Management Report

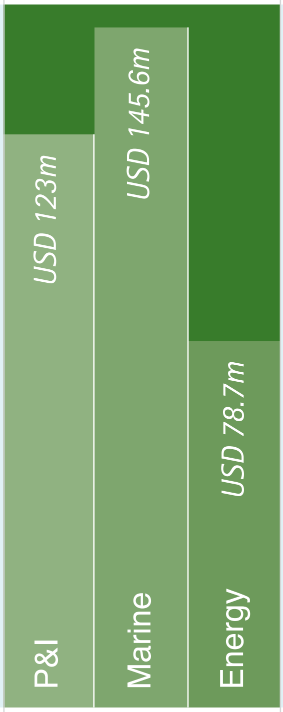
20th February **2005**

contents

highlights

Premium income

The 2004 year of account was the first in which Gard has genuinely controlled the entire underwriting process for all its business areas. In every class of business there are challenges to be met in terms of pricing and terms and conditions.



Reported claims

The buoyancy of all the underlying markets in which Gard's clients are involved has inevitably meant an increasing number of claims, and growth in the size of many of those claims. For the 2004 year the combined net ratio overall was 101.5%, a strong performance in a difficult and highly competitive market.

Market share

Gard has created its first multi-product team, Team Europe, in which all areas of the business come together to evaluate the complete range of clients' needs and understand better the risks across all parts of the business. 47% of Gard's business now comes from cross-sales, and this is a model that will be rolled out across other geographical areas in the coming year.

Surplus for 2004 USD
61
million

General contingency reserve USD
389
million

Total assets USD
1.35
billion

Security

2004 was a very good year for the group. The financial position has improved, so that free reserves now amount to USD 5 per mutual gt, and overall reserves have grown by 18% during the year. USD 74 million was earned from investment income and the combined portfolios returned 6.5% over the 12 month period.

chairman's statement

"gard has had another successful year across all areas of its business, resulting in an overall surplus of USD 61 million."

In my first year as Chairman I am delighted to report that Gard has had another successful year across all areas of its business, resulting in an overall surplus of USD 61 million. For the first time we are presenting consolidated accounts, reflecting the fact that we have had control of Gard Marine & Energy for the last 12 months. As you will see from this report the investment is currently delivering many of the benefits that we anticipated when we entered into it.

However, like any company in today's economy, Gard cannot stand in isolation from the world in which it operates. Some of today's global trends provide an interesting perspective on the challenges we face.

Demand for tonnage is being driven by the growth of global trade, the increase in global outsourcing and more efficient supply chain management systems. Rough estimates indicate that as much as 40 to 45% of the tonnage demand growth in the last two years can be attributed to the expansion in China, without doubt the main contributor to the strong upturn in most shipping segments. Higher oil prices will have a detrimental effect on global economic growth, and the general consensus seems to be that the rate of growth will weaken, albeit not significantly.

2004 will likely be remembered as one of the most profitable years for shipowners. For the second consecutive year there was a sharp upturn in almost all market segments.

Fleet utilisation, freight rates, newbuilding prices, second-hand prices and return on capital have all risen to unprecedented levels. The question is whether this can be sustained. The effect of slowing economic growth on tonnage needs to be considered alongside the increasing number of speculative orders on the supply side.

Utilisation rates rose from 83% in 2002 to 91% in 2004 – by industry standards this is effectively full capacity usage. Despite substantial expansion in the capacity of the shipbuilding industry, this will only be able to accommodate 6% of annual tonnage demand beyond the replacement of vessels of 25 years or older. As a result, the global fleet utilisation rate can be expected to remain high.

It is likely that this level of utilisation will impact negatively on the number of claims for both P&I, and marine and energy underwriters. The unprecedented order book will also put pressure on the supply of crews, in both quantity and quality. Statistics show that 60% of collisions are due to human error; so with fleet utilisation at capacity levels and new vessels becoming more sophisticated, the proper training of crews will be critical for the industry. This will be particularly important given the progressively more stringent regulatory framework on safety and environmental matters, not to mention the criminalisation of shipboard pollution in certain jurisdictions.

On the regulatory front there is an increasing drive by national and trans-national bodies to raise standards in the shipping industry. The ISPS Code came into force in 2004, and this combined with the ISM Code has meant an increasing focus by shipping companies in these areas of their operations.

It is because Gard is owned "by the industry, for the industry" that it is uniquely able to be a partner to our clients: understanding the challenges that they face, and offering solutions and support.

Another area of serious concern for everyone involved in the shipping industry is the criminalisation of seafarers. The draft EU Directive issued in June 2004, and the case of Captain Mangouras of the Prestige both highlight the problem. If State authorities continue to target seafarers, shipowners may well find that quality staff will seek jobs onshore, leaving a dearth of qualified crew onboard.

The soaring price of oil significantly affects all aspects of the energy market. For the oil companies themselves previously marginal fields have become viable, and more investments are being made in both production and exploration. For the support industries such as drilling contractors and suppliers of rigs, their levels of activity have also increased substantially. As a result, the protection of loss of income, as well as the physical assets, has become increasingly important.

The International Group is a key component of the partnership between the shipping and insurance industries, and one of which Gard is highly supportive. We are pleased that we are now seeing a strengthening of the Secretariat, adding to the effectiveness of the organisation. However, we believe that there are still key issues that need to be addressed. Despite the increase in each Club's retention level to USD 6 million, Gard believes that it is clearly in the Group's interest further to increase retained risk, both through a higher Club retention – which, incidentally, sends a strong message about how seriously the Group takes the issue of sub-standard shipping – and through the expansion in due course of the role of Hydra.

An understanding both of existing risks and where new risks may come from, is a vital part of our business. Whether it is people, technology, changes in regulations, or new business challenges there is a clear need to do business with an insurer who understands these and can work as a partner when offering solutions.

It is because Gard is owned "by the industry, for the industry" that it is uniquely able to play the role of such a partner: a partner that contributes a wealth of experience and knowledge; a partner that understands that insurance is more than just financial protection for an asset; a partner that provides the support required if a casualty occurs.

All the activities that are outlined in this management report underpin this philosophy of supporting the needs of Members and clients.

I would like to take this opportunity to thank all the Members of our Committees and Boards for their time and support over the last 12 months, our correspondents for their invaluable efforts on our behalf, and the management and staff for their hard work and commitment to delivering a first class service. I look forward to building on our success in the coming year.

Stephen Pan
Chairman

key events

Feb 20th, 2004
Total funds available to pay claims USD 809 million

Jan 24th, 2005
Standard & Poor's affirms its 'A' ratings on Gard

Jan 28th, 2005
Gard's purchase of If P&C's 42% minority shareholding in Gard Marine & Energy Limited

Feb 20th, 2005
Total assets for the group USD 1.35 billion

chief executive's statement

"for 2004 our combined net ratio overall was 101.5%, a strong performance in a difficult and highly competitive market."

Our 2005 Management Report is tangible evidence of the changes that have been taking place in Gard, both over the last 12 months and for several years before. Since the purchase of If P&C Insurance Ltd's 42.1% minority shareholding in Gard Marine & Energy in January of this year, the Gard group is reporting as a single entity for the first time. Whilst our capital bases for P&I, and marine and energy remain separate, we have structured our report to demonstrate the genuine integration of our operations, and to illustrate the contribution we hope we make to the management and transfer of risk for our clients and Members.

Over the century that we have been in business, our underlying principle has been to offer our clients the financial security they need, combined with the quality of service that they deserve. This is still the foundation stone on which every aspect of our business is built.

The 2004 year of account was the first in which Gard has genuinely controlled the entire underwriting and claims process for all its business areas. In every class of business there are challenges to be met in terms of pricing, terms and conditions and claims. Since 21 February 2004, the P&I Club saw an increase of around 4 million gt of owners' tonnage, bringing the total tonnage well in excess of 120 million gt, and it is interesting to note that there is as much activity during the year as at the year end.

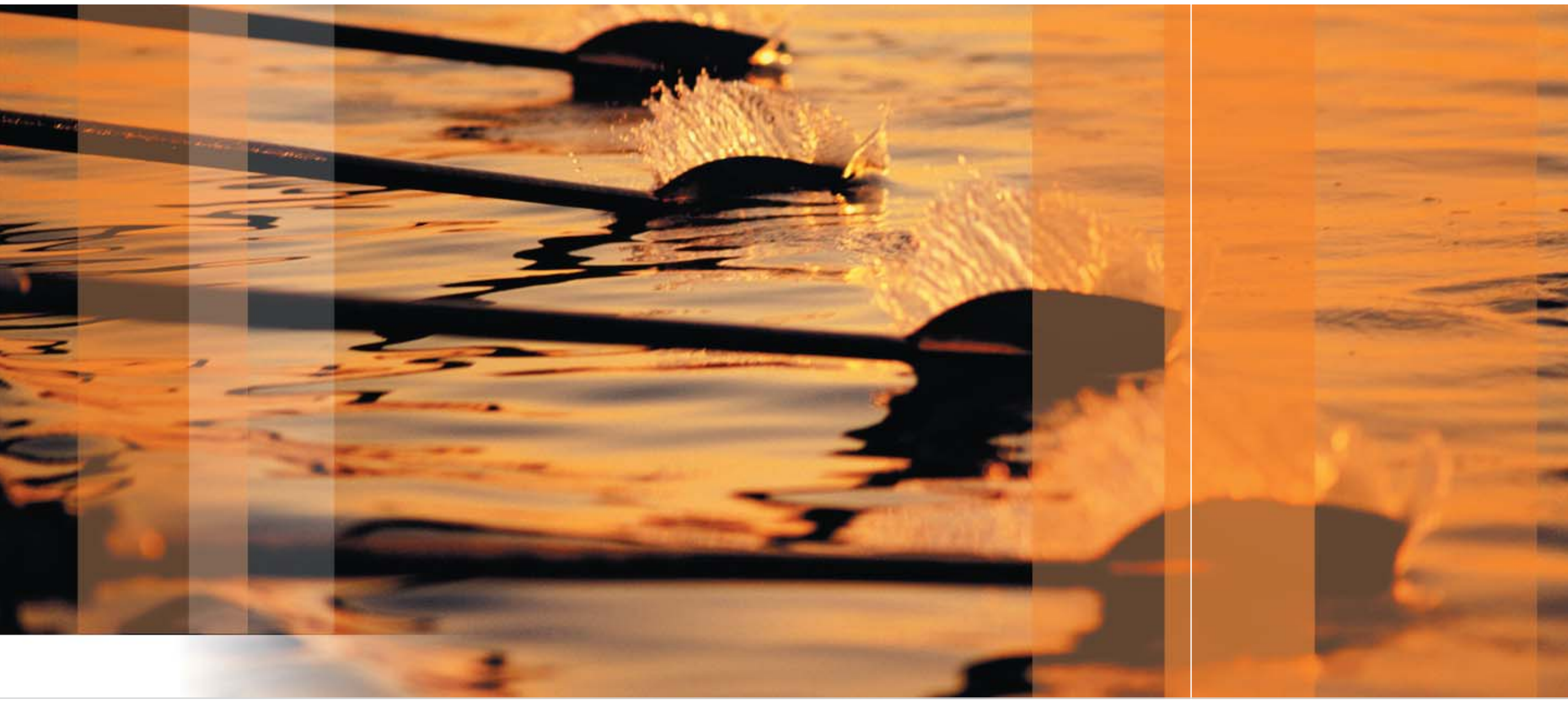
The marine market remains highly competitive. However, Gard has maintained its strategy of underwriting selectively, and has increased its premium income by USD 22 million. In addition, there has been some significant portfolio rearrangements. A series of hurricanes, culminating in Hurricane Ivan, caused a significant turn in what had been a quiet year in the energy market. Prices, which had been drifting off, started to firm again particularly in the Gulf of Mexico.

The buoyancy of all the underlying markets in which our clients are involved has inevitably meant an increasing number of claims, and growth in the size of many of those claims.

Against this background, I am delighted to announce that for the 2004 year our combined net ratio overall was 101.5%. We believe that this is a strong performance in a difficult and highly competitive market. Our overall surplus was USD 61 million, which means that our free reserves have increased to USD 389 million.

The affirmation by Standard & Poor's of our A ratings in early 2005 is one of the main pillars of our financial performance. Their recognition of our very conservative reserving and reinsurance protections, our strong risk-based capitalisation and a more than satisfactory operating performance is an excellent testimonial to the ongoing success of the business.

Our underlying principle is to offer our clients the financial security they need, combined with the quality of service that they deserve. This is the foundation stone on which every aspect of our business is built.



At the operational level we have continued our strategy of integration to improve our financial and operational performance. Our risk-based capital (RBC) model became fully operational in 2004 and has had a significant impact on strategic and operational decision-making for 2005, particularly in relation to financial planning, reinsurance purchasing and asset allocation. It has allowed us to realise significant synergies in a number of different areas, including fund management and reinsurance.

We have also put in place the building blocks that will allow us to deliver more efficient and effective service to our Members and clients.

We have created our first multi-product team, Team Europe, in which all areas of the business come together to evaluate the complete range of our clients' needs and understand better their risks across all parts of their business. With 47% of our business now coming from cross-sales, this is a model that we intend to roll out across other geographical areas in the coming year.

We are working with strategic partners to provide a common platform across all our business areas, delivering better tools to all our underwriters and claims staff and enhancing their ability to work together, whilst at the same time reducing our cost base. We expect the synergies that we can derive from the joint business areas to grow as the year progresses, particularly in the area of operational co-operation and shared resources.

I would like to thank all our staff for their contribution to our performance this year. As always it has been a busy year, and their commitment is an intrinsic part of our ability to serve our clients as they would wish. We are also grateful for the continued support of our clients and members. We greatly look forward to the next 12 months, building on our solid foundations and continuing to deliver on our promises of financial security and quality service.

Claes Isacson
Chief Executive

"2004 was probably one of the most profitable years for shipowners, with a sharp upturn in almost all market segments."

Shipping industry trends

After a decade of poor returns in the 1990s, the new decade has produced extremely good profitability levels for the shipping industry. In both 2003 and 2004 the estimated tonnage demand grew by 10% across the world merchant fleet, while in the same years the fleet grew by only 5% per year. In the majority of cases, most segments of the shipping industry ended 2004 with higher freight rates than at the beginning of the year

China has, without doubt, been an important contributor to the strong upturn in demand in most shipping segments. If China is excluded, tonnage demand has risen by only 5 to 6%.

The world shipbuilding industry is geared to a long term underlying trend of tonnage demand of 4 to 5%, plus the replacement of old vessels. Despite substantial expansion, 2006 and 2007 will see an annual delivery capacity estimated to be about 45 million gt (or 6% of tonnage demand). If tonnage demand remains high this will leave a shortfall of 70/75 million gt for each of these years.

The result is that the whole supply chain for shipping is working at extremely high utilisation rates, which are likely to continue.

Ships are working harder in a booming freight market. This, combined with higher cargo values, larger vessels and additional external liabilities mean an increase in the demand for effective risk solutions.

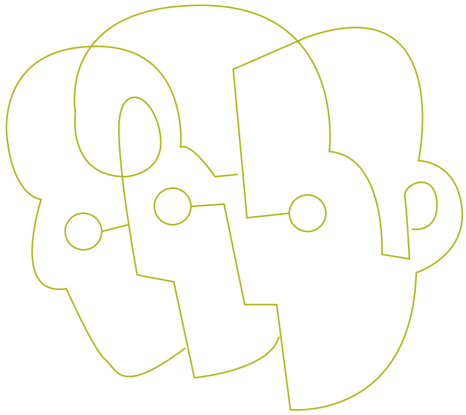
Demand for insurance

Owners, operators and charterers work their ships harder in a booming freight market, which has caused an upsurge of navigation-related incidents such as groundings, collisions and strikings. Equally, good freight markets mean generally higher cargo values, which serve to increase the claim costs for loss of, damage to, or delay in delivery of cargo. Also ships (both cargo and passenger) are increasing in size and capacity, and shipowners are being asked to take on greater responsibility for events outside their vessels with greater additional liabilities.

All of these factors affect the demand for existing and new products, as well as having an impact on pricing. In the last few months vessels that carry 9,500 teu have been launched raising significant issues surrounding the accumulated risk on one keel, as well as that of general average among so many container owners.

P&I

Premium income of USD 284 million was earned in 2004 with a strong technical result of USD 3.5 million. Total tonnage is well in excess of 120 million gt.



P&I underwriting

2004 was a good year for the Club with steady growth throughout the year. Two million gt of owners' tonnage was added during the year, one million gt of MOU's and USD 2.5 million of gross written premium from the charterers' market. Gard's goal, as always, was to focus on the quality of vessels and owners, rather than volume. By 20 February 2005, Gard's total tonnage was well in excess of 120 million gt, a very pleasing result for a year which saw a more competitive environment than in recent years.

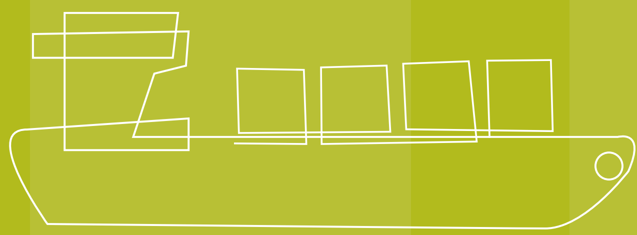
Premium income of USD 284 million was earned in 2004 and a strong technical result of USD 3.5 million was driven by improved operational performance of fixed premium products, realisations from previous years and continued efforts to improve the accuracy of reserving.

There were two significant product developments during the year. In October 2004, Assuranceforeningen Skuld decided to cease offering P&I insurance for MOUs from 20 February 2005. It was agreed that Gard would offer insurance to Skuld's MOU customers from that date. This left Gard as the market leader in this sector, and the increased portfolio will generate further economies of scale for the organisation.

Gard also introduced Divers' P&I Cover, a new product in the range of additional covers developed by Gard. It was designed to fill the gap created by the exclusion in the standard P&I cover of liabilities, losses, costs and expenses arising out of the activities of professional or commercial divers. The risks covered are: liability arising out of the personal injury, illness or death of commercial divers engaged by the assured, and liabilities incurred by the assured to third parties as a result of an act or omission of commercial divers engaged by them.

marine

The key challenge for the future is to maintain underwriting discipline throughout the cycle, and to create a genuine difference for clients. In 2004, total premium written was USD 184.3 million.



Marine underwriting

Despite the favourable conditions for shipowners, marine underwriting is still a fiercely competitive business. One of the reasons for the highly competitive nature of the international hull market is that there are virtually no barriers to entry. It is possible to participate in the hull market solely on the basis of an acceptable capital base, without building up any service capability or claims expertise.

The key challenge for long term players like Gard is to maintain underwriting discipline throughout the cycle, and to create a genuine difference for clients.

Prices have been rising since 2000 in the international hull and machinery market, and Gard's premium index increased during 2004 to 107.8%. Gard continued its policy of careful selection of both risks and clients, combined with an increased focus on profitability. In 2004, total premium written was USD 184.3 million. The net combined ratio for the year was 98.6%. Gard also spent time in the last 12 months reconstructing some parts of the portfolio.

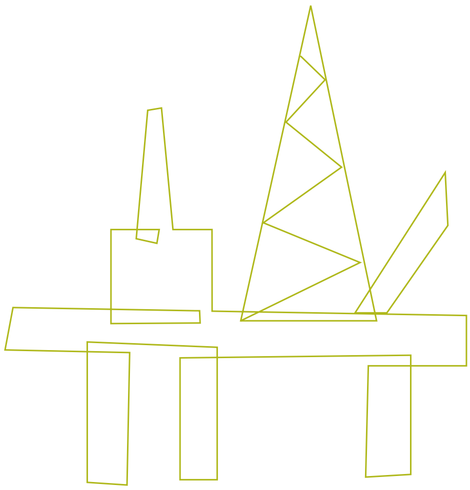
A number of clients added tonnage to the slip throughout the year, so the portfolio enjoyed some organic growth. Another area of activity was Loss of Hire, particularly in the German market where protection of cashflow is seemingly higher on the buyers' agenda. 2004 saw strong increase in the prices for Builders' Risk following a number of high profile losses in 2003. Decreased capacity from fewer players in the market enabled underwriters to take more control on rates, as well as terms and conditions. With the values of ships and rigs increasing, and raw material prices rising, buyers need to look to market participants such as Gard which has the capacity to offer the right cover in this area.

By the end of the financial year, 4,776 bluewater vessels were insured with the marine division. USD 22 million of new premium was added throughout the year. Of the new premium, almost 75% of the new clients were gained from cross sales. As a result, Gard's market share remained stable at 6% of the global bluewater hull market.

underwriting

energy

With income levels rising sharply, and asset values increasing, the oil and gas industry's requirements for protection have resulted in increased demand, both for property risks and, more importantly, for business interruption cover.



Oil and gas industry trends

The dramatic increase in the price of crude oil over the last three years has inevitably affected not just the oil and gas industry, but also the service sectors that support it. For oil companies, marginal fields have now become profitable and the level of exploration has increased, new platforms are being built, and there is a significant increase in activity for drilling contractors. Almost every company associated with the oil and gas industry is operating at virtually full capacity, and oil companies are striving to maintain their reserves.

In addition, exchange rate movements have meant that asset values have increased.

Demand for insurance

With income levels rising sharply, and asset values increasing, the oil and gas industry's requirements for protection have resulted in increased demand, both for property risks and, more importantly, for business interruption cover. Companies simply cannot take the risk of assets not performing in the current environment.

Daily rates for drilling rigs have risen, resulting in an increase in demand for loss of hire, and aggregation risk has also become more of an issue for both insurance buyers and providers. In this area, the additional business interruption risks as well as the property exposures have made further demands on the capacity in the commercial market.

Energy underwriting

After two consecutive years of low claims and good results, 2004 saw something of a sea change in the energy markets. While energy performed well overall, the principal classes within the sector (energy non-marine markets, upstream exploration and production and liability) ended the year at different points in their respective market cycles.

The rate of price decline has been more pronounced and ongoing in the onshore market, despite a short lived moratorium on rate reductions following several major losses in January, 2004. By the middle of last year these were running at around 20%, and since then reductions of 30-40% have been seen. The reason for the acceleration of price reductions onshore is principally due to over-supply of capacity.

In the upstream market the year started with a few large claims on mobile rigs in January that meant that reductions were patchier across the market. Up until September 2004 the losses for the year were still on course to deliver another good year for the commercial insurance market. However, the arrival of the hurricane season in force, and Ivan in particular, effectively changed that scenario significantly. The result was a sharp divergence in the pricing, terms and conditions for Gulf of Mexico risks, and the rest of the market. This is a trend that is expected to continue into the 2005 underwriting year.

Gard's client base has remained consistent over the last 12 months, a testament to the quality of service and commitment to the market. Written premium for 2004 was USD 63.2 million

With a 30 year history of underwriting upstream energy risks, Gard's long-term commitment to the market continues to stand the company in good stead. In a market which has seen substantial movement in both companies and underwriters, and which is renowned for its "boom to bust" tendencies, Gard retained its market position in 2004.

Written premium in 2004 was USD 63.2 million and the combined net ratio was 122.3%. This result was heavily affected by the adverse development of Construction All Risk (CAR) policies for the 1999 and 2000 underwriting years (prior to the inception of Gard Services). As a result, provisions held for these claims have been increased with USD 20.7 million net of reinsurances in order to strengthen the reserves, all of which have been accounted for in the 2004 financial year.

Gard remains the only insurer in the Scandinavian market providing extensive capacity for clients which focus on the exploration and production of hydrocarbons, both onshore and offshore, as well as support industries such as independent production contractors and mobile drilling and accomodation rig operators. Gard's client base has remained consistent over the last 12 months, a testament to the quality of service offered and the company's commitment to the market.

“through 2004 Gard’s claims organisation has used its in house expertise to provide clients with support for casualties, large and small.”

Across virtually all the markets in which Members and clients are involved, business has been booming. With oil prices 300% higher than they were two years ago, and a 30% increase in the 2004 market value of world merchant tonnage, it is inevitable that assets have been worked harder, and adequate protection against damage to assets, loss of income and third party liabilities has become more important.

Historical trend data suggests that high levels of shipping activity and booming freight rate will, after a certain time lag, generate an increased volume of insurance claims. It was therefore not surprising that 2004 showed some increase in claims across all business areas of the Gard group.

Marine and P&I

A number of factors contribute to claims in these areas

- Owners and operators may work their ships harder, pushing for increased utilisation of their fleets, suspending maintenance docking of their vessels and chartering additional vessels to increase fleet capacity.
- Operational decisions may be taken quickly based on fairly limited information, leaving less time for risk and loss prevention considerations. Officers and crews may also have been worked harder, increasing the probability of on-board errors of judgement and omissions.

- These pressures, coupled with increased density of traffic and more vessels competing for berthing time, may increase the likelihood of navigation-related incidents such as groundings, collisions, other contact damages and heavy weather losses.

- The cost of raw materials, particularly steel, is a cost driver for the repair of ships. This has a direct effect on hull and machinery costs, but also an indirect effect on P&I costs in collision cases where cover is provided for liability to the other, damaged vessel.

- Availability of repair yards is influenced by booming newbuilding activity, which may cause delay in commencement of repairs, less favourable tenders from fewer yards competing for business and higher towage costs to available yards. This has a direct effect on both hull and machinery and loss of hire claims, as well as an indirect effect on P&I claim costs in collision cases, where claims are likely to include off-hire and other loss of use elements.

- Favourable shipping markets cause both an increase in the frequency and severity of cargo claims; the former because of increased volumes shipped and port turnaround demands causing time pressures for loading and discharging; the latter because of higher values involved.

- Market expansion raises the question whether there will be a sufficient number of qualified officers and crew to run the ships. It will be interesting to review the Bimco/ISF five-yearly report on world maritime labour supply and demand

The buoyancy of all the underlying markets in which Gard's clients are involved has inevitably meant an increasing number of claims, and growth in the size of many of those claims.

expected later this year. Considering both the values of the ships and the cargoes they will be carrying under ever more complex and stringent conditions, the quality of crew is likely to be a key factor affecting claim costs in the years to come. Analysis of recent marine claims suggests that claims related to navigation issues are closely linked to human error, with causes ranging from inexperienced senior officers, a concentration on theory rather than practice during training and the amount of technology on the bridge that officers have to master.

- Ships (both cargo and passenger) are increasing in size and capacity, which serves to increase the accumulated risk on one keel.

- Charterers' liability exposure is on the rise. The English Court of Appeal has decided that a charterer may not limit liability under the 1976 Limitation Convention or the 1996 Protocol for claims falling outside the Convention, such as damage to a chartered ship. In view of the increasing size and value of ships, particularly container ships, the damage to hull risk has increased substantially over the years.

- Recent years have shown several examples of explosions on board product tankers and chemical tankers – often leading to the vessels being rendered a total or constructive total loss. A common feature in several of these incidents is that the explosion has been sparked in a cargo tank whilst the vessel sailed in ballasted condition.

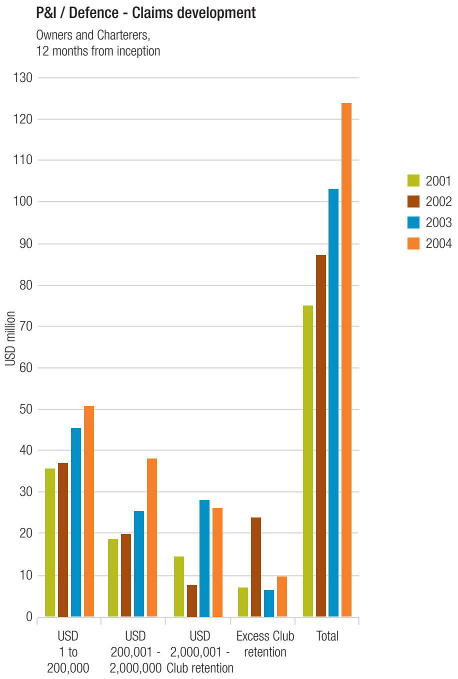
Energy

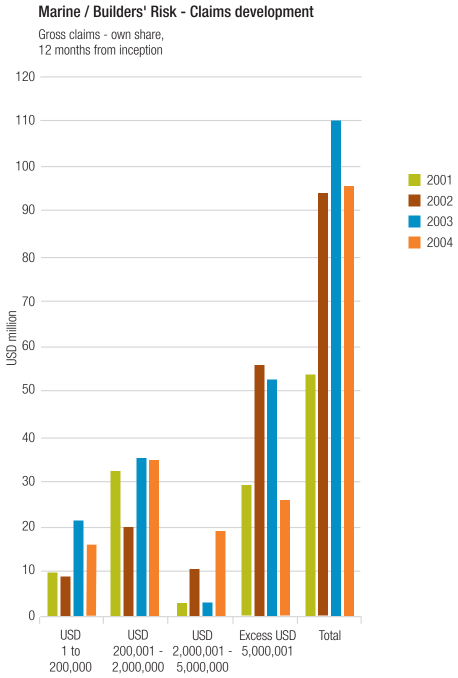
While some of the same themes occur in the energy sector, there are a number of significant differences. Although the high price of oil means that exploration and production companies have also been working their assets hard, claims frequency has tended to be lower because of the more sizeable deductibles on policies. This has meant that claims tend only to occur when they involve a complete shutdown of a facility, or some other significant event.

The other complicating factor in this sector is that facilities tend not to be owned by one company, but rather a consortium of different producers, all of whom buy their own insurance individually. From an insurer's point of view, this not only makes the claim more complicated to handle, but it also means that aggregration risk is an issue across the portfolio of production facilities and oil companies.

Protection against loss of income through production shutdown, or through loss of hire, has become increasingly important to energy clients over the last 12 months. With banks often demanding that cashflow be protected, and higher prices making income levels much greater, oil companies have become more aware of the need to buy business interruption polices. Claims against these have not really increased, but if oil prices remain high this will be a trend to follow closely.

Historical trend data suggests that high levels of shipping activity and booming freight rates will, after a certain time lag, generate an increased volume of insurance claims. It was therefore not surprising that 2004 showed some increase in claims across all business areas of the Gard group.





P&I

For the 2004 policy year, reported claims net of reinsurances totalled USD 123 million as at 12 months from inception. The comparative figures for 2003 and 2002 were USD 103 million and USD 87 million. This increase in 2004 of more than 20% on a nominal basis can only partly be explained by the concurrent increase in tonnage and number of vessels at risk. 2004 also showed a marked increase in moderate to large claims within the Club's retention. A dozen claims added up to USD 40 million, or about one third of the total exposure, reinforcing the trend towards larger claims that was noted last year.

24 months from inception, the net reported claims for 2003 totalled USD 120 million. Comparative figures for 2002 and 2001 were USD 109 million and USD 90 million. It appears that claims on the 2003 policy year have now stabilised.

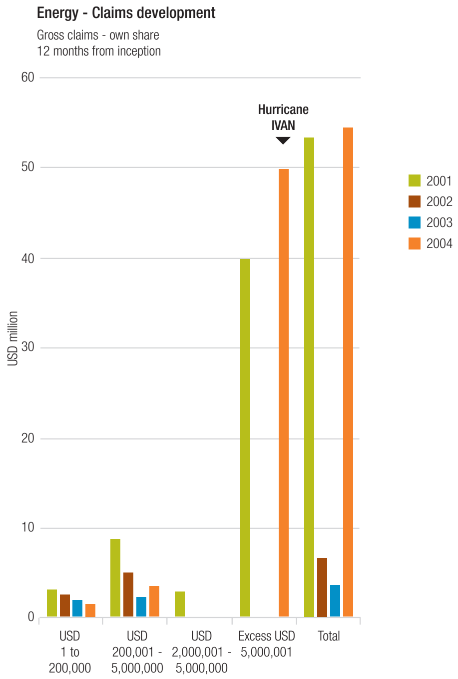
The trend towards a greater number of large claims can be seen from the development of the claim costs that have fallen on the International Group Pool in the last 10 to 15 years. The diagram below shows the overall Pool claim costs per policy year for the period 1990 – 2003, adjusted for yearly changes in International Group tonnage and increases applied over that period to Club and Pool retentions.

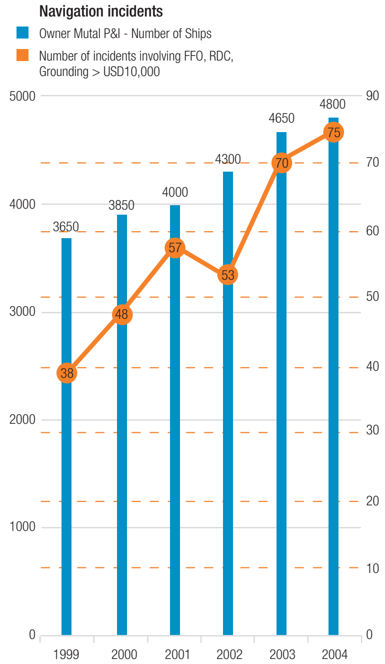
Marine

As at 20 February 2005, the total provision for reported claims was USD 145.6 million gross for Gard's share of underwritten risks. There was an increase of USD 10 million since 28 January 2004 (when Gard Marine & Energy Ltd acquired the If P&C portfolio) for claims relating to hull and machinery, loss of hire and ancillary marine covers, which was offset by a USD 10.5 million reduction in claim provisions for Marine Builder's Risk policies.

The development of marine claims falling on the 2004 underwriting year was similar to that of 2003, but much less favourable than the years prior to 2003. There has been a marked increase in navigation-related claims affecting the 2003 and 2004 underwriting years. In addition, the combination of some increase in the average written share of hull and machinery risks with more interests insured for the same vessels (e.g. loss of hire and increased value), served to accumulate risk in respect of certain casualties.

For the period 1998 to 2004, that part of the marine portfolio for which Gard M&E had the 'claims lead' performed better than the 'non-lead' part. The closer relationship with clients engendered by having the claims lead is advantageous both from a risk assessment and loss prevention point of view. As importantly, a claims lead provides greater control over the claims handling process, which can have a significant effect both on the financial outcome and the client relationship.





Energy

The total provision for reported claims at 20 February 2005 was USD 78.7 million, an increase of USD 9.5 million.

Claims on the 2004 underwriting year were largely dominated by losses arising from Hurricane Ivan. The gross estimate for Gard's share of losses is approximately USD 50.2 million. A significant part of this loss arises from business interruption claims rather than damage to physical assets. US oil companies have invested in a larger number of deep water production units with much greater daily output. This, combined with the sharp increase in the price of oil last year, meant that loss of production from these facilities incurred a much greater financial penalty.

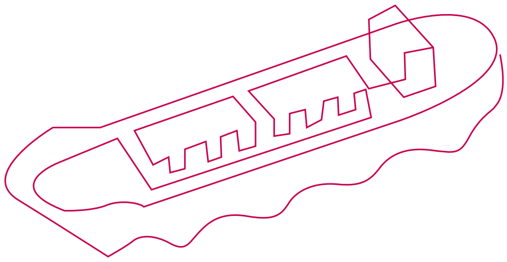
Loss of hire claims from mobile drilling units also increased in the last year. With more new wells being drilled, virtually 100% of mobile rigs are in use and prices have increased by almost 50% on average. As a result, the cost of each of these claims is higher than it has been before.

Some claims made against Construction All Risk (CAR) policies for the 1999 and 2000 underwriting years developed adversely, mainly because of late manifestations of faulty design, materials or workmanship. As a result, provisions held for these claims were increased with USD 20.7 million net of reinsurances, all of which have been accounted for in the 2004 financial year.

claims

increased shipowner liabilities

The trend toward increased shipowner liabilities and general adversity toward shipping incidents has become more pronounced. Existing international conventions have been amended to increase limits of liability.



The trend toward increased shipowner liabilities and general adversity toward shipping incidents has become more pronounced. Existing international conventions have been amended to increase limits of liability, for example:

- The 1996 Protocol to the 1976 Convention for Limitation of Maritime Claims entered into force internationally in May 2004.

- The limitation amount under CLC 92 was increased by approximately 50% with effect from November 2003 and now provides a maximum limit of liability of SDR 90 million.

- The Supplementary Fund entered into force on 3 March 2005 with a limit of SDR 750 million and currently has nine signatory States. Along with this, the Small Tanker Owner Pollution Indemnification Agreement (STOPIA) entered into force. Under STOPIA, the Clubs have volunteered to bear the cost of spills from small tankers in Supplementary Fund States that exceed the CLC 1992 limit for the polluting tanker up to SDR 20 million. Whilst it is difficult to make an accurate estimate of the likely STOPIA cost for Clubs, it is only a matter of time before payments will have to be made.

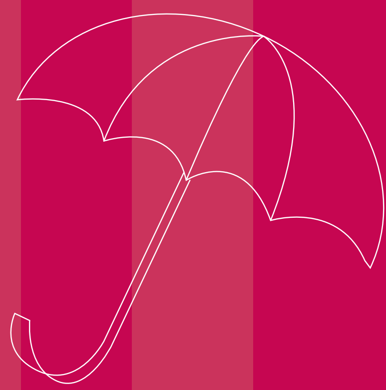
- The following international convention regimes have been adopted by the IMO but are awaiting ratification from a sufficient number of States to enter into force:
  - Bunker Spills Convention (2001): Liability and compensation in respect of pollution from non-tankers.
  - HNS Convention (1996): Liability and compensation for damage in connection with carriage of hazardous and noxious substances by sea.
  - Athens Protocol (2002): Liability and compensation in respect of carriage of passengers and their property.

All these instruments serve to increase liability beyond current levels and contain provisions for compulsory insurance. Hence, they are expected to increase claim costs as and when in force. Other international regimes, for example the convention on carriage of goods by sea including multimodal transport, as well as the convention on liability for removal of shipwreck located outside the coastal state maritime territory, are in discussion but not yet adopted. Again, they are expected to contribute toward increased liability exposure and henceforth claim costs for shipowners if they are adopted and enter into force.

Needless to say, aspects such as 'political responses' to shipping incidents, including criminalisation of pollution, will have a bearing on the overall liability exposure for shipowners in the time to come.

loss prevention

Gard's loss prevention programme relies heavily on close co-operation with clients, and the company is grateful for the client contributions which have enabled it to continue to improve the service that it offers.



2004 saw an increase in the resources and activities devoted to helping Members and clients understand the cause and effect of accidents and the steps that can be taken to avoid them. Gard's aim in the past 12 months has been to increase the breadth of information and knowledge the company can pass on to assist in loss prevention and to improve safety management systems, as well as helping with some of the practical consequences should a casualty occur.

Gard's team of senior claims handlers and marine lawyers produced 15 circulars in 2004 – covering subjects as diverse as the winter season in the Baltic, immigration requirements for seafarers and maritime security. With an increasing amount of legislation and regulation in the industry, it is expected that keeping abreast of these changes will be a growing challenge for the management of shipping companies. Gard has also produced written material such as handbooks and guidances on selected subjects.

Earlier this year Gard published a compilation of claims' statistics covering cargo, collisions and crew. The analysis is intended to assist in the understanding of the many aspects of crew and cargo claims, and to help Members and clients identify aspects of their operations where improvement could be made to minimise accidents.

Gard has also participated in over 50 client seminars and meetings at which a wide variety of topics were discussed, including:

- Pilot handling.
- Oily water separator issues.
- Casualty handling (H&M, Loss of Hire, P&I and Defence aspects).
- Media response.

The objective of these presentations was not to cover every aspect of ship management, but to emphasise areas where Gard's experience could benefit clients.

Clients were particularly interested in advice on dealing with the media and authorities in a time of crisis. Gard helped a number of clients establish what they should have in place prior to any such eventuality, and shared some of its experience in crisis management.

Gard's loss prevention programme relies heavily on close co-operation with clients, and the company is grateful for the client contributions which have enabled Gard to continue to improve the service that it offers.

operations

"operational synergies are expected to be around USD 3 million in the next 12 months."

As of 20 February 2004 Gard AS employed a total of 340 people of 27 nationalities operating out of 9 offices around the world. The wide range of their experience, qualifications and expertise creates a valuable resource for all parts of the business, and providing them with the right tools and working environment in which to operate is a crucial part of the business.

Management changes

The last 12 months have seen a number of changes in the management structure. In December 2003, Nic Wilmot took on a new position focusing on market co-ordination and customer relationships, and Christen Guddal became Senior Vice President in charge of Claims.

In February Terje Tellefsen decided to pursue his interests within the international offshore oil and gas industry and left Gard. As of September 2005, Rolf Thore Roppestad will take over as Senior Vice President in charge of P&I underwriting.

Technology

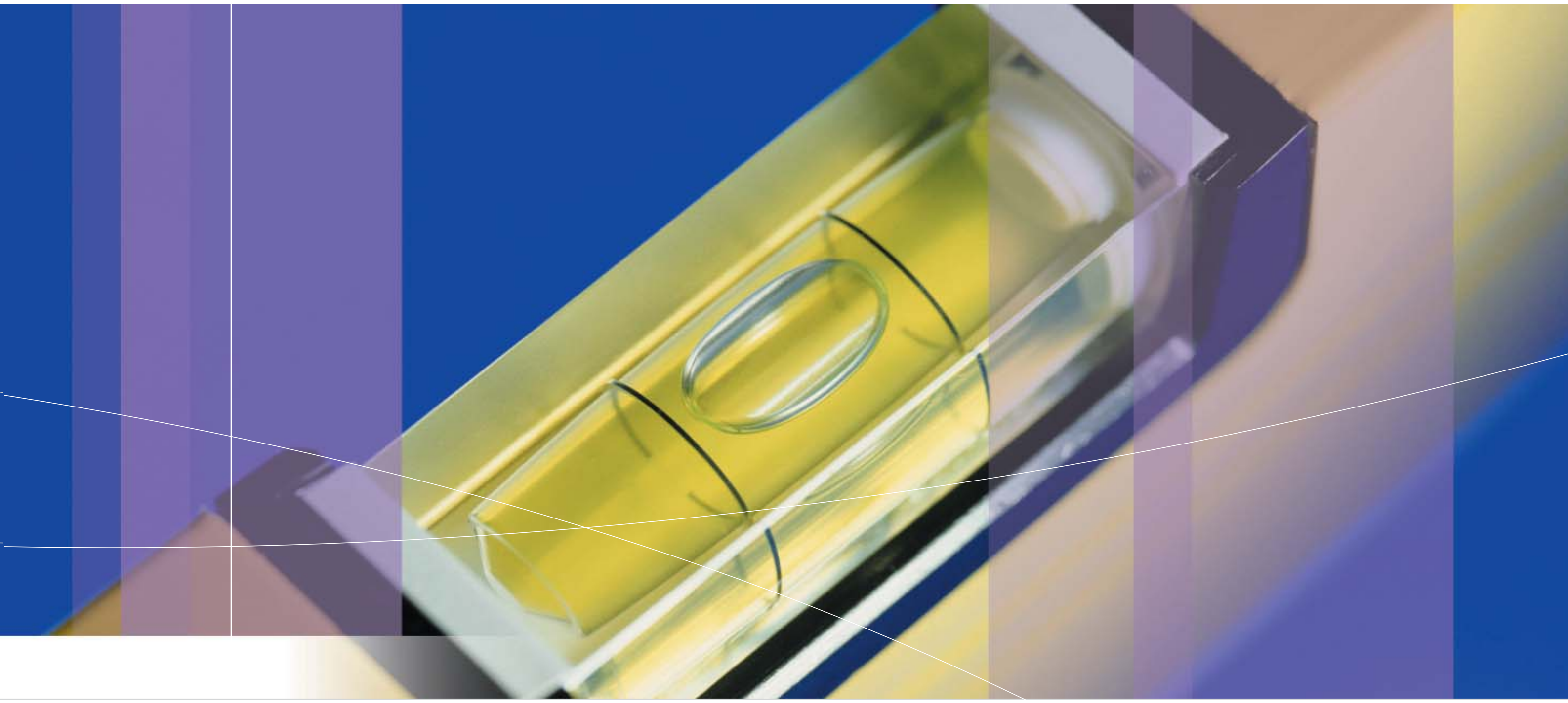
As Gard's business becomes more integrated, and the need to share information and knowledge about clients and issues increases, providing staff with the right tools is a matter of serious consideration.

With this in mind a contract has been signed with Intech Solutions to take delivery of a new platform that will include a common insurance and claims system for all business areas. The new system will cost less to run than current systems, as well as offering a superior product in terms of speed, scalability and sustainability.

Work is already underway and it is expected that the system to be delivered by October 2006.

Receiving the right information, at the right time in the right amount is a fundamental part of helping staff to work more efficiently and effectively. To this end resources have been committed over the last year to reviewing and developing the staff intranet to do just that. Released this summer it enables staff to use one point of entry to access and update information across all systems, as well as choose what news and external information they have delivered to them.

The integration of our operations within the group means that there is a wealth of experience available to support Members and clients across all areas of our business.



Staff development

The development of expertise, at both an individual and corporate level, is an essential element of our continued success. Considerable importance is placed on the development of staff at all levels, in which the Gard Academy plays a key role. The Academy was set up in September 2002 as Gard's centre of learning, offering tailor-made courses and seminars, developing online learning programmes, enabling staff to improve their knowledge and skills at their desks, wherever they are located and pooling information about external courses and feedback from delegates.

Examples of the courses run in the last year range from leadership development and IT courses, to technical subjects such as "Everything you need to know about paint" and "Decommissioning Offshore installations", as well as specialist courses for lawyers and surveyors.

DNV re-certification audit

In 2004, the Gard DNV re-certification process was undertaken. This process looked at many different areas of the business and measured the performance by the company. The final report concluded that Gard is compliant with the requirements of the standard and no areas of concern were identified.

security

"overall reserves have grown by 18% during the year to USD 389 million."

Fund management

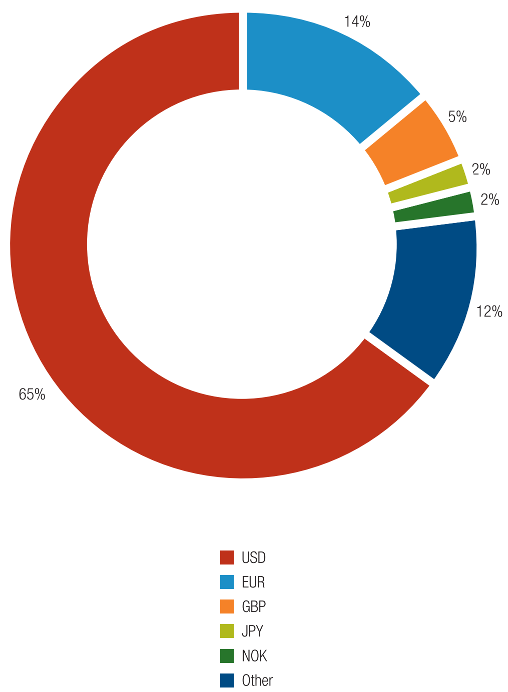
The combined portfolio for the group had another good year in terms of investment income, earning USD 69 million net of investment management expenses. This was a return of 6.5% over the 12 month period and was 1.4% above the benchmark. Since 31 December 1989, the total fund has seen a return of 9% per annum, outperforming the composite benchmark by 0.4% per annum. It is expected that synergies of USD 1 million per annum will be generated from the combined portfolio going forward.

The Gard P&I portfolio made a return of 8.4% over the period, and employed five specialist investment managers, each managing different components of the portfolio against strategically selected benchmarks. For the part of the portfolio where assets match liabilities, the long tem investment policy is based on the duration of the underlying claims and their currency denominations. The free reserve portion is managed in accordance with the risk / return preferences expressed by the owners. The portfolio currently comprises 30% equities and 70% fixed income securities.

The Gard M&E portfolio made a return of 4.4% over the period, which is 1.2% ahead of the benchmark, and employed three investment managers. The portfolio is made up of 15% equities and 85% fixed income securities.

Gard group portfolio

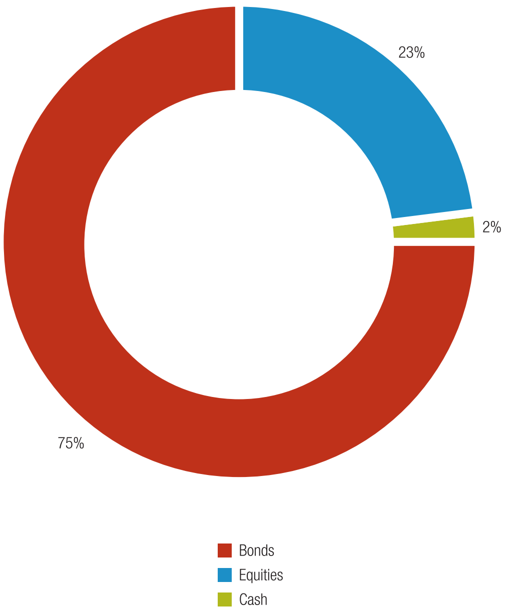
Portfolio by Instrument 20/02/2005



The whole concept of risk transfer is based on the solidity of the balance sheet to which risk is being transferred. The quality of financial security is of paramount importance to clients, and a key criterion when choosing an insurer.

Gard group portfolio

Portfolio by Currency 20/02/2005



Reinsurance

The responsibility for reinsurance at all levels was reorganised in 2004 and given to the Capital & Risk Management department, in order to manage the entirety of Gard's risks in an optimal manner. The major project for 2004 was the introduction of the risk-based capital model outlined below. However, as an extension to this project a review was undertaken of group level reinsurance, the objective of which was to understand what structural changes needed to be made and where savings could be made.

This project was successfully completed in 2004 and it is expected that significant savings in the region of USD 8 million, will be made in 2005 and beyond.

Risk Based Capital

With the acquisition of the If marine and energy portfolio, Gard effectively changed from a mono- to multi-line insurer, creating the need to quantify risks at a group level.
Gard's risk-based capital (RBC) model became fully operational in 2004 and it had a significant impact on strategic and operational decision-making for 2005, particularly in relation to financial planning, reinsurance purchasing and asset allocation.

How does it work?

The basic principle is that free reserves are needed as a buffer against unexpected losses. The bigger the uncertainty, the larger the amount of capital required.

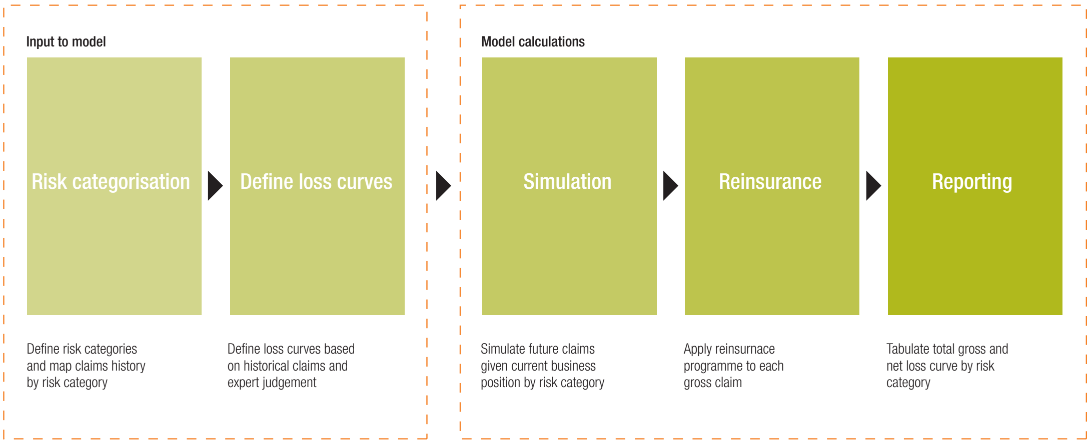
In relation to risk, there are four key elements affecting Gard capital requirements

Gard's Committee has decided to hold sufficient capital to ensure that the probability that free reserves will be lost within one single year is significantly less than 0.1%. This tolerance level: of 1-in-1,000 or lower, compares favourably to the 0.5% probability or 1-in-200 tolerance level expected as a future regulatory requirement under the new Solvency 2 regime for insurers across Europe.

The creation of Gard's RBC model began with a five-step process illustrated on the next page. Ten years of claims data was divided into 33 unique risk categories. Frequency and severity loss curves were created on the basis of historical claims experience and, importantly, expert judgement from relevant personnel in the organisation. Then, tens of thousands of simulations were run to create expected gross and net claims distributions following the application of Gard's reinsurance programmes. The final report calculated the capital needed against each risk category, including any adjustments for changes to exposures and liability regimes in recent years which may not have been captured in the historical data.

A similar process was undertaken for investment risks and operational risks. The final stage of the modelling exercise calculated the degree of correlation between all the risk categories, and the diversification benefits, so that the total RBC requirement for the group could be established.

A five-step process to modelling Gard risk-based capital needs

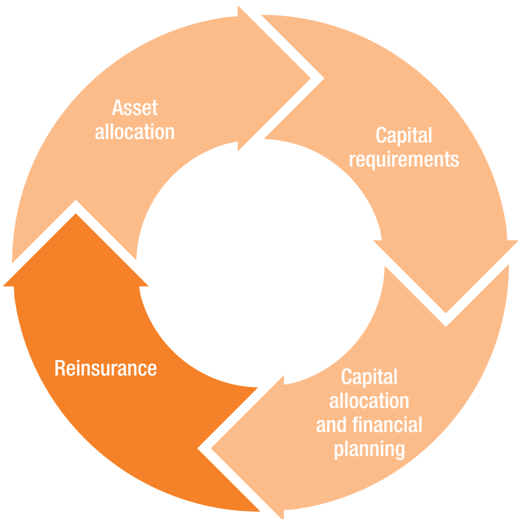


This risk model reassures both Members and clients about the quality and sustainability of Gard's balance sheet, and leaves Gard well positioned as the insurance industry, its regulators and the ratings agencies all focus more closely on and protecting the interests of the insured.

Risk-based capital has been embedded into four key processes at Gard

- Review allocation of risk-based capital to the investment side
- Development investment policy/strategic asset allocation
- Review investment performance

- Review effects of reinsurance programme on risk-based capital
- Review reinsurance market conditions
- Realign reinsurance programme



- Review risk - bearing capacity
- Compare to risk - based capital needed
- Evaluate options to close any gaps

- Decide on the overall risk - based capital to the insurance side
- Allocate risk - based capital across business units (BUs)
- Review BU's plans/budgets and set targets
- Review BU's performance

security

Auditor's Report

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 20 February 2005. 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 the 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 at 20 February 2005 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, 30 May 2005
ERNST & YOUNG AS

Jan Dønvik

Gard P&I and M&E - Combined consolidated income and expenditure accounts

(All amounts are stated in USD 000's)

For the years to 20 February	Notes		Parent company Gard P&I 2005	2004	Combined consolidated accounts 2005
Technical account – General business					
Income					
Gross premiums earned	2		242,725	219,973	478,982
Estimated deferred calls	2		41,010	37,880	41,010
Reinsurance premiums			(63,127)	(61,627)	(118,094)
Net premiums earned	3	A	220,608	196,226	401,898
Expenditure					
Net claims incurred	3		177,073	192,381	323,538
Net operating expenses	5		40,069	37,497	84,243
		B	217,142	229,878	407,781
Balance on general business technical account	4	A-B=C	3,466	(33,652)	(5,883)
Non-technical account					
Investment income	6		50,489	93,925	74,110
Interest expenses			0	0	(3,812)
Exchange gain			9,040	29,189	3,637
Investment management expenses			(3,625)	(3,563)	(4,866)
Taxation			(1,587)	(286)	(2,157)
Balance on non-technical account		D	54,317	119,265	66,912
Excess of income over expenditure		C+D=E	57,783	85,613	61,029
General contingency reserve at beginning of period		F	327,835	242,222	327,835
General contingency reserve at end of period		G=E+F	385,618	327,835	388,864

Gard P&I and M&E – Combined consolidated balance sheet

(All amounts are stated in USD 000's)

		Parent company Gard P&I		Combined consolidated accounts
As at 20 February	Notes	2005	2004	2005
Assets				
Intangible assets	7	5,284	4,210	5,284
Goodwill	7	704	924	17,211
Investments	8	614,917	626,449	1,085,376
Due from Members		4,630	5,733	16,056
Due from reinsurers		3,189	4,811	72,623
Accrued deferred call	10	41,010	37,880	41,010
Sundry debtors	9	21,838	20,603	23,982
Investments in subsidiary	12	190,000	110,000	0
Real property and fixed assets	13	21,750	19,381	21,750
Bank balances		21,636	38,997	40,082
Accrued income		10,072	8,190	25,273
Total Assets		935,030	877,178	1,348,647
Liabilities				
Technical reserves				
Unearned premium reserve for own account		0	0	93,453
Provision for outstanding and unreported claims		497,031	481,140	801,281
General contingency reserve		385,618	327,835	388,864
Balance available for outstanding and unreported claims		882,649	808,975	1,283,598
Bank overdraft		838	0	838
Sundry creditors	11	51,543	68,203	64,211
Total Liabilities		935,030	877,178	1,348,647

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

(All amounts are stated in USD 000's)

For the years to 20 February	Parent company Gard P&I 2005	2004	Combined consolidated accounts 2005
Excess of income over expenditure before taxation	59,370	85,899	63,187
Depreciation of tangible and intangible assets	3,990	687	8,117
(Increase) in accrued deferred call	(3,130)	(8,130)	(3,130)
Decrease/(Increase) in debtors	1,490	(20,493)	20,807
(Increase)/Decrease in accrued income	(1,882)	1,865	(6,788)
Increase in technical provisions	15,891	48,653	41,682
(Decrease)/Increase in creditors	(16,660)	1,868	(18,974)
Net cash flow from operating activities	59,069	110,349	104,901
Cash flow statement			
Net cash flow from operating activities	59,069	110,349	104,901
Taxation paid	(1,587)	(286)	(2,157)
	57,482	110,063	102,744
Cash flows were invested as follows			
(Decrease)/Increase in cash holding	(18,199)	6,125	(29,753)
(Decrease)/Increase in portfolio investments	(11,532)	(14,316)	15,284
Increase in investment in subsidiary	80,000	110,000	0
Repayment to minority interests	0	0	80,000
Repayment of subordinated loan	0	0	30,000
Increase in real property, fixed and intangable assets	7,213	8,254	7,213
	57,482	110,063	102,744

Notes to the combined consolidated accounts

Note 1 – Accounting policies

(*I*) *Basis of preparation of the Accounts*

The accounts of the parent company presented here combine the consolidated accounts of Assuranceforeningen Gard (the Association), prepared in US 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 Associations' 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. Gard Marine & Energy Ltd. (Gard M&E) was incorporated on 9 December 2003. Its business commenced on 28 January 2004. The Association owns 15.8 per cent of the shares in Gard M&E and the Bermuda Association owns the remaining 84.2 per cent. The Bermuda Association increased its share in Gard M&E from 42.1 per cent to 84.2 per cent 1 February 2005 by purchasing shares from If P&C Insurance Ltd. (publ.). In the combined consolidated accounts Gard M&E is consolidated as a wholly owned subsidiary by the two Associations.

The shares in Gard M&E purchased 1 February 2005, were acquired based on executing an option established 28 January 2004. For accounting purposes the result of Gard M&E has been consolidated from 28 January 2004 as control was considered established when the option was entered into.

For preparation of the consolidated accounts the parent company's shares in the subsidiaries are being replaced with the assets and liabilities of the subsidiaries. Internal transactions between the consolidating companies including any unrealised gain and intercompany receivables and liabilities are eliminated as a result of the consolidation.

(III) Closing of policy years

In determining the appropriate deferred/supplementary 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 considers 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. These uses contribute to reducing the risk of the assets not being able to cover the Associations' liabilities.

(VI) Currencies other than US 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 20 February		**2005 USD 1 equals**	**2004 USD 1 equals**
AUD	Australian Dollar	1.2701	1.2873
CAD	Canadian Dollar	0.8133	0.7432
CHF	Swiss Franc	1.1830	1.2550
EUR	Euro Currency Unit	0.7654	0.7954
GBP	Pound Sterling	0.5279	0.5348
JPY	Japanese Yen	105.7450	108.8550
NOK	Norwegian Krone	6.3413	6.9984
SEK	Swedish Krone	6.9651	7.3068

(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 unearned premium comprises of the unearned portion of premiums relating to the period after the end of the financial year.

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 Association and (ii) claims that have been incurred but not reported (IBNRs).
The estimate of IBNR claims is calculated on a basis approved by the Association's consulting actuaries. Both sets of estimates include the Association's own claims and its 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 Association's reinsurance programme; for example failure of a "first class" bank or hull insurer to honour a collision guarantee; (ii) unforeseen fluctuations in the Association's claims exposure and; (iii) a possible catastrophe claim. The Association is liable for its 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

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 20 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 its 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.

(XI) Long-term shareholdings

The investment in the subsidiary companies is assessed in accordance with the cost-method. The investment is being revaluated to actual value if the drop in value is permanent.

(XII) Fixed assets, goodwill and depreciation

Fixed assets and goodwill are stated at historical cost after depreciation. The depreciation rate is calculated on the basis of historical cost and the estimated economical lifetime of the asset.

NOTE 2 – Premiums and calls

(All amounts are stated in USD 000's)

For the years to 20 February		Parent company Gard P&I 2005	2004	Combined consolidated accounts 2005
Mutual premiums				
Owners' entries				
Premiums		169,287	156,425	169,287
Additional calls		1,490	1,538	1,490
Estimated deferred call		39,670	36,790	39,670
Defence entries				
Premiums		5,473	4,419	5,473
Additional calls		88	150	88
Estimated deferred call		1,340	1,090	1,340
	A	217,348	200,412	217,348
Fixed premiums				
Mobile offshore unit entries		20,987	19,677	20,987
Charterers' entries		36,082	28,323	36,082
US oil pollution premiums		7,101	7,113	7,101
Defence entries		2,217	2,328	2,217
Marine		0	0	176,015
Energy		0	0	60,242
	B	66,387	57,441	302,644
Total	A+B	283,735	257,853	519,992

NOTE 3 – Net claims incurred

(All amounts are stated in USD 000's)

For the years to 20 February		Parent company Gard P&I 2005	2004	Combined consolidated accounts 2005
Gross claims paid				
Claims		189,243	176,263	376,194
Group pooling arrangements		24,360	20,939	24,360
	A	213,603	197,202	400,554
Reinsurers' share				
Group pooling arrangements		26,363	41,798	26,363
Market underwriters		25,253	9,047	68,937
Other P&I Associations		804	2,629	804
	B	52,420	53,474	96,104
Net claims paid	A–B=C	161,183	143,728	304,450
Change in provision for gross claims				
Provision carried forward		530,188	544,093	949,903
Provision brought forward		(544,093)	(542,887)	(954,386)
	D	(13,905)	1,206	(4,483)
Less movement in provision for reinsurers' share				
Provision carried forward		(52,274)	(81,458)	(172,685)
Provision brought forward		81,458	127,034	195,645
	E	29,184	45,576	22,960
Change in provision for claims management costs	F	611	1,871	611
Net changes in claims provision	D+E+F=G	15,890	48,653	19,088
Claims incurred, net of reinsurance	C+G	177,073	192,381	323,538

NOTE 4 – Balance on general business technical account on lines of business

(All amounts are stated in USD 000's)

For the years to 20 February		P&I 2005	P&I 2004	Marine 2005	Energy 2005	Combined consolidated accounts 2005
Gross premiums written		283,735	257,853	184,292	63,189	531,216
Net premiums written		220,608	196,226	162,506	37,033	420,147
Gross premiums earned		283,735	257,853	176,015	60,242	519,992
Net premiums earned	**A**	220,608	196,226	147,877	33,413	401,898
Net claims incurred		177,073	192,381	116,435	30,030	323,538
*Claims handling costs		17,400	17,200	2,384	927	20,711
Net claims costs	**B**	194,473	209,581	118,819	30,957	344,249
Administrative expenses		7,291	6,892	11,578	4,176	23,045
Acquisition costs		15,378	13,405	18,212	6,897	40,487
Net operating expenses – excl. claims handling costs	**C**	22,669	20,297	29,790	11,073	63,532
Balance on general business technical account	**A–B–C**	3,466	(33,652)	(732)	(8,617)	(5,883)
Claims ratio net		88.2%	106.8%	80.3%	92.6%	85.7%
Expense ratio net		10.3%	10.3%	20.1%	33.1%	15.8%
Combined ratio net		98%	117.1%	100%	125.8%	101.5%

*Claims handling costs share of net operating expenses are included in Net claims costs

NOTE 5 – Operating expenses

(All amounts are stated in USD 000's)

For the years to 20 February		Parent company Gard P&I 2005	2004	Combined consolidated accounts 2005
Administrative expenses		7,291	6,892	23,045
Claims handling costs		17,400	17,200	20,711
Acquisition costs		15,378	13,405	40,487
Net operating expenses	A	40,069	37,497	84,243
Investment management expenses	B	3,625	3,563	4,866
Total operating expenses	A+B	43,694	41,060	89,109
a) Operating expenses include:				
Management fee		33,073	31,878	33,073
Wages and salaries		26,202	4,000	26,202
Social security costs		5,669	1,035	5,669
Remuneration of Committee and Executive Committee		530	389	530
Pension contributions		2,959	469	2,959
Auditors' fees - audit services		175	124	200
Auditors' fees - non audit services		29	21	49
Depreciation		3,990	687	8,117

Average Expense Ratio (AER) – P&I

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 20 February 2005. The Ratio of 8.2 per cent (8.2 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. Investment income earned is stated after deducting all investment management costs. Internal claims handling and internal investment management costs so deducted include a reasonable allocation of general overhead expenses.

NOTE 6 – Investment income

(All amounts are stated in USD 000's)

For the years to 20 February	Parent company Gard P&I 2005	2004	Combined consolidated accounts 2005
Interest earned	18,523	20,522	37,312
Dividends	4,870	3,192	6,064
Profits less losses on realisation of investments	21,119	18,784	20,444
Change in difference between cost and market value of investments	5,977	51,427	10,290
Total	50,489	93,925	74,110

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

NOTE 7 – Intangible assets and goodwill

(All amounts are stated in USD 000's)

	Parent company Gard P&I 2005	Combined consolidated accounts 2005
Specification of goodwill		
Cost as at 20 February 2004	1,548	22,182
Change in cost due to exchange rates	(40)	(40)
Accumulated depreciation and write down	529	529
Change in depreciation due to exchange rates	(27)	(27)
Charge for the year	302	4,429
Net book value as at 20 February 2005	704	17,211
Specification of intangible assets		
Cost as at 20 February 2004	8,513	8,513
Net purchases/(sales) in the year	2,602	2,602
Accumulated depreciation and write down	4,531	4,531
Charge for the year	1,300	1,300
Net book value as at 20 February 2005	5,284	5,284

The company applies a linear depreciation plan

NOTE 8 – Investments

(All amounts are stated in USD 000's)

		Parent company Gard P&I		Combined consolidated accounts
		2005	2004	2005
Quoted investments				
Equities at cost		161,006	180,830	220,017
Bonds at cost		410,210	409,970	817,345
Difference between cost and market value of investments		25,860	19,883	30,173
	A	597,076	610,683	1,067,535
Unquoted investments				
Property mortgages		13,416	11,338	13,416
Miscellaneous investments		4,425	4,428	4,425
	B	17,841	15,766	17,841
Total	A + B	614,917	626,449	1,085,376

NOTE 9 – Sundry debtors

(All amounts are stated in USD 000's)

As at 20 February	Parent company Gard P&I 2005	Parent company Gard P&I 2004	Combined consolidated accounts 2005
Prepaid pensions	11,629	12,324	11,629
Investment transactions in progress	5,284	3,825	5,284
Sundry debtors	4,925	4,454	7,069
Total	21,838	20,603	23,982

"Investment transactions in progress" refers to sales of investments at the Balance Sheet date, where settlements were executed after the Balance Sheet date.

NOTE 10 – Accrued deferred call – Parent company Gard P&I

The Committee has decided to levy a 25 per cent deferred call in respect of the 2004 policy year, payable in 2005, in accordance with the original estimate for the year

NOTE 11 – Sundry creditors

(All amounts are stated in USD 000's)

As at 20 February	Parent company Gard P&I 2005	Parent company Gard P&I 2004	Combined consolidated accounts 2005
Creditors: direct insurance	1,972	2,816	3,252
Creditors: reinsurance operations	543	702	10,377
Investment transactions in progress	10,246	27,789	10,246
Accrued taxes	981	1,594	981
Pension liabilities	9,479	8,583	9,479
Sundry creditors	16,662	11,212	18,789
Deferred income	0	745	0
Accrued expenses	11,660	14,762	11,087
Total	51,543	68,203	64,211

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

NOTE 12 – Shares in subsidiary company

(All amounts are stated in USD 000's)

As at 20 February 2005	Combined ownership	Share capital	Cost price	Share of total equity	Share of profit/loss
Gard Marine & Energy Ltd.	100.0%	USD 190,000	190,000	193,247	3,247
Total			190,000	193,247	3,247

NOTE 13 – Real property and fixed assets

(All amounts are stated in USD 000's)

		2005 Real property and fixed assets
Cost		
As at 20 February 2004		35,280
Purchases in the year		2,189
Sales in the year		(640)
As at 20 February 2005	A	36,829
Depreciation		
As at 20 February 2004		12,691
Depreciation on sold assets		0
Charge for the year		2,388
As at 20 February 2005	B	15,079
Net book value		
As at 20 February 2004		22,589
As at 20 February 2005	A–B=C	21,750

NOTE 14 – Currency exposure

(All amounts are stated in USD 000's)

Parent company Gard P&I As at 20 February 2005	USD	Per cent
Assets in		
USD	664,193	71.0
EUR	80,804	8.6
NOK	62,377	6.7
GBP	30,516	3.3
JPY	27,058	2.9
SEK	11,530	1.2
CHF	6,873	0.7
Other	51,679	5.5
	935,030	100.0

Parent company Gard P&I As at 20 February 2004	USD	Per cent
Assets in		
USD	548,310	62.5
EUR	108,966	12.4
NOK	67,649	7.7
GBP	50,538	5.8
JPY	29,418	3.4
SEK	10,520	1.2
AUD	10,658	1.2
CHF	9,812	1.1
Other	41,308	4.7
	877,178	100.0

Combined consolidated accounts As at 20 February 2005	USD	Per cent
Assets in		
USD	874,228	64.8
EUR	182,623	13.5
NOK	91,665	6.8
GBP	56,991	4.2
JPY	27,058	2.0
CAD	20,047	1.5
SEK	11,530	0.9
Other	84,504	6.3
	1,348,647	100.0

Policy year accounts

A. Development of open policy years
(All amounts are stated in USD 000's)

Policy year		2004	2003	2002	Total
Premiums and calls:					
Invoiced in prior years		0	217,113	174,307	
Invoiced in current year		237,569	3,619	(43)	
		237,569	220,732	174,264	
Additional calls debited		793	39,195	32,028	
Estimated deferred call		41,010	0	0	
Total premiums and deferred calls		279,372	259,927	206,292	
Reinsurance premiums		(64,615)	(61,667)	(48,455)	
	A	214,757	198,260	157,837	
Incurred claims net:					
Claims paid		46,283	80,453	100,854	
Estimates on outstanding claims		98,042	62,679	37,876	
IBNRs		60,000	23,797	11,209	
Future claims management costs		6,322	3,459	1,963	
		210,647	170,388	151,902	
Operating expenses		41,655	37,783	27,886	
	B	252,302	208,171	179,788	
Investment income	C	55,902	119,551	38,643	
Surplus on open policy years	A–B+C=D	18,357	109,640	16,692	144,689
Closed policy years:					
Surplus in respect of 2000 and prior years as at 20 February 2004				254,856	
Transfer on closure of 2001 policy year				(16,898)	
Changes to policy years prior to 2001				2,971	
General contingency reserve as at 20 February 2005				385,618	

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	2004	2003	2002	Closed years	Total
Gross estimated outstanding and unreported claims:					
Own claims	141,338	85,654	45,204	181,164	453,360
Pool claims	19,096	14,649	11,246	31,837	76,828
Estimated reinsurance recoveries due from:					
The Pool	1,304	12,456	4,252	18,802	36,814
The Group excess loss reinsurance contract	0	0	1,246	0	1,246
Others	1,088	1,371	1,867	9,888	14,214
Net estimated outstanding and unreported claims	158,042	86,476	49,085	184,311	477,914
Future claims management costs	6,322	3,459	1,963	7,372	19,117
Provision for outstanding and unreported claims	164,364	89,935	51,048	191,683	497,031
General contingency reserve	18,357	109,640	16,692	240,929	385,618
Balance available for outstanding and unreported claims as at 20 February 2005	182,721	199,575	67,740	432,612	882,649

Notes to the policy year accounts

1. Premiums, 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 includes the 25 per cent deferred call levied for the 2004 policy year.

3. The approximate yield of a 10 per cent supplementary call on the open policy years would be :
   2002 policy year USD 11.6 million
   2003 policy year USD 14.9 million
   2004 policy year USD 15.5 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 191.7 million, consists of estimated outstanding claims in the amount of USD 127.3 million, estimates for IBNR claims of USD 57 million and provision for future claims management costs of USD 7.4 million.

Membership of the committees and boards of the Gard group

Assuranceforeningen Gard

THE COMMITTEE

Stephen Pan, *Chairman*
World-Wide Shipping Agency Limited, Hong Kong

Ricardo Claro Valdes, *Deputy Chairman*
Compañía Sud Americana de Vapores S.A. (CSAV), Valparaíso

Peter Antturi*
Teekay Shipping, Vancouver/Stavanger

Alain Bernard
Olympic Shipping and Management S.A., Athens

Pawel Brzezicki
Polish Steamship Company, Szczecin

Robert Gerald Buchanan*
Genco Shipping & Trading Inc., New York

K.C. Chang
Evergreen Marine Corp. (Taiwan) Ltd., Taipei

Nicolas Frangistas
Franco Compania Naviera, Piraeus

Sjur Galtung
Wilh. Wilhelmsen ASA, Oslo

Hannu Haapanen
Fortum Oil OY, Espoo, Finland

Herbjørn Hansson
Nordic American Tanker Shipping Ltd, Bermuda

Morten Høegh
Leif Høegh & Co. A/S, Oslo

Atle Jebsen
Jebsens Management A/S, Bergen

Hans Peter Jebsen
Kristian Gerhard Jebsen Skipsrederi A/S, Bergen

Tom Erik Klaveness
Torvald Klaveness & Co. A/S, Oslo

Jan Lissow
Interorient Navigation Ltd, Cyprus

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 A/S, Oslo

Jane Sy
Stolt-Nielsen Transportation Group Ltd., Rotterdam

Peter Swift
OSG Ship Management (UK) Ltd., Newcastle

Hans Ivar Vigen
The JJ Ugland Companies, Grimstad, Norway

Lynn White
Royal Caribbean Cruises Ltd., Miami

Shinichiro Yamashita**
Tokyo

THE EXECUTIVE COMMITTEE

John Hatleskog, *Chairman*
Havinvest A/S, Oslo

Bengt Hermelin
Saudi Maritime Holding Co, London

Axel C. Eitzen
Camillo Eitzen & Co. A/S, Oslo

Hans Ditlef Martens
Bergesen d.y. ASA, Oslo

Trond Eilertsen
Oslo

Claes Isacson, *Managing Director*
Arendal

THE SUPERVISORY COMMITTEE

Øystein Eskeland, *Chairman***
Oslo

Skule Adolfsen
Höegh Fleet Services AS, Oslo

Kåre Franseth
Torvald Klaveness & Co. A/S, Oslo

Stephen Knudtzon*
Oslo

Anders Chr. Stray Ryssdal
Oslo

THE ELECTION COMMITTEE

John Hatleskog, *Chairman*
Havinvest A/S, Oslo

Stephen Pan, *Deputy Chairman*
World-Wide Shipping Agency Limited, Hong Kong

Ricardo Claro Valdés
Compañía Sud Americana de Vapores S.A., Valparaíso

Herbjørn Hansson
Nordic American Tanker Shipping Ltd., Bermuda

GARD P&I (BERMUDA) LIMITED

Stephen Pan *Chairman*,
Hong Kong

John Hatleskog *Deputy Chairman,*
Oslo

Trond Eilertsen,
Oslo

Timothy Faries,
Bermuda

Sir David Gibbons;
Bermuda

Claes Isacson,
Arendal

GARD MARINE & ENERGY LIMITED

John Hatleskog
Chairman, Oslo

Bengt Hermelin
Deputy Chairman, London

Timothy Faries,
Bermuda

Trond Eilertsen,
Oslo

Claes Isacson,
Arendal

GARD AS

John Hatleskog,
(Chairman)

Bengt Hermelin

Trond Eilertsen

Claes Isacson

Joakim Leganger,
employee representative

Reidar Ebbesvik,
employee representative

*Recommended for election at the Annual General Meeting in August 2005

**Retiring at the Annual General Meeting in August 2005

Meeting dates

Assuranceforeningen Gard

THE COMMITTEE

Monday 31 May 2004, St. Petersburg

Monday 25 October 2004, Barcelona

THE AGM

Friday 20 August 2004, Arendal

THE EXECUTIVE COMMITTEE

Thursday 15 April 2004, Oslo

Wednesday 30 June 2004, Gøteborg

Thursday 30 September 2004, Stockholm

Thursday 2 December 2004, Oslo

Thursday 20 January 2005, Oslo

Thursday 3 February 2005, Copenhagen

THE SUPERVISORY COMMITTEE

Friday 16 April 2004, Oslo

Friday 1 October 2004, Oslo

GARD P&I (BERMUDA) LIMITED

Board of Directors meeting and Annual General Meeting

Tuesday 27 April 2004, Bermuda

GARD MARINE & ENERGY LIMITED

The Board of Directors

Tuesday 27 April 2004, Bermuda

Thursday 1 July 2004, Gøteborg

Thursday 30 September 2004, Stockholm

Wednesday 8 December 2004, London

Thursday 3 February 2005, Copenhagen

THE AGM

Tuesday 27 April 2004, Bermuda

GARD AS

THE BOARD OF DIRECTORS

Thursday 15 April 2004, Oslo

Thursday 1 July 2004, Gøteborg

Wednesday 30 September 2004, Stockholm

Friday 3 December 2004, Oslo

Thursday 3 February 2005, Copenhagen

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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 wih 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 19 August 2005. The accounts of the Bermuda Association have already been approved in General Meeting.