

Development Fund for Iraq



Interim results as of 30 June 2008
IAMB Meeting 20-21 October 2008

Paris



Table of Contents

- I. Notice to the reader..... 2
- II. Scope of work and Deliverables..... 4
- III. Interim Review—Entities visited..... 5
- IV. Unaudited Interim Financial Statements..... 6
- V. Variance Analysis of Export Sales..... 8
- VI. Key Issues..... 10
- VII. Next Steps..... 17
- VIII. Q & A..... 21

I. Notice to the Reader

This Presentation summarizes our conclusions and findings as a result of our review of the Draft Interim Statement of Cash Receipts and Payments for the period from 1 June 2008 to 30 June 2008 ("Draft Interim Financial Statement") of the Development Fund for Iraq ("DFI"). Our review has not been finalized to date, and our conclusions and findings may change as a result of further work. Only our final review report is binding.

This Presentation includes financial information extracted from the Draft Interim Statement of Cash Receipts and Payments for 1 January 2008 to 30 June 2008 of the Development Fund for Iraq ("DFI"). The Interim Financial Statements are the responsibility of the Government of Iraq. The Draft Interim Financial Statement has not yet been approved by the Minister of Finance.

We have been engaged to perform a review of the Interim Financial Statement 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 information 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.

This Presentation includes certain issues relating to our review. These relate to completeness of export sales of petroleum and petroleum products, completeness of proceeds from frozen assets, completeness and accuracy of outstanding contractual commitments entered into by US Agencies, unrecorded barter transactions and understatement of cash receipts and cash balances for petroleum products sales proceeds deposited in SOMO and overstatement of cash receipts and cash balances for License fee of mobile telecommunication deposited in DFI. We have not yet finalized our review on the Interim Financial Statement. Our review report is likely to include qualifications relating to these issues.

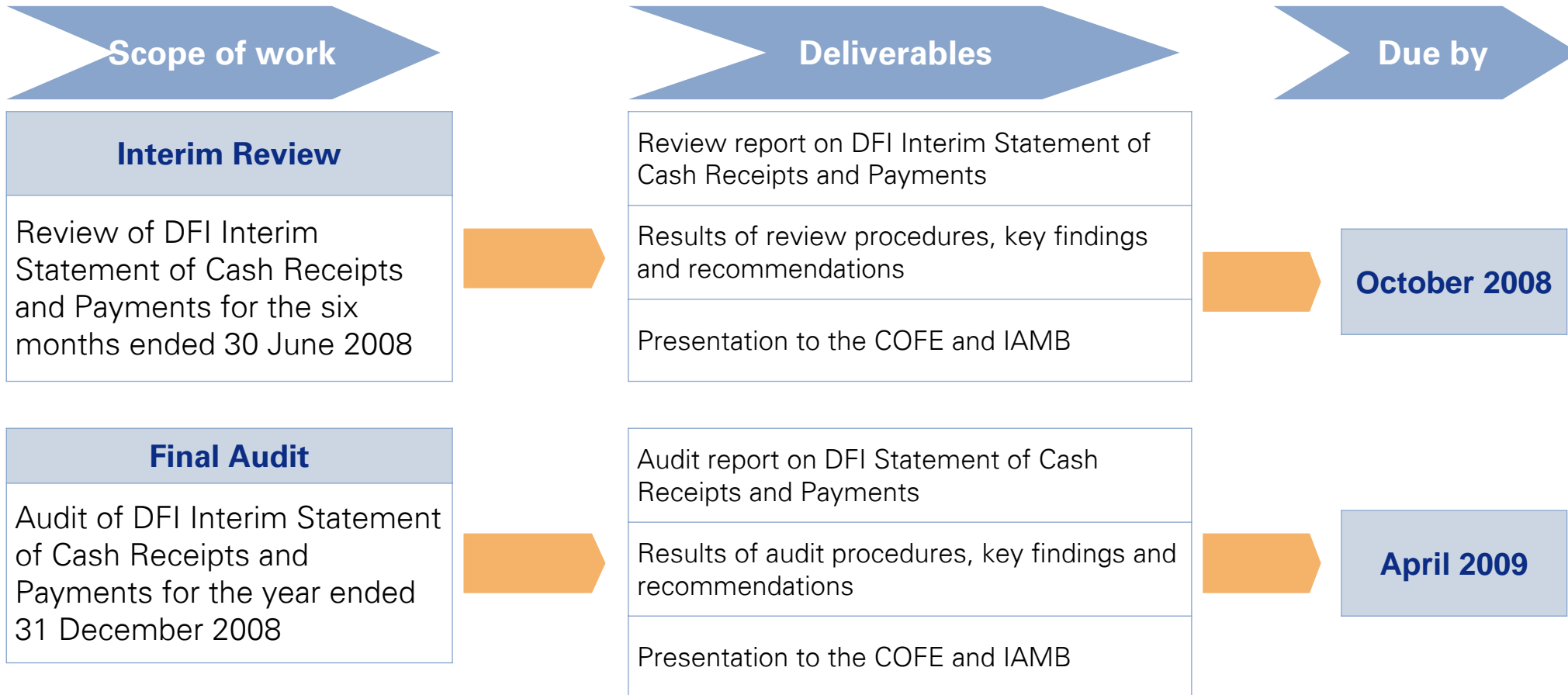
I. Notice to the Reader (Cont'd)

The interim financial information contained in this Presentation is qualified in its entirety by reference to the Interim Financial Statement from which they are extracted and the notes thereto.

The Interim Financial Statement has been prepared in accordance with the International Public sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting". The Interim Financial Statement and the financial information contained in this Presentation may not be suitable for another purpose.

The Interim Financial Statement and this Presentation are 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.

II. Scope of work and Deliverables



III. Interim Review – Entities visited

| Entities visited to date | September 2008 | October 2009 |
|---|----------------|--------------|
| Central Bank of Iraq (CBI) | | |
| Ministry of Finance (MOF) | | |
| State Oil Marketing Organization (SOMO) | | |
| Ministry of Oil (MOO) | | |

IV. Unaudited Interim Financial Statement

Unaudited Interim Statement of Cash Receipts and Payments

In thousands of US Dollar

For the six months ended 30 June

| | 2008 | 2007 | Variance |
|---|-------------------|-------------------|-------------------|
| Cash Receipts | | | |
| Export sales of petroleum and petroleum products | 31,236,926 | 13,813,989 | 17,422,937 |
| Proceeds from frozen assets in foreign countries | 833 | 1,174 | (341) |
| Interest Received | 347,329 | 308,864 | 38,465 |
| Other receipts | 1,728,091 | 568,229 | 1,159,862 |
| Total Cash Receipts | 33,313,179 | 14,692,256 | 18,620,923 |
| Cash Payments | | | |
| Transfers to the Ministry Of Finance | 21,500,000 | 8,900,000 | 12,600,000 |
| Letters of Credit for the benefit of Iraqi ministries | 6,366,403 | 3,525,443 | 2,840,960 |
| Contracts Administered by U.S. Agencies | 281,225 | 41,313 | 239,912 |
| Iraqi external debt repayments | 80,918 | 111,180 | (30,262) |
| Other Payments | 22,927 | 180,432 | (157,505) |
| Total Cash Payments | 28,251,473 | 12,758,368 | 15,493,105 |
| Excess of Receipts over Payments | 5,061,706 | 1,933,888 | 3,127,818 |

Source: Ministry of Finance

IV. Unaudited Interim Financial Statement (Cont'd)

Unaudited Interim Statement of Cash Receipts and Payments

In thousands of US Dollar

For the six months ended 30 June

| | 2008 | 2007 | Variance |
|--|-------------------|------------------|--------------------|
| Purchased Treasury Bills during the period | (15,219,879) | (6,567,908) | (8,651,971) |
| Proceeds from Treasury Bills on maturity during the period | 7,904,659 | 6,640,772 | 1,263,887 |
| Cash and cash equivalent, beginning of the period | 2,547,331 | 1,466,657 | 1,080,674 |
| Cash and cash equivalents, end of period | 293,817 | 3,473,409 | (3,179,592) |
| Treasury Bills, end of period | 14,673,959 | 5,516,143 | 9,157,816 |
| Cash and cash equivalents and Treasury Bills, end of period | 14,967,776 | 8,989,552 | 5,978,224 |

Source: Ministry of Finance

V. Variance Analysis of Export Sales

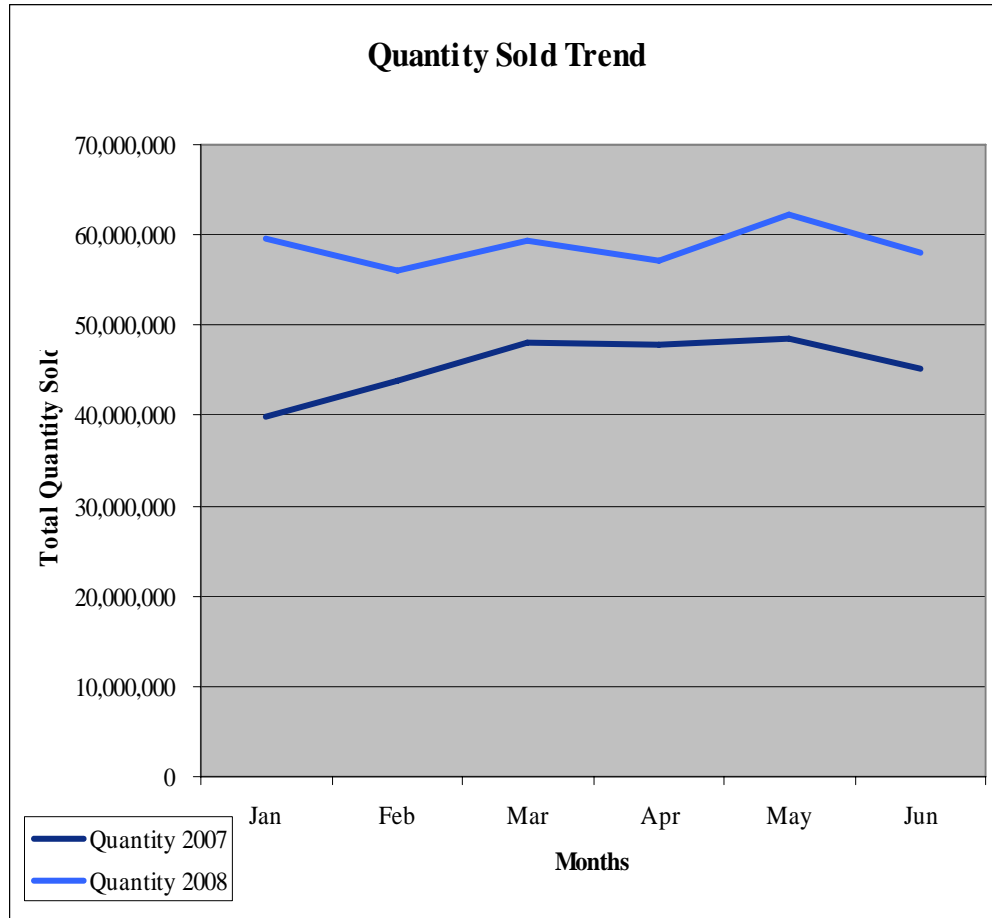
Quantity Sold from 1/1/2007 till 30/6/2007 in Barrels

| Month | Basra | Kirkuk | Total |
|--------------|--------------------|------------------|--------------------|
| Jan | 36,793,559 | 3,027,587 | 39,821,146 |
| Feb | 43,886,714 | - | 43,886,714 |
| Mar | 48,022,037 | - | 48,022,037 |
| Apr | 47,824,583 | - | 47,824,583 |
| May | 48,533,656 | - | 48,533,656 |
| Jun | 45,134,446 | - | 45,134,446 |
| Total | 270,194,995 | 3,027,587 | 273,222,582 |

Quantity Sold from 1/1/2008 till 30/6/2008 in Barrels

| Month | Basra | Kirkuk | Total |
|--------------|--------------------|-------------------|--------------------|
| Jan | 48,632,859 | 11,046,364 | 59,679,223 |
| Feb | 44,682,059 | 11,413,845 | 56,095,904 |
| Mar | 49,538,919 | 9,926,439 | 59,465,358 |
| Apr | 43,789,948 | 13,253,537 | 57,043,485 |
| May | 48,563,129 | 13,757,284 | 62,320,413 |
| Jun | 43,614,178 | 14,469,035 | 58,083,213 |
| Total | 278,821,092 | 73,866,504 | 352,687,596 |

Source: State Oil Marketing Organization (SOMO)

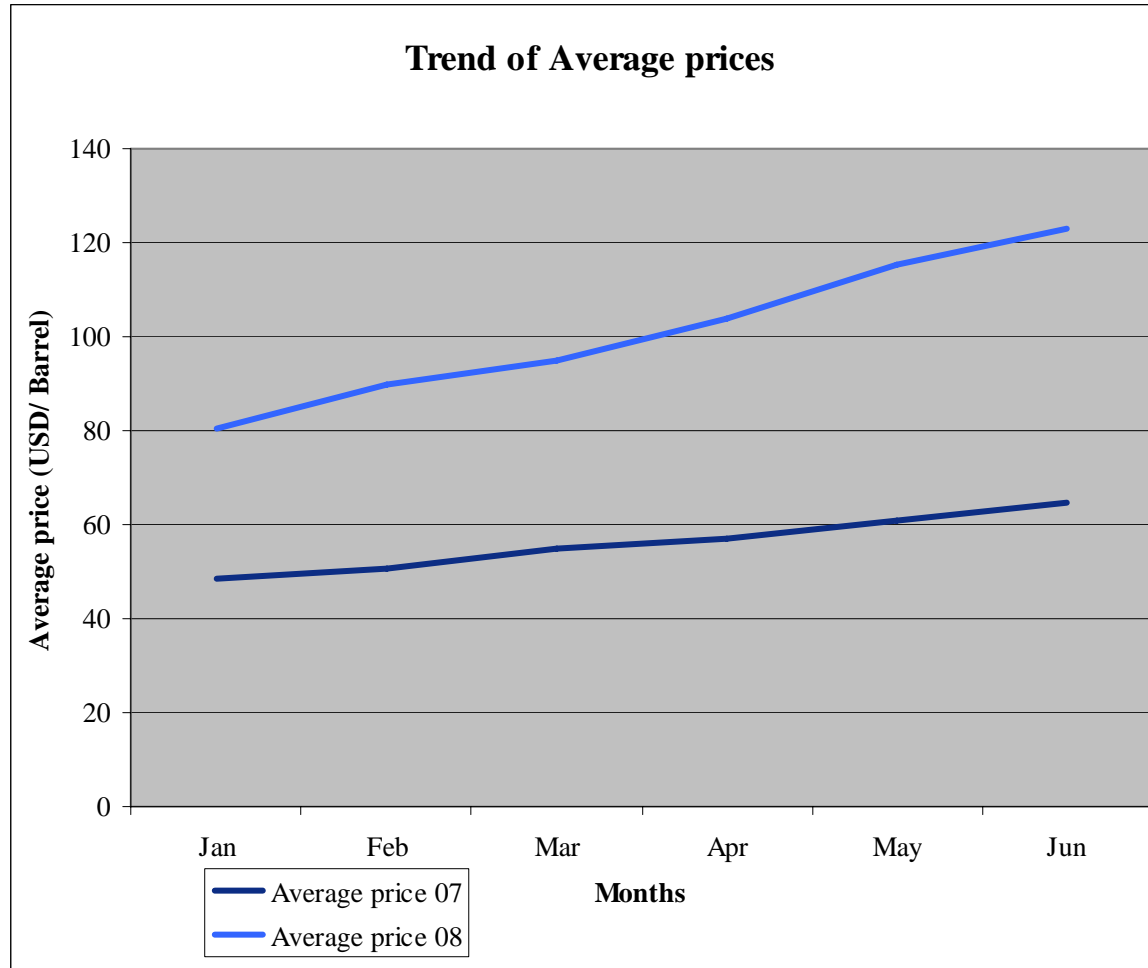


V. Variance Analysis of Export Sales (Cont'd)

| Prices/Barrel from 1/1/2007 till 30/6/2007 in USD | | |
|---|---------------|-----------------------|
| Month | Average price | Total price |
| Jan | 48.69 | 1,939,029,251 |
| Feb | 50.45 | 2,214,128,922 |
| Mar | 55.07 | 2,644,448,626 |
| Apr | 56.96 | 2,724,263,421 |
| May | 60.9 | 2,955,884,031 |
| Jun | 64.58 | 2,914,558,444 |
| | 56.34 | 15,392,312,695 |

| Prices/Barrel from 1/1/2008 till 30/6/2008 in USD | | |
|---|---------------|-----------------------|
| Month | Average price | Total price |
| Jan | 80.63 | 4,812,112,143 |
| Feb | 89.79 | 5,036,777,041 |
| Mar | 94.9 | 5,643,521,691 |
| Apr | 103.82 | 5,922,285,685 |
| May | 115.15 | 7,176,470,820 |
| Jun | 122.94 | 7,140,939,129 |
| | 101.31 | 35,732,106,509 |

Source: State Oil Marketing Organization (SOMO)



VI. Key Issues

- DFI receipts are predominantly 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. Some metering has been installed at oil terminals, but metering systems in the oil fields have not been installed yet.

Consequence: In the absence of a comprehensive metering system, completeness of revenue in the interim financial statement cannot be assured.

VI. Key Issues (Cont'd)

- 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.

Consequence: completeness of proceeds from frozen assets in foreign countries in the interim financial statement cannot be assured.

VI. Key Issues (Cont'd)

- The former Coalition Provisional Authority did not maintain complete accounting records for contractual commitments entered into by the U.S. Agencies for the period from inception to 28 June 2004.

Consequence: completeness and accuracy of the outstanding contractual commitments balance as of 30 June 2008 cannot be assured.

VI. Key Issues (Cont'd)

- Barter sales of petroleum and petroleum products were not recorded in the interim financial statement.

Consequence: receipts and payments are understated for an amount of U.S. Dollars 426,050 thousand from inception till 30 June 2008.

VI. Key Issues (Cont'd)

- Cash receipts amounting to U.S. Dollars 1,312,005 thousands relating to License fee of mobile telecommunication were incorrectly recorded in the DFI.

Consequence: cash balances as at 30 June 2008 and cash receipts for the period from 1 January 2008 till 30 June 2008 are overstated by U.S. Dollars 1,312,005 thousands .

VI. Key Issues (Cont'd)

- Cash received from export sales of petroleum products during the period ended 30 June 2008 amounting to U.S. Dollars 778,822 thousand has been deposited in bank accounts controlled by the Oil Marketing Company (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.

Consequence: cash receipts for the period ended 30 June 2008 and the cash balance as of 30 June 2008 are understated by U.S. Dollars 739,881 thousand.

VI. Key Issues (Cont'd)

- Letters of credit cash payments during the period from 1 January 2008 to 30 June 2008 and from 1 January 2007 to 30 June 2007 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. Management 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 credits issued for the benefit of these self financing entities.

Consequence: we could not assure completeness and accuracy of amounts received by the Ministry of Finance from these self financing entities and the amounts paid by the DFI to finance the letters of credits issued for the benefit of these self financing entities.



VII. Next Steps

| Work to be performed | Oct 08 | Nov 08 | Dec 08 | Jan 09 | Feb 09 | Mar 09 | Apr 09 |
|--|--------|--------|--------|--------|--------|--------|--------|
| Performing test of controls over MOO, SOMO, MOF, US Agencies, CBI | | | | | | | |
| Visiting Iraqi Ministries in Baghdad and the Kurdistan region | | | | | | | |

VII. Next Steps (Cont'd)

| Work to be performed | Oct 08 | Nov 08 | Dec 08 | Jan 09 | Feb 09 | Mar 09 | Apr 09 |
|--|--------|--------|--------|---|---|--------|--------|
| Receiving third party confirmation | | | |  | | | |
| Visiting the remaining Iraqi ministries and update interim work | | | |  | | | |
| Completing the test of oil export sales at SOMO | | | | |  | | |
| Completing the test of Oil Proceeds Receipts Account at FRBNY | | | | |  | | |
| Test cash receipts from oil export sales | | | |  | | | |

VII. Next Steps (Cont'd)

| Work to be performed | Oct 08 | Nov 08 | Dec 08 | Jan 09 | Feb 09 | Mar 09 | Apr 09 |
|---|--------|--------|--------|--------|--------|--------|--------|
| Testing cash payments from DFI | | | | | ▶ | | |
| Review the reconciliations between the MOF and other DFI related parties | | | | ▶ | | | |
| Testing the cash balances at the FRBNY at year end | | | | ▶ | | | |
| Testing records and reconciliation of DFI main and sub-accounts | | | | | ▶ | | |

VII. Next Steps (Cont'd)

| Work to be performed | Oct 08 | Nov 08 | Dec 08 | Jan 09 | Feb 09 | Mar 09 | Apr 09 |
|--|--------|--------|--------|--------|--------|--------|--------|
| Preparing drafted audit report and management letters | | | | | | | |
| Submission of drafted audit report and management letters | | | | | | | |



Q & A

