

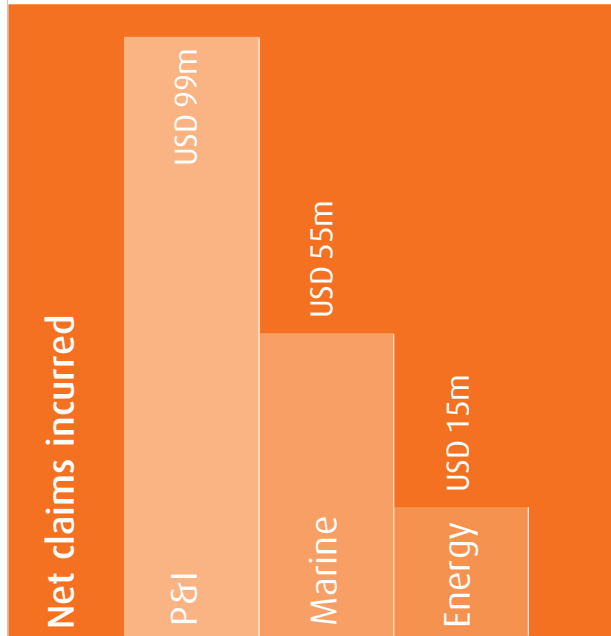
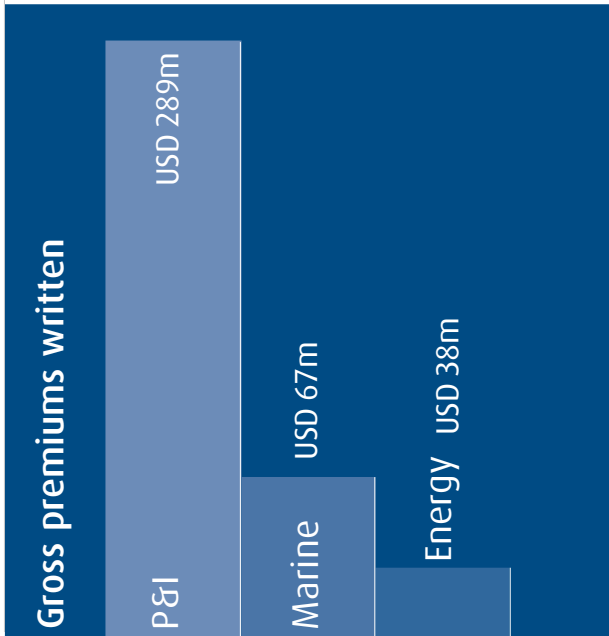


Half Annual Report 2005  
20 August 2005



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*chief executive's statement*

The 2005 year has had a good first half across all our business areas, despite a competitive pricing environment in each risk class. With shipping activity remaining brisk claims levels are high throughout the industry. I am pleased to announce that for the first half of the 2005 year our combined net ratio overall was 99%. Our overall surplus for the period was USD 27 million with our general contingency reserve increasing to USD 416 million.

For the first time, the proportion of premium income coming from clients shared across more than one business area has topped 50%. For example, Team Europe has shown a net growth in premium of close to USD 10 million for P&I and Marine together with 75% of this growth coming from joint clients.

Since 20th February 2005 the P&I Club has had a net tonnage growth of around 2 million gt and of the 6 million gt of new entries half are newbuildings. Marine had gross written premiums of USD 67 million in the first half of the year and had a combined net ratio of 95%. Energy had a successful first six months with a combined net ratio of 84% and gross written premiums of USD 38 million.

While not technically falling within the reporting period, it would be impossible to talk about Energy without reference to Hurricane Katrina. The complexity of the losses, and the fact that the situation is still evolving, means that arriving at a loss figure for this event will take some time. While assessing the physical damage claims is relatively

easy, the business interruption claims are much more complex as the damage has occurred to both the offshore and onshore installations and, possibly, the underwater pipeline infrastructure. However, even the worst case, net exposure for Gard would still leave the overall claims' picture within projections for the year to date. It is therefore not expected that this event will have a material impact on the Group's financial forecasts for the full year.

From an investment perspective it has been a satisfactory start to the year with a 3.1% return at the group level, contributing to a non-technical result of USD 26 million.

The markets in which we operate continue to get more challenging, not less. Recent events will only exacerbate that trend. We believe that we are well positioned in these competitive times, and we will retain our focus on the most important part of the business - providing as complete a service as possible to our clients. We very much hope to see many of you in person in the coming months and to discuss with you your particular needs for the forthcoming year.

Claes Isacson  
Chief Executive



### P&I

2005 has seen a steady start to the policy year. Premium income of USD 144 million was earned in the first six months, reflecting USD 289 million written at renewal. The technical result was a loss of USD 4 million giving a combined net ratio of 104%.

Sale and purchase activity in the shipping market has been brisk and this is reflected in the movement of tonnage within the Club. Since 20th February, approximately 6 million gt of new entries had been added, of which 50% are newbuildings and the rest are second-hand purchases.

During the same period there has been an outflow of nearly 4 million gt, giving an overall tonnage gain of 2 million gt. The average age of the vessels being entered into the Club is getting younger, with 63% of the new entries less than 5 years old. This is in part due to a conservative underwriting strategy which has meant that older tonnage is leaving the Club rather than entering it. This reflects Gard's goal to focus on the quality of vessels and owners, not on volume.

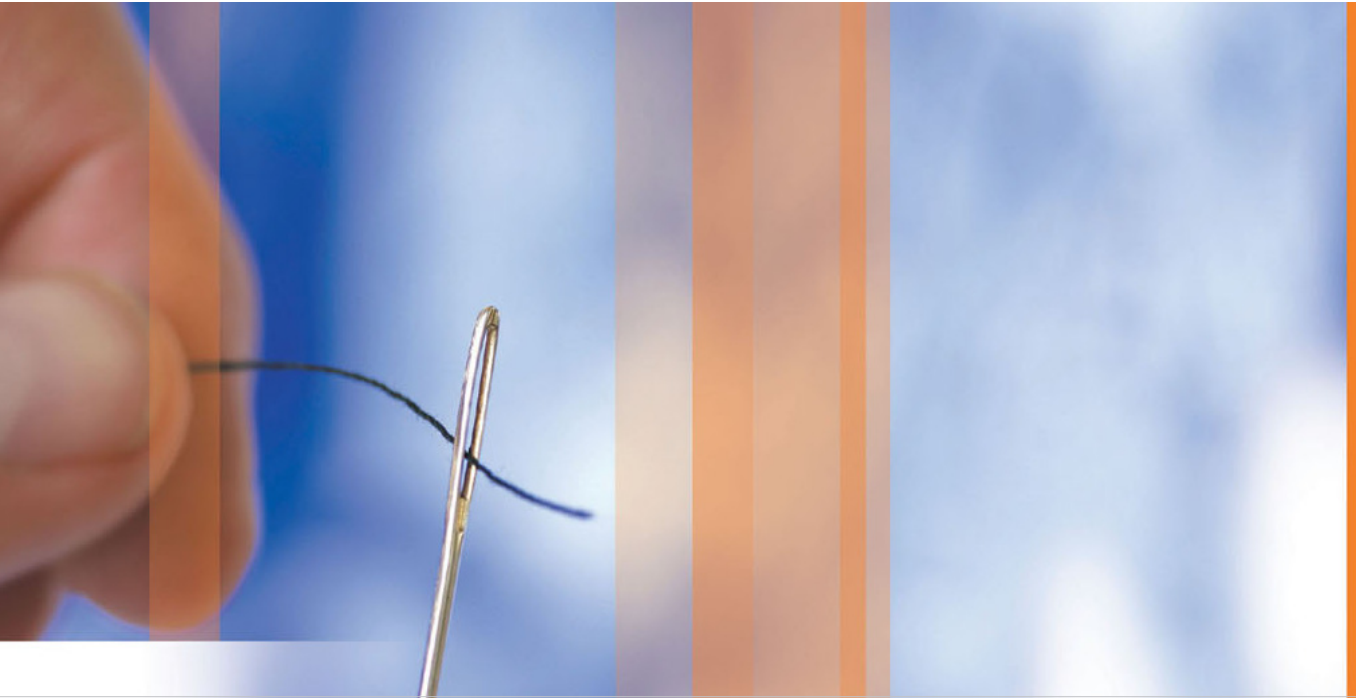
There is no doubt that the cost of claims is increasing across the whole P&I market, and if the shipping market remains very active it is not likely that claims will abate. This will undoubtedly be taken into account when consideration is given to the level of general increase at the coming renewal.

### Marine

The first six months of the year have delivered an acceptable result, with reasonable rates being achieved across the portfolio. The Gard Marine Premium Index has remained at 107%, only fractionally lower than the 2004 average. Gard has continued its policy of careful selection of both risks and clients and since 20th February 2005 total premium written was USD 67 million, with a combined net ratio for the period of 95%.

The global underwriting environment in this class remains challenging however, with new competition coming into the market especially from Asia. This increased competition and capacity has produced a degree of rating pressure. While some sections of the market are maintaining underwriting discipline, this is not always the case, limiting the volume of profitable business available.

The cycle has reached an interesting point. Some commentators have predicted that higher reinsurance and catastrophe retrocession costs, after the recent unusually high windstorm losses in 2004 and 2005, will harden rates across the main classes of risk. While this might attract some new capital, losses will also drive some capacity out of the market. It is expected that 1st January renewals will offer a better indication about how the market will react going forward.



### **Energy**

Since February 2005 the energy market has followed a fairly predictable path. There were slight reductions in premiums for risks in areas outside the Gulf of Mexico. For those within the Gulf there was a tightening of wordings, and increases in deductibles and premiums. Whilst there was some movement in brokers and underwriters, clients in general remain loyal and the market held steady. In this environment Energy delivered a combined net ratio of 84%, and gross written premiums of USD 38 million.

There is no doubt that recent windstorms will have a significant impact on the energy market. The difference between the losses incurred this year, and those resulting from Hurricane Ivan, is that this year both the on and offshore oil and gas industry were hit simultaneously something not seen since Hurricane Andrew in 1992. For those with books of business in both up and downstream this will mean heavy losses with the resulting impact on the reinsurance market.

### Claims and loss prevention

Both the shipping and the energy markets have seen a continuation of the buoyant markets that were a feature of the previous year, although some segments of the shipping market have dropped back to more normal freight rates. A high fleet utilisation rate has historically led to a higher frequency of claims, including large claims. However, if the claims development of recent years is reviewed from the perspective of the past 10 years, on a per tonne basis and adjusted for inflation and tonnage increases, there has in fact been only a moderate increase in claims.

While claims resulting from navigation-related errors, most of them classic human errors, continue to feature in Gard's records, further careful analysis and historical comparison will have to be made to draw any firm conclusions as to whether this is a long-term trend.

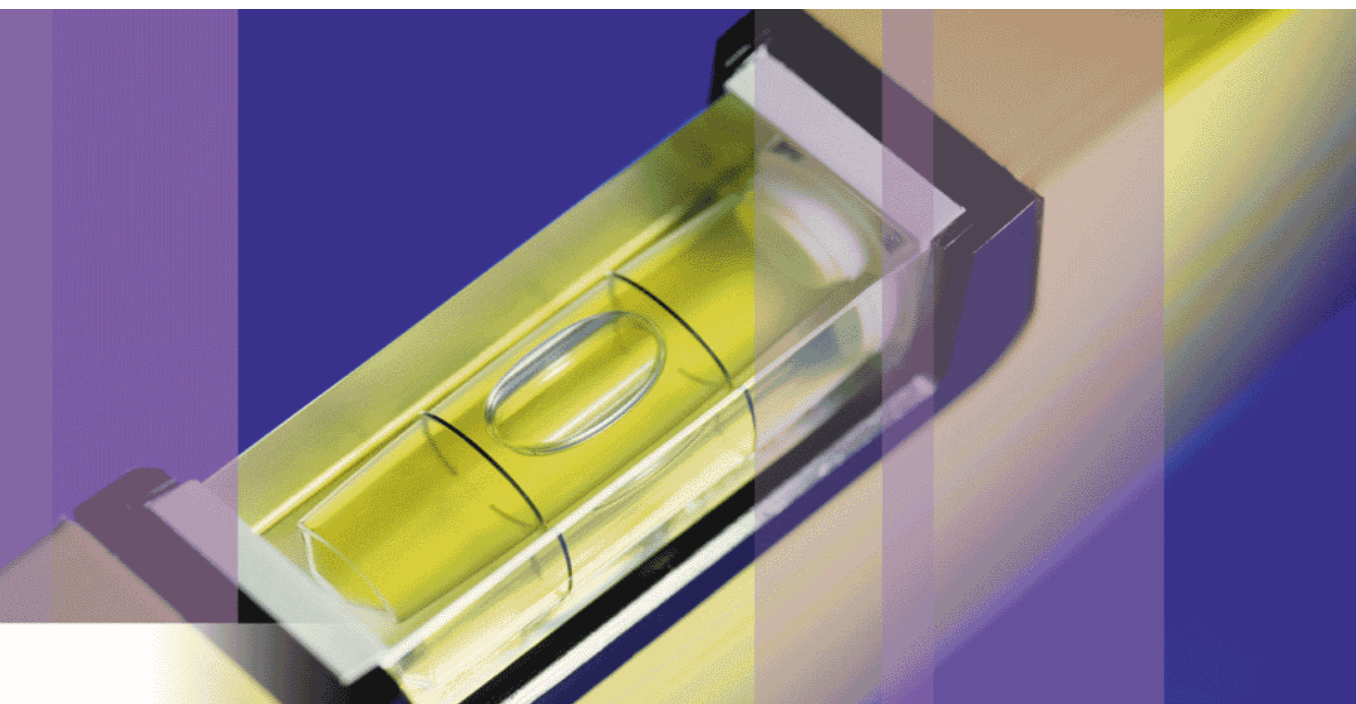
Gard is working to bring its claims and underwriting staff ever closer together. Claims executives are included in the market teams and this closer co-operation ensures that the claims' experience is an intrinsic part of risk assessment, selection and pricing.

### P&I

For the first six months of the 2005 policy year net claims incurred, which include net adjustments in provisions held for known and unknown claims in earlier years, totalled USD 99 million. The comparative figures for 2004 and 2003 were USD 75 million and USD 85 million.

For the claims incurred since 20 February 2005 there are three features worth commenting on:

- The average severity of claims less than USD 200,000 has increased, principally due, it is believed, to higher average freight rates and cargo values.
- The number and value of claims in the band from USD 200,000 to USD 2 million have reduced compared to last year.
- The number and overall value of claims exceeding USD 2 million has increased. In particular there have been a higher than usual number of relatively severe collision incidents. Operational pressures and increased traffic congestion and complexity created by buoyant markets are likely to lead to a higher number of collisions, groundings and contact damage claims, but it is too early to say whether the number of incidents experienced in the first six months of 2005 is representative of what is to be expected in the future.



### Marine

Since 20th February, the net claims incurred were USD 55 million. New claims incurred in the period have been somewhat below forecast, but this has been largely offset by a deterioration in claims incurred during the fourth quarter of 2004.

Crewing remains a serious cause for concern for everyone involved in shipping. The increasing number of accidents caused by human error as a proportion of all claims, means that addressing the competence issue should be a high priority for the industry. The stabilisation in steel prices has meant some reduction in the cost of repairs, however the capacity shortage in repair yards means a ship is out of commission longer than normal.

### Energy

The total provision for net claims incurred to the 20th August, 2005 was USD 15 million. The trend was for increasing claims and this primarily came from business interruption. The sustained high price for oil and gas has meant that everyone involved in the upstream oil and gas industry is taking much more seriously the issue of reduction of income caused by loss of production or hire.

While the overall market loss for Hurricane Katrina will undoubtedly be much higher than it was for Hurricane Ivan, it is unlikely that Gard's share of that loss will be proportionately higher.

Uncertainty as to the absolute amount results from the fact that the significant claims are likely to be due to business interruption not physical damage. The business interruption claims will depend on how long production is out of service, and that is still very unclear. The problems lie less with the platforms themselves and more with the onshore receiving facilities. Continuing power failure, flood damage and restricted access from the authorities means that, even if the oil companies are pumping oil, they have nowhere to send it. How long it will take to get full production back up and running while the surrounding area remains without electricity and under water is still very much a matter of conjecture.

### Loss prevention

The first half of 2005 saw a busy schedule of activity. So far this year, Gard has produced 10 loss prevention circulars covering a wide and diverse range of topics. Technical surveys are one of the cornerstones of Gard's claims prevention activities. These surveys are conducted in close co-operation with clients and Members and use Gard's full time surveyors and the surveyor resources in the branch offices. In the last six months 60 surveys have been performed at a number of locations around the world. Monitoring the condition of ships, from both new and existing clients and Members, is of vital importance in maintaining the high quality of Gard's portfolio. Risk assessments is the foundation stone for this, and 47 fleet assessments, 12 Port State Control reports and two class reports have been completed already this year.

# Summary combined consolidated income and expenditure accounts and balance sheet

## Summary combined consolidated income and expenditure accounts

Six months to 20 August	2005	2004
Premiums and calls*	259,574	262,096
Net premiums earned	216,368	205,937
Net claims incurred	168,938	150,965
Net operating expenses excluding claims handling costs	46,063	40,655
Result on technical account	1,367	14,317
Result on non-technical account	25,834	(3,315)
Surplus/(Deficit)	27,201	11,002
Combined net ratio	99%	93%

\* Premiums and calls include one half of estimated total calls for the P&I business and gross earned premium for the marine and energy business.

## Summary combined consolidated balance sheet

As at	20 August 2005	20 February 2005
Investments at market value	1,088,535	1,085,376
Cash and equivalents	116,679	40,082
Other net assets	244,568	223,189
Net assets	1,449,782	1,348,647
Unearned premium reserve for own account	145,163	93,453
Provision for outstanding and unreported claims	807,049	801,281
Other liabilities	81,505	65,049
General contingency reserve	416,065	388,864
Net equity and liabilities	1,449,782	1,348,647

Net equity investment in the wholly-owned subsidiary Gard Marine & Energy Limited was USD 206 million as at 20th August 2005 (USD 193 million as at 20th February).



## Gard P&I and M&E - Result on technical account

Six months to 20th August 2005	P&I	Marine	Energy
Premiums and calls	144,303	78,563	36,708
Net premium earned	119,076	70,536	26,756
Net claims incurred	99,172	54,626	15,140
Claims handling costs	8,800	(320)	400
Net claims costs	107,972	54,306	15,541
Net operating expenses - excluding claims handling costs	15,274	12,946	6,900
Result on technical account*	(4,170)	3,284	4,315
Claims ratio net	91%	77%	58%
Expense ratio net	13%	18%	26%
Combined net ratio	104%	95%	84%

\* The technical result for the combined consolidated account include charges at a Group level.

This report has been prepared by Gard AS, managers of Assuranceforeningen Gard (the Association), from data and accounts provided by the Association and its 'sister' company, Gard P&I (Bermuda) Limited (the Bermuda Association) and Gard Marine & Energy Limited.