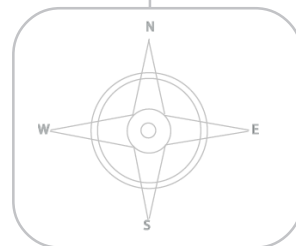
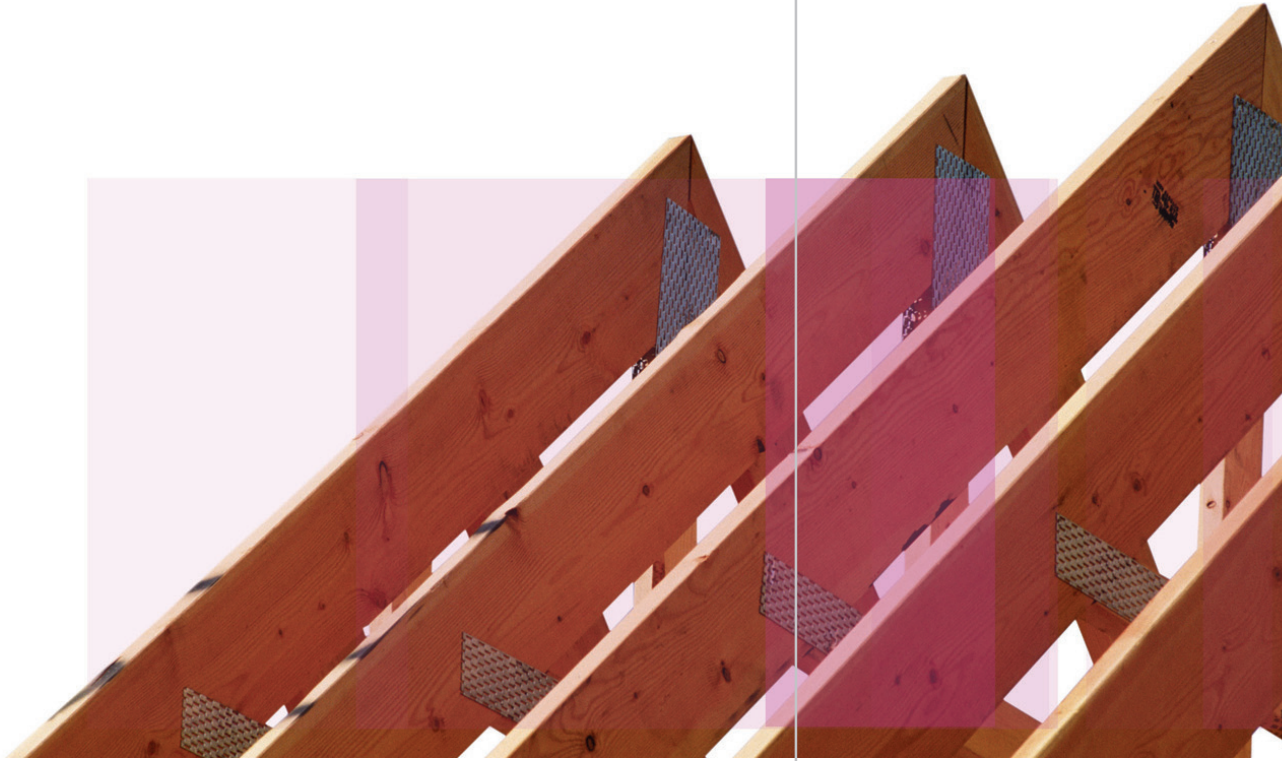


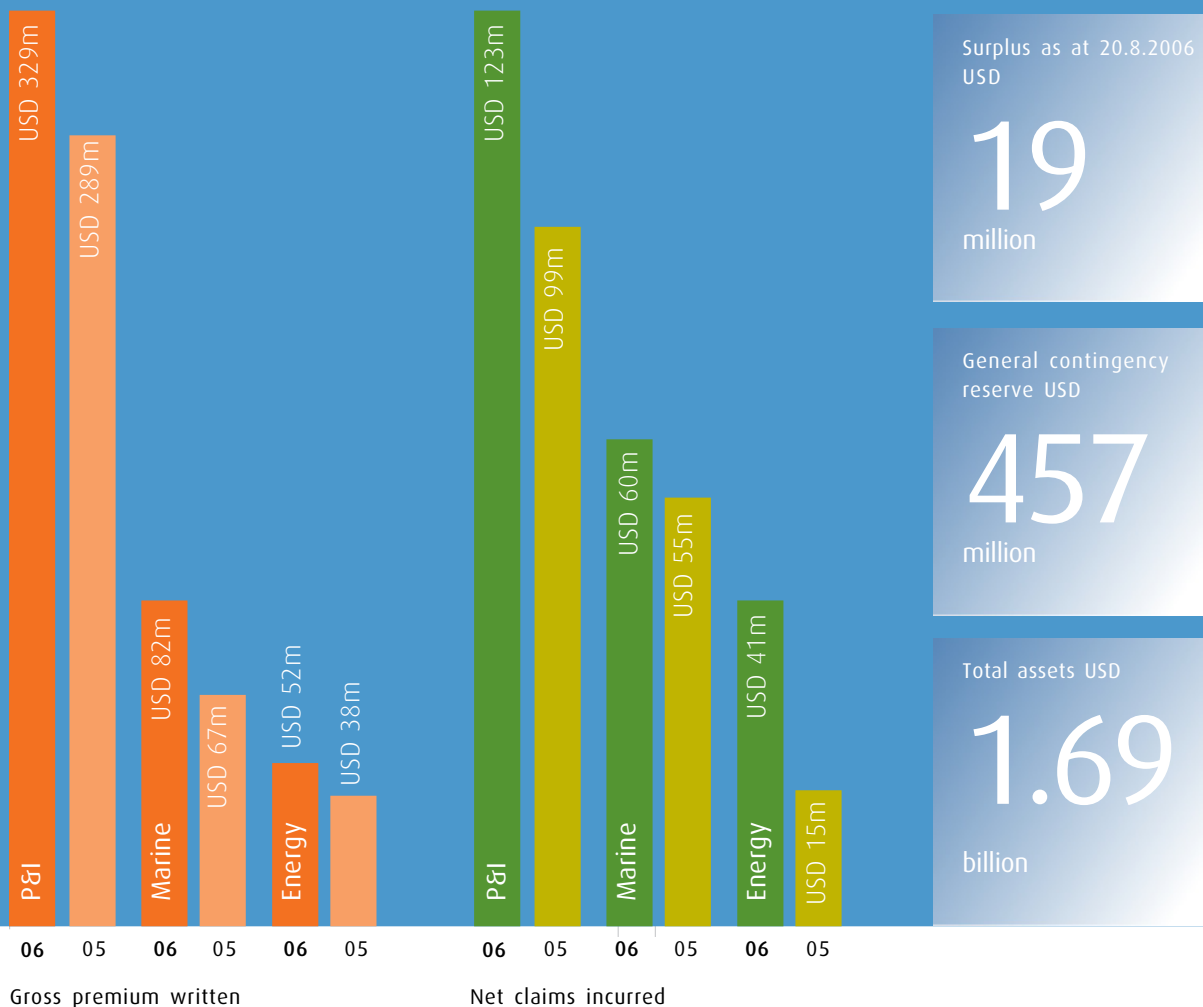


Half Year Management Report
20 August 2006



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chief executive's statement

The overall results for the first half of the 2006 policy year are positive. From the underwriting perspective the volume of business written in each business area is ahead of target and premium production has been, and remains, strong across the board.

Technical results within our two largest business areas - P&I and Marine - were ahead of target, while the overall surplus of USD 19 million was slightly held back by a few adverse claims within Energy and Builders' Risk. The bottom line, however, is that free reserves continue to climb steadily from USD 438 million at 20 February 2006 to USD 457 million at 20 August 2006.

We are more aware than ever of the challenges that our Members and clients are facing, including dealing with a tightening supply of quality crew, the scarcity of resources in yards and materials, logistical issues in supply chain management, the practical issues of larger and more sophisticated vessels and changing liability regimes. In such an uncertain world, the last thing they should be concerned about is the security of their insurance provider.

Solvency II has been on our radar since 2003. Although its final form is not yet known, we have spent much effort over the last three years on our risk-based capital model to ensure that our business can meet these requirements, both now and in the future. The time and energy we have invested in preparing ourselves for these changes means that our Members and clients can be assured that Solvency II will have no impact on Gard's level of capital or premium policy.

The debate around the 2002 Protocol to the Athens Convention of 1974 is ongoing and it is one in which we are actively participating. We have traditionally been of the opinion that the P&I Clubs ought to meet the insurance needs of shipowners arising out of liability regimes based on international conventions created under the auspices of the IMO. For that reason we have also been against singling out any one risk for a special limit.

This is a tough issue for the industry and our objective is to encourage all participants to be as open and transparent as they can in order to achieve the most cost-efficient result possible for the shipowning community. Our overall concern is that we must not make short-term changes to the existing system that may have long-term negative consequences for the key features of a structure that benefits the shipowners.

There is much to talk about in the coming months and years. We very much hope to see many of you in person as autumn and winter progress, and to discuss and debate with you what you need from your insurance provider as the world around us changes.

Claes Isacson
Chief Executive



P&I

2006 has seen a good start to the policy year with premium income of USD 164 million earned in the first six months. The backbone of our development is undoubtedly the financial strength of the Group, which is more important than ever to owners who are looking for a secure home for their vessels. There has been strong development in Scandinavia and Europe, with around 5 million gt in owners' tonnage being added so far this year. Controlled growth from quality owners has always been our watchword and we will maintain this stance as we enter the renewal season. We are still seeing a stream of newbuildings and we have increased our newbuilding tonnage by nearly 4 million tonnes and 210 newbuildings in the last six months.

In the late summer we launched our small craft product, offering a single policy that provides hull insurance for the value of the vessel combined with up to USD 50 million of P&I cover for vessels up to 1,500 gt. If USD 50 million of P&I insurance is felt to be insufficient, perhaps for a passenger ferry, then the small craft product can be coupled with mainstream P&I cover to lift cover to the usual limit of about USD 5.5 billion. Cover is presently restricted to vessels flying the flag of Nordic countries.

Marine

The marine market has been stable for the first half of the 2006 policy year with rates remaining steady across the board, the exceptions being for clients with poor loss records. It has been a positive start to the year with a significant increase in premium income, 16% ahead of budget, and a net combined ratio of 97%.

The growth in the business is being driven by retaining existing business and attracting new clients while, at the same time, maintaining prices. We are reaping the rewards of having a team that is working very well together and is focussing on developing the business in the right direction. There has been particularly strong development in the Asian market, as well as in Germany, Greece and Norway. This steady increase in volumes is a testament to the attractiveness of Gard's combination of financial strength and service and the signs are positive for the upcoming renewals.

The market, however, remains finely balanced at the moment, with the ever-present threat of more serious price competition, and there is no room for complacency. There are a number of issues, particularly around the enhanced sophistication of technology and the increasing size of vessels, which need careful consideration going forward. The maintenance of a balanced portfolio means that these issues need to be addressed differently and they will require considerable thought and attention.



Energy

The energy market is still as challenging as ever, with prices rising and conditions continuing to tighten. This is reflected in our price index which is up more than 20% on non-windstorm business, well ahead of budget. The sustained high oil prices (albeit off their peak) combined with a serious scarcity of service provision if an accident should occur, makes this a hard market in every sense. This lack of resources means an increase in the severity of even small casualties, and results in long waiting periods when things go wrong, which has a particularly serious impact on business interruption claims.

We have also seen a shift in renewal patterns as a number of clients have chosen to cancel policies and then renew early to avoid any nasty surprises resulting from this year's hurricane season. This means that we are 25% ahead of premium budget for the first six months.

For the first half of the year we have continued to refine our strategy towards Gulf of Mexico (GOM) risks. This has meant a significant shift in our portfolio, so that we are only writing windstorm cover for incidental GOM accounts, i.e. those with only a few assets in the area, and then only with limited cover.

The marine builders' risk market is seeing increased competition from a larger number of underwriters but nevertheless the market remains broadly stable.



The activity level across all the industries within which our customers operate is affecting the number and type of claims we are handling. Utilisation rates in most shipping segments are still high, although perhaps off their peak, while demand for yards and other suppliers to the shipping industry is at an all-time high. Although the frequency of claims has fallen slightly, their cost has continued to rise - driven by the scarcity of yards, increasing raw material and labour costs, growing cargo values and the high price of oil.

With large claims forming a greater proportion of overall claims costs, their efficient and effective handling is of paramount importance to reduce their economic impact and mitigate reputational damage. We are continuing to strengthen our large claims management capability, ensuring that we transfer experience and expertise between offices and business areas. This will enable us to offer first class emergency response capabilities wherever a casualty may affect us.

Trimar, which has provided claims handling services to Gard since 1995, has been acquired and Gard (North America) Inc. is now fully integrated into the Group. This has been a natural step, building on our expertise in the US to offer even better client service.

P&I

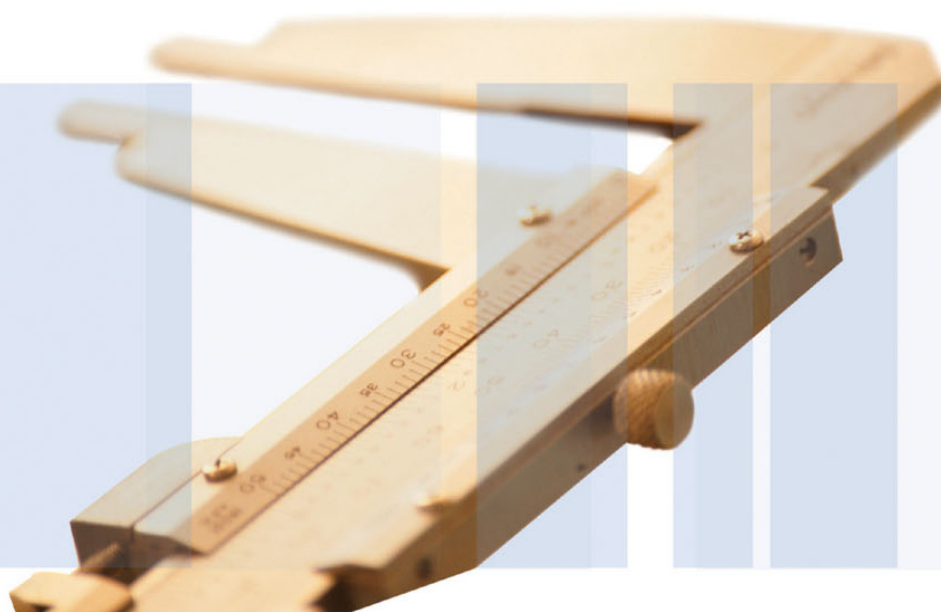
The development of P&I claims has been in line with expectations during the first half of 2006. Claims relative to tonnage are around the same level as the preceding three years.

We have reported one Pool claim for 2006. This was the grounding and constructive total loss of a container ship in South Africa. While the salvage attempts could not save the ship, most of the cargo and - very importantly - the bunker oil were removed before the ship broke in two, thus mitigating the environmental damage.

Pool claims overall have developed adversely in recent years, partly due to market conditions, the 'need for speed' and an increased density of traffic in busy ports. While over the passage of time Pool claims paid and recovered should level out, an increase in the Club retention level is long overdue. This would reinforce underwriting discipline and more efficiently employ the risk-carrying capacity of the Pool to the benefit of quality owners. Marine Net claims incurred to 20 August 2006 totalled USD 60 million. There has been a slight, but discernable, downward trend in the frequency of accidents. Nevertheless, nearly half of the accidents that occur have resulted from navigational errors.

Marine

The availability and cost of repairs remain a concern. The capacity constraint is principally caused by very high newbuilding activity. The effect is that ships are generally waiting longer periods before repairs can begin, and long-haul towage to find a suitable yard is becoming more commonplace. This drives severity for both hull and loss of hire claims. There are also delays in obtaining spare parts, especially for engines. This results in greater loss of income for shipowners as well as increased negotiating powers for yards and other suppliers.



Energy

Energy has had net claims incurred of USD 41 million during the first half year. There have been substantial settlements and reinsurance recoveries in relation to claims arising from hurricanes Katrina and Rita. An improvement in reserves held for hurricane-related claims since 20 February has shown that reserves were set at a prudent level.

Unfortunately, the unexpected adverse development of a claim on the 1999/2000 underwriting years, combined with two recent severe incidents in the marine builders' risk area, has had a negative effect on the half year result. We consider it co-incidental that these negative developments affected the same accounting period.

The continuing high price of oil means that business interruption and loss of hire claims on rigs are still significant. There is currently a huge demand on limited resources of repair/replacement facilities, equipment and personnel. This is causing delays in inspection, assessment of damages and repairs and replacements required.

Loss prevention

During the last six months, the department undertook research among its clients to understand better where value was being generated for the clients and how this affects their overall relationship with Gard. The results have been incorporated into our strategy to deliver timely advice to the organisations where we can have the most impact.

Loss prevention is co-operating closely with underwriters to help insurance buyers fully appreciate how their business can benefit from Gard's Loss Prevention activities, and work with target clients where the right advice will make a significant difference to their overall performance.

The number of surveys conducted has increased as part of the International Group's initiative to address sub-standard shipping.



Summary combined consolidated income and expenditure accounts and balance sheet

Summary combined consolidated income and expenditure accounts

Six months to 20 August	2006	2005
Premiums and calls*	302,884	259,574
Premiums earned net	261,493	216,368
Claims costs net**	232,732	177,818
Operating expenses net	41,812	37,183
Result on technical account	(13,051)	1,367
Result on non-technical account	31,763	25,834
Surplus	18,712	27,201
Combined net ratio	105%	99%

* 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.

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

Summary combined consolidated balance sheet

As at	20 August 2006	20 February 2006
Investments at market value	1,224,977	1,234,657
Cash and equivalents	186,098	101,394
Other net assets	275,959	193,794
Net assets	1,687,034	1,529,845
Unearned premium reserve for own account	191,218	133,750
Provision for outstanding and unreported claims	942,440	858,032
Other liabilities	96,254	99,653
General contingency reserve	457,122	438,410
Net equity and liabilities	1,687,034	1,529,845

Net equity investment in the wholly-owned subsidiary Gard Marine & Energy Limited was USD 202 million at 20 August 2006 (USD 199 million at 20 February).



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

Six months to 20 August 2006	P&I	Marine	Energy
Premiums and calls	164,363	86,686	51,835
Net premium earned	139,352	77,457	44,684
Net claims incurred	123,078	59,996	40,657
Claims handling costs	9,000	331	351
Net claims costs	132,078	60,327	41,008
Net operating expenses excluding claims handling costs	15,012	14,722	9,301
Result on technical account	(7,738)	2,408	(5,625)
Claims ratio net	95%	78%	92%
Expense ratio net	11%	19%	21%
Combined ratio net	106%	97%	113%

accounts

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.