

SKULD



**THE NEW
GENERATION**



P&I CLUB

Annual Review 2006

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PLEASE NOTE

Skuld's formal annual report including

Auditor's report

Board of Directors' report

Complete set of financial accounts

is posted on our website www.skuld.com
from where it may also be downloaded.

THE ANNUAL GENERAL MEETING

Will be held **Wednesday 5 September 2007**
in the 4th floor auditorium at 5:00 p.m.
Ruseløkkveien 26, Oslo, Norway



A GREENER ANNUAL REVIEW

One aspect of being the 'New Generation P&I club' is the responsibility to voice our opinion clearly on important shipping insurance issues. This also includes a more reflected awareness regarding the increasing environmental challenges we face both as an organisation and as individuals.


At Skuld, we are taking environmental challenges seriously. As our President and CEO Douglas Jacobsohn observes, "In order to effectively evaluate potential risk and then control cover to match shipowners' needs, we have to look outside the box. We have to consider issues outside the normal framework of our business."

This annual review therefore takes a look at Skuld's long tradition of pressing for stricter industry rules on sub-standard vessels – an area that can have a major environmental impact. We also touch on Skuld's participation in the environmental work of the International Maritime Organisation (IMO), the International Tanker Owners' Pollution Federation (ITOPF), and the Thor Heyerdahl International Maritime Environmental Award. In addition, we are looking into performing an environmental audit of Skuld's organisation in order to evaluate other areas where we can have an impact.

All Annual Reviews have bottom lines. And our line is this – we are not green yet. We have a way to go. We have begun to analyse what we as a shipping insurance company can do to minimise the impact we and our members have on the environment. We are searching to find answers and new approaches - and we have begun to take action based on that search.



Of the three modes of transportation, planes, trucks and ships, ships are by far the 'greenest' – follow the green line for a comparison.



THE NEW GENERATION P&I CLUB

Skuld has been referred to as the New Generation P&I club. We have had the opportunity to reengineer a club with a great history while bringing it forward to cater to the needs of new generation shipowners.

All aspects of the association have undergone strict scrutiny since 2000 with the aim of taking a fresh look at our basic processes. Our overall goal has been to combine the positive elements – from our heritage of more than a century of maritime insurance history - with new and innovative thinking. By fusing the old with the new, we have created a P&I club that is robust enough to meet the challenges this industry will face as it goes forward.

We have split our organisation into geographically based syndicates. We have changed the way we conduct our underwriting, providing individual members with the cover they need. Our risk assessment tools are at the forefront of our business, allowing us to assess the risk and set the correct price.

Claims handling is one of the critical elements in P&I, and is often referred to as the 'engine' of our club.

Through staffing up with highly qualified individuals, we handle most of our cases from within the club and have shortened the average time spent on each case.

We believe one of our major future challenges will be to retain and recruit the right staff. Keeping the right balance of experience and new thinking is one of the key issues of our human resources strategy.

As a new generation P&I club, a critical factor as we move forward will be to act responsibly toward our members, our business partners and the community at large. We have begun to analyse what we as an insurance company can do to minimise the impact we and our members have on the environment – and we will continue this process.

SKULD

Assuranceforeningen Skuld is a leading marine insurer, providing Protection and Indemnity (P&I) and Defence cover to shipowners and charterers all over the world. The purpose of the association is 'mutual insurance against liabilities and losses incurred by members in direct connection with the operation of the vessels'.

A COMPETITIVE SERVICE PROVIDER

In addition to its head office in Oslo, Skuld has offices in Bergen, Copenhagen, Hamburg, Hong Kong, Moscow, Piraeus and Singapore. A dedicated staff and an extensive network of correspondents make Skuld a competitive service provider which will always go the extra mile for its members.

A MUTUAL ASSOCIATION

As a mutual association, the club is owned and controlled directly by its members. Established in 1897 in Oslo, Norway, about one-third of the tonnage entered continues to be Scandinavian-controlled, reflecting the club's traditional balance between Scandinavian and international business.

Skuld is one of thirteen members of the International Group of P&I Associations that work closely together in reinsurance and industry matters of common interest. The International Group insures 92% of the world's merchant fleet. As the millennium turned, the marine insurance

industry faced insufficient premium levels. Skuld responded to the challenge with a clear strategy: A major restructuring, strong emphasis on cost, member selection, pricing and reserve building - while still meeting the needs of its members. A dedicated staff and a lot of hard work have made these efforts successful.

We are now seeing the results: a positive balance, a positive technical result, higher reserves and not least, an improved Standard & Poor's rating to **A-**. Skuld is better prepared than ever to help members mitigate the many risks facing them in a constantly more complex business environment.

GODDESS OF THE FUTURE

When Assuranceforeningen Skuld was founded in 1897, there were probably quite a few discussions about what to call the club.

The name Skuld was a good choice. Not only is it both short and distinctive, but it was taken from Norse Mythology where it has a powerful meaning aligned with the Skuld of today.

According to the myths, Skuld was one of three goddesses – or norns – who spin the threads of fate at the foot of the great World Tree Ygdrasil, which they tend and protect. Two of the goddesses, Urd and Verdande, represent the past and the present. Skuld represents the future – and governs the destinies of both gods and mortals.

There is a direct link between the mythical norn Skuld and Skuld, the P&I club, although only a symbolic one. Skuld protects ships and covers the liability and risk faced by its members and looks to the future to be able to meet upcoming challenges.

In this work it is important to be proactive and reflected in our response to issues outside the normal framework of our business. The environmental challenges covered in this year's Annual Review are an example of Skuld's looking to the future – based on a powerful idea from the past.

Evaluating potential risk and then working to tailor cover to match shipowners' needs – this is what we call the 'ultimate service'.

Skuld – a club for the future built on more than 100 years' experience!

NI GH LIGHTS



MAY 06

- Official opening of Skuld's Moscow Office

JUNE 06

- European Commission publishes Green Paper on a future maritime policy for the EU

AUGUST 06

- Liability limits under OPA 90 increased.
- Skuld's half year report shows a surplus of USD 19.2 million with a strong technical result of USD 11.3 million. Skuld's free reserves stand at 170 million
- 14th consecutive quarter with positive figures
- Skuld announces merger discussions with the Swedish Club

SEPTEMBER 06

- Ms Katy Therapiotis, of Ionia Management SA, Greece, elected as new member of the association's Committee
- Official opening of Skuld's Singapore office in the presence of Mrs. Lim Hwee Hua, Minister of Transport, Minister of Finance

OCTOBER 06

- IMO Legal Committee adopts guidelines which clear the way to implementation of Athens Convention
- Skuld School, welcomes participants from more than 26 nations
- Skuld becomes corporate sponsor of the Norwegian Chamber Orchestra

NOVEMBER 06

- Skuld announces that the merger discussions with The Swedish Club are terminated
- Third quarter surplus of USD 36.7 million. Free reserves increased to USD 187 million

DECEMBER 06

- Skuld announces a premium increase of 2.5%, catering for liability inflation, the lowest increase in the International Group

JANUARY 07

- Skuld pilot for electronic charterers' declarations initiated
- International Group agrees cover limit of USD 3 billion for passenger and crew risks, with a sub-limit of USD 2 billion for passenger claims
- The Group also agrees to place USD 1 billion reinsurance cover against overspill calls

FEBRUARY 07

- Skuld completes a successful renewal. Firm commitments that will bring the club to 40 million owners' GT during 2007
- Club retention with the Group increased to USD 7 million for the new policy year





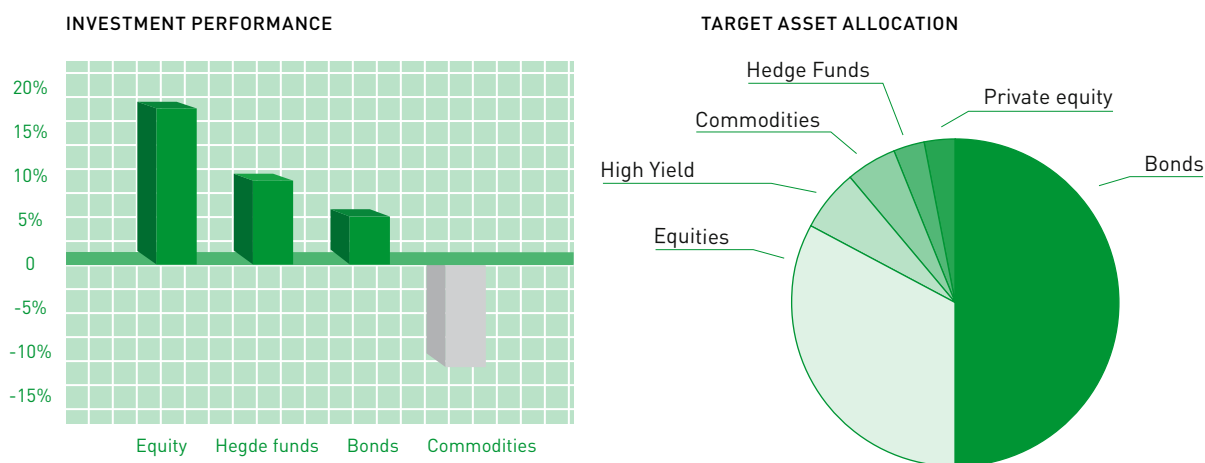
KEY

FIGURES

06

For the year 2006 Skuld booked a surplus of USD 40.4 million. The association's own claims and its return on assets exceeded expectations, but other clubs' pool claims reduced the result from what would otherwise have been a record year.

Return on assets ended at 8%, compared to the budget estimate of 6.2%. As can be seen from the graph below, equities were the main driver of this good result, but hedge funds and bond portfolios also made a solid contribution. Commodities, which were added to the portfolio for diversification purposes did not perform well. The net result from the investment side was USD 33.7 million.



For several years now, Skuld has stated that the club aims to achieve positive technical results, meaning that premiums shall cover both claims and administrative costs. Despite the record high pool claims booked at USD 26.2 million, Skuld achieved its goal with a technical surplus of USD 6.7 million.

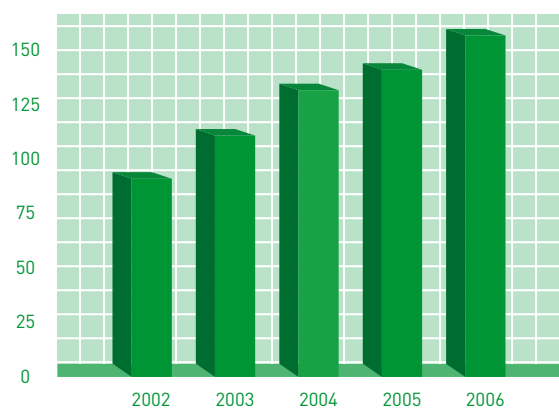
With these good results, contingency reserves have now reached USD 191 million. This makes Skuld one of the strongest clubs in the International Group and a trustworthy partner for the future. This fact has also been recognised by the rating agency Standard & Poor's, which has given Skuld an A- rating.

FIVE-YEAR FINANCIAL SUMMARY

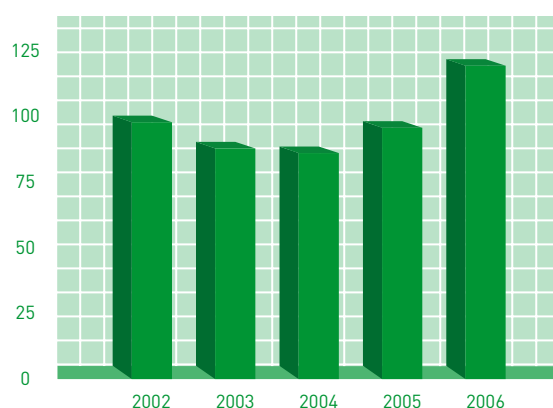
Amount in MUSD	2002	2003	2004	2005	2006
Premiums and calls for own account	91	109	129	140	155
Claims incurred for own account ¹	97	87	86	95	121
Gross investment revenue	-2	31	13	24	34
Balance carried to contingency reserve	-29	31	32	42	40
Contingency reserve	50	82	113	151	191

¹ A proportion of overhead related to claims handlers has been allocated to claims since 2003.

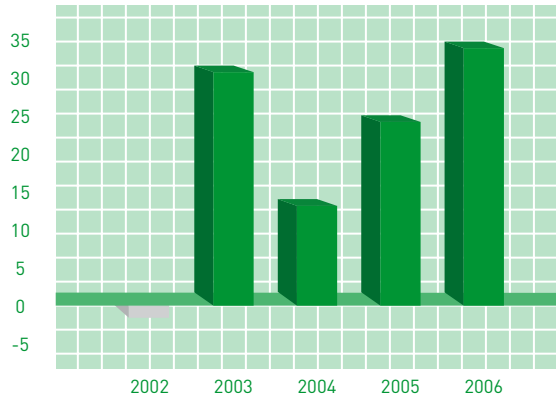
PREMIUM AND CALLS FOR OWN ACCOUNT (USD MILL)



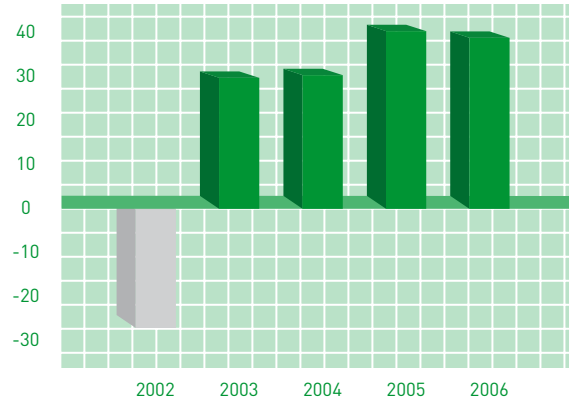
CLAIMS FOR OWN ACCOUNT (USD MILL)



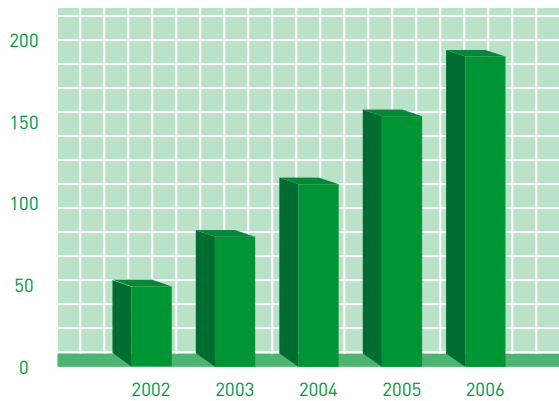
**GROSS INVESTMENT RETURN
(USD MILL)**



**BALANCE CARRIED TO CONTINGENCY
RESERVE (USD MILL)**



CONTINGENCY RESERVES (USD MILL)



CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT (MUSD) **2006** **2005**

Premiums and calls	174.1	156.8
Reinsurance premiums	-19.0	-16.9
Premiums for own account	155.1	139.9
Claims incurred for own account	121.1	95.2
Acquisition costs	18.4	15.9
Administrative expenses	8.8	8.1
Net operating expenses	27.2	24.0
Balance carried to non-technical account	6.7	20.7

NON-TECHNICAL ACCOUNT

Balance from technical account	6.7	20.7
Total investment income	33.7	21.6
Taxes	0	0.2
Balance carried to contingency reserve	40.4	42.1

BALANCE SHEET **2006** **2005**

ASSETS

Financial investments	410.8	371.6
Debtors	5.2	6.2
Other assets	49.6	38.9
Prepayments and accrued income	2.4	1.9
Total assets	468.1	418.6

LIABILITIES

Provisions for outstanding claims for own account	260.0	248.3
Contingency reserve	191.4	150.7
Technical provisions for own account	451.4	399.0
Provisions for other liabilities	4.8	8.7
Creditors	8.6	8.1
Accruals and deferred income	3.3	2.8
Total liabilities	468.1	418.6



CEO

'S

REPORT



We at Skuld have a vision of being the preferred choice for quality and security-conscious shipowners and operators by out-performing our peers in terms of solvency and service. We also work to be proactive and reflected in our response to issues outside our normal business framework. This allows us to evaluate risk and cover to meet shipowners' needs. This Annual Review looks at environmental challenges as one of those issues. In addition, we are pleased that Skuld has just received a Standard & Poor's upgrade to an A- rating.

We call our ambition the 'New Generation P&I club' – being at the forefront of service excellence, with disciplined underwriting and sophisticated risk management. As you will see elsewhere in our Annual Review, we are already performing well on both solvency and service, and our goal is to continue the drive to help our members both understand and manage risk.

Although we are pleased with our current results, we cannot be complacent. The risks in the world around us are increasing – and becoming increasingly

more complex – whether financial, environmental, paramilitary or energy-based, to name just a few. Unfortunately, the political and regulatory response to a number of these threats from national and regional players is also becoming increasingly complex, often generating reactions that with all the best intentions appeal more to emotion than fact. It is therefore important for Skuld to be proactive and reflected when dealing with issues outside the normal framework of our business. Only then can we effectively evaluate potential risk and control cover to match shipowners' needs. This is what one might call the 'ultimate service'.

FOR FUTURE GENERATIONS

One of the areas that is demanding more attention is the challenge on the environmental front that we are now facing both as individuals and as organisations. The stream of scientific research, information from expert panels and the daily news indicate that the relationship between our civilisation and the earth is being transformed, with global warming as one of the most serious manifestations of that change. The resulting extreme weather can make risk even more difficult to predict and manage.

How does this challenge affect the shipping industry in general and our members in particular? And what can we do about it? We are not 'green' yet, but we are working to become more so. Here are some of the initial steps we are taking.

Our concern with the environment is not new. One of our major initiatives for a number of years as a marine insurance company has been to help implement stricter industry rules for sub-standard vessels. In addition, our own evaluation of new members looks not only at the quality of the vessel itself, but also at the systems shipowners have implemented to improve the quality of their processes and to increase safety.

Skuld supports the International Maritime Organisation's (IMO) efforts aimed at reducing greenhouse gas (GHG) emissions from ships. We are also an active member of the board of the International Tanker Owners Pollution Federation (ITOPF), which is involved in all aspects of preparing for and responding to ship-source spills of oil and chemicals in the marine environment. See page 38 .

We co-sponsor the Thor Heyerdahl International Maritime Environmental Award that recognises innovative actions to protect the marine environment. See page 26 .

Although we may only have a limited impact as individuals or organisations on environmental challenges, we think we have an obligation as world citizens to take a studied approach and act in those areas where we can make a difference.

CAREFUL AND SOLID GROWTH

We are pleased that the continued strong Skuld results in 2006 resulted in an upgrade from Standard & Poor's of Skuld's rating to A-. Skuld achieved organic growth, as well as new members and clients, in all markets during 2006. Approximately 1 million GT were added to the entered fleet at the February 2007 renewal, an increase of 3%. With the addition of tonnage committed by our members, Skuld is on track to reach 40 million GT during 2007.

Skuld's surplus reached USD 40.4 million in 2006. While investment income contributed to the result, it is encouraging to note that a major proportion of the result was achieved through appropriate pricing, effective cost control and disciplined underwriting. We are pleased that we have now made a surplus for the 16th consecutive quarter. Our free reserves increased by 26.5% – to a record USD 191 million, up from USD 151 million. Our investment return rose to 8% during 2006, compared to 6.6% in the previous year.



OUR MOST IMPORTANT RESOURCE

The major critical success factor in our move to be the New Generation P&I Club is our experienced staff and contact with members through our international network, as well as our regional syndicate approach to prioritising resources.

Our wealth of in-house maritime and legal resources, representing a wide geographical range of jurisdictions, can be called in quickly in case of emergency. Excellent service requires interaction and understanding, person-to-person, so this is a major focus and one of the factors that will support growth and even closer contact with our members in 2007.

Douglas Jacobsohn
President and Chief Executive Officer

CHAIRMAN OF THE BOARD'S REPORT



A positive technical result for the fourth consecutive year contributed to Skuld's strong financial performance in 2006. Reserves stand at close to USD 200 million. The club's strong operating performance and competitive position prompted Standard & Poor's to upgrade Skuld to an A- rating. The club's disciplined staff, backed by robust systems and a proactive approach to International Group activities, reinforce Skuld's position as a first class P&I provider.

A SUCCESSFUL 110TH ANNIVERSARY

With free reserves at a record high level of close to USD 200 million - and successive technical surpluses over the past four years - the Board is pleased with Skuld's performance as it reached its 110th anniversary this year. Skuld is in fact one of the few P&I clubs reporting an underwriting surplus. Noting the club's continued positive performance, the Standard & Poor's credit rating agency recently increased Skuld to the A- level. The Board is particularly pleased with this achievement - a target that has been part of the long-term Skuld strategy and because it recognises Skuld's commitment and consistent high performance.

A key success factor in the P&I field is retaining current members and attracting new ones. Skuld further increased its owners' tonnage in 2006, which will bring the total to 40

million GT during 2007 - with an additional 38.5 million GT of charterers' business on top.

In order for the club to meet the challenges ahead, the Board has seen the need for the Association to increase its rate of growth considerably. The question is what criteria should be used to measure that growth - and how to obtain it without jeopardising Skuld's high level of service?

MERGER DISCUSSIONS

Increased size yields a number of benefits for a P&I club, including improved risk bearing abilities and an even stronger voice in the global marine insurance market. Therefore, in August last year, Skuld decided to enter into discussions with The Swedish Club in order to create a Nordic shipping insurance merger. Despite many positive

synergies between our two companies, the merger talks ended unsuccessfully in November.

In Skuld's estimation, the proposed merger made sound industrial sense. However, there are other paths to reach the club's long-term goals and Skuld will move to concentrate on achieving necessary growth on its own.

STRATEGY GOING FORWARD

The strength of the club's results and its reserves, as well as the increase in P&I tonnage, all indicate that a strategy of 'more of the same' will continue to benefit members. In addition, the Board has been involved with the management in developing a clear strategy for focusing on the development of a wider range of products as well as organic growth. New resources have been allocated to areas such as an increased focus on charterers' insurance and developing new products. The Board is confident that Skuld will meet the challenges ahead.

A HUMAN CAPITAL COMPANY

The Board is pleased with the impressive combination of in-house legal talent from many jurisdictions combined with extensive seafaring experience, as well as professional syndicates and a dedicated support staff. This makes Skuld a 'Human Capital Company' with a knowledge base that benchmarks positively in the industry.

Skuld's staff is supported by sophisticated IT systems for monitoring and assisting in claims handling and underwriting. These also provide a rich database for assessing risk and facilitating loss prevention. In addition, by keeping legal expertise in-house and decreasing the case load per claims handler in order to reduce claims turn-around time, Skuld can provide the high levels of service its members expect while reducing costs.

NEW OFFICES IN MOSCOW AND SINGAPORE

Skuld's office and syndicate structure is built on the belief

that being close to members and their operations is a major strategic advantage. Skuld was the first P&I club to establish its own office in Russia which opened in Moscow in May last year. Then in September the club opened an office in Singapore. Although it is too soon to evaluate the impact of the Singapore office, both the new German office in Hamburg - opened a year earlier - and the Moscow office have already proved themselves to be part of a sound strategy based on the increased business in these markets.

THE MUTUAL SYSTEM

Because Skuld thinks it is important to clearly voice its opinion on important shipping insurance issues, the club is also becoming more active in the day to day functioning of the 13 member International Group of P&I clubs. As a result, Skuld joined the International Group is focusing more on sub-standard vessels. This is one of the long-term issues with environmental implications that will stay in focus moving forward.

IN CLOSING

The Board and management have spent considerable time on the Human Resources challenges facing the club in the time to come. The Board wishes to express its gratitude to Skuld's staff for its dedicated efforts and teamwork to help get the association to where it is today.

In summary, the club's strong performance in 2006 and the work Skuld is doing to use its human capital to support members provide a springboard for more progress in 2007.



Erik Gløersen
Chairman, Board of Directors



HEYERDAHL

THE HEYERDAHL AWARD, CONTRIBUTING TO THE IMPROVEMENT OF THE GLOBAL ENVIRONMENT

Almost four decades ago, Thor Heyerdahl, a Norwegian explorer and archaeologist, discovered alarming signs of man's impact on the oceans. Today, a prestigious award named after him promotes environmental awareness and serves as an inspiration for implementing new and specific environmental measures.

In June 1999, Thor Heyerdahl and the Norwegian Shipowners' Association launched the Thor Heyerdahl International Maritime Environmental Award. Skuld, along with the four other co-sponsors of the high-profile award – Det norske Veritas (DNV), Gard, NorShipping and TradeWinds, supports its purpose of contributing to an improvement in the global environment and serving as an inspiration for implementing specific innovative environmental measures. The award also seeks to make more visible the environmental benefits of shipping as a means of transport.

Shipping has the world oceans as its field of operation, which gives the industry a special responsibility for the marine environment. The sponsors hope that the award will inspire the maritime community world-wide to make an effort to improve the environment. In the future, as historically, solutions will have to be found by challenging established opinions.

THE BACKGROUND FOR THE AWARD

In 1969 and 1970 Thor Heyerdahl sent the United Nations two reports on pollution of the Atlantic

THE GLOBAL ENVIRONMENT

Ocean. The reports, based on observations made during his expeditions with the RA I and RA II papyrus rafts, were part of the foundation for the international community's extensive efforts to begin improving the state of the oceans. This led to the foundation of the International Maritime Organisation (IMO), a maritime suborganisation of the United Nations. The IMO has since developed regulations and adopted conventions to alleviate the strain on the maritime environment. Now, with increased knowledge of environmental problems and life in the oceans, the IMO develops new agreements and regulations for the purpose of further improving conditions of marine life.

THIS YEAR'S WINNER

Wallenius Wilhelmsen Logistics (WWL) is this year's winner of the Heyerdahl Environmental Award 2007 for green innovation in shipping.

Over a period of six years, WWL successfully reduced its sulphur dioxide (SO₂) emissions by 75,550 tons. By comparison, this equals the amount of SO₂ emitted by the city of London over the same period.

The award was presented by HRH King Harald at NorShipping in Oslo in mid-June.

In 2005 the Award was given to the Japanese company NYK Line for their remarkable commitment to ceaselessly improving their environmental performance.

In 2003, the Award was won by the International Tanker Owners Pollution Federation (ITOPF) and in 2001 by the Green Award Foundation.





UNDER
WRIT
ING

13% TONNAGE INCREASE

Skuld's owners' book grew by about 13% and we announced the lowest general increase of all P&I clubs at the renewal in February 2007. Charterers' volume has increased 80% over the past five years, largely driven by the increase in Chinese trade. New offices showed increased market activity in Germany and Russia.

It is virtually impossible to make a written statement on the underwriting part of Skuld without making some initial comments about claims – the two go hand in hand. In brief, it may be said that the development of our members' claims continues to be most satisfactory. No matter how we look at it – be it number of claims, frequency of claims, total cost of claims or cost of claims per GT – the situation is positive and below our own predicted expectations for claims.

However, a very different situation exists for incoming pool claims from our pooling partners in the International Group (who are also our competitors). The policy year 2006 may be the worst year ever in terms of total claims for the Pool. Some will remember 2004,

which also ended up with high pool claims. The year 2006, however, appears to be considerably worse. For Skuld alone, total costs for incoming pool claims are anticipated to exceed USD 26 million for the year – or twice our budgeted costs.

The main contributor to this situation is not just a few cases that have become extremely expensive (a situation predominantly picked up by the commercial market reinsurance bought by the Group), but rather the higher number of cases being reported that fall within the pool cover limits. Currently, the only explanation for the large number of high cost cases in 2006 appears to be a combination of increasing liabilities and random volatility.

BUSINESS IN 2006 AND RENEWALS FOR 2007

OWNERS

In the course of 2006, the addition of newbuildings and other acquisitions by our current members continued at the same pace as during the past two years. At the same time, however, vessel sales by the same members were substantially higher than in recent years. This implied a net organic tonnage growth of 6% compared to last year's double digit growth.

For the first time in many years, Skuld announced the lowest general increase of all P&I clubs for the February 2007 renewal. This carefully arrived at increase came as a result of consistent strong technical results over several years, very good claims performance by our members and Skuld's overall positive financial performance. Our 2.5% increase was phrased as a claims inflation adjustment because – despite good claims records – there are clear signals from our own books and from others that claims cost more in spite of occurring less frequently. This is the situation both in terms of compensation and also in regard to handling costs (surveyors, lawyers etc.). The announced general increases for the other 12 clubs in the International Group ranged between 5 and 10% on average, somewhat lower than in recent years.

As of noon 20 February 2007, Skuld's owners' book grew by a net of about 0.7 million GT. In addition a further 3.8 million GT of newbuildings has been committed by our members for delivery and entry in the course of the 2007 policy year. In sum, this corresponds to a growth of some 13% compared to entered tonnage just prior to the renewal. The actually achieved average increase was just short of the announced general increase.

CHARTERERS

For many years Skuld has been an active provider of P&I cover for both time and voyage charters' entries. In 2006 the time-averaged tonnage for this business, came to more than 38 million GT – a growth of some 80% in the course of five years. Although this figure gives a realistic picture of the growth of the product, this should not be mistaken as a suitable or representative measure of risk or equivalent in relation to the club's owners' book. To some extent, the strong growth of the product should be linked to the booming dry bulk markets during the past few years, which in turn largely have been driven by strong Chinese exports and imports.

The financial performance of Skuld's charterers' book is good, with continued positive technical results, even when considered as a stand alone product.

Looking to the future, Skuld is continuing to focus more on the charterers' business by devoting one Vice President position solely to sales and marketing efforts for charterers' business.

In addition, Skuld has recently released a new facility on our members' Extranet web pages. This tool enables our charterer members (or their brokers) to actually report a new entry for charterers' liability cover directly from their own desk. By means of an IMO number for the vessel, an entry date plus the expected duration of the charter (i.e. cover) Skuld has sufficient information to hold the vessel on cover. Somewhat later the appropriate date for redelivery of the vessel is entered by the charterer and all total premium details are finalised.

Bringing these types of Internet facilities to members reduces their workload significantly and potential typing errors with the same data being entered repeatedly by several persons are reduced. Furthermore, the solution provides full overview for the involved parties with all relevant information gathered on one page combined with report and export facilities. The new on-line declaration system has been very well received by the pilot members and will gradually be made available to all charterer members.

NEW MARKET FOCUS

Over the past two years Skuld has opened three new satellite offices in Hamburg, Moscow and most recently in Singapore. These representative offices follow a Skuld concept of being close to our members, both in distance and time. The experience from Hamburg, being the oldest of three newcomers has been very positive. Germany has for many years been a very important market for Skuld, but the establishment of Skuld Germany GmbH has without doubt led to Germany now being one of our fastest growing markets. The brief experience to date in Moscow and Singapore are also very encouraging.

REINSURANCE AND POOL

The limits of pool cover and also club retention have been subject to change over the past few years. From the year 2004 the Pool (and subsequently under cover from Group captive Hydra) was extended up to USD 50 million per claim. The year after (i.e. from 2005), club retention was increased to USD 6 million, having stood still at USD 5 million for the past ten years. As from 2007 the club retention was increased to USD 7 million. There is a clear wish by some clubs to increase club retention further for each coming year, up to USD 10 million. The

downside of such a move is higher volatility on club results. Although Skuld does not see the rationale for such a rapid move to a USD 10 million retention, we are fully prepared for a situation where the retention will have reached such a level.

TECH NICAL SERVICES

MANAGING VESSEL RISK

With our qualified staff assigned to control the quality of vessels entered with the club – and using a range of methods described below – Skuld has control of the risks we cover in terms of vessel quality. This supports our overall goal of being at the forefront of service excellence, with disciplined underwriting and sophisticated risk management.

When new vessels are entered with Skuld, responsibility for risk control lays with our Technical Services department based in Skuld Oslo and consisting of three master mariners and a survey co-ordinator.

Technical Services also assists claims handlers with maritime technical, nautical and cargo matters and has a central role in the critical area of casualty response. On short notice our staff can give support onsite at a casualty anywhere in the world in order to assist our members in the most effective way.

RISK CONTROL METHODS

Skuld has adopted three methods for controlling

the risk on roughly 2800 entered vessels in order to make sure that these meet our quality standards. The methods include:

1. Survey programmes
2. Monitoring of port state control detentions and banned vessels
3. Office audits

SURVEY PROGRAMME

Like other members of the International Group, Skuld is required to follow the survey requirements agreed to within the Group. In addition, Skuld has implemented a number of mechanisms and trigger factors which enable us to initiate surveys on vessels should we receive

information that give rise to concern about the condition of a vessel.

International Group (IG) Survey Requirements

All seagoing vessels 12 years and older must be surveyed upon entry into a club. In the event of the entry of a fleet, a representative number of vessels in the fleet will be surveyed.

Condition Surveys

All seagoing tankers 10 years and older which have carried heavy fuel oil as cargo in the previous policy year are subject to a survey.

In order to meet transparency requirements, and also to avoid multiple surveys on a vessel, the IG has established a survey database. If a vessel changes club within the Group – and a condition survey has been carried out by another IG club within the past 12 months – that survey report can be released to the receiving club for its perusal.

In addition to the above, Skuld initiates condition surveys. If, during the handling of a P&I claim, information is brought to the claims handler's attention that gives rise to concern about the condition of a vessel, this serves as a trigger point for the club.

Surveyors

In order to facilitate and increase the precision of uniform condition surveys, Skuld has approved about fifty survey companies around the world. Most of these companies are also used by other clubs so they are aware of the key P&I requirements.

Furthermore, Skuld carries out an annual Loss Prevention Survey Campaign. Parameters such as vessel type and age, classification society, flag state, port state control detention ratio, loss record etc. are used to select the vessels subject to a survey.

Survey form

Skuld is using a Standard Survey Form developed jointly with the two other Scandinavian clubs and designed to extract data for statistical purposes. The form was launched in February last year and is now being used by six IG clubs. The form may be downloaded from the Skuld website.

MONITORING OF PORT STATE CONTROL DETENTIONS AND BANNED VESSELS

We regularly check the Port State Control detention lists that are published by the three major inspection regimes in the world – the Paris MOU, the Tokyo MOU and the US Coast Guard. A tool to cross-check monthly detention lists against a list of Skuld's entered vessels has been developed. If a Skuld vessel is flagged, we closely examine the grounds for detention, the vessel class and flag state, its manager's detention ratio as well as Skuld's loss record for the vessel/member. Having assessed this information, Skuld will evaluate what action should be taken with the member to ensure that that particular vessel and other vessels managed by the member live up to Skuld standards.

The black list issued by European Maritime Safety Agency (EMSA) and Paris MOU's Banned Vessels are monitored in a similar way to the Port State Control lists. Should an entered vessel be recorded, Skuld

will start an immediate dialogue with the member to ascertain the gravity of the situation.

OFFICE AUDITS

The office audit risk control method, which was adopted only a few years ago, is still under development. The key function of this audit is to serve as an additional input in underwriters' risk assessment prior to a decision on whether to quote on a potential new member. In addition to serving as a way to assess the efficiency of the Safety Management System, the office audit also covers other important areas such as the crewing and technical departments. By surveying a few vessels from a fleet to be entered – and subsequently conducting an office audit – Skuld's Technical Services department gets a thorough overall assessment of the standards by which the shipowner is conducting his business. When combined with the underwriter's general risk analysis, the audit is an excellent tool for improving the assessment of whether a given shipowner represents an acceptable Skuld risk.

The office audit is also useful if a Skuld syndicate becomes concerned about a specific member's performance due to a negative loss record trend or if the syndicate considers that there is significant change in the risk Skuld initially signed on.

Office audits are for Skuld's internal use only and are conducted by staff members from Technical Services.

SUB STANDARD VESSELS

The International Group is continuing its efforts related to quality control of tonnage and selective underwriting.

Among the newest features for 2007 is the so-called 'Double Retention' scheme. In brief, this scheme implies that if a Group club takes entry of a 'Designated Vessel', and such a vessel is involved in a large claim, this club will have to cover a double club retention (i.e. USD 14 million in 2007) before pooling the claims cost with the other Group clubs. A vessel can only become a Designated Vessel if she fails to pass a specific vessel survey performed by a panel of neutral surveyors. At the time of writing, no vessel has yet been classified as a Designated Vessel.

ITOPF

INTERNATIONAL TANKER OWNERS' POLLUTION FEDERATION

A science-based approach – unaffected by political or emotional reaction is likely to offer the best chance for making the right choices on environmental questions, says the London-based ITOPF, a respected non-profit organisation involved in all aspects of preparing for and responding to ship-source spills of oil and chemicals in the marine environment. In a recent interview with Skuld, ITOPF's Managing Director Dr. Tosh Moller, discussed the ITOPF approach to oil spill preparedness.

ITOPF's history stretches back to 1968 when it was established following the Torrey Canyon incident. What is now called ITOPF was initially set up to administer the voluntary compensation agreement covering those affected by oil spills.

ITOPF has over 5,000 tanker owner members who operate about 8,800 vessels with a total gross tonnage in excess of 252 million gt. In addition the owners and operators of other types of ships with a tonnage of more than 405 million GT are associate members.

ITOPF now devotes considerable effort to a wide range of technical services, of which the most important is responding to spills of oil and chemicals. ITOPF's response team is at constant readiness to assist at marine spills anywhere in the world. This service is normally undertaken on behalf of ITOPF's members or associates and their P&I club or at the request of governments or international agencies such as the International Oil Pollution Compensation Fund. Other services ITOPF provides include damage assessment, contingency planning, training and database

information. Skuld President & CEO Douglas Jacobsohn is a member of the ITOPF Board.

SPILL PREPAREDNESS

SKULD: Does ITOPF contribute to research and development within new clean-up technology?

Dr. Tosh Moller: We at ITOPF encourage worthwhile projects through participation on research committees and by embracing the recommendations for industry and government collaboration encouraged by the OPRC Convention – the international convention on Oil Pollution preparedness, Response and Co-operation – established in 1990. To that end, ITOPF has supported the International R&D Forum convened by IMO. In 2003, ITOPF was presented with the prestigious Thor Heyerdahl International Maritime Environmental Award. This award allowed us to support a number of worthy projects to promote effective spill response.

SKULD: Does ITOPF do active research in order to prevent oil spills?

Dr. Tosh Moller: Spill prevention spans a wide variety of issues and activity which are the focus of different industry organisations. ITOPF is not involved in areas concerning vessel design and the management and operation of ships. Instead, our focus is on improving spill preparedness in both the private and public sector through training, exercises and advisory work including contingency planning assignments. This work also helps to strengthen our links with those individuals and organisations directly involved when a pollution incident occurs. An important part of the activities aimed at raising awareness is the production of publications and delivering papers at conferences and seminars.

SKULD: What is ITOPF's vision of the future regarding the environment? Have there been changing trends over the past ten years?

Dr. Tosh Moller: The statistics displayed on our website show that over the last 20 years there has been a

dramatic reduction in the frequency of large oil spills from tankers. On the other hand, there has been an increase in the complexity and cost of pollution incidents over the same period, with the end result that the demand for ITOPF's technical services has remained constant. Our advice is increasingly sought on incidents involving all types of ships and all types of pollutants, including Hazardous and Noxious Substances (HNS). It seems likely that these trends are set to continue as environmental awareness grows and economic interests develop.

SKULD: Does ITOPF believe extreme weather conditions can cause more accidents? What preventive measures can be put in place?

Dr. Tosh Moller: Winter in the northern hemisphere is generally our busiest time which reflects the influence of weather and sea conditions. A period of heavy gales in Europe last January resulted in five call-outs in quick succession. High-sided vessels like car carriers, container vessels and ships in ballast are particularly vulnerable in such conditions. An awareness of the range of environmental conditions likely to be encountered by seafarers is clearly essential for the safe operation of ships.

GOVERNMENT AND INDUSTRY PARTNERSHIP

In conclusion Dr. Moller notes that while pollution incidents continue to attract attention, and rightly so, there are other factors such as climate change, overfishing, destructive fishing practices, reduced biodiversity and marine habitat destruction which are as damaging to the environment, or more so. The interplay of such different factors in a naturally complex environment can easily lead to wrong decisions and wasted effort on ineffective countermeasures. A science-based approach – unaffected by political and emotive reaction – is likely to offer the best chances of making the right choices. In this respect, the partnership between government and industry is as important as ever, concludes Dr. Moller.

HAND LING CON CERNS

A REPORT FROM SKULD'S 'ENGINE ROOM'

Increased productivity and a reduction of external legal costs by more than 34% over the past four years are some of the results of our new approach to claims. This is based on diversity, knowledge management, granting increased claims handling authority and finding new ways of being close to our members. While pool claims are a challenge, increased focus on loss prevention is showing results.

Like the engine room on a ship providing the power for the journey, effective claims handling is one of the major drivers of a professional P&I club. At Skuld we have re-engineered our approach to claims to handle more work in-house and streamline the process for the benefit of the member and the club.

Through this approach we have not only cut external legal costs by over a third, down over USD 5 million, but also managed to reduce the average time to resolve a case to two years, down from three. In order to increase efficiency we found we had to substantially reduce the case load for each claims handler, enabling them to have a better overview of each case – facilitating quality and faster turn-around.

MOVING CLOSER TO MEMBERS

The Skuld claims handling function moved even closer to our members in 2006. Several years earlier the club decentralised its claims handling into syndicates that have all the resources needed to assist and be close to members. In 2006 we took this process a step further and decentralised both Defence services and casualty response – fully integrating them with other syndicate operations. This has helped us develop a new lean and attentive organisation that helps club members handle claims more efficiently. This recent change is being facilitated through active internal training. Of the 150 staff members in Skuld today, over a third are lawyers, approximately 20 have seafaring experience, and many have long and extensive practical

experience working in Skuld. Over the years, we have recruited maritime lawyers from the most common jurisdictions where our members are trading. We currently employ lawyers with degrees from 13 different jurisdictions - truly an international approach. Our latest additions to the list are Panama, Germany & Russia.

In addition, we take extra steps to improve communications between Skuld and our members. We use our members' vessels as a training ground for our new claims handlers by sending them for five to six days with stops at at least two ports so they can experience discharge and loading first hand.

KNOWLEDGE MANAGEMENT TOOLS

Skuld's highly motivated staff is supported by our sophisticated tools for monitoring and assisting in claims handling. These also provide a rich database for assessing risk and facilitating loss prevention. Skuld is currently developing strategies for retaining and expanding its knowledge management and human capital base.

One of the approaches we are taking is the development of standard surveys for vessels joining the club that can be entered electronically into our database system. This means that exactly the same information is maintained for each vessel - allowing us to spot trends, identify deviations and provide fast feedback to our members on specific cases. At the touch of a computer key, knowledge can be transferred across our syndicates, giving the additional wisdom of knowledge transfer so that we can learn from each other's experience

CLAIM DEVELOPMENTS

P&I

Reports from the media over the past several years indicate that claims costs are on the rise as a result of the booming shipping market. We in Skuld do not experience

this trend but see instead that the claims/GT ratio has been kept fairly stable over the same time period. There is, however, a clear trend for costs per reported claim to increase faster than inflation. It is therefore critical to keep the frequency of claims low in order to avoid increasing our members' costs. We will be placing an even greater focus on this area in our loss prevention work.

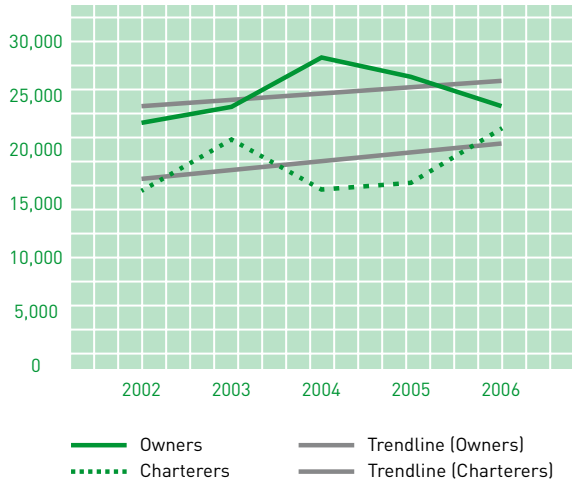
The increased cost per claim trend is also clear when looking at the pool statistics. Although our costs have been stable during 2006, the costs for the other clubs claims in the pool dramatically increased during the year, making 2006 the most expensive claims year in the history of the Pool. We observe that the increase is generally due to the human error that leads to many collisions and groundings. When performing our pre-entry survey for new members, we will therefore continue to focus not only on the ship's hardware but also the software on board and onshore. So far, this approach has been rewarding for all parties.

DEFENCE

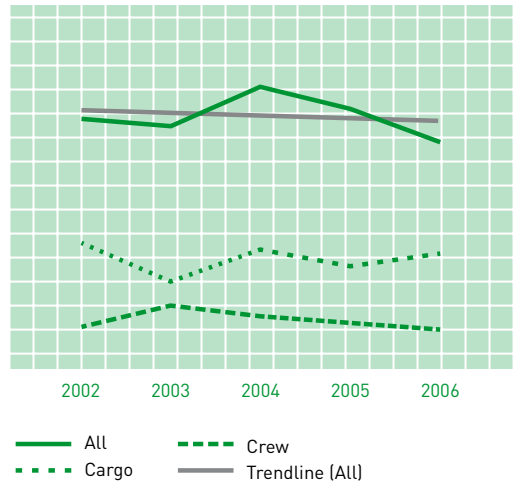
Today about one-third of our members have elected to combine their P&I insurance with Defence insurance with Skuld. Although the premium volume for this product is rather limited, the service provided is an additional step in building a long lasting relationship with our members - one of the important goals for our services.

As in previous years, the types of cases handled by the association in 2006 were varied, cutting across the spectrum from the usual freight, demurrage & defence (FD&D) and hire questions to crew disputes, disputes on newbuildings, and broker and insurance issues. The majority of cases concern charterparty disputes on both voyage and time charters. We have also seen a renewed focus on such issues as the 'arrived ship' and Notices of Readiness (NOR).

COST PER CLAIM



OWNERS' COST/GT

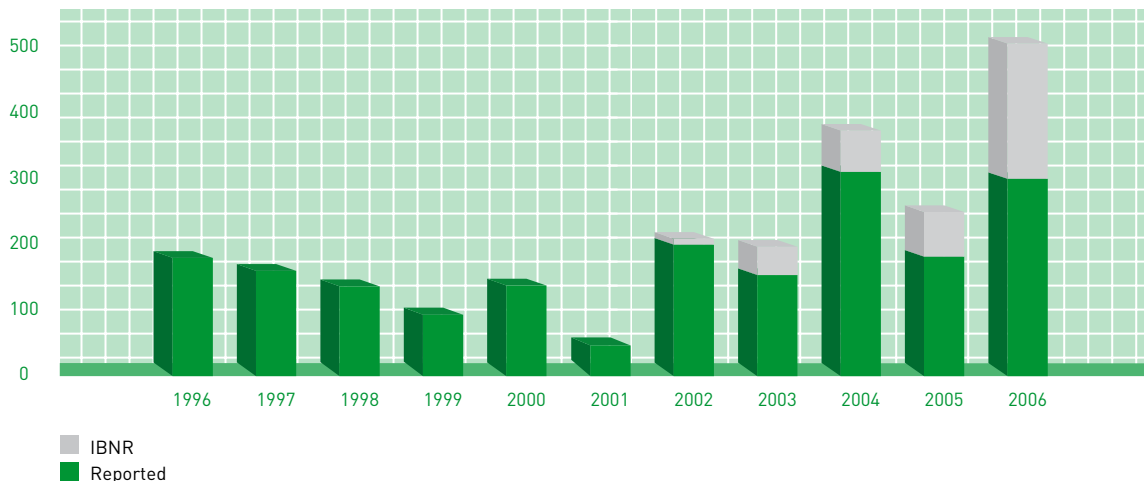


THE FUTURE

Our biggest challenges for the future are attracting quality tonnage to Skuld and successfully recruiting the most talented service staff. With that in mind we will soon be launching a scholarship to assist students who want a career in shipping. We will continue to increase the competence of our staff by focusing on further training both at sea and in the class room.

Our Hamburg office will shortly be upgraded to a claims office. This will enable us to respond faster in the German market and also assist other members when calling German ports. This move continues the Skuld concept of being close to our members. In 2007 we will see further opportunities for enhancing our service, with the further development of a fully electronic claims system.

POOL CLAIMS



**LO
SS
PREVENTION**

THE IMPORTANCE OF THE HUMAN ELEMENT

In 2006, Skuld continued its focus on the human element through the Club's crew programme. This programme enables Skuld to focus on the human aspect of claims, in order to find ways of reducing the number of incidents caused by unwanted behaviour. The programme placed its focus on three main areas this year:

1. Seminars to increase knowledge of the human element
2. Pre-employment medical examinations
3. Claims benchmark service

Gathering adequate information covering the human element and finding effective solutions aimed at modifying unwanted behaviour is a challenge. Research carried out by Skuld has focused on what a range of organisations are doing in order to meet this challenge.

Fortunately, the shipping industry is not alone in its efforts to find and promote behavioural change processes. A tremendous amount of work is being done in this field, and companies at the forefront of innovation

in the area – such as those in energy and nuclear power, the aeronautical and space industry, IT production, medical science and healthcare – have published substantial material. Reflected operators in the shipping industry have much to gain from reviews of their efforts.

HUMAN ELEMENT SEMINARS

Skuld has put together a series of 'Human Element' seminars to provide advice and training for our members on this subject. We have adopted know-how from other industries and adjusted it to suit shipping. These courses are now available for all members.

PRE-EMPLOYMENT MEDICAL EXAMINATIONS

Skuld has established an enhanced pre-employment medical examination service in the Philippines. We



cooperate with two clinics in Manila and the examination is one of the most comprehensive in the market. The examination covers all main health risks seen in Skuld's claims statistics and makes use of up-to-date testing methods, equipment and procedures. The examination will ensure that a member can get an accurate overview of a crewmember's health before sending him/her on board, thus facilitating a reduction in illness-related claims. This optional service is provided for all members operating with a Filipino crew.

CLAIMS BENCHMARK SURVEYS

Our Claims Benchmark Survey provides members with an indication of how their vessels perform compared to similar vessels insured by Skuld. Since most claims involve crew, the survey will also benchmark crew performance and provide information regarding areas of

crew behaviour that need to be addressed, in addition to what training members should focus on.

THE WAY FORWARD

In the coming year, we will refine Skuld's loss prevention services. This will be followed by the development of more courses and new services to the benefit of our members.

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