

CUBIC CORP /DE/
Form 10-K
November 26, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 2014

Commission File Number 001-08931

CUBIC CORPORATION

Exact Name of Registrant as Specified in its Charter

Delaware
State of Incorporation

95-1678055
IRS Employer Identification No.

9333 Balboa Avenue
San Diego, California 92123
Telephone (858) 277-6780

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Securities registered pursuant to Section 12(b) of the Act:

Common Stock
Title of each class

New York Stock Exchange, Inc.
Name of exchange on which registered

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) o Yes x No

The aggregate market value of 20,224,387 shares of common stock held by non-affiliates of the registrant was: \$1,032,859,444 as of March 31, 2014, based on the closing stock price on that date. Shares of common stock held by each officer and director and by each person or group who owns 10% or more of the outstanding common stock have been excluded in that such persons or groups may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares of common stock outstanding as of November 6, 2014 including shares held by affiliates is: 26,860,299 (after deducting 8,945,300 shares held as treasury stock).

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with its 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the Securities and Exchange Commission subsequent to the date hereof but not later than 120 days after registrant's fiscal year ended September 30, 2014.

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CUBIC CORPORATION

ANNUAL REPORT ON FORM 10-K

For the Year Ended September 30, 2014

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PART I

Item 1. BUSINESS.

GENERAL

CUBIC CORPORATION (Cubic) is a leading international provider of cost-effective systems and solutions that address the mass transit and global defense markets' most pressing challenges. We believe that we have significant transportation and defense industry expertise which, combined with our innovative technology capabilities, contributes to our leading customer positions and allows us to deepen and further expand each of our business segments in key markets. We operate in three reportable business segments across the global transportation and defense markets.

Our Cubic Transportation Systems (CTS) business accounted for approximately 43% of our sales in fiscal year 2014. CTS specializes in the design, development, production, installation, maintenance and operation of automated fare payment, traffic management and enforcement solutions, real-time information collection systems, and revenue management infrastructure and technologies for transportation agencies. As part of our turnkey solutions, CTS also provides these customers with a comprehensive suite of business process outsourcing (BPO) services and expertise, such as card and payment media management, central systems and application support, retail network management, passenger call centers and financial clearing and settlement support. As transportation authorities seek to optimize their operations by outsourcing bundled systems and services, CTS has transformed itself from a provider of automated fare collection (AFC) systems into a systems integrator and services company focused on the intelligent transportation market.

Our complementary defense businesses, Mission Support Services (MSS) and Cubic Defense Systems (CDS), provided approximately 57% of our sales in fiscal year 2014. MSS provides comprehensive training and exercise, operations analysis, and modeling and simulation support, as well as training analysis, curriculum design, and operations and maintenance services to all four branches of the U.S. military, including the special operations forces, as well as to allied nations. In addition, MSS offers a broad range of highly specialized national security solutions to the intelligence community. CDS is a leading provider of realistic, high-fidelity air, ground combat, surface, and cyber training systems for the U.S. and allied nations. These training solutions offer the latest live, virtual, constructive, and game-based technology, integrated to optimize training effectiveness. CDS is also a key supplier of secure communications solutions, including Intelligence, Surveillance and Reconnaissance (ISR) data links, personal locator systems for search and rescue missions, and high power amplifiers for HF communications, and cross domain products.

We have a broad customer base across our businesses, with approximately 63% of our fiscal year 2014 sales generated from the U.S. federal, state and local governments. Approximately 7% of these domestic sales were attributable to Foreign Military Sales, which are sales to allied foreign governments facilitated by the U.S. government. The remainder of our fiscal year 2014 sales were attributable to sales to foreign government agencies and municipalities. In fiscal year 2014, 58% of our total sales were derived from services, with product sales accounting for the remaining 42%. Headquartered in San Diego, California, we had approximately 7,900 employees working on 4 continents and in 23 countries as of September 30, 2014.

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We were incorporated in the State of California in 1949 and began operations in 1951. In 1984, we moved our corporate domicile to the State of Delaware. Our internet address is www.Cubic.com. The content on our website is available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports can be found on our internet website under the heading "Investor Relations". We make these reports readily available free of charge in a reasonably practicable time after we electronically file these materials with the Securities and Exchange Commission (the SEC).

BUSINESS SEGMENTS

Information regarding the amounts of revenue, operating profit and loss and identifiable assets attributable to each of our business segments, is set forth in Note 16 to the Consolidated Financial Statements for the year ended September 30, 2014. Additional information regarding the amounts of revenue and operating profit and loss attributable to major classes of products and services is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations," which follows in Item 7 of this Form 10-K.

TRANSPORTATION SYSTEMS SEGMENT

CTS is a systems integrator of payment and information technology and services for intelligent travel solutions. We deliver integrated systems for transportation and traffic management, delivering tools for travelers to choose the smartest and easiest way to travel and pay for their journeys, and enabling transportation authorities and agencies to manage demand across the entire transportation network.

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all in real time. We offer fare collection and revenue management devices, software, systems and multiagency, multimodal integration technologies, as well as a full suite of operational services that help agencies and operators efficiently collect fares and revenue, manage operations, reduce revenue leakage and make transportation more convenient. Through our NextBus and ITMS businesses, respectively, we also deliver real-time passenger information systems for tracking and predicting vehicle bus arrival times and we are a leading provider of urban and inter-urban intelligent transportation and enforcement solutions and technology and infrastructure maintenance services to UK and other international city, regional and national road and transportation agencies. Through our Urban Insights business we use big data and predictive analytics technology and a consulting model to help the transportation industry improve operations, reduce costs and better serve travelers.

CTS is comprised of approximately 2,100 employees working in major transportation markets worldwide. As an established partner with transportation authorities and operators worldwide, we have installed over 130,000 devices and deployed over 20 regional central systems which in total process approximately 24 billion fare-related transactions per year, generating more than \$18 billion of revenue per year for such transportation authorities and operators. Products accounted for 47% of the segment's fiscal year 2014 sales, with services accounting for the remaining 53%.

We believe that we hold the leading market position in large-scale automated fare payment and revenue management systems and services for major metropolitan areas. CTS has delivered over 20 regional back office operations which together serve over 38 million people every day in major markets around the world. We have implemented and, in many cases, operate automated fare payment and revenue management systems for some of the world's largest transportation systems, such as London (Oyster®), Chicago (Ventra®), the San Francisco Bay Area (Clipper®) and the Los Angeles region (TAP®). In addition we have numerous active projects worldwide, including in the New York (Metrocard®) / New Jersey (PATCO®, PATH Smartlink®) region, Chicago (Ventra®), Vancouver, Sydney, Brisbane, the Frankfurt / RMV region, Sweden, the Washington, D.C. / Maryland / Virginia region, the San Diego region, Miami, Minneapolis / St. Paul and Atlanta. In addition to helping us secure similar projects in new markets, our comprehensive suite of new technologies and capabilities enables us to benefit from a recurring stream of revenues in established markets resulting from innovative new services, technology obsolescence, equipment refurbishment and the introduction of new or adjacent applications.

Consistent with our history of creating next-generation, state-of-the-art technologies and systems, we are in the process of developing and implementing components of our NextCity® initiative, which envisions integrated payment and information technology and services across all modes of transport and which has been furthered by our acquisitions of NextBus and ITMS, as well as the launch of Urban Insights. NextCity comprises a fully integrated solution offering innovative fare payment and revenue management technologies, such as contactless bank cards, general purpose reloadable (GPR) cards, transit branded debit/credit cards and near field communication (NFC) phones directly at the point of travel, predictive data analytics, and intermodal compatibility across an entire transportation network. Two key information technology (IT) components of NextCity are the creation and distribution of real-time data through the integration of payment and information systems, ultimately enabling operators to manage demand and customers to manage their travel through improved data analytics and seamless access to predictive and relevant information, as well as the specialization in the development and supply of complex traffic management systems for the monitoring and control of urban and inter-urban road networks, encompassing integrated traffic and incident management, decision support, vehicle tracking and passenger information through integrated user interfaces.

Our hardware systems and services offerings are summarized as follows:

| Devices | Systems | Services |
|--|--|---|
| <ul style="list-style-type: none"> • Point-of-sale • Farebox | <ul style="list-style-type: none"> • Multimodal payment and revenue management • Bus | <ul style="list-style-type: none"> • Central system and application support • Systems operation and maintenance |

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- Driver control units
- Gates
- Validators
- Vendor
- Back office
- encoders
- Depot computers
- ITS equipment
- Bus Rapid Transit
- Rail
- Light rail
- Commuter rail
- Heavy Rail
- Subway
- Ferries
- Parking
- Tolling
- Other modes
- Regional
- Smart card-based
- Open payment
- Credit cards
- NFC mobile phones
- GPR cards
- Central system and device level software
- Real-time passenger information
- Automatic vehicle location
- Traffic management systems
- Traffic safety enforcement systems
- Field asset management services
- Passenger call centers
- Card and payment media management
- Communications infrastructure management
- Financial clearing and settlement services
- Retail network management
- Web support services
- Technology maintenance services for international government road and transportation agencies

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Industry Overview

We define our addressable transportation market as large-scale, multi-modal AFC, Real-Time Passenger Information and Intelligent Transport systems and services and estimate this market to be approximately \$4 billion annually. We project the long-term growth for this market to be driven primarily by customer infrastructure expansion as well as technological obsolescence leading to replacement and upgrades. The average lifecycle of our automated fare collection systems is approximately 10 years, providing long-term recurring sales visibility and opportunities for future replacements and upgrades. Also, there are additional opportunities that stem from entry into new geographies and program expansion into new areas, such as intelligent transportation systems and services, analytics, mobile payment and information technologies, and revenue collection systems and services for other transportation applications such as tolling and parking, which we believe increase the global addressable market from \$4 billion to approximately \$12 billion. We believe industry experience, past performance, technological innovation and price are the key factors customers consider in awarding programs and such factors can serve as barriers to entry to potential competitors when coupled with scale and the upfront investments required for these programs.

The AFC business is a niche market which is only capable of sustaining a relatively few number of suppliers. Due to the long life expectancy of these systems and the few companies with the capabilities to supply them, there is fierce competition to win new contracts, often resulting in low initial contract profitability.

Advances in communications, networking and security technologies are enabling interoperability of multiple modes of transportation within a single networked system, as well as interoperability of multiple transit operators within a single networked system. As such, there is a growing trend for regional payment systems, usually built around a large transit agency and including neighboring operators, all sharing a common regional transit payment media. Recent transit agency procurements for open payment fare systems will extend the acceptance of payment media from transit smart cards, to contactless bank cards and Near Field Communication (NFC) enabled smart phones.

There is also an emerging trend for other applications to be added to these regional systems to expand the utility of the transit payment media, offering higher value and incentives to the end users, and lowering costs and creating new revenue streams through the integration of multi-modal and multi-operator systems for the regional system operators. As a result, these regional systems have created opportunities for new levels of systems support and services including customer support call centers and web support services, smart card production and distribution, financial clearing and settlement, retail merchant network management, transit benefit support, and software application support. In some cases, operators are choosing to outsource the ongoing operations and commercialization of these regional payment systems. This growing new market provides the opportunity to establish lasting relationships and grow revenues and profits over the long term.

Our NextBus business uses a software-as-a-service solution NextBus technologies provide transit passengers with accurate, real-time predicted arrival information about buses, subways and trains, and include real-time management and dispatch tools that enable transit operators to effectively manage their systems.

Through the acquisition of Intelligent Transport Management Solutions Limited (ITMS), we have broadened our portfolio of information based solutions and transportation agency customers. ITMS is a provider of traffic management systems technology, traffic and road enforcement and the maintenance of traffic signals, emergency equipment and other critical road and tunnel infrastructure. The ITMS acquisition is part of our NextCity vision and it expands CTS potential market beyond fare collection and real-time passenger information.

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Urban Insights combines a consulting and services team with specific data science methods and a cloud-based big data and predictive analytics platform to generate business insight discovery that helps transportation planners and administrators quickly comprehend what needs to be done to advance service quality for their customers and optimize urban transportation networks. Urban Insights harnesses the power of big data and predictive analytics to help the transportation industry improve operations, reduce costs and better serve travelers.

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Raw Materials CTS

Raw materials used by CTS include sheet steel, composite products, copper electrical wire and castings. A significant portion of our end product is composed of purchased electronic components and subcontracted parts and supplies. We procure all of these items from third-party suppliers. In general, supplies of raw materials and purchased parts are adequate to meet our requirements.

Backlog CTS

Funded sales backlog of CTS at September 30, 2014 and 2013 amounted to \$1.995 billion and \$1.526 billion, respectively. We expect that approximately \$508 million of the September 30, 2014 backlog will be converted into sales by September 30, 2015.

CTS Competitive Environment:

We are one of several companies specializing in the provision of automated fare collection systems solutions and services for transportation operators worldwide. Our competitors include Thales, Xerox, Kapsch, Imtech and Scheidt & Bachmann. The requirements of recent open standards fare collection system procurements call for system integration with payment industry infrastructures and outsourcing of longer term IT support functions, which can be attractive to other IT system integrators such as Accenture, LG Corp., and IBM. In addition, there are many smaller local competitors, particularly in European and Asian markets.

For large tenders, our competitors may form consortiums that could include telecommunications companies, financial institutions and consulting companies in addition to the companies noted above. These procurement activities are very competitive and require that we have highly skilled and experienced technical personnel to compete.

We believe that our competitive advantages include intermodal and interagency regional integration expertise, technical skills, past contract performance, systems quality and reliability, experience in the industry and long-term customer relationships.

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MISSION SUPPORT SERVICES SEGMENT

MSS is a leading provider of training, operations, intelligence, maintenance, technical, and other support services to the U.S. government and its agencies and allied nations. These services complement the systems and solutions provided by the CDS segment. MSS is comprised of approximately 4,000 employees working in 14 nations throughout the world. Our employees serve with clients in actual training and operational environments to help prepare and support forces through the provision of comprehensive training, exercises, staff augmentation, education, operational, intelligence, technical, and logistical assistance to meet the full scope of their assigned missions. The scope of mission support that we provide includes: training and rehearsals for both small and large scale combat operations; training and preparation of military advisor and training teams; combat and material development; military staff augmentation; information technology and information assurance; logistics and maintenance support for fielded and deployed systems; support to national intelligence and special operations activities; peacekeeping; consequence management; and humanitarian assistance operations worldwide. We also plan, prepare, execute and document realistic and focused mission rehearsal exercises (using both live and computer-based exercises) as final preparation of forces prior to deployment. In addition, we provide high level consultation and advisory services to the governments and militaries of allied nations.

U.S. government service contracts are typically awarded on a competitive basis with options for multiple years. We typically compete as a prime contractor to the government, but also team with other companies on select opportunities. Over the last several years we have experienced a number of challenges in the defense services market, including sequestration, reductions in the U.S. government's budgets, increased price competition, contract awards for shorter performance periods, and we have seen an increased amount of required subcontracting to small businesses as a result of the U.S. government's increased emphasis on meeting small business contracting mandates. In addition, some of the contracts where we were the prime contractor in the past have been set aside at re-compete for participation by small businesses only.

Much of our early work centered on battle command training and simulation in which military commanders are taught to make correct decisions in battlefield situations. Our comprehensive business base has broadened to include integrated live, virtual and constructive training support; advanced distance learning and other professional military education; comprehensive logistics and maintenance support; weapons effects and analytical modeling; analysis, training, and other support to the national security community, including intelligence and special operations forces; homeland security training and exercises; training and preparation of U.S. Army and Marine Corps foreign service advisor teams; and military force modernization. Additionally, we support the deployment and re-deployment of both active and reserve component forces; and we provide in-country logistics, maintenance, operational and training support to U.S. Forces deployed in overseas locations.

Our contracts include providing mission support services to all four of the U.S. Army's major combat training centers (CTCs): Joint Readiness Training Center (JRTC) as prime contractor, the National Training Center (NTC) and Mission Command Training Program (MCTP) as a principal subcontractor and the Joint Multinational Readiness Center (JMRC) as prime contractor supporting constructive simulations. These services include planning, executing and documenting realistic and stressful large scale exercises and mission rehearsals that increase the readiness of both active and reserve U.S. conventional and special operations forces by placing them in situations as close to actual combat as possible.

For the U.S. Armed Services, MSS is a principal member of the contractor team that supports and helps manage and execute all aspects of the operations of the Joint Force Development (JFD), including support to worldwide joint exercises and the development and fielding of the Joint National Training Capability (JNTC). We provide training and professional military education support to the U.S. Army's Quartermaster Center and School, the Signal School and to the Transportation School. We also provide contractor maintenance and instructional support necessary to operate and maintain a wide variety of flight simulation and training systems and other facilities worldwide, for U.S. and allied forces under multiple long-term contracts, including direct support to USMC aircrew training systems worldwide instructional support services for the Chief of Naval Aviation Training program and with a new award in 2014 support to the Navy helicopter simulator maintenance program. In addition, we provide a broad range of operational support to the U.S. Navy for Anti-Submarine Warfare (ASW) and counter-mine operations and training.

We provide comprehensive support to help plan, manage and execute Defense Threat Reduction Agency (DTRA) worldwide consequence management exercise program, which trains senior U.S. and allied civilian and military personnel, first responders and other users of DTRA products. Additionally as a subcontractor we support the DTRA with technology-based engineering and other services necessary to accomplish DTRA's mission of predicting and defeating the effects of chemical, biological, radiological, nuclear and high explosive (CBRNE) weapons. We support DTRA with modeling and simulations to analyze, assess and predict the effects of such weapons in combat and other environments.

We provide Research, Development and Technical Engineering (RDTE) support to the U.S. Air Force Research Laboratories (AFRL) for assistance in the identification and application of current, new and emerging technologies leading to proof-of-principle evaluations of advanced operational concepts.

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We have multiple contracts with all U.S. Armed Services and other government agencies to improve the quality and reach of training and education of individuals and small teams up through collective training of large organizations. Our services, products and capabilities include development and deployment of curriculum and related courseware, computer-based training, knowledge management and distribution, advanced distance learning (e-learning), serious military games for training and other advanced education programs for U.S. and allied forces.

An important part of our services business is to provide specialized teams of military experts to advise the governments and militaries of the nations of the former Warsaw Pact and Soviet Union, and other former communist countries in the transformation of their militaries to a NATO environment. These very broad defense modernization contracts involve both the nations' strategic foundation and the detailed planning of all aspects of reform. We also develop and operate battle simulation centers for U.S. forces in Europe, as well as for select countries in Central and Eastern Europe.

Through the acquisitions of Abraxas Corporation (Abraxas) in December 2010 and certain assets of NEK Special Programs Group, LLC (which were placed in NEK Services, Inc.) (NEK) in December 2012, we have expanded our support services to the military and national intelligence communities, as well as for special operations, law enforcement and homeland security clients. With these acquisitions and our organic skillsets, we are broadening our service offerings across the U.S. Department of Defense (DoD) and national security markets to pursue prime contract opportunities.

We believe the combination and scope of our mission support services and training systems business is unique in the industry, permitting us to offer customers a complete training and combat readiness capability from one source.

Backlog MSS

Funded sales backlog of our MSS segment at September 30, 2014 was \$171 million compared to \$221 million at September 30, 2013. Total backlog, including unfunded options under multiyear service contracts, was \$616 million at September 30, 2014 compared to \$627 million at September 30, 2013. We expect that approximately \$261 million of the September 30, 2014 total backlog will be converted into sales by September 30, 2015.

DEFENSE SYSTEMS SEGMENT

CDS is focused on two primary lines of business: training systems and secure communications (SC) products. The first line of business, training systems, is well diversified and supplies to the DoD and 40 allied nations. It is a market leader in live and virtual military training systems and has launched an emerging and fast growing presence in game-based training systems. Training systems provided by CDS include customized military range instrumentation systems, live-fire range design and maintenance, laser-based training systems, virtual simulation systems, and game-based synthetic training environments. The second line of business, SC, includes ISR data links, power amplifiers, avionics systems, multi-band communication tracking devices, and cross domain products to solve data access challenges across multi-level security designations. CDS is comprised of approximately 1,600 employees working in 12 nations on 4 continents.

Training Systems

Our training systems business is a pioneer and market leader in the design, innovation, and manufacture of instrumented training systems and products for the US military and the militaries of allied nations. We design and manufacture realistic, high-fidelity air, ground, surface, and cyber training systems. They are implemented in both live and synthetic training environments, and are used to effectively deliver a range of training objectives, such as training for fighter pilots, ground troops, infantry, armored vehicles, ship operation and maintenance personnel, cyber warriors, and special operations forces. These systems deliver stressful scenarios and weapons effects, collect event and tactical performance data, record simulated engagements and tactical actions, and deliver after actions reviews to evaluate individual and collective training effectiveness.

Strategically CDS is very well positioned to lead the increasing trend to fully integrated solutions that connect live, virtual, constructive, and game-based training environments into a seamless training event. Our training business portfolio is currently organized into air combat, ground combat, virtual training, cyber training, and game-based advanced learning systems.

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Air Combat Training Systems

In air combat, Cubic was the initial developer and supplier of Air Combat Maneuvering Instrumentation (ACMI) capability during the Vietnam War, which provides advanced live training to fighter pilots around the world. The ACMI product line has progressed through five generations of technologies and capabilities. The latest generation, the P5 ACMI, provides advanced air combat training capability to the U.S. Air Force, Navy and Marine Corps, and has solidified Cubic's market leading position. We have also developed a broad international base for this product, particularly in Asia Pacific and the Middle East. In addition to procuring the ACMI training system, many nations also rely on Cubic for on-site operations and maintenance support.

Ground Combat Training Systems

CDS is a leading provider of realistic, easy-to-use, high fidelity, reliable, and cost effective tactical engagement simulation systems that minimize user set-up time and increase training effectiveness. Our leadership role in instrumented training was established during the 1990s when Cubic provided turnkey systems for U.S. Army training centers including the Joint Readiness Training Center (JRTC) at Fort Polk, Louisiana and the Combat Maneuver Training Center (CMTTC) at Hohenfels, Germany, now known as the Joint Multinational Readiness Center. Since the completion of these original contracts, we have significantly expanded our market footprint with the sale of fixed, mobile and urban operation training centers to uniformed military and security forces in the U.S. and allied nations around the world. Our Laser-based tactical engagement simulation systems, widely known as the Multiple Integrated Laser Engagement Systems (MILES), are used at CTCs to enable realistic training without live ammunition. Cubic MILES are being utilized by all branches of the U.S. Armed Services, as well as the Department of Energy, and numerous international government customers. We have increased our focus on joint training solutions and those that can operate simultaneously in multiple simulation environments including live, virtual, constructive and gaming domains. In fiscal year 2013 we acquired the assets of Advanced Interactive Systems (AIS), which provides live fire training solutions to US and international forces, further deepening our training capabilities and expanding our customer base.

Virtual Training Systems

Our Virtual Training product line provides virtual training systems for various applications, employing actual or realistic weapons and systems together with visual imagery to simulate battlefield environments. Cubic provides Engagement Skills Trainers for small arms training, maintenance trainers for combat systems and vehicles, as well as operational trainers for missiles, armored vehicles and naval applications. In fiscal year 2013, we significantly expanded our virtual training portfolio through a \$298.5 million indefinite delivery/indefinite quantity (ID/IQ) award to provide immersive game based training for the Littoral Combat Ship (LCS). This award became the genesis of our Game-Based Learning Systems business described below. In fiscal year 2014, we were awarded a \$112.9 million ID/IQ contract from the Naval Air Systems Command, Training Systems Division (NAWCTSD) to develop hands-on training devices, desktop trainers and simulators for each variant of the LCS Mission Bays.

Cyber Training Systems

Driven by the highly dynamic and complex nature of cyber-attacks, cyber security solutions are transitioning from traditional perimeter defenses to integrated analytical tools to evaluate threats/intrusions in real-time. The underlying shift to cloud-based services and Big Data places a

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premium on rapid detection and analysis of cyber threats particularly for military and intelligence customers. Cyber considerations are also assuming greater prominence in mission rehearsal and tactical exercises. Within the rapidly growing market, and in response to specific customer needs, CDS is developing a repository of threats, unique network topology modeling, and remote provisioning to simulate cyber effects on DoD systems/missions. Unlike expensive stovepipe hardware solutions, this approach allows the company to engage the market more broadly and with far greater flexibility. Ultimately, this solution can be offered to commercial entities as well.

Game-Based Learning Systems

The \$298.5 million LCS courseware contract win by the Simulation Systems Division during 2013 has opened a large new market for CDS. A key discriminator in the LCS proposal was the use of a high fidelity gaming engine that allows Avatars to instruct students at their own pace in an immersive environment based on realistic graphics. By integrating instructional material into a gaming environment we have dramatically reduced instructor costs and provided a platform that is irman of the Board of Directors, Mr. John A. Rollwagen. All correspondence will be forwarded to the relevant director, except for items unrelated to the functions of the Board of Directors, business solicitations and advertisements.

Significant Board Practices

Executive Session

At every physical board meeting there is an executive session held where Mr. Patrick Thiele, the Chief Executive Officer, is excused. In 2004, four of these sessions occurred. The non-management board members are then at liberty to raise whatever issues they wish. Prior to each meeting the board members are polled by the Secretary to the Board acting for the Chairman about any topics or issues they wish to raise during this executive session.

Advance Materials

Information and data important to the directors understanding of the business or matters to be considered at a Board or Board committee meeting are, to the extent practical, distributed to the directors sufficiently in advance of the meeting to allow careful review prior to the meeting.

Access to Management and Employees

Directors have full and unrestricted access to the management and employees of the Company. Additionally, key members of management attend Board meetings from time to time to present information about the results, plans and operations of the business within their areas of responsibility.

Access to Outside Advisers

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The Board and its committees may retain external counsel or consultants without obtaining the approval of any officer of the Company in advance or otherwise. The Audit Committee has the sole authority to retain and terminate the independent auditor. The Nominating & Governance Committee has the sole authority to retain search firms to be used to identify director candidates. The Compensation Committee has the sole authority to retain compensation consultants for advice on executive compensation matters.

Board Independence and Expertise

All members of the Board of Directors have been determined to be independent with the exception of the Chief Executive Officer, Patrick Thiele, who is the only management member of the Board. In making its

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independence determinations, the Nominating & Governance Committee considers the NYSE listing standards for independence and reviews a comprehensive list of board memberships and charitable associations for each board member, as updated annually. As a result of this review, the Nominating & Governance Committee determined that with the exception of Mr. Thiele, no director of the Company had a direct or indirect material relationship with the Company and that with the exception of Mr. Thiele all are deemed to be independent directors. If any such relationship were deemed to exist all relevant fees would be disclosed and the Nominating & Governance Committee would make a determination of non-independence. The Board has not appointed a Lead Director as the role of Chairman of the Board is filled by an independent, non-executive director and the Chairman presides at all meetings of the Board of Directors and all executive sessions.

There are no interlocking directorships and none of our independent directors or any of their immediate family receives any consulting, advisory, legal or other non-director fees from the Company.

The Company was party to agreements with Atis Real (a company in which Dr. Zech is a non-executive director) and Barclays Bank PLC (a company in which Dr. Zech is a non-executive director) and their respective affiliates. Each of these agreements is not deemed to be a related party transaction or to impact the independence of Dr. Zech as defined by the New York Stock Exchange. The Board looked at each of the agreements and determined that such transactions were no less favorable to the Company than could have been obtained from third parties that had no relationship with the Company. The Board of Directors determined that the independence of Dr. Zech is not affected.

Each of the transactions are described in further detail below:-

Utilities and Rent

The Company leases office space from Atis Real. Pursuant to the lease agreement, rent expense for the years ended December 31, 2004, 2003 and 2002, aggregated \$8.6 million, \$5.5 million and \$nil, respectively.

Agreements with Barclays Bank PLC

In the normal course of its operations, the Company has entered into certain agreements with Barclays Bank PLC and its subsidiaries (Barclays) on market terms. As part of its ART (Alternative Risk Transfer) operations, the Company entered into weather related transactions with Barclays in 2004. All contracts had expired at December 31, 2004. Barclays is also a lending financial institution on the Company's \$700 million three year syndicated, unsecured credit facility. As part of its overall currency risk management, the Company utilized the services of Barclays when entering certain foreign exchange contracts. At December 31, 2004, the Company held convertible bond securities issued by Barclays and invested in an index fund and a money market fund managed by Barclays. In addition, Barclays provided the Company with brokerage and cash management services.

Director Qualifications

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The Nominating & Governance Committee is responsible for identifying, reviewing, assessing and recommending to the Board candidates to fill vacancies on the Board that occur for any reason. The Nominating & Governance Committee has established director candidate guidelines setting forth criteria that are considered in evaluating the candidacy of any individual as a member of the Board.

Code of Business Conduct and Ethics

The Board of Directors has adopted the PartnerRe Ltd. Code of Business Conduct and Ethics. The Code applies to all directors, officers and employees of the PartnerRe Group of companies. Any specific waiver of the provisions requires approval of the Board of Directors or the Audit Committee, and any waivers must be promptly disclosed to shareholders. There were no amendments to the Code and no waivers in 2004. Any employee, officer or director who violates the Code of Business Conduct and Ethics will be subject to disciplinary action.

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The Code of Business Conduct and Ethics was filed with the U.S. Securities and Exchange Commission on Form 8-K in January 2003.

Corporate Governance Principles And Application Guidelines

The Board of Directors of the Company adopted the Corporate Governance Principles and Application Guidelines. The governance principles are intended to define how the Board of PartnerRe will operate and reflect the business of the Company and its global practices and representation. The guidelines also include governance mechanics that apply to the practices of the Company's Board on a day-to-day basis.

The business and affairs of the Company are managed under the direction of the Board of Directors, which represents the shareholders of the Company. The Board believes that good corporate governance is a critical factor in achieving business success. The Board has long adhered to best practices in corporate governance in fulfillment of its responsibilities to shareholders. Its practices align management and shareholder interests.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has established five standing committees: the Audit Committee, the Compensation Committee, the Finance Committee, the Nominating & Governance Committee and the Human Resources Committee. The following standing committees of the Board are composed of independent directors: the Audit Committee, the Compensation Committee and the Nominating & Governance Committee. The Board has adopted charters for each of the committees, among other things, to reflect current best practices in corporate governance.

A description of the role of each of the Committees of the Board of Directors and details of their membership are contained below:-

AUDIT COMMITTEE

The Audit Committee consists of five members of the Board of Directors, each of whom is independent of the Company and its management, as defined by the NYSE listing standards and as determined by the Nominating & Governance Committee of the Board. In addition each member meets the financial literacy requirements of the NYSE and has been determined by the Board of Directors to have appropriate accounting and/or financial management experience.

The Audit Committee oversees the financial reporting process and the internal control structure of the Company on behalf of the Board and establishes standards for review of the Company's compliance with applicable accounting and regulatory requirements. The Audit Committee meets with management, the Company's Director of Group Internal Audit and the Company's independent registered public accounting firm to review matters relating to the quality of financial reporting and internal accounting controls, including the nature, extent and results of their audits, and otherwise maintains communications between the Company's independent registered public accounting firm and the Board of Directors. The Audit Committee also oversees compliance with the Code of Business Conduct and Ethics. The Audit Committee met eight times during the year ended December 31, 2004. The Audit Committee is comprised of Robert M. Baylis, Vito H. Baumgartner, Jan H. Holsboer, Rémy Sautter and Kevin M. Twomey. The Chairman of the Audit Committee, Mr. Robert M. Baylis, meets the definition of an audit committee

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financial expert as adopted by the United States Securities and Exchange Commission and is considered and deemed an audit committee financial expert by the Board of Directors.

Mr. Baylis is an independent director and is a qualified Chartered Financial Analyst and currently serves on the Audit Committees of four other public companies. Mr. Baylis retired from CS First Boston in 1996; his current avocation consists of service on these boards and certain charitable activities. The Board has determined that the Company benefits from his experience on the audit committees of the other companies, and that such simultaneous service does not impair his ability to serve effectively on the Company's Audit Committee. Mr. Baylis has agreed to be designated as the audit committee financial expert for PartnerRe Ltd.

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The other members of the Audit Committee are financially literate having a broad range of experience in senior executive positions in their respective industries. Mr. Holsboer was a senior executive of ING/Nationale-Nederlanden from 1990 to 1999 and served as a member of the Executive Board of ING Bank. He is currently, amongst other positions Co-Chairman of the Geneva Association Task Force on International Accounting Standards and Vice-Chairman of the Amsterdam Institute of Finance. Mr. Sautter is currently Chairman of the Board of RTL Radio, France and from 1985 to 1996 he served as Vice-Chairman and Managing Director of that company. From July 1996 to June 2000 Mr. Sautter was President and Chief Executive Officer of CLT-UFA Group. Mr. Baumgartner was a Group President and Executive Office member of Caterpillar Inc. Mr. Baumgartner is also a graduate of the Swiss School of Commerce and MIT's Program for Senior Executives. Mr. Baumgartner serves on the Audit Committee of Northern Trust Global Services Ltd. Mr. Twomey has been the President of The St. Joe Company since January 1999 and the Chief Financial Officer up until March 14, 2005. Mr. Twomey has also been the Chief Operating Officer of The St. Joe Company since February 2000. Mr. Twomey was Vice Chairman of the Board of Directors and Chief Financial Officer of H.F. Ahmanson & Company and its principal subsidiary, Home Savings of America and was Chief Financial Officer at First Gibraltar Bank.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee has discussed with the independent auditors, Deloitte & Touche, the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees) as amended and as required by S-X Rule 2-07.

The Audit Committee has discussed with the independent auditors whether the auditors' provision of non-audit related services is compatible with maintaining the auditors' independence from management and the Company and has received from the independent auditors written disclosures required by the Independence Standards Board Standard No. 1 including written materials addressing the internal quality control procedures of Deloitte & Touche.

During fiscal 2004, the Audit Committee had eight meetings including telephonic meetings to discuss quarterly results. The meetings were conducted so as to encourage communication among the members of the Audit Committee, management, the internal auditors, and the Company's independent auditors, Deloitte & Touche. Among other things, the Audit Committee discusses with the Company's independent auditors the overall scope and plans for their respective audits, and the results of such audits. The Audit Committee separately met with the Deloitte & Touche engagement partner, with and without management present.

The Audit Committee has reviewed and discussed the audited financial statements for the year ended December 31, 2004 with management and with the independent auditors of the Company. Based on such reviews and discussions the Audit Committee has recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K.

Audit Committee

Robert M. Baylis, Chairman

Vito H. Baumgartner

Jan H. Holsboer

Rémy Sautter

Kevin M. Twomey

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COMPENSATION COMMITTEE

The Compensation Committee is composed entirely of directors who are independent of the Company and its management, as defined by the NYSE listing standards and as determined by the Nominating & Governance Committee of the Board. The Compensation Committee is responsible for all aspects of compensation and benefits policies for the Company's CEO and other members of the Executive Committee. This includes approving and reviewing performance measures, evaluating performance and reviewing and approving all salary and incentive payments and equity awards for the Company's CEO and other Executive Committee members. The Compensation Committee is also responsible for management succession for the Executive Committee including the CEO. The Compensation Committee met seven times during the year ended December 31, 2004. The Compensation Committee is currently comprised of Vito H. Baumgartner, Jean-Paul Montupet, Rémy Sautter and Kevin M. Twomey. The Company accepted the resignation of Lucio Stanca, who was a member of the Compensation Committee, from the Board of Directors effective January 28, 2005.

Compensation Committee Interlocks and Insider Participation

The members of the Company's Compensation Committee in 2004 were Lucio Stanca, Vito Baumgartner, Jean-Paul Montupet, Rémy Sautter and Kevin M. Twomey, none of whom is or was an officer or employee of the Company or any of its subsidiaries and all of whom are independent of the Company and its management, as defined by the New York Stock Exchange (NYSE) listing standards. There are no Compensation Committee interlocks or related party transactions.

Compensation Committee Report

For ease of reference the Compensation Committee Report on Executive Compensation is on pages 17-20.

FINANCE COMMITTEE

The Finance Committee advises the Board with respect to the Company's overall risk tolerance and the manner in which the Company's capital is exposed to losses through reinsurance and investment activities. It monitors and approves the Company's catastrophe exposure and levels of retrocession and reviews the Company's reserving policy. In regard to investment activities, it reviews the Company's asset allocation policy and investment guidelines and monitors investment performance against agreed benchmarks. It also oversees the Company's balance sheet and capital management policies including new capital raising, capital allocation, dividend payments and capital expenditure. The Finance Committee met five times during the year ended December 31, 2004. The Finance Committee is currently comprised of Jan H. Holsboer, Robert M. Baylis, Judith Hanratty, John A. Rollwagen and Jürgen Zech.

HUMAN RESOURCES COMMITTEE

The Human Resources Committee is responsible for the Company's compensation philosophy, all forms of non-current monetary compensation (other than for members of the Executive Committee) and the administration of the PartnerRe Ltd. 2003 Non-Employee Director Stock Plan, the

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Employee Incentive Plan, the Employee Share Purchase Plans and the defined contribution pension plans. It is also responsible for management continuity and development, and it will review and recommend to the Board all executive committee member appointments. The Human Resources Committee met four times during the year ended December 31, 2004. The Human Resources Committee is currently comprised of Vito H. Baumgartner, Jean-Paul Montupet, Rémy Sautter, Patrick A. Thiele and Kevin M. Twomey. The Company accepted the resignation of Lucio Stanca, who was a member of the Human Resources Committee, from the Board of Directors effective January 28, 2005.

NOMINATING & GOVERNANCE COMMITTEE

The Nominating & Governance Committee is responsible for all aspects of governance including selection and recommendation of director nominees, appointment of Board Committee members, Board Committee structure, Board compensation and the development of and compliance with the Corporate Governance

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Principles and Application Guidelines. The Nominating & Governance Committee operates pursuant to a written charter and has the exclusive right to recommend candidates for election as directors to the Board. The purpose of the Nominating & Governance Committee is to identify individuals qualified to become Board members and recommend director nominees to the Board for election at the next meeting of shareholders or alternatively recommend individuals to the Board to fill any vacancies or newly created directorships that may occur between such meetings. In addition the Nominating & Governance Committee recommends directors for appointment to Board committees and evaluates Board performance. The Committee has in the past retained third party search firm to identify candidates from time to time.

Pursuant to the Nominating & Governance Committee's charter the Nominating & Governance Committee also oversees and sets compensation for the Company's directors and develops and recommends to the Board the Corporate Governance Principles and Application Guidelines of the Company and oversees compliance with such Guidelines.

Because of the unique and diversified nature of the work undertaken by the Company, the Nominating & Governance Committee will not consider any proposals put forward by the shareholders for nomination of a director.

The Nominating & Governance Committee has established criteria for membership of the Board and any Board committee. The Nominating & Governance Committee will apply these criteria when recommending individuals for prospective membership on the Company's Board of Directors and for appointment of directors to the committees of the Board. The criteria include a review of prospective candidates' qualifications (including a determination as to the independence of the candidate); an evaluation of current directors for re-nomination to the Board or re-appointment to any Board committee; an assessment of the performance of current directors; a periodic review of the composition of the Board and its committees in light of the current challenges and needs of the Board and each committee.

The Nominating & Governance Committee will also consider each director's individual skills and determines whether it may be appropriate to add or remove individuals after considering issues of judgment, diversity, age, background and experience.

The Nominating & Governance Committee met four times during the year ended December 31, 2004. The Nominating & Governance Committee is currently comprised of John A. Rollwagen, Judith Hanratty, Jean-Paul Montupet and Jürgen Zech. The Company accepted the resignation of Lucio Stanca, who was a member of the Nominating & Governance Committee, from the Board of Directors effective January 28, 2005.

CORPORATE DOCUMENTATION

The Company will furnish, without charge, the following corporate documents (together "Corporate Documentation") to each person solicited hereunder:

Annual Report on Form 10-K for the year ending December 31, 2004

Audit Committee Charter

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Nominating & Governance Committee Charter

Finance Committee Charter

Compensation Committee Charter

Human Resources Committee Charter

The Corporate Governance Principles and Application Guidelines

The Code of Business Conduct and Ethics

To obtain a copy of any of the Corporate Documentation please submit a written request to the Secretary, PartnerRe Ltd., Chesney House, 96 Pitts Bay Road, Pembroke HM08, Bermuda. Such request may also be made

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by placing a telephone call to 1-441-292-0888. All of the Corporate Documentation are also available on the Company's website at www.partnerre.com. In addition, the Company will also furnish, upon payment of a reasonable fee to cover reproduction and mailing expenses, a copy of all exhibits to such Annual Report on Form 10-K.

DIRECTOR COMPENSATION

Directors' compensation guidelines were reviewed and amended effective May 22, 2003 as approved by the Nominating & Governance Committee of the Board. The Nominating & Governance Committee's objective was to further align interests of directors and shareholders by incenting ownership in the form of share options and restricted share units while maintaining competitive compensation levels.

Directors' compensation offers a mix of cash and equity compensation for each director and for the chairman. The total compensation package for director service consists of three components:

Cash compensation

Share Options

Restricted Share Units (RSUs)

| Component | Director Annual Amount | Board Chairman Annual Amount |
|-----------------------------|---|---|
| Cash | \$ 50,000 | \$ 155,000 |
| Options | 4,500 | 5,000 |
| Restricted Share Units | \$ 80,000 | \$ 90,000 |
| Dividend Equivalents in RSU | Per actual dividend rate declared by the Board | Per actual dividend rate declared by the Board |

Equity Components

The share option awards are immediately vested options to purchase Common Shares of PartnerRe Ltd., which are granted each year on the date of the annual general meeting.

The RSUs are immediately vested and awarded on a quarterly basis. Each RSU award has a share delivery date restriction of five years from the date of grant. The delivery date restriction applies regardless of termination of directorship except in the case of death, in which case the shares are immediately deliverable to the named beneficiary or estate. Directors may elect to extend the share delivery date restriction to 10 years or 15 years from the date of grant. Dividend equivalents on cumulative RSU awards are paid out quarterly in the form of additional RSU awards under the same conditions.

All equity awards for the members of the Board are made from the 2003 Non-Employee Director's Plan (the "2003 Director's Plan"). A total of 500,000 Common Shares may be issued under the 2003 Director's Plan.

The 2003 Director's Plan may be amended or terminated by the Company at any time, in whole or in part. However, any amendment for which shareholder approval is required by law will not be effective until such approval has been obtained. Unless terminated earlier, the 2003 Director's Plan expires on May 22, 2013, the tenth anniversary of its adoption by the Board, and no further share options or RSUs may be granted thereunder after such date.

Elective Equity Incentive

In order to further align director and shareholder interests, the guidelines allow directors to elect each year to defer 50% or 100% of their cash compensation to be paid out in equity. Increased share ownership is further

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incented by a match of 25% on the value of deferred cash compensation. This value is paid out in RSU awards, which are granted under the same terms and conditions as the other RSU grants.

Compensation for the Chairman of the Board

For services as Chairman of the Board in 2004, the Company granted Mr. Rollwagen equity awards under the approved guidelines of 5,000 options and 5,179 RSUs. For 2004, pursuant to the Elective Equity Incentive, Mr. Rollwagen elected to defer 100% of his cash compensation and was therefore entitled to receive a company match equivalent to 25% of his deferral. The Company match totaled 696 restricted share units.

| Chairman of the Board RSU Breakdown | RSUs |
|--|--------------|
| Standard Quarterly RSU Award | 1,618 |
| Cash Deferral to RSU Award | 2,785 |
| Company Match | 696 |
| Dividend Equivalents | 80 |
| Total | 5,179 |

Management Director's Fees and Directors Expenses

Mr. Thiele, the Company's Chief Executive Officer, is the only member of management who serves on the Board of Directors. As an employee of the Company he is not paid any fees or additional compensation for services as Director or as a member of any committee thereof. All directors, including Mr. Thiele, are reimbursed for travel and other related expenses incurred in attending meetings of the Board of Directors or committees thereof.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company was not party to any related transactions. The Board did consider certain director relationships when considering director independence. These relationships are more fully particularised in the Board Independence and Expertise section on pages 10-11.

EXECUTIVE COMPENSATION

Compensation Committee Report on Executive Compensation

The Compensation Committee determines the salaries and other compensation for the Chief Executive Officer (CEO) and the other members of the Executive Committee (EC). The Compensation Committee consists entirely of independent directors who are not officers or employees of the Company and its subsidiaries. The current members of the Compensation Committee are Jean-Paul Montupet, Rémy Sautter, Kevin M.

Twomey and Vito H. Baumgartner.

In 2004, the Compensation Committee approved the Executive Total Compensation Program which sets guidelines around executive compensation, stock ownership and net share retention, equity incentives, customization and executive retirement. These guidelines were filed with the Securities and Exchange Commission as an exhibit to the Company's Annual Report on Form 10-K on March 10, 2005. The compensation of the CEO and members of the EC is reviewed and approved by the Compensation Committee on an annual basis. The compensation package is comprised of three components: Base Salary, Annual Incentive and Annual Equity Awards.

Executive Compensation Philosophy

The Committee has designed an executive compensation program with the following guiding principles:

Align the long-term interests of executives and shareholders

Establish competitive pay levels on a total compensation basis

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Clearly link pay with performance

Provide flexibility in form and structure to meet individual time horizons

Demonstrate good governance and corporate responsibility

Encourage retention of CEO and key executives

Base Salary

The Base Salary of each individual executive is reviewed in terms of experience, qualifications, performance and reference to base salary levels of similar positions within a peer group. The peer group consists of companies within our industry with whom we compete for talent. The peer group is reviewed and approved annually by the Compensation Committee.

Annual Incentive

The Annual Incentive is a variable component of compensation based on performance and structured in accordance with the Company's Annual Incentive Guidelines. Target annual incentives are set for each executive in line with competitive practice. Targets are expressed as a percentage of base salary. The target Annual Incentive for the CEO is 125% of base salary and the target annual incentives for the EC members range from 80% to 100% of base salary.

Performance measures are reviewed and approved annually by the Compensation Committee prior to the beginning of the performance year. Performance measures are comprised primarily of company financial measures of profitability and growth. Non-financial organizational objectives may be assigned by the Compensation Committee. 2004 performance measures for the CEO and EC included financial measures on the Company's Return on Equity (ROE) results and growth in premiums written over the previous year as well as non-financial measures focusing on the organizational objectives of the performance year.

Each performance measure has a target performance level which correlates to 100% payout of the target Annual Incentive. A performance scale is built around the target level corresponding to Annual Incentive payouts on a range of 0% to 200% of target. Each performance measure is appropriately weighted on an individual basis for each executive.

The CEO and EC may elect to defer a portion of their cash Annual Incentive into restricted share units of PartnerRe Ltd. The restricted share units are immediately vested and have a minimum delivery date restriction of five years from the grant date. PartnerRe Ltd. will match 25% of the deferred cash value in additional restricted share units subject to a 3-year cliff vesting.

Annual Equity Award

The Annual Equity Award is distributed to the executive in stock options and in restricted share units. The stock options vest ratably over a 36-month period while the restricted stock units vest 100% at 36 months from grant. The stock option grant price is equal to the fair market value of the shares on the date of grant.

Stock Ownership Guidelines

The Compensation Committee has set two stock ownership targets for the CEO and the EC members. Once the executive reaches the Total Shares/Equivalents Target, the executive's Net Share retention requirement (as described below) drops from 100% to 50%. Once the executive reaches both targets, the executive may elect to participate in the Customization part of the program.

| | Total Shares/Equivalents as percentage of Shares Outstanding | Total Stockholdings as percentage of Shares Outstanding |
|------------|---|--|
| CEO | 0.2% | 1.0% |
| EC Members | 0.05% | 0.25% |

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Total Shares/Equivalents is comprised of the total number of shares owned, restricted stock and restricted stock units. Total Stockholdings is comprised of Total Shares/Equivalents plus all exercisable and unexercisable stock options and share appreciation rights.

Net Share Retention Guidelines

Net Shares are defined as the shares remaining from a transaction after enough shares are sold to pay any option exercise price due and any tax liabilities on the transaction. Prior to reaching the Total Shares/Equivalent Target, the executive is required to retain 100% of the Net Shares received from the exercise of options or vesting of restricted stock units until the Total Shares/Equivalents Target is met. After meeting the Total Shares/Equivalents Target, the executive is required to retain 50% of the Net Shares for a period of three years.

Customization Guidelines

Once both Stock Ownership Targets have been met, the Compensation Committee provides for some flexibility in determining the distribution of the value of the Annual Equity Award. The executive may elect from among several alternatives including combinations of stock options, restricted share units and, in one alternative, a portion paid in cash.

Chief Executive Officer's Compensation

Mr. Patrick Thiele, President and Chief Executive Officer of the Company, receives compensation in the form of a Base Salary, an Annual Incentive and an Annual Equity Award. Mr. Thiele's compensation is reviewed and approved by the Compensation Committee.

The Base Salary component of compensation for Mr. Thiele for the year ended December 31, 2004 was \$862,688. The Committee awarded Mr. Thiele an Annual Incentive of \$1,820,672 for the January to December 2004 performance year. The pre-determined performance criteria reviewed by the Compensation Committee in determining Mr. Thiele's Annual Incentive included a 70% weighting on the PartnerRe Ltd. Return on Equity, a 10% weighting on Growth in Premiums Written and a 20% weighting on Organizational Objectives as determined and evaluated by the Compensation Committee.

Under the Executive Total Compensation Program, Mr. Thiele elected to receive 50% of his Annual Incentive in cash and 50% in restricted share units. The restricted share units granted in lieu of his cash Annual Incentive totaled 14,470 units which vested 100% immediately and carry a share delivery restriction to be lifted upon termination of employment. Under the Terms of the Executive Total Compensation Program, Mr. Thiele is entitled to a company match of 25% on his deferral of his cash Annual Incentive compensation. The Company match award totaled 3,618 restricted share units which vest 100% at 36 months from grant and carry a share delivery restriction to be lifted upon termination of employment.

The Compensation Committee awarded Mr. Thiele an Annual Equity award consisting of 28,612 restricted share units which vest 100% at 36 months from grant and 100,143 stock options which vest ratably over 36 months. At Mr. Thiele's request, the Compensation Committee determined to reduce the Annual Equity award by 50,000 stock options under the condition that these stock options be redistributed to

employees, other than Section 16 filers, at Mr. Thiele's discretion.

On November 16, 2004, the Company and Patrick Thiele entered into a Retention Award Agreement. Under the agreement, Mr. Thiele will be entitled to an award of \$2,500,000 if the agreement's retention and performance conditions are met. To fulfill the conditions, Mr. Thiele must remain an employee of the Company until December 31, 2009, and the Company's GAAP book value must equal or exceed \$65.00 per diluted share, as presented in the Company's 2009 audited financial statements (the Performance Condition). The

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Compensation Committee may make adjustments to the Performance Condition as it may deem appropriate to preserve the intended benefits of the award, to compensate for, or to reflect, any significant changes that may have occurred during the retention period. Mr. Thiele will receive a pro rata portion of the award if his services are terminated by the Company without cause or by Mr. Thiele with good reason prior to December 31, 2009, provided that the Performance Condition is met on a pro rata basis. Pro rata values for the Performance Condition for each quarterly financial reporting period until December 31, 2009 are set forth in the agreement. The award is forfeited if Mr. Thiele's service is terminated for cause or by Mr. Thiele without good reason before December 31, 2009. In the event of a change in control, the award is no longer subject to the Performance Condition, but will remain subject to the provision requiring Mr. Thiele to remain employed by the Company until December 31, 2009 to receive the full value of the award.

On November 16, 2004, the Company and Mr. Thiele also entered into a Restricted Stock Unit Award Agreement. Under the agreement, Mr. Thiele was granted an award of 42,582 Restricted Share Units (RSUs), each of which represents the right to future delivery of one share of the Company's stock, which will vest if the same retention and Performance Condition terms as described above are met. Under the agreement, an RSU confers no voting rights, but carries the right to receive dividend equivalents payable in cash. A pro rata portion of the RSUs will vest if Mr. Thiele's services are terminated by the Company without cause or by Mr. Thiele with good reason prior to December 31, 2009, provided that the Performance Condition is met on a pro rata basis. Pro rata values for the Performance Condition for each quarterly reporting period until December 31, 2009 are set forth in the agreement. The RSUs awarded under the agreement are forfeited if Mr. Thiele's service is terminated for cause or by Mr. Thiele without good reason before December 31, 2009. In the event of a change in control, the RSUs will be converted into a cash award using the fair market value on the effective date of the change in control. After a change in control, the award is no longer subject to the Performance Condition, but will remain subject to the provision requiring Mr. Thiele to remain employed by the Company until December 31, 2009 to receive the full value of the award.

Annual Compensation Review

Each year the Compensation Committee reviews all elements of compensation and benefits for the CEO and EC members including all compensation and benefits paid to or on behalf of the executive during the year. Additionally the Committee reviews a summary of projected compensation amounts, including company obligations, severance and deferred compensation, under each termination scenario (death, disability, with and without Cause, with and without Good Reason, retirement, and Change in Control). Based on this review, the Committee currently finds the CEO and EC total compensation and projected termination compensation to be reasonable and not excessive.

Compliance with Internal Revenue Code Section 162(m)

As the Company is domiciled in Bermuda, with global operations, none of the Company's current incentive plans specifically address Section 162(m) of the U.S. Internal Revenue Code. The new employee equity plan presented for shareholder approval at the 2005 Annual General Meeting of Shareholders will, if approved, give the Committee flexibility to structure executive compensation in compliance with such Section 162(m) in the future, should it determine to do so.

Compensation Consultants

The Compensation Committee engages independent consultants and advisors as it deems appropriate in carrying out its duties as outlined in the Committee charter.

Compensation Committee

Jean-Paul Montupet, Chairman

Vito H. Baumgartner, Vice-Chairman

Rémy Sautter

Kevin M. Twomey

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The following tables summarize compensation paid to the Company's named executive officers for the years ended December 31, 2004, 2003 and 2002.

Summary Compensation Table

| Name and Principal Position | Year | Annual Compensation | | | Other Annual Compensation* | Long-Term Compensation Awards | Number of Securities Underlying Options Granted | All Other Compensation |
|--|------|---------------------|---------------|-------------------------------|----------------------------|-------------------------------|---|------------------------|
| | | Salary | Bonus | Restricted Stock Award (6)(7) | | Defined Contribution Pension | | |
| Patrick A. Thiele, President & Chief Executive Officer & Director(1)(2)(3) | 2004 | \$ 862,688 | \$ 910,336 | \$ 285,052 | \$ 2,937,897 | 50,143 | \$ 129,402 | |
| | 2003 | \$ 789,375 | \$ 1,875,844 | \$ 256,749 | \$ 278,150 | 150,000 | \$ 118,404 | |
| | 2002 | \$ 725,000 | \$ 1,256,250 | \$ 256,857 | \$ | 100,000 | \$ 108,750 | |
| Albert A. Benchimol, Executive Vice President & Chief Financial Officer | 2004 | \$ 464,375 | \$ 752,000 | \$ 234,612 | \$ 767,502 | 42,800 | \$ 69,657 | |
| | 2003 | \$ 440,625 | \$ 801,025 | \$ 219,852 | \$ | 68,000 | \$ 66,096 | |
| | 2002 | \$ 412,500 | \$ 562,800 | \$ 220,991 | \$ | 42,500 | \$ 61,875 | |
| Bruno Meyenhofer, Chief Executive Officer, PartnerRe Global(4) | 2004 | \$ 560,714 | \$ 964,429 | \$ 22,992 | \$ 767,502 | 42,800 | \$ 35,197 | |
| | 2003 | \$ 552,083 | \$ 1,026,107 | \$ 23,086 | \$ | 68,000 | \$ 35,425 | |
| | 2002 | \$ 526,190 | \$ 778,761 | \$ 19,549 | \$ | 42,500 | \$ 30,023 | |
| Scott D. Moore, Chief Executive Officer, PartnerRe U.S. | 2004 | \$ 464,375 | \$ 794,300 | \$ 58,816 | \$ 767,502 | | \$ 22,550 | |
| | | | \$ 976,000(8) | | | | | |
| | 2003 | \$ 440,625 | \$ 845,775 | \$ 21,169 | \$ | 68,000 | \$ 48,469 | |
| | 2002 | \$ 412,500 | \$ 646,800 | \$ 20,643 | \$ | 42,500 | \$ 45,380 | |
| Mark Pabst, Former Executive Vice President, Corporate Affairs(5)(9) | 2004 | \$ 392,750 | \$ 528,000 | \$ 106,177 | \$ 1,258,200 | | \$ 58,914 | |
| | 2003 | \$ 365,250 | \$ 555,016 | \$ 115,828 | \$ | 58,000 | \$ 54,792 | |
| | 2002 | \$ 341,000 | \$ 398,056 | \$ 113,919 | \$ | 28,000 | \$ 58,566 | |

- (1) Mr. Thiele received an annual incentive of \$1,820,672 for 2004. Under the terms of the Executive Total Compensation Program Mr. Thiele elected to receive 50% of his cash annual incentive in RSUs (14,470 RSUs immediately vested with a share delivery date restriction to termination/retirement). Pursuant to the Executive Total Compensation Program, 25% of this amount was matched by the Company (3,618 RSUs with a 3 year cliff vest with a share delivery date restriction to termination/retirement).
- (2) Prior to 2004, Mr. Thiele's employment contract allows him to take up to 50% of his annual incentive in share options that vest immediately. In respect of his 2003 annual incentive, Mr. Thiele elected not to receive options. In respect of his 2002 annual incentive, Mr. Thiele elected to receive 20% in the form of 12,613 options valued at \$19.92 each, based on a Black Scholes Valuation.
- (3) As part of Mr. Thiele's equity award for 2004, he was granted 28,612 RSUs. These RSUs are subject to a 3-year cliff vesting period and will vest on February 10, 2008.

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- (4) All of Mr. Meyenhofer's data was reported in Swiss Francs (except Business Travel and Entertainment Expenses in 2004). An exchange rate of CHF 1.26 to 1 USD was calculated based on the average exchange rate for each quarter in 2004. The exchange rate has been applied to all relevant historical figures for comparative purposes. For 2004, Mr. Meyenhofer's salary and annual incentive were CHF 706,500 and CHF 1,215,180 respectively. For 2003 Mr. Meyenhofer's salary and annual incentive were CHF 695,625 and CHF 1,292,895 respectively. For 2002 Mr. Meyenhofer's salary and annual incentive were CHF 663,000 and CHF 981,240 respectively.
- (5) Mr. Pabst retired effective February 28, 2005.
- (6) RSUs cliff vest 3 years from grant. Dividend equivalents are paid in cash quarterly on the unvested RSUs and on vested RSUs subject to a share delivery restriction.
- (7) This column shows the market value of restricted stock awards as at the date of grant. The market value of PartnerRe stock at market close on December 31, 2004 was \$61.94 per share. The aggregate holdings and market value of the Restricted Stock held on December 31, 2004 by the individuals listed in the table are: Mr. Thiele 51,700 RSUs/\$3,202,298; Mr. Benchimol RSUs 12,200/\$755,668; Mr. Meyenhofer RSUs 12,200/\$755,668; Mr. Moore RSUs 12,200/\$755,668; Mr. Pabst RSUs 20,000/\$1,238,800.
- (8) Mr. Moore did not get any share options for 2004. Mr. Moore was eligible to customize the payout of his equity award value under the Executive Total Compensation Program as he has met the required share ownership targets. Mr. Moore elected to receive his 2004 equity award value in restricted share units and cash. The cash portion is valued at \$976,000 and vests ratably over 3 years with an interest rate equal to 3-month treasury bill.
- (9) Mr. Pabst received 20,000 RSUs immediately vested with a 2-year share delivery date restriction.
-
- (*) Other Annual Compensation comprises the following:

Table of Contents**Other Annual Compensation**

| Name | Year | Housing | Payroll Tax | Car | Club | Welfare | Tax | Personal | Salary | Dividend |
|-------------------|------|------------|---------------|-----------|-----------|-----------|------------|-------------|-------------|------------|
| | | Allowance | Reimbursement | Expenses | Fees | & Health | Filing | Use of | Deferral | Equivalent |
| | | | | | | Premiums | Assistance | Aircraft | Restoration | on RSUs |
| | | | | | | | | | Plan | |
| Patrick A. Thiele | 2004 | \$ 198,000 | \$ 11,044 | \$ 12,741 | \$ 4,400 | \$ 16,889 | \$ 27,500 | \$ | \$ | \$ 14,478 |
| | 2003 | \$ 198,000 | \$ 10,668 | \$ 9,444 | \$ 3,750 | \$ 14,887 | \$ 20,000 | \$ | \$ | |
| | 2002 | \$ 198,000 | \$ 10,668 | \$ 11,429 | \$ 2,250 | \$ 13,510 | \$ 21,000 | \$ | \$ | |
| Albert Benchimol | 2004 | \$ 192,000 | \$ 11,044 | \$ 1,690 | \$ 15,000 | \$ 14,878 | \$ | \$ | \$ | |
| | 2003 | \$ 192,000 | \$ 10,668 | \$ 879 | \$ 3,000 | \$ 13,305 | \$ | \$ | \$ | |
| | 2002 | \$ 189,000 | \$ 10,668 | \$ 3,006 | \$ 6,413 | \$ 11,904 | \$ | \$ | \$ | |
| Bruno Meyenhofer | 2004 | \$ | \$ | \$ | \$ | \$ 22,992 | \$ | \$ | \$ | |
| | 2003 | \$ | \$ | \$ | \$ | \$ 23,086 | \$ | \$ | \$ | |
| | 2002 | \$ | \$ | \$ | \$ | \$ 19,549 | \$ | \$ | \$ | |
| Scott D. Moore | 2004 | \$ | \$ | \$ | \$ | \$ 19,860 | \$ 10,425 | \$ | \$ | 28,531 |
| | 2003 | \$ | \$ | \$ | \$ | \$ 17,419 | \$ 3,750 | \$ | \$ | |
| | 2002 | \$ | \$ | \$ | \$ | \$ 16,893 | \$ 3,750 | \$ | \$ | |
| Mark Pabst | 2004 | \$ 65,679 | \$ 11,044 | \$ | \$ 4,400 | \$ 19,489 | \$ | \$ 5,565(1) | \$ | |
| | 2003 | \$ 84,000 | \$ 10,668 | \$ | \$ 3,000 | \$ 18,160 | \$ | \$ | \$ | |
| | 2002 | \$ 84,000 | \$ 10,668 | \$ | \$ 1,500 | \$ 17,751 | \$ | \$ | \$ | |

(1) The figure for Mr. Pabst's personal use of the Corporate Aircraft is based on taxable benefit as grossed up. Taxable benefit is \$3,562; tax gross-up using a US Federal tax rate of 36% is \$2,003.

Option Grants in Last Fiscal Year

| Name | Number of Securities Underlying Options Granted (1) | Percent of Total Options Granted to Employees in Fiscal Year | Exercise Price per Common Share | Expiration Date | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term (2) | |
|---------------------|---|--|---------------------------------|--------------------------------|--|---------------|
| | | | | | 5% | 10% |
| Patrick A. Thiele | 150,000 | 16.5% | \$ 55.63 | 24 th February 2014 | \$ 5,247,811 | \$ 13,298,984 |
| Albert A. Benchimol | 68,000 | 7.5% | \$ 55.63 | 24 th February 2014 | \$ 2,379,008 | \$ 6,028,873 |
| Bruno Meyenhofer | 68,000 | 7.5% | \$ 55.63 | 24 th February 2014 | \$ 2,379,008 | \$ 6,028,873 |
| Scott D. Moore | 68,000 | 7.5% | \$ 55.63 | 24 th February 2014 | \$ 2,379,008 | \$ 6,028,873 |
| Mark Pabst | 58,000 | 6.4% | \$ 55.63 | 24 th February 2014 | \$ 2,029,154 | \$ 5,142,274 |

- (1) Options were granted under the Employee Equity Incentive Plan with an exercise price equal to the market value of the Company's Common Shares on the date of grant. The options were granted on February 24, 2004 and all will vest in equal installments on the first, second and third anniversary of the date of grant.
- (2) The potential realizable value is based on the term of the share option. It is calculated assuming that the fair market value of the underlying shares on the date of grant appreciates at projected annual rates compounded annually for the entire term of the option and that the option is exercised on the last day of its term for the appreciated share price. These values are calculated based on requirements of law and do not reflect estimates of our future share price growth.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

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| <u>Name</u> | <u>Shares Acquired on Exercise</u> | <u>Value Realized</u> | <u>Number of Securities Underlying Unexercised Options at Fiscal Year-End Exercisable</u> | <u>Number of Securities Underlying Unexercised Options at Fiscal Year-End Unexercisable</u> | <u>Value of Unexercised in-the-Money Options at Fiscal Year-End Exercisable (1)</u> | <u>Value of Unexercised in- the-Money Options at Fiscal Year-End Unexercisable (1)</u> |
|---------------------|--|---------------------------|---|---|---|--|
| Patrick A. Thiele | | | 166,039 | 235,488 | \$ 1,613,571 | \$ 2,010,253 |
| Albert A. Benchimol | 100,000 | \$ 2,531,708 | 28,379 | 103,871 | \$ 299,856 | \$ 878,897 |
| Bruno Meyenhofer(2) | 50,000 | \$ 1,495,000 | 78,679 | 103,871 | \$ 1,267,255 | \$ 878,897 |
| Scott D. Moore | 195,427 | \$ 5,076,888 | 68,379 | 113,871 | \$ 737,496 | \$ 988,307 |
| Mark Pabst | | | 44,288 | 81,937 | \$ 462,195 | \$ 670,0749 |

(1) Calculated based upon a price of \$62.33 per share. \$62.33 per share was calculated based on the average of the high and low price of the Company's Common Shares as at December 31, 2004.

(2) Some of the options granted to Mr. Meyenhofer are subject to a block on exercise. 54,800 options are blocked from exercise for a period of four years from the date of grant and the remaining 64,250 options are blocked from exercise for a period of six years from the date of grant.

Table of Contents**Ancillary Information**

The following information is provided in addition to that required by SEC rules:

| <u>Name</u> | <u>Year</u> | <u>Share Purchase Plan Discount (available to all salaried employees)</u> | <u>Business Travel and Entertainment Expenses (1)</u> |
|---------------------|-------------|---|---|
| Patrick A. Thiele | 2004 | \$4,557 | \$ 168,930 |
| | 2003 | \$5,060 | \$ 124,469 |
| | 2002 | \$3,724 | \$ 144,507 |
| Albert A. Benchimol | 2004 | \$3,444 | \$ 106,163 |
| | 2003 | \$2,977 | \$ 87,304 |
| | 2002 | \$2,229 | \$ 79,210 |
| Bruno Meyenhofer | 2004 | \$6,682 | \$ 135,932 |
| | 2003 | \$7,826 | \$ 130,717 |
| | 2002 | \$3,532 | \$ 156,151 |
| Scott D. Moore | 2004 | \$Eligible (\$0 benefit) | \$ 94,153 |
| | 2003 | \$Eligible (\$0 benefit) | \$ 106,643 |
| | 2002 | \$Eligible (\$0 benefit) | \$ 82,100 |
| Mark Pabst | 2004 | \$4,688 | \$ 75,053 |
| | 2003 | \$5,808 | \$ 49,408 |
| | 2002 | \$6,131 | \$ 99,428 |

- (1) In addition, the Company makes available for business use to the Chief Executive Officer access to a private aircraft in which the Company has a fractional interest. The Chief Executive Officer must approve any other business usage of the private aircraft by employees and directors, and as such use was limited in the 2004 fiscal year. The Company's general policy is not to permit employees, including the Chief Executive Officer, to use such aircraft for personal use. During fiscal 2004, there were limited instances in which personal guests were passengers on business-related flights and in exceptional or emergency situations the aircraft was used for personal travel. In such cases, the individual paid the Company an amount equivalent to the taxable benefit as valued by the Internal Revenue Service. All use of the private aircraft is reported to the Human Resources Committee of the Board on a quarterly basis. The total cost to the Company of operating the aircraft in 2004 was \$1.1 million.

Equity Ownership Table

The following table sets forth information as of February 28, 2005:

| <u>Name</u> | <u>Options Granted Since Inception</u> | <u>Total Options Vested Less Options Exercised Since Inception</u> | <u>Currently Exercisable Options</u> | <u>Grants of Restricted Shares</u> | <u>Shares Purchased from Company Share Purchase Plans</u> | <u>Other Share Ownership</u> | <u>RSUs</u> |
|-------------|--|--|--|--|---|----------------------------------|-------------|
|-------------|--|--|--|--|---|----------------------------------|-------------|

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| | | | | | | | |
|---------------------|---------|---------------|---------|--------|-------|--------|-----------|
| Patrick A. Thiele | 451,670 | 267,027 | 267,027 | 15,000 | 1,920 | 6,900 | 89,282(2) |
| | | Nil Exercises | | | | | |
| Albert A. Benchimol | 275,050 | 72,240 | 72,240 | | 1,142 | | 12,200(3) |
| | | (100,000) | | | | | |
| Bruno Meyenhofer(1) | 275,350 | 122,540 | 72,740 | | 1,475 | | 12,200(3) |
| | | (50,000) | | | | | |
| Scott D. Moore | 532,677 | 122,240 | 122,240 | | | 31,076 | 12,200(3) |
| | | (350,427) | | | | | |
| Mark Pabst | 126,225 | 77,845 | 77,845 | | 1,830 | 10,239 | 20,000(4) |
| | | Nil Exercises | | | | | |

-
- (1) Of the options granted to Mr. Meyenhofer a portion of them are blocked from exercise for a period of 4 to 6 years from grant.
 - (2) The figure is made up as follows: 14,470 immediately vested RSUs, share delivery date on retirement or termination; 32,230 RSUs with a three year cliff vest from date of grant, February 10, 2005; 42,582 unvested RSUs granted pursuant to the Restricted Stock Unit Award Agreement as further detailed on page 20.
 - (3) These RSUs are subject to a three year cliff vest from date of grant, February 10, 2005.
 - (4) The RSUs are immediately vested with a share delivery date two years from date of grant, February 10, 2005.

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EXECUTIVE EMPLOYMENT ARRANGEMENTS

The following is intended to be a summary of the terms of the employment agreements entered into between the Company and each of the executive officers named below.

Patrick A. Thiele

The Company has entered into an employment agreement with Patrick Thiele to serve as the President and Chief Executive Officer of the Company. The agreement was amended by the Board of Directors in February 2002 and details of the amendments have been filed with the Securities and Exchange Commission. Mr. Thiele's compensation under the revised employment agreement includes (i) an annual base salary which is subject to review annually for increase at the discretion of the Compensation Committee of the Board of Directors, (ii) an annual incentive determined by the Compensation Committee of the Board of Directors; for guidance purposes, the target incentive would be 125% of Base Salary, (iii) eligibility to participate in the Share Option Plans of the Company and (iv) pension, welfare and fringe benefits.

Mr. Thiele is entitled to receive reimbursement from the Company of expenses incurred in connection with, among other things, maintaining a residence in Bermuda and promoting the business of the Company, including expenses for travel and entertainment and living expenses while away from home on business in the service of the Company. The employment agreement has no fixed term. In the event of a change of control (as defined in the employment agreement) of the Company, Mr. Thiele is entitled to receive the greater of one year's base salary plus a bonus equal to the annual incentive paid by the Company in the prior calendar year or two years of the last base salary and a bonus equal to two times the target rate of annual incentive in the year when the date of termination occurs.

In the event of termination of Mr. Thiele's employment by the Company without cause or by Mr. Thiele for good reason (as such terms are defined in the agreement), Mr. Thiele will receive his then current base salary for a period of one year plus one-twelfth of the previous year's annual incentive for twelve months and all options granted to him which remain unvested shall immediately vest. Mr. Thiele will also retain the housing allowance and provision of a motor vehicle in Bermuda shall continue until the earlier of the date Mr. Thiele leaves Bermuda or 3 months after the date of termination. A pro rata bonus for the fiscal year in which he leaves the Company will also be paid to Mr. Thiele. Any accrued salary and benefits through the termination date will also be paid to Mr. Thiele.

In addition the Company entered into a Retention Award Agreement and a Restricted Stock Unit Award Agreement with Mr. Thiele on November 16, 2004. The details of the amendments have been filed with the Securities and Exchange Commission and are more fully particularized in the Compensation Committee Report on Executive Compensation on pages 17-20.

Albert A. Benchimol

The Company has entered into an employment agreement with Albert A. Benchimol to serve as Executive Vice President and Chief Financial Officer of the Company. The employment agreement remains in force unless the Company or Mr. Benchimol provides prior written notice of termination of at least twelve months. Mr. Benchimol's compensation under the agreement includes (i) an annual salary which is subject to review annually for increase at the discretion of the Compensation Committee of the Board of Directors, (ii) an annual incentive determined by the Compensation Committee of the Board of Directors, (iii) participation in a long-term incentive compensation plan of the Company, such awards to be granted at the discretion of the Compensation Committee of the Board of Directors and (iv) pension, welfare and fringe benefits.

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Mr. Benchimol is entitled to receive reimbursement from the Company of expenses incurred in connection with, among other things, maintaining a residence in Bermuda and promoting the business of the Company, including expenses for travel and entertainment and living expenses while away from home on business or in the service of the Company. In the event of a change of control (as defined in the employment agreement) of the Company, Mr. Benchimol is

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entitled to receive compensation and benefits in accordance with the same formula as Mr. Thiele. In the event of termination of Mr. Benchimol's employment by the Company without cause or by Mr. Benchimol for good reason (as such terms are defined in the agreement), Mr. Benchimol will receive compensation and benefits in accordance with the same formula as Mr. Thiele.

Scott D. Moore

The Company has entered into an employment agreement with Scott D. Moore to serve as Senior Vice President and Chief Financial Officer of the Company. Mr. Moore relocated to New York in October 1998 and became President and Chief Executive Officer of PartnerRe U.S. The basic terms of employment of Mr. Moore as outlined below remain unchanged. The employment agreement remains in force unless the Company or Mr. Moore provides prior written notice of termination of at least twelve months. Mr. Moore's compensation under the employment agreement includes (i) an annual base salary which is subject to review annually for increase at the discretion of the Human Resources Committee of the Board of Directors, (ii) an annual incentive determined by the Human Resources Committee of the Board of Directors, and (iii) pension, welfare and fringe benefits. In the event of termination of Mr. Moore's employment by the Company without cause or by Mr. Moore for good reason (as such terms are defined in the agreement), Mr. Moore will receive compensation and benefits in accordance with the same formula as Mr. Thiele. In the event of a change of control (as defined in the employment agreement) of the Company, Mr. Moore is entitled to receive two years of the last base salary and a bonus equal to two times the target rate of annual incentive in the year when the date of termination occurs.

Bruno Meyenhofer

The Company has entered into an employment agreement with Bruno Meyenhofer to serve as Executive Vice President of the Company. In February 2002, Mr. Meyenhofer was appointed as Chief Executive Officer, PartnerRe Global. The employment agreement is open ended in time and provides for Mr. Meyenhofer to be awarded a base salary and to be entitled to receive an annual incentive based on performance. Mr. Meyenhofer will also be entitled to participate in the long-term incentive award plan of the Company. In the event of a change of control (as defined in the employment agreement) of the Company, Mr. Meyenhofer is entitled to receive two years of the last base salary and a bonus equal to two times the target rate of annual incentive in the year when the date of termination occurs.

Mark Pabst

The Company entered into an employment agreement with Mark Pabst to serve as Executive Vice President of the Company. The agreement took effect in July 2001 and was an annual arrangement with an automatic one-year renewal period unless notice of termination was given. Mr. Pabst gave notice of retirement from the Company effective February 28, 2005, and his retirement from the Company was pursuant to the terms of his employment agreement. Mr. Pabst's compensation under the employment agreement included (i) an annual salary which was subject to review annually for increase at the discretion of the Compensation Committee of the Board of Directors of the Company, (ii) an annual incentive determined by the Compensation Committee of the Board of Directors, (iii) participation in a long-term incentive compensation plan of the Company, such awards to be granted at the discretion of the Compensation Committee of the Board of Directors and (iv) pension, welfare and fringe benefits. Mr. Pabst also received 25,000 PartnerRe Ltd. share options at the time of joining the Company, 6,250 of which vested on the date of grant with the remainder vesting in three equal installments on the first, second and third anniversary of the date of grant. Mr. Pabst was also entitled to receive reimbursement from the Company for expenses incurred in connection with, among other things, maintaining a residence in Bermuda and promoting the business of the Company, including expenses for travel and entertainment and living expenses while away from home on business or in the service of the Company.

Executive Total Compensation Program

In 2004 the Compensation Committee approved the Executive Total Compensation Program, which sets guidelines around executive compensation, stock ownership and net share retention, equity incentives, customization and executive retirement. These guidelines were filed with the Securities and Exchange Commission as an exhibit to the Company's Annual Report on Form 10-K on March 10, 2005.

Table of Contents**EQUITY COMPENSATION PLAN INFORMATION**

The following table sets out details of the Company's Equity Compensation Plans, both active and expired as at December 31, 2004. In May 2000 the shareholders of the Company approved the establishment of the Company's Employee Share Purchase Plan (ESPP) and authorised the issuance of up to 500,000 shares under the ESPP. In 2002 the Company established the Swiss Share Purchase Plan (SSPP) in order to be able to offer a competitive benefit to Swiss employees. The Compensation Committee of the Company approved a reduction in the number of shares available for issue under the ESPP, reducing the number to 300,000 shares in order that 200,000 Shares could be made available for issue under the SSPP. All equity compensation plans utilized by the Company with the exception of the SSPP have been approved by shareholders. The terms of the SSPP are more fully described under the heading "Stock and Stock Option Plans - Swiss Share Purchase Plan" in note 10 to the Company's financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2004.

| Plan Category | A | B | C |
|--|---|--|--|
| | Number of Securities To be Issued upon Exercise of Outstanding Options, Warrants & Rights (1) | Weighted-Average Exercise Price of Outstanding Options, Warrants & Rights (2) | Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A) (3) |
| Equity Compensation Plans Approved by Shareholders | 3,555,188 | \$ 50.11 | 2,811,688 |
| Equity Compensation Plans not approved by Shareholders | 4,400 | | 172,975 |
| TOTAL | 3,559,588 | \$ 50.11 | 2,984,663 |

- (1) Includes 163,965 shares that relate to the 1993 Non-Employee Director Stock Plan and 56,625 shares that relate to the 2003 Non-Employee Director Stock Plan.
- (2) The weighted average exercise price of outstanding options under the 1993 Non-Employee Director Stock Plan is \$48.57 per share and under the 2003 Non-Employee Director Stock Plan is \$54.60 per share.
- (3) Includes 912,899 shares remaining available for grant under the 2003 Non-Employee Director Stock Plan. Includes 166,597 shares remaining available for issue under the Employee Share Purchase Plan and 172,975 shares remaining available for issue under the Swiss Share Purchase Plan. The 1993 Non-Employee Director Stock Plan expired in August 2003.

As part of the Company's long-term incentive compensation for executives and employees, the Company maintains the PartnerRe Ltd. Employee Incentive Plan (the "Employee Incentive Plan"). The purpose of the Employee Incentive Plan is to provide a means through which the Company and its subsidiaries may attract and retain key employees upon whom the responsibilities of the successful management of the Company rest, and whose present and potential contributions to the Company are of importance. The Employee Incentive Plan provides a mechanism through which the employees can acquire and maintain stock ownership, thereby strengthening their commitment to the Company and promoting a commonality of interest between the shareholders and key employees.

In February 2005, the Compensation Committee of the Board approved equity awards for the Executive Officers of the Company relating to the 2004 performance year. These awards are reflected in the Summary Compensation Table on page 21 of the Proxy Statement and details were filed with the Securities and Exchange Commission on Form 8-K on February 16, 2005.

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In addition, the Compensation Committee also approved a reduction in the number of shares available for grant under the 2003 Non-Employee Directors Plan, reducing the number of common shares available for issue by 500,000 common shares.

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The table below shows the number of shares available for issue under the Company's equity plans following the actions taken by the Compensation Committee in February 2005.

Equity Plan Summary

| | Director s 1993 Plan | Employee s 1993 Plan | Employee Share Purchase Plan | Swiss Share Purchase Plans | Director s 2003 Plan | 1996 Employee Incentive Plan | Proposed 2005 Employee Equity Plan | Total |
|---------------------------|-------------------------------------|---------------------------------|---|---|---------------------------------|---|---|--------------|
| Status | Expired | Expired | Active | Active | Active | Active | Proposed | |
| Effective Date | 1993 | 1993 | 2000 | 2002 | May, 2003 | February, 1996 | May, 2005 | |
| Expiration | 2003 | 2003 | 2009 | 2012 | May, 2013 | February, 2006 | May, 2015 | |
| Authorized Shares | 800,000 | 2,000,000 | 500,000 | | 1,000,000 | 5,000,000 | 1,000,000 | |
| Share Reallocation | | | (200,000) | 200,000 | | | | |

Shares Available for Grant

| | | | | | | | | |
|--|---|---|---------|---------|-----------|-------------|-----------|-----------|
| December 31, 2004 | 0 | 0 | 166,597 | 172,975 | 912,899 | 1,732,192 | n/a | 2,984,663 |
| Reduction in Authorized Shares Executive & Employee Annual Grants | | | | | (500,000) | (588,318) | | |
| February 28, 2005 | 0 | 0 | 166,597 | 172,975 | 412,899 | 1,143,874 | 0 | 1,896,345 |
| Rollover of Shares to 2005 Plan | 0 | 0 | | | 0 | (1,143,874) | 1,143,874 | 0 |
| New Share Request | 0 | 0 | | | 0 | 0 | 1,000,000 | 1,000,000 |
| May 10, 2005 Proposed | 0 | 0 | 166,597 | 172,975 | 412,899 | 0 | 2,143,874 | 2,896,345 |

The Employee Incentive Plan is the only active equity plan allowing for the issue of long-term incentive equity compensation to employees of the Company. This plan will expire on February 2, 2006 and as of February 28, 2005 there are 1,143,874 shares available for future issuance. The Board has therefore recommended that the shareholders approve a Proposal (Item 2 on the Proxy Card) to approve the 2005 Plan and to reserve one million additional Common Shares for issuance under the Plan.

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PERFORMANCE GRAPH

The graph set forth below compares the cumulative shareholder return, including reinvestment of dividends, on the Company's Common Shares to such return for Standard & Poor's (S&P) 500 Composite Stock Price Index and S&P's Supercomposite Property-Casualty Index for the period commencing with the effective date of the initial public offering of the Company's Common Shares on October 28, 1993 and ending on December 31, 2004, assuming \$100 was invested on October 28, 1993. Effective January 1, 2002 the S&P Property-Casualty Industry Group Stock Price Index was replaced by the S&P Supercomposite Property-Casualty Index. Total returns for the years before January 1, 2002 continue to be those of the former S&P Property-Casualty Industry Group Stock Price Index. Each measurement point on the graph below represents the cumulative shareholder return as measured by the last sale price at the end of each year during the period from October 28, 1993 through December 31, 2004. As depicted in the graph below, during this period the cumulative total shareholder return on the Company's stock was 292.10%, the cumulative total return for the S&P 500 Composite Stock Price Index was 216.97% and the cumulative total return for the S&P Supercomposite Property-Casualty Index was 194.64%.

Comparison of Cumulative Total Return

- (1) Represents October 28, 1993, the effective date of the initial public offering for which the initial price to the public was \$20.00 per share.
- (2) Effective from January 1, 2002 the performance benchmark was changed from the S&P Property & Casualty index to the S&P Supercomposite Property & Casualty Index. Total Returns for years before January 1, 2002 continue to be those of the former S&P Property & Casualty Index.

Table of Contents**PRINCIPAL ACCOUNTANT FEES AND SERVICES****Principal Accountant Fees And Services**

The following table presents fees for professional services rendered by the external auditors, Deloitte & Touche, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, the Deloitte Entities) for the fiscal years 2004 and 2003. All services of the Deloitte Entities were pre-approved by the Audit Committee. The Audit Committee has concluded that the provision of the non-audit services listed below is compatible with maintaining the independence of Deloitte Entities.

| | Year Ended December 31 | |
|-----------------------|-------------------------------|---------------------|
| | 2004 | 2003 |
| Audit Fees(1) | \$ 4,042,815 | \$ 2,553,126 |
| Audit Related Fees(2) | \$ 1,332,464 | \$ 253,400 |
| Tax Fees(3) | \$ 27,500 | \$ 44,893 |
| All Other Fees(4) | | \$ |
| Total | \$ 5,402,779 | \$ 2,851,419 |

- (1) These are fees for professional services rendered by Deloitte Entities for the audit of the Company's annual financial statements, the review of the financial statements included in the Company's quarterly reports on Form 10-Q, audit services provided in connection with statutory and regulatory filings and services related to the Company's S-3 filings with the Securities and Exchange Commission.
- (2) These are fees for assurance and related services performed by Deloitte Entities that are reasonably related to the performance of the audit or review of the Company's financial statements but not described in item (1) above. This includes employee benefit plan audits and services with respect to compliance with the Sarbanes-Oxley Act of 2002.
- (3) These are fees for professional services performed by Deloitte Entities with respect to tax compliance, tax advice and tax planning. This includes tax return preparation for certain executives and tax services relating to certain non-U.S. subsidiary companies.
- (4) These are fees for other permissible work performed by Deloitte Entities that does not meet the above category descriptions. This includes pension related work.

The Audit Committee has adopted policies and procedures for pre-approving all non-audit work performed by Deloitte Entities which are further detailed in Appendix II.

Table of Contents**ELECTION OF DIRECTORS**

**PROPOSAL TO ELECT FOUR (4) DIRECTORS TO HOLD OFFICE
UNTIL THE ANNUAL GENERAL MEETING OF SHAREHOLDERS IN THE YEAR 2008
OR UNTIL THEIR RESPECTIVE SUCCESSORS HAVE BEEN DULY ELECTED**

(Item 1 on the Proxy Card)

At the 2004 Annual General Meeting shareholders of the Company voted to increase the number of directors by one and establish the maximum number of directors at eleven, so creating one vacancy to be filled by the Board. In accordance with the Bye-Laws this vacancy was filled by the Board of Directors with the appointment of Ms. Judith Hanratty on January 1, 2005. In accordance with the resolution adopted at the 2004 Annual General Meeting, Ms. Judith Hanratty is standing for re-election at the 2005 Annual General Meeting. Mr. Stanca's resignation creates a vacancy on the Board which, for the time being, will not be filled.

At the Annual Meeting, four (4) directors will be elected to hold office for three-year terms until the annual general meeting in the year 2008 or until their successors respective have been duly elected. The Proxy will be voted in accordance with the directions thereon or, if no directions are indicated, for election of the four nominees named below whose election has been proposed and recommended by the Board of Directors. If any nominee shall, prior to the Annual Meeting, become unavailable for election as a director, the persons named in the accompanying proxy will vote for such nominee, if any, in their discretion as may be recommended by the Board of Directors, or the Board of Directors may reduce the number of directors to eliminate the vacancy. The presence, in person or by proxy, of a majority of the outstanding Common Shares is required for a quorum for the election of directors at the Annual Meeting but if a quorum should not be present, the Annual Meeting may be adjourned from time to time until a quorum is obtained. Election of directors at the Annual Meeting will be decided by a simple majority of votes cast.

Nominees

The respective ages, business experience and directorships in other companies of the four nominees for election are set forth below. All of the nominees are currently directors of the Company. Messrs. Sautter and Thiele were elected at the 2002 Annual Meeting. As permitted by the Bye-Laws, Dr. Zech was appointed as director by the Board in August 2002 and Ms. Hanratty was appointed as director in January 2005. In both instances, third-party search firms were retained to identify suitable candidates. If elected, all of the nominees will serve a three-year term and will be eligible for re-election in 2008.

| <u>Name</u> | <u>Age</u> |
|-------------------|------------|
| Judith Hanratty | 61 |
| Rémy Sautter | 59 |
| Patrick A. Thiele | 54 |
| Jürgen Zech | 65 |

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Ms. Judith Hanratty was appointed to the Board on January 1, 2005 and is a member of the Company's Nominating & Governance Committee and the Finance Committee. From 1986 until 2003, Ms. Hanratty served in various Board and Corporate Secretarial positions for the British Petroleum Group (BP) with the final position as Company Secretary for BP from 1994 to 2003. During the time with BP Ms. Hanratty also served as Chairman and Chief Executive Officer of the Tanker Insurance Company, Limited from 1988 to 1995. Ms. Hanratty is currently a Member of the Council of Lloyd's of London. Ms. Hanratty is a non-executive Director of Partnerships UK plc, Charles Taylor Consulting plc, the British Standards Institution and the Gas and Electricity Markets Authority. Ms. Hanratty is admitted to practice as a barrister in New Zealand, Australia and England (Inner Temple) and is Chairman of the College of Law in England and of the Commonwealth Institute. She is also an Honorary Fellow, and former Trustee, of Lucy Cavendish College, Cambridge and a Fellow of the Royal Society for the Arts, Manufactures and Commerce. Ms. Hanratty was awarded the OBE in 2002 for services to the oil and gas industry in the United Kingdom.

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Mr. Rémy Sautter has served as a director of the Company since November 2001 and is a member of the Company's Audit Committee, Human Resources Committee and Compensation Committee. Mr. Sautter is Chairman of the Board of RTL Radio, France. From 1996 to 2000 Mr. Sautter was President and Chief Executive Officer of CLT-UFA Group. From 1985 to 1996 Mr. Sautter was Vice-Chairman and Managing Director of RTL Radio, France and in 1989 he was appointed as Managing Director in charge of CLT radio activities. Mr. Sautter is also a Chairman of the Board of Channel 5, UK and serves as a non-executive director of M6 Television (Paris), Pages Jaunes (Paris) and Taylor Nelson Sofres plc. (London) and is on the Board of Advisors of Duke Street Capital (London).

Patrick A. Thiele joined the Company on December 1, 2000 as President and Chief Executive Officer and was appointed to the Board at the same time. He is a member of the Company's Human Resources Committee. Mr. Thiele was employed by CGNU from 1999 to 2000 and served as Managing Director, Group Office. From 1978 to 1998 Mr. Thiele was employed by The St. Paul Companies and served as President and Chief Executive Officer of the worldwide insurance operations from 1996 to 1998. Prior to that, Mr. Thiele was Chief Financial Officer of The St. Paul Companies from 1991 to 1996. Mr. Thiele was also a member of the Board of Directors of The St. Paul Companies and John Nuveen & Co., its investment subsidiary. Mr. Thiele is on the Board of Overseers of the School of Risk Management and Actuarial Science, St. John's Campus, New York.

Dr. Jürgen Zech has served as a director since August 2002 and is a member of both the Company's Nominating & Governance Committee and Finance Committee. At the end of 2001 Dr. Zech retired as Chairman of the Board of Management of the insurance group Gerling-Konzern Versicherungs-Beteiligungs-AG, a post he assumed in 1996, having previously served as Vice-Chairman since 1993. From 1986 Dr. Zech was employed by the reinsurance group Kölnische Rückversicherungs-Gesellschaft AG, Cologne where he served as Chairman of the Board of Executive Directors from 1987 to 1992 and as Vice-Chairman of their subsidiary, Cologne Re, in 1986. Prior to joining Kölnische Rückversicherungs-Gesellschaft AG, Dr. Zech was with Colonia Versicherung AG, Cologne where he served as a member of the Board of Executive Directors from 1975 to 1985. Dr. Zech has retired as a non-executive director from the board of directors of Sauerborn Trust AG and Oviessse GmbH. Dr. Zech serves as a non-executive director of Barclays plc, Barclays Bank plc and Misys plc. Dr. Zech is chairman of Denkwert GmbH and is also on the Board of Directors of Seeburger AG, Quarzwerk GmbH, ATIS-REAL SA and Adyal SA. Dr. Zech holds a Doctorate in Business Economics from the University of Cologne, an MBA from Insead and is Chairman of the Cultural Initiative of German Industry (BDJ).

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE FOUR DIRECTORS NAMED ABOVE.

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**PROPOSAL TO APPROVE THE PARTNERRE LTD. 2005 EMPLOYEE EQUITY PLAN
AND THE RESERVATION OF 1,000,000 ADDITIONAL COMMON SHARES
FOR ISSUANCE UNDER THE 2005 EMPLOYEE EQUITY PLAN**

(Item 2 on Proxy Card)

The Company currently maintains equity-based compensation arrangements designed to provide a means by which the Company and its subsidiaries may attract and retain key employees upon whom rest the responsibilities for successful management of the Company. In addition, these arrangements provide a mechanism through which the employees can acquire and maintain share ownership, thereby strengthening their commitment to the Company and aligning the interests of employees and shareholders. The Board of Directors believes that the plans have been effective in meeting these objectives and that, for the Company to continue to attract and retain outstanding individuals at all levels of the Company's organization, it must continue to have equity plans of these types in place.

The current equity plan maintained by the Company is the PartnerRe Employee Incentive Plan (the Employee Incentive Plan). This plan has been in existence since 1996 and it will expire in February 2006. Following the expiry of the Employee Incentive Plan the Company will be unable to issue equity-based compensation. For the reasons stated above the Company believes that the ability to offer equity based compensation will be an important factor for the continued success of the Company and therefore the Company is seeking approval to establish a replacement Plan.

As of February 28, 2005, there were 1,143,874 shares of common stock of the Company available for grant under the Employee Incentive Plan. If approved, the Partner Re Ltd. 2005 Employee Equity Plan (the 2005 Plan) will become effective on May 10, 2005 and will replace the Employee Incentive Plan for all new grants made after May 2005. The 2005 Plan is being presented for shareholder approval to comply with certain regulatory requirements. If shareholders do not approve the 2005 Plan, it will not be adopted and no grants will be made under it. In addition, following expiry of the Employee Incentive Plan in February 2006, the Company will be unable to issue any equity compensation to its employees.

For full details of the shares currently available for grant under the Company's equity plans, see the table on page 27.

2005 Employee Equity Plan (the 2005 Plan)

The proposed 2005 Plan is attached as Appendix I to this Proxy Statement. The principal features of the 2005 Plan are summarized below.

Shares Available for Awards

Shares remaining available for grant under the Employee Incentive Plan in May 2005 will be added to the one million new shares being proposed for approval for issuance under the 2005 Plan, resulting in an estimated initial number of shares of common share available for issuance of 2,143,874 shares. This may be subject to adjustment by the Committee for share splits and other events as described in more detail in

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the 2005 Plan. If an award under the 2005 Plan is cancelled or forfeited without the delivery of the full number of shares underlying such award, only the net number of shares actually delivered to the Participant will be counted against the 2005 Plan's authorized shares. If an outstanding award under the Company's existing equity plans is cancelled or forfeited without the delivery of the number of shares underlying such award, such undelivered shares will also be available for issuance under the 2005 Plan in addition to all other shares authorized for issuance.

Material Features of the 2005 Plan

An independent Committee of the Board of Directors will administer the 2005 Plan.

Awards under the 2005 Plan may be made in the form of Options (Non-Qualified and ISOs), Restricted Shares, Restricted Share Units and Share Settled Share Appreciation Rights

The exercise price of options awarded under the plan will not be less than fair market value at the time of grant.

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Repricing of options is prohibited.

Options will vest ratably over three years on the first, second and third anniversaries of the date of grant.

Restricted Share and Restricted Share Units will not vest prior to thirty six months from the date of grant unless: (i) the vesting is performance based, (ii) they are awarded in lieu of a company obligation to pay cash or (iii) or they are issued in connection with the exercise of an option or other award made under the 2005 Plan.

Accelerated vesting of any grant may only be made at the discretion of the Committee.

The number of shares that may be added back to the plan from net share settlement of share appreciation rights and options is capped at 400,000 shares over the life of the plan.

The number of shares that may be awarded as either Restricted Share or Restricted Share Units is capped at 750,000 shares over the life of the plan.

Unless specifically provided to the contrary in any award agreement under the 2005 Plan, upon a Change in Control (as defined in the 2005 Plan), all outstanding awards will become fully exercisable, will vest and will be settled, as applicable, and any restrictions applicable to any award shall automatically lapse.

The 2005 Plan will expire on the date of the annual meeting of shareholders in 2015.

Certain awards to certain senior executives will, if the Compensation Committee intends any such award to qualify as qualified performance based compensation under Section 162(m) of the Internal Revenue Code, become earned and payable only if pre-established targets relating to one or more of the following performance measures are achieved: (i) earnings per share, (ii) financial year return on common equity, (iii) underwriting year return on equity, (iv) return on net assets, (v) organizational objectives and (vi) premium growth. The individual maximum number of shares underlying any such share-denominated award granted in any year will be 800,000 shares, and the individual maximum amount earned with respect to any such non-share denominated award granted in any year will be \$5,000,000.

New Plan Benefits

Any awards under the 2005 Plan will be at the discretion of the Committee. Therefore, it is not possible at present to determine the amount or form of any award that will be available for grant to any individual during the term of the 2005 Plan or that would have been granted during the last fiscal year had the 2005 Plan been in effect.

Tax Matters

The following discussion is a brief summary of the principal U.S. federal income tax consequences under current federal income tax laws relating to awards of Non-Qualified Stock Options and Incentive Stock Options under the 2005 Plan. This information is being presented in order to comply with SEC regulations. This summary is not intended to be exhaustive and, among other things, does not describe state, local or

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foreign income and other tax consequences. In addition, as the Company is domiciled in Bermuda, certain statements of the summary may not be applicable.

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Non-Qualified Stock Options. An optionee will not recognize any taxable income upon the grant of a Non-Qualified Option, and the Company will not be entitled to a tax deduction with respect to the grant of a Non-Qualified Option. Upon exercise of a Non-Qualified Option, the excess of the fair market value of the underlying shares of common stock on the exercise date over the option exercise price will be taxable as compensation income to the optionee and will be subject to applicable withholding taxes. The Company will generally be entitled to a tax deduction at such time in the amount of such compensation income. The optionee's tax basis for the shares received pursuant to the exercise of a Non-Qualified Option will equal the sum of the compensation income recognized and the exercise price.

In the event of a sale of shares received upon the exercise of a Non-Qualified Option, any appreciation or depreciation after the exercise date generally will be taxed as capital gain or loss and will be long-term capital gain or loss if the holding period for such shares is more than one year.

Incentive Stock Options. An optionee will not recognize any taxable income at the time of grant or timely exercise of an ISO and the Company will not be entitled to a tax deduction with respect to such grant or exercise. Exercise of an ISO may, however, give rise to taxable compensation income subject to applicable withholding taxes, and a tax deduction to the Company, if the ISO is not exercised on a timely basis (generally, while the optionee is employed by the Company or within 90 days after termination of employment) or if the optionee subsequently engages in a disqualifying disposition, as described below. Also, the excess of the fair market value of the underlying shares on the date of exercise over the exercise price will be an item of income for purposes of the optionee's alternative minimum tax.

A sale or exchange by an optionee of shares acquired upon the exercise of an ISO more than one year after the transfer of the shares to such optionee and more than two years after the date of grant of the ISO will result in any difference between the net sale proceeds and the exercise price being treated as long-term capital gain (or loss) to the optionee. If such sale or exchange takes place within two years after the date of grant of the ISO or within one year from the date of transfer of the ISO shares to the optionee, such sale or exchange will generally constitute a disqualifying disposition of such shares that will have the following results: any excess of (i) the lesser of (a) the fair market value of the shares at the time of exercise of the ISO and (b) the amount realized on such disqualifying disposition of the shares over (ii) the option exercise price of such shares, will be ordinary income to the optionee, subject to applicable withholding taxes, and the Company will be entitled to a tax deduction in the amount of such income. Any further gain or loss after the date of exercise generally will qualify as capital gain or loss and will not result in any deduction by the Company.

If the 2005 Plan is approved with the reservation of one million additional shares for issuance under the plan, the Company estimates that the cumulative overhang would be not more than 12.5%. This estimate is based upon share data from all director and employee stock award plans, including options and all unvested restricted stock and restricted share units, and including the reduction from 1,000,000 to 500,000 shares authorized under the 2003 Non-Employee Director's Stock Plan.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF

THE PARTNERRE LTD. 2005 EMPLOYEE EQUITY PLAN AND FOR THE RESERVATION OF ONE MILLION ADDITIONAL COMMON SHARES FOR ISSUANCE UNDER THE PLAN.

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PROPOSAL TO APPROVE AN INCREASE IN THE AUTHORISED SHARE CAPITAL OF THE COMPANY FROM US\$150,000,000 TO US\$200,000,000 BY THE CREATION OF 50,000,000 UNDESIGNATED SHARES PAR VALUE US\$1.00 PER SHARE

(Item 3 on Proxy Card)

The Board of Directors proposes and recommends that the shareholders approve an increase in the authorized share capital of the Company from US\$150,000,000 to US\$200,000,000 by the creation of 50,000,000 undesignated shares of par value US\$1.00 each. The Board of Directors may designate and authorize for issue the shares of such undesignated share capital as they deem advisable from time to time.

Pursuant to the Company's Memorandum of Association, the authorized share capital of the Company currently consists of US\$150,000,000, divided into 100,000,000 Common Shares of par value US\$1.00 each, 34,800,000 Preferred Shares of par value US\$1.00 each and 15,200,000 undesignated shares of par value US\$1.00 each. At December 31, 2004 20,800,000 shares designated as Preferred Shares were in issue and 54,854,398 of the shares designated as Common Shares were in issue.

Under Bermuda Company Law, shares repurchased by the Company must be cancelled and are no longer available for issue. In total the Company redeemed and cancelled 14,000,000 preference shares and has repurchased and cancelled 16,178,157 Common Shares. The Company filed a Shelf Registration Statement in 2004 allowing for the issuance of up to US\$600,000,000 of securities. This Shelf Registration Statement currently has capacity of US\$370,000,000 remaining. The current undesignated authorized and available for issue share capital limits the type of securities that could be issued if and when the Company decides to further draw down on the Shelf Registration Statement.

The Board of Directors of the Company believes that the ability to issue different forms of securities enhances the Company's corporate financing opportunities. The increase in the authorized share capital will increase flexibility when considering future investment opportunities and acquisitions of other companies and will enhance the effectiveness of the Company's capital management and structuring in connection with such things as employee benefit plans, share dividends and other corporate purposes. The Board of Directors does not have any plans to issue any additional securities at this time.

If approved by the shareholders of the Company, the increase in authorized share capital of the Company will be reflected in a Certificate of Deposit of Memorandum of Increase of Share Capital that will be attached to and will form part of the Company's Memorandum of Association.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE INCREASE IN THE AUTHORISED SHARE CAPITAL OF THE COMPANY FROM US\$150,000,000 TO US\$200,000,000 BY THE CREATION OF 50,000,000 UNDESIGNATED SHARES PAR VALUE US\$1.00 PER SHARE.

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PROPOSAL TO RE-APPOINT DELOITTE & TOUCHE, THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, AS THE COMPANY S INDEPENDENT AUDITORS FOR THE ENSUING PERIOD ENDING WITH THE 2006 ANNUAL GENERAL MEETING AND TO REFER THE DETERMINATION OF AUDITORS REMUNERATION TO THE BOARD OF DIRECTORS

(Item 4 on the Proxy Card)

The Board of Directors proposes and recommends that the shareholders reappoint the firm of Deloitte & Touche to serve as the independent registered public accounting firm of the Company until the 2006 annual general meeting. Deloitte & Touche has served as the Company s independent auditors from the Company s inception in August 1993 to the present. A representative of Deloitte & Touche will attend the Annual Meeting and will have an opportunity to make a statement, if he or she desires to do so, and to respond to appropriate questions. Shareholders at the Annual Meeting will also be asked to vote to refer the determination of the auditors remuneration to the Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE REAPPOINTMENT OF DELOITTE & TOUCHE AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM UNTIL THE 2006 ANNUAL GENERAL MEETING AND THE REFERRAL TO THE BOARD OF DIRECTORS OF THE DETERMINATION OF THE AUDITORS REMUNERATION.

The consolidated financial statements of the Company for the year ended December 31, 2004 contained in the Annual Report and the Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2004 are specifically incorporated herein by reference and made a part hereof.

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APPENDIX I

PARTNERRE LTD.

2005 EMPLOYEE EQUITY PLAN

Effective May 10, 2005

Section 1. PURPOSE

The purpose of the Plan is to provide a means through which the Company and its Subsidiaries may attract able persons to enter and remain in their employ and to provide a means whereby those key employees and other persons upon whom the responsibilities of the successful administration and management of the Company rest, and whose present and potential contributions to the welfare of the Company are of importance, can acquire and maintain share ownership, thereby strengthening their commitment to the welfare of the Company and promoting an identity of interest between shareholders and these key employees. It is intended that certain options granted under this Plan may qualify as incentive stock options under Section 422 of the Code.

Section 2. DEFINITIONS

(a) Award means, individually or collectively, any award of Incentive Stock Options, Nonqualified Stock Options, Restricted Shares or Restricted Share Units or any Performance Award.

(b) Award Agreement means a written agreement or instrument between the Company and a Participant setting forth the specific terms of an Award, which may, but need not, be executed by the Participant.

(c) Board means the Board of Directors of the Company.

(d) Change in Control shall occur when (i) any person within the meaning of Section 14(d) of the Exchange Act, other than the Company, a Subsidiary or any employee benefit plan(s) sponsored by the Company or any Subsidiary, is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of forty percent (40%) or more of the then outstanding Common Stock; (ii) individuals who constitute the Board on the effective date of this Plan cease for any reason to constitute at least a majority thereof, *provided* that any person becoming a director subsequent to the effective date of this Plan, whose election, or nomination for election by the Company's shareholders, was on the recommendation or with the approval of at least two-thirds of the directors comprising the Board on the effective date of this Plan (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this clause (ii), considered as though such person were a member of the Board on the effective date of this Plan; and *provided further* that, notwithstanding the foregoing, no such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 or Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of an individual, corporation, partnership, group, associate or other entity or person other than the Board shall in any event be considered to be a director in office on the effective date of this

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Plan; (iii) any plan or proposal for the liquidation of the Company is adopted by the shareholders of the Company; (iv) all or substantially all of the assets of the Company are sold, liquidated or distributed (in one or a series of related transactions); or (v) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company (a Transaction), other than with a wholly-owned Subsidiary and other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or ultimate parent thereof) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity, or the ultimate parent thereof, outstanding immediately after such Transaction.

(e) Code means the U.S. Internal Revenue Code of 1986, as amended.

(f) Committee means such committee of the Board as the Board may appoint to administer the Plan.

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- (g) Common Stock or Shares means the authorized common shares, par value US\$1.00 per share, of the Company.
- (h) Company means PartnerRe Ltd.
- (i) Consultant means any person, including any advisor, engaged by the Company or a Subsidiary to render consulting, advisory or other services and who is compensated for such services, other than a member of the Board.
- (j) Date of Grant means the date on which the granting of an Award is authorized or such other date as may be specified in such authorization.
- (k) Disqualifying Disposition means any disposition (including any sale) of Shares acquired by exercise of an Incentive Stock Option made within the period which is (a) two years after the date the Participant was granted the Incentive Stock Option or (b) one year after the date the Participant acquired Shares by exercising the Incentive Stock Option.
- (l) Eligible Person means an Employee or a Consultant, or, for the purpose of granting Substitute Awards, a holder of options or other equity based awards relating to the shares of a company acquired by the Company or with which the Company combines.
- (m) Employee means a current or prospective common law employee of the Company or a Subsidiary.
- (n) Exchange Act means the U.S. Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder.
- (o) Fair Market Value of a Share on a given date means (A) if the Shares are listed on a national securities exchange, the mean between the highest and lowest sale prices reported as having occurred on the primary exchange with which the Shares are listed and traded on the date prior to such date, or, if there is no such sale on that date, then on the last preceding date on which such a sale was reported, or (B) if the Shares are not listed on any national securities exchange but are quoted in the National Market System of the National Association of Securities Dealers Automated Quotation System on a last sale basis, the average between the high bid price and low ask price reported on the date prior to such date, or, if there is no such sale on that date then on the last preceding date on which such a sale was reported. If the Common Stock is not quoted on NASDAQ-NMS or listed on an exchange, or representative quotes are not otherwise available, the Fair Market Value shall mean the amount determined by the Committee in good faith to be the fair market value per Share, on a fully diluted basis.
- (p) Incentive Stock Option means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.
- (q) Nonqualified Stock Option means an Option not intended to qualify as an Incentive Stock Option.

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(r) Option means an Incentive Stock Option or a Nonqualified Stock Option granted pursuant to the Plan.

(s) Participant means an Eligible Person to whom an Award is granted pursuant to the Plan.

(t) Performance Award means an award, denominated in cash or Shares or any combination thereof, granted pursuant to Section 9 of the Plan and payable only upon the achievement of performance targets, as set forth in Section 9.

(u) Plan means the PartnerRe Ltd. 2005 Equity Compensation Plan, as amended from time to time.

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(v) Restricted Period means, with respect to any Restricted Share or Restricted Share Unit, the period of time determined by the Committee during which such Restricted Share or Restricted Share Unit is subject to restrictions or forfeiture, as set forth in Section 8 and in the applicable Award Agreement.

(w) Restricted Share means a Common Share issued to a Participant pursuant to Section 8.

(x) Restricted Share Unit shall mean a contractual right granted under Section 8 that is denominated in Shares, each of which Units represents a right to receive the value of a Share upon the terms and conditions set forth in the Plan and the applicable Award Agreement.

(y) Subsidiary means any corporation of which a majority of the outstanding voting securities or voting power is beneficially owned directly or indirectly by the Company and otherwise as provided in Section 86 of the Companies Act 1981 of Bermuda.

(z) Substitute Awards shall mean Awards granted in assumption of, or in substitution for, outstanding awards previously granted by a company acquired by the Company or with which the Company combines.

Section 3. DURATION

The Plan expires on the date of the annual meeting of shareholders in the year 2015, and no further Awards may be made after the expiration thereof. Notwithstanding the expiration of the Plan, the Plan provisions shall continue to govern outstanding Awards until all matters relating to the payment of Awards and administration of the Plan have been settled.

Section 4. ADMINISTRATION

The Committee shall have authority to administer the Plan, including, without limitation, the authority to:

- (a) Select the Eligible Persons to participate in the Plan;
- (b) Determine the nature and extent of the Awards to be made to each Participant;
- (c) Determine the time or times when Awards will be made;

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- (d) Determine the duration of each Restricted Period and the conditions to which the payment of Awards may be subject;

- (e) Establish and adjudicate the performance goals and Awards consequent thereon for each Restricted Period;

- (f) Accelerate the vesting of any outstanding Award, reduce the Restricted Period applicable to any Award and/or extend the period following termination of employment during which an Award may be exercised;

- (g) Prescribe the form or forms of Award Agreements; and

- (h) Cause records to be established in which there shall be entered, from time to time as Awards are made to Participants, the date and type of each Award, the number of Shares underlying each Award, and the duration of any applicable vesting period or Restricted Period.

All decisions of the Committee shall be final, conclusive and binding upon all parties, including the Company, the shareholders and the Participants.

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The Committee may delegate to the Chief Executive Officer of the Company the authority, subject to such terms and limitations as the Committee shall determine, to grant Awards to, or to cancel, modify, waive rights with respect to, alter, discontinue, suspend or terminate Awards held by, employees who are not officers or directors of the Company for purposes of Section 16 of the Exchange Act; *provided*, however, that any such delegation shall conform to the requirements of the New York Stock Exchange applicable to the Company, and Bermuda corporate law.

Section 5. ELIGIBILITY.

(a) General. Participation shall be limited to Eligible Persons who have received notification from the Committee, or from a person designated by the Committee, that they have been selected to participate in the Plan. Substitute Awards may be granted to holders of options and other equity-based awards relating to the shares of a company acquired by the Company or with which the Company combines.

(b) Incentive Stock Option Limitation. Incentive Stock Options may be granted only to Employees.

Section 6. SHARES AVAILABLE FOR AWARDS.

(a) Subject to adjustment as provided below, the number of Shares available for issuance under the Plan shall be [] Shares.[1] Notwithstanding the foregoing and subject to adjustment as provided in Section 6(e), (i) no Participant may receive Options and stock appreciation rights under the Plan in any calendar year that relate to more than 500,000 Shares and (ii) the maximum number of Shares with respect to which Awards may be made under Section 8 is 750,000. Awards may be made under Section 8 without regard to such limit if (x) the vesting conditions relating to such Awards are based upon Company or Subsidiary performance measures, (y) such Awards are made in satisfaction of Company obligations to employees that would otherwise be paid in cash or (z) such Awards are issued in connection with the exercise of an Option or other Award hereunder.

(b) If, after the effective date of the Plan, (i) any Shares covered by an Award (other than a Substitute Award), or to which such an Award relates, are terminated, forfeited, or cancelled, or (ii) such an Award otherwise terminates or is settled without the delivery of all the Shares underlying such Award, then the Shares covered by such Award, or to which such Award relates, to the extent of any such forfeiture, termination, settlement or cancellation, shall again be, or shall become, available for issuance under the Plan, subject to Section 6(d). Shares becoming available for grant following any such forfeiture, termination, settlement or cancellation, or following an event described in Section 6(c) below, may be regranted as the same type of Award as the original Award, for purposes of the limits on Award types set forth in Section 6(a). For purposes of this Section 6(b), awards and options granted under any previous option or long-term incentive plan of the Company (other than a Substitute Award granted under any such plan) shall be treated as Awards.

(c) In the event that any Option or other Award hereunder (other than a Substitute Award) is exercised through the delivery of Shares, or in the event that withholding tax liabilities arising from such Option or Award are satisfied by the withholding of Shares by the Company, the number of Shares available for Awards under the Plan shall be increased, subject to Section 6(d), by the number of Shares so surrendered or withheld.

(d) Notwithstanding the foregoing, the number of Shares which may be added back to the Shares authorized for issuance under the Plan pursuant to the provisions of Section 6(b)(ii) and 6(c) shall not exceed 400,000.

(e) Any Shares delivered pursuant to an Award shall consist of authorized and unissued Shares.

¹The number to be inserted in this space will be the sum of 1,000,000 and the number of Shares remaining available for grant under PartnerRe's previous equity award plans as of May 10, 2005. The total number of Shares authorized under this Plan will thus be the total number described in the previous sentence plus any Shares underlying options outstanding under predecessor plans that are forfeited after May 10, 2005 (see the last sentence of Section 6(b) above).

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(f) In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property) which thereafter may be made the subject of Awards, including the aggregate and individual limits specified in Section 6(a), (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, and (iii) the grant, purchase, or exercise price with respect to any Award or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; *provided, however*, that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

(g) Shares underlying Substitute Awards shall not reduce the number of Shares remaining available for issuance under the Plan.

Section 7. OPTIONS.

(a) General. Options granted hereunder shall be in such form and shall contain such terms and conditions as the Committee shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonqualified Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for Shares purchased on exercise of each type of Option. The provisions of each Option shall be set forth in an Award Agreement, which agreements need not be identical, and each Option shall include (through incorporation of provisions hereof by reference in the Award Agreement or otherwise) the substance of each of the following provisions:

(i) Term. Subject to Section 7(b)(ii) hereof in the case of certain Incentive Stock Options, no Option granted hereunder shall be exercisable after the expiration of ten (10) years from the date it was granted.

(ii) Exercise Price. Except in the case of Substitute Awards, the exercise price per Share for each Option shall not be less than the Fair Market Value per Share at the time of grant. Except in connection with an action taken pursuant to Section 6(f), no Option shall be amended or replaced in any manner that would have the effect of reducing the exercise price of such Option established at the time of grant thereof.

(iii) Payment for Stock. Payment for Shares acquired pursuant to Options granted hereunder shall be made in full, or adequate provision made therefor, upon exercise of the Options (A) in immediately available funds in United States dollars, by wire transfer, certified or bank cashier's check, (B) by surrender to the Company of Shares which have a Fair Market Value equal to such aggregate purchase price and which satisfy such other requirements as the Committee may impose, (C) by delivering irrevocable trade instructions to a stockbroker to deliver promptly to the Company an amount of sale or loan proceeds sufficient to pay the aggregate exercise price, (D) by any combination of (A), (B), or (C) above, or (E) by any other means approved by the Committee.

(iv) Vesting. Options shall vest and become exercisable in such manner and on such date or dates set forth in the Award Agreement as may be determined by the Committee; *provided, however*, that notwithstanding any vesting dates set by the Committee, the Committee may in its sole discretion accelerate the vesting of any Option, which acceleration shall not affect the terms and conditions of any such Option other than with respect to vesting. Unless the Committee shall establish another vesting schedule in accordance with the foregoing, Options shall vest and become exercisable in increments of 33%, 33% and 34%, respectively, on the first, second and third anniversaries of the date of grant.

(b) Special Provisions Applicable to Incentive Stock Options.

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(i) **Exercise Price of Incentive Stock Options.** Subject to the provisions of subsection (ii) hereof, the exercise price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Shares subject to the Option on the date the Option is granted.

(ii) **Ten Percent (10%) Shareholders.** No Incentive Stock Option may be granted to an Employee who, at the time the option is granted, owns directly, or indirectly within the meaning of Section 424(d) of the Code, stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or of any parent or subsidiary thereof, unless such option (A) has an exercise price of at least 110 percent of the Fair Market Value on the date of the grant of such option; and (B) cannot be exercised more than five years after the date it is granted.

(iii) **\$100,000 Limitation.** To the extent the aggregate Fair Market Value (determined as of the date of grant) of Shares for which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under all plans of the Company and its Affiliates) exceeds \$100,000, such excess Incentive Stock Options shall be treated as Nonqualified Stock Options.

(iv) **Disqualifying Dispositions.** Each Participant who receives an Incentive Stock Option must agree to notify the Company in writing immediately after the Participant makes a Disqualifying Disposition of any Shares acquired pursuant to the exercise of an Incentive Stock Option.

(c) **Net Share Settlement Share Appreciation Rights.** Any Option granted hereunder may contain a provision requiring, or permitting the Participant to elect, that such Option be settled by delivery to the Participant of a number of Shares having a Fair Market Value equal to the excess of the Fair Market Value of all the Shares underlying the Option (or portion thereof being so exercised) over the aggregate exercise price thereof. Any such Award containing such a provision may be denominated a Share Appreciation Right . If, and only if, such an Option or Share Appreciation Right is issued to a Participant who is not a United States taxpayer, the value of the Shares otherwise deliverable to the Participant upon such net share settlement of the Option may be delivered in cash.

Section 8. RESTRICTED SHARES AND RESTRICTED SHARE UNITS

(a) The Committee is hereby authorized to grant Awards of Restricted Shares and Restricted Share Units to Participants.

(b) Restricted Shares and Restricted Share Units shall be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to vote a Restricted Share or the right to receive any dividend, dividend equivalent or other right or property), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise, as the Committee may deem appropriate. If the restrictions or vesting conditions applicable to an Award of Restricted Shares or Restricted Share Units relate exclusively to the passage of time and continued employment or provision of services, or refraining therefrom, such time period (during which period such restrictions or vesting conditions may lapse ratably or on a cliff basis) shall consist of not less than 36 months, except that the foregoing restriction shall not apply to such Awards if they meet any of the conditions described in Section 6(a)(x), (y) or (z).

(c) Restricted Shares granted under the Plan may be evidenced in such manner as the Committee may deem appropriate including, without limitation, book-entry registration or issuance of a share certificate or certificates. In the event any share certificate is issued in respect of Restricted Shares granted under the Plan, such certificate shall be registered in the name of the Participant and shall bear an appropriate legend

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referring to the terms, conditions, and restrictions applicable to such Restricted Shares.

(d) Except as otherwise determined by the Committee, upon termination of employment or cessation of the provision of services (as determined under criteria established by the Committee) for any reason during the

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applicable restriction period, all Restricted Shares and all Restricted Share Units still, in either case, subject to restriction shall be forfeited and reacquired by the Company; *provided*, however, that the Committee may, when it finds that a waiver would be in the best interests of the Company, waive in whole or in part any or all remaining restrictions with respect to Restricted Shares or Restricted Share Units. Notwithstanding the foregoing, unless the Committee shall provide otherwise in an Award Agreement, Restricted Share Units shall continue to vest and be settled on the schedule originally determined at the time of grant for the 36 months following termination of employment as a result of retirement.

Section 9. PERFORMANCE BASED COMPENSATION

(a) The Committee is hereby authorized to grant Performance Awards to eligible Participants under this Section 9, if the Committee intends that any such Award should qualify as qualified performance based compensation for purposes of Section 162(m) of the Code. Each Performance Award shall include a pre-established formula, such that payment, retention or vesting of the Award is subject to the achievement during a performance period or periods, as determined by the Committee, of a level or levels, as determined by the Committee, of one or more of the following performance measures: (i) Return on Net Assets, (ii) Underwriting Year Return on Equity, (iii) Financial Year Return on Common Equity, (iv) Organizational Objectives, (v) Earnings Per Share or (vi) Premium Growth. For any Award subject to any such pre-established formula, no more than \$5,000,000, or if such Award is denominated in Shares, 800,000 Shares, can be paid or delivered in satisfaction of such Award to any Participant.

(b) For purposes of this Section, the following terms shall have the meanings set forth below:

(i) Earnings Per Share shall mean earnings per share calculated in accordance with Generally Accepted Accounting Principles.

(ii) Financial Year Return On Common Equity for a period shall mean net income less preferred share dividends divided by total beginning shareholders equity, less amounts, if any, attributable to preferred shares.

(iii) Underwriting Year Return on Equity for a period shall mean the present value of underwriting income divided by the business unit capitalization, plus the risk free rate plus any adjustments for taxation, cost of holding capital or prior year development.

(iv) Return On Net Assets for a period shall mean net income less preferred share dividends divided by the difference of average total assets less average non-debt liabilities, with average defined as the sum of assets or liabilities at the beginning and ending of the period divided by two.

(v) Organizational Objectives shall mean specific goals established by the Committee relating to operational, non-financial, performance of the Company.

(vi) Premium Growth shall mean either an absolute or relative premiums written target on either a gross or net basis.

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(c) The Committee shall establish the performance formula for any Performance Award, and shall certify that the requisite performance has been achieved prior to payment thereof, in accordance with the requirements of Section 162(m) and the regulations promulgated thereunder. The Committee shall have the authority to reduce, but not to increase, the amount payable under a Performance Award upon achievement of the performance goals established therefor.

(d) Performance Awards may be paid in cash, Shares or any combination thereof.

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Section 10. GENERAL

(a) **Adjustment of Performance Goals.** The Committee may, during any Restricted Period, make such adjustments to performance goals as it may deem appropriate, to compensate for, or reflect, any significant changes that may have occurred during such Restricted Period in (i) applicable accounting rules or principles or changes in the Company's method of accounting or in that of any other corporation whose performance is relevant to the determination of whether an Award has been earned or (ii) tax laws or other laws or regulations that alter or affect the computation of the measures of performance goals used for the calculation of Awards, provided, however, that the Committee may not make any amendment to a Performance Award that is not permitted under Section 162(m) of the Code.

(b) **Privileges of Share Ownership.** Except as otherwise specifically provided in the Plan, no person shall be entitled to any of the privileges of share ownership in respect of Shares subject to Awards granted hereunder until such Shares have been duly issued and the Participant has become the record owner thereof.

(c) **Government and Other Regulations.** The obligation of the Company to make payment of Awards in Shares or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by governmental agencies as may be required and to which the Company is subject. The Company shall use its reasonable efforts to cause the offer and sale of Shares reserved under the Plan to be registered under the U.S. Securities Act of 1933, as amended, on Form S-8 prior to the issuance of any Shares under the Plan.

(d) **Tax Withholding.** Notwithstanding any other provision of the Plan, the Company or a Subsidiary, as appropriate, shall have the right to deduct from all Awards, to the extent paid in cash, all applicable income, employment, social security or other taxes required by law to be withheld with respect to such Awards and, in the case of Awards paid in Shares, the Participant or other person receiving such Shares may be required to pay to the Company or a Subsidiary, as appropriate prior to delivery of such Shares, the amount of any such taxes which the Company or Subsidiary is required to withhold, if any, with respect to such Shares. Subject to such restrictions or limitations as the Committee may impose, the Company may accept or withhold Shares of equivalent Fair Market Value in payment of such withholding tax obligations.

(e) **Claim to Awards and Employment Rights.** Except as may be provided in any Award Agreement, no employee or other person shall have any claim or right to be granted an Award under the Plan nor, having been selected for the grant of an Award, to be selected for a grant of any other Award. Neither this Plan nor any action taken hereunder shall be construed as giving any Participant any right to be retained in the employ of the Company or a Subsidiary.

(g) **Designation and Change of Beneficiary.** Each Participant may, in accordance with procedures to be established by the Committee, designate in writing one or more persons as the beneficiary who shall be entitled to receive the amounts payable with respect to Awards granted hereunder, if any, due under the Plan upon his death. A Participant may, from time to time, revoke or change his beneficiary designation without the consent of any prior beneficiary by filing a new such designation. In the event of any issue or question arising in respect of any beneficiary designation, the Company shall be entitled to pay to the Participant's estate any amounts owing to the Participant under the Plan or any Award.

(h) **No Liability of Committee Members.** No member of the Committee shall be personally liable by reason of any contract or other instrument executed by such member or on his behalf in his capacity as a member of the Committee nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each member of the Committee and each other employee, officer or director of the Company to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or bad faith.

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(i) **Governing Law.** The Plan shall be governed by and construed in accordance with the laws of Bermuda without reference to the principles of conflicts of law thereof.

(j) **Funding.** No provision of the Plan shall require the Company, for the purpose of satisfying any obligations under the Plan, to purchase assets or place any assets in a trust or other entity to which contributions are made or otherwise to segregate any assets, nor shall the Company maintain separate bank accounts, books, records or other evidence of the existence of a segregated or separately maintained or administered fund for such purposes. Participants shall have no rights under the Plan other than as unsecured general creditors of the Company, except that insofar as they may have become entitled to payment of additional compensation by performance of services, they shall have the same rights as other employees under general law.

(k) **Nontransferability.** A Participant's rights and interest under the Plan or under any Award, including amounts payable, may not be sold, assigned, donated, or transferred or otherwise disposed of, mortgaged, pledged or encumbered except, in the event of a Participant's death, to a designated beneficiary to the extent permitted by the Committee, or in the absence of such designation, by will or the laws of descent and distribution. Options shall be exercisable during the lifetime of a Participant only by the Participant. Notwithstanding the foregoing, Awards may be transferable, to the extent provided in the respective Award Agreement, to any person or entity who would be considered a family member of the Participant for purposes of Form S-8 under the U.S. Securities Act of 1933.

(l) **Relationship to Other Benefits.** No payment under the Plan shall be taken into account in determining any benefits under any pension, retirement, profit sharing, group insurance or other benefit plan of the Company or any Subsidiary except as may otherwise be specifically provided.

(m) **Expenses.** The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

(n) **Pronouns.** Masculine pronouns and other words of masculine gender shall refer to both men and women.

(o) **Titles and Headings.** The titles and headings of the sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings shall control.

Section 11. EFFECT OF CHANGE IN CONTROL

(a) In the event of a Change in Control, notwithstanding any vesting schedule established by the Committee (i) with respect to an Award of Restricted Shares or Restricted Share Units, the Restricted Period shall expire immediately with respect to the maximum number of Restricted Shares or Restricted Share Units subject to such Award, with effect from the day preceding the date of such change, (ii) all outstanding Options shall immediately vest and become exercisable and (iii) all outstanding Performance Awards shall be paid as if the performance goals established in connection therewith were fully achieved, except to the extent expressly set forth in the applicable Award Agreement.

(b) The obligations of the Company under the Plan shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of the Company, or upon any successor corporation or organization succeeding to substantially all of the assets and business of the Company.

Section 12. NONEXCLUSIVITY OF THE PLAN

Neither the adoption of this Plan by the Board nor the submission of this Plan to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, arrangements providing for the grant of share options, and such arrangements may be either applicable generally or only in specific cases.

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Section 13. AMENDMENTS AND TERMINATION

(a) Except to the extent prohibited by applicable law and unless otherwise expressly provided in an Award Agreement or in the Plan, the Board may amend, alter, suspend, discontinue, or terminate the Plan or any portion thereof at any time; *provided, however*, that no such amendment, alteration, suspension, discontinuation or termination shall be made without (i) shareholder approval if such approval is necessary to comply with the requirements of the New York Stock Exchange or applicable law, or (ii) the consent of the affected Participant, if such action would adversely affect the rights of such Participant under any outstanding Award. Notwithstanding anything to the contrary herein, the Committee may amend the Plan in such manner as may be necessary to enable the Plan to achieve its stated purposes in any jurisdiction in a tax-efficient manner and in compliance with local rules and regulations.

(b) The Committee may waive any conditions or rights under, amend any terms of, or amend, alter, suspend, discontinue or terminate, any Award theretofore granted, prospectively or retroactively, without the consent of any relevant Participant or holder or beneficiary of an Award, *provided, however*, that no such action shall impair the rights of any Participant or holder or beneficiary under any Award theretofore granted under the Plan without the consent of the affected Participant, holder or beneficiary.

(c) Any provision of the Plan or any Award Agreement to the contrary notwithstanding, the Committee may cause any Award granted hereunder to be canceled in consideration of a cash payment or alternative Award made to the holder of such canceled Award equal in value to the Fair Market Value of such canceled Award.

(d) The Committee may correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

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APPENDIX II

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee has adopted policies and procedures for pre-approving all non-audit work performed by Deloitte Entities. Specifically, the policies and procedures prohibit Deloitte Entities from performing any services for the Company or its subsidiaries without the prior approval of the Audit Committee, except that the Audit Committee pre-approved the use of Deloitte & Touche for the following categories of audit-related services:

Annual audit of the Company's consolidated financial statements, including quarterly reviews, consultation on accounting issues, system control work, report reviews (Form 10-K, annual report, etc.), attendance at Audit Committee meetings, preparation of management letter, use of specialists in connection with the foregoing and other services integral to audits of and expressing opinions on the Company's financial statements;

Assistance related to implementation of new accounting standards;

Audits of opening balance sheets of acquired companies and accounting consultations on acquisitions and proposed acquisitions where such services would otherwise be performed in the audit of the Company's consolidated financial statements;

Services related to procedures used to support the calculation of the gain or loss from dispositions and discontinued operations;

Compliance letters, agreed upon procedures, reviews and similar reports related to audited financial statements;

Audits of financial statements and transactions included in consolidated financial statements that are used by lenders, filed with government and regulatory bodies and similar reports, including affiliate transaction audits;

Services that result from the role of Deloitte Entities as independent auditor such as reviews of SEC filings, consents, letters to underwriters and other services related to financings that include audited financial statements;

Assistance in reviews and tests of internal control and other systems;

Employee benefit plan audits where fees are paid by the Company;

SAS 70 attestation reports;

Electronic accounting research services;

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Foreign statutory audits and other regulatory reports;

Assistance with tax accrual related issues;

Assistance with tax accounting for specific transactions; and

Merger and acquisition due diligence services.

Management is required to provide a quarterly update of usage for each quarterly Audit Committee meeting to show the Audit Committee the use of Deloitte Entities services.

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Other Permitted Services

Specific approval is required from the Audit Committee prior to the appointment of Deloitte Entities to provide the following services;

Non-financial information systems/consulting;

Integration consulting services;

Review of third party specialist work related to appraisal and/or valuation services;

Actuarial consulting services non-audit related;

Employee Benefit consulting;

Training; and

Tax Services returns, tax planning and consultation.

Prohibited Services

The following services are services which Deloitte Entities is prohibited from providing;

Bookkeeping or Other Services Related to the Company's Accounting Records or Financial Statements;

Appraisal or Valuation Services or Fairness Opinions;

Management Functions or Human Resources;

Broker-Dealer, Investment Advisor, or Investment Banking Services;

Legal Services and Expert Services Unrelated to the Audit;

Internal Audit Outsourcing; and

Financial Information Systems Design and Implementation.

Audit Committee Review Of Services

At each regularly scheduled Audit Committee meeting, the Audit Committee shall review the following:

A report summarizing the service, or grouping of related services, including fees, provided by Deloitte Entities; and

A listing of newly pre-approved services since its last regularly scheduled meeting.

The Audit Committee has approved that the Chairman of the Audit Committee can pre-approve services on behalf of the Audit Committee between meetings should the need arise. In the event this occurs, then the approved services and fees would be included in the quarterly summary for the Audit Committee.

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