reporting, the report only contains a brief introduction to the two main business areas.

The 'beneath the surface' initiatives relate to the implementation of steps to ensure that what were two separate companies become a single focussed entity. Integration of joint services, for example information technology, loss prevention, accounting and human resources, has been underway for some time, but much more can, and will, be done. Whilst underwriting will be carried out against two separate capital providers, joint marketing efforts are now routine. Claims handlers from P&I and marine and energy are learning each other's businesses. Management of the investment portfolios, which now total in excess of USD 1 billion, is centralised, though the investment managers have investment mandates tailored to the different liability durations of the two businesses.

The aim is to present to the market a business offering shipowners seamless capacity for all their P&I and marine and energy needs supported by modern management tools and IT platforms.

Each of these elements is discussed in more detail below.

Claes Isacson

Review of Gard P&I Operations

The excess of income over expenditure in the year of USD 86 million raised the general contingency reserve from USD 242 million to USD 328 million, marginally above the 'comfort zone' established by the Committee in 1998 (the upper level under the formula would be USD 313 million). Nonetheless, the Committee considered this level appropriate for the reasons given above. Standard & Poor's have confirmed the Association's 'A' rating.

Tonnage

At the commencement of the 2004 policy year owners' tonnage stood at 76.4 million gt, a record figure for the Association. See Table A.

Financial highlights

Amounts in USD million **For the years to 20th February**	**2004**	**2003**	**2002**	**2001**	**2000**
Estimated deferred calls included	25%	25%	25%	25%	25%
General increases imposed	15%	25%	10%	5%	-3.85%
Premiums and calls gross	258	204	163	149	141
Premiums and calls net	196	153	132	121	112
Net claims incurred	192	117	102	147	142
Net operating expenses	37	28	22	20	25
Technical result	**-34**	**9**	**8**	**-45**	**-55**
Investment income	119	38	-13	1	40
Surplus/(Deficit) for the year	**86**	**47**	**-5**	**-44**	**-15**
Contingency reserve	**328**	**242**	**195**	**204**	**248**
Contingency reserve relative to net outstanding claims	68%	56%	45%	46%	58%
Combined ratio net	117%	94%	94%	137%	149%
Claims ratio	98%	76%	77%	121%	127%
Expense ratio	19%	18%	17%	16%	22%
Average expense ratio (ref. Note 4)	8.2%	8.6%	8.4%	7.8%	7.4%

Policy year accounts

Amounts in USD million **Policy years**	**2003**	**2002**	**2001**	**Closed years**	**Total**
Accumulated results as at 20th February 2004	80	13	-20	255	328
The prior year	–	5	-31	268	242
Current year surplus/(deficit)	**80**	**8**	**11**	**-13**	**86**

The growth in owners' tonnage during the year to 20th February 2004 was 4.5 million gt, of which 2.8 million gt represented net gains during the course of the year and 1.7 million gt was gained at renewal.

In addition to owners' tonnage set out above, the Association insures the largest charterers portfolio in the market. This portfolio is now in excess of 40 million gt, thus bringing the overall tonnage to more than 120 million gt.

Tonnage has been added both from existing and new Members. At renewal on 20th February 2004, 15 new Members joined the Association. We are proud to have them entered with the Association and look forward

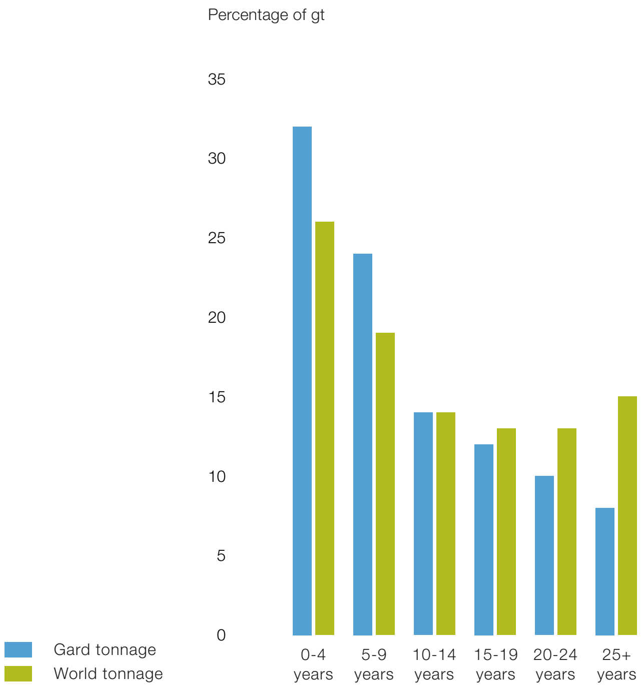
Table A – Entered tonnage as at 20th February 2004

	gt (000)	gt %
Owners' entries		
Tankers	26,988	39%
Bulk carriers	12,690	18%
Obo/ore/oil carriers	1,984	3%
Gas carriers	2,585	4%
Dry cargo vessels	19,717	28%
Miscellaneous vessels	5,401	8%
	69,365	100%
Owners' non-poolable		
Mobile offshore units	7,052	
	7,052	
Total owners' tonnage	**76,417**	

to a long and mutually rewarding relationship. At the start of the 2004 policy year the total number of ships entered had passed 6,300, another record.

Newbuildings made up a substantial percentage of the tonnage entered during the 2003 policy year. The influx of newbuilding tonnage has continued in this policy year, equalling the highest figure ever achieved. This is the fifth consecutive year when the proportion of newbuildings has significantly exceeded the Association's world fleet market share. This influx of new tonnage has had a positive impact on the age profile of the fleet entered in the Association, as can be seen in Table B.

Table B – Age profile of entered vessels and world fleet as at 20th February 2004
(Vessels below 1,000 gt not included)



The average age of vessels entered with Gard fell from 13.3 to 13.2 years.

There was a moderate increase in the number of mobile offshore units and tonnage entered during the 2003 policy year, and, as at 20th February 2004, 178 units totalling 7 million gt were entered with the Association.

In view of the Association's dominant market share in this segment (around 70 per cent of the world market outside the United States of America) the relatively moderate growth is a direct reflection of developments in the industry and the fact that few new units were commissioned during 2003. Floating production and storage units continue to be the principal area of growth for this insurance programme.

Premiums and policy years

The five-year summary financial highlights set out on page 14 show how premiums have increased from clearly inadequate levels in the earlier years. Premiums have risen in the period by 83 per cent gross (75 per cent net), of which 65 per cent is accounted for by the general increases ordered. In the 2003 year the general increase was 15 per cent and the increases in premiums were 26 per cent gross and 28 per cent net.

Closed years

The 2000 policy year was closed in October 2003 with no further call. The estimated total surplus for all closed years at 20th February 2004 stood at USD 255 million as opposed to USD 311 million the year before. The reduction is attributable to the closing of the 2000 policy year with an indicated deficit of USD 43 million and a reduced surplus on prior years of USD 13 million. Although the 2000 policy year still carries a significant deficit, the year has gradually improved from its originally estimated deficit of USD 69 million.

Open years

The 2001 policy year is a good example of the volatility occurring in P&I insurance. The original IBNR reserve on this year was set with the experience of an exceptionally unfavourable claims trend in 2000. This reserve has since proved to be too cautious and the year is now estimated to end in a deficit of USD 20 million compared to an estimated deficit of USD 50 million on 20th February 2002 and USD 31 million a year later.

The 2002 policy year is another example of the volatility of P&I. What eight months into the year appeared to be an exceptionally favourable claims year, changed completely during the remaining four months, due to a string of large claims. Hence, it ended as an average claims year overall. The year has since improved and now shows a surplus of USD 13 million compared to USD 5 million a year ago. This surplus is the result of a positive investment return as the technical operating result shows a deficit of USD 25 million.

The 2003 policy year experienced a further increase in the total nominal value of claims. However, when taking into account the increase in tonnage, claims are not out of proportion, whether compared on a claims per ton basis or compared against increased premiums. Although the technical result shows a deficit of USD 39 million, the year has produced an exceptional return on investments, resulting in an overall surplus of USD 80 million.

The estimated 25 per cent deferred call has been ordered as in the comparative years.

Table C shows the record of estimated deferred calls at inception of the policy year and the actual call levied.

At this early stage of the current 2004 policy year it is impossible to predict the final result. The general premium increase was set at 7.5%, but whilst one third into the year the claims picture appears favourable, this provides few assurances in respect of the technical result at the end of the year.

Table C – Record of estimated and actual deferred calls

	Estimated at inception	Actual
1979	15%	10%
1980	15%	25%
1981	15%	15%
1982	15%	5%
1983	15%	5%
1984	15%	5%
1985	15%	0%
1986	20%	0%
1987	20%	0%
1988	20%	0%
1989	20%	20%
1990	20%	105%
1991	30%	60%
1992	30%	15%
1993	40%	30%
1994	40%	35%
1995	30%	15%
1996	30%	0%
1997	30%	0%
1998	30%	0%
1999	25%	15%
2000	25%	25%
2001	25%	25% *
2002	25%	25% *
2003	25%	25% *

* Year not closed: no further calls expected.

Claims

2003

12 months from inception the estimated net aggregate liability of reported owners' and charterers' P&I claims for the 2003 policy year was USD 100 million. The comparative figures for the 2002 and 2001 policy years were USD 86 million and USD 73 million respectively. See Table D. Main causes were a continued growth in the frequency of claims in the value bracket up to USD 200,000, following on from the growth in gross tonnage and number of vessels entered. The increased number of reported claims mostly reflects organic growth. See Table E.

2003 also showed a higher than average number of claims with a gross estimate in excess of USD 2 million. See Table F. These were principally as a result of a number of casualties that occurred in the course of the fourth quarter of the policy year, among them the capsize of the ROCKNES off Bergen, Norway. This is the only Pool claim reported by the Association for 2003. However, as can

Table D – Reported claims for the 1999 to 2003 policy years. Owners' and charterers' entries. Figures in USD million and net of reinsurance (no adjustment for inflation)

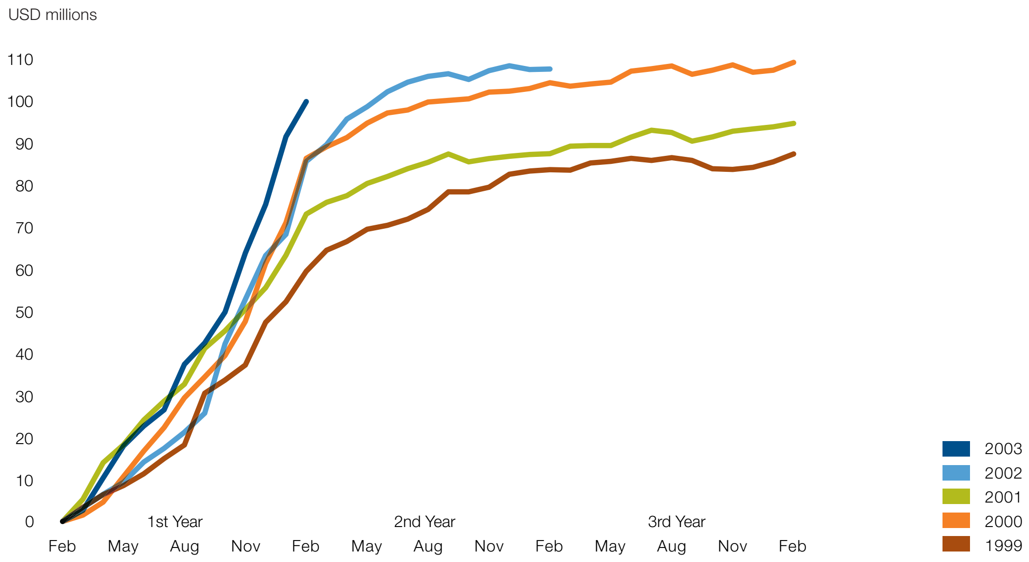
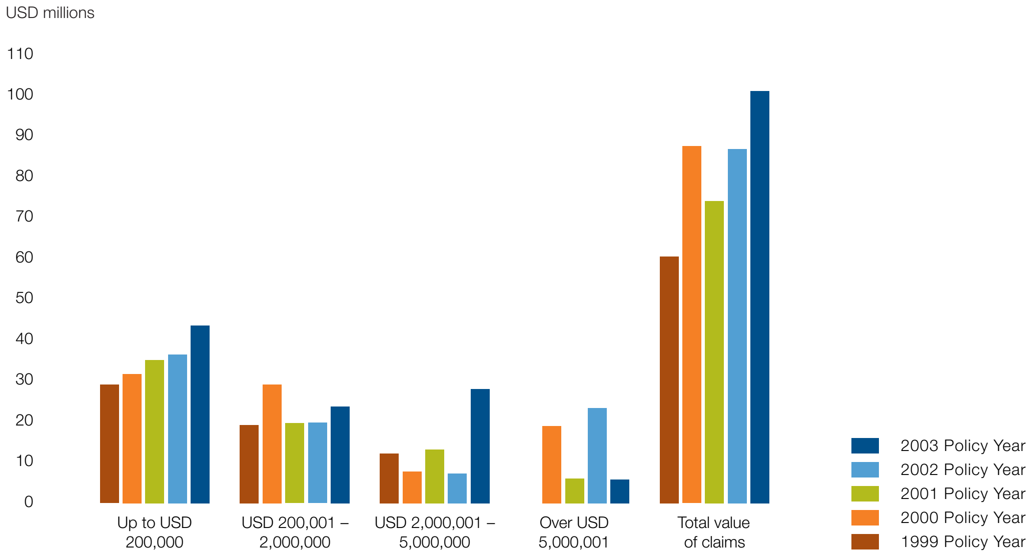


Table E – Number of reported claims as at 12 months from inception. Owners’ and charterers’ entries. Policy years 1999 to 2003

Policy year	1999	2000	2001	2002	2003
Incidents showing nil estimates	2258	2230	2183	2180	2499
Claims USD 1 - 200,000	2653	3160	3586	4162	4867
Claims USD 200,001 – USD 2 million	39	48	41	41	43
Claims exceeding USD 2 million*	4	6	6	6	9
Total number of claims	**4954**	**5444**	**5816**	**6389**	**7418**
* of which are Pool claims	0	3	1	3	1

Table F – Value of net reported claims by range, at 12 months from inception of policy year. Owners’ and charterers’ entries



be seen from Table G, the net claims growth was not out of proportion with the growth in premium and/or entered tonnage, and is within the projections made by the management. For an overview of the development of the Pool, see Table H.

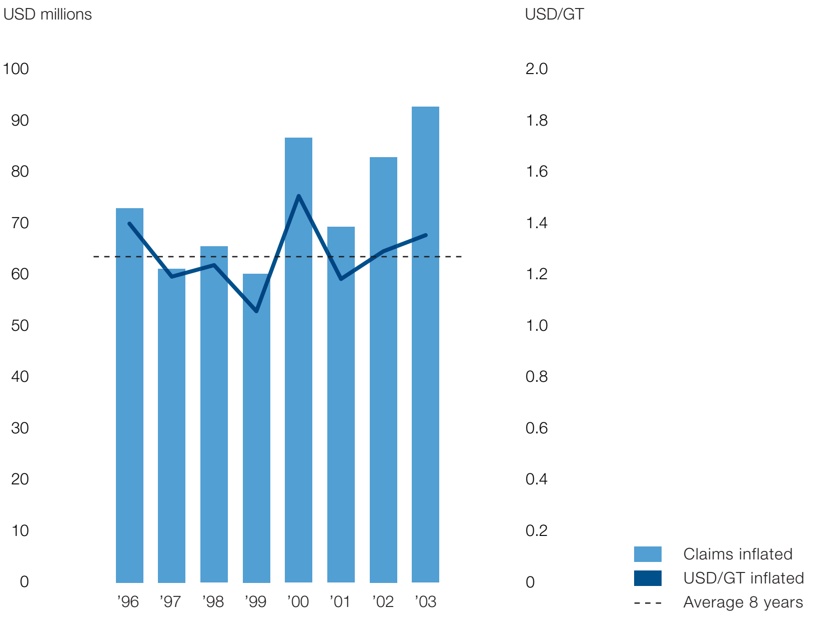
2002

24 months from inception the estimated net aggregate liability of reported claims for the 2002 policy year was USD 108 million, and appears to have stabilised. See Table D. Comparative figures for the 2001 and 2000 policy years were USD 88 million and USD 104 million respectively. The Association has reported three Pool claims for 2002, two of which principally involves wreck removal costs and one U.S. oil pollution.

Policy years prior to 2002

Claims appear to have abated and stabilised. See Table D. There is nothing to suggest that claims for these policy years will develop more adversely than has been conservatively projected in the provisions for IBNR claims.

Table G – USD value of net claims for owners' mutual entries, as reported one year from inception of each policy year, and USD claims cost per owner gross ton entered, 1996 to 2003 policy years, adjusted at two per cent annual inflation



Trends

Throughout 2003, exceptionally strong freight markets in the dry and liquid bulk shipping segments, with Chinese import and export as the primary force, caused higher than usual shipping activity. Historically, there has been significant positive correlation between the level of shipping activity and P&I claims.

Gard's own statistics of large claims have, in recent years, shown an increase of claims caused by casualties such as collisions, contact between ship and fixed/floating objects (FFO), explosions and groundings. As for the two first categories, there has been an increase in the number of shipowners who elect to place their collision and/or FFO liability cover with the P&I insurer instead of hull. In all categories, there is a growing trend of salvors invoking the Special Compensation P&I Clause (SCOPIC) in salvage situations. This serves to gradually shift the salvage remuneration exposure away from hull underwriters on to P&I underwriters and leads to increased exposure both to retained claims and to those shared in the Pool.

Taking into consideration all of the above factors, as well as the continued growth in tonnage and number of entries, it is only prudent to anticipate that claims will continue to rise both in aggregate numbers and value.

Table H – Development of the Pool as at 20 February 2004. Anticipated costs of notified Pool claims, as estimated at the following periods after the inception of the 1989–2003 policy years

USD millions

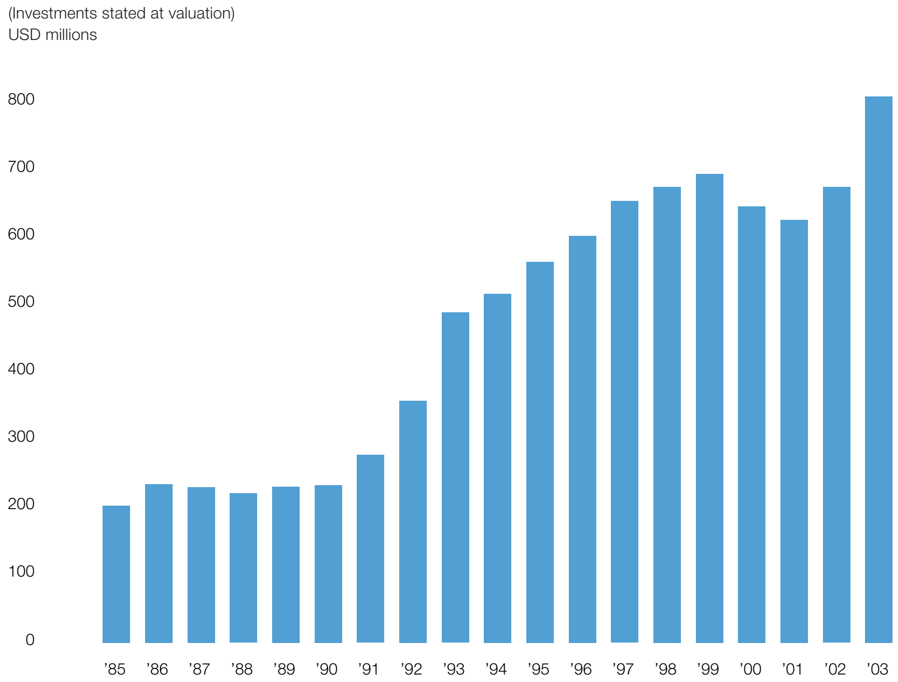
Policy year	One Year	Two Years	Three Years	Four Years	Five Years	Six Years	Seven Years	Eight Years	Nine Years	Ten Years	Eleven Years	Twelwe Years	Thirteen Years	Fourteen Years	Fifteen Years
1989	129	214	219	218	217	218	228	223	224	227	226	231	231	228	229
1990	169	246	253	253	258	257	269	275	270	270	278	280	286	275	
1991	113	173	191	215	220	224	221	221	221	220	220	221	219		
1992	76	98	108	106	123	112	109	116	114	115	115	116			
1993	98	155	172	167	178	181	185	192	193	191	193				
1994	107	150	150	153	163	150	151	158	162	160					
1995	89	96	125	133	133	130	123	139	141						
1996	101	127	158	158	155	158	159	158							
1997	61	144	161	164	156	166	175								
1998	25	103	110	118	128	127									
1999	21	50	90	95	97										
2000	101	136	144	143											
2001	36	42	41												
2002	97	174													
2003	104														

It is to be hoped that the Members' loss prevention efforts, duly supported by Gard, may serve to counter some of this development. Funds currently available to meet outstanding and unreported claims amount to USD 809 million, see Table I.

Reinsurance

The principal change in the International Group's reinsurance arrangements for 2004 has been to increase the upper level of the Pool from USD 30 million to USD 50 million. This resulted in a premium saving of USD 32 million. Gard's share of this sum has been charged to Members as part of their reinsurance costs, but it is the Group's intention, subject of course to the approval of all club Boards and Committees, to pay this sum into a Group captive which will reinsure the clubs for the tranche from USD 30 million to USD 50 million, subject to such reinsurances as are deemed prudent. If the record of the Group continues to be good – and it has been excellent for many years – this captive should, over time, accumulate sufficient funds to be able to take increasingly large lines on the Group cover, thus saving shipowners significant amounts on their reinsurance costs. Establishing the captive

Table I – Funds available to meet outstanding and unreported claims at policy year ends



has proved complex, but it is the Association's firm belief that, in principle, this is a highly desirable step for the Group to take. If the captive can be set up retroactively from 20th February 2004, it is planned that it will also reinsure the Group for its 25 per cent share of the first reinsurance layer, the layer up to USD 500 million.

The excess of loss reinsurance contract of USD 2 billion on top of the Pool of USD 50 million has, as in the past, been placed mainly in the London market. The overall premium saving achieved this year amounted to 3.5 per cent.

Table J sets out the recent history of retention and reinsurance levels of the Associations.

The Association offers its Members a wide range of additional products, the majority of which are reinsured with retentions of USD 1 million any one incident. The reinsurance related to all these covers have been renewed on terms similar to those achieved last year, except for the market's Biochem exclusion clause which has been introduced as a general exclusion in all contracts including the related war risks extensions.

Table J – Retention and reinsurances

USD millions	Club retention	Pool tranche	Excess reinsurance tranche	Overspill cover	Total
1983	0.9	7.1	750	–	758
1984	1	7	750	250	1,008
1985	1.2	10.8	750	250	1,012
1986	1.2	10.8	750	250	1,012
1987	1.2	10.8	1,000	220	1,232
1988	1.2	10.8	1,250	–	1,262
1989	1.2	10.8	1,250	300	1,562
1990	1.6	10.4	1,250	300	1,562
1991	1.6	10.4	1,250	200	1,462
1992	2	13	1,050	300	1,365
1993	3	22	1,050	300	1,375
1994	4	26	1,150	350	1,530
1995	5	25	1,500	500	2,030
1996	5	25	1,500	500	2,030
1997	5	25	2,000	–	2,030
1998	5	25	2,000	–	2,030
1999	5	25	2,000	1,000	3,030
2000	5	25	2,000	1,000	3,030
2001	5	25	2,000	1,000	3,030
2002	5	25	2,000	430	2,460
2003	5	25	2,000	400	2,430
2004	5	45	2,000	_	2,050

Fund management

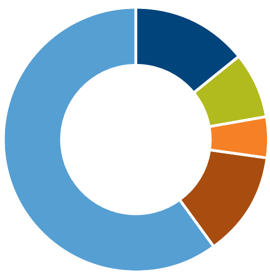
All major asset classes produced positive returns over the twelve months to 29th February 2004 in local currency and U.S. dollar terms. Against this positive background, total investment income amounted to USD 119.6 million. The investment return of 20.9 per cent was ahead of the relevant benchmark return of 19.6 per cent.

Global equity markets were depressed by the uncertainties surrounding the war in Iraq in early 2003, but recovered strongly shortly after the onset of hostilities, with exceptional performance from April onwards. After a slow start, the global economic recovery gained momentum during the fourth quarter of 2003 with even the more sluggish economies in continental Europe and Japan showing distinct signs of improvement. Figures from the Organisation for Economic Co-operation and Development (OECD) estimated total growth in real GDP among its 30 members at just over 2 per cent for 2003 rising to a projected 3 per cent in 2004. Despite this positive outlook, the OECD still has fears, citing Europe as an area for possible problems due to structural concerns continuing to inhibit investment. However, according to the European Central Bank (ECB), economic recovery has begun and indicators of economic sentiment and the health of the business climate are positive. Although the ECB appeared concerned about the strength of the euro, it left interest rates unchanged at 2 per cent to the dismay of those who would have preferred more monetary stimulus to aid the fragile recovery.

The U.S. economy continued to grow faster than most had predicted. Official growth

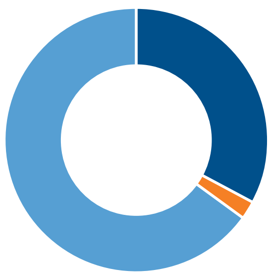
Table K – Portfolio allocation

Portfolio by currency



- USD 60%
- EUR 14%
- GBP 8%
- JPY 5%
- Other 13%

Portfolio by instrument



- Bonds 65%
- Equities 33%
- Other assets 2%

figures outstripped the original estimate of 4 per cent for the fourth quarter of 2003 benefiting from the historically low interest rates and tax cuts. The Federal Reserve has left interest rates unchanged at 1 per cent over the last six months, as inflation remained benign and job creation disappointingly low.

The value of the dollar weakened significantly during this period and fell to an eleven-year low against the pound and an all time low against the euro. Whilst this is good news for U.S. producers, due to exports being cheaper and more competitive, it may hamper recovery in Europe. Japan's recovery appears to be underway. Latin America continued to heal from the crisis in Argentina, and Asian economies were further underpinned by the strong growth in China.

The Association's combined net financial income, after deducting investment management expenses, amounted to USD 120 million, of which USD 29 million represented a positive currency adjustment. Table K shows the fund allocation by major asset classes and by currency as at 20th February 2004.

Following two years of significant positive currency adjustments, the Association took steps shortly after the closing date to protect the fund against a reversal of those gains by changing the strategic fixed income allocation to a fully USD hedged position.

Operating expenses

A number of events have had an impact on the operating expenses of the Association. A major part of these expenses are paid in NOK whereas they are accounted for in USD in the combined consolidated accounts. The dollar continued to weaken relative to the kroner throughout the year, resulting in a significant increase in the operating expenses as reported in the USD accounts.

Early in the year the operation in Finland was transformed into a subsidiary, Oy Gard (Baltic) AB, thus transferring its costs from 'claims' to 'operating expenses' and late in the year the London office was relocated with a highly conservative accounting for the costs involved.

Pension costs increased, due to the decision to reduce the expected rate of return on the pension fund. Higher commissions, resulting from higher premium levels, also contributed to the increase in total operating costs. The AER of 8.2 per cent (8.7 per cent last year) remains competitive with that of other P&I clubs.

Conventions

Changes and potential changes to laws and conventions are always of concern to shipowners. This year the two most discussed areas were the 1992 CLC and Fund Conventions and the Athens Convention.

CLC/Fund

The 1992 Civil Liability and Fund Conventions (the CLC and Fund Convention) governing the owners' liability for oil pollution from tankers are currently subject to a review of the IOPC Fund Working Group. With the adoption of the Supplementary Fund (the Third Tier) Protocol in May 2003 it was thought that there would no longer be calls to revise the CLC and Fund Conventions. It was agreed that the Third Tier should be financed solely by receivers of oil in participating states.

In order to maintain the balance between shipowners' and oil receivers' contributions to the overall costs of compensation, tanker owners and their insurers (through the International Group) suggested that they might be prepared, on a voluntary basis, to increase the minimum limit of shipowners' liability under the CLC to SDR 20 million per incident. This increased limit should apply to pollution cases in states being parties to the Supplementary Fund (the so-called STOPIA proposal).

However, the oil industry still maintained that there would be an imbalance between the shipowners' and oil receivers' contributions to the overall costs of compensation. Following the adoption of the Third Tier and in the lead-up to the meeting of the IOPC Fund Working Group at the end of February 2004, the oil industry continued to lobby hard for increased shipowner liability either by increasing the limit or by weakening the test for the right to limit liability. Some states seemed to promote similar proposals for increased shipowner liability.

Against this background, it was suggested that the STOPIA scheme should be withdrawn and that tanker owners and their insurers, through the International Group, should instead offer to contribute voluntarily to the Third Tier, on the condition that the further revision of the CLC/Fund Conventions was halted. The underlying rationale was that if this proposal was acceptable to OCIMF, the shipping and oil industries could together seek to persuade those states that were pressing for a radical review of the current system to back down.

The IOPC Fund Working Group Meeting in February 2004 was broadly divided between those who felt that it was possible to amend the existing CLC and Fund Conventions in order to impose further liability on shipowners, particularly sub-standard operators, and those who felt that the conventions should not be disturbed because the existing regime provided adequate compensation and had proved to be workable in practice. The latter group was attracted to the analysis put forward by the clubs to the effect that although the CLC and Fund Conventions did not merit being reopened, nonetheless, steps should be taken to address the two issues that most concerned states, namely, contribution in the Third Tier and sub-standard shipping.

The P&I Clubs are still pursuing a strategy with the long-term objective of preserving the key features of the existing regime, including in particular the current test for the right to limit liability.

Passenger liability

Following the adoption of the 2002 Protocol to the Athens Convention relating to carriage of passengers and their luggage by sea, 1974, the question has arisen whether the development of passenger shipping has reached the point where the risk of passenger ships bringing very large claims to the International Group pooling system is sufficiently disproportionate and non-mutual to justify the imposition of a limit on the clubs' cover for claims relating to passenger vessels.

Having considered arguments both for and against the imposition of a limit for a special category of claims, the Committee of the Association has, for the time being, in common with the majority of other Group clubs, expressed the view that passenger claims should not be subject to a special limit. At the same time, however, they emphasised that the issue ought to be revisited in the context of the ongoing discussions regarding the implementation of the 2002 Protocol to the Athens Convention.

Limitation of liability

New limitation regimes have come, or is in the process of coming, into force in several jurisdictions. The 1996 Protocol to the 1976 Limitation Convention entered into force on 13th May 2004, following accession by the tenth state, Malta, on 13th February 2004. The limits of liability introduced by the 1996 Protocol more than doubled the 1976 Convention limits for all ship sizes, and are more than five times higher for the smaller sizes of ships in respect of property damage claims.

Introduction to Gard Marine & Energy Limited

Incorporation, licence and rating

Gard Marine & Energy Limited was incorporated on 10th December 2003 and is duly registered in Bermuda as a Class 3 insurer pursuant to the Insurance Act 1978. Thus, the company is authorised to carry on marine and energy insurance business. The closing of the transaction with If was completed on 28th January 2004 from which date the company started trading.

From the outset, Standard & Poor's has been satisfied as to its financial strength and has given it an 'A minus, outlook stable' rating, key to its being able to function effectively in these markets.

Given that the company was only operating for some three weeks during the accounting period currently under review, no accounts have been prepared for that short period and the company is carried in the combined consolidated balance sheet at book cost.

The opening balance sheet

A summary of the opening balance sheet of the company as at 28th January 2004 is set out below.

The share capital is USD 190 million (plus a premium fund of USD 9.3 million), divided into 110,000 class A shares, of which 42.1 per cent are owned by Gard P&I (Bermuda) Limited and 15.8 per cent by Assuranceforeningen Gard – gjensidig, and 80,000 class B shares, representing 42.1 per cent of the share capital, owned by If. In addition Gard Marine & Energy has received a subordinated loan from associates of If.

Opening balance sheet
Gard Marine & Energy Limited

Assets

USD millions

Intangible assets (goodwill)	30.0
Investments	443.6
Receivables	103.6
Prepayments and accrued income	9.4
Bank balances/cash	30.0
Total assets	**616.6**

Equity and Liabilities

USD millions

Owners equity	
Class A shares: Gard	110.0
Class B shares: If	80.0
Premium fund	9.3
Total equity	**199.3**
Subordinated loan	30.0
Premium reserves (net)	72.9
Outstanding claims reserve (net)	296.1
Payables	15.6
Accruals and deferred income	2.7
Total equity and liabilities	**616.6**

Operations

Since Gard AS took over the management of If's marine and energy activities in July 2000, much has been done to rationalise the organisation and strengthen its underwriting disciplines. Now that the portfolio is majority owned by the Association, and Gard AS, its management company, wholly owned, the move towards fuller integration will gain pace. In the absence of a meaningful trading period within the period covered by this report, a few key indicators should provide a feel for the businesses the Association has acquired.

Marine

Gard Marine & Energy is a leading marine insurer with an estimated 6 per cent share of the world market for ocean going vessels. It offers a full range of hull and machinery covers including loss of hire, increased value, war risks and builders' risks for major yards worldwide. The capacity is USD 100 million any one event all risks combined. The budgeted written premium volume for 2004 is USD 172 million made up as shown in Tables L and M. Hull and machinery cover is traditionally used as the base from which other product offerings can be made.

The average client within the marine portfolio has 11.5 vessels entered and the average age of these vessels is 11 years except for the vessels insured under the loss of hire program. The average age for this category of vessels is 10 years. Almost all clients take out the hull and machinery cover. About 50 per cent take out increased value cover, whilst 40 per cent take out loss of hire. 20 per cent of the clients have some kind of war risks cover.

International competition in the hull and machinery market remains strong and rating developments have been described as 'less than expected'. Nonetheless, this segment of the company has maintained its focus on stringent quality underwriting which should yield satisfactory results over a full market cycle.

Energy

Gard Marine & Energy is a recognised leader in the international energy insurance market for oil and gas companies, with an estimated 4 per cent of the world market for upstream covers. It offers a full range of products to this

Table L – Marine premium volume by type of cover

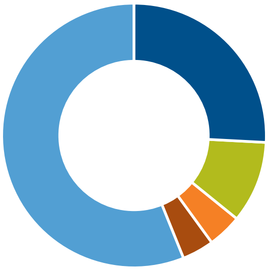
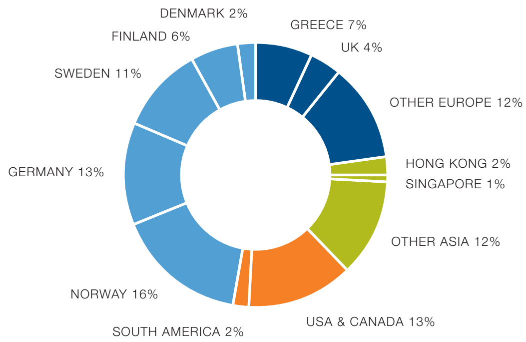


Table M – Marine premium volume by geographical area



market segment. It also offers construction risks cover, but only to operational clients of its main energy business. The experienced team of underwriters and claims handlers represent a portfolio that has insured offshore oil and gas activities for more than 30 years.

The company is the only insurer in the Scandinavian market actively involved with, and providing extensive capacity for, this class of insurance. The capacity is USD 110 million any one event all risks combined.

The company writes primarily direct insurance, but also accepts facultative reinsurance from oil company captives, and from areas where local law directs that all business has to be written by domestic insurance companies. The aim is to be a leading provider of risk transfer solutions for the upstream oil and gas industry, with a long-term industry commitment.

The energy segment is focused on companies involved in the exploration and production of oil and gas, both on land and offshore. These clients include large integrated oil companies, state-owned oil companies, independent exploration and production companies and contractors. It is not involved in the insurance of U.S. drilling contractors.

The budgeted premium volume for 2004 is USD 52 million for operational risks. The construction portfolio is additional to the budgeted operational volume and is dependent on the clients' construction activities.

The energy market was fairly stable in 2003 after two years of strong premium increases following a period of soft market and insufficient pricing of energy products. Predictions for the market in 2004 are difficult to make, but we would expect premium levels to be stable for the rest of 2004. Gard Marine & Energy will do its utmost to support a predictable and stable market. This enables the company to provide a better service and sound security at more consistent rates for the clients in the energy market.

Review of the management company, Gard AS

Summary

Gard Services AS was set up in July 2000 to manage the Association and the marine and energy portfolio of If. At that time it acquired virtually all the employees who had previously worked for the Association and all the relevant personnel from If. It was owned 60 per cent by the Association and 40 per cent by If. As part of Gard Marine & Energy's acquisition of If's marine and energy portfolio, Gard Services AS became a wholly-owned subsidiary of the Association and changed its name to Gard AS.

As hitherto, Gard AS will recover its costs – it does not aim to make more than a token profit – from Assuranceforeningen Gard and Gard Marine & Energy in accordance with an agreed formula. The major difference in operational activities resulting from the acquisition is that the Association now manages the funds of Gard Marine & Energy, whereas these assets had previously been managed by If.

The company employs 339 people, with 261 working in the offices in Norway in Arendal, Bergen and Oslo, and 78 in its offices abroad in London, Gothenburg, Helsinki, Hong Kong and Tokyo.

The business activities of Gard AS consist of acting as an intermediary in relation to the sale of insurance products and in carrying out, on behalf of the Association and Gard Marine & Energy Limited, the insurance services offered by the two capital providers to their clients. In the course of the last year, a key focus has been to ensure that those activities and services that impact both the Association and Gard Marine & Energy draw on the total experience available within the organisation to improve service to Members and clients, and to reduce costs. Briefly described below are some of the main activities currently being undertaken.

Knowledge management

Gard's centre for learning, the Gard Academy, has, during the last 12 months, provided courses and seminars to both external and internal participants. A growing trend is for many of the internal arrangements to be open to Members and clients.

A new website was launched on 20th February 2004 to coincide with the company's change of name; to take account of the new ownership structure; and to improve our information and knowledge services. Information is presented using animation, colour and images, and made easier to find, based on user feedback and statistics of how the former website was used.

IT

Work has continued on the company's ongoing projects involving technology. These projects are of vital importance to the future of the organisation as they support process integration, workflow, synergies, efficiency and cost savings, as well as knowledge transfer across the business areas. The aim is to ensure that the full knowledge and experience base of the organisation, together with an understanding of best practice, is available to all employees as they go about their daily tasks. It is a daunting goal, but one that we believe must be pursued in the interest of constantly improving performance.

Risk management

During the year, Gard has created an integrated Capital & Risk Management Department with a brief to review and mitigate significant risks across group companies in a financially optimal manner. This is particularly important since the formation of Gard Marine & Energy, which has introduced both positive and negative risk aspects.

In order to model accurately the capital implications of strategic and operational decisions going forward, the Association is introducing risk based capital modelling across all business areas. This approach is consistent with the regulatory focus expected, in the form of the 'Solvency 2' requirements, which will be introduced across Europe within a few years.

One of the early areas of focus has been reinsurance optimisation, and, effective from the balance sheet date, the Association has put in place reinsurance protection against incidents that combine exposures across P&I, hull and machinery, energy or marine builders risk products.

Product development

The development of additional covers and refinement of existing covers remains an important element in Gard's business strategy. The focus this year has been on the expansion of existing covers, particularly the Comprehensive Charterers' Cover and the Comprehensive Carriers' Cover. Under the former, cover is available to charterers and their associated companies for marine risks incurred in their capacity as cargo owners and traders, whether the liability relates to a chartered or a non-chartered ship. Under the Comprehensive Carriers' Cover, the Association has been able to address the Members' needs by arranging cover for an increasingly wide range of non-standard contractual liabilities which would not be insurable under the Member's standard P&I cover. Work continues on identifying, and satisfying, Members' needs that can be addressed using the expertise across the entire organisation.

Loss prevention activities

The Loss Prevention & Risk Assessment Department focuses on particular aspects of loss prevention: Navigation, Hull & Machinery, Cargo, Contractual, Environmental and Personnel. The loss prevention products are branded by using the gardyour… concept; gardyourcrew, gardyourcargo, gardyourseas, gardyourship, etc. This focus has generated a significant increase in Member and client enquiries following the various initiatives. It draws on the ability of Gard's employees to contribute to loss prevention products.

Gard has developed a separate strategy for loss prevention. Each loss prevention product is considered with regard to intended recipient or target, and method of distribution. Gard's loss prevention materials are available to everybody through the internet, booklets and other products which have been developed for the use of underwriters during visits to clients. Seminars and participation at crew conferences are provided by agreement with the Member or client.

Fund management

With the acquisition of Gard Marine & Energy funds under management rose substantially. The ownership of those funds is in two different companies with quite different liability characteristics. Nonetheless, precisely the same processes were adopted in placing the new funds under management as were already in place for the Association. Both companies outsource all their investment management needs.

Assuranceforeningen Gard currently employs five specialist investment managers each managing different components of the portfolio against strategically selected benchmarks. The long-term investment policy is defined on the basis of underlying claims durations and currency allocations for the proportion of assets that match liabilities, whereas the free reserves are managed in accordance with risk/return preferences expressed by owners. The strategic benchmark is customised to reflect the investment policy and currently has a 30 per cent target equity weight and 70 per cent target allocation to fixed income securities.

Gard Marine & Energy employs three investment managers and the ratio of equities to fixed income is 10 per cent to 90 per cent.

There is no allocation to alternative investments, but the equity and fixed income managers employed are allowed to use derivative instruments for hedging purposes, and in order to reduce cost in and improve liquidity of the fund.

Key administrative functions such as manager search and review, fund accounting, compliance monitoring, and performance measurement are also outsourced to leading service providers, leaving the management with a clear focus on strategic issues. All managers employed are active managers with narrow tracking error targets aiming for a small but consistent out-performance derived from a wide opportunity set in global investment markets. Since independent performance measurement commenced in 1989, the net value added from active management has been 0.4 per cent per annum (9.1 percent fund return compared to 8.7 per cent benchmark return). Since a significant restructuring of the fund management arrangements was completed in July 2001, the net value added has increased to 0.7 per cent per annum (10.0 per cent fund return compared to 9.3 per cent benchmark return).

* * *

In conclusion, it is appropriate to record the real gratitude of the Association to its Members and business associates for their confidence and support and to the staff for loyalty, dedication and much hard and effective work. Together they have made another year of real progress possible and have paved the way for further development in the future.


Accounts

TO GARD AS

We have audited the accompanying combined consolidated financial statements prepared from the consolidated accounts of Assuranceforeningen Gard – gjensidig – and the accounts of Gard P&I (Bermuda) Limited for the year ended 20th February 2004. We have also audited the consolidated accounts of Assuranceforeningen Gard – gjensidig – and the accounts of Gard P&I (Bermuda) Limited. The preparation and presentation of the combined financial statements is the responsibility of Gard AS. Our responsibility is to express an opinion on the combined consolidated financial statements.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined consolidated financial statements present fairly, in all material respects, the financial position of the two Associations as of 20th February 2004 and their revenues and expenses for the year then ended, in accordance with the basis of accounting described in the notes to the combined consolidated financial statements.

Arendal, 25th May 2004
ERNST & YOUNG AS
Jan Dønvik
State Authorised Public Accountant (Norway)

Combined consolidated income and expenditure account

All amounts are stated in USD 000's
For the years to 20th February

		Notes	2004	2003
Technical account – General business				
Income				
Gross premiums earned		2	219,973	174,670
Estimated deferred calls		2	37,880	29,750
Reinsurance premiums			(61,627)	(51,208)
Net premiums earned	A		**196,226**	153,212
Expenditure				
Net claims incurred		3	192,381	116,969
Net operating expenses		4	37,497	27,581
	B		**229,878**	144,550
Balance on general business technical account	A-B=C		**(33,652)**	8,662
Non-technical account				
Investment income		5	93,925	616
Exchange gain			29,189	39,872
Investment management expenses		4	(3,563)	(1,845)
Taxation			(286)	(305)
Balance on non-technical account	D		**119,265**	38,338
Excess of income over expenditure	C+D=E		**85,613**	47,000
General contingency reserve at beginning of period	F		**242,222**	195,222
General contingency reserve at end of period	E+F		**327,835**	242,222

Combined consolidated balance sheet

All amounts are stated in USD 000's As at 20th February	Notes	2004	2003
Assets			
Intangible assets		924	627
Investment in subsidiary	9	110,000	0
Investment in associated company		0	18,909
Real property and fixed assets	10	23,591	16,024
Portfolio investments	6	626,449	640,765
Due from Members		5,733	4,926
Due from reinsurers		4,811	5,188
Accrued deferred call	7	37,880	29,750
Sundry debtors	8	20,603	837
Accrued income		8,190	10,055
Bank balances		38,997	13,963
	11	**877,178**	741,044
Liabilities			
Provision for outstanding and unreported claims		481,140	432,487
General contingency reserve		327,835	242,222
Balance available for outstanding and unreported claims		**808,975**	674,709
Sundry creditors	12	68,203	66,335
		877,178	741,044

Reconciliation of excess of income over expenditure to net cash flow from operating activities

All amounts are stated in USD 000's For the years to 20th February	2004	2003
Excess of income over expenditure before taxation	85,899	47,305
Depreciation of tangible fixed assets	687	176
(Increase) in accrued deferred call	(8,130)	(5,250)
(Increase) in debtors	(20,493)	(4,192)
Decrease in accrued income	1,865	2,833
Increase in technical provisions	48,653	1,690
Increase in creditors	1,868	5,965
Net cash flow from operating activities	**110,349**	48,527
Cash flow statement		
Net cash flow from operating activities	110,349	48,527
Taxation paid	(286)	(305)
	110,063	48,222
Cash flows were invested as follows		
Increase in cash holding	25,034	13,010
(Decrease)/Increase in portfolio investments	(14,316)	27,986
Purchase of shares in Gard Marine & Energy Limited	110,000	0
(Decrease)/Increase in investment in Gard AS	(18,909)	4,236
Increase in real property and fixed assets	8,254	2,990
	110,063	48,222

Notes to the Combined Consolidated Accounts

Note 1 – Accounting policies

(I) Basis of preparation of the accounts

The accounts presented here combine the consolidated accounts of Assuranceforeningen Gard – gjensidig (the Association), prepared in U.S. dollars, with the accounts of Gard P&I (Bermuda) Limited (the Bermuda Association). In combining the accounts the same conventions have been observed as would have been adopted in preparing consolidated accounts for the two entities were the two Associations under common ownership. These accounts have no formal legal standing, but they aim to provide an easily assimilated summary of the combined financial position of the Associations.

(II) Consolidated accounts

The Association's consolidated accounts incorporate the accounts of the wholly owned subsidiary A/S Assuransegården, owner of the Association's properties and the subsidiary Gard AS, the management company for the Association. The minority-owned shares in Gard AS were purchased by the Association on 28th January 2004, making Gard AS a wholly owned subsidiary. The result of the operation of Gard AS for the period from 28th January to 20th February 2004 is consolidated into the combined consolidated income and expenditure account.

The Bermuda Association has no subsidiaries. The Association and the Bermuda Association together own 57.9 per cent of the shares of Gard Marine & Energy Limited. Gard Marine & Energy was incorporated on 9th December 2003 and is treated as a subsidiary in the combined consolidated accounts. Gard Marine & Energy commenced business on 28th January 2004.

Accounts have not been prepared for Gard Marine & Energy for the period 28th January to 20th February 2004 since the result of such a short period is assumed to be insignificant. In the balance sheet as at 20th February 2004 the investment in Gard Marine & Energy is stated at cost.

(III) Closing of policy years

In determining the appropriate call with which to close an open policy year the Association takes into account the results for that year and all prior years.

The Associations consider it necessary to maintain an adequate general contingency reserve to meet regulatory requirements and unanticipated demands on the Associations' funds.

(IV) Portfolio investments

Portfolio investments are reported at market value and reported investment income takes into account unrealised gains and losses.

(V) Financial derivatives

Financial derivatives are integrated components in the investment philosophies and processes of the fund management organisations employed by the Associations. They are used only for risk management, liquidity improvement and return enhancement through cost reductions. The use of these derivatives contribute to reducing the risk of the assets not being able to cover the Associations' liabilities.

(VI) Currencies other than U.S. dollars

Assets and liabilities, including derivatives denominated in currencies other than USD, are translated into USD at rates of exchange prevailing at the balance sheet date. Investments are stated at market value in the currency in which they are denominated and translated into USD at rates of exchange prevailing at the balance sheet date. Revenue transactions in currencies other than USD are translated into USD at daily standard exchange rates. For consolidation purposes revenue transactions in the accounts of the subsidiary companies are translated into USD at the rate of exchange prevailing at the balance sheet date.

Exchange rates used for currencies in which the Associations held material positions are:

As at 20th February		2004 USD 1 equals	2003 USD 1 equals
AUD	Australian Dollar	1.2873	1.6718
CHF	Swiss Franc	1.2550	1.3579
DKK	Danish Krone	5.9271	6.8679
EUR	Euro Currency Unit	0.7954	0.9243
GBP	Pound Sterling	0.5348	0.6274
HUF	Hungarian Forint	207.6801	227.6800
JPY	Japanese Yen	108.8550	118.4300
NOK	Norwegian Krone	6.9984	6.9511
NZD	New Zealand Dollar	1.4548	1.7952
SEK	Swedish Krone	7.3068	8.4378

(VII) Basis of accounting
All items of income and expenditure are accounted for on an accrual basis and reflect any adjustments relating to earlier years. Deferred/supplementary calls are brought into account when charged to Members except that the deferred call approved by the Committee at their meeting in May for the policy year just ended is brought into account in the financial year ending on the same date as the policy year.

(VIII) Technical reserves
The provision for outstanding and unreported claims comprises an estimate of the expected exposure which has been placed on (i) claims that have been reported to the Associations and (ii) claims that have been incurred but not reported (IBNRs). The estimate of IBNR claims is calculated on a basis approved by the Associations' consulting actuaries. Both sets of estimates include the Associations' own claims and their share of claims under the International Group's Pooling arrangement. Provision has been included for future claims management costs.

The general contingency reserve is retained to meet; (i) losses which may fall outside the Associations' reinsurance programme; for example failure of a 'first class' bank or hull insurer to honour a collision guarantee; (ii) unforeseen fluctuations in the Associations' claims exposure and; (iii) a possible catastrophe claim. The Associations are liable for their proportionate share of an overspill claim regardless of whether the claim originates from an entered vessel or from a vessel insured on a mutual basis by any of the other associations comprising the International Group of P&I Associations.

(IX) Related party disclosure
The management fee paid to Gard AS of USD 31.5 million is included in net operating expenses. Apart from this, no single transaction, or series of transactions, with related parties (including the Members of the Associations) is of such materiality and nature as to require disclosure.

(X) Designated reserves
Given the level of Pool retentions and the participation of the International Group in the general excess loss reinsurance contract, all parties to the Pooling Agreement have entered into arrangements, under an agreement dated 20th February 1996, to provide security by way of letters of credit or security bonds to other Pooling members to cover a significant proportion of their potential liabilities under the Pooling Agreement. Such letters of credit/security bonds can only be drawn upon in the event that an Association fails to meet a call upon it in relation to its obligations under the Pooling Agreement. The Association currently has a contingent liability under a bank guarantee in the amount of USD 33.3 million relating to the Associations' participation in this arrangement. The bank guarantee does not constitute a formal charge on the assets of the Association as no counter security has been required.

Note 2 – Premiums and calls

All amounts are stated in USD 000's
For the years to 20th February

		2004	**2003**
Mutual premiums			
Owners' entries			
Premiums		156,425	126,264
Additional calls		1,538	1,643
Estimated deferred calls		36,790	28,940
Defence entries			
Premiums		4,419	3,451
Additional calls		150	45
Estimated deferred calls		1,090	810
	A	**200,412**	161,153
Fixed premiums			
Mobile offshore unit entries		19,677	16,999
Charterers' entries		28,323	20,572
U.S. oil pollution premiums		7,113	4,486
Defence entries		2,328	1,210
	B	**57,441**	43,267
Total	A+B	**257,853**	204,420

Note 3 – Net claims incurred

All amounts are stated in USD 000's For the years to 20th February		2004	2003
Gross claims paid			
Members' claims		176,263	115,532
Group Pooling arrangements		20,939	15,320
	A	**197,202**	130,852
Reinsurers' share			
Group Pooling arrangements		41,798	9,879
Market underwriters		9,047	5,060
Other P&I associations		2,629	635
	B	**53,474**	15,574
Net claims paid	A-B=C	**143,728**	115,278
Change in provision for gross claims			
Provision carried forward		544,093	542,887
Provision brought forward		(542,887)	(473,946)
	D	**1,206**	68,941
Less movement in provision for reinsurers' share			
Provision carried forward		(81,458)	(127,034)
Provision brought forward		127,034	59,718
	E	**45,576**	(67,316)
Change in provision for future claims management costs	F	1,871	66
Net changes in claims provision	D+E+F=G	**48,653**	1,691
Claims incurred, net of reinsurance	C+G	**192,381**	116,969

Note 4 – Operating expenses

All amounts are stated in USD 000's
For the years to 20th February

		2004	2003
Administrative expenses		24,092	17,487
Acquisition costs		13,405	10,094
Net operating expenses	A	**37,497**	27,581
Investment management expenses	B	3,563	1,845
Total operating expenses	A+B	**41,060**	29,426
Operating expenses include:			
Management fee		31,878	24,534
Wages and salaries		4,000	414
Social security costs		1,035	111
Remuneration of Committee and Executive Committee		389	313
Pension contributions		469	28
Auditors' fees – audit services		124	101
Auditors' fees – non audit services		21	20
Depreciation		687	176

Due to consolidation of the wholly owned subsidiary Gard AS as from 28th January 2004, the management fee will be replaced by actual costs. These accounts includes the actual operating expenses for Gard AS for the period from 28th January to 20th February 2004.

Average Expense Ratio (AER)

In accordance with Schedule 3 of the International Group Agreement 1999 the Association is required to disclose the AER for the Association's P&I business for the five years ended 20th February 2004. The ratio of 8.2 per cent (8.7 last year) has been calculated in accordance with the schedule and the guidelines issued by the International Group and is consistent with the relevant financial statements.

The five year AER for the Association's P&I business expresses the operating costs on a combined consolidated basis as a percentage of the relevant premiums and investment income earned. Operating costs of the P&I business exclude all claims handling costs. Internal claims handling and internal investment management costs so deducted include a reasonable allocation of general overhead expenses. Investment income earned is stated after deducting investment management costs.

Note 5 – Investment income

All amounts are stated in USD 000's
For the years to 20th February

	2004	2003
Interest earned	20,522	22,153
Dividends	3,192	2,143
Profits less losses on realisation of investments	18,784	(1,508)
Change in difference between cost and market value of investments	51,427	(22,172)
Total	**93,925**	616

Profits less losses on realisation of investments reflect the difference between cost and sale price in the currency of investment.

Note 6 – Portfolio investments

All amounts are stated in USD 000's
As at 20th February

		2004	2003
Quoted investments			
Equities at cost		180,830	188,580
Bonds at cost		409,970	470,826
Difference between cost and market value of investments		19,883	(31,545)
	A	**610,683**	627,861
Unquoted investments			
Property mortgages at cost		11,338	10,466
Miscellaneous investments at cost		4,428	2,438
	B	**15,766**	12,904
Total	A+B	**626,449**	640,765

Portfolio investments at valuation
The market value of unquoted investments does not, in the opinion of the Executive Committee, differ significantly from cost.

Note 7 – Accrued deferred call

The Committee has decided to levy a 25 per cent deferred call in respect of the 2003 policy year, payable in 2004, in accordance with the original estimate for the year.

Note 8 – Sundry debtors

All amounts are stated in USD 000's As at 20th February	2004	2003
Prepaid pension	12,324	0
Investment transactions in progress	3,825	118
Sundry debtors	4,454	719
Total	**20,603**	837

'Investment transactions in progress' refers to sales of investments at the balance sheet date, where settlements were executed after the balance sheet date.

Note 9 – Shares in subsidiary company

All amounts are stated in USD 000's	Ownership %	Total share capital	Book value	Share of total equity	Share of profit/loss
Gard Marine & Energy Limited	57.9%	USD 190,000	110,000	110,000	0
Total			110,000	110,000	0

Note 10 – Real property and fixed assets

All amounts are stated in USD 000's As at 20th February		2004	2003
Cost			
As at start of year		16,219	16,169
Purchases of subsidiary in the year		7,393	0
Purchases in the year		933	50
As at end of year	A	**24,545**	16,219
Depreciation			
As at start of year		3,135	2,959
Charge for the year		646	176
As at end of year	B	**3,781**	3,135
Net book value			
As at start of year		13,084	13,210
Net changes in the year			
As at end of year	A-B=C	**20,764**	13,084
Currency adjustment to opening balance	D	2,827	2,940
As at end of year	C+D	**23,591**	16,024

Note 11 – Currency exposure

All amounts are stated in 000's

As at 20th February 2004 Currency amount		USD	Per cent	As at 20th February 2003 Currency amount		USD	Per cent
Assets in				**Assets in**			
USD	548,310	548,310	62.5	USD	459,656	459,656	62.0
EUR	86,677	108,966	12.4	EUR	126,817	137,196	18.5
NOK	473,749	67,649	7.7	NOK	366,565	52,743	7.1
GBP	27,028	50,538	5.8	GBP	25,830	41,174	5.6
JPY	3,202,324	29,418	3.4	JPY	2,686,175	22,682	3.1
SEK	76,864	10,520	1.2	CHF	13,408	9,874	1.3
AUD	13,721	10,658	1.2	AUD	7,605	4,549	0.6
CHF	12,315	9,812	1.1	Other		13,170	1.8
NZD	5,393	3,707	0.4				
HUF	595,265	2,866	0.3				
Other		34,734	4.0				
Total		**877,178**	100.0	Total		741,044	100.0

Investment in Gard Marine & Energy Limited of USD 110,000 is included as USD.

Note 12 – Sundry creditors

All amounts are stated in USD 000's

As at 20th February	2004	2003
Creditors – direct insurance	2,816	1,094
Creditors – reinsurance operations	702	874
Investment transactions in progress	27,789	47,186
Accrued taxes	1,594	619
Pension liabilities	8,583	3,762
Sundry creditors	11,212	3,956
Deferred income	745	1,772
Accrued expenses	14,762	7,072
Total	**68,203**	66,335

'Investment transactions in progress' refers to net purchases of investments at the balance sheet date, where settlements were executed after the balance sheet date.

Appendix: Policy year accounts

A. Development of open policy years

All amounts are stated in USD 000's

Policy year		**2003**	**2002**	**2001**	**Total**
Premiums and calls					
Invoiced in prior years		0	173,110	137,749	
Invoiced in current year		217,113	1,197	(11)	
		217,113	174,307	137,738	
Additional calls debited		629	31,881	25,505	
Estimated deferred calls		37,880	0	0	
Total premiums and deferred calls		255,622	206,188	163,243	
Reinsurance premiums		(63,098)	(48,427)	(31,866)	
	A	192,524	157,761	131,377	
Incurred claims net					
Claims paid		33,138	73,353	73,080	
Estimates on outstanding claims		86,469	55,453	33,190	
IBNRs		68,211	23,383	8,961	
Future claims management costs		6,187	3,153	1,686	
		194,005	155,342	116,917	
Operating expenses		37,783	27,886	22,858	
	B	231,788	183,228	139,775	
Investment income	C	119,551	38,643	(12,085)	
Surplus/(Deficit) on open policy years	A-B+C=D	80,287	13,176	(20,483)	**72,979**
Closed policy years					
Surplus in respect of 1999 and prior years as at 20th February 2003					310,983
Transfer on closure of 2000 policy year					(42,745)
Changes to policy years prior to 2000					(13,382)
General contingency reserve as at 20th February 2004					**327,835**

B. Analysis of balances available for outstanding and unreported claims for open and closed policy years

All amounts are stated in USD 000's

Policy year	2003	2002	2001	Closed years	Total
Gross estimated outstanding and unreported claims					
Own claims	142,093	93,622	45,812	183,720	465,247
Pool claims	19,798	19,307	1,538	38,202	78,845
Estimated reinsurance recoveries due from					
The Pool	5,184	11,433	399	28,934	45,950
The Group excess loss reinsurance contract	0	16,843	0	0	16,843
Others	2,026	5,817	4,800	6,021	18,664
Net estimated outstanding and unreported claims	154,681	78,836	42,151	186,967	**462,635**
Future claims management costs	6,187	3,153	1,686	7,479	18,505
Provision for outstanding and unreported claims	160,868	81,989	43,837	194,446	**481,140**
General contingency reserve	80,287	13,176	(20,483)	254,856	**327,835**
Balance available for outstanding and unreported claims as at 20th February 2004	241,155	95,165	23,354	449,302	**808,975**

Notes to the policy year accounts

1. Premiums, deferred calls, supplementary calls, reinsurances and claims are credited/charged to the policy year to which they relate. Operating expenses and investment income are charged/credited to the same policy year as the financial year in which they are brought to account.
2. The annual accounts include the 25 per cent deferred call levied for the 2003 policy year.
3. The approximate yield of a 10 per cent supplementary call on the open policy years would be:
   2001 policy year USD 9.5 million. 2002 policy year USD 11.6 million. 2003 policy year USD 14.9 million.
4. 'Incurred claims net' comprises claims paid (net of reinsurance recoveries), together with contributions to other P&I associations under the Group Pooling arrangement and net estimates for outstanding and unreported claims.

   Estimates on outstanding claims refer to those incidents which have been notified to the Association and on which estimates of the expected exposure have been placed. Incurred but not reported claims (IBNRs) have been calculated on a basis approved by the Association's consulting actuaries.

   Due to the characteristics of P&I claims, both sets of estimates, in particular in respect of the more recent years, may change substantially.
5. Provision for outstanding and unreported claims for closed years, USD 194.4 million, consists of estimated outstanding claims in the amount of USD 133.5 million, estimates for IBNR claims of USD 53.4 million and provision for future claims management costs of USD 7.5 million.

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This report, apart from the statement by the Chairman, has been prepared by Gard AS, managers of Assuranceforeningen Gard ('the Association'), from data and accounts provided by the Association and by its 'sister' company, Gard P&I (Bermuda) Limited ('the Bermuda Association'). The Bermuda Association's principal activity is as reinsurer of thirty per cent of the Association's retained risks. The report combines the activities of the two Associations in accordance with standard principles of consolidation. It has no formal legal significance, but is provided with the aim of giving Members an easily assimilated summary of the overall financial position of their P&I insurer. The report and accounts of the Association prepared in the Norwegian language have been filed with the relevant authorities, as required by Norwegian law. Those accounts, which are available to Members on request, will be submitted for approval to the Association's Annual General Meeting in Arendal on 20th August 2004. The accounts of the Bermuda Association have already been approved in General Meeting.

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