



2005 FINANCIAL STATEMENTS AND AUDITOR'S REPORT AND OPINION

Note by the Director

Summary:	The financial statements and the Auditor's Report and Opinion are set out.
Action to be taken:	Approval of financial statements.

- 1 The financial statements of the 1992 Fund are audited by the Comptroller and Auditor General of the United Kingdom.
- 2 In accordance with Article 29.2(f) of the 1992 Fund Convention, the Director has prepared the financial statements of the 1992 Fund for the financial year 2005. The Director has also prepared comments on the financial statements. These comments are at Annex I.
- 3 As recommended by the External Auditor in the report on the 2004 financial statements and in keeping with best practice the Director has included a Statement of Internal Control which provides positive confirmation of the internal control framework. The statement is at Annex II.
- 4 Pursuant to Financial Regulation 14.9, the External Auditor has submitted to the Assembly, through its Chairman, his Report on the audit of the financial statements of the 1992 Fund for the financial period ended 31 December 2005. The Auditor's Report is at Annex III.
- 5 Under Financial Regulation 14.16 the External Auditor shall express an opinion on the financial statements on which he is reporting. This Opinion is at Annex IV.
- 6 Financial Regulation 12.3 provides that the financial statements to be prepared by the Director shall comprise of the following:
 - (a)
 - (i) a Statement of Appropriations and Obligations Incurred;
 - (ii) Income and Expenditure Accounts for all funds;
 - (iii) a Balance Sheet;
 - (iv) a Cash Flow Statement;
 - (b) such notes as may be necessary for a better understanding of the financial statements, including a statement of the significant accounting policies and details of contingent liabilities.

7 Staff Regulation 26(b) provides that the Director shall establish and operate a Provident Fund to which both the 1992 Fund and staff members shall contribute on such terms and conditions as may be approved by the Assembly. Under Staff Rule VIII.5(g), the auditing of the Provident Fund shall be carried out in conjunction with the annual audit of the accounts of the 1992 Fund.

8 The following financial statements for the period 2005 are submitted herewith:

Statement I Statement of Budget Appropriations and Obligations Incurred in respect of the General Fund for the financial period 1 January - 31 December 2005

Statement II Summary of Income and Expenditure Account in respect of the General Fund, Major Claims Funds and Provident Fund for the financial period 1 January – 31 December 2005

Statement III Income and Expenditure Account in respect of the General Fund for the financial period 1 January - 31 December 2005

Statement IV.1 Income and Expenditure Account in respect of the *Nakhodka* Major Claims Fund for the financial period 1 January - 31 December 2005

Statement IV.2 Income and Expenditure Account in respect of the *Erika* Major Claims Fund for the financial period 1 January - 31 December 2005

Statement IV.3 Income and Expenditure Account in respect of the *Prestige* Major Claims Fund for the financial period 1 January - 31 December 2005

Statement V Staff Provident Fund Account for the financial period 1 January - 31 December 2005

Statement VI Balance Sheet of the 1992 Fund as at 31 December 2005

Statement VII Cash Flow Statement for the 1992 Fund for the financial period 1 January - 31 December 2005

9 In addition to the financial statements submitted, the following reports are attached:

Schedule I Report on Contributions and Reimbursements during the financial period 1 January – 31 December 2005 and on contributions outstanding for previous financial periods

Schedule II Report on Payment of Claims for the financial period 1 January – 31 December 2005

Schedule III Details of Contingent Liabilities of the 1992 Fund as at 31 December 2005

10 The certified financial statements for the financial period 1 January to 31 December 2005 are at Annex V.

Action to be taken by the Assembly

11 The Assembly is invited to consider the External Auditor's Report and Opinion and to approve the financial statements for the financial period 1 January to 31 December 2005.

ANNEX I

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

DIRECTOR'S COMMENTS ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD 1 JANUARY TO 31 DECEMBER 2005

1 Introduction

- 1.1 The International Oil Pollution Compensation Funds (IOPC Funds) are intergovernmental organisations which provide compensation for oil pollution damage resulting from spills of persistent oil from tankers. The International Oil Pollution Compensation Fund 1971 (1971 Fund) was established in October 1978. It operates within the framework of two international Conventions: the 1969 International Convention on Civil Liability for Oil Pollution Damage (1969 Civil Liability Convention) and the 1971 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage (1971 Fund Convention). This 'old' regime was amended in 1992 by two Protocols. The amended Conventions, known as the 1992 Civil Liability Convention and the 1992 Fund Convention, entered into force on 30 May 1996. The International Oil Pollution Compensation Fund 1992 (1992 Fund) was set up under the 1992 Fund Convention. The 1971 Fund Convention ceased to be in force on 24 May 2002 and does not apply to incidents occurring after that date. However, before the 1971 Fund can be wound up, all pending claims arising from incidents occurring before that date in 1971 Fund Member States will have to be settled and paid and any remaining assets distributed among contributors.
- 1.2 A Protocol to the 1992 Fund Convention adopted in 2003 resulted in the establishment of the International Oil Pollution Compensation Supplementary Fund 2003 (Supplementary Fund), which provides an optional third tier of compensation. The Protocol entered into force on 3 March 2005. Any State Party to the 1992 Fund Convention may become Party to the Protocol and thereby become a Member of the Supplementary Fund.
- 1.3 The maximum amount of compensation payable under the 1992 Conventions for any one incident is 135 million Special Drawing Rights (SDR)^{<1>} in respect of incidents occurring before 1 November 2003 and 203 million SDRs for incidents occurring after that date. These amounts, which as at 31 December 2005 corresponded to £112 million and £168 million respectively, include the sum actually paid by the shipowner or his insurer.
- 1.4 The 1992 Fund has an Assembly composed of all Member States and an Executive Committee of 15 Member States elected by the Assembly. The Assembly is the supreme governing body of the Organisation having *inter alia* the responsibility for financial matters. The main function of the Executive Committee is to approve settlement of claims for compensation, when the Director is not authorised to make settlements.
- 1.5 By the end of 2005, 92 States were Members of the 1992 Fund and a further six States had acceded to the 1992 Fund Convention, bringing the number of Member States to 98 by late 2006 (see page 9).

<1> The SDR which is the unit of account used in the Conventions referred to in paragraph 1.3 is valued on the basis of a basket of key international currencies and serves as the unit of account of the International Monetary Fund (IMF) and a number of other intergovernmental organisations.

2 Secretariat

- 2.1 The IOPC Funds (1992 Fund, 1971 Fund and the Supplementary Fund) have a joint Secretariat, based in London, headed by one Director. From a formal point of view, the 1992 Fund Secretariat administers the 1971 Fund and the Supplementary Fund also.
- 2.2 As at 31 December 2005 the Secretariat had 31 established posts. The Funds use external consultants to provide advice on legal and technical matters as well as on matters relating to management. In connection with a number of major incidents the Funds and the shipowner's third party liability insurer involved have jointly established local claims offices to facilitate the efficient handling of the great numbers of claims submitted and in general to assist claimants.

3 Audit Body

- 3.1 The governing bodies of the IOPC Funds have established a joint Audit Body for the three Funds composed of seven members elected by the 1992 Fund Assembly: one named Chairman nominated by 1992 Fund Member States, five named individuals nominated by 1992 Fund Member States and one named individual not related to the Organisations with expertise and experience in audit matters nominated by the Chairman of the 1992 Fund Assembly.
- 3.2 The Audit Body has the following mandate:
- review the effectiveness of the Organisations regarding key issues of financial reporting, internal controls, operational procedures and risk management;
 - promote the understanding and effectiveness of the audit function within the Organisations, and provide a forum to discuss internal controls, operational procedures and matters raised by the external audit;
 - discuss with the External Auditor the nature and scope of each forthcoming audit;
 - review the Organisations' financial statements and reports;
 - consider all relevant reports by the External Auditor, including reports on the financial statements; and
 - make appropriate recommendations to the governing bodies.
- 3.3 The Audit Body met in April, June and November 2005 and informally in October 2005 at the time of the October 2005 sessions of the governing bodies.

4 Investment Advisory Body

The governing bodies of the IOPC Funds have established a joint Investment Advisory Body, consisting of three experts with specialist knowledge in investment matters elected by the 1992 Fund Assembly to advise the Director in general terms on such matters.

5 Financial Overview

- 5.1 There are separate income and expenditure accounts for the General Fund and for each of the Major Claims Funds. The General Fund covers the 1992 Fund's expenses for the administration of the Organisation, including the 1992 Fund's share of the costs of running the joint Secretariat, and for compensation payments and claims related expenditure up to a maximum amount of the Pounds sterling equivalent of 4 million SDRs per incident converted at the rate applicable on the date of the incident. Separate Major Claims Funds are established for incidents where the total amount payable by the 1992 Fund exceeds 4 million SDRs.
- 5.2 The 1992 Fund is financed by contributions paid by any person who has received in the relevant calendar year in excess of 150 000 tonnes of crude oil or heavy fuel oil (contributing oil) in ports or terminal installations in a Member State after carriage by sea. The levy of contributions is

based on reports of oil receipts in respect of individual contributors, which are submitted to the Secretariat by Governments of Member States. Contributions were levied in 2004 for payment in 2005 with respect to the General Fund of £5.4 million and with respect to the *Prestige* Major Claims Fund of £33 million. Reimbursements were made in 2005 of £600 000 from the surplus on the *Nakhodka* Major Claims Fund to contributors to that Fund. Details of 2004 contributions levied, reimbursements made and outstanding contributions for previous financial periods are provided in **Schedule I**.

- 5.3 The majority of the 1992 Fund's assets at the end of the 2005 financial period amounting to some £146 million were held in Pounds sterling. In relation to the *Erika* and the *Prestige* incidents, Euros were bought and invested during 2005. Interest on investments maturing during the period amounted to some £6.4 million.
- 5.4 The *Erika* incident in France in 1999 has resulted in over 7 900 claims for compensation. Although most of these claims have been assessed, there are still a considerable number of claims pending in the French courts. The *Prestige* incident which occurred off Spain in 2002 caused serious pollution damage in Spain and France and also affected Portugal and the United Kingdom. This incident has given rise to significant compensation claims. Considerable progress was made during 2005 in respect of other incidents involving the 1992 Fund. The incidents in which the 1992 Fund was involved during 2005 are listed in **Schedule II**.
- 5.5 Compensation payments and claims related expenditure during 2005 totalled some £17.3 million. The payments mainly related to the *Erika* and the *Prestige* incidents and an incident in Bahrain.
- 5.6 The joint Secretariat's administrative expenses for 2005 amounted to £2 859 699. This amount includes the External Auditor's fees for the audit of the 2004 financial statements of the 1992 Fund and the 1971 Fund of £42 500 and £12 500 respectively.
- 5.7 The balances on the General Fund and the *Nakhodka*, *Erika* and *Prestige* Major Claims Funds are given in **Statements III, IV.1, IV.2 and IV.3** respectively. The General Fund balance at the balance sheet date stood at £29 372 402 which is higher than the working capital of £22 million set by the Assembly at its session in October 2004. The balance sheet of the General Fund and the Major Claims Funds as at 31 December 2005 is reproduced in **Statement VI** of the financial statements.
- 5.8 The *Nakhodka* Major Claims Fund was closed in 2005 following reimbursement to contributors to that Fund. The remaining surplus on this Major Claims Fund was transferred to the General Fund in accordance with the Financial Regulation 4.5.
- 5.9 The contingent liabilities as at 31 December 2005 were estimated at over £120 million in respect of eight incidents as detailed in **Schedule III**.

6 Comments on the respective financial statements

6.1 Statement of budget appropriations and obligations incurred in respect of the General Fund for the financial period 1 January - 31 December 2005 (Statement I)

At their session in October 2004 the governing bodies of the 1992 Fund and the 1971 Fund decided that the 1971 Fund should pay to the 1992 Fund a flat management fee towards the cost of running the joint Secretariat. The fee was set in the budget at £325 000 for the period 1 January to 31 December 2005 (documents 92FUND/A.9/31, paragraph 25.1 and Annex and 71FUND/AC.15/21, paragraph 18.1 and Annex).

In March 2005 the 1992 Fund Assembly and the Supplementary Fund Assembly decided that the Supplementary Fund should pay to the 1992 Fund a flat management fee towards the cost of running the joint Secretariat. The fee was set in the budget at £125 000 for the period 3 March to 31 December 2005 (documents 92FUND/AES.9/28, paragraph 10.1 and

SUPPFUND/A.1/39 Annex III). At the request of the Supplementary Fund Assembly at its October 2005 session, the 1992 Fund Assembly authorised the Director to make necessary funds available to the Supplementary Fund in the form of loans to be repaid, with interest, when the Supplementary Fund had received the first levy of contributions to be decided by its Assembly.

As stated above the total obligations incurred in respect of the joint Secretariat (excluding the cost of winding up the 1971 Fund) amount to £2 859 699 compared with the appropriation of £3 372 600. The total obligations incurred in respect of the 1992 Fund amount to £2 847 199.

Expenses for running the Secretariat were made under the following Chapters as summarised below:

Chapter		Revised budget appropriations £	Obligations incurred		Balance of appropriations £
			£	%	
I	Personnel	1 977 900	1 658 445	58.00	319 455
II	General services	703 102	569 625	19.92	133 477
III	Meetings	151 598	151 598	5.30	-
IV	Travel	125 000	108 791	3.80	16 209
V	Miscellaneous expenditure	355 000	343 791	12.02	11 209
VI	Unforeseen expenditure	60 000	27 449	0.96	32 551
Total		3 372 600	2 859 699	100.00	512 901

Details of expenditure by Chapter are as follows.

I *Personnel*

The total expenditure under Personnel covers Salaries, Separation and recruitment and Staff benefits, allowances and training. The underspend of some 16% (£319 455) was mainly due to no appointment being made to a professional post of Claims Manager approved by the Assembly. Savings were also made under the appropriation for recruitment, as the current Director was reappointed by the Assembly at its October 2004 session for a further term of two years, ie to 31 December 2006.

II *General services*

The appropriations under this heading cover mainly Office accommodation, Office machines and Public information. Of the expenses in this chapter some 45% relates to Office accommodation and some 20% to Public information. The underspend of some 19% (£133 477) was mainly in respect of the appropriations for Public information and Office machines.

III *Meetings*

The IOPC Funds bodies held 16 days of meetings in 2005.

The main expenses under this Chapter relate to the cost of translation of documents for meetings, interpretation during meetings and printing of documents for meetings. The total expenditure on Meetings was £151 598, compared to the appropriation of £145 000. In accordance with Financial Regulation 6.3 a transfer was made from Chapter II - General Services to cover the shortfall of £6 598.

The cost of the extraordinary session of the Supplementary Fund Assembly held in October 2005 in conjunction with the regular session of the 1992 Fund Assembly has been included in the meeting costs. The budget for 2005 included appropriation for only a one day session of the Supplementary Fund Assembly. The costs of the first session of the Assembly of that Fund, which was held in March 2005 for a duration of two days, has been charged to Unforeseen expenses (Chapter VII).

IV *Travel*

The Secretariat undertakes missions and participates in various conferences and seminars as required. Where possible travel in respect of incidents was also combined with missions, conferences and seminars. There has been a significant increase in the number of requests for the Secretariat to participate in various conferences and seminars.

V *Miscellaneous expenditure*

This Chapter includes the fees of the External Auditor, the costs relating to the Audit Body and the Investment Advisory Body and Consultants/lawyers fees (non incident related). The costs of the Audit Body and the Investment Advisory Body in 2005 were £89 048 and £30 000 respectively. The total expenditure under this Chapter was £343 791 compared to an appropriation of £355 000.

VI *Unforeseen expenditure*

The expenditure of £27 449 under this heading relates mainly to the cost of the scanning the files relating to contributions and the cost of the first session of the Supplementary Fund Assembly.

6.2 Summary of Income and Expenditure Account in respect of the General Fund, Major Claims Funds and Provident Fund for the financial period 1 January - 31 December 2005 (Statement II)

Statement II provides a summary of the income and expenditure for the 1992 Fund for the financial period 2005.

The income for the period amounted to £46 170 790 consisting mainly of contribution income and interest on investments. After the reimbursement to contributors to the *Nakhodka* Major Claims Fund of £599 995 the net income was £45 570 795.

Total expenditure for the period amounted to £20 310 412. The expenditure was mainly for compensation payments and claims related expenditure in respect of the *Erika* and *Prestige* incidents and the 1992 Fund's share of the costs of running the joint Secretariat of £2 847 199.

Detailed figures of income and expenditure are provided in the respective financial statements.

6.3 Income and Expenditure Account in respect of the General Fund for the financial period 1 January - 31 December 2005 (Statement III)

I *Income*

The levy of 2004 contributions due in 2005 to the General Fund was fixed by the Assembly at its October 2004 session at £5.4 million for payment by 1 March 2005 (document 92FUND/A.9/31, paragraph 27.6). The total amount actually levied during the financial period was £5 366 024. Details of the contributions receivable are given in **Schedule I**.

The major income of the General Fund includes the interest earned on the investment of the assets of that Fund which amounted to £1 365 824, the management fee payable by the 1971 Fund (£325 000) and the Supplementary Fund (£125 000) and the transfer of the balance on the *Nakhodka* Major Claims Fund of £117 834 on the closure of that Major Claims Fund in 2005.

II *Expenditure*

The total expenditure was £3 423 276. The major part of the expenditure represents payments made with respect to the 1992 Fund's share of the costs of running the joint Secretariat (£2 847 199) and an incident in Bahrain (£321 437).

III *Excess of income over expenditure*

A surplus of £4 008 178 was recorded for the financial period.

The General Fund balance as at 31 December 2005 was £29 372 402.

6.4 Income and Expenditure Account in respect of the *Nakhodka* Major Claims Funds for the financial period 1 January - 31 December 2005 (Statement IV.1)

I *Income*

At its October 2004 session the Assembly decided to reimburse £600 000 of the surplus on the *Nakhodka* Major Claims Fund to contributors to that Fund (document 91FUND/A.9/31, paragraph 28.5). The total amount actually reimbursed was £599 995. Details of the reimbursements are given in **Schedule I**.

Interest of £3 809 was earned from the investment of the assets of this Major Claims Fund to 1 March 2005 when that Fund was closed.

II *Expenditure*

There was no expenditure on this account in 2005.

III *Excess of expenditure over income*

A deficit of £596 186 was recorded for the financial period.

At its October 2004 session the Assembly decided that the balance on this Major Claims Fund, after reimbursement to contributors of £600 000 should be transferred to the General Fund in accordance with the Financial Regulations (document 92FUND/A.9/31, paragraph 28.5). The balance transferred to the General Fund was £117 834.

6.5 Income and Expenditure Account in respect of the *Erika* Major Claims Funds for the financial period 1 January - 31 December 2005 (Statement IV.2)

I *Income*

At its October 2004 session the Assembly decided not to make a levy of 2004 contributions to the *Erika* Major Claims Funds due for payment in 2005.

The major part of the income consists of interest of £2 650 429 earned from the investment of the assets of this Major Claims Fund.

II *Expenditure*

The expenditure on this account in 2005 amounted to £13 506 429.

III *Excess of expenditure over income*

A deficit of £10 842 692 was recorded for the financial period.

The balance on the *Erika Major Claims Fund* as at 31 December 2005 was £49 659 743.

6.6 Income and Expenditure Account in respect of the *Prestige Major Claims Fund* for the financial period 1 January - 31 December 2005 (Statement IV.3)

I *Income*

The levy of 2004 contributions to the *Prestige Major Claims Fund* due in 2005 was fixed by the Assembly at its October 2004 session at £33 million for payment by 1 March 2005 (document 92FUND/A.9/31, paragraph 28.3). The total amount actually levied during the financial period was £32 894 926. Details of the contributions receivable are given in **Schedule I**.

Interest of £2 250 699 was earned from the investment of monies received in respect of this Major Claims Fund.

II *Expenditure*

The total expenditure on this account in 2005 amounted to £3 270 734.

The balance on the *Prestige Major Claims Fund* as at 31 December 2005 was £65 130 461.

6.7 Staff Provident Fund Account for the financial period 1 January - 31 December 2005 (Statement V)

I The Assembly decided in October 1997 that the 1992 Fund should establish a Provident Fund (document 92FUND/A.2/29, paragraph 13.6).

II Contributions to the Provident Fund during the financial year, in accordance with Staff Regulation 23(b) and Staff Rule VIII.5, amounted to £365 651 of which £113 884 was the participants' share. An amount of £39 591 in respect of housing loans was repaid in 2005. Interest earned on the Provident Fund was £131 489.

III After the withdrawal of £45 000 in the form of loans under the housing loan scheme and £64 973 on separation, there remained a balance of £2 382 373 on the accounts of staff members as at 31 December 2005.

6.8 Balance Sheet as at 31 December 2005 (Statement VI)

I *Contributions outstanding*

The amount of £376 482 represents the outstanding balances of contributions as summarised in **Schedule I**.

II *Due from HNS Fund*

An amount of £82 398 (including interest) is due from the International Hazardous and Noxious Substances Fund (HNS Fund) (see Note 8 to the financial statements).

III *Due from Supplementary Fund*

An amount of £177 742 (including interest) is due from the Supplementary Fund (see Note 9 to the financial statements).

IV *Due to Major Claims Funds*

The balances due to Major Claims Funds are as follows:

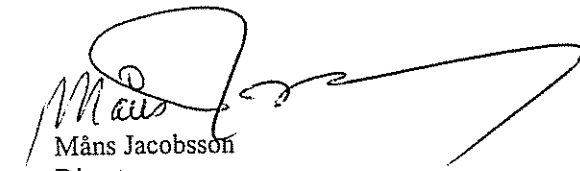
	£
<i>Erika</i> Major Claims Fund	49 659 743
<i>Prestige</i> Major Claims Fund	65 130 461

V *General Fund Balance*

The figure of £29 372 402 represents the excess of Income over Expenditure in respect of the General Fund as at 31 December 2005.

6.9 Cash Flow Statement for the financial period 1 January - 31 December 2005 (Statement VII)

During the period ended 31 December 2005, the net cash inflow from operating activities was £18 242 785 and interest from the 1992 Fund's investments amounted to £6 445 446 which, added to the opening balance of £121 617 345, resulted in a cash balance as at 31 December 2005 of £146 305 576 (see Note 15(a) to the financial statements).


Måns Jacobsson
Director
23 June 2006

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**States Parties to both the
1992 Civil Liability Convention and the 1992 Fund Convention
as at 31 December 2005**

92 States for which 1992 Fund Convention is in force <i>(and therefore Members of the 1992 Fund)</i>		
Algeria	Georgia	Panama
Angola	Germany	Papua New Guinea
Antigua and Barbuda	Ghana	Philippines
Argentina	Greece	Poland
Australia	Grenada	Portugal
Bahamas	Guinea	Qatar
Bahrain	Iceland	Republic of Korea
Barbados	India	Russian Federation
Belgium	Ireland	Saint Lucia
Belize	Israel	Saint Vincent and the Grenadines
Brunei Darussalam	Italy	Samoa
Cambodia	Jamaica	Seychelles
Cameroon	Japan	Sierra Leone
Canada	Kenya	Singapore
Cape Verde	Latvia	Slovenia
China (Hong Kong Special Administrative Region)	Liberia	South Africa
Colombia	Lithuania	Spain
Comoros	Madagascar	Sri Lanka
Congo	Malaysia	Sweden
Croatia	Malta	Tonga
Cyprus	Marshall Islands	Trinidad and Tobago
Denmark	Mauritius	Tunisia
Djibouti	Mexico	Turkey
Dominica	Monaco	Tuvalu
Dominican Republic	Morocco	United Arab Emirates
Estonia	Mozambique	United Kingdom
Fiji	Namibia	United Republic of Tanzania
Finland	Netherlands	Uruguay
France	New Zealand	Vanuatu
Gabon	Nigeria	Venezuela
	Norway	
	Oman	
<i>6 States which have deposited instruments of accession, but for which the 1992 Fund Convention does not enter into force until date indicated</i>		
Saint Kitts and Nevis		2 March 2006
Maldives		20 May 2006
Albania		30 June 2006
Switzerland		10 October 2006
Bulgaria		18 November 2006
Luxembourg		21 November 2006

ANNEX II

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

STATEMENT ON INTERNAL CONTROL

Scope of Director's responsibility

Under Article 28.2 of the 1992 Fund Convention, the Director shall be the legal representative of the International Oil Pollution Compensation Fund 1992 (1992 Fund). Each Contracting State shall, pursuant to Article 2.2, recognise the Director as the legal representative of the Fund.

Under Article 29.1, the Director shall be the chief administrative officer of the 1992 Fund. As chief administrative officer, the Director has responsibility for maintaining a sound system of internal control that supports the achievement of the 1992 Fund's policies, aims and objectives, whilst also safeguarding the 1992 Fund's assets.

As a result of these provisions, the Director has the authority, vis-à-vis third parties, to commit the 1992 Fund without restrictions, unless the third party concerned has been informed of any limitation of this authority decided by the Assembly or Executive Committee.

The Director is however bound by any restriction of his authority decided by the Assembly or Executive Committee. He may delegate his authority to other officers within the limits laid down by the Assembly.

The 1992 Fund, the International Oil Pollution Compensation Fund 1971, and the International Oil Pollution Compensation Supplementary Fund (Supplementary Fund), together referred to as the IOPC Funds, have a joint Secretariat headed by one Director. The 1992 Fund administers the joint Secretariat and staff members are therefore employed by the 1992 Fund.

Pursuant to the authority given and within the limits laid down by the IOPC Funds' governing bodies the Director has delegated his authority to other officers by Administrative Instructions.

The Director is assisted by a Management Team comprising of the Deputy Director / Technical Adviser, the Legal Counsel, the Head of the Claims Department, the Head of the Finance and Administration Department and the Head of the External Relations and Conference Department for the day to day running of the Secretariat.

Statement on the system of internal control

The Director has the responsibility for maintaining a sound system of internal control that supports the work of the 1992 Fund. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks and to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

In 2002 the 1992 Fund Assembly established an Audit Body. The Audit Body meets formally three times a year. The Audit Body has the mandate to review the effectiveness of the Organisation regarding key issues of financial reporting, internal controls, operational procedures and risk management, to review the Organisation's financial statements and reports, and to consider all relevant reports by the External Auditor, including reports on the Organisation's financial statements. This additional oversight provides further assurance that appropriate internal controls are in place.

Capability to handle risk

During 2005 the Director continued a review of the IOPC Funds' risk management and the work carried out towards developing a risk register. In close cooperation with the Audit Body, and with the assistance of external consultants and the External Auditor, five areas of risk have been identified, namely: reputation risk, claims handling process, financial risk, human resource management and business continuity.

Under these five areas, with the assistance of external consultants, the sub risks are being mapped and assessed following which the process and procedures for management of these risks will be documented. This exercise will allow the IOPC Funds to prioritise the key risks and to ensure that these risks have been adequately mitigated. The Audit Body and the External Auditor have made valuable contributions to the work in this field. Further work will be carried out during 2006.

The risk and control framework

The system of internal control is based on an on going process designed to ensure conformity with the 1992 Fund Convention, the Financial Regulations, the Internal Regulations and decisions of the 1992 Fund Assembly and Executive Committee.

The Assembly adopts the Financial Regulations and Internal Regulations necessary for the proper functioning of the 1992 Fund. Amendments to these Regulations were last made at the extraordinary session of the Assembly in March 2005.

Staff Regulations are adopted by the 1992 Fund Assembly. Staff Rules are issued by the Director and any amendments to the Staff Rules are reported annually to the 1992 Fund Assembly. Administrative Instructions are issued by the Director as and when required. These instructions were last reviewed and re-issued to staff members in 2005.

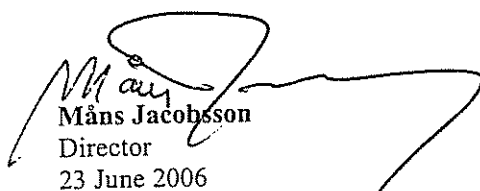
The Investment Advisory Body established by the Assembly advises the Director on relevant procedures for investment and cash management controls. The Body monitors, on a quarterly basis, the credit ratings of financial institutions and reviews the credit ratings of such institutions, which meet the IOPC Funds' investment criteria. The Body also reviews the IOPC Funds' investments and foreign exchange requirements to ensure that reasonable investment returns are achieved without compromising the IOPC Fund's assets. The Body reports to the 1992 Fund Assembly on an annual basis.

Review of effectiveness

The review of the effectiveness of the system of internal control is carried out through the work of the Audit Body and comments of the External Auditor. Any recommendations made by the External Auditor in his management letter and other Reports are considered and a plan to address any identified weakness and to ensure continuous improvement of the current system is agreed. All recommendations made by the External Auditor in his management letter and Report on the 2004 Financial Statements have been addressed.

The Audit Body at its meeting in March 2003 took the view that an internal audit function would be an unnecessary burden and expense on an organisation the size of the 1992 Fund. The Director will keep this issue under review.

I have concluded that there exists an effective system of internal control for the financial year 2005.


Mats Jacobsson
Director
23 June 2006



National Audit Office

INTERNATIONAL AUDIT

The United Kingdom National Audit Office (NAO) provides an external audit service to the International Oil Pollution Compensation Fund 1992. The External Auditor, Sir John Bourn, has been appointed by the Assembly in accordance with Regulation 13 of the Financial Regulations. In addition to certifying the accounts of the Fund he has authority under the mandate, to report to the Assembly on the economy, efficiency and effectiveness with which the Fund has used its resources.

The NAO provides external audit services to international organisations, working entirely independently of its role as the Supreme Audit Institution of the United Kingdom. The NAO has a dedicated team of professionally qualified staff with wide experience of auditing international organisations.

The aim of the audit is to provide independent assurance to member states; to add value to the Fund's financial management and governance; and to support the objectives of its work.

External Auditor's Report 2005

International Oil Pollution Compensation Fund 1992

Contents	Paragraph
EXECUTIVE SUMMARY	1 – 12
DETAILED REPORT FINDINGS	
Financial Reporting	13 - 26
- Financial statements and accounting	
- Income and expenditure	
- Assets and liabilities	
Financial Management Issues	27 – 55
- Internal controls	
- Establishment of the Supplementary Fund and amendments to regulations and rules	
- Financial instruments	
- Investigation of anonymous allegations	
- Procurement procedures	
- Risk management	
PROGRESS ON 2004 RECOMMENDATIONS	56 – 59
ACKNOWLEDGEMENT	60
SCOPE AND AUDIT APPROACH	ANNEX I

EXECUTIVE SUMMARY

OVERALL RESULTS OF THE AUDIT

1. We have audited the Financial Statements of the International Oil Pollution Compensation Fund 1992 in accordance with the Financial Regulations and in conformity with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency and with International Standards on Auditing. I have provided a separate audit opinion and report in relation to the Financial Statements of the International Oil Pollution Compensation Fund 1971 and the Supplementary Fund.
2. **The audit examination revealed no weaknesses or errors which we considered to be material to the accuracy, completeness and the validity of the financial statements as a whole and I have placed an unqualified audit opinion on the Fund's financial statements for the year ended 31 December 2005.**
3. Observations and recommendations arising from the audit are set out in summary below. A more detailed analysis of key issues is provided in the section of the report entitled Detailed Report Findings.

MAIN FINDINGS AND RECOMMENDATIONS

Financial Reporting

4. The detailed findings of this report provide a commentary on the Fund's financial position. For the financial year ended 31 December 2005, the 1992 Fund reported an excess of income over expenditure (excluding the Provident Fund) of £24,833,625, compared with £32,043,517 in 2004. During the year there was an increase in claims expenditure mainly due to increased payments in respect of the *Erika* incident and a reimbursement of £599,995 was made in respect of the *Nakhodka* incident.
5. Overall we found that internal financial controls operated effectively in each of the account areas that we audited and combined with assurance gained from tests of detail there was sufficient reliable evidence to support our audit opinion.
6. Our work on the contributor's account highlighted the need for the Fund to increase its efforts in returning to one of its contributors a significant contribution balance of approximately £1,000,000 for the 1992 and 1971 Funds combined. Repayments became due in March 2004 and March 2005, based on decisions made by the governing bodies at their October 2003 and October 2004 sessions respectively in respect of the closure of certain Major Claims Funds.

7. The establishment of the Supplementary Fund in the accounting period led us to review the rules and regulations in operation at the Funds. From this review we recommend that the Director considers the recoverability of outstanding contributions, since modifications to the Financial Regulations now give him the power to waive receivables where this is in the interests of the Fund.
8. We examined the ongoing use of investment products by the Fund, such as dual currency deposits and participating forwards. We discussed with the Investment Advisory Body the appropriateness of the continued use of participating forwards in its investment strategy, as this can result in a commitment to purchase currency above the prevailing rate. This led us to recommend improved disclosure of the nature and performance of such products, which has been included in the Notes to the financial statements.

Financial Management Issues

9. In addition to the work necessary to provide assurance on the financial statements, we reviewed the major areas of the Secretariat's operations and provided guidance and support to the Secretariat as required.
10. In September 2005, anonymous allegations were made which suggested an inappropriate commercial relationship between a senior employee of the Secretariat and an external third party. At the request of the Director, we investigated the allegations, reviewing all relevant transactions between the Fund and the third party; the sequence of events; and relevant documentary evidence. We found no evidence of impropriety or irregularity in the accounts of the IOPC Funds. We have made recommendations to improve the Secretariat's arrangements relating to business dealings in circumstances which could present issues of conflicts of interest.
11. As part of our audit, we carried out a review of procurement practice and have made recommendations to improve transparency in the selection of service providers and to ensure business continuity.
12. We have noted the Secretariat's continued progress in identifying risks to the business and that this exercise is still on schedule for completion prior to the arrival of the new Director. We encourage the Fund to use the full risk register to identify key risks to the business where both the impact and likelihood of the risk is high. Such risks should be actively managed to mitigate their impact while lesser risks should be periodically monitored to update the risk register.

DETAILED REPORT FINDINGS

Financial Reporting

Financial Statements and Accounting

13. The Fund continued to provide timely and well presented financial statements supported by well maintained accounting records. During the course of the audit we identified a number of areas where disclosure could be improved and we recommended the following changes which have been implemented by the Secretariat:

- Enhancing the balance sheet format to improve clarity.
- Improving disclosure of financial instruments used, detailing the nature, value and performance of such instruments in the period.
- Disclosure of rental subsidy in relation to the Funds' agreement with the United Kingdom government.

Income and Expenditure

14. During the financial period 2005, the 1992 Fund reported a General Fund operating surplus of £4,008,178, a slight increase on the surplus of £3,798,597 in 2004. When the respective surpluses and deficits on the General Fund and Major Claims Funds are taken into account (excluding the Provident Fund), the 1992 Fund reported an overall surplus for the year of £24,833,625 (2004: £32,043,517).

Contributions Income

15. The 1992 Fund received contributions income of £38,685,328 during the period, as a result of the levies due for the General Fund and the *Prestige* Major Claims Fund. A reimbursement to contributors of £599,995 was made in relation to the *Nakhodka* incident during 2005.

Miscellaneous Income

16. Miscellaneous income received in 2005, including interest relating to the Provident Fund, amounted to £7,119,811 (£5,382,268 in 2004). Interest from investments accounted for £6,402,250 of total miscellaneous income, which represents an increase on the previous year as a result of the timing of investment maturity dates, increased interest rates and cash available for investment. The value of interest

income reflects the accounting policy of recording interest on the basis of cash received, rather than on an accruals basis.

Secretariat Expenses

17. Obligations incurred by the 1992 Fund for joint Secretariat expenses totalled £2,859,699 for Chapters I-VI, representing an under spend against the approved budgetary appropriations of £512,901. This under spend is accounted for by lower than expected personnel costs (£319,455) and lower expenditure on public information (£57,785) and office machines (£18,508).
18. Total obligations for the 1992 Fund were £2,847,199, representing an increase of £237,586 or 9.1 per cent on the previous year's obligations.

Claims and Claims Related Expenses

19. There was an increase in the value of compensation payments during 2005, which totalled £12,644,168, compared with £9,555,715 in 2004. This increase was attributed mainly to increased compensation payments of £11,718,025 in relation to the *Erika* incident (2004: £7,502,681). There was also a significant reduction in the payment of claims from the General Fund, where payments totalled £304,827.
20. Claims related expenditure consisted mainly of technical and legal fees and amounted to £4,709,072 (£4,990,379 in 2004), reflecting the fact that claims related activity in 2005 remained broadly similar for the *Prestige* incident with a slight decrease in activity for the *Erika* incident.

Staff Provident Fund

21. The balance on the Staff Provident Fund at the year end stood at £2,382,373. This represents an increase of 21.8 per cent on the closing balance for 2004. The increase was due to a reduction in withdrawals from £288,079 in 2004 to £109,973 in 2005, comprising housing loan grants totalling £45,000 and withdrawals on separation of £64,973.
22. The Provident Fund earned interest of £131,489 during the year, which represented a return on investment of 6.1 per cent on the average net assets held throughout the year.

Assets and Liabilities

23. Cash held by the 1992 Fund amounted to £146,305,576 as at 31 December 2005. The level of outstanding assessed contributions has decreased from £656,728 in 2004 to £376,482 at the end of 2005, and consisted mainly of amounts still due in respect of the *Prestige* Major Claims Fund. Even though the contributions outstanding remained low in percentage terms, we would continue to

encourage all Member States to assist the Funds to obtain outstanding amounts from contributors in their respective States; and for the Fund to continue to actively seek the payment of outstanding balances. The contributors' account balance remained relatively constant at £1,036,045 (2004: £1,077,283).

Contingent Liabilities

24. Schedule III to the financial statements discloses the contingent liabilities of the 1992 Fund, which are defined in the accounting policies as all known or likely claims against the 1992 Fund and claims related expenditures estimated for the next financial year. Contingent liabilities as at 31 December 2005 have been estimated at £120,640,000.
25. As at 31 December 2005 the *Erika* Major Claims Fund had a balance of £49,659,743 and the *Prestige* Major Claims Fund had a balance of £65,130,461, both of which were higher than the estimated contingent liabilities relating to these incidents at 31 December 2005. Liabilities for the remaining incidents amounting to £7,340,000 are covered by the General Fund.

Other financial matters: fraud, presumptive fraud or money laundering

26. No cases of fraud, presumptive fraud or money laundering were reported to us by the Secretariat or identified in the items examined as part of the audit of the 2005 financial period.

Financial Management Issues

Internal Controls

27. As part of our audit we reviewed the Fund's internal controls, established by management to ensure the regularity of transactions and to provide effective stewardship of resources. We found the controls in operation to be effective for the purpose of supporting our audit opinion.

Claims Office Review

28. As part of our expenditure testing we reviewed expenditure from the Lorient claims handling office. Our testing revealed that the office, established in January 2000, had no written contract stipulating terms of engagement, although a verbal agreement had been reached on the contractual arrangements.
29. The audit review was extended to the other two claims offices at La Coruna and Bordeaux. These offices were both established under written contract. While we recognise that all subsequent claims offices have been set up with contracts and pricing structures in place, there remains a risk that the lack of a written

contract and clear pricing structure with the Lorient claims handling office could present issues for the organisation.

30. However, our review indicated that the current level of payments and running costs are low for all offices. Combined with other controls confirmed to be in operation - monthly bank reconciliation by staff in London; limits on cheque signatories with the claims offices' banks; quarterly budgets for running costs; running cost invoices supported by receipts - we believe there is an adequate level of assurance in relation to controls over the regularity of claims office expenditure.

Contributor's Account

31. The Contributor's account in the Fund's books records overpayments and reimbursements of levies due to Fund contributors which accrues interest at the London clearing bank base rate. As part of contributions testing, we identified that one contributor was owed £509,071.60 from the 1992 Fund (and £487,209.13 from the 1971 Fund). Oil report documentation for the contributor confirmed that the 2005 credit invoice had not been sent to the contributor in November 2004 and was still on file.
32. The Funds experienced difficulty in returning the contributions with interest, as the company was a joint venture that had ceased to exist and it was unclear how much to pay each parent company. The Secretariat's External Relations Section informed us that the parent companies were aware of the credit balance but had not engaged the Funds to resolve the matter. Although this situation is complex, we presume the Funds have a responsibility to return this money to contributors.

Recommendation 1: We recommend that the Secretariat review the position in relation to these credit balances with a view to taking appropriate action and resolving this issue.

Establishment of the Supplementary Fund and amendments to regulations and rules

33. The Supplementary Fund to the 1992 Fund was established on 3 March 2005. The establishment of this Fund required the issue of new rules and regulations and the modification of existing ones that govern the Funds and the Secretariat. In the External Auditor's report for 2004, we had reported on a review of the Financial and Internal Regulations of the 1992 Fund. For 2005 we further reviewed the position in relation to the new Supplementary Fund. This work included a review of Internal and Financial Regulations, Rules of Procedure, Staff Rules and Regulations, administrative instructions and circulars, Headquarters Agreements (1971 Fund and 1992 Fund) and the accounting policies of the Supplementary Fund.

34. In addition to including relevant references to the Supplementary Fund, the 1992 Fund's Internal Regulations were modified to improve the Director's ability to follow up unpaid contributions and reflect his authority to make final settlement of claims for individual and small businesses up to an aggregate amount of 1 million in Special Drawing Rights. The key difference in the Supplementary Fund's Internal Regulations as adopted in 2005 is the inclusion of Regulation 8 which deals with the denying of compensation to victims in a given State due to non-submission of oil reports in respect of that State, as provided under Article 15.2 of its Protocol.
35. Other than editorial modifications to include references to the Supplementary Fund, key changes to the 1992 and 1971 Fund Financial Regulations relate to investment limits, based on advice from the Funds' Joint Investment Advisory Body. These changes provide greater investment flexibility for the reducing balance of the 1971 Fund, and increase the investment limit for a single financial institution from £15 million to £25 million where the Funds' combined assets exceed £300 million.
36. Regulation 11.5 of the 1992 and 1971 Funds' Financial Regulations now allows the Director to waive the right to the recovery of funds due, where this is appropriate and in the interests of the organisation. This is a significant change to the regulations, which previously provided only for ex-gratia payments. The Director's increased authority should be taken into account when evaluating the recoverability of old outstanding contributions. This is particularly relevant to the 1971 Fund as the Secretariat continues the process of winding up that Fund. The Financial Regulations of the Supplementary Fund are consistent with 1992 and 1971 Fund Regulations, and in accordance with its own protocol.

Recommendation 2: We recommend that the Secretariat carry out a review of the recoverability of all contributions outstanding to the 1992 Fund, to identify receivables that are unlikely to be recovered. The Director should then consider whether write off is appropriate for the financial statements to continue to present fairly the financial position.

37. The Staff Regulations for the Secretariat were updated in the period audited to reflect the existence of the Supplementary Fund. Staff Rules were updated to incorporate the Supplementary Fund, and professional and general service staff salary and allowance figures from the International Maritime Organization (IMO), as stipulated in Staff Regulation 17.
38. The administrative instructions were updated in October 2005 to reflect changes in regulations and references to the Supplementary Fund. One of the changes to the administrative instructions included a requirement for dual signatories on all payments rather than merely those in excess of £10,000, in accordance with the amended Financial Regulation.

39. At the time of finalising this report, a draft Headquarters Agreement for the Supplementary Fund and proposals for a revised text of the 1992 Fund Headquarters Agreement were under review and expected to be available for approval at the Funds' Assemblies in October 2006.
40. We reviewed the accounting policies and presentation of the Supplementary Fund financial statements against the requirements of the United Nations System Accounting Standards with satisfactory results. No cash flow statement has been produced for the Supplementary Fund as it is currently funded by borrowing from the 1992 Fund in accordance with the decisions of the 1992 Fund and Supplementary Fund Assemblies.

Financial Instruments

41. The 1992 Fund continues to utilise dual currency deposits to increase investment yield while utilising options for repayment of investments in Euros or Sterling. We reported for 2004 that the Secretariat had adequate mechanisms to effectively monitor the performance of these products; and we recommended that the Funds should provide more informative disclosures in the financial statements in relation to these deposits. As part of our 2005 audit, we advised on the content of a new financial instruments note, Note 25 to the financial statements. The dual currency deposits maturing in 2005 provided an additional £134,350 in investment income when compared to comparative term deposits.
42. In 2005, the 1992 Fund engaged in its first use of participating forwards as an investment vehicle at the recommendation of the Investment Advisory Body. On 9 May 2005, the 1992 Fund concluded a participating forward foreign exchange transaction, which gave the Fund the option of purchasing Euros 30 million for pounds sterling on 10 November 2005 at an exchange rate of £0.700 for each Euro, if the rate at that date was above the set exchange rate. The resulting purchase of Euros 15.3 million at that date would have had an additional notional cost to the Funds of approximately £367,000 when compared to the prevailing rate. The Secretariat consider that the participating forward enabled the Fund to protect itself against undue foreign exchange movements and allowed the purchase of Euros during the period at lower rates than would otherwise have been the case.
43. We discussed the appropriateness of using such instruments with the independent Investment Advisory Body and we note that the rationale behind their use is to protect against risk on currency conversions when payments are due to be made in a foreign currency. These financial instruments contain both "hedge" and "bet" aspects which increase the financial risk to the Fund during a planned currency purchase; and disclosure of the nature and outcome of the participating forwards is presented in Note 25 to the financial statements.

Investigation of Anonymous Allegations

44. On 22 September 2005 the Director of the Funds received the first of two anonymous communications alleging corruption and bribery involving a senior member of the Secretariat, who had previously been employed by a law firm providing services to the Funds and who had continuing family connections to that law firm. A second communication received on 3 October 2005 provided information concerning a payment made to the employee in 1996 by the law firm concerned.
45. At the request of the Director we investigated the allegations that a senior member of the Secretariat - previously a member of the law firm, with which he had family connections and with which the IOPC Funds continued to do business - had received payment in return for placing Funds business with the firm. We carried out a thorough audit examination to test transactions between the Funds and the law firm, to ensure that payments by the Fund had been proper, authorised and subject to review by Secretariat staff other than the subject of the allegations; to review documentation and statements by key parties to assess whether the allegations could be substantiated; and to interview relevant Secretariat staff and a senior member of the law firm concerned in the allegations.
46. The alleged improper payment made by the law firm to the senior member of the Secretariat's staff was identified as a payment in respect of work undertaken by the individual for the law firm before he joined the staff of the Secretariat in 1996, constituting a payment to reflect the individual's performance while he worked for the firm. We identified no evidence to substantiate the allegations of impropriety, nor any evidence of irregularity in transactions between the Funds and the law firm.
47. We confirmed that there were adequate internal controls in place to prevent any payment being made by one individual without review by at least one other member of staff. We found that payments made by the Funds to the law firm had been reviewed by at least three members of the Secretariat. The payments made were in accordance with the Funds' payment procedures.
48. The engagement by the Secretariat of a former employee of an entity which continues to have a business relationship with the Funds may give rise to potential conflicts of interest. Where any members of the Funds or the Secretariat have related party relationships with entities which have business dealings with the Funds, there is potential for conflicts of interest. The Director informed us that, in view of the family and business relationship between the Secretariat staff member and the law firm, he had requested the law firm not to assign any Funds work to the staff member's relative, although this request had not been confirmed in any written exchange or terms of engagement. We have recommended that in future any such arrangements should be the subject of formal written contractual terms.

49. The Director of the Funds acted properly in bringing the allegations immediately to our attention and to the notice of the respective chairmen of the Assembly and the Funds' Audit Body. Following recommendations that we made in our audit report for 2004, the Funds have now introduced a register of interests and a register of gifts and hospitality; and have implemented a code of conduct. This should enable the Secretariat to better assess and manage the Funds' exposure to potential conflict of interest situations.

Recommendation 3: We recommend that, where potential conflicts of interest or related party relationships are identified, action taken in relation to the risks arising should be reflected in written agreements and disclosures as appropriate.

Procurement Procedures

50. The Funds need to obtain goods and the services of lawyers and experts, for example, at the right quality, timing and value. Procedures and practice in procurement can affect both costs and the achievement of key objectives and outputs. We carried out a review of procurement procedures and practice in the three main areas of procurement at the Funds: claims, office administration and information technology (IT), using a questionnaire as the basis for discussions with Secretariat staff responsible for procurement in those areas.
51. Internal Regulation 13 provides delegated authority to senior management to procure items up to a value of £50,000 and the process is further controlled by Administrative Instructions No.3 and No.5 which deal with the payment and commitment of funds respectively. No further procurement procedures had been specifically documented in the areas we reviewed.
52. We noted that procurement arrangements in legal, administration and IT were quite different from each other. Staff responsible for procurement were experienced in their areas of work and had been with the Funds for a sufficient amount of time to understand the needs of the business. The procurement of legal and technical services for the claims department utilised a selection process which reflected the nature or geographical location of the services required, and which could lead to selection based on prior experience, reputation or the sole source of the required service in a particular country. We noted that unsatisfactory service by contractors could be easily detected because of the constant review of work by the claims legal teams. The IT section uses service level agreements for IT contracts and warranties for hardware and software; and office administration suppliers are assessed on their quality and speed of delivery. Price control is exercised through short IT contracts; competition in the supply of office administration requirements; and predetermined hourly rates for professional services.

53. We tested expenditure items as part of our review and identified examples of key service suppliers (such as lawyers and other experts) with no letter of instruction; procurement from suppliers without written contracts; and a lack of documentation to confirm the rationale for the selection of technical and professional services.

Recommendation 4: We recommend that the basis of selection of all service suppliers should be supported by documentation to support management or audit review, and ensure good procurement practice and compliance with the Funds' administrative instructions.

Recommendation 5: To ensure business continuity and consistency in procurement practice, we recommend the documentation of purchasing procedures as appropriate for office administration and IT.

Risk Management

54. In our 2004 report, we noted that the Fund had continued to make progress in identifying its financial risks, but we encouraged greater impetus to complete the process; ensuring that a full and systematic risk management assessment would be in place prior to the arrival of the new Director. This process continued throughout 2005 using an external consultancy with progress being reviewed by the Audit Body.
55. The Fund's risk environment is a dynamic one and systematic arrangements need to be in place as soon as possible to support changes in this environment.

Recommendation 6: We recommend that the Secretariat prioritise the completed risk register to identify the key risks facing the organisation. These risks, where there is high likelihood of occurrence, and where high impact would ensue, should be regularly monitored by the Secretariat, to ensure that appropriate controls are in place to mitigate and manage the risks to an acceptable level.

Progress on 2004 Audit Recommendations

56. As part of our responsibilities as external auditors, we routinely report to the Assembly on management's implementation of prior year audit recommendations. This serves to provide assurance to the Assembly

that appropriate action is taken in response to audit recommendations. The External Auditor's Report for 2004 had emphasised the importance of improved governance arrangements, transparency and risk management.

Statement of Internal Control (SIC)

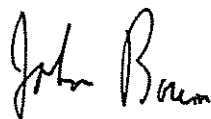
57. The 2004 audit report recommended that the Director consider the merits of including a Statement of Internal Control to enhance the assurance and accountability framework of the Fund. The external auditor reports where the information contained in the Statement is inconsistent with the auditors' knowledge of the business. As part of our audit for 2005 we provided additional guidance on the development of such a statement by the Director and this has now been included in the 2005 financial statements. The IOPC Funds are the first international organisation audited by the NAO to incorporate such a statement, which represents a very commendable improvement in the financial reporting arrangements.

Transparency and staff conduct

58. Our report for 2004 also recommended the introduction of registers of interest and the receipt of gifts to improve transparency in governance. The Secretariat completed the establishment of appropriate arrangements in 2006; and issued a draft code of conduct in June 2006. This demonstrates the Funds' commitment to follow best practice in governance.
59. We recommended that the Secretariat establish a procedure to provide a clear reporting line for staff to make disclosures of suspected misconduct, and ensure that it provides adequate protection to staff who make genuine disclosures. We noted that the Funds' whistle-blowing policy was issued towards the end of 2005 and we commend the Secretariat for its timely response to this recommendation.

Acknowledgement

60. We are grateful for the continued assistance and co-operation provided by the Director and all staff of the 1992 Fund during our audit.



Sir John Bourn

Comptroller and Auditor General, United Kingdom

External Auditor

SCOPE AND AUDIT APPROACH

Audit Scope and objectives

Our audit examined the financial statements of the International Oil Pollution Compensation Fund 1992 (1992 Fund) for the financial period ended 31 December 2005 in accordance with Financial Regulation 13. The main purpose of the audit was to enable us to form an opinion on whether the financial statements fairly presented the Fund's financial position, its surplus, funds and cash flows for the year ended 31 December 2005; and whether they had been properly prepared in accordance with the Financial Regulations.

Audit Standards

Our audit was conducted in accordance with International Standards on Auditing as issued by the International Auditing and Assurance Standards Board. These standards required us to plan and carry out the audit so as to obtain reasonable assurance that the financial statements are free from material misstatement. Management were responsible for preparing these financial statements and the External Auditor is responsible for expressing an opinion on them, based on evidence obtained during the audit.

Audit Approach

Our audit included a general review of the accounting systems and such tests of the accounting records and internal control procedures as we considered necessary in the circumstances. The audit procedures are designed primarily for the purpose of forming an opinion on the Fund's financial statements. Consequently our work did not involve detailed review of all aspects of financial and budgetary systems from a management perspective, and the results should not be regarded as a comprehensive statement of all weaknesses that exist or all improvements that might be made

Our audit also included focused work in which all material areas of the financial statements were subject to direct substantive testing. A final examination was carried out to ensure that the financial statements accurately reflected the Fund's accounting records; that the transactions conformed to the relevant financial regulations and governing body directives; and that the audited accounts were fairly presented.

**FINANCIAL STATEMENTS OF THE INTERNATIONAL OIL POLLUTION
COMPENSATION FUND 1992 FOR THE YEAR ENDED 31 DECEMBER 2005**

AUDIT OPINION

To: the Assembly of the International Oil Pollution Compensation Fund 1992

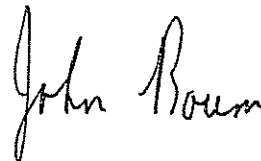
I have audited the accompanying financial statements, comprising Statements I to VII, Schedules I to III and the supporting Notes of the International Oil Pollution Compensation Fund 1992 for the financial period ended 31 December 2005. These financial statements are the responsibility of the Director. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing (ISAs) as issued by the International Auditing and Assurance Standards Board (IAASB). Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Director, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

In my opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2005 and the results of operations and cash flows for the period then ended in accordance with the 1992 Fund's stated accounting policies set out in Note 1 of the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further, in my opinion, the transactions of the 1992 Fund, which I have tested as part of my audit have in all significant respects been in accordance with the Financial Regulations and legislative authority.

In accordance with Financial Regulation 13, I have also issued a long-form Report on my audit of the Fund's financial statements.



**Sir John Bourn
Comptroller and Auditor General
United Kingdom
External Auditor**



London, 30 June 2006

ANNEX V

**FINANCIAL STATEMENTS
OF THE INTERNATIONAL OIL
POLLUTION COMPENSATION FUND 1992
FOR THE FINANCIAL YEAR
ENDED 31 DECEMBER 2005**

CONTENTS

Page No.

FINANCIAL STATEMENTS

Statement I	Statement of Budget Appropriations and Obligations Incurred in respect of the General Fund for the financial period 1 January - 31 December 2005	4
Statement II	Summary of Income and Expenditure Account in respect of the General Fund, Major Claims Funds and the Provident Fund for the financial period 1 January - 31 December 2005	5
Statement III	Income and Expenditure Account in respect of the General Fund for the financial period 1 January - 31 December 2005	6
Statement IV.1	Income and Expenditure Account in respect of the <i>Nakhodka</i> Major Claims Fund for the financial period 1 January - 31 December 2005	7
Statement IV.2	Income and Expenditure Account in respect of the <i>Erika</i> Major Claims Fund for the financial period 1 January – 31 December 2005	8
Statement IV.3	Income and Expenditure Account in respect of the <i>Prestige</i> Major Claims Fund for the financial period 1 January – 31 December 2005	9
Statement V	Staff Provident Fund Account for the financial period 1 January – 31 December 2005	10
Statement VI	Balance Sheet of the 1992 Fund as at 31 December 2005	11
Statement VII	Cash Flow Statement for the 1992 Fund for the financial period 1 January – 31 December 2005	12

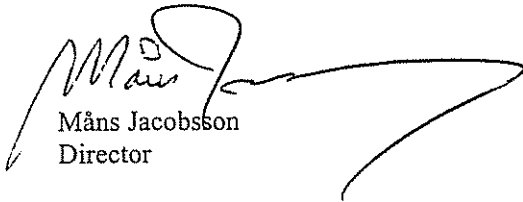
NOTES TO FINANCIAL STATEMENTS	13-22
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SCHEDULES

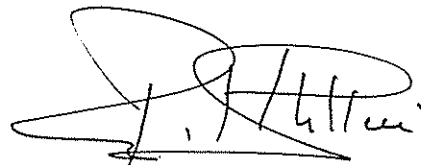
Schedule I	Report on Contributions and Reimbursements during the financial period 1 January – 31 December 2005 and on contributions outstanding for previous financial periods	23-30
Schedule II	Report on Payment of Claims for the financial period 1 January – 31 December 2005	31-32
Schedule III	Details of Contingent Liabilities of the 1992 Fund as at 31 December 2005	33-35

CERTIFICATION OF THE FINANCIAL STATEMENTS

The appended financial statements numbered I to VII and the supporting schedules are certified.



Måns Jacobsson
Director



Ranjit S P Pillai
Head Finance & Administration Department

STATEMENT I
GENERAL FUND - JOINT SECRETARIAT EXPENDITURE
 STATEMENT OF BUDGET APPROPRIATIONS AND OBLIGATIONS INCURRED FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2005

CLASS OF EXPENDITURE	NOTE	BUDGET APPROPRIATIONS		REVISED BUDGET APPROPRIATIONS		OBLIGATIONS INCURRED		BALANCE OF APPROPRIATIONS	
		2005	2004	2005	2004	2005	2004	2005	2004
		£	£	£	£	£	£	£	£
SECRETARIAT									
I	PERSONNEL								
a	Salaries	1,306,900	1,341,000	1,306,900	1,341,000	1,223,974	1,161,433	82,926	179,567
b	Separation and recruitment	105,000	115,000	105,000	115,000	10,522	29,619	94,478	85,381
c	Staff benefits, allowances and training	566,000	551,800	566,000	551,800	423,949	399,377	142,051	152,423
		1,977,900	2,007,800	1,977,900	2,007,800	1,658,445	1,590,429	319,455	417,371
II	GENERAL SERVICES								
a	Office accommodation	259,200	249,700	259,200	249,700	255,199	235,995	4,001	13,705
b	Office machines	90,000	90,000	90,000	90,000	71,492	45,284	18,508	44,716
c	Furniture and other office equipment	17,500	17,500	17,500	17,500	7,212	6,527	10,288	10,973
d	Office stationery and supplies	22,000	20,000	22,000	13,587	10,456	12,448	11,544	1,139
e	Communications	70,000	65,000	70,000	65,000	57,250	55,193	12,750	9,807
f	Other supplies and services	51,000	41,000	51,000	47,413	33,022	47,413	17,978	-
g	Hospitality	20,000	18,000	20,000	18,000	19,377	16,875	623	1,125
h	Public information	180,000	180,000	173,402	179,560	115,617	86,027	57,785	93,533
		709,700	681,200	703,102	680,760	569,625	505,762	133,477	174,998
III	MEETINGS	2	145,000	145,000	151,598	145,440	151,598	145,440	-
IV	TRAVEL								
	Conferences, seminars and missions		125,000	100,000	125,000	100,000	108,791	84,415	16,209
V	MISCELLANEOUS EXPENDITURE								
a	External Audit (1992 Fund and 1971 Fund) *	12	55,000	53,250	55,000	53,250	55,000	53,250	-
b	Consultants' fees		180,000	125,000	180,000	125,000	169,743	87,455	10,257
c	Audit Body		90,000	90,000	90,000	90,000	89,048	82,075	952
d	Investment Advisory Body		30,000	30,000	30,000	30,000	30,000	30,000	-
			355,000	298,250	355,000	298,250	343,791	252,780	11,209
VI	UNFORESEEN EXPENDITURE		60,000	60,000	60,000	60,000	27,449	45,787	32,551
TOTAL I - VI			3,372,600	3,292,250	3,372,600	3,292,250	2,859,699	2,624,613	512,901
TOTAL OBLIGATIONS 1992 FUND ONLY (ie excluding 1971 Fund External Audit fees)						2,847,199	2,609,613		

Note A: This statement deals only with administrative expenditure. Expenditure in respect of claims is dealt with in Statement III for the General Fund and in Statements IV.1 to IV.3 for the various Major Claims Funds

* External Audit fees payable in 2005 in respect of 2004 Financial Statements
 1992 Fund - £42 500
 1971 Fund - £12 500

STATEMENT II

SUMMARY OF INCOME AND EXPENDITURE ACCOUNT OF THE GENERAL FUND, MAJOR CLAIMS FUNDS AND
PROVIDENT FUND FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2005

THE

	2005					2005	2004
	General Fund	Nakhodka	Erika	Prestige	Provident Fund	Total	Total
	£	£	£	£	£	£	£
INCOME							
Contributions							
Contributions & adjustments to prior years' assessment	5,478,003	-	-	33,207,325	365,651	39,050,979	81,980,853
Reimbursement to contributors	-	(599,995)	-	-	-	(599,995)	(37,700,028)
	5,478,003	(599,995)	-	33,207,325	365,651	38,450,984	44,280,825
Miscellaneous							
Management fee	450,000	-	-	-	-	450,000	325,000
Sundry income/ repayment of housing loan	9,120	-	9,531	-	39,591	58,242	51,531
Transfer from <i>Nakhodka</i> MCF	117,834						
Interest on loans	5,286	-	-	-	-	5,286	257,072
Interest on overdue contributions	5,387	-	3,777	77,035	-	86,199	100,505
Interest on investments	1,365,824	3,809	2,650,429	2,250,699	131,489	6,402,250	4,648,160
	1,953,451	3,809	2,663,737	2,327,734	171,080	7,119,811	5,382,268
Total income	7,431,454	(596,186)	2,663,737	35,535,059	536,731	45,570,795	49,663,093
EXPENDITURE							
Secretariat expenses							
Obligations incurred	2,847,199	-	-	-	-	2,847,199	2,609,613
Claims							
Compensation	304,827	-	11,718,025	621,316	-	12,644,168	9,555,715
Claims related expenses	271,250	-	1,788,404	2,649,418	-	4,709,072	4,990,379
Loans/ withdrawals	-	-	-	-	109,973	109,973	288,079
Total expenditure	3,423,276	-	13,506,429	3,270,734	109,973	20,310,412	17,443,786
Income less expenditure	4,008,178	(596,186)	(10,842,692)	32,264,325	426,758		
Exchange adjustment	11	-	(277,446)	(12,922)	-		
Balance b/f: 1 January	25,364,213	714,020	60,779,881	32,879,058	1,955,615		
	29,372,402	117,834	49,659,743	65,130,461	2,382,373		
Transfer (to)/from General Fund	-	(117,834)	-	-	-		
Balance as at 31 December	29,372,402	-	49,659,743	65,130,461	2,382,373		

STATEMENT III

GENERAL FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2005

	Note	2005		2004	
		£	£	£	£
INCOME					
Contributions (Schedule I)					
Contributions		5,366,024		6,906,194	
Adjustment to prior years' assessment	3	114,944		394,159	
Less contributions waived	4	(2,965)		-	
			5,478,003		7,300,353
Miscellaneous					
Management fee	5	450,000		325,000	
Sundry income	6	9,120		22,480	
Transfer from <i>Nakhodka</i> MCF	7	117,834		-	
Interest on loan to HNS Fund	8	3,083		1,754	
Interest on loan to Supplementary Fund	9	2,203		1,869	
Interest on loan to <i>Prestige</i> MCF		-		21,705	
Interest on overdue contributions	10	5,956		11,245	
Less Interest on overdue contributions waived	4	(569)		-	
Interest on investments	11	1,365,824		1,021,033	
			1,953,451		1,405,086
Total income			7,431,454		8,705,439
EXPENDITURE					
Secretariat expenses (Statement I)					
Obligations incurred	12		2,847,199		2,609,613
Claims (Schedule II)					
Compensation			304,827		1,930,001
Claims related expenses (Schedule II)					
Fees		266,067		353,070	
Travel		5,033		13,858	
Miscellaneous		150		300	
			271,250		367,228
Total expenditure			3,423,276		4,906,842
(Shortfall)/excess of income over expenditure			4,008,178		3,798,597
Exchange adjustment	13		11		14
Balance b/f: 1 January			25,364,213		21,565,602
Balance as at 31 December	23		29,372,402		25,364,213

STATEMENT IV.1

NAKHODKA MAJOR CLAIMS FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2005

	Note	2005		2004	
		£	£	£	£
INCOME					
Contributions (Schedule I)					
Reimbursement to contributors		(599,995)		(37,700,028)	
			(599,995)		(37,700,028)
Miscellaneous					
Interest on loan to <i>Prestige</i> MCF		-		231,744	
Interest on overdue contributions		-		7,351	
Interest on investments	11	3,809		54,614	
			3,809		293,709
Total income			(596,186)		(37,406,319)
EXPENDITURE (Schedule II)					
Compensation		-		-	
Fees		-		-	
Travel		-		-	
Miscellaneous		-		-	
Total expenditure			-		-
Excess/(Shortfall) of income over expenditure			(596,186)		(37,406,319)
Balance b/f: 1 January			714,020		38,120,339
			117,834		714,020
Transfer to General Fund	7		(117,834)		-
Balance as at 31 December			-		714,020

STATEMENT IV.2

ERIKA MAJOR CLAIMS FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2005

	Note	2005		2004	
				£	£
INCOME					
Miscellaneous					
Sundry income		9,531		51	
Interest on overdue contributions	10	3,777		1,274	
Interest on investments	11	2,650,429		2,529,820	
			2,663,737		2,531,145
Total income			2,663,737		2,531,145
EXPENDITURE (Schedule II)					
Compensation		11,718,025		7,502,681	
Fees		1,785,899		2,004,166	
Travel		1,954		3,303	
Miscellaneous		551		1,278	
Total expenditure			13,506,429		9,511,428
Excess/(Shortfall) of income over expenditure			(10,842,692)		(6,980,283)
Exchange adjustment	13		(277,446)		260,148
Balance b/f: 1 January			60,779,881		67,500,016
Balance as at 31 December			49,659,743		60,779,881

STATEMENT IV.3

PRESTIGE MAJOR CLAIMS FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2005

	Note	2005		2004	
INCOME				£	£
Contributions (Schedule I)					
Contributions (second levy)		32,894,926		74,356,593	
Adjustment to prior years' assessment	3	362,855		-	
Less contributions waived	4	(50,456)		-	
			33,207,325		74,356,593
Miscellaneous					
Interest on overdue contributions	10	81,182		80,635	
Less Interest on overdue contributions waived	4	(4,147)		-	
Interest on investments	11	2,250,699		931,731	
			2,327,734		1,012,366
Total income			35,535,059		75,368,959
EXPENDITURE (Schedule II)					
Compensation		621,316		123,033	
Fees		2,617,861		2,325,594	
Interest on loan from General Fund		-		21,705	
Interest on loan from <i>Nakhodka</i> MCF		-		231,744	
Travel		26,924		28,908	
Miscellaneous		4,633		6,453	
Total expenditure			3,270,734		2,737,437
Excess/(Shortfall) of income over expenditure			32,264,325		72,631,522
Exchange adjustment	13		(12,922)		254,580
Balance b/f: 1 January			32,879,058		(40,007,044)
Balance as at 31 December			65,130,461		32,879,058

STATEMENT V

STAFF PROVIDENT FUND

RECEIPTS AND PAYMENTS ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2005

	Note	2005	2004
		£	£
Accounts of staff members as at 1 January		1,955,615	1,779,825
RECEIPTS			
Contributions of staff members	14	113,884	103,969
Contributions of IOPC Funds	14	251,767	219,938
Repayment of housing loan		39,591	29,000
Interest received	11,14	131,489	110,962
		536,731	463,869
PAYMENTS			
Housing loans		45,000	205,635
Withdrawal on separation		64,973	82,444
		109,973	288,079
Accounts of staff members as at 31 December		2,382,373	1,955,615

STATEMENT VI

BALANCE SHEET OF THE 1992 FUND AS AT 31 DECEMBER 2005

2005						2004
	Note	General Fund	Erika	Prestige	Total	Total
		£	£	£	£	£
ASSETS						
Cash at banks and in hand	15	32,493,151	49,617,005	64,195,420	146,305,576	121,617,345
Contributions outstanding	16	62,529	-	313,953	376,482	656,728
Interest on overdue contributions outstanding	10	8,110	4,160	75,465	87,735	63,775
Due from HNS Fund	8	82,398	-	-	82,398	54,185
Due from Supplementary Fund	9	177,742	-	-	177,742	45,539
Due from 1971 Fund	17	8,347	-	-	8,347	326,306
Tax recoverable	18	80,375	38,575	545,367	664,317	496,516
Miscellaneous receivable	19	28,460	3	256	28,719	24,373
TOTAL ASSETS		32,941,112	49,659,743	65,130,461	147,731,316	123,284,767
LIABILITIES						
Staff Provident Fund	14	2,382,373	-	-	2,382,373	1,955,615
Accounts payable	20	6,965	-	-	6,965	20,882
Unliquidated obligations	21	143,327	-	-	143,327	91,394
Prepaid contributions		-	-	-	-	402,421
Contributors' account	22	1,036,045	-	-	1,036,045	1,077,283
TOTAL LIABILITIES		3,568,710	-	-	3,568,710	3,547,595
FUNDS' BALANCES						
Working capital		22,000,000	-	-	22,000,000	22,000,000
Surplus / (Deficit)		7,372,402	49,659,743	65,130,461	122,162,606	97,737,172
GENERAL FUND AND MAJOR CLAIMS FUNDS (MCFs) BALANCES	23	29,372,402	49,659,743	65,130,461	144,162,606	119,737,172
TOTAL LIABILITIES, GENERAL FUND AND MCFs BALANCES		32,941,112	49,659,743	65,130,461	147,731,316	123,284,767

STATEMENT VII

**CASH FLOW STATEMENT OF THE 1992 FUND
FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2005**

	2005		2004	
	£	£	£	£
Cash as at 1 January		121,617,345		88,672,665
OPERATING ACTIVITIES				
Operating Surplus	18,154,673		28,021,061	
Decrease/(Increase) in Debtors	241,682		(1,040,653)	
Increase/(Decrease) in Creditors	(153,570)		1,271,166	
Net cash flow from operating activities		18,242,785		28,251,574
RETURNS ON INVESTMENTS				
Interest on investments	6,445,446		4,693,106	
Net cash inflow from returns on investments		6,445,446		4,693,106
Cash as at 31 December		146,305,576		121,617,345

NOTES TO FINANCIAL STATEMENTS

1 Significant Accounting Policies

In accordance with the 1992 Fund's Financial Regulation 12.3(b) and in compliance with United Nations accounting standards where appropriate, the principal accounting policies followed in arriving at the financial information given in the respective statements are set out below.

(a) Rules and procedures

The financial statements are prepared in accordance with the Financial Regulations of the 1992 Fund, and in compliance with the provisions of the 1992 Fund Convention and the Internal Regulations of the 1992 Fund.

(b) Basis of preparation

The accounts are prepared on the basis of a General Fund, Major Claims Funds and a Provident Fund, as laid down in Financial Regulation 7.

The financial year is the calendar year.

(c) Accounting convention

The accounts are prepared under the historical cost convention, modified to the extent that the cost of all property acquired is immediately charged as an expense, in accordance with Financial Regulation 11.4. Therefore, office machines, furniture and other supplies are not shown as assets in the Balance Sheet.

(d) Administrative expenditure

Expenditure comprises payments and unliquidated obligations incurred in respect of the current budget year.

Obligations are recorded on the basis of contracts, purchase orders, agreements or other forms of legal undertaking.

Unliquidated obligations are obligations or that part of obligations which are not yet paid. In accordance with Financial Regulation 6.4, appropriations for unliquidated obligations remain available to discharge legal obligations for 24 months following the end of the financial period to which they relate.

The amounts are net of Value Added Tax.

(e) Expenditure arising out of incidents

Expenditure arising out of incidents is charged in the year of payment. There is no specific appropriation to meet any settlement of claims.

Expenses up to 4 million Special Drawing Rights (SDRs) in respect of any one incident are charged to the General Fund in accordance with Financial Regulation 7.1(c)(i), and expenses over that amount in respect of any one incident are charged to the Major Claims Fund constituted for the incident in question in accordance with Financial Regulation 7.2(d).

A report on expenditure arising out of incidents is provided in **Schedule II**.

(f) Contingent liabilities

In accordance with Financial Regulation 12.3(b), details of contingent liabilities are given in **Schedule III**. Estimates of contingent liabilities include all known or likely claims against the 1992 Fund. All these claims may not necessarily mature. In the case of fees, these are calculated for the coming year only, due to the difficulties of predicting the length and cost of legal proceedings or of negotiations for reaching out-of-court settlements. Those liabilities which mature will, under the 1992 Fund Convention, be met from contributions levied by the Assembly.

(g) Income

Income is based on firm revenues due in the financial period and either received or receivable in this period.

Income from contributions is included only after the contributions are invoiced on the basis of figures on contributing oil receipts reported by Member States. A report on contributions is provided in **Schedule I**.

Interest on overdue contributions is included only in the year in which the overdue annual contribution is actually paid. No interest is charged on overdue interest.

Investment income is based only on interest received from investments maturing during the financial period.

(h) Interest on contributors' account

In accordance with Internal Regulation 3.9 any credit balance on a contributors' account bears interest. The interest is added to the credit balance every year when levies are due or reimbursements are made, normally on the 1 March.

(i) Investments

Investments of the 1992 Fund's assets include the assets of the Staff Provident Fund and the Contributors' account, which are merged with the 1992 Fund's assets for investment purpose, in order to obtain better interest rates.

Investments of assets of Major Claims Funds may be made in currencies other than Pounds sterling to meet payments in respect of a particular incident. The interest earned on investments in currencies other than Pounds sterling are credited directly to the respective Major Claims Fund.

(j) Loans between funds

Financial Regulations 7.1(c)(iv) and 7.2(d), respectively, provide that loans can be made from the General Fund to a Major Claims Fund and from a Major Claims Fund to the General Fund or to another Major Claims Fund. Such loans shall be reimbursed with interest, in accordance with Financial Regulations 7.1(a)(iv) and 7.2(b)(iii).

Interest on any loan made is calculated at a preferential rate of 0.25% above the lowest London clearing bank base rate.

(k) Translation of currencies

The majority of the 1992 Fund's assets and liabilities at the end of the financial period 2005 were held in Pounds sterling. Gains and losses arising from foreign currency

exchange transactions during the relevant accounting period are treated as normal items of operation.

If in relation to Major Claims Funds currencies are bought for Pounds sterling and invested in accordance with Financial Regulation 10.4(a), any gains or losses at the end of the financial year arising from holding these currencies are credited or debited to the respective Funds.

Payments made in foreign currencies are converted into sterling at the rate of exchange obtained from the bank on the date of transaction. Payments made from foreign currency bought for sterling and invested are converted at the rate at which the currency was purchased, on a first in first out basis.

Any gains or losses at the end of the financial year arising from holding monetary items, i.e assets to be received in determinable amounts of money, are credited or debited to the respective Funds.

For the translation of all monetary assets and liabilities, the rate applied is the rate of exchange for the Pound sterling against various currencies on 30 December 2005 (the last banking day of 2005) as published in the London Financial Times.

2 **Revised budget appropriations**

Excess expenditure resulting in revised budget appropriations and met by budgetary transfers as provided in Financial Regulation 6.3 is notified to the Assembly in the Director's Comments on Statement I. Within the authority given to the Director under that Regulation one transfer was made between Chapters, namely:

<i>Chapter</i>	<i>Transfer from appropriation</i>	<i>Chapter</i>	<i>Transfer to appropriation</i>	<i>Amount £</i>
II	Public information	III	Meetings	6 598

3 **Adjustments to prior years' assessments**

Adjustments in respect of contributions totaling £477 799 were made on the basis of reports and adjustments to reports on contributing oil receipts in previous years as set out below:

	State	Contributions levied £	Reason for levy
General Fund 2003	Angola	9 762	Oil report received late
General Fund 2003	Bahamas	30 155	Oil report received late
General Fund 2002	Belgium	673	Oil report received late
Prestige Major Claims Fund	Belgium	16 027	Oil report received late
General Fund 2003	Colombia	4 027	Oil report received late
General Fund 2003	Kenya	1 118	Oil report received late
General Fund 2003	Madagascar	704	Oil report received late
General Fund 2001	Mauritius	(1 450)	Oil report adjusted
General Fund 2002	Norway	(2 775)	Oil report adjusted
Prestige Major Claims Fund	Norway	(66 068)	Oil report adjusted
General Fund 2002	Morocco	17 341	Oil report received late
General Fund 2003	Morocco	32 544	Oil report received late
Prestige Major Claims Fund	Morocco	412 896	Oil report received late
General Fund 2003	Trinidad and Tobago	22 845	Oil report received late

4 **Contributions and interest on contributions waived**

Contributions and interest totaling £108 733.17 were due from Enron Capital & Trade Resources International Corp. (Enron Capital), Belgium, comprising of £102 699.09 due to the *Prestige* Major Claims Fund and £6 034.08 due to the General Fund. The parent company, Enron Corp.,

filed for bankruptcy on 2 December 2001 in the United States of America and Enron Capital filed its own petition for bankruptcy in February 2002.

The 1992 Fund presented a claim in the bankruptcy proceedings in the United States for \$201 482.56 (corresponding to £108 733.17). The Director instructed the 1992 Fund's New York lawyers to negotiate with the Creditors' Committee of the Enron bankruptcy. After considerable discussions, the 1992 Fund was offered a settlement at 50% of its claims, without interest, of \$100 741.28, which was accepted by the 1992 Fund.

The amount of \$100 741.28 (£55 312.84) was received on 21 September 2005. The balance of the contributions due of £53 421 and interest of £4 716 was written off in the financial year 2005 (document 92FUND/A.10/13, paragraph 2) as set out below:

	Contributions waived £	Interest on contributions waived £
General Fund	2 965	569
<i>Prestige</i> Major Claims Fund	50 456	4 147
Total	53 421	4 716

5 **Management fee**

At their October 2004 sessions the 1992 Fund Assembly and the 1971 Fund Administrative Council decided that the 1971 Fund should pay a flat management fee, set approximately at 10% of the joint administrative expenses, towards the cost of running the joint Secretariat for 2005. The fee was set in the budget at £325 000 for the period 1 January to 31 December 2005 (documents 92FUND/A.9/31, paragraph 25.1 and Annex and 71FUND/AC.15/21, paragraph 18.1 and Annex).

In March 2005 the 1992 Fund Assembly and the Supplementary Fund Assembly decided that the Supplementary Fund should pay to the 1992 Fund a flat management fee, set approximately at 5% of the joint administrative expenses, towards the cost of running the joint Secretariat for 2005. The fee was set in the budget at £125 000 for the period 3 March to 31 December 2005 (documents 92FUND/AES.9/28, paragraph 10.1 and SUPPFUND/A.1/39 Annex III) (see Note 9).

In the 2004 financial statements of the 1992 Fund the obligations incurred for Secretariat expenses was net of the management fee for 2004 receivable from the 1971 Fund of £325 000. In the 2005 financial statements, in order to achieve a more appropriate presentation, the management fee receivable from the 1971 Fund and the Supplementary Fund are included in the income of the General Fund. Obligations incurred for the Secretariat expenses therefore represents the cost of running the joint Secretariat and the External Auditor's fees for the 1992 Fund only. The 2004 comparative figures have been restated to maintain comparability and have no material effect in the financial statements.

6 **Sundry income**

The figure of £9 120 comprises

- (a) an amount of £460 due to a supplier no longer payable;
- (b) an amount of £8 660 being unliquidated obligations as at 31 December 2004 not having materialised as at 31 December 2005.

7 **Transfer from the *Nakhodka* Major Claims Fund to the General Fund**

At its October 2003 session the Assembly decided to reimburse £37.7 million to the contributors to the *Nakhodka* Major Claims Fund and transfer the balance to the General Fund. Following this reimbursement, at its October 2004 session the Assembly noted that there was a substantial balance remaining and decided that after a further amount of £600 000 had been reimbursed in 2005 to contributors to this Major Claims Fund, the surplus should be transferred to the General Fund in 2005 in accordance with the Financial Regulation 4.5 (document 92FUND/A.9/31,

paragraph 28.5). The Major Claims Fund was closed in 2005 and the balance of £117 834 was transferred to the General Fund on 1 March 2005.

8 Due from the International Hazardous and Noxious Substance Fund

The Diplomatic Conference which adopted the International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea, 1996 (HNS Convention) had requested the 1992 Fund Assembly to assign to the Director of the 1992 Fund, the administrative tasks necessary for the setting up of the HNS Fund, provided that such tasks should be undertaken on the basis that all expenses would be repaid by the HNS Fund. At its first session the 1992 Fund Assembly instructed the Director to carry out the tasks requested by the HNS Diplomatic Conference (document 92FUND/A.1/34, paragraph 31.1-31.3). As a result of this decision any expenses relating to the preparation for the entry into force have been treated as loans from the 1992 Fund.

The figure of £3 083 in Statement III represents interest due on loans of £75 720 made by the General Fund to the HNS Fund. This amount includes loans totalling £25 130 from the General Fund made during the financial period 2005. The total amount due from the HNS Fund, including cumulative interest, is £82 398.

9 Due from the Supplementary Fund

At its April /May 2002 session, the Assembly decided to make available to the International Maritime Organization (IMO) funds to finance a Diplomatic Conference in the Spring of 2003 for the adoption of a Protocol establishing a Supplementary Fund (the ensuing costs estimated by IMO at £56 500) on the understanding that the amount paid to IMO would be reimbursed, with interest, to the 1992 Fund by the Supplementary Fund when the Protocol establishing that Fund had entered into force (document 92FUND/A/ES.6/10, paragraph 6.11). A Protocol establishing such a Supplementary Fund was adopted in May 2003.

The figure of £2 203 in Statement III represents interest due on loans of £172 947 made since 2003 by the General Fund to the Supplementary Fund. This amount includes loans totaling £5 000 from the General Fund made during the financial period 2005 and the management fee of £125 000 payable by the Supplementary Fund to the 1992 Fund. The total amount due from the Supplementary Fund, including cumulative interest, is £177 742 (see Note 5).

The Protocol entered into force on 3 March 2005. As decided by the 1992 Fund Assembly and the Supplementary Fund Assembly the loans taken by the Supplementary Fund will be repaid to the 1992 Fund in 2007 when the Supplementary Fund receives its first levy of contributions (documents 92FUND/A.10/37, paragraph 30.12 and SUPPFUND/A/ES.1/21, paragraph 19.5).

10 Interest on overdue contributions

Interest is charged at 2% above the lowest London clearing bank base rate on unpaid contributions from the date on which payment is due, in accordance with Article 13.1 of the 1992 Fund Convention and Internal Regulation 3.9.

As set out in Note 1(g) above interest on overdue contributions, either received or receivable, is included only in the year in which the outstanding contribution is paid. Therefore when an outstanding contribution is paid, an invoice is raised in respect of the corresponding interest and the interest income is accounted for. Interest is charged on contributions outstanding for the whole period for which they remain outstanding. Such income is shown under 'Miscellaneous' in the Income and Expenditure statements of the General Fund and respective Major Claims Funds as 'Interest on overdue contributions'.

Interest on overdue contributions is shown as an asset on the balance sheet (Interest on overdue contributions outstanding) until it is received.

Interest on overdue contributions totaling £87 735 was receivable as at 31 December 2005.

11 Interest on investments

As at 31 December 2005 the 1992 Fund's portfolio of investments comprised of the 1992 Fund's bank deposits in respect of the General Fund, the *Erika* and *Prestige* Major Claims Funds, the Contributors' Account, and the Provident Fund. During the year interest was also earned on investments of the assets of the *Nakhodka* Major Claims Fund before this Fund was closed. In relation to the *Erika* and *Prestige* Major Claims Funds investments were also held in Euro and the interest earned on these Euro investments are credited directly to the respective Major Claims Fund. The distribution of the deposits by financial institution is set out in Note 15.

Interest received in 2005 on the investments amounted to £6 445 446. This amount is distributed as follows:

	£
General Fund	1 365 824
<i>Nakhodka</i> Major Claims Fund	3 809
<i>Erika</i> Major Claims Fund	2 650 429
<i>Prestige</i> Major Claims Fund	2 250 699
Staff Provident Fund	131 489
Contributors' account	<u>43 196</u>
	<u>6 445 446</u>

12 Obligations incurred

The figure of £2 847 199 represents the cost of running the joint Secretariat (see Statement I). This amount includes the External Auditor's fees for the 1992 Fund of £42 500 and excludes the External Auditor's fees for the 1971 Fund of £12 500.

It should be noted that the United Kingdom Government meets 80% of the costs related to the rental of the Secretariat offices and storage space. The total rental payments for 2005 amounted to £451 000 of which the United Kingdom Government paid £360 800. The balance £90 200 was borne by the 1992 Fund and is included under Office accommodation.

13 Exchange adjustment

With respect to the *Erika* and *Prestige* Major Claims Funds, Euros were bought for sterling and invested. Compensation payments made in Euros in respect of the *Erika* and *Prestige* incidents have been converted at the rate at which the currency was purchased, on a first in first out basis. As at 31 December 2005 there was an exchange loss of £274 617 from currency revaluation of Euros held in London and Lorient with respect to the *Erika* Major Claims Fund and an exchange loss of £4 028 from currency revaluation of Euros held in London, Bordeaux and Madrid with respect to the *Prestige* Major Claims Fund.

The exchange loss from revaluation of taxes reimbursed and to be reimbursed in Euros by the French and Spanish authorities as at 31 December 2005 were £2 829 and £8 894 in relation to the *Erika* Major Claims Fund and the *Prestige* Major Claims Fund respectively. Exchange losses have been debited to the respective Fund (Note 1(k)).

14 Staff Provident Fund (Statement V)

The rate of contribution for staff members is 7.9% of their respective pensionable remuneration and for the 1992 Fund 15.8% of that remuneration, pursuant to Staff Rule VIII.5(b).

The Provident Fund is invested together with the 1992 Fund's assets. The basis of calculation of the interest on the Provident Fund is that laid down by the 1971 Fund Executive Committee in 1980. (Record of Decisions, document FUND/EXC.2/6, item 6). Interest is calculated and fixed monthly by the Director according to investments held during that month.

The interest earned relating to the period from 1 January to 31 December 2005 was £131 489.

Assets(a) Cash at bank and in hand

The amount of £146 305 576, which includes a balance of £1 036 045 on the Contributors' Account and £2 382 373 on the Staff Provident Fund, was held in various financial institutions and accounts as follows:

Time deposit accounts

	£	£
<u>Pounds sterling</u>		
ABN Amro	3 500 000	
Alliance & Leicester plc	6 750 000	
Banco Bilbao Vizcay Argentaria	6 950 000	
Bank of Ireland	7 500 000	
Barclays Bank plc	3 750 000	
Danske Bank	4 500 000	
DePfa Bank plc	4 550 000	
Deutsche Bank AG	8 500 000	
Dexia Banque à Luxembourg	3 000 000	
Landesbank Berlin	3 500 000	
Landesbank-Hessen Thüringen	2 500 000	
National Australia Bank Ltd	2 250 000	
Nationwide Building Society	14 000 000	
San Paolo IMI SpA	3 000 000	
Svenska Handelsbanken	14 700 000	
UniCredito Italiano SpA	<u>12 500 000</u>	
		101 450 000
<u>Foreign Currency Deposits (Pounds sterling equivalent)</u>		
<i>Erika</i> Major Claims Fund (Euro deposits)		
Barclays Bank plc	1 462	
BNP Paribas	2 620 254	
<i>Prestige</i> Major Claims Fund (Euro deposits)		
ABN Amro	10 063 871	
Alliance & Leicester plc	8 087 210	
Barclays Bank plc	9 990 142	
BNP Paribas	22 154	
DePfa Bank plc	<u>7 008 382</u>	
		37 793 475
<u>Current and call deposits accounts</u>		
Bank of Scotland – Call a/c	6 611 233	
Barclays Bank plc - £ Business Premium/ Current a/cs	189 281	
HSBC Bank - Money Manager a/c	261 066	
Petty cash imprest a/c	<u>521</u>	
		<u>7 062 101</u>
		<u>146 305 576</u>

(b) Office machines, furniture and other supplies

As mentioned under Note 1(c), office machines, furniture and other supplies are not shown as assets in the Balance Sheet.

As at 31 December 2005 the purchase value of these supplies and equipment, including furniture and equipment purchased during 2005, amounts to £439 983 made up as follows:

	Office equipment £	Office furniture £	Library £
Balance b/f	265 635	134 368	17 380
Additions in 2005	32 776	421	577
Less disposals in 2005	(11 174)	-	-
Balance c/f	287 237	134 789	17 957

16 Contributions outstanding

Outstanding contributions due to the 1992 Fund as at 31 December 2005 totaled £376 482. A report on contributions outstanding for previous financial years is provided in **Schedule I**.

17 Payment due from 1971 Fund

As at 31 December 2005, an amount of £8 347 was due from the 1971 Fund to the 1992 Fund.

The amount of £326 306 due from the 1971 Fund to the 1992 Fund for the financial year 2004 was paid by the 1971 Fund on 14 July 2005.

18 Tax recoverable

The amount of £664 317 is made up as follows:

		€	£
Due from the United Kingdom Government	VAT		76 972
	Insurance Premium Tax / Airport Departure Tax		3 403
Due from the French Government	TVA	131 205	90 150
Due from the Spanish Government	IVA	718 665	493 792
	Total		664 317

19 Miscellaneous receivable

The amount of £28 719 consists mainly of the following:

- (a) £23 944 paid to BUPA for 2005 subscriptions to the health insurance scheme, 50% of which will be reimbursed by staff members and 50% to be charged to 2006 expenditure; and
- (b) £4 516 representing salary advances to be reimbursed by staff members in 2006 under Staff Rule IV.11.

20 Accounts payable

The amount of £6 965 consists of the following:

- (a) £3 188 payable to staff members in relation to travel in 2005;
- (b) £3 577 being National Insurance Contributions payable in January 2006; and
- (c) £200 representing amounts due to the Company Barclaycard.

21 Unliquidated obligations

The figure of £143 327 is made up of obligations incurred in 2005 but unliquidated at 31 December 2005.

The unliquidated obligations consist of the following amounts:

- (a) £46 104 due to the International Maritime Organization (IMO) in respect of interpreter fees and rent of office space in the IMO building;
- (b) £42 500 due to National Audit Office for the audit of 2004 financial statements;
- (c) £22 570 for consultants fees;
- (d) £7 393 in relation to costs relating to the staff entitlements; and
- (e) £24 760 for miscellaneous supplies.

22 Contributors' account

The amount of £1 036 045 is the balance on the Contributors' account after the deduction of amounts repaid to contributors or offset against contributions. The amount includes interest of £43 196 credited in 2005 to contributors as provided in Internal Regulation 3.9.

23 Funds' Balances

The figure of £29 372 402 represents the excess of Income over Expenditure in respect of the General Fund. The balance is higher than the working capital, which at 31 December 2005 was £22 million, as decided by the Assembly at its October 2004 session.

The balances in respect of the Major Claims Funds are set out below and represent excess of Income over Expenditure:

	£
<i>Erika</i> Major Claims Fund	49 659 743
<i>Prestige</i> Major Claims Fund	65 130 461

24 Separation benefits

Under the Staff Regulations and Rules, staff members are entitled to certain benefits upon separation from service. Expenditure is recorded in the year in which the benefits are paid. Entitlements and the corresponding liabilities as at 31 December 2005 are estimated as follows:

	£
Repatriation - travel and removal costs	70 000
- grant	142 360
Annual leave	<u>124 010</u>
	<u>336 370</u>

25 Financial instruments

Dual Currency Deposits

Since 2002 the 1992 Fund had invested sterling in the form of Dual Currency Deposits (DCDs) in line with the recommendation of the Investment Advisory Body. Six DCDs were placed in 2005.

A DCD is a type of deposit where an amount is placed in sterling (the base currency) with a

financial institution which meets the 1992 Fund's investment criteria with the possibility that the principal sum will be repaid by the bank in a second currency (eg Euro) if at expiry of the deposit the exchange rate between sterling and the second currency is below a certain rate (i.e. a predetermined conversion rate chosen at the time the deposit is placed). The duration of this deposit is selected to satisfy the 1992 Fund's cash flow requirements.

The DCDs allow the 1992 Fund to undertake foreign exchange hedging between sterling and a second currency without any costs and with the added benefit of a higher return on the deposit. The interest will always be repaid in sterling. The possibility that the principal amount will get converted to Euros at the predetermined conversion rate is acceptable to the 1992 Fund as it has an on-going requirement for Euros to meet claims arising from the *Erika* and *Prestige* incidents.

In 2005, seven DCDs totalling £18 500 000 matured and additional interest of £134 350 was earned on these investments. Two DCDs totalling £6 500 000 placed in 2005 will mature in 2006.

Participating forward

In order to cover some of the risk in connection with purchasing amounts in Euros, at the recommendation of the Investment Advisory Body the 1992 Fund concluded, on 9 May 2005, a Participating Forward Foreign Exchange Transaction. This transaction gave the 1992 Fund the option of purchasing €30 million for Pounds sterling on 10 November 2005 at a €/£ exchange rate of 0.7000 if the rate at that date was above the set exchange rate. Should the €/£ rate at that date have been 0.7000 or lower, the 1992 Fund would only have been committed to purchase €15.3 million (51%) at the €/£ exchange rate of 0.7000 and the balance €14.7 million (49%) at the prevailing more favorable exchange rate. This transaction resulted in the purchase €15.3 million (51%) at the €/£ exchange rate of 0.7000 on 10 November 2005.

* * *

SCHEDULE I

REPORT ON CONTRIBUTIONS AND REIMBURSEMENTS DURING THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2005

AND ON CONTRIBUTIONS OUTSTANDING FOR PREVIOUS FINANCIAL PERIODS

- 1 The General Fund covers the 1992 Fund's expenses for the administration of the 1992 Fund Secretariat and for compensation payments and claims related expenditure up to a maximum amount for each incident of Pounds sterling equivalent of 4 million SDRs per incident converted at the rate applicable on the date of the incident. For an incident which gives rise to payments by the 1992 Fund in excess of 4 million SDRs, a Major Claims Fund is established to cover such payments.
- 2 Contributions to the General Fund have to be paid by any person who received more than 150 000 tonnes of contributing oil (crude and heavy fuel oil) within the territory of a Member State of the 1992 Fund after sea transport in the preceding calendar year. Contributions to Major Claims Funds are levied on the basis of the quantities of contributing oil received in the year preceding that in which the incident occurred, if the State was a Member of the 1992 Fund at the time of the incident. In the case of associated persons (ie commonly controlled entities), the aggregate quantities received are taken into account for the purpose of establishing whether the figure of 150 000 tonnes is reached.
- 3 Six States became Members of the 1992 Fund in 2005: Estonia, Israel, Malaysia, Saint Lucia, South Africa and Tuvalu resulting in 92 States being Members of the 1992 Fund as at 31 December 2005.
- 4 At its session in October 2004 the Assembly decided to levy contributions (2004 contributions) with respect to the General Fund of £5.4 million and with respect to the *Prestige* Major Claims Fund of £33 million for payment by 1 March 2005. The Assembly further decided that reimbursement should be made in 2005 of £600 000 from the balance on the *Nakhodka* Major Claims Fund to contributors to that Fund. Details of 2004 contributions levied, reimbursements and outstanding contributions for previous financial periods are provided in this Schedule.
- 5 Based on these Assembly's decisions, 2004 contributions of £5 366 024 were levied in respect of the General Fund and £32 894 926 in respect of the *Prestige* Major Claims Fund.
- 6 A comprehensive report on the payment of contributions as at 5 October 2005 was submitted to the Assembly at its 10th session (document 92FUND/A.10/13). The report contained in this schedule is a comprehensive up-date of the earlier reports. An amount of £376 482 or 0.1% of the total amount levied over the years remains outstanding as at 31 December 2005 as set out below:

CONTRIBUTION YEAR							
State	2000 £	2001 £	2002 £	2003 £	Total £	2004 £	Total £
Algeria				16 968.86	16 968.86	7 170.25	24 139.11
Netherlands					-	6 276.65	6 276.65
Panama	14 133.13	9 219.88	6 985.45	175 051.35	205 389.81	73 225.88	278 615.69
Russian Federation		1 532.40	1 282.52	32 571.27	35 386.19	14 914.64	50 300.83
Trinidad & Tobago					-	17 149.68	17 149.68
	14 133.13	10 752.28	8 267.97	224 591.48	257 744.86	118 737.10	376 481.96

GENERAL FUND AS AT 31.12.2005
2004 CONTRIBUTIONS due in 2005
(based on 2003 oil reports)

State	Assessment £	Receipt £	Outstanding £	% Paid
Algeria	2,412.64	2,412.64	0.00	100.00
Angola	6,750.41	6,750.41	0.00	100.00
<1> Antigua and Barbuda	-	-	-	-
<2/3> Argentina	-	-	-	-
Australia	117,361.79	117,361.79	0.00	100.00
Bahamas	37,520.28	37,520.28	0.00	100.00
<4> Bahrain	-	-	-	-
Barbados	694.06	694.06	0.00	100.00
Belgium	29,492.48	29,492.48	0.00	100.00
<1> Belize	-	-	-	-
<1> Brunei Darussalam	-	-	-	-
<4> Cambodia	-	-	-	-
Cameroon	6,870.31	6,870.31	0.00	100.00
Canada	306,177.92	306,177.92	0.00	100.00
<1> Cape Verde	-	-	-	-
China (HKSAR)	15,478.04	15,478.04	0.00	100.00
Colombia	2,289.12	2,289.12	0.00	100.00
<4> Comoros	-	-	-	-
Croatia	14,530.06	14,530.06	0.00	100.00
Cyprus	7,848.50	7,848.50	0.00	100.00
Denmark	20,944.49	20,944.49	0.00	100.00
<4> Djibouti	-	-	-	-
<4> Dominica	-	-	-	-
<4> Dominican Republic	-	-	-	-
<1> Estonia	-	-	-	-
<1> Fiji	-	-	-	-
Finland	44,843.72	44,843.72	0.00	100.00
France	388,958.97	388,958.97	0.00	100.00
<4> Gabon	-	-	-	-
<4> Georgia	-	-	-	-
Germany	145,033.98	145,033.98	0.00	100.00
Ghana	6,848.00	6,848.00	0.00	100.00
Greece	84,389.98	84,389.98	0.00	100.00
<4> Grenada	-	-	-	-
<4> Guinea	-	-	-	-
<1> Iceland	-	-	-	-
India	382,732.17	382,732.17	0.00	100.00
Ireland	16,451.24	16,451.24	0.00	100.00
Italy	525,017.51	525,017.51	0.00	100.00
<2> Jamaica	8,783.95	8,783.95	0.00	100.00
Japan	993,227.20	993,227.20	0.00	100.00
<2> Kenya	1,340.24	1,340.24	0.00	100.00
<1> Latvia	-	-	-	-
<1> Liberia	-	-	-	-
<1> Lithuania	-	-	-	-
Madagascar	1,784.70	1,784.70	0.00	100.00
<1> Malaysia	-	-	-	-
Malta	5,495.88	5,495.88	0.00	100.00

State	Assessment £	Receipt £	Outstanding £	% Paid
<1> Marshall Islands	-	-	-	-
Mauritius	1,466.13	1,466.13	0.00	100.00
Mexico	48,809.27	48,809.27	0.00	100.00
<1> Monaco	-	-	-	-
Morocco	18,104.52	18,104.52	0.00	100.00
<1> Mozambique	-	-	-	-
<1> Namibia	-	-	-	-
Netherlands	423,529.30	423,529.30	0.00	100.00
New Zealand	20,127.58	20,127.58	0.00	100.00
<1> Nigeria	-	-	-	-
Norway	75,844.34	75,844.34	0.00	100.00
<1> Oman	-	-	-	-
<4> Panama	-	-	-	-
<1> Papua New Guinea	-	-	-	-
<2> Philippines	45,670.91	45,670.91	0.00	100.00
<1> Poland	-	-	-	-
Portugal	57,267.05	57,267.05	0.00	100.00
<1> Qatar	-	-	-	-
<1> République du Congo	-	-	-	-
Republic of Korea	449,628.49	449,628.49	0.00	100.00
Russian Federation	13,520.40	12,049.91	1,470.49	89.12
<1> Saint Lucia	-	-	-	-
<4> Saint Vincent and the Grenadines	-	-	-	-
<1> Samoa	-	-	-	-
<1> Seychelles	-	-	-	-
<4> Sierra Leone	-	-	-	-
Singapore	268,623.26	268,623.26	0.00	100.00
<1> Slovenia	-	-	-	-
<1> South Africa	-	-	-	-
Spain	243,905.80	243,905.80	0.00	100.00
Sri Lanka	8,036.70	8,036.70	0.00	100.00
Sweden	83,012.35	83,012.35	0.00	100.00
<4> Tanzania	-	-	-	-
<1> Tonga	-	-	-	-
Trinidad and Tobago	17,149.68	0.00	17,149.68	0.00
Tunisia	14,330.89	14,330.89	0.00	100.00
Turkey	99,748.87	99,748.87	0.00	100.00
<1> Tuvalu	-	-	-	-
<1> United Arab Emirates	-	-	-	-
United Kingdom	271,753.04	271,753.04	0.00	100.00
Uruguay	6,434.02	6,434.02	0.00	100.00
<1> Vanuatu	-	-	-	-
Venezuela	25,784.07	25,784.07	0.00	100.00
Total	5,366,024.31	5,347,404.14	18,620.17	99.65

<1> No liability for 2004 contributions to the General Fund

<2> Reports on contributing oil receipts in 2003 for some contributors not submitted

<3> Reports on contributing oil receipts in 2003 submitted late: amount due in 2006

<4> Reports on contributing oil receipts in 2003 not submitted by 31.12.2005

* * *

PRESTIGE MAJOR CLAIMS FUND AS AT 31.12.2005
2004 CONTRIBUTIONS due in 2005
(based on 2001 oil reports)

Member State at the time of the <i>Prestige</i> incident (13.11.2002)	Assessment £	Receipt £	Outstanding £	% Paid
Algeria	9,675.90	2,505.65	7,170.25	25.90
<1> Angola	-	-	-	-
<1> Antigua and Barbuda	-	-	-	-
Argentina	277,901.33	277,901.33	0.00	100.00
Australia	752,589.26	752,589.26	0.00	100.00
Bahamas	42,824.18	42,824.18	0.00	100.00
<2> Bahrain	-	-	-	-
Barbados	4,052.94	4,052.94	0.00	100.00
Belgium	216,919.20	216,919.20	0.00	100.00
<1> Belize	-	-	-	-
<2> Cambodia	-	-	-	-
Cameroon	38,842.89	38,842.89	0.00	100.00
Canada	1,425,231.97	1,425,231.97	0.00	100.00
China (HKSAR)	83,090.26	83,090.26	0.00	100.00
<2> Comoros	-	-	-	-
Croatia	78,228.97	78,228.97	0.00	100.00
Cyprus	49,314.03	49,314.03	0.00	100.00
Denmark	136,632.96	136,632.96	0.00	100.00
<2> Djibouti	-	-	-	-
<2> Dominica	-	-	-	-
<2> Dominican Republic	-	-	-	-
<1> Fiji	-	-	-	-
Finland	260,405.67	260,405.67	0.00	100.00
France	2,492,697.89	2,492,697.89	0.00	100.00
Germany	913,697.61	913,697.61	0.00	100.00
<2> Georgia	-	-	-	-
Greece	530,773.71	530,773.71	0.00	100.00
<2> Grenada	-	-	-	-
<1> Iceland	-	-	-	-
India	1,927,150.84	1,927,150.84	0.00	100.00
Ireland	121,507.45	121,507.45	0.00	100.00
Italy	3,248,354.98	3,248,354.98	0.00	100.00
Jamaica	68,988.66	68,988.66	0.00	100.00
Japan	6,169,520.36	6,169,520.36	0.00	100.00
<3> Kenya	6,651.91	6,651.91	0.00	100.00
<1> Latvia	-	-	-	-
<1> Liberia	-	-	-	-
<1> Lithuania	-	-	-	-
Malta	29,564.82	29,564.82	0.00	100.00
<1> Marshall Islands	-	-	-	-
<1> Mauritius	-	-	-	-
Mexico	277,355.27	277,355.27	0.00	100.00
<1> Monaco	-	-	-	-
Morocco	181,775.59	181,775.59	0.00	100.00
Netherlands	2,579,006.19	2,572,729.54	6,276.65	99.76
New Zealand	113,403.83	113,403.83	0.00	100.00
Norway	639,120.45	639,120.45	0.00	100.00

Member State at the time of the <i>Prestige</i> incident (13.11.2002)	Assessment £	Receipt £	Outstanding £	% Paid
<1> Oman	-	-	-	-
Panama	73,225.88	0.00	73,225.88	0.00
<1> Papua New Guinea	-	-	-	-
<3> Philippines	310,205.75	310,205.75	0.00	100.00
Poland	22,810.69	22,810.69	0.00	100.00
Portugal	381,159.00	381,159.00	0.00	100.00
Republic of Korea	3,021,154.62	3,021,154.62	0.00	100.00
<3> Russian Federation	13,444.15	0.00	13,444.15	0.00
<2> Saint Vincent and the Grenadines	-	-	-	-
<1> Seychelles	-	-	-	-
<2> Sierra Leone	-	-	-	-
Singapore	1,593,419.79	1,593,419.79	0.00	100.00
<1> Slovenia	-	-	-	-
Spain	1,451,717.73	1,451,717.73	0.00	100.00
Sri Lanka	50,899.69	50,899.69	0.00	100.00
Sweden	514,876.07	514,876.07	0.00	100.00
<1> Tonga	-	-	-	-
Trinidad and Tobago	114,339.33	114,339.33	0.00	100.00
Tunisia	83,632.46	83,632.46	0.00	100.00
Turkey	586,990.30	586,990.30	0.00	100.00
<1> United Arab Emirates	-	-	-	-
United Kingdom	1,727,318.40	1,727,318.40	0.00	100.00
Uruguay	43,228.60	43,228.60	0.00	100.00
<1> Vanuatu	-	-	-	-
Venezuela	231,224.77	231,224.77	0.00	100.00
Total	32,894,926.35	32,794,809.42	100,116.93	99.70

<1> No liability for contributions to the *Prestige* Major Claims Fund

<2> Reports on contributing oil receipts in 2001 not submitted by 31.12.2005

<3> Reports on contributing oil receipts in 2001 for some contributors not submitted

* * *

NAKHODKA MAJOR CLAIMS FUND
REIMBURSEMENT OF CONTRIBUTIONS IN 2005
(based on 1996 oil reports)

State	Reimbursement £
Australia	29,281.44
Denmark	6,190.66
Finland	8,894.58
France	87,624.58
Germany	69,554.15
Greece	18,228.20
Japan	250,092.06
<1> Liberia	-
<1> Marshall Islands	-
Mexico	9,763.07
Norway	25,551.40
<1> Oman	-
Sweden	19,519.42
United Kingdom	75,295.61
Total	599,995.17

<1> No liability for contributions to the *Nakhodka* Major Claims Fund

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**CONTRIBUTIONS OUTSTANDING FOR
PREVIOUS FINANCIAL PERIODS AS AT 31.12.2005**

General Fund and Major Claims Funds

State		Assessment £	Receipt £	Outstanding £
Algeria	Prestige Major Claims Fund 2003	21,978.40	5,009.54	16,968.86
		21,978.40	5,009.54	16,968.86
Panama	General Fund 2000	14,133.13	0.00	14,133.13
	General Fund 2001	9,219.88	0.00	9,219.88
	General Fund 2002	6,985.45	0.00	6,985.45
	General Fund 2003	8,721.83	0.00	8,721.83
	Prestige Major Claims Fund 2003	166,329.52	0.00	166,329.52
		205,389.81	0.00	205,389.81
Russian Federati	General Fund 2001	6,158.35	4,625.95	1,532.40
	General Fund 2002	1,282.52	0.00	1,282.52
	General Fund 2003	2,033.45	0.00	2,033.45
	Prestige Major Claims Fund 2003	30,537.82	0.00	30,537.82
		40,012.14	4,625.95	35,386.19
Total		267,380.35	9,635.49	257,744.86

**CONTRIBUTIONS FOR PREVIOUS YEARS NOT ASSESSED DUE TO NON-SUBMISSION OF
REPORTS ON CONTRIBUTING OIL RECEIPTS FOR RELEVANT YEAR AS AT 31 DECEMBER 2005**

		<u>Contribution Year</u>	<u>Applicable Oil receipt year</u>
Bahrain	General Fund	2003	2002
	General Fund	2002	2001
	General Fund	2001	2000
	General Fund	2000	1999
	General Fund	1998	1997
	<i>Prestige Major Claims Fund</i>	2003	2001
	<i>Erika Major Claims Fund</i>	1999, 2000, 2001 & 2002	1998
Cambodia	General Fund	2003	2002
	General Fund	2002	2001
	<i>Prestige Major Claims Fund</i>	2003	2001
Comoros	General Fund	2003	2002
	General Fund	2002	2001
	General Fund	2001	2000
	<i>Prestige Major Claims Fund</i>	2003	2001
Djibouti	General Fund	2003	2002
	General Fund	2002	2001
	<i>Prestige Major Claims Fund</i>	2003	2001
Dominica	General Fund	2003	2002
	General Fund	2002	2001
	<i>Prestige Major Claims Fund</i>	2003	2001
Dominican Republic	General Fund	2003	2002
	General Fund	2002	2001
	General Fund	2001	2000
	General Fund	2000	1999
	<i>Prestige Major Claims Fund</i>	2003	2001
Gabon	General Fund	2003	2002
Georgia	General Fund	2003	2002
	General Fund	2002	2001
	General Fund	2001	2000
	<i>Prestige Major Claims Fund</i>	2003	2001
Grenada	General Fund	2003	2002
	General Fund	2002	2001
	<i>Prestige Major Claims Fund</i>	2003	2001
Guinea	General Fund	2003	2002
Saint Vincent and the Grenadines	General Fund	2003	2002
	General Fund	2002	2001
	<i>Prestige Major Claims Fund</i>	2003	2001
Sierra Leone	General Fund	2003	2002
	General Fund	2002	2001
	<i>Prestige Major Claims Fund</i>	2003	2001
Tanzania	General Fund	2003	2002

SCHEDULE II

REPORT ON PAYMENT OF CLAIMS FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2005

- 1 Financial Regulation 4.6 requires the Director to maintain a running record of all expenses incurred by the 1992 Fund in respect of each incident giving rise to claims against the Fund.
- 2 Expenditure incurred by the 1992 Fund during 2005 in respect of various incidents amounted to £17 353 240 and is made up as follows:

	£
General Fund (see paragraph 3)	576 077
<i>Erika</i> Major Claims Fund	13 506 429
<i>Prestige</i> Major Claims Fund	<u>3 270 734</u>
	<u>17 353 240</u>

- 3 The General Fund covers compensation payments and claims related expenditure up to a maximum amount of the Pounds sterling equivalent of 4 million SDRs per incident converted at the rate applicable on the date of the incident. During 2005 payments from the General Fund were made in respect of six incidents. The major portion of the claims and claims related expenditure from the General Fund related to two incidents, an incident in Bahrain (£321 437) and the *Dolly* incident (£119 636).
- 4 In general, the position as at 31 December 2005 can be summarised as follows:

Incident	Year	Compensation £	Fees and related costs £	Other costs £	Total £
1 Incident in Germany	2005	-	22 014	3 220	25 234
	2004	-	26 640	912	27 552
	2003	-	18 210	58	18 268
	2002	-	8 896	24	8 920
	2001	-	11 481	1 817	13 298
	2000	-	3 895	8	3 903
	1999	-	10 997	499	11 496
	Total to date	-	102 133	6 538	108 671
2 <i>Dolly</i>	2005	-	119 620	16	119 636
	2004	-	39 636	5	39 641
	2003	-	1 308	16	1 324
	2002	-	-	-	-
	2001	-	2 281	-	2 281
	Total to date	-	162 845	37	162 882
3 <i>Erika</i>	2005	11 718 026	1 785 899	2 504	13 506 429
	2004	7 502 681	2 004 166	4 581	9 511 428
	2003	23 218 618	2 659 213	7 182	25 885 013
	2002	15 730 700	4 693 769	34 697	20 459 166
	2001	9 773 083	4 100 465	62 323	13 935 871
	2000	-	2 252 311	93 137	2 345 448
	1999	-	-	699	699
	Total to date	67 943 108	17 495 823	205 123	85 644 054

Incident	Year	Compensation £	Fees and related costs £	Other costs £	Total £
4 Al Jaziah 1	2005	-	10 785	1 871	12 656
	2004	-	9 142	1 507	10 649
	2003	335 878	14 754	75	350 707
	2002	25 532	7 949	3 833	37 314
	2001	204 756	16 142	47	220 945
	2000	-	23 218	361	23 579
	Total to date	566 166	81 990	7 694	655 850
5 Slops	2005	-	96 333	-	96 333
	2004	-	22 536	-	22 536
	2003	-	63 228	47	63 275
	2002	-	38 620	23	38 643
	2001	-	9 004	-	9 004
	2000	-	10 938	6	10 944
	Total to date	-	240 659	76	240 735
6 Incident in Sweden	2004	-	5 125	18	5 143
	Total to date	-	5 125	18	5 143
7 Prestige	2005	621 316	2 617 861	31 557	3 270 734
	2004	123 033	2 325 594	288 810	2 737 437
	2003	39 915 420	3 293 373	120 473	43 329 266
	2002	-	35 969	10 626	46 595
	Total to date	40 659 769	8 272 797	451 466	49 384 032
8 Incident in Bahrain	2005	304 827	16 537	73	321 437
	2004	362 772	406	8 242	371 420
	2003	-	812	-	812
	Total to date	667 599	17 755	8 315	693 669
9 Kyung Won	2005	-	778	3	781
	2004	1 567 229	147 739	1 728	1 716 696
	2003	-	280	2 293	2 573
	Total to date	1 567 229	148 797	4 024	1 720 050

SCHEDULE III

DETAILS OF CONTINGENT LIABILITIES OF THE 1992 FUND AS AT 31 DECEMBER 2005

- 1 Contingent liabilities represent all known or likely claims against the 1992 Fund as at 31 December 2005 as well as an estimate of fees and other costs for 2006 (Note 1(f) to the financial statements). The figures are based on information available up to 30 April 2006.
- 2 There are contingent liabilities of the 1992 Fund estimated at £120 640 000 in respect of eight incidents as at 31 December 2005.
- 3 Details of the contingent liabilities, given in rounded figures, are set out below.

Incident		Date	Contingent liabilities at 31.12.05		
			Compensation £	Other costs £	Total £
1	Incident in Germany	20.6.96	1 100 000	30 000	1 130 000
2	<i>Dolly</i>	5.11.99	1 600 000	80 000	1 680 000
3	<i>Erika</i>	12.12.99	47 000 000	2 000 000	49 000 000
4	<i>Al Jaziah 1</i>	24.1.00	0	10 000	10 000
5	<i>Slops</i>	15.6.00	2 000 000	80 000	2 080 000
6	Incident in Sweden	23.9.00	530 000	10 000	540 000
7	<i>Prestige</i>	13.11.02	61 800 000	2 500 000	64 300 000
8	<i>N°7 Kwang Min</i>	24.11.05	1 500 000	400 000	1 900 000
TOTAL			115 530 000	5 110 000	120 640 000

- 4 Out of these contingent liabilities, an amount of £41.1 million had been liquidated as at 30 April 2006. This amount relates mainly to the payment to the Spanish Government in respect of the *Prestige* incident of €56 365 000 and compensation and fees in respect of the *Erika*, *Prestige* and *N° 7 Kwang Min* incidents.
- 5 The estimated expenditure under the item 'Other costs' relates to legal and technical costs for the next financial year, ie 2006. High amounts of lawyers' and surveyors' fees have been included in the contingent liabilities in respect of the *Erika* and *Prestige* incidents. The amounts have been assessed on the basis of the likely volume of work to be carried out in 2006.
- 6 The incidents in respect of which over the years the 1992 Fund has been, or may be, obliged to make payments are set out in the IOPC Funds' Annual Report 2005.

Incident in Germany

- 7 As regards the spill from an unknown source in Germany, the German authorities took legal action against the owner of the ship suspected of being responsible for the oil spill and his insurer. The authorities have informed the 1992 Fund that, if their attempts to recover the cost of their clean-up operations from the shipowner were to be unsuccessful, they would claim against the 1992 Fund. In order to prevent its claims against the 1992 Fund from becoming time barred, the German authorities also took legal action against the 1992 Fund. In a judgement rendered in December 2002 the German Court of first instance held the owner of the suspected ship and his insurer liable for the pollution damage. The shipowner and the insurer appealed against the

judgement. At a hearing held in December 2004, the Appeal Court indicated that on the basis of the evidence submitted, it was far from convinced that the suspected ship was the source of the pollution. The Executive Committee in March 2005 authorised the Director to conclude an out-of-court settlement with all the other parties involved, ie the Federal Republic of Germany, the shipowner and his insurer providing the amount to be paid by the shipowner and the Club was above the 18% offer. In the light of the decision by the Executive Committee the Director decided to accept a proposed settlement offer whereby the 1992 Fund would pay 80% of any proven loss suffered by the Federal Republic of Germany as result of the incident. For the purpose of the contingent liabilities the total compensation arising out of this incident (including interest) have been estimated at €2 million. The 1992 Fund's share being €1.6 million (£1.1 million) and fees and other costs for 2006 has been estimated at £30 000.

Dolly

- 8 The *Dolly*, which was carrying a cargo of bitumen, sank off Martinique. The ship was not covered by any insurance, and it is unlikely that the shipowner has financial resources to make any compensation payments. In October 2002, the French Government took legal action against the shipowner and the 1992 Fund, indicating that the total claim would exceed €2 232 000. The French authorities have informed the Fund that they have concluded a contract for the removal of the cargo and that the total cost of the operation was estimated at around €1.1 million. The authorities have commenced the operation for the removal of the cargo. For the purpose of the contingent liabilities the total compensation arising out of this incident has been estimated at €2.3 million (£1 600 000) and fees and other costs for 2006 at £80 000.

Erika

- 9 The total amount of the established claims in respect of the *Erika* incident will exceed the maximum amount available for compensation under the 1992 Conventions (135 million SDR, corresponding to FFr1 211 966 811 or €184 763 149). The limitation amount applicable to the *Erika* under the 1992 Civil Liability Convention, FFr84 247 733 or €12 843 484. The 1992 Fund's liability would therefore be FFr1 127 719 078 (€171 919 665). The 1992 Fund had as at 31 December 2005 paid FFr 679 million (€103.5 million) in compensation. The balance payable by the 1992 Fund in compensation is €68.4 million (£47 million). Fees and other costs are estimated at £2 million for 2006.

Al Jaziah 1

- 10 The *Al Jaziah 1* incident occurred in the United Arab Emirates, which at the time of the incident was a member of both the 1992 Fund and the 1971 Fund. The 1992 Fund Executive Committee and the 1971 Fund Administrative Council decided that the liabilities arising out of this incident should be distributed between the two Funds on a 50:50 basis. All claims have been settled and paid. The 1992 Fund has taken recourse action against the owner of the *Al Jaziah 1*, which will give rise to legal costs in 2006 estimated at £10 000.

Slops

- 11 In July 2000, the Executive Committee decided that the *Slops* should not be considered as a 'ship' for the purpose of the 1992 Civil Liability Convention and the 1992 Fund Convention and that these Conventions therefore did not apply to the incident. Two Greek clean up contractors did not accept the Committee's decision and took legal action against the owner of the *Slops* and the 1992 Fund. In December 2002 a Greek Court of first instance held that the *Slops* fell within the definition of 'ship' and ordered the Fund to pay €2 323 360 (£1 645 000) plus interest and costs. The Fund appealed against the judgement. In February 2004 the Court of Appeal held that the *Slops* did not fall within the definition and rejected the claims. The claimants appealed to the Greek Supreme Court. In early 2005 the 1992 Fund submitted pleadings to the Supreme Court maintaining that the Court of Appeal had interpreted the definition of "ship" correctly and that the appeal should be dismissed. In September 2005, five judges of the Supreme Court concluded that the matter should be referred to the Plenary Session of the Supreme Court which will be held in

early 2006. For the purpose of the contingent liabilities, the total compensation arising from the incident has been estimated at £2 million. Fees and other costs are estimated at £80 000 for 2006.

Incident in Sweden

- 12 The Swedish authorities have maintained that the polluting oil originated from the vessel *Alambra*, and the 1992 Fund shares this view. The shipowner and his insurer have insisted that this was not the case. The Swedish Government has taken legal action against the shipowner and his insurer claiming compensation of SKr5 260 364 (£412 000) for clean-up costs. The Government has also taken legal action against the 1992 Fund to prevent its claim against the Fund becoming time barred. The Government has invoked the liability of the Fund to compensate it if neither the shipowner nor the insurer were to be held liable to pay compensation. For the purpose of the contingent liabilities, the total compensation arising from the incident (including interest) has been estimated at £530 000. Fees and other costs are estimated at £10 000 for 2006.

Prestige

- 13 The total amount of the established claims will exceed the maximum amount available for compensation under the 1992 Conventions, 135 million SDR, corresponding to €171 520 703 (£118.9 million). The limitation amount applicable to the *Prestige* under the 1992 Civil Liability Convention is estimated at 18.9 million SDR, corresponding to €22.8 million (£15.7 million). The 1992 Fund's liability would therefore be approximately €148.7 million (£102 million). By the end of 2005 the 1992 Fund had paid a total of €58.6 million, including €57 555 000 (£39 914 906) paid to the Spanish State in 2003. The balance payable by the 1992 Fund in compensation therefore is some €90 million (£61.8 million). Fees and other costs are estimated at £2.5 million for 2006.

N°7 Kwang Min

- 14 In December 2005, the 1992 Fund was informed by the Korean Ministry of Maritime Affairs and Fisheries that the *N°7 Kwang Min* was not insured for pollution liabilities and that the shipowner had very few assets. The Executive Committee decided at its February 2006 session that the 1992 Fund was liable for settling all claims arising from the incident in view of the shipowner not being able to meet his obligations under the 1992 Civil Liability Convention. Claims totalling KRW 237 million have been assessed and further fishery claims and claims for clean-up costs totalling KRW 2 426 million are being assessed. For the purpose of the contingent liabilities compensation payable is estimated at KRW 2 663 million (£1.5 million). Fees and other costs are estimated at £400 000 for 2006.
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