

*Translated from original Arabic Interim Financial Statements - Unaudited*

**DEVELOPMENT FUND FOR IRAQ**

Interim Financial Statements - Unaudited

30 June 2009

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## **DEVELOPMENT FUND FOR IRAQ**

### **Glossary**

<b>Acronym</b>	<b>Definition</b>
BSA	Board of Supreme Audit
CBI	Central Bank of Iraq
COFE	Committee of Financial Experts
CPA	Coalition Provisional Authority
DFI	Development Fund for Iraq
FMS	Foreign Military Sales
FRBNY	Federal Reserve Bank of New York
GOI	Government of Iraq
IAMB	International Advisory and Monitoring Board for Iraq
IPSAS	International Public Sector Accounting Standards
IRMO	Iraq Reconstruction Management Office
JASG	Joint Area Support Group
JCC-I	Joint Contracting Command - Iraq
MOF	Ministry of Finance
OFF	Oil for Food Program
OPRA	Oil Proceeds Receipt Account
PCO	Project and Contracting Office
SOMO	State Oil Marketing Organization
TBI	Trade Bank of Iraq
UN	United Nations
UNSCR	United Nations Security Council Resolution
U.S.	United States of America

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**KPMG S.A.L. (Offshore)**  
Lazarieh Building - Block 01  
P.O. Box: 11-8270  
Beirut, Lebanon  
Telephone : + 961 (01) 985501 - 985502  
Fax : + 961 (01) 985503

بنية للعازارية - بلوك A3  
ص.ب. 11-8270 بيروت، لبنان  
تلفون: 961 (1) 985502-985501  
فاكس: 961 (1) 985503

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## **Independent Auditors' Report on Review of Interim Financial Statements**

**To The Government of Iraq, International Advisory and Monitoring Board for Iraq and Committee of Financial Experts.**

### **Introduction**

We have reviewed the accompanying interim statement of cash receipts and payments and the interim statement of proceeds of oil export sales of the DFI for the six months ended 30 June 2009 and a summary of significant accounting policies and other explanatory information (the "interim financial statements"). The government of Iraq is responsible for the preparation and fair presentation of these interim financial statements in accordance with International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting". Our responsibility is to express a conclusion on these interim financial statements based on our review.

### **Scope of Review**

Except as described in paragraphs 1, 2 and 3 below, we conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The DFI's policy is to prepare the accompanying interim financial statements on the cash receipts and payments basis. On this basis revenue is recognized when received rather than when earned and expenses are recognized when paid rather than when incurred.

### **Basis for Qualified Conclusion**

- 1 As further explained in note 3 to the interim financial statements, a substantial part of the DFI receipts is from the export sales of petroleum. The IAMB recommended the installation of a comprehensive oil metering system in Iraq and in accordance with standard oil industry practices, while the Iraqi Government supports oil metering, progress has been slow. In the absence of an overall comprehensive system of controls over petroleum extraction, we were not able to reconcile extracted petroleum to SOMO's records of quantities received and quantities consumed internally, however we have reconciled the petroleum quantities received by SOMO to petroleum export sales.



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**Independent Auditors' Report on review of Interim Financial Statements (continued)**

- 2 As further explained in note 4 to the interim financial statements, in accordance with the provisions of UNSCR 1483, all frozen assets in foreign countries and their economic resources shall be transferred to the DFI. Our inquiries revealed that the DFI does not maintain complete records of all frozen assets which it is entitled to receive. Accordingly, we could not extend our review procedures sufficiently to satisfy ourselves over the completeness of proceeds from frozen assets in foreign countries in the interim financial statements.
- 3 As further explained in note 7 to the interim financial statements, cash receipts amounting to U.S. Dollars 1,312,005 thousands relating to license fee of mobile telecommunication were incorrectly recorded in the DFI, accordingly cash and cash equivalents as at 30 June 2009, 31 December 2008, 30 June 2008 and cash receipts for the six months ended 30 June 2008 are overstated by the same amount.
- 4 As further explained in note 3 to the interim financial statements, cash received from export sales of petroleum products for the six months ended 30 June 2009 amounting to U.S. Dollars 170,207 thousand (since inception till 31 December 2008: U.S. Dollars 3,132,496 thousand) has been deposited in bank accounts controlled by SOMO. According to UNSCR 1483 (2003), 95% of the proceeds of export sales of petroleum and petroleum products should be deposited in the DFI account. Accordingly, the cash receipts for the six months ended 30 June 2009 are understated by U.S. Dollars 161,697 thousand and cash and cash equivalents as at 30 June 2009 are understated by U.S. Dollars 3,137,568 thousand.

Based on COFE's recommendation the Minister of Oil issued memo # 1691 dated 26 March 2009 which states that all export of fuel oil be stopped effective 1 April 2009 except for exports related to the joint agreement between the Iraqi Ministry of Electricity, SOMO and the Turkish Company KARTET and exports related to the Iraqi Oil Tanker Company.



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**Independent Auditors' Report on review of Interim Financial Statements (continued)**

**Qualified Conclusion**

Based on our review, except for the effects referred to in paragraphs 3 and 4 above and possible effects referred to in paragraphs 1 and 2 above, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not prepared, in all material respects, in accordance with International Public sector Accounting Standard "Financial Reporting Under the Cash Basis of accounting".

**Emphasis of Matters**

Without further qualifying our conclusion, we draw the attention that the DFI is a fund and not an entity where a double entry system is always implemented to create a general ledger. The accompanying interim financial statements are prepared from various banks statements and other related financial information to show the sources of cash deposited in the DFI and uses of the cash disbursed from the DFI.

As further explained in note 9 to the interim financial statements, the letters of credit cash payments during the six months ended 30 June 2009 include payments related to certain self-financing governmental entities that are not covered by the DFI. Conversely, the MOF received advance payments from these entities to fund their letters of credit payments which have been deposited in the MOF accounts at the CBI and have not been transferred to the DFI account at the FRBNY.

**Other Matters – Restriction on Use**

As indicated above, the interim financial statements are prepared in accordance with the International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting". These interim financial statements and related auditors' report may not be suitable for another purpose.

This report including our opinion, is intended solely for the information and use of the Government of Iraq, the International Advisory and Monitoring Board of the Development Fund for Iraq and the Committee of Financial Experts and should not be used for any other purpose. We do not accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come.

*KPMG*

29 April 2010

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### INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS - UNAUDITED

*Translated from original Arabic Interim Statement of Cash Receipts and Payments - Unaudited*

<b>For the six months ended 30 June</b>	<b>Notes</b>	<b>2009</b>	<b>2008</b>
<i>In thousands of U.S. Dollar</i>			
<b>Cash receipts</b>			
Export sales of petroleum and petroleum products	3	13,567,081	31,236,926
Proceeds from frozen assets in foreign countries	4	—	833
United Nations Oil for Food Program	5	121	—
Interest received	6	103,659	347,329
Other receipts	7	325,142	1,728,091
<b>Total cash receipts</b>		<u>13,996,003</u>	<u>33,313,179</u>
<b>Cash payments</b>			
Transfers to the Ministry of Finance	8	8,500,000	21,500,000
Letters of credit for the benefit of Iraqi ministries	9	6,396,927	6,366,403
Contracts administered by U.S. Agencies	10	—	281,225
Iraqi external debt repayments	11	100,000	80,918
Other payments	12	85,307	22,927
<b>Total cash payments</b>		<u>15,082,234</u>	<u>28,251,473</u>
<b>Excess (deficit) of cash receipts over cash payments</b>		(1,086,231)	5,061,706
Cash and cash equivalents at 1 January	13	130,286	2,547,331
Proceeds from treasury bills on maturity	14	10,172,948	7,904,659
Total available cash and cash equivalents		9,217,003	15,513,696
Purchased treasury bills	14	(8,184,488)	(15,219,879)
Cash and cash equivalents at 30 June	13	1,032,515	293,817
Treasury bills at 30 June	14	8,184,488	14,673,959
<b>Cash and cash equivalents and treasury bills at 30 June</b>		<u>9,217,003</u>	<u>14,967,776</u>

The notes on pages 6 to 18 are an integral part of these interim financial statements.

Director General MoF  
Accounting Department



Amaal Ismaail Al Naaib

Minister of Finance advisor  
on the Minister's behalf



Engineer Baker Jaber Al Zubidy

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### INTERIM STATEMENT OF PROCEEDS OF OIL EXPORT SALES - UNAUDITED

*Translated from original Arabic Interim Statement of Proceeds of Oil Export Sales - Unaudited*

<b>For the six months ended 30 June</b>	<b>2009</b>	<b>2008</b>
<i>In thousands of U.S. Dollar</i>		
Total export sales of petroleum	16,256,468	35,732,106
Less:		
Demurrage claims deducted from export sales invoices	(2,783)	(13,758)
Proceeds deposited in OPRA after end of period	(3,766,340)	(6,960,833)
Add:		
Proceeds deposited related to prior period export sales invoices	1,780,392	4,123,319
Price differential	13,396	–
Interest on delayed bank transfers	5	140
<b>Proceeds deposited in OPRA</b>	<b>14,281,138</b>	<b>32,880,974</b>
Amounts transferred to the Compensation Fund (5%)	(714,057)	(1,644,048)
<b>Net proceeds deposited in the DFI (95%)</b>	<b>13,567,081</b>	<b>31,236,926</b>

The notes on pages 6 to 18 are an integral part of these interim financial statements.



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## NOTES TO THE INTERIM FINANCIAL STATEMENTS - UNAUDITED

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### 1 Entity Information

The DFI was established during May 2003 by the United States of America and recognized by UNSCR 1483 (2003). Power was delegated by the U.S. President to the Administrator of the CPA to oversee and control the DFI.

On 28 June 2004 the CPA ceased to exist and, in accordance with UNSCR 1546 (2004), management and control of the DFI was transferred to the Interim Government of Iraq and subsequently to the Transitional Government of Iraq and currently to the Government of Iraq.

The IAMB of the DFI was appointed in accordance with UNSCR 1483 (2003) and subsequent resolutions. The IAMB is an audit oversight body for the DFI, its purpose is to promote the objectives set forth in UNSCR 1483 (2003) and UNSCR 1546 (2004) of ensuring that the DFI is used in a transparent and equitable manner through the Iraqi budget and to satisfy outstanding obligations against the DFI. In addition 95% of the proceeds of export sales of petroleum, petroleum products and natural gas from Iraq are deposited into the DFI in accordance with the provisions of UNSCR 1483 (2003).

The DFI consists of bank accounts held with the FRBNY and managed by the CBI on behalf of the MOF. A DFI sub-account was established at the FRBNY during 2004 to be managed by the U.S. Agencies and monitored by the Iraqi MOF. The Purpose of this sub-account is to facilitate disbursements for contracts signed by the former CPA, requiring payment subsequent to 28 June 2004. U.S. Agencies' management of the DFI sub-account expired on 31 December 2006. The U.S. Agencies include the JCC-I, PCO, IRMO, the JASG Comptroller, the DFI Disbursing Office, the Defense Contract Management Agency, the U.S. Army Corps of Engineers and Coalition Forces.

In accordance with UNSCR 1483 (2003), 95% of the proceeds from export sales of petroleum, petroleum products and natural gas from Iraq are to be deposited in the DFI. Furthermore, all Member States are obligated to freeze and transfer funds and other financial assets of the former Iraqi regime to the DFI. In addition, surplus funds from the UN's OFF program, established by UNSCR 986 (1995), are to be transferred to the DFI.

In accordance with UNSCR 1483 (2003), the DFI's funds are to be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration and for other purposes benefiting the people of Iraq.

UNSCR 1723 (2006) extended until 31 December 2007 the arrangements established in Paragraph 20 of UNSCR 1483 (2003) for the depositing proceeds from export sales of petroleum, petroleum products, and natural gas into the DFI and the arrangements referred to in paragraph 12 of UNSCR 1483 (2003) and paragraph 24 of UNSCR 1546 (2004) for the monitoring of the DFI by the IAMB. In accordance with UNSCR 1723 (2006) The IAMB's mandate was due to expire on 31 December 2007. The UNSCR 1790 dated 18 December 2007 extended the IAMB mandate to 31 December 2008.

On 22 December 2008 the UNSC adopted resolution 1859 to extend until 31 December 2009 the arrangements established in Paragraph 20 of UNSCR 1483 (2003) for the depositing proceeds from export sales of petroleum, petroleum products and natural gas into the DFI and the arrangements referred to in paragraph 12 of UNSCR 1483 (2003) and paragraph 24 of UNSCR 1546 (2004) for the monitoring of the DFI by the IAMB.

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### **1 Entity Information (continued)**

The Republic of Iraq's Council of Ministers resolved in its twenty third meeting held on 19 October 2006 to form COFE to takeover the tasks of the IAMB in monitoring the DFI upon the termination of the IAMB by 31 December 2007. COFE is headed by the president of the BSA and includes two independent experts. COFE is responsible directly to the Council of Ministries. On 1 April 2007, the President of COFE issued his resolution confirming the names of COFE members and announced the commencement of COFE's activities, which will be in parallel with the IAMB's activities.

### **2 Basis of preparation and significant accounting polices**

#### **a) Basis of preparation**

The interim financial statements have been prepared in accordance with the International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting" issued by the International Federation of Accountants in January 2003 and updated in 2006 and 2007.

The interim financial statements were authorized for issuance in accordance with His Excellency the Minister of Finance's approval on 29 April 2010.

#### **b) Reporting Currency**

The interim financial statements have been presented in United States Dollars (U.S. Dollars) which is different from the currency of the country where the DFI is domiciled which is the Iraqi Dinar due to the fact that most of the proceeds from petroleum and petroleum products are in U.S. Dollars.

#### **c) Significant accounting Policies**

The DFI's interim financial statements have been compiled from the monthly statements of cash receipts and payments of the DFI's main bank account managed by the CBI, the DFI's sub-account maintained by the U.S. Agencies, the FRBNY bank statements and other financial information maintained by the MOF and other parties.

The accounting policies have been applied consistently throughout the period and in previous periods.

#### **d) Cash receipts**

Cash receipts are recorded when funds are deposited in the DFI bank accounts at FRBNY.

#### **e) Cash payments**

Cash payments including transfers to the Iraqi MOF and cash margins for the issued irrecoverable documentary letters of credit and other payments are recorded when funds are transferred from the DFI bank accounts at FRBNY or from cash held centrally by the U.S. Agencies.

#### **f) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, bank balances and overnight placements. The letters of credit cash margins at banks are not included as part of the DFI cash and cash equivalent balances as they are not controlled by the DFI and are restricted for the payment of the outstanding letters of credit to suppliers.

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### **3 Export sales of petroleum and petroleum products**

Export sales of petroleum and petroleum products are arranged and invoiced exclusively by SOMO, the sales arm of the Ministry of Oil.

According to UNSCR 1483 (2003), the proceeds of export sales of petroleum and petroleum products shall be deposited into OPRA at the FRBNY and immediately thereafter, 95% is required to be deposited in the DFI account at the FRBNY and the remaining 5% is required to be deposited in the United Nations' Compensation Fund, and not included in the DFI's statement of cash receipts and payments. The Compensation Fund was established in accordance with UNSCR 687 (1991), and subsequent relevant resolutions, as a result of the Iraqi invasion of Kuwait during 1990.

As OPRA is not legally a DFI account, it does not form part of the records of the DFI. Accordingly, only 95% of export sales proceeds are recorded in the DFI's interim financial statements.

Export sales of petroleum are paid for by letters of credit with proceeds deposited in OPRA approximately 30 days after the shipment date.

Net cash received from export sales of petroleum products during the six months ended 30 June 2009 amounting to U.S. Dollars 170,207 thousand (from inception till 31 December 2008: U.S. Dollars 3,132,496 thousand), were not deposited into OPRA and are not recorded in the DFI's interim financial statements. These funds were deposited in bank accounts controlled by SOMO.

According to the Minister of Oil's memo # 1691 dated 26 March 2009 which states that all export of fuel oil be stopped as at 1 April 2009 except for exports related to the joint agreement between the Iraqi Ministry of Electricity, SOMO and the Turkish Company KARTET and exports related to the Iraqi Oil Tanker Company. The joint agreement states that KARTET will provide electricity to the Ministry of Electricity in exchange for fuel oil sold by SOMO. This agreement expires on 31 December 2009.

Prior to 31 December 2007, SOMO engaged in barter transactions with the Syrian Government and other private companies for exports of petroleum and petroleum products. Barter transactions consisted mainly of exports of fuel oil in exchange for light petroleum products, and exports of petroleum in exchange for electricity and light petroleum products. The value of the barter transactions with the Syrian Government as recorded by SOMO from inception till 30 June 2009 is U.S. Dollars 750,865 thousand and the value of barter transaction with private companies from inception till 30 June 2009 is U.S. Dollars 348,815 thousand. No barter transactions were done during the six months ended 30 June 2009. These barter transactions were not recorded in the prior DFI financial statements. As per SOMO, the value of products received from the Syrian government from inception till 31 December 2007 was U.S. Dollars 448,474 thousand. The value of products received from private companies under barter deals from inception till 31 December 2007 could not be determined. The Iraqi government is claiming an amount of U.S. Dollars 302,391 thousand from the Syrian government.

To date of this report, the Syrian government has not responded to the Iraqi government's claims.

The Ministry of Oil does not operate a full operational loading and metering system for export sales of petroleum and petroleum products at loading and extraction points to ensure that all export sales are properly recorded. In the absence of a fully operational metering system and continued disruption of the pipelines, it is not possible to reliably determine the volume of all exports of petroleum and petroleum products, for which proceeds are to be deposited in OPRA and the DFI.

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### 4 Proceeds from frozen assets in foreign countries

According to UNSCR 1483 (2003), all member states of the UN (“member states”) in which there are funds or other financial assets or economic resources of the previous Government of Iraq or its state bodies, corporations, or agencies, located outside Iraq as of 22 May 2003 shall freeze those funds or other financial assets or economic resources and, unless these funds or other financial assets or economic resources are themselves the subject of a prior judicial, administrative, or arbitral lien or judgment, immediately shall be transferred to the DFI.

Proceeds from frozen assets at foreign countries deposited in the DFI account were as follows:

<b>For the six months ended 30 June</b>	<b>2009</b>	<b>2008</b>
<i>In thousands of U.S. Dollar</i>		
Sweden	–	724
Lebanon	–	109
	<u>–</u>	<u>833</u>

Other financial assets of the former Iraqi regime are still held by various member states, which the Government of Iraq is actively pursuing. The Government of Iraq cannot reliably estimate the amount of such financial assets that may eventually be transferred to the DFI, as some of these assets are subject to prior judicial, administrative or arbitral lien or judgment.

Proceeds from frozen assets at foreign countries deposited in the DFI account until now include assets relating to the CBI and other governmental entities. On 22 November 2005, the Iraqi Council of Ministers requested the MOF to make the necessary arrangements to refund all CBI balances at foreign countries that have been transferred to the DFI. As of 30 June 2009 and based on the CBI records the total balance that should be refunded amounted to U.S. Dollars 332,713 thousand. The MOF has not yet confirmed the amounts that will be refunded from the DFI to the CBI.

In addition, certain frozen assets of the CBI are being transferred directly to the CBI accounts without passing through DFI. However, there is not sufficient information to reliably determine the amount of these transfers.

### 5 United Nations Oil for Food Program

The United Nations Oil for Food Program was established by UNSCR 986 (1995), and subsequent relevant resolutions. According to UNSCR 1483 all surplus funds in the Oil for Food program shall be transferred to the DFI at the earliest possible time.

During the six months ended 30 June 2009 U.S. Dollars 121 thousand were transferred to the DFI (Six months ended 30 June 2008: nil).

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### 6 Interest received

<b>For the six months ended 30 June</b>		<b>2009</b>	<b>2008</b>
<i>In thousands of U.S. Dollar</i>			
U.S. Treasury bills	(i)	90,635	144,931
Letters of credit cash margins		7,110	45,199
Overnight repurchase agreement pool facility	(ii)	5,914	157,199
		<u>103,659</u>	<u>347,329</u>

(i) This amount represents interest received from U.S. treasury bills upon maturity, included in this amount is interest received from funds of the Iraq Foreign Military Sales (FMS) account invested in U.S. treasury bills and have matured. The FMS refund process allows the Ministry of Finance to recoup funds in excess of the balance needed to meet current or forecasted disbursement requirements (see note 18). Interest received from the FMS account is transferred quarterly to the DFI main account. The interest received from U.S treasury bills upon maturity were from the following accounts:

<b>For the six months ended 30 June</b>		<b>2009</b>	<b>2008</b>
<i>In thousands of U.S. Dollar</i>			
DFI - Main account		89,410	144,931
Foreign Military Sales (FMS) account		1,225	–
		<u>90,635</u>	<u>144,931</u>

(ii) This amount represents interest received from overnight repurchase agreements, included in this amount is interest received from the FMS account and the PCO transition account. The interest received from overnight repurchase agreements were from the following accounts:

<b>For the six months ended 30 June</b>		<b>2009</b>	<b>2008</b>
<i>In thousands of U.S. Dollar</i>			
DFI - Main account		3,449	34,143
PCO - Transition account		98	1,556
Foreign Military Sales (FMS) account		2,367	121,500
		<u>5,914</u>	<u>157,199</u>

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### 7 Other receipts

<b>For the six months ended 30 June</b>	<b>2009</b>	<b>2008</b>
<i>In thousands of U.S. Dollar</i>		
Refunded letters of credit cash margins	293,286	355,657
License fee of mobile telecommunication	–	1,312,005
Others	31,856	60,429
	<u>325,142</u>	<u>1,728,091</u>

The license fees transferred by the Communications and Media Commission in February 2008 were deposited erroneously in the DFI account at the FRBNY. Subsequently, on 28 July 2009 the funds were paid out of the DFI and into the Ministry of Finance's account at the CBI.

### 8 Transfers to the Ministry of Finance

After funds are transferred from the DFI to the MOF, funds are distributed to other Iraqi ministries and related entities in accordance with their individual budgets.

### 9 Letters of credits for the benefit of Iraqi Ministries

Letters of credit are facilitated by the Trade Bank of Iraq (TBI), authorized by the MOF and disbursed from the DFI's FRBNY account to the TBI's accounts at JP Morgan Chase Bank and Citibank, N.A.

The transferred cash is held at JP Morgan Chase Bank and Citibank, N. A. until evidence of completion of service or receipt of goods is confirmed by the intended Iraqi ministry in accordance with the terms of the letters of credit. The cash margins have not been included as part of the DFI cash balances as they are not controlled by the DFI and are restricted for the payment of the outstanding letters of credit to the suppliers. Interest received on the letters of credit cash margins is disclosed in Note 6.

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### 9 Letters of credits for the benefit of Iraqi Ministries (continued)

Payments for letters of credit were made for the benefit of the following ministries:

<b>For the six months ended 30 June</b>	<b>2009</b>	<b>2008</b>
<i>In thousands of U.S. Dollar</i>		
Ministry of Electricity	2,302,818	1,124,412
Ministry of Trade	1,882,625	2,200,500
Ministry of Oil	1,281,773	1,720,999
Ministry of Interior (i)	405,972	405,285
Ministry of Health	260,010	136,084
Ministry of Water Resources	119,638	19,234
Ministry of Telecommunications	37,955	11,970
Ministry of Defence	37,370	239,144
Ministry of Municipality and Public Works	32,856	99,568
Ministry of Agriculture	15,339	19,069
Ministry of Transportation	14,262	588
Ministry of Finance	4,000	6,680
Ministry of Justice	2,309	–
Ministry of Construction and Housing	–	145
Ministry of Education	–	4,254
Council of ministries	–	378,471
	<u>6,396,927</u>	<u>6,366,403</u>

(i) Included in the payments for the benefit of the Ministry of Interior is an amount of U.S. Dollars 403,515 thousand (2008: 374,381 thousand) transferred to the Foreign Military Sales Account held with FRNBY which is designated for security expenditures by the ministry of interior, ministry of defense and ministry of justice.

The above letters of credit cash payments include payments for letters of credit of certain self-financing governmental entities that are not covered by the DFI. Conversely, the MOF received in return advance payments from these entities to fund their letters of credit payments which have been deposited in the MOF accounts at the CBI and have not been transferred to the DFI account at the FRBNY. DFI could not assess the amounts that were received by the Ministry of Finance from these self-financing entities nor could assess the amounts paid by the DFI to finance the letters of credit issued for the benefit of these self-financing entities.

Letters of credit of the Ministry of Oil were opened primarily for imports of petroleum products into Iraq, construction work on oil refineries, supply of spare parts, material and chemicals for the oil industry; the Ministry of Trade for imports of grain, food and other essential commodities for public distribution; the Ministry of Agriculture for fertilizers and other agricultural supplies; the Ministry of Health, for imports of ambulances, medicine and medical equipment; the Ministry of Electricity, for the purchase and maintenance of power plant turbines, generators and electrical transmission lines; and the Ministry of Municipalities and Public Works for purchase of lorries, and garbage collecting vehicles and spare parts.

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## NOTES TO THE INTERIM FINANCIAL STATEMENTS - UNAUDITED

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### 10 Contracts administered by U.S. Agencies

U.S. Agencies have been granted limited authority by the Government of Iraq to administer outstanding contracts entered into by the former CPA, regarding payments subsequent to 28 June 2004. In September 2007, the Joint Contracting Command-Iraq was granted interim authority by the Ministry of Finance to disburse the remaining funds from the DFI account. On 31 December 2007, this authority was expired and not renewed.

The payments from the U.S. Agencies sub-account were for the benefit of the following Iraqi ministries and governmental bodies.

<b>For the six months ended 30 June</b>	<b>2009</b>	<b>2008</b>
<i>In thousands of U.S. Dollar</i>		
Higher Council of Reconstruction	–	270,000
Ministry of Municipality and Public works	–	10,456
Municipality of Baghdad	–	769
	<u>–</u>	<u>281,225</u>

### 11 Iraqi external debt repayments

<b>For the six months ended 30 June</b>	<b>2009</b>	<b>2008</b>
<i>In thousands of U.S. Dollar</i>		
Bank of England	(i) 100,000	–
Interest paid to JP Morgan Chase Bank	(ii) –	80,918
	<u>100,000</u>	<u>80,918</u>

(i) During December 2008, the Ministry of Finance approved the transfer of U.S. Dollars 200 million to Ministry's account held at the Bank of England, half of which was transferred during December 2008 and the remaining amount was transferred during January 2009. This account will be used to settle interest due on debt bilateral agreements reached with Paris Club creditors and non-Paris Club creditors.

(ii) During 2006, the Government of Iraq engaged JP Morgan Chase Bank to issue debt instruments to finance the settlement of creditors' eligible claims under the Debt Exchange offer. As of 31 December 2008, the total issued debt instruments amounted to U.S. Dollars 2,789,593 thousand with a fixed coupon rate of 5.8% annually. The issued debt instruments will be settled by the Government of Iraq to JP Morgan Chase Bank in semi-annual installments starting on 15 July 2020 and the last payment will be due on 15 January 2028. The 6th coupon payment of U.S. Dollars 80,898 thousand was paid out of the Ministry of Finance's current account held at the Central Bank of Iraq.



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### 12 Other payments

#### For the six months ended 30 June

*In thousands of U.S. Dollar*

	2009	2008
Baghdad Municipality	69,260	–
The Independent Electoral Commission of Iraq	15,962	906
Others	85	22,021
	<u>85,307</u>	<u>22,927</u>

### 13 Cash and cash equivalents

#### As at 30 June

*In thousands of U.S. Dollar*

#### Accounts maintained at FRBNY:

	2009	2008
Overnight placements	1,032,400	269,200
Operating accounts	115	162
	<u>1,032,515</u>	<u>269,362</u>
Cash on hand held centrally by U.S. Agencies	–	24,455
	<u>1,032,515</u>	<u>293,817</u>

#### Accounts at FRBNY are detailed as follows:

CBI/DFI	923,043	126,364
Transition Account - U.S. Agencies	109,472	142,998
	<u>1,032,515</u>	<u>269,362</u>

#### As at 1 January

*In thousands of U.S. Dollar*

#### Accounts maintained at FRBNY:

	2009	2008
Overnight placements	130,200	2,522,800
Operating accounts	86	76
	<u>130,286</u>	<u>2,522,876</u>
Cash on hand held centrally by U.S. Agencies	–	24,455
	<u>130,286</u>	<u>2,547,331</u>

#### Accounts at FRBNY are detailed as follows:

CBI/DFI	20,814	2,398,653
Transition Account - U.S. Agencies	109,472	124,223
	<u>130,286</u>	<u>2,522,876</u>

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### 14 Treasury bills

As at	30-Jun-09	31-Dec-08	30-Jun-08
<i>In thousands of U.S. Dollar</i>			
Face value	8,200,000	10,262,400	14,800,000
Discount	(15,512)	(89,452)	(126,041)
	<u>8,184,488</u>	<u>10,172,948</u>	<u>14,673,959</u>

Treasury bills are debt securities issued by the U.S. Treasury and purchased through the Federal Reserve Bank of New York (FRNBY). The Treasury bills have original maturities of 3 to 6 months. The Treasury bills are purchased at a discount from face value and do not pay interest before maturity. The interest is the difference between the purchase price of the bill and the amount paid back at maturity or when sold prior to maturity. The DFI's intent is to hold all Treasury bills until maturity dates. Interest received on matured Treasury bills is disclosed in Note 6.

The following table represents the movement in Treasury bills during the period from 1 January till 30 June:

<i>In thousands of U.S. Dollar</i>	2009	2008
Treasury bills at 1 January	10,172,948	7,358,739
Purchased treasury bills	8,184,488	15,219,879
Proceeds from matured treasury bills	<u>(10,172,948)</u>	<u>(7,904,659)</u>
Treasury bills at 30 June	<u>8,184,488</u>	<u>14,673,959</u>

### 15 Commitments and contingencies

Contractual commitments consist of open contracts, signed by the former CPA and administered by the U.S. Agencies. Contractual commitments entered into by the Iraqi ministries are considered to be committed through the Iraqi budget, and are not directly committed from the DFI.

The former CPA did not maintain complete accounting records in respect of contractual commitments entered into by U.S. Agencies for the period from inception to 28 June 2004.

On 11 December 2006, the U.S. Agencies submitted the contracts files and other supporting documents of the former CPA and the U.S. Agencies to the BSA. According to the BSA letter dated 25 February 2007, the BSA informed the U.S. Agencies that they found financial and legislative violations, which lead the BSA to review all the submitted documents and the Iraqi entities retained their right to request compensation for any financial damage to the Iraqi budget due to any financial or administrative actions taken by the U.S. Agencies during the execution of the contracts.

In September 2007, the Joint Contracting Command-Iraq was granted interim authority by the Ministry of Finance to disburse the remaining funds from the DFI sub account. On 31 December 2007, this authority was expired and not renewed. The Ministry of Finance was not provided with sufficient data to be able to assess the outstanding contractual commitments balance.

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### 16 Immunity

In accordance with UNSCR 1483 (2003), certain Member States have taken legal steps, as considered necessary, to ensure immunity of the petroleum and petroleum products originating in Iraq, until title passes to the initial purchaser, from legal proceedings against them so as not to be subject to any form of prior judicial, administrative or arbitral lien or judgment. In accordance with UNSCR 1859 (2008) it was decided to extend the above mentioned arrangements until 31 December 2009.

### 17 Taxation

The DFI is not subject to taxation.

### 18 Foreign Military Sales (FMS)

The FMS account was opened on 4 December 2006 at the request of the CBI and initially funded from the DFI account. This account is designated to the security expenditures of the Ministry of Justice, Ministry of Interior and Ministry of Defence. Interest earned from investments in overnight repurchase agreements from the FMS account since its inception are transferred to the main DFI account quarterly (see note 6). The balance of the FMS account is as follows:

<b>As at</b>	<b>30-Jun-09</b>	<b>31-Dec-08</b>	<b>30-Jun-08</b>
<i>In thousands of U.S. Dollar</i>			
Overnight placements	2,057,300	2,819,500	2,168,500
Treasury bills	1,498,417	995,287	–
Operating accounts	22	85	46
	<u>3,555,739</u>	<u>3,814,872</u>	<u>2,168,546</u>

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#### 19 Analysis of receipts and payments managed by the Government of Iraq and US Agencies

##### For the six months ended 30 June 2009

*In thousands of U.S. Dollar*

	<b>Government of Iraq</b>	<b>U.S. agencies</b>	<b>Total</b>
<b>Cash receipts</b>			
Export sales of petroleum	13,567,081	–	13,567,081
United Nations Oil for Food Program	121	–	121
Interest received	103,561	98	103,659
Other receipts	325,142	–	325,142
<b>Total cash receipts</b>	<b>13,995,905</b>	<b>98</b>	<b>13,996,003</b>
<b>Cash payments</b>			
Transfers to the Ministry of Finance	8,500,000	–	8,500,000
Letters of credit for the benefit of Iraqi ministries	6,396,927	–	6,396,927
Iraqi external debt repayments	100,000	–	100,000
Other payments	85,307	–	85,307
<b>Total cash payments</b>	<b>15,082,234</b>	<b>–</b>	<b>15,082,234</b>
<b>Excess (deficit) of receipts over payments</b>	<b>(1,086,329)</b>	<b>98</b>	<b>(1,086,231)</b>
Cash and cash equivalents at 1 January	20,813	109,473	130,286
Proceeds from treasury bills	10,172,948	–	10,172,948
Total available cash and cash equivalents	9,107,432	109,571	9,217,003
Purchased treasury bills	(8,184,488)	–	(8,184,488)
Transfers	98	(98)	–
Cash and cash equivalents at 30 June	923,042	109,473	1,032,515
Treasury bills at 30 June	8,184,488	–	8,184,488
	<b>9,107,530</b>	<b>109,473</b>	<b>9,217,003</b>

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#### 19 Analysis of receipts and payments managed by the Government of Iraq and US Agencies (continued)

<b>For the six months ended 30 June 2008</b>	<b>Government of Iraq</b>	<b>U.S. agencies</b>	<b>Total</b>
<i>In thousands of U.S. Dollar</i>			
<b>Cash receipts</b>			
Export sales of petroleum	31,236,926	–	31,236,926
Proceeds from frozen assets at foreign countries	833	–	833
Interest received	224,273	123,056	347,329
Other receipts	1,728,091	–	1,728,091
<b>Total cash receipts</b>	<b>33,190,123</b>	<b>123,056</b>	<b>33,313,179</b>
<b>Cash payments</b>			
Transfers to the Ministry of Finance	21,500,000	–	21,500,000
Letters of credit for the benefit of Iraqi ministries	6,366,403	–	6,366,403
Contracts administered by U.S. Agencies	–	281,225	281,225
Iraqi external debt repayments	80,918	–	80,918
Other payments	22,927	–	22,927
<b>Total cash payments</b>	<b>27,970,248</b>	<b>281,225</b>	<b>28,251,473</b>
<b>Excess (deficit) of receipts over payments</b>	<b>5,219,875</b>	<b>(158,169)</b>	<b>5,061,706</b>
Cash and cash equivalents at 1 January	2,398,653	148,678	2,547,331
Proceeds from treasury bills	7,904,659	–	7,904,659
Total available cash and cash equivalents	15,523,187	(9,491)	15,513,696
Purchased treasury bills	(15,219,879)	–	(15,219,879)
Transfers	(176,944)	176,944	–
Cash and cash equivalents at 30 June	126,364	167,453	293,817
Treasury bills at 30 June	14,673,959	–	14,673,959
	<b>14,800,323</b>	<b>167,453</b>	<b>14,967,776</b>