INTERNATIONAL
OIL POLLUTION
COMPENSATION
FUND 1992

ASSEMBLY
13th session
Agenda item 10

92FUND/A.13/9
10 July 2008
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# 2007 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** 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 2007. The Director has also prepared comments on the financial statements. These comments are at **Annex I**. Attached to that Annex is a summary of the External Auditor's recommendations from the previous financial years and the actions taken on those recommendations.

**2** 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.

**3** 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** The financial statements of the 1992 Fund are audited by the Comptroller and Auditor General of the United Kingdom.

**5** Pursuant to Financial Regulation 14.10, 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 2007. The Auditor's Report is at **Annex III**.

6 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**.

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 certified financial statements for the financial period 1 January to 31 December 2007 are at **Annex V** and consist of the following.

Statement I Statement of Budget Appropriations and Obligations Incurred in respect of the General Fund for the financial period 1 January - 31 December 2007

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 2007

Statement III Income and Expenditure Account in respect of the General Fund for the financial period 1 January - 31 December 2007

Statement IV.1 Income and Expenditure Account in respect of the *Erika* Major Claims Fund for the financial period 1 January - 31 December 2007

Statement IV.2 Income and Expenditure Account in respect of the *Prestige* Major Claims Fund for the financial period 1 January - 31 December 2007

Statement V Staff Provident Fund Account for the financial period 1 January - 31 December 2007

Statement VI Balance Sheet of the 1992 Fund as at 31 December 2007

Statement VII Cash Flow Statement for the 1992 Fund for the financial period 1 January - 31 December 2007

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

Schedule I Report on Contributions during the financial period 1 January - 31 December 2007 and on contributions outstanding for previous financial periods

Schedule II Report on Payment of Claims for the financial period 1 January - 31 December 2007

Schedule III Details of Contingent Liabilities of the 1992 Fund as at 31 December 2007

**Action to be taken by the Assembly**

10 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 2007.

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**ANNEX I**

# INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

## DIRECTOR'S COMMENTS ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD 1 JANUARY TO 31 DECEMBER 2007

## 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), both as 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.

National Audit Office NAO

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 SDR for incidents occurring after that date. These amounts, which as at 31 December 2007 corresponded to £106 million and £160 million respectively, include the sum actually paid by the shipowner or his insurer.

1.4 At its February/March 2006 session, the 1992 Fund Assembly took note of a voluntary agreement, the Small Tanker Oil Pollution Indemnification Agreement (STOPIA 2006), under which the shipowner/P&I Clubs would reimburse the 1992 Fund for part of the compensation payable by the Fund under the 1992 Fund Convention. At its October 2006 session the 1992 Fund Assembly approved administrative procedures for indemnification of the 1992 Fund by the shipowners/P&I Clubs under STOPIA 2006. The contract applies to all small tankers entered in one of the P&I Clubs which are members of the International Group of P&I Clubs and reinsured through the pooling arrangements of the International Group. Owners of small tankers not insured by an International Group Club and/or not covered by the pooling arrangement may agree with their insurers to be covered by STOPIA 2006. The effect of STOPIA 2006 is that the maximum amount of compensation payable by owners of all ships of 29 548 gross tonnage or less is 20 million SDR. This voluntary agreement is applicable to the *Solar 1* incident which occurred in 2006 (see paragraph 5.7).

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<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.

1.5 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.

1.6 By the end of 2007, 98 States were Members of the 1992 Fund (see page 8).

## 2 Secretariat

2.1 The IOPC Funds have a joint Secretariat, based in London, headed by one Director. The 1992 Fund Secretariat also administers the 1971 Fund and the Supplementary Fund.

2.2 As at 31 December 2007 the Secretariat had 32 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.

National Audit Office (NAO)

3.2 The Audit Body normally meets three times a year. In 2007 they met in March, June and December.

## 4 Investment Advisory Body

4.1 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.

4.2 The Investment Advisory Body normally meets four times a year. In 2007 they met in February, May, September and November.

## 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 SDR 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 SDR.

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.

5.3 As requested by the Supplementary Fund Assembly and as authorised by the 1992 Fund Assembly, the Director made necessary funds available to the Supplementary Fund in the form of loans from

the 1992 Fund to be repaid, with interest, when the Supplementary Fund had received the first levy of contributions to be decided by its Assembly. The loans and interest were repaid by the Supplementary Fund on receipt of contributions by February 2007.

***Income***

Contribution income

5.4 As regards contributions to the General Fund £3 million were levied in 2006 for payment in 2007. With respect to the *Erika* and *Prestige* Major Claims Funds the Assembly decided not to levy any contributions.

5.5 Details of outstanding contributions for previous financial periods are provided in **Schedule I.** As at 31 December 2007 the total outstanding amount of contributions levied was £386 176.

Management fee

5.6 At their October 2006 sessions the governing bodies of the IOPC Funds decided that the 1971 Fund and the Supplementary Fund should pay to the 1992 Fund a flat management fee towards the cost of running the joint Secretariat. The management fee was set based on the estimated number of working days that the entire Secretariat would have to spend on the 1971 Fund and Supplementary Fund matters. The fee was set in the budget at £275 000 (20 days) and £70 000 (5 days), respectively, the same as in 2006, for the period 1 January to 31 December 2007.

Recovery under STOPIA 2006

5.7 Payments recovered in 2007 from the P&I Club under STOPIA 2006 in respect of the *Solar 1* incident totalled some £4.5 million.

Interest earned on investments

5.8 Interest earned on the investment of the 1992 Fund assets during the financial period amounted to some £5.4 million and includes interest on Euros bought and invested in relation to the *Erika* and *Prestige* incidents. Interest earned from investment of the assets of the General Fund and the Major Claims Funds are as follows:

| | |
|---|---|
| General Fund | £1.6 million |
| *Erika* Major Claims Fund | £2.3 million |
| *Prestige* Major Claims Fund | £1.3 million |

***Expenditure***

Secretariat Expenses

5.9 The joint Secretariat's administrative expenses for 2007 amounted to £2 927 628, including the fees for the External Auditor. The total obligations incurred in 2007 was 18.5% less than the 2007 budget appropriation of £3 590 750 and 11% lower than the total obligations incurred in 2006 of £ 3 288 685.

5.10 The External Auditor's fees for the audit of the financial statements for the three Funds were £60 500 broken down between the Funds as follows:

| | |
|---|---|
| 1992 Fund | £47 000 |
| 1971 Fund | £10 000 |
| Supplementary Fund | £3 500 |

5.11 Excess expenditure under Chapter III ( Meetings) resulting in revised budget appropriations was met by one budgetary transfer as provided in the 1992 Fund's Financial Regulations. One further transfer was made as authorised by the 1992 Fund Assembly at its October 2007 session.

5.12 Expenses for running the joint Secretariat were made under six Chapters as set out in the table below:

| Chapter | | 2007 budget appropriations £ | 2007 revised budget appropriations £ | 2007 Obligations incurred £ | % | 2006 Obligations incurred £ | % |
|---|---|---|---|---|---|---|---|
| I | Personnel | 2 042 350 | 2 042 350 | 1 746 881 | 59.7 | 1 998 321 | 60.7 |
| II | General services | 740 400 | 740 400 | 513 375 | 17.5 | 536 003 | 16.3 |
| III | Meetings | 200 000 | 228 548 | 228 548 | 7.8 | 176 638 | 5.4 |
| IV | Travel | 160 000 | 140 000 | 102 733 | 3.5 | 143 991 | 4.4 |
| V | Miscellaneous expenditure | 388 000 | 388 000 | 336 091 | 11.5 | 433 732 | 13.2 |
| VI | Unforeseen expenditure | 60 000 | 51 452 | - | - | - | - |
| | Total | 3 590 750 | 3 590 750 | 2 927 628 | 100.00 | 3 288 685 | 100.00 |

Comments on the expenditures by Chapter are provided below:

I *Personnel*

| Chapter | | 2007 Budget appropriations £ | 2007 Obligations incurred £ | Balance of appropriation | Underspend /(Overspend) in % |
|---|---|---|---|---|---|
| I | Personnel | 2 042 350 | 1 746 881 | 295 469 | 14.5 |

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5.13 The expenditure under Personnel covers Salaries, Separation and recruitment and Staff benefits, allowances and training.

5.14 The underspend in 2007 was due mainly to four professional posts and one general service post becoming vacant during the year and not being permanently filled in 2007. An additional professional post was approved by the Assembly at it 12th session in October 2007. This post is envisaged to be filled in 2008.

5.15 There was also an underspend of some £82 000 (2007 appropriation £100 000) in respect of staff training as no major cross-organisational training was undertaken in 2007.

5.16 The obligations incurred under this Chapter in 2007 (£1 746 881) is 12.6 % lower than in 2006 (£1 998 321) due mainly to staff vacancies in 2007 not being filled during the year. In addition recruitment and separation costs were incurred in 2006 in respect of the outgoing and incoming Director and similarly in respect of the post of Legal Counsel.

II *General services*

| Chapter | | 2007 Budget appropriations £ | 2007 Obligations incurred £ | Balance of appropriation | Underspend /(Overspend) in % |
|---|---|---|---|---|---|
| II | General services | 740 400 | 513 375 | 227 025 | 30.7 |

5.17 The appropriations under this heading cover mainly Office accommodation, Office machines and Public information. Of the expenses in this chapter some 54% relates to Office accommodation and some 13% to Public information.

5.18 Planned procurement of replacement computer hardware (Office machines) was not undertaken in 2007. The underspend on Public Information was due mainly in respect of ongoing development of the organisation's website/document server and other public relations projects not being undertaken in 2007, due to staff changes.

5.19 The obligations incurred under this Chapter in 2007 (£513 375) is 4.2 % lower than in 2006 (£536 003) due mainly to less expenditure in respect of purchase of furniture and publication costs.

III *Meetings*

| Chapter | 2007 Budget appropriations £ | 2007 Obligations incurred £ | Balance of appropriation | Underspend /(Overspend) in % |
|---|---|---|---|---|
| III Meetings | 200 000 | 228 548 | (28 548) | (14.3) |

5.20 The main expenses under this Chapter relate to the cost of the premises, interpretation during meetings and translation and printing of documents for meetings.

5.21 The IOPC Funds governing bodies held 10.5 days of meetings in 2007. There was an increase in costs of 14.3% in 2007 compared to budget. This was due to the fact that all three sessions, March, June and October 2007 sessions of the governing bodies had to be held outside of the International Maritime Organization (IMO) Headquarters building due to its refurbishment.

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5.22 The shortfall of £28 548 was covered by a transfer of £20 000 from Chapter IV (Travel) in accordance with Financial Regulation 6.3 and a transfer of £8 548 from Chapter VI (Unforeseen expenditure) as authorised by the Assembly at its October 2007 session.

5.23 The obligations incurred under this Chapter in 2007 (£228 548) is 29.4 % higher than in 2006 (£176 638) due mainly to three sessions held at venues outside of the IMO Headquarters (due to its refurbishment) compared to the one session in October 2006.

IV *Travel*

| Chapter | 2007 Budget appropriations £ | 2007 Obligations incurred £ | Balance of appropriation | Underspend /(Overspend) in % |
|---|---|---|---|---|
| IV Travel | 160 000 | 102 733 | 57 267 | 35.8 |

5.24 There has been a further increase in the number of requests for the Secretariat to participate in various conferences and seminars and to hold workshops on claims handling. Where possible, travel cost was shared with travel in relation to incidents. With the reduced number of incidents involving the Funds such cost sharing is no longer possible to the same extent. The Secretariat has developed internal guidelines to determine the conferences etc where participation of the Funds is necessary or desirable with a view to being able to prioritise within the increased number of requests.

5.25 In addition budgeting for travel is difficult as invitations for conferences and seminars are not normally provided in time to be included in the preparation of the budget.

5.26 The obligations incurred under this Chapter in 2007 (£102 733) is 28.6 % lower than in 2006 (£143 991) due mainly to the fact that in 2006 the Funds participated in a relatively larger number of workshops and seminars.

V *Miscellaneous expenditure*

| Chapter | 2007 Budget appropriations £ | 2007 Obligations incurred £ | Balance of appropriation | Underspend /(Overspend) in % |
|---|---|---|---|---|
| V Miscellaneous expenditure | 388 000 | 336 091 | 51 909 | 13.4 |

5.27 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).

5.28 Consultants were used mainly in respect of developing the IOPC Funds' bespoke claims database and a record of decisions database. Development work on both databases will continue in 2008.

5.29 The obligations incurred under this Chapter in 2007 (£336 091) is 22.5 % lower than in 2006 (£433 732) due mainly to the fact that Consultant fees in 2007 was lower than in 2006. This was mainly due to the fact that costs in respect to the web based claims management database materialised only from the second quarter and there were no costs incurred in 2007 in relating to special projects eg on risk management and on the performance management system.

VI *Unforeseen expenditure*

| Chapter | 2007 Budget appropriations £ | 2007 Obligations incurred £ | Balance of appropriation | Underspend /(Overspend) in % |
|---|---|---|---|---|
| VI Unforeseen expenditure | 60 000 | - | 60 000 | 100 |

National Audit Office (NAO)

5.30 No expenditure was incurred under this heading. However, a transfer was made from this Chapter as set out in paragraph 5.22 above.

Claims and claims-related expenditure

5.31 Compensation payments and claims-related expenditure during 2007 amounted to some £10.2 million. The payments related mainly to the following incidents:

*Solar 1* (£4.0 million)
*Prestige* (£3 million)
*Erika* (£2.0 million) and
Incident in Germany (£1 million)

5.32 In August 2006 the *Solar I* capsized and sank in the Philippines. Although a substantial number of claims have been paid they are however recoverable under STOPIA 2006. 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. 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.

5.33 The incidents in which the 1992 Fund was involved during 2007 are listed in **Schedule II**.

*General Fund and Major Claims Balances*

5.34 The majority of the 1992 Fund's cash assets at the end of the 2007 financial period amounting to some £94 million was held in Pounds sterling.

5.35 The General Fund balance at the balance sheet date was £25 893 602, which is higher than the working capital of £22 million set by the Assembly at its October 2004 session.

5.36 The balances due to the two Major Claims Funds were as follows:

| | £ |
|---|---|
| *Erika* Major Claims Fund | 43 588 233 |
| *Prestige* Major Claims Fund | 23 004 082 |

5.37 The contingent liabilities as at 31 December 2007 were estimated at over £326 626 200 million in respect of ten incidents as detailed in **Schedule III.**

*Staff Provident Fund*

5.38 The Staff Provident Fund Account had a balance of £1 714 266 on the accounts of staff members as at 31 December 2007 (**Statement V**). This balance reflects contributions to the Provident Fund during the financial year, in accordance with Staff Regulation 23(b) and Staff Rule VIII.5, withdrawals and repayments of housing loans, withdrawals on separation and interest earned on the investment of the assets (£130 954) of the Provident Fund.

*Due from HNS Fund*

5.39 An amount of £127 279 (including interest) is due from the International Hazardous and Noxious Substances Fund (HNS Fund) (see Note 7 to the financial statements).

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*Contributors' account*

5.40 At the balance sheet date an amount of £747 286 was due to contributors. This amount includes interest (£39 042) credited in 2007 as provided for in the Internal Regulations.

*Cash Flow Statement for the financial period 1 January - 31 December 2007 (**Statement VII**)*

5.41 During the period ended 31 December 2007, the net cash outflow from operating activities was £2 832 944 and interest from the 1992 Fund's investments amounted to £5 412 751 which, added to the opening balance of £91 445 476, resulted in a cash balance of £94 025 283 (see Note 16(a) to the financial statements).

## 6 External Auditor's Recommendations from previous financial years

The External Auditor's recommendations from the 2006 previous financial year cover both the 1992 Fund and the 1971 Fund. These recommendations and the Director's response thereto are set out in the Attachment to this Annex with an update on the recommendations made for 2005 financial statements that remain outstanding.

Willem Oosterveen
Director
20 June 2008

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| States Parties to both the 1992 Civil Liability Convention and the 1992 Fund Convention as at 31 December 2007 (98 States) | | |
|---|---|---|
| Albania | Germany | Papua New Guinea |
| Algeria | Ghana | Philippines |
| Angola | Greece | Poland |
| Antigua and Barbuda | Grenada | Portugal |
| Argentina | Guinea | Qatar |
| Australia | Iceland | Republic of Korea |
| Bahamas | India | Russian Federation |
| Bahrain | Ireland | Saint Lucia |
| Barbados | Israel | Saint Vincent and the Grenadines |
| Belgium | Italy | |
| Belize | Jamaica | Samoa |
| Brunei Darussalam | Japan | Seychelles |
| Bulgaria | Kenya | Sierra Leone |
| Cambodia | Latvia | Singapore |
| Cameroon | Liberia | Slovenia |
| Canada | Lithuania | South Africa |
| Cape Verde | Luxembourg | Spain |
| China (Hong Kong Special Administrative Region) | Madagascar | Sri Lanka |
| | Malaysia | Saint Kitts and Nevis |
| Colombia | Maldives | Sweden |
| Comoros | Malta | Switzerland |
| Congo | Marshall Islands | Tonga |
| Croatia | Mauritius | Trinidad and Tobago |
| Cyprus | Mexico | Tunisia |
| Denmark | Monaco | Turkey |
| Djibouti | Morocco | Tuvalu |
| Dominica | Mozambique | United Arab Emirates |
| Dominican Republic | Namibia | United Kingdom |
| Estonia | Netherlands | United Republic of Tanzania |
| Fiji | New Zealand | |
| Finland | Nigeria | Uruguay |
| France | Norway | Vanuatu |
| Gabon | Oman | Venezuela |
| Georgia | Panama | |

| 4 States which have deposited instruments of accession, but for which the 1992 Fund Convention does not enter into force until date indicated | |
|---|---|
| Kiribati | 5 February 2008 |
| Cook Islands | 12 March 2008 |
| Hungary | 30 March 2008 |
| Ecuador | 11 December 2008 |

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**Attachment**

## RECOMMENDATIONS MADE BY EXTERNAL AUDITOR IN MAIN REPORT

## FINANCIAL STATEMENTS 2006

| *1992 Fund and 1971 Fund* | **Recommendations from External Auditor** | **Response from IOPC Funds' Director** | **Status** |
|---|---|---|---|
| | • Recommendation 1: Adoption of IPSAS by the Fund | Discussions are being held with the External Auditor and Audit Body with a view to submit a proposal to the governing bodies in October 2008. | To set out in a document to the October 2008 session the current status. |
| | • Recommendation 2: Budgets for project work to include staff time. | For future large projects staff members' time will be estimated where possible. | Implemented in the case of claims database being developed. |
| ***1992 Fund Only*** | • Recommendation 3: A more accurate system of allocation of Secretariat time should be considered, should the Secretariat become responsible for the HNS Fund. | Director to review the system but for the governing bodies to decide should the Secretariat become responsible for the HNS Fund. | Subject to the HNS Fund coming into force and the Secretariat being responsible for its administration. |

| | Recommendations from External Auditor | Response from IOPC Funds' Director | Status |
|---|---|---|---|
| | • Recommendation 4: Continue with staff performance management system. | Staff performance management system has been fully embedded in the Secretariat since 2007. | Implemented. Evaluation to be undertaken in 2008. |
| | • Recommendation 5: Complete the process of identification of key risks. | Risk management process will be finalised as rapidly as practically possible. | To be completed in 2008. Audit Body to be given an update in June 2008. |

**FINANCIAL STATEMENTS 2005**

| *1992 Fund and 1971 Fund* | **Recommendations from External Auditor** | **Response from IOPC Funds' Director** | **Status** |
|---|---|---|---|
| | • Recommendation 1: Contributor's account - Review of position in respect of the credit balances of a particular contributor. | Discussions are being held with the contributor for the purpose of resolving the issue. | Ongoing- settlement proposal made to contributors in December 2007. |
| | • Recommendation 2: Review of recoverability of all contributions outstanding to the Funds. | The Director will review the position in relation to each of the individual contributors in order to determine whether it will be appropriate to write off any contributions. | Implemented. |
| ***1992 Fund Only*** | • Recommendation 6: Risk identification process. | The ongoing process on risk management will be finalised as rapidly as practically possible. On completion key risks will be identified and monitored by the Secretariat. | See response to 2006 Financial Statements. |

**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 2007 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 was carried out during 2007.

## *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 2006 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 existed an effective system of internal control for the financial year 2007.

**Willem Oosterveen**
Director
20 June 2008

National Audit Office

# External Auditor's Report 2007

# International Oil Pollution Compensation Fund 1992

The National Audit Office (NAO), headed by the Comptroller and Auditor General of the United Kingdom, provides an external audit service to the International Oil Pollution Compensation Fund 1992. The External Auditor has been appointed by the Fund Assembly in accordance with Regulation 14 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 organisation has used its resources.

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

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June 2008 Reference: D17171

# EXECUTIVE SUMMARY

- ***An unqualified audit opinion on the 2007 financial statements***
- ***There was a shortfall of income over expenditure of £252,553.***
- ***Higher miscellaneous income due to higher receipts of investment income, a contributions levy and recoveries of claims income through court appeals (£379k) and income under the Small Tankers Oil Pollution Indemnification Agreement (STOPIA) 2006 (£4.5m)***
- ***Contingent liabilities increased significantly with two large oil spills near the end of the period***
- ***Progress towards the formal adoption of International Public Sector Accounting Standards***
- ***Audit recommendations to improve progress in implementing risk management***
- ***Follow up to prior year audit recommendations***

## 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 International Standards on Auditing. We have provided a separate audit opinion and report in relation to the Financial Statements of the International Oil Pollution Compensation Fund 1971 and an audit opinion in relation to the financial statements of the Supplementary Fund.

2. The audit examination revealed no weaknesses or errors which we considered to be material to the accuracy, completeness and validity of the financial statements; and the audit opinion confirms that these financial statements present fairly, in all material respects, the financial position as at 31 December 2007 and the results of operations and cash flows for the period then ended, in accordance with United Nations System Accounting Standards and the IOPC Funds' stated accounting policies.

3. The main observations and recommendations from our audit are summarised below, with a more detailed commentary in the section on Detailed Findings. Action taken by management in response to our previous year's recommendations, for 2006, is discussed in a separate section of the report; and the scope and approach of the audit, which were communicated to the Secretariat in a detailed audit strategy, is summarised at Annex A.

# MAIN FINDINGS AND RECOMMENDATIONS

## Financial Reporting

4. For the financial year ended 31 December 2007, the 1992 Fund reported shortfall of income over expenditure of £252,553, compared with a deficit of £53,269,676 in 2006. The large difference between years is explained by the comparatively low level of compensation payments made in 2007. In respect of the Prestige incident in particular, there were compensation payments totalling £40,537,569 in 2006, compared to payments of only £1,109,424 in 2007.

5. We confirmed that internal financial controls had operated effectively in each of the account areas that we audited and, combined with assurance gained from tests of detail, we gained sufficient reliable evidence to support our audit opinion.

6. The Fund is preparing to adopt International Public Sector Accounting Standards (IPSAS) by 2010. We reviewed progress towards this aim, including a review of the Fund's timetable and intentions for adoption of IPSAS, which will be submitted to the Assemblies for approval. We encourage the Funds to develop a detailed project plan for implementation once the Assemblies have approved adoption of IPSAS.

## Financial Management Issues

7. In addition to the work necessary to provide assurance on the financial statements, we reviewed the major areas of the Secretariat's operations in the audit period and provided guidance and support to the Secretariat as required.

8. In 2007 the Fund invoiced and received £4.5m from the P & I Club in respect of payments made to claimants affected by the Solar I incident under the Small Tanker Oil Pollution Indemnification Agreement (STOPIA) 2006. We reviewed a number of these invoices, and the systems and controls in place to identify and recover amounts paid to claimants. We found that the controls had been operating effectively during the period and that payments from the P & I Club had been timely.

9. Our interrogation of claims transactions revealed that there had been a significant repayment of claims in respect of the Erika incident. Payments totalling £379,000 made in prior years had been repaid to the Fund, following favourable court appeals. The refund had been included as a reduction in claims expenditure reported in Statement II and Statement IV.I. We have recommended that such material amounts should be disclosed separately on the face of the financial statements, to help users of the

accounts interpret total claims expenditure for the year more accurately by removing the significant reduction in such expenditure as a result of this refund.

10. For 2007 we carried out some further work on risk management to assess the progress made; and we have made some further recommendations for the Funds to embed risk management into routine business processes by establishing a risk register and prioritising risk to support a focus on key risks.

11. We also carried out a follow-up to the audit recommendations made in our 2006 audit report, and confirmed that the Secretariat has taken steps to address the areas for action. We noted that the Funds had made some progress with resolving outstanding payments to the Contributor's account.

# DETAILED REPORT FINDINGS

## Financial Reporting

### Income and Expenditure

12. During the financial period 2007, the 1992 Fund reported a General Fund operating surplus of £1,254,505, in significant contrast to the deficit of £4,733,325 reported in 2006. Contributions amounting to £3 million were levied in 2007, partially explaining the difference between years. Net General Fund expenditure in 2007, taking into account STOPIA 2006 reimbursements, was £3.5 million in 2007 compared to £6.4 million in 2006. The Fund reported an overall deficit of £83,179 (excluding the Staff Provident Fund, but including the Major Claims Funds), in comparison to an overall deficit of £52,770,943 for the previous year. This result underlines the variable nature of the Fund's activities and highlights the importance of effective management of both contributions and the Fund's investments in Sterling and Euros to meet ongoing requirements to pay claims.

### Contributions Income

13. The 1992 Fund levied contributions of £3 million in 2007 and the Fund had received 94 percent of these contributions by the year end. The Fund received late oil reports from four countries, enabling them to make adjustments to prior year's assessments to levy £164,492 to the General Fund and the Prestige Major Claims Fund.

### Miscellaneous Income

14. Miscellaneous income totalled £10,223,525, an increase of some £3.3 million on the previous year. This increase is largely explained by the increase in receipts under STOPIA 2006, but also an increase in investment income on the prior year. This increased level of miscellaneous income is likely to continue in future years.

### Secretariat Expenses

15. Obligations incurred by the 1992 Fund for joint Secretariat expenditure totalled £2,927,628, representing an underspend of £663,122 against the approved budgetary appropriations. This underspend is accounted for mainly by lower than expected personnel costs (£295,469), lower than expected public information costs (£113,829), and lower than expected costs for office machines (£48,707).
16. There was no significant increase in budget between 2006 and 2007, and the Secretariat expended £361,057 less in 2007 than in 2006.

## Claims and Claims Related Expenses

17. Compensation payments showed a marked decrease in 2007 totalling only £7.3 million (£52.6 million in 2006), further emphasising the variability of cash demands on the Funds in consecutive years. No new Major Claims Funds were established during the period, although two new incidents occurred near to the year-end that may result in MCF's being established in the future.
18. Claims related expenditure remained relatively constant and totalled £3.3 million in 2007 (£4.2 million in 2006).

## Assets and Liabilities

19. Cash balances held by the Fund increased from £91,445,476 in 2006 to £94,025,283 in 2007. This reflects additional funds due to contributions levied in 2007 and additional investment income

## Contingent Liabilities

20. The accounts report a significant increase in the 1992 Fund's contingent liabilities as a result of the two new incidents that occurred late in 2007, the Volgoneft 139 and the Hebei Spirit. Contingent liabilities are now estimated at £326.6 million compared to only £67.4 million in 2006.

## Other financial matters: fraud, presumptive fraud or money laundering

21. 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 our audit of the 2007 financial period.

## Adoption of International Public Sector Accounting Standards (IPSAS)

22. In 2007 we reviewed the Fund's current alignment with United Nations System Accounting Standards (UNSAS) and their continued applicability. The Fund continues to provide timely and well presented financial statements supported by well maintained accounting records in accordance with its Financial Regulations.
23. In our report to the 2006 Financial Statements, we recommended that the Secretariat should submit a proposal to the Assembly seeking approval of the adoption of International Public Sector Accounting Standards (IPSAS), which are being adopted elsewhere and by the United Nations system in replacement for UNSAS. We have been assisting the Fund during 2007 and early 2008 in preparing for this move. Part of this preparation has been to assess the likely implications of a move to IPSAS, and the required timetable to ensure a smooth transition. The Secretariat have now developed a proposal for submission to the 2008 session of the Assembly to request formal approval for the adoption of IPSAS. The timeline for the move to IPSAS is as follows:

- Mid-2008 to mid-2009

  Develop IPSAS-compliant Financial Regulations and accounting policies as appropriate for the Funds.

- Autumn 2009

  An accounts manual will be produced to provide guidance to staff in the Finance Department on the appropriate accounting treatment of income, expenditure, assets and liabilities.

- From 1 January 2010

  Re-working of the 2009 financial statements in IPSAS format for comparative purposes.

24. The Secretariat's initial analysis has also identified the key changes arising as a result of adopting IPSAS, and have identified key issues as follows:

(a) Fixed Assets – Presently, the purchase of fixed assets (that is, those assets which have a useful life of more than one year), are shown as expenditure in the year of purchase. In common with generally-accepted accounting practice, IPSAS requires that these assets be shown on the balance sheet, and an annual charge for depreciation of the assets be made in the expenditure statement, effectively spreading the cost of the assets over their useful life. A threshold for capitalisation of assets will have to be determined;

(b) Intangible Assets – A valuation methodology will need to be decided which fully takes into account the cost of developing any of the Funds' bespoke IT packages, such as the web- based claims management system;

(c) Financial instruments - These are currently explained by way of note to the Financial Statements. Accounting, disclosure and presentation requirements will need to follow International Accounting Standards and International Financial Reporting Standards under IPSAS in terms of recognising and measuring any value changes and accounting and reporting these changes in the financial statements;

(d) Recognition of income from investments – Investment income under IPSAS will not be recorded on maturity of the investment as is current practice, but accrued during the financial period;

(e) Recognition of interest on outstanding contributions – Interest on outstanding contributions will need to be accrued as income up to the financial year end and not only when outstanding contributions are received, as at present;

(f) Liabilities – There is likely to be a requirement to show as a liability on the balance sheet items

which are presently disclosed in Notes to the accounts. This will have the impact of directly reducing the Fund's accumulated surplus, to more accurately show the position of the various Funds. Examples of liabilities which may require inclusion in the balance sheet are accrued annual leave and repatriation costs for existing staff; and

(g) Recognition of expenditure – Expenditure will be recorded on the basis of services (or goods) actually received or due to be received in the accounting period, rather than at the time of contracting, as is the case under UNSAS. This will simplify the existing recording procedure for unliquidated obligations.

With respect to claims-related expenditure such as technical fees, lawyers' fees and so on, recording of expenditure on the basis of services (or goods) actually received in the accounting period should not pose a problem for the Funds. The recording of compensation expenditure in the accounting period will require further review.

25. We have worked closely with the Secretariat to identify the key issues and we welcome the positive progress made to formalise the adoption of IPSAS. We also welcome the foresight in building in the capacity in to its accounting system FUNDMAN to accommodate IPSAS, while recognising that some further additions may need to be made to the system as full adoption evolves. We encourage the Funds to establish a formal project plan for the adoption of IPSAS once they have obtained approval from the Governing Bodies. Such a project plan should incorporate milestones for implementation and progress against the plan should be regularly reviewed by the Secretariat and also the Governing Bodies.

***Recommendation 1:*** ***We recommend that the Secretariat establish a formal project plan for the adoption of IPSAS once they have obtained approval from the Governing Bodies. Such a project plan should incorporate milestones for implementation and progress against the plan should be regularly reviewed by the Secretariat and also the Governing Bodies.***

## Financial Management Issues

### Internal Controls

26. 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.

## Accounting treatment of compensation recovered from claimants

27. During 2007, some £379,000 was recovered from claimants for claims that had been paid in prior years in respect of the Erika incident. These amounts were refunded after a successful appeal by the 1992 Fund against the original court ruling awarding this compensation. Given the amount of time elapsed since the original payments were made, we considered that the Secretariat's original intention to offset this recovery against claims expenditure in the 2007 Financial Statements would be insufficiently clear and we recommended that the recovery of these funds should be separately disclosed in the financial statements to provide greater transparency and to show the full value of actual claims paid in 2007 rather than the net amount taking account of this recovery. These changes were agreed by the Secretariat.

***Recommendation 2: We recommend that in future years, where previous compensation payments made by the Funds are refunded at any time after the year of account, these recoveries should be disclosed separately from claims expenditure in the accounts.***

## Income received under STOPIA 2006

28. During our 2006 audit, we had reviewed the accounting treatment for income received under the STOPIA 2006 agreement. At that time, £1.3 million had been recovered from the P & I Club. The Fund has since recovered a further £4.5 million from the P & I Club in respect of the Solar I incident in 2007 and we can confirm that this has been properly accounted for in the Fund's financial statements.

29. This year we carried out a review of controls over this income stream, to confirm that they were operating effectively and to ensure that the Fund was reimbursed in a timely fashion. We reviewed a sample of invoices that had been raised by the Fund and tracked the progress of each invoice. All invoices to the P & I Club had been paid within 14 days and this represents a very positive result for the Funds, demonstrating that controls were operating as designed and worked effectively during this period.

## Payments made in the Philippines (SOLAR I)

30. We also reviewed a sample of payments made to independent fishermen in the Philippines. Almost 20,000 claimants had been paid during 2007. The volume and nature of claims arising means that the Fund has had to adapt their claims assessment and payment processes accordingly. We selected a sample of claimants and requested documentary evidence from the Philippines to substantiate both the claim and the release of the payment.
31. In all cases, supporting evidence of the assessed value of the claim, the identity of the claimant and receipt of the payment was provided to us; and we were satisfied that the controls in operation during the period were sufficient and had resulted in a clear and fair claims process.

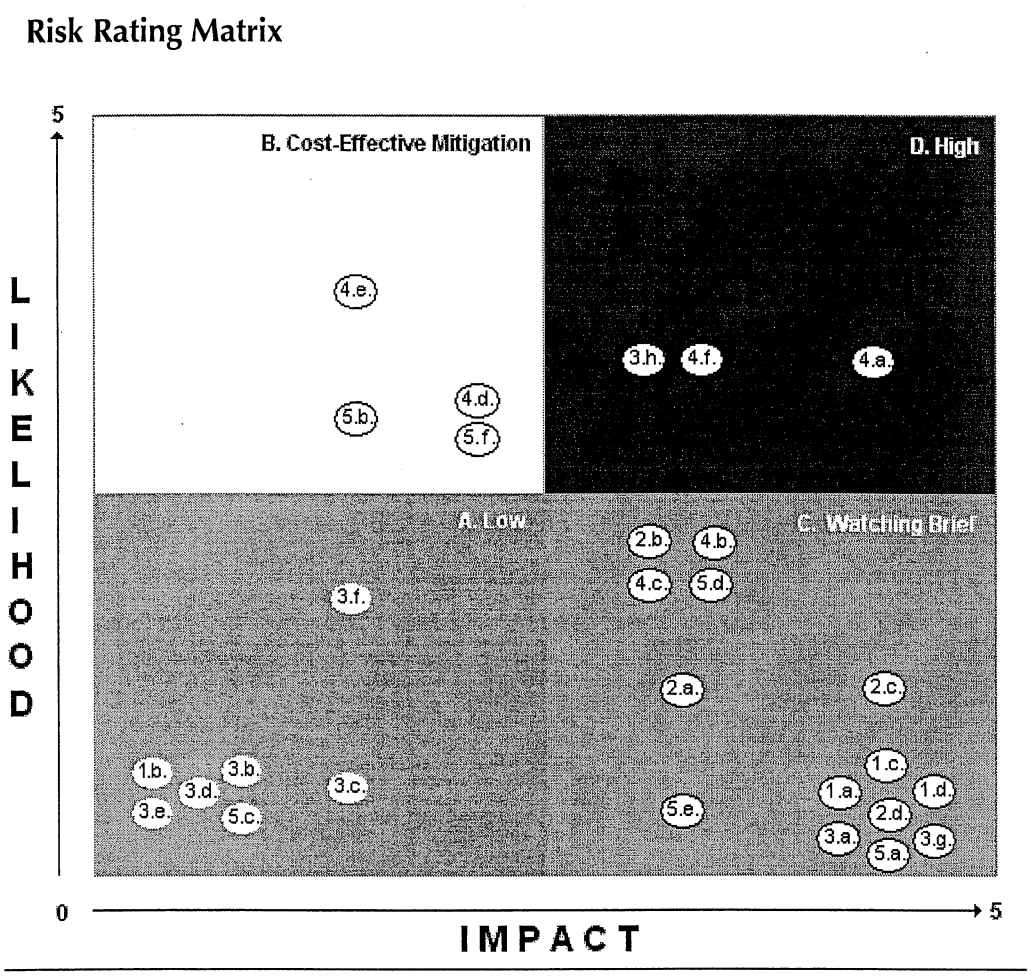
## Review of Risk Management

32. In our 2006 audit report we recommended that the Secretariat should prioritise the completion of a risk register. Progress continued in 2007. The Secretariat have successfully completed the first stages of introducing systematic risk management arrangements by identifying, evaluating and recording key risks. The Secretariat have developed a risk register which records the key risks to the Funds' activities and this has been presented to the Audit Body for review. We welcome the positive progress that has been made to prioritise the large number of risks initially identified into a manageable number of key risks. However, we encourage the Secretariat to embed risk management into routine business processes and use the risk register as an effective diagnostic and monitoring tool on an ongoing basis.

33. To progress this further, the Funds may wish to use a risk rating matrix, an example of which is shown in Figure 1 further below, as part of its risk register. Such a matrix helps to summarise and graphically highlight the business critical risks where both the impact and likelihood of the risk occurring is high. The example below also indicates the nature of the overarching actions required for each category of risk, as follows:

- **High** – Risks requiring positive action to mitigate and monitor the exposure;
- **Cost Effective Mitigation** – As these risks have less impact on the organisation, these risks will be managed and mitigated as cost effectively as possible;
- **Watching Brief** – Such risks are less likely to arise and consequently monitoring will be focussed on the possibility of them occurring; and
- **Low** – Risks of low impact and unlikely to arise which do not need to be actively managed.

Figure 1: Risk Rating Matrix showing the impact and likelihood of key risks




***Recommendation 3:** In order to realise the full benefits an operational risk register can offer, the Funds should focus on integrating it into their standard business practices. The risk register will be most effective when it is a living document that is constantly reviewed, updated and evolves with the Funds. We further recommend that Secretariat continue to record all new emerging risks in this risk register and that all risks be reviewed and evaluated by the management team on an ongoing basis*

***Recommendation 4:** We recommend that the Funds' Audit Body consider the key risks assessed with both high impact and high likelihood, in particular to determine whether risks are required to be escalated to governing body level for action.*

# Progress on Previous Audit Recommendations

34. As part of our responsibilities as external auditors, we routinely report to the Fund 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.

## Preparation for the move to IPSAS

35. We reviewed progress and are satisfied that the Funds are preparing for this change adequately. We have commented further in this present report.

## Improvements to Budgeting

36. In 2006 we recommended that the secretariat prepare budgets that include staff time for the execution of project work. There were no significant projects during 2007 that would necessitate the use of project budgeting of this complexity and therefore the issue has not arisen in this year.

## Contributor's Account

37. In 2005 we identified one contributor owed almost £1 million from the Funds (1971:£487,209 and 1992: £509,071). This had not been repaid, as the contributor was a dissolved joint venture between two oil companies. We recommended that the Secretariat address this issue and repay the balance.

38. Our follow-up concluded that the Fund had been vigorous in pursuing the repayment of this money, and the Secretariat is in negotiation with the relevant parties. We encourage the Secretariat to continue its work to return this outstanding balance.

## Recoverability of Contributions

39. In 2005 we also recommended that the Secretariat review the recoverability of all contributions outstanding (Financial Regulation 11.5). We can confirm that the Secretariat has also performed such a review in 2007, which resulted in the write off of £17,555 on the 1971 Fund, and we were satisfied with the Secretariat's rationale for doing so.

## Selection of Service Suppliers

40. In our previous reports we highlighted the need for competitive tendering and selection of suppliers from a wider pool to obtain better value for money. We noted in 2007 that quotes had been obtained for some recurring expenditure during the year, and cost savings had been achieved when alternative suppliers were used as a result. We welcome the positive progress made by the Funds in this regard.

## Acknowledgement

41. We are grateful for the continued assistance and co-operation provided by the Director and Secretariat staff during our audit.

**T J Burr**

**Comptroller and Auditor General, United Kingdom**

**External Auditor**

**ANNEX I**

# 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 2007 in accordance with Financial Regulation 14. 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 2007; 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 2006

## 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 2007. 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.

### Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2007 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 14, I have also issued a long-form Report on my audit of the Fund's financial statements.

**T J Burr**
**Comptroller and Auditor General,**
**United Kingdom,**
**EXTERNAL AUDITOR**

**National Audit Office**
**London, 20 June 2007**

ANNEX V

# FINANCIAL STATEMENTS OF THE INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

National Audit Office

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## CERTIFICATION OF THE FINANCIAL STATEMENTS

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

Willem Oosterveen
Director

Ranjit S P Pillai
Head Finance & Administration Department

NAO National Audit Office

STATEMENT II

## GENERAL FUND - JOINT SECRETARIAT EXPENDITURE

STATEMENT OF BUDGET APPROPRIATIONS AND OBLIGATIONS INCURRED FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2007

| | CLASS OF EXPENDITURE | NOTE | BUDGET APPROPRIATIONS 2007 | *2006* | REVISED BUDGET APPROPRIATIONS 2007 | *2006* | OBLIGATIONS INCURRED 2007 | *2006* | BALANCE OF APPROPRIATIONS 2007 | *2006* |
|---|---|---|---|---|---|---|---|---|---|---|
| | SECRETARIAT | | £ | *£* | £ | *£* | £ | *£* | £ | *£* |
| I | PERSONNEL | | | | | | | | | |
| a | Salaries | | 1 433 650 | *1 385 300* | 1 433 650 | *1 385 300* | 1 289 229 | *1 377 018* | 144 421 | *8 282* |
| b | Separation and recruitment | | 35 000 | *125 000* | 35 000 | *142 272* | 20 574 | *142 272* | 14 426 | - |
| c | Staff benefits, allowances and training | | 573 700 | *576 200* | 573 700 | *558 928* | 437 078 | *479 031* | 136 622 | *79 897* |
| | | | **2 042 350** | ***2 086 500*** | **2 042 350** | ***2 086 500*** | **1 746 881** | ***1 998 321*** | **295 469** | ***88 179*** |
| II | GENERAL SERVICES | | | | | | | | | |
| a | Office accommodation | 11 | 280 400 | *287 400* | 280 400 | *287 400* | 277 299 | *260 585* | 3 101 | *26 815* |
| b | Office machines | | 110 000 | *110 000* | 110 000 | *110 000* | 61 293 | *56 352* | 48 707 | *53 648* |
| c | Furniture and other office equipment | | 17 500 | *17 500* | 17 500 | *17 500* | 3 704 | *6 879* | 13 796 | *10 621* |
| d | Office stationery and supplies | | 22 000 | *22 000* | 22 000 | *22 000* | 13 922 | *15 140* | 8 078 | *6 860* |
| e | Communications | | 68 000 | *68 000* | 68 000 | *68 000* | 47 357 | *50 287* | 20 643 | *17 713* |
| f | Other supplies and services | | 37 500 | *47 500* | 37 500 | *47 500* | 25 925 | *39 795* | 11 575 | 7 705 |
| g | Hospitality | | 25 000 | *25 000* | 25 000 | *25 000* | 17 704 | *19 412* | 7 296 | *5 588* |
| h | Public information | | 180 000 | *180 000* | 180 000 | *180 000* | 66 171 | *87 553* | 113 829 | *92 447* |
| | | | **740 400** | ***757 400*** | **740 400** | ***757 400*** | **513 375** | ***536 003*** | **227 025** | ***221 397*** |
| III | MEETINGS | 2 | **200 000** | ***150 000*** | **228 548** | ***176 638*** | **228 548** | ***176 638*** | - | - |
| IV | TRAVEL | | | | | | | | | |
| | Conferences, seminars and missions | 2 | **160 000** | ***160 000*** | **140 000** | ***145 000*** | **102 733** | ***143 991*** | **37 267** | ***1 009*** |
| V | MISCELLANEOUS EXPENDITURE | | | | | | | | | |
| a | External Audit (1992 Fund, Supplementary Fund and 1971 Fund) * | 11 | 60 500 | *60 500* | 60 500 | *60 500* | 60 500 | *60 500* | - | - |
| b | Consultants' fees | | 180 000 | *180 000* | 180 000 | *219 312* | 136 921 | *219 312* | 43 079 | - |
| c | Audit Body | | 110 000 | *110 000* | 110 000 | *116 420* | 101 170 | *116 420* | 8 830 | - |
| d | Investment Advisory Body | | 37 500 | *37 500* | 37 500 | *37 500* | 37 500 | *37 500* | - | - |
| | | | **388 000** | ***388 000*** | **388 000** | ***433 732*** | **336 091** | ***433 732*** | **51 909** | - |
| VI | UNFORESEEN EXPENDITURE | 2 | **60 000** | ***60 000*** | **51 452** | ***2 630*** | - | - | **51 452** | ***2 630*** |
| **TOTAL I - VI** | | | **3 590 750** | ***3 601 900*** | **3 590 750** | ***3 601 900*** | **2 927 628** | ***3 288 685*** | **663 122** | ***313 215*** |
| **TOTAL OBLIGATIONS 1992 FUND ONLY (ie excluding 1971 Fund and Supplementary Fund External Audit fees)** | | | | | | | **2 914 128** | ***3 275 185*** | | |

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 and IV.2 for the *Erika* and *Prestige* Major Claims Funds

* External Audit fees payable in 2007 in respect of 2006 Financial Statements
1992 Fund - £47 000
1971 Fund - £10 000
Supplementary Fund - £3 500

(NAO)
National Audit Office

STATEMENT II

SUMMARY OF INCOME AND EXPENDITURE ACCOUNT OF THE GENERAL FUND, MAJOR CLAIMS FUNDS AND THE PROVIDENT FUND FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2007

| | 2007 | | | | 2007 | *2006* |
|---|---|---|---|---|---|---|
| | **General Fund** | **Erika** | **Prestige** | **Provident Fund** | **Total** | ***Total*** |
| **INCOME** | £ | £ | £ | £ | £ | *£* |
| **Contributions** | | | | | | |
| Contributions & adjustments to prior years' assessment | 2 841 375 | - | 149 492 | 334 183 | 3 325 050 | *407 189* |
| | **2 841 375** | - | **149 492** | **334 183** | **3 325 050** | *407 189* |
| **Miscellaneous** | | | | | | |
| Management fee | 345 000 | - | - | - | 345 000 | *345 000* |
| Recovery under STOPIA 2006 (*Solar 1* incident) | 4 487 986 | - | - | - | 4 487 986 | *1 337 568* |
| Sundry income | 3 209 | 4 220 | - | - | 7 429 | *445 465* |
| Interest on loans to HNS Fund & Supplementary Fund | 6 953 | - | - | - | 6 953 | *12 827* |
| Interest on overdue contributions | 2 329 | - | 119 | - | 2 448 | *2 311* |
| Interest on investments | 1 620 550 | 2 350 639 | 1 271 566 | 130 954 | 5 373 709 | *4 801 113* |
| | **6 466 027** | **2 354 859** | 1 271 685 | **130 954** | **10 223 525** | *6 944 284* |
| **Total income** | **9 307 402** | **2 354 859** | **1 421 177** | **465 137** | **13 548 575** | *7 351 473* |
| **EXPENDITURE** | | | | | | |
| **Secretariat expenses** | | | | | | |
| Obligations incurred | 2 914 128 | - | - | - | 2 914 128 | *3 275 185* |
| **Claims** | | | | | | |
| Compensation | 4 796 896 | 1 389 031 | 1 109 424 | - | 7 295 351 | *52 619 207* |
| *Less* compensation recovered following court of appeal decision | - | (379 287) | - | - | (379 287) | - |
| Claims related expenses | 341 873 | 1 071 290 | 1 943 415 | - | 3 356 578 | *4 244 533* |
| Reimbursement of joint costs from P&I Club | - | - | (20 153) | - | (20 153) | *(1 000 000)* |
| Loans/ withdrawals | - | - | - | 634 511 | 634 511 | *1 482 224* |
| **Total expenditure** | **8 052 897** | **2 081 034** | **3 032 686** | **634 511** | **13 801 128** | *60 621 149* |
| Income less expenditure | **1 254 505** | **273 825** | **(1 611 509)** | **(169 374)** | | |
| Exchange adjustment | 48 | 1 281 852 | 508 899 | - | | |
| Balance b/f: 1 January | 24 639 049 | 42 032 556 | 24 106 692 | 1 883 640 | | |
| **Balance as at 31 December** | **25 893 602** | **43 588 233** | **23 004 082** | **1 714 266** | | |

STATEMENT III

## GENERAL FUND

### INCOME AND EXPENDITURE ACCOUNT FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2007

| | Note | 2007 | | 2006 | |
|---|---|---|---|---|---|
| **INCOME** | | £ | £ | £ | £ |
| **Contributions (Schedule I)** | | | | | |
| Contributions | | 2 826 375 | | - | |
| Adjustment to prior years' assessment | 3 | 15 000 | | *28 794* | |
| | | | 2 841 375 | | *28 794* |
| **Miscellaneous** | | | | | |
| Management fee | 4 | 345 000 | | *345 000* | |
| Recovery under STOPIA 2006 (*Solar 1* incident) | 1(e)/5 | 4 487 986 | | *1 337 568* | |
| Sundry income | 6 | 3 209 | | *2 465* | |
| Interest on loan to HNS Fund | 7 | 6 165 | | *4 331* | |
| Interest on loan to Supplementary Fund | 8 | 788 | | *8 496* | |
| Interest on overdue contributions | 9 | 2 329 | | *165* | |
| Interest on investments | 10 | 1 620 550 | | *1 248 120* | |
| | | | 6 466 027 | | *2 946 145* |
| **Total income** | | | 9 307 402 | | *2 974 939* |
| **EXPENDITURE** | | | | | |
| **Secretariat expenses (Statement I)** | | | | | |
| Obligations incurred | 11 | | 2 914 128 | | *3 275 185* |
| **Claims (Schedule II)** | | | | | |
| Compensation | 1(e)/5 | | 4 796 896 | | *4 160 033* |
| **Claims related expenses (Schedule II)** | | | | | |
| Fees | | 258 158 | | *233 916* | |
| Travel | | 49 374 | | *35 031* | |
| Miscellaneous | | 34 341 | | *4 099* | |
| | | | 341 873 | | *273 046* |
| **Total expenditure** | | | 8 052 897 | | *7 708 264* |
| (Shortfall)/excess of income over expenditure | | | 1 254 505 | | *(4 733 325)* |
| Exchange adjustment | 12 | | 48 | | *(28)* |
| Balance b/f: 1 January | | | 24 639 049 | | *29 372 402* |
| **Balance as at 31 December** | 25 | | **25 893 602** | | *24 639 049* |

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STATEMENT IV.I

## ERIKA MAJOR CLAIMS FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2007

| | Note | 2007 | | *2006* | |
|---|---|---|---|---|---|
| **INCOME** | | | | *£* | *£* |
| **Miscellaneous** | | | | | |
| Sundry income | 6 | 4 220 | | - | |
| Interest on investments | 10 | 2 350 639 | | *2 089 653* | |
| | | | 2 354 859 | | *2 089 653* |
| **Total income** | | | 2 354 859 | | *2 089 653* |
| **EXPENDITURE (Schedule II)** | | | | | |
| Compensation | | 1 389 031 | | *7 921 605* | |
| *Less* compensation recovered following court of appeal decision | 13 | (379 287) | | - | |
| Fees | | 1 066 945 | | *1 480 682* | |
| Travel | | 3 771 | | *1 706* | |
| Miscellaneous | | 574 | | *2 090* | |
| **Total expenditure** | | | 2 081 034 | | *9 406 083* |
| Excess/(Shortfall) of income over expenditure | | | 273 825 | | *(7 316 430)* |
| Exchange adjustment | 12 | | 1 281 852 | | *(310 757)* |
| Balance b/f: 1 January | | | 42 032 556 | | *49 659 743* |
| **Balance as at 31 December** | 25 | | **43 588 233** | | **42 032 556** |

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STATEMENT IV.2

## PRESTIGE MAJOR CLAIMS FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2007

| | Note | 2007 | | 2006 | |
|---|---|---|---|---|---|
| **INCOME** | | | | £ | £ |
| **Contributions (Schedule I)** | | | | | |
| Adjustment to prior years' assessment | 3 | 149 492 | | - | |
| Less contributions waived | | - | | *(6 277)* | |
| | | | 149 492 | | *(6 277)* |
| **Miscellaneous** | | | | | |
| Interest on overdue contributions | 9 | 119 | | *2 482* | |
| Less Interest on overdue contributions waived | | - | | *(336)* | |
| Interest on investments | 10 | 1 271 566 | | *1 307 521* | |
| | | | 1 271 685 | | *1 309 667* |
| **Total income** | | | 1 421 177 | | *1 303 390* |
| **EXPENDITURE (Schedule II)** | | | | | |
| Compensation | | 1 109 424 | | *40 537 569* | |
| Fees | | 1 934 927 | | *2 463 784* | |
| Reimbursement of joint costs from P&I Club | 14 | (20 153) | | *(1 000 000)* | |
| Travel | | 5 989 | | *19 286* | |
| Miscellaneous | | 2 499 | | *3 939* | |
| **Total expenditure** | | | 3 032 686 | | *42 024 578* |
| Excess/(Shortfall) of income over expenditure | | | (1 611 509) | | *(40 721 188)* |
| Exchange adjustment | 12 | | 508 899 | | *(302 581)* |
| Balance b/f: 1 January | | | 24 106 692 | | *65 130 461* |
| **Balance as at 31 December** | 25 | | **23 004 082** | | **24 106 692** |

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STATEMENT V

## STAFF PROVIDENT FUND

RECEIPTS AND PAYMENTS ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2007

| | Note | 2007 | *2006* |
|---|---|---|---|
| | | £ | £ |
| **Accounts of staff members as at 1 January** | | 1 883 640 | *2 382 373* |
| | | | |
| **RECEIPTS** | | | |
| Contributions of staff members | 15 | 111 316 | *120 224* |
| Contributions of IOPC Funds | 15 | 222 867 | *264 448* |
| Repayment of housing loan | | - | *443 000* |
| Interest received | 10,15 | 130 954 | *155 819* |
| | | 465 137 | *983 491* |
| **PAYMENTS** | | | |
| Housing loans | | 58 202 | *562 100* |
| Withdrawal on separation | | 576 309 | *920 124* |
| | | 634 511 | *1 482 224* |
| **Accounts of staff members as at 31 December** | | **1 714 266** | ***1 883 640*** |

# BALANCE SHEET OF THE 1992 FUND AS AT 31 DECEMBER 2007

| | 2007 | | | | | *2006* |
|---|---|---|---|---|---|---|
| | **Note** | **General Fund** | **Erika** | **Prestige** | **Total** | ***Total*** |
| **ASSETS** | | £ | £ | £ | £ | £ |
| Cash at banks and in hand | 16 | 28 138 803 | 43 573 208 | 22 313 272 | 94 025 283 | *91 445 476* |
| Contributions outstanding | 17 | 102 639 | - | 283 537 | 386 176 | *328 916* |
| Interest on overdue contributions outstanding | 9 | 4 852 | - | 21 784 | 26 636 | *35 074* |
| Due from HNS Fund | 7 | 127 279 | - | - | 127 279 | *114 537* |
| Due from Supplementary Fund | | - | - | - | - | *259 738* |
| Due from 1971 Fund | | - | - | - | - | *22 790* |
| Tax recoverable | 18 | 117 719 | 15 025 | 385 489 | 518 233 | *460 383* |
| Receivable from P&I Club under STOPIA 2006 (*Solar 1* incident) | | - | - | - | - | *845 491* |
| Miscellaneous receivable | 19 | 35 562 | - | - | 35 562 | *57 994* |
| **TOTAL ASSETS** | | 28 526 854 | 43 588 233 | 23 004 082 | **95 119 169** | *93 570 399* |
| | | | | | | |
| **LIABILITIES** | | | | | | |
| Staff Provident Fund | 15 | 1 714 266 | - | - | 1 714 266 | *1 883 640* |
| Payable to P&I Club under STOPIA 2006 (*Solar 1* incident) | | - | - | - | - | *8 603* |
| Due to 1971 Fund | 20 | 13 095 | - | - | 13 095 | - |
| Accounts payable | 21 | 25 850 | - | - | 25 850 | *44 247* |
| Unliquidated obligations | 22 | 128 496 | - | - | 128 496 | *136 685* |
| Prepaid contributions | 23 | 4 259 | - | - | 4 259 | - |
| Contributors' account | 24 | 747 286 | - | - | 747 286 | *718 927* |
| **TOTAL LIABILITIES** | | 2 633 252 | - | - | 2 633 252 | *2 792 102* |
| | | | | | | |
| **FUNDS' BALANCES** | | | | | | |
| Working capital | | 22 000 000 | - | - | 22 000 000 | *22 000 000* |
| Surplus / (Deficit) | | 3 893 602 | 43 588 233 | 23 004 082 | 70 485 917 | *68 778 297* |
| **GENERAL FUND AND MAJOR CLAIMS FUNDS (MCFs) BALANCES** | 25 | 25 893 602 | 43 588 233 | 23 004 082 | **92 485 917** | *90 778 297* |
| | | | | | | |
| **TOTAL LIABILITIES, GENERAL FUND AND MCFs BALANCES** | | 28 526 854 | 43 588 233 | 23 004 082 | **95 119 169** | *93 570 399* |

## STATEMENT VII

## CASH FLOW STATEMENT OF THE 1992 FUND
## FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2007

| | 2007 | | *2006* | |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Cash as at 1 January | | 91 445 476 | | *146 305 576* |
| OPERATING ACTIVITIES | | | | |
| Operating Deficit | (3 535 136) | | *(58 029 603)* | |
| Decrease/(Increase) in Debtors | 1 031 037 | | *(699 183)* | |
| Increase/(Decrease) in Creditors | (328 845) | | *(972 661)* | |
| Net cash flow from operating activities | | (2 832 944) | | *(59 701 447)* |
| | | | | |
| RETURNS ON INVESTMENTS | | | | |
| Interest on investments | 5 412 751 | | *4 841 347* | |
| Net cash inflow from returns on investments | | 5 412 751 | | *4 841 347* |
| **Cash as at 31 December** | | **94 025 283** | | *91 445 476* |

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## 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.

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(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.

At their February/March 2006 sessions, the 1992 Fund Assembly took note of a voluntary agreement, the Small Tanker Oil Pollution Indemnification Agreement (STOPIA 2006), under which the shipowner/P&I Clubs would reimburse the 1992 Fund for part of the compensation payable by the Fund under the 1992 Fund Convention. At its October 2006 sessions the 1992 Fund Assembly approved administrative procedures for indemnification of the 1992 Fund and by shipowners/P&I Clubs under STOPIA 2006 set out in the Annex to document 92FUND/A.11/29.

STOPIA 2006 which applies to pollution damage in States for which the 1992 Fund Convention is in force, is a contract between owners of small tankers to increase, on a voluntary basis, the limitation amount applicable to the tanker under the 1992 Civil Liability Convention. The contract applies to all small tankers entered in one of the P&I Clubs which are members of the International Group of P&I Clubs and reinsured through the pooling arrangements of the International Group. Owners of small tankers not insured by an International Group Club and/or not covered by the pooling arrangement may agree with their insurers to be covered by STOPIA 2006.

The effect of STOPIA 2006 is that the maximum amount of compensation payable by owners of all ships of 29 548 gross tonnage or less is 20 million Special Drawing Rights (SDR).

In respect of ships covered by STOPIA 2006 the 1992 Fund continues to be liable to compensate claimants if and to the extent that the total amount of admissible claims exceeds the limitation amount applicable to the ship in question under the 1992 Civil Liability Convention. The 1992 Fund is not a party to the agreement, but the agreement confers legally enforceable rights on the 1992 Fund of indemnification from the shipowner involved. The 1992 Fund is entitled to indemnification by the shipowner of the difference between the limitation amount applicable to the ship under the 1992 Civil Liability Convention and the total amount of the admissible claims or 20 million SDR, whichever is lower.

The 1992 Fund invoices the shipowner/P&I Club for the amounts paid by the Fund on a regular basis, normally monthly, for payment within 14 days of the date of the invoice. Interest may be charged by the Fund for late receipt of payment at 2% higher than the lowest London clearing bank base rate. The 1992 Fund levies contributions from its contributors for any amounts required if and to the extent that the total amount of compensation payable in respect of the incident exceeds 20 million SDR payable by the shipowner/P&I Club.

Expenses up to 4 million SDR 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).

For incidents that fall under STOPIA 2006 expenses in respect of any one incident are to be charged to the General Fund up to 4 million SDR after having taken into account any reimbursements made by the shipowner/P&I Club for part of the compensation payable by the 1992 Fund under the 1992 Fund Convention and expenses over that amount will be charged to the Major Claims Fund.

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 purposes, 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 2007 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 for claims related expenses made in foreign currencies are converted into sterling at the rate of exchange obtained from the bank on the date of transaction. Payments for compensation claims 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, ie 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 31 December 2007 (the last banking day of 2007) 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, namely:

One transfer was made between Chapters, namely:

| Chapter | Transfer from appropriation | Chapter | Transfer to appropriation | Amount £ |
|---|---|---|---|---|
| IV | Travel | III | Meetings | 20 000 |

One further transfer was made, which was authorised by the Assembly at its 2007 session (document 92FUND/A.12/28, paragraph 21) since that transfer did not fall within the Director's authority under the Financial Regulation 6.3, namely:

| Chapter | Transfer from appropriation | Chapter | Transfer to appropriation | Amount £ |
|---|---|---|---|---|
| VI | Unforeseen expenditure | III | Meetings | 8 548 |

## 3 Adjustments to prior years' assessments

Adjustments in respect of contributions totalling £164 492 was made on the basis of reports on contributing oil receipts in previous years as set out below:

| | State | Contributions levied £ | Reason for levy |
|---|---|---|---|
| General Fund 2002 | Angola | 1 063 | Oil report received late |
| General Fund 2004 | Argentina | 11 414 | Oil report received late |
| General Fund 2004 | Jamaica | 2 523 | Oil report received late |
| Prestige Major Claims Fund | Angola | 149 492 | Oil report received late |

## 4 Management fee

At their October 2006 sessions the 1992 Fund Assembly and the 1971 Fund Administrative Council decided that the 1971 Fund should pay a flat management fee towards the cost of running the joint Secretariat. The fee was set in the budget at £275 000 for the period 1 January to 31 December 2007 (documents 92FUND/A.11/35, paragraph 27.3 and Annex and 71FUND/AC.20/24, paragraph 18.3 and Annex).

At their October 2006 sessions the 1992 Fund Assembly and the Supplementary Fund Assembly decided that the Supplementary Fund should pay a flat management fee towards the cost of running the joint Secretariat. The fee was set in the budget at £70 000 for the period 1 January to 31 December 2007 (documents 92FUND/A.11/35, paragraph 27.3 and Annex and SUPPFUND/A/2/23, paragraph 18.3 and Annex).

In the 2007 financial statements 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.

5 **Recovery from the P&I Club under the STOPIA agreement**

The STOPIA 2006 agreement covers the *Solar I* incident, which occurred in the Philippines on 11 August 2006.

As set out in Note 1(e) the 1992 Fund is entitled to indemnification by the shipowner of the difference between the limitation amount applicable to the ship under the 1992 Civil Liability Convention and the total amount of the admissible claims or 20 million SDR, whichever is the lower.

The 1992 Fund invoiced and received in 2007 from the P & I Club a total amount of £4 487 986 in respect of payments made.

6 **Sundry income**

The figure of £3 209 in **Statement III** includes unliquidated obligations of £1 114 in respect of office maintenance as at 31 December 2006 not having materialised as at 31 December 2007 and refund received of 2006 postage balance in the franking machine of £2074.

Sundry income in **Statement IV.I** represents reimbursement of legal costs and interest totalling £4 220 received in respect of *Erika* Major Claims Fund on settlement of court cases.

7 **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 £6 165 in **Statement III** represents interest due on loans totalling £110 105 made by the General Fund to the HNS Fund. This amount includes loan of £6 577 from the General Fund made during the financial period 2007. The total amount due from the HNS Fund, including cumulative interest, is £127 279.

8 **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 £788 in **Statement III** represents interest due on loans of £246 447 made since 2003 by the General Fund to the Supplementary Fund. The total amount due from the Supplementary Fund, including cumulative interest, was £260 526. As decided by the 1992 Fund Assembly and the

Supplementary Fund Assembly this amount was repaid to the 1992 Fund in 2007 when the Supplementary Fund received its first levy of contributions.

## 9 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 totalling £26 636 was receivable as at 31 December 2007.

## 10 Interest on investments

As at 31 December 2007 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. 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 2007 on the investments amounted to £5 412 751. This amount is distributed as follows:

| | £ |
|---|---|
| General Fund | 1 620 550 |
| *Erika* Major Claims Fund | 2 350 639 |
| *Prestige* Major Claims Fund | 1 271 566 |
| Staff Provident Fund | 130 954 |
| Contributors' account | 39 042 |
| | 5 412 751 |

## 11 Obligations incurred

The figure of £2 914 128 represents the cost of running the joint Secretariat (see **Statement I**). This amount includes the External Auditor's fees for the 1992 Fund of £47 000 and excludes the External Auditor's fees for the 1971 Fund of £10 000 and the Supplementary Fund of £3 500.

It should be noted that the United Kingdom Government meets 80% of the costs related to the rental of the Portland House Secretariat offices and storage space. In April 2007, the 1992 Fund concluded a lease extension on its present premises up to June 2015.

The total rental payments of the Secretariat offices and storage space made for 2007 amounted to £476 706 of which the United Kingdom Government paid £381 365 and the balance £95 341 was borne by the 1992 Fund. The United Kingdom Government also reimbursed £6 000 being 80% of the rental payments made in 2007 for storage space, for the last quarter of 2005 and the four quarters of 2006, which were previously unpaid pending rent review.

12 **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 2007 there was an exchange gain of £1 280 824 from currency revaluation of Euros held in London and Lorient with respect to the *Erika* Major Claims Fund and an exchange gain of £480 513 from currency revaluation of Euros held in London, Bordeaux and Madrid with respect to the *Prestige* Major Claims Fund.

The exchange gain from revaluation of taxes reimbursed and to be reimbursed in Euros by the French and Spanish authorities as at 31 December 2007 were £1 028 and £28 386 in relation to the *Erika* Major Claims Fund and the *Prestige* Major Claims Fund respectively. Exchange gains have been credited to the respective Fund (Note 1(k)).

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13 **Reimbursements of compensation**

In relation to the *Erika* incident compensation payments made to three claimants based on judgements by the court of first instance for €551 635.88 (£379 287) have been recovered following decisions of the court of appeal.

Amounts received towards interest and legal costs in relation to these claims have been shown under 'sundry income' of the *Erika* Major Claims Fund (see Note 6).

14 **Reimbursements of joint costs**

Under the Memorandum of Understanding (MOU) between the P&I Clubs and the 1992 Fund, joint costs are apportioned between the P&I Clubs and the 1992 Fund based on their respective compensation liability.

In respect of the *Prestige* incident the Club made a further interim payment of £20 153 in 2007.

15 **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 2007 was £130 954.

16 **Assets**

(a) Cash at bank and in hand

The amount of £94 025 283, which includes a balance of £747 286 on the Contributors' Account and £1 714 266 on the Staff Provident Fund, was held in various financial institutions and accounts as follows:

| | £ | £ |
|---|---|---|
| Time deposit accounts | | |
| Pounds sterling | | |
| ABN Amro Bank | 2 500 000 | |
| Alliance & Leicester plc | 6 500 000 | |
| Allied Irish Banks plc | 2 000 000 | |
| Bank of Ireland | 2 650 000 | |
| Barclays Bank plc | 6 250 000 | |
| BNP Paribas | 2 500 000 | |
| Credit Industriel et Commercial | 2 000 000 | |
| Depfa Bank plc | 7 000 000 | |
| Lloyds TSB Bank plc | 7 500 000 | |
| Nationwide Building Society | 14 000 000 | |
| Svenska Handelsbanken | 11 500 000 | |
| Ulster Bank Ireland Ltd | 5 250 000 | |
| | | 69 650 000 |
| Foreign Currency Deposits (Pounds sterling equivalent) | | |
| *Erika* Major Claims Fund (Euro deposits) | | |
| ABN Amro Bank | 4 953 439 | |
| BNP Paribas | 11 611 623 | |
| *Prestige* Major Claims Fund (Euro deposits) | | |
| Barclays Bank plc | 5 466 037 | |
| BNP Paribas | 65 399 | |
| | | 22 096 498 |
| Current and call deposits accounts | | |
| Bank of Scotland – Call a/c | 2 005 025 | |
| Barclays Bank plc - £ Business Premium/ Current a/cs | 273 614 | |
| Petty cash imprest a/c | 146 | |
| | | 2 278 785 |
| | | 94 025 283 |

(b) Office machines, furniture and other supplies

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

As at 31 December 2007 the purchase value of these supplies and equipment, including furniture and equipment purchased during 2007, amounts to £458 403 made up as follows:

| | Office equipment £ | Office furniture £ | Library £ |
|---|---|---|---|
| Balance b/f | 297 420 | 141 275 | 18 196 |
| Additions in 2007 | 29 627 | 3 704 | 334 |
| Less disposals in 2007 | (29 535) | (2 618) | - |
| Balance c/f | 297 512 | 142 361 | 18 530 |

## 17 Contributions outstanding

Outstanding contributions due to the 1992 Fund as at 31 December 2007 totaled £386 176. A report on contributions outstanding is provided in **Schedule I.**

## 18 Tax recoverable

The amount recoverable of £518 233 is made up as follows:

| | | € | £ |
|---|---|---|---|
| Due from the United Kingdom Government | VAT | | 114 759 |
| | Insurance Premium Tax / Airport Departure Tax | | 2 147 |
| Due from the French Government | TVA | 91 284 | 67 046 |
| Due from the Spanish Government | IVA | 455 124 | 334 281 |
| | | Total | 518 233 |

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## 19 Miscellaneous receivable

The amount of £35 562 consists mainly of the following:

(a) £18 955 paid for 2008 subscriptions to the health insurance scheme, 50% of which will be recovered from staff members and 50% charged to 2008 expenditure;

(b) £8 288 representing salary advances to be recovered from staff members in 2008 under Staff Rule IV.11;

(c) £6 929 to be reimbursed by the Club in relation to the German incident.

## 20 Payment due to 1971 Fund

As at 31 December 2007, an amount of £13 095 was due from the 1992 Fund to the 1971 Fund. This amount consists mainly of claims related payments made on behalf of the 1992 Fund in respect to the joint *Al Jaziah* incident (see **Schedule II**).

## 21 Accounts payable

The amount of £25 850 consist mainly of the following:

(a) £15 425 payable to the travel agent in relation to travel undertaken in 2007;

(b) £2 598 payable to staff members in relation to travel undertaken in 2007;

(c) £7 198 being National Insurance Contributions payable in January 2008; and

(d) £606 representing amounts due to the credit card company.

## 22 Unliquidated obligations

The figure of £128 496 is made up of obligations incurred in 2007 but unliquidated at 31 December 2007.

The unliquidated obligations consist of the following amounts:

(a) £87 119 due to the IOPC Funds' landlord in respect of service charge for the office premises;

(b) £10 850 for consultants fees;

(c) £6 556 due to the International Maritime Organization (IMO) in respect of medical services,

(d) £23 971 for various supplies.

## 23 Prepaid contributions

The amount of £4 259 represents 2007 contributions, due by 1 March 2008 but received in 2007, from contributors in the following Member States:

| Member State | General Fund £ |
|---|---|
| Malta | 192 |
| New Zealand | 391 |
| Barbados | 477 |
| Sweden | 594 |
| Netherlands | 2 605 |

## 24 Contributors' account

The amount of £747 286 is the balance on the Contributors' account after the deduction of amounts repaid to contributors or offset against contributions. The amount includes interest of £39 042 credited in 2007 to contributors as provided in Internal Regulation 3.9.

## 25 Funds' Balances

The figure of £25 893 602 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 2007 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:

| | £ |
|---|---|
| *Erika* Major Claims Fund | 3 588 233 |
| *Prestige* Major Claims Fund | 23 004 082 |

## 26 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 2007 are estimated as follows:

| | | £ |
|---|---|---|
| Repatriation | | |
| - travel and removal costs | 55 000 | |
| - grant | 94 739 | |
| | | 149 739 |
| Annual leave | | 85 467 |
| | | 235 206 |

## 27 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. Seven DCDs were placed in 2007.

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 for prudent investment at an enhanced rate of interest. In return for this enhanced yield there is a possibility that the principal sum will be repaid by the financial institution in a second predetermined currency (eg Euros) 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 each deposit is selected to satisfy the 1992 Fund's cash flow requirements. The possibility that the principal amount will be converted to Euros at the predetermined conversion rate, known as the strike 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.

A DCD cannot be treated as a hedging instrument as the currency in which the principal amount will be repaid is not certain at the time the deposit is placed. However, the 1992 Fund's hedging position must be considered when deciding whether or not to invest in a DCD as a capital repayment in Euros would increase the 1992 Fund's hedging ratio, and this must not exceed a level deemed appropriate for the 1992 Fund. The interest will always be repaid in sterling.

In 2007, four DCDs totalling £11 500 000 matured and net additional interest of £99 009 was earned on these investments. Seven DCDs totalling £17 500 000 placed in 2007 will mature in 2008.

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## SCHEDULE I

## REPORT ON CONTRIBUTIONS DURING THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2007 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 SDR, 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 98 States were members of the 1992 Fund as at 31 December 2007.

4 At its session in October 2006 the Assembly decided to levy contributions (2006 Contributions) with respect to the General Fund of £3 million for payment by 1 March 2007.

A comprehensive report on the payment of contributions as at 1 October 2007 was submitted to the Assembly at its 12th session (document 92FUND/A.12/11). The report contained in this schedule is a comprehensive up-date of the earlier reports. An amount of £386 176 or 0.11% of the total amount levied over the years remains outstanding as at 31 December 2007 as set out below:

| | CONTRIBUTION YEAR | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| State | 2000 £ | 2001 £ | 2002 £ | 2003 £ | 2004 £ | Total £ | 2006 £ | Total £ |
| Argentina | | | | | 11 414.30 | 11 414.30 | | 11 414.30 |
| Greece | | | | | | | 31 452.31 | 31 452.31 |
| Nigeria | | | | | | | 1 046.80 | 1 046.80 |
| Panama | 14 133.13 | 9 219.88 | 6 985.45 | 175 051.35 | 73 225.88 | 278 615.69 | 9 843.48 | 288 459.17 |
| Russian Federation | | 1 532.40 | 1 282.52 | 32 571.27 | 14 914.64 | 50 300.83 | | 50 300.83 |
| Singapore | | | | | | | 3 503.15 | 3 503.15 |
| | 14 133.13 | 10 752.28 | 8 267.97 | 207 622.62 | 99 554.82 | 340 330.82 | 45 845.74 | 386 176.56 |

**GENERAL FUND AS AT 31.12.2007**
**2006 CONTRIBUTIONS DUE IN 2007**
**(BASED ON 2005 OIL RECEIPTS)**

| Member State | Assessment £ | Receipt £ | Outstanding £ | % Paid |
|---|---|---|---|---|
| <1> Albania | - | - | - | - |
| Algeria | 1 443.49 | 1 443.49 | 0.00 | 100.00 |
| Angola | 3 662.97 | 3 662.97 | 0.00 | 100.00 |
| <1> Antigua and Barbuda | - | - | - | - |
| <2> Argentina | - | - | - | - |
| Australia | 63 300.60 | 63 300.60 | 0.00 | 100.00 |
| Bahamas | 24 630.84 | 24 630.84 | 0.00 | 100.00 |
| <2> Bahrain | - | - | - | - |
| Barbados | 449.47 | 449.47 | 0.00 | 100.00 |
| Belgium | 13 011.73 | 13 011.73 | 0.00 | 100.00 |
| <2> Belize | - | - | - | - |
| <1> Brunei Darussalam | - | - | - | - |
| Bulgaria | 1 515.68 | 1 515.68 | 0.00 | 100.00 |
| <2> Cambodia | - | - | - | - |
| Cameroon | 3 588.29 | 3 588.29 | 0.00 | 100.00 |
| Canada | 156 844.56 | 156 844.56 | 0.00 | 100.00 |
| <2> Cape Verde | - | - | - | - |
| China (HKSAR) | 12 413.61 | 12 413.61 | 0.00 | 100.00 |
| Colombia | 847.83 | 847.83 | 0.00 | 100.00 |
| <2> Comoros | - | - | - | - |
| Croatia | 8 081.64 | 8 081.64 | 0.00 | 100.00 |
| Cyprus | 2 307.01 | 2 307.01 | 0.00 | 100.00 |
| Denmark | 11 733.25 | 11 733.25 | 0.00 | 100.00 |
| <1> Djibouti | - | - | - | - |
| <2> Dominica | - | - | - | - |
| <2> Dominican Republic | - | - | - | - |
| <1> Estonia | - | - | - | - |
| <1> Fiji | - | - | - | - |
| Finland | 23 070.10 | 23 070.10 | 0.00 | 100.00 |
| France | 203 462.81 | 203 462.81 | 0.00 | 100.00 |
| <1> Gabon | - | - | - | - |
| <1> Georgia | - | - | - | - |
| Germany | 83 289.82 | 83 289.82 | 0.00 | 100.00 |
| Ghana | 4 086.47 | 4 086.47 | 0.00 | 100.00 |
| Greece | 42 200.44 | 10 748.13 | 31 452.31 | 25.47 |
| <2> Grenada | - | - | - | - |
| <2> Guinea | - | - | - | - |
| <1> Iceland | - | - | - | - |
| India | 213 491.54 | 213 491.54 | 0.00 | 100.00 |
| Ireland | 8 774.07 | 8 774.07 | 0.00 | 100.00 |
| Israel | 25 153.48 | 25 153.48 | 0.00 | 100.00 |
| Italy | 278 389.30 | 278 389.30 | 0.00 | 100.00 |
| Jamaica | 4 915.43 | 4 915.43 | 0.00 | 100.00 |
| Japan | 518 300.32 | 518 300.32 | 0.00 | 100.00 |
| <2> Kenya | - | - | - | - |
| <1> Latvia | - | - | - | - |
| <1> Liberia | - | - | - | - |
| <1> Lithuania | - | - | - | - |
| <2> Luxembourg | - | - | - | - |
| <1> Madagascar | - | - | - | - |

| | Member State | Assessment £ | Receipt £ | Outstanding £ | % Paid |
|---|---|---|---|---|---|
| | Malaysia | 28 058.19 | 28 058.19 | 0.00 | 100.00 |
| <2> | Maldives | - | - | - | - |
| | Malta | 4 600.62 | 4 600.62 | 0.00 | 100.00 |
| <1> | Marshall Islands | - | - | - | - |
| <3> | Mauritius | - | - | - | - |
| <3> | Mexico | - | - | - | - |
| <1> | Monaco | - | - | - | - |
| | Morocco | 13 922.35 | 13 922.35 | 0.00 | 100.00 |
| <1> | Mozambique | - | - | - | - |
| <1> | Namibia | - | - | - | - |
| | Netherlands | 212 507.67 | 212 507.67 | 0.00 | 100.00 |
| <2> | Netherlands Antilles | - | - | - | - |
| <2> | Netherlands Aruba | - | - | - | - |
| | New Zealand | 9 297.24 | 9 297.24 | 0.00 | 100.00 |
| | Nigeria | 1 046.80 | 0.00 | 1 046.80 | 0.00 |
| | Norway | 36 360.31 | 36 360.31 | 0.00 | 100.00 |
| <2> | Oman | - | - | - | - |
| | Panama | 14 776.29 | 4 932.81 | 9 843.48 | 33.38 |
| <2> | Papua New Guinea | - | - | - | - |
| | Philippines | 23 231.78 | 23 231.78 | 0.00 | 100.00 |
| | Poland | 970.26 | 970.26 | 0.00 | 100.00 |
| | Portugal | 32 035.39 | 32 035.39 | 0.00 | 100.00 |
| <1> | Qatar | - | - | - | - |
| <2> | République du Congo | - | - | - | - |
| | Republic of Korea | 236 049.03 | 236 049.03 | 0.00 | 100.00 |
| <2> | Russian Federation | - | - | - | - |
| <2> | Saint Kitts | - | - | - | - |
| <2> | Saint Lucia | - | - | - | - |
| <2> | Saint Vincent and the Grenadines | - | - | - | - |
| <1> | Samoa | - | - | - | - |
| <1> | Seychelles | - | - | - | - |
| <1> | Sierra Leone | - | - | - | - |
| | Singapore | 148 108.15 | 144 605.00 | 3 503.15 | 97.63 |
| <1> | Slovenia | - | - | - | - |
| <2> | South Africa | - | - | - | - |
| | Spain | 127 985.66 | 127 985.66 | 0.00 | 100.00 |
| | Sri Lanka | 4 593.89 | 4 593.89 | 0.00 | 100.00 |
| | Sweden | 44 113.60 | 44 113.60 | 0.00 | 100.00 |
| <1> | Switzerland | - | - | - | - |
| <2> | Tanzania | - | - | - | - |
| <1> | Tonga | - | - | - | - |
| | Trinidad and Tobago | 9 930.67 | 9 930.67 | 0.00 | 100.00 |
| | Tunisia | 6 910.25 | 6 910.25 | 0.00 | 100.00 |
| | Turkey | 50 311.91 | 50 311.91 | 0.00 | 100.00 |
| <2> | Tuvalu | - | - | - | - |
| <1> | United Arab Emirates | - | - | - | - |
| <4> | United Kingdom | 108 494.51 | 108 494.51 | 0.00 | 100.00 |
| | Uruguay | 4 105.40 | 4 105.40 | 0.00 | 100.00 |
| <1> | Vanuatu | - | - | - | - |
| <3> | Venezuela | - | - | - | - |
| | **Total** | **2 826 374.72** | **2 780 528.98** | **45 845.74** | **98.38** |

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<1> No liability for 2006 contributions to the General Fund
<2> Reports on contributing oil receipts in 2005 not submitted by 31.12.2007
<3> Reports on contributing oil receipts in 2005 submitted late: to be invoiced
<4> Reports on contributing oil receipts in 2005 for some contributors submitted late: to be invoiced

* * *

## CONTRIBUTIONS OUTSTANDING FOR PREVIOUS FINANCIAL PERIODS AS AT 31.12.2007

### General Fund and Major Claims Funds

| State | | Assessment £ | Receipt £ | Outstanding £ |
|---|---|---|---|---|
| Argentina | General Fund 2004 | **40 208.31** | **28 794.01** | **11 414.30** |
| 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 |
| | *Prestige* Major Claims Fund 2004 | 73 225.88 | 0.00 | 73 225.88 |
| | | **278 615.69** | **0.00** | **278 615.69** |
| Russian Federation | 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 |
| | General Fund 2004 | 13 520.40 | 12 049.91 | 1 470.49 |
| | *Prestige* Major Claims Fund 2003 | 30 537.82 | 0.00 | 30 537.82 |
| | *Prestige* Major Claims Fund 2004 | 13 444.15 | 0.00 | 13 444.15 |
| | | **66 976.69** | **16 675.86** | **50 300.83** |
| Total | | **385 800.69** | **45 469.87** | **340 330.82** |

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## CONTRIBUTIONS FOR PREVIOUS YEARS NOT ASSESSED DUE TO NON-SUBMISSION OF REPORTS ON CONTRIBUTING OIL RECEIPTS FOR RELEVANT YEAR AS AT 31 DECEMBER 2007

| | | Contribution Year | Applicable Oil receipt year |
|---|---|---|---|
| Bahrain | General Fund | 2004 | 2003 |
| | General Fund | 2003 | 2002 |
| | General Fund | 2002 | 2001 |
| | General Fund | 2001 | 2000 |
| | General Fund | 2000 | 1999 |
| | General Fund | 1998 | 1997 |
| | *Prestige* Major Claims Fund | 2004 & 2003 | 2001 |
| | *Erika* Major Claims Fund | 1999, 2000, 2001 & 2002 | 1998 |
| Cambodia | General Fund | 2004 | 2003 |
| | General Fund | 2003 | 2002 |
| | General Fund | 2002 | 2001 |
| | *Prestige* Major Claims Fund | 2004 & 2003 | 2001 |
| Comoros | General Fund | 2004 | 2003 |
| | General Fund | 2003 | 2002 |
| | General Fund | 2002 | 2001 |
| | General Fund | 2001 | 2000 |
| | *Prestige* Major Claims Fund | 2004 & 2003 | 2001 |
| Dominica | General Fund | 2004 | 2003 |
| | General Fund | 2003 | 2002 |
| | General Fund | 2002 | 2001 |
| | *Prestige* Major Claims Fund | 2004 & 2003 | 2001 |
| Dominican Republic | General Fund | 2004 | 2003 |
| | General Fund | 2003 | 2002 |
| | General Fund | 2002 | 2001 |
| | General Fund | 2001 | 2000 |
| | General Fund | 2000 | 1999 |
| | *Prestige* Major Claims Fund | 2004 & 2003 | 2001 |
| Grenada | General Fund | 2004 | 2003 |
| | General Fund | 2003 | 2002 |
| | General Fund | 2002 | 2001 |
| | *Prestige* Major Claims Fund | 2004 & 2003 | 2001 |
| Guinea | General Fund | 2004 | 2003 |
| | General Fund | 2003 | 2002 |
| Saint Vincent and the Grenadines | General Fund | 2004 | 2003 |
| | General Fund | 2003 | 2002 |
| | General Fund | 2002 | 2001 |
| | *Prestige* Major Claims Fund | 2004 & 2003 | 2001 |
| Tanzania | General Fund | 2004 | 2003 |
| | General Fund | 2003 | 2002 |

## SCHEDULE II

## REPORT ON PAYMENT OF CLAIMS FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2007

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 2007 in respect of various incidents amounted to £10 252 489 and is made up as follows:

| | £ |
|---|---|
| General Fund (see paragraph 3) | 5 138 769 |
| *Erika* Major Claims Fund (see paragraph 4) | 2 081 034 |
| *Prestige* Major Claims Fund (see Note 14 to Financial Statements) | 3 032 686 |
| | 10 252 489 |

3 The General Fund covers compensation payments and claims related expenditure up to a maximum amount of the Pounds sterling equivalent of 4 million SDR per incident converted at the rate applicable on the date of the incident. During 2007 payments from the General Fund were made in respect of eight incidents. The major portion of the claims and claims related expenditure from the General Fund related to two incidents, the *Solar I* incident (£4 030 034) (see Notes 1(e) and 5 to Financial Statements) and the German incident (£1 006 536).

4 Compensation payments of £379 287 (€551 635.88) made from the *Erika* Major Claims Fund has been recovered following decisions of the court of appeal (see Note 13 to Financial Statements).

5 In general, the position as at 31 December 2007 can be summarised as follows:

| Incident | Year | Compensation £ | Fees and related costs £ | Other costs £ | Total £ |
|---|---|---|---|---|---|
| 1 **Incident in Germany** | 2007 | 961 364 | 42 734 | 2 438 | 1 006 536 |
| | 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 | 961 364 | 144 867 | 8 976 | 1 115 207 |
| 2 ***Dolly*** | 2007 | - | 343 | 5 | 348 |
| | 2006 | 1 029 174 | 11 613 | 27 | 1 040 814 |
| | 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 | 1 029 174 | 174 801 | 69 | 1 204 044 |

| Incident | Year | Compensation<br>£ | Fees and related costs<br>£ | Other costs<br>£ | Total<br>£ |
|---|---|---|---|---|---|
| 3 *Erika* | 2007 | 1 389 031 | 1 066 945 | 4 345 | 2 460 321 |
| *Recovered – decision of court of appeal* | 2007 | (379 287) | - | - | (379 287) |
| | 2006 | 7 921 605 | 1 480 682 | 3 796 | 9 406 083 |
| | 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 | 76 874 457 | 20 043 450 | 213 264 | 97 131 171 |
| 4 *Al Jaziah 1* | 2007 | - | 12 797 | 13 | 12 810 |
| *(Joint incident - 50% 1971 Fund)* | 2006 | - | 9 199 | 17 | 9 216 |
| | 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 | 103 986 | 7 724 | 677 876 |
| 5 *Slops* | 2007 | - | 49 050 | 107 | 49 157 |
| | 2006 | - | 39 995 | 13 | 40 008 |
| | 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 | - | 329 704 | 196 | 329 900 |
| 6 *Prestige* | 2007 | 1 109 424 | 1 934 927 | 8 488 | 3 052 839 |
| *Reimbursement from P&I Club* | 2007 | - | (20 153) | - | (20 153) |
| | 2006 | 40 537 569 | 2 463 784 | 23 225 | 42 024 578 |
| *Reimbursement from P&I Club* | 2006 | - | (1 000 000) | - | (1 000 000) |
| | 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 | 82 306 762 | 11 651 355 | 483 179 | 94 441 296 |
| 7 *N°7 Kwang Min* | 2007 | - | 25 899 | 55 | 25 954 |
| | 2006 | 1 164 982 | 177 986 | 22 | 1 342 990 |
| | Total to date | 1 164 982 | 203 885 | 77 | 1 368 944 |
| 8 *Solar I* | 2007 | 3 835 532 | 127 335 | 67 167 | 4 030 034 |
| *(Under STOPIA 2006 agreement)* | 2006 | 1 965 877 | 248 | 39 069 | 2 005 194 |
| | Total to date | 5 801 409 | 127 583 | 106 236 | 6 035 228 |

| Incident | Year | Compensation<br><br>£ | Fees and related costs<br>£ | Other costs<br>£ | Total<br><br>£ |
|---|---|---|---|---|---|
| 9 *Shosei Maru* | 2007 | - | - | 11 941 | 11 941 |
| | Total to date | - | - | 11 941 | 11 941 |
| 10 *Hebei Spirit* | 2007 | - | - | 1 989 | 1 989 |
| | Total to date | - | - | 1 989 | 1 989 |

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## SCHEDULE III

## DETAILS OF CONTINGENT LIABILITIES OF THE 1992 FUND AS AT 31 DECEMBER 2007

1 Contingent liabilities represent all known or likely claims against the 1992 Fund as at 31 December 2007 as well as an estimate of fees and other costs for 2008 (Note 1(f) to the financial statements). The figures are based on information available up to 30 April 2008.

2 There are contingent liabilities of the 1992 Fund estimated at £326 626 200 in respect of ten incidents as at 31 December 2007.

3 Details of the contingent liabilities, given in rounded figures, are set out below.

| Incident | | Date | Contingent liabilities at 31.12.07 | | |
|---|---|---|---|---|---|
| | | | Compensation | Other costs | Total |
| | | | £ | £ | £ |
| 1 | Incident in Germany | 20.6.96 | - | 15 000 | **15 000** |
| 2 | *Erika* | 12.12.99 | 40 600 000 | 1 000 000 | **41 600 000** |
| 3 | *Al Jaziah 1* | 24.1.00 | - | 15 000 | **15 000** |
| 4 | *Slops* | 15.6.00 | 3 000 000 | 100 000 | **3 100 000** |
| 5 | *Prestige* | 13.11.02 | 21 400 000 | 2 000 000 | **23 400 000** |
| 6 | *N°7 Kwang Min* | 24.11.05 | 76 200 | 20 000 | **96 200** |
| 7 | *Solar I* | 11.08.06 | - | 25 000 | **25 000** |
| 8 | *Shosei Maru* | 28.11.06 | 725 000 | 50 000 | **775 000** |
| 9 | *Volgoneft 139* | 11.11.07 | 160 700 000 | 200 000 | **160 900 000** |
| 10 | *Hebei Spirit* | 07.12.07 | 96 300 000 | 400 000 | **96 700 000** |
| **TOTAL** | | | **322 801 200** | **3 825 000** | **326 626 200** |

4 Out of these contingent liabilities, some £1.3 million had been liquidated as at 30 April 2008, mainly in respect of the *Prestige* (£765 000), *Erika* (£400 000) and *Hebei Spirit* (£94 000) incidents.

5 The estimated expenditure under the item 'Other costs' relates to legal and technical costs for the next financial year, ie 2008. 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 2008.

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 2007.

*Incident in Germany*

7 The Executive Committee in March 2005 authorised the Director to conclude an out-of-court settlement with the Federal Republic of Germany and the shipowner and his insurer. 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% and the shipowner and the Club 20% of any proven loss suffered by the Federal Republic of Germany as result of the incident. During 2007 negotiations

were held with the German Government in respect of the interest to be paid by the 1992 Fund and of the costs incurred by the German Government in respect of the proceedings before the District Court in Flensburg and the Schleswig-Holstein Court of Appeal. At a court hearing in November 2007 a settlement agreement was concluded between the Federal Republic of Germany, the shipowner, the West of England Club and the 1992 Fund. In compliance with this agreement, in December 2007 the 1992 Fund paid €1 766 903 (£1 214 151) in respect of the principal settlement amount plus interest, followed by a further payment of €45 293 (£32 768) in respect of the court costs incurred by the German Government. In accordance with the agreement, the West of England Club has reimbursed the Fund 20% of the amounts paid by it in respect of the compensation payment of the principal plus interest in December 2007 and reimbursed also 20% of the payment in respect of court costs in January 2008. As a result of the agreement all legal actions by the German government against the shipowner, the West of England Club and the 1992 Fund have been withdrawn. For the purpose of the contingent liabilities legal fees of some £15 000 has been estimated for 2008.

*Erika*

8 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 127 719 148 (€171 919 676). The 1992 Fund had as at 31 December 2007 paid €116.6 million in compensation. The balance payable by the 1992 Fund in compensation is €55.3 million (£40.6 million). Fees and other costs are estimated at £1 million for 2008.

*Al Jaziah 1*

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 2008 estimated at £15 000.

*Slops*

10 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 (£1 706 000) 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 June 2006 the Supreme Court held that at the time of the incident, the *Slops* should be regarded as a 'ship' as defined in the 1992 Conventions and that the Court of Appeal's judgement should be set aside and the case be referred back to that Court to examine the merits of the substance of the dispute ie the quantum of the claim. In October 2007 a hearing took place in the Court of Appeal. As at 31 December 2007 the Court of Appeal had not rendered its judgement. For the purpose of the contingent liabilities, the total compensation arising from the incident has been estimated at €4 million (£3 million) including court costs and interest. Fees and other costs are estimated at £100 000 for 2008.

*Prestige*

11 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 (£126 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. The 1992 Fund's liability would therefore be approximately €148.7 million. By the end of 2007 the 1992 Fund had paid a total of €119.6 million, including €57 555 000 (£39.9 million) and €56 365 000 (£38.5 million) paid to the Spanish State in 2003 and 2006 respectively. By the end of 2007 the 1992 Fund had paid €4.8 million (£3.3) in France and €328 488 (£222 000) in Portugal. The balance payable by the 1992 Fund in compensation therefore is some €29.1 million (£21.4 million). Fees and other costs are estimated at £2 million for 2008.

*N°7 Kwang Min*

12 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 to settle all claims arising from the incident in view of the shipowner not being able to meet his obligations under the 1992 Civil Liability Convention. Most claims have been settled and paid for KRW 2 032 million. Two claimants have not agreed with the settlement of their claims and have taken legal action. For the purpose of the contingent liabilities compensation payable is estimated at KRW 142 million (£76 200). Fees and other costs are estimated at £20 000 for 2008.

*Solar 1*

13 In August 2006 the *Solar 1* capsized and sank in the Philippines. The limitation amount applicable to the *Solar 1* in accordance with the 1992 Civil Liability Convention is 4.51 million SDR (£3.5 million). However, the owner of the *Solar 1* was a party to the Small Tanker Oil Pollution Indemnification Agreement 2006 (STOPIA 2006) whereby the limitation amount applicable to the tanker under the Civil Liability Convention was increased, on a voluntary basis, to 20 million SDR (£15.8 million). This is the first incident where STOPIA 2006 has applied and the 1992 Fund is receiving regular reimbursements from the Shipowner's Club. By December 2007 a substantial number of claims had been submitted from the fisheries, mariculture and tourism sectors, they are however expected to fall within the limitation amount applicable under STOPIA 2006. For the purpose of the contingent liabilities the amount of compensation payable will fall under STOPIA 2006. Fees and other costs are estimated at £25 000 for 2008.

*Shosei Maru*

14 In November 2006 the tanker *Shosei Maru* collided with the cargo vessel *Trust Busan* in Japan. About 60 tonnes of heavy fuel oil and bunker diesel oil escaped into the sea from the *Shosei Maru.* The Japan P&I Club informed the 1992 Fund that the owner of the *Shosei Maru* had not given its consent for the vessel to be entered into STOPIA 2006. As a consequence, the Fund will be liable to pay the difference between the total assessed amount and the 1992 CLC limit. The limitation amount applicable to the *Shosei Maru* under the 1992 Civil Liability Convention is 4.51 million SDR. The limitation amount has been set by the Court at ¥738 629 760 million (£3.3 million). Claims for the costs of clean up operations and preventive measures, cleaning hulls of commercial and cleaning vessels, replacement of seaweed nets and loss of earnings have been assessed some ¥899 million (£4 million). For the purpose of the contingent liabilities compensation payable by the 1992 Fund has been estimated at ¥161 million (£725 000) and fees and other costs for 2008 have been estimated at £50 000.

*Volgoneft 139*

15 On 11 November 2007 the Russian-registered tanker *Volgoneft 139* (3 463 GT, built in 1978) broke in two in the Strait of Kerch linking the Sea of Azov and the Black Sea between the Russian Federation and Ukraine. The tanker was allegedly loaded with a cargo of 4 077 tonnes of fuel oil and it is believed that between 1 200 and 2 000 tonnes of fuel oil were spilt at the time of the incident. The ship was owned by JSC Volgotanker and insured for protection and indemnity liability by Ingosstrakh (Russian Federation). It is alleged that the shipowner's P&I insurance cover is limited to US$5 million (£2.5 million). If this information were correct, this insurance cover would

be well below the level of the cover required under the 1992 Civil Liability Convention of 4.51 million SDR (£3.6 million). Ingosstrakh is also arguing in court that the incident was caused by a phenomenon of an exceptional character. If the court were to agree with Ingosstrakh's defence the 1992 Fund would have to pay all losses arising from the incident. The vessel was not insured by one of the P&I Clubs belonging to the International Group of P&I Clubs and therefore STOPIA 2006 does not apply. Claims totalling RUB 8 432 million (£172 million) have been submitted to the competent Arbitration Court of Saint Petersburg and Leningrad Region. For the purpose of the contingent liabilities compensation payable is estimated at 203 million SDR (£160.7 million) and legal and other costs have been estimated at £200 000 for 2008.

*Hebei Spirit*

16 On 7 December 2007 the Hong Kong flag tanker the *Hebei Spirit* (146 848 GT) was struck by the crane barge *Samsung N°1* while at anchor about five miles off Taean on the west coast of the Republic of Korea. The accident resulted in about 10 500 tonnes of crude oil escaping into the sea from the *Hebei Spirit* and polluting some 375 kilometres of the western coast of the Republic of Korea. Under Article 4.4(e) of the 1992 Fund Convention, the maximum amount of compensation payable in respect of the *Hebei Spirit* incident is 203 million SDR. The estimated losses arising out of this incident are expected to exceed the limitation amount applicable to the Hebei Spirit under the 1992 Fund Civil Liability Convention ie 89.77 million SDR. As decided by the Executive Committee in October 1997 the conversion of the SDR into national currency would be made on the basis of the value of that currency *vis-à-vis* the SDR on the date of the adoption of the Record of Decisions (RoD) of the session at which the Assembly or Executive Committee took the decision which made payments of claims possible, ie in this case at the 40th session of the Executive Committee (RoD adopted on 13 March 2008; rate of 1 SDR = Won 1 584.330). At the same session the Executive Committee further decided to authorise the Director to make payments, but that, in view of the uncertainty as to the total amount of the potential claims, the payments should for the time being be limited to 60% of the amount of the damage actually suffered by the respective claimant as assessed by the Fund's experts. It was also decided that no payment would be made to the Korean Government, the regional or local authorities or any other government agency pending a final decision by the Korean Government in respect of it standing last in the queue. The 1992 Fund would be expected to pay compensation only once the CLC limit has been reached and therefore all joint cost expenditure is presently being made by the Club. For the purpose of the contingent liabilities compensation payable is estimated at 113 230 000 SDR which converted at the rate of 1 SDR = Won 1 584.330 is Won 179 393 685 900 (£96.3 million) plus legal costs payable by the 1992 Fund estimated at £400 000 for 2008.

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