

Development Fund for Iraq
Statement of Cash Receipts and Payments
For the period from 29 June 2004 to 31 December 2004
(with Independent Auditors' Report)

This report contains 20 pages



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Independent Auditors' Report

To the Government of Iraq
To the International Advisory and Monitoring Board of
the Development Fund for Iraq

We have audited the accompanying statement of cash receipts and payments of the Development Fund for Iraq (DFI or the Fund) for the period from 29 June 2004 to 31 December 2004. This financial statement is the responsibility of the Government of Iraq. Our responsibility is to express an opinion on the accompanying financial statement based on our audit.

Except as discussed in the following three paragraphs, we conducted our audit in accordance with International Standards on Auditing and International Organization of Supreme Audit Institutions (INTOSAI) Standards on Government Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by the Government of Iraq, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 4 to the financial statement, the internal control systems over the Iraqi oil industry were not sufficient to ensure the completeness of export sales of petroleum and petroleum products for the period from inception (22 May 2003) to 31 December 2004, from which proceeds were required to be deposited in the Fund in accordance with United Nations Security Council Resolution (UNSCR) 1483. It was not practicable to extend our auditing procedures sufficiently to quantify such amounts and accordingly we could not satisfy ourselves over the completeness of export sales.

As described in Note 4 to the financial statement, a reconciliation of fuel oil produced, consumed and exported contained 618,203 tons (approximate market value of \$69,000,000) of unreconciled quantities. The implication is that fuel oil produced was greater than consumed and exported. Consistent with these unreconciled quantities, recorded export sales of fuel oil decreased by 561,596 tons when compared with the prior period. We were not provided with a satisfactory explanation for these matters. The potential effect is that receipts for the period from 29 June 2004 to 31 December 2004 and cash as at 31 December 2004 would have been higher by \$69,000,000, less 5% to be transferred to the Compensation Fund. It was not practicable to extend our auditing procedures sufficiently to satisfy ourselves over the completeness of export sales.



Independent Auditors' Report, continued

As described in Note 19 to the financial statement, the former Coalition Provisional Authority did not maintain complete accounting records for contractual commitments entered into by US Agencies for the period from inception to 28 June 2004, thus requiring US Agencies to prepare a list of all known contractual commitments as at 31 December 2004. The Ministry of Finance believes that the list may be incomplete and inaccurate. It was not practicable to extend our auditing procedures sufficiently to satisfy ourselves over the completeness and accuracy of contractual commitments.

As described in Note 4 to the financial statement, cash advances received for, and proceeds of, export sales of petroleum and petroleum products during the period from inception to 31 December 2004 amounting to \$97,762,000 were deposited in bank accounts controlled by the State Oil Marketing Organization, the sales arm of the Ministry of Oil. In accordance with UNSCR 1483, 95% of cash proceeds for export sales were required to be deposited in the Fund. As a result, receipts for the period from inception to 31 December 2004 and cash as at 31 December 2004 are understated by \$92,874,000.

In our opinion, except for the effects of the adjustments, if any, for the completeness of export sales of petroleum and petroleum products as referred to in the third and fourth paragraphs, and for the completeness and accuracy of contractual commitments as referred to in the fifth paragraph, and except for the understatement of receipts and cash as referred to in the sixth paragraph, the accompanying statement of cash receipts and payments presents fairly, in all material respects, the receipts and payments of the Development Fund for Iraq for the period from 29 June 2004 to 31 December 2004, in accordance with the International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting".

Without further qualifying our opinion, we draw attention to Note 3 to the financial statement, which states that complete accounting records were not maintained for the Fund during the period from 29 June 2004 to 31 December 2004. The statement of cash receipts and payments has been prepared from bank statements and related financial information, together with a database administered by US Agencies for certain DFI funded contracts.

Without further qualifying our opinion, we also draw attention to Note 2 to the financial statement, which states that in accordance with UNSCR 1546, the obligation for the deposit of 95% of oil proceeds into the DFI will expire upon election of a constitutional government, expected by 31 December 2005, or before that date at the request of the Transitional Government of Iraq.

This report, including our opinion, is intended solely for the information and use of the Government of Iraq and the International Advisory and Monitoring Board of the Development Fund for Iraq and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited. We do not, in giving our opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our consent in writing.

Manama, Kingdom of Bahrain
6 April 2005, except as to
Note 5, which is as at 12 April 2005

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Development Fund for Iraq
Statement of Cash Receipts and Payments
For the period from 29 June 2004 to 31 December 2004
(all amounts are in thousands of US dollars)

	Note	29 June to 31 December 2004 (186 days)	1 January to 28 June 2004 (180 days)
Receipts			
Net proceeds from export sales of petroleum and petroleum products	4	\$ 8,854,315	\$ 7,636,390
UN Oil for Food program transfers	5	1,128,000	2,500,000
Deposits from assets frozen outside of Iraq	6	68,323	298,546
Net deposits by Iraqi Ministries for payments on their behalf	7	5,243	140,574
Food and Agricultural Organization and World Food Program	8	-	7,903
CERP program funded by the Ministry of Finance	12	86,000	-
Interest received	9	73,998	33,067
Other receipts		<u>10,770</u>	<u>309</u>
Total Receipts		<u>10,226,649</u>	<u>10,616,789</u>
Payments			
Transfers to Iraqi Ministries	10	6,750,000	6,834,788
Letters of credit	11	1,861,983	725,730
Contracts administered by US Agencies	12	1,616,147	4,893,668
Fuel imports into Iraq	13	1,150,000	-
Iraqi debt repayments	14	444,364	-
Other payments	15	103,677	-
Net payments on behalf of Iraqi Ministries	7	<u>25,696</u>	<u>-</u>
Total Payments		<u>11,951,867</u>	<u>12,454,186</u>
Excess of payments over receipts		(1,725,218)	(1,837,397)
Cash and cash equivalents, beginning of period		<u>6,647,736</u>	<u>8,485,133</u>
Cash and cash equivalents, end of period	4, 16	<u>\$ 4,922,518</u>	<u>\$ 6,647,736</u>

This Statement of Cash Receipts and Payments was approved by the Ministry of Finance on 6 April 2005 and signed on its behalf by:



Fahmi Jarrallah Rabia
Deputy Minister
 Ministry of Finance



Adnan Dawoud Saleem
Director General of the
Accounting Department
 Ministry of Finance

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments
For the period from 29 June 2004 to 31 December 2004
(all amounts are in thousands of US dollars)

1. Organization of the Fund

The Development Fund for Iraq was established during May 2003 by the United States of America and recognized by United Nations Security Council Resolution (UNSCR) 1483. Power was delegated by the US President to the Administrator of the Coalition Provisional Authority (CPA). In accordance with CPA Regulations, the Fund was vested with appropriate authority to achieve its objectives and was overseen and controlled by the CPA Administrator.

On 28 June 2004, the CPA ceased to exist and, in accordance with UNSCR 1546, management and control of the DFI was transferred to the Interim Government of Iraq. Democratic elections were held on 30 January 2005. On 16 March 2005, members of the Iraqi National Assembly were sworn into office. As at the date of this report, the Transitional Government of Iraq had not been formed by Assembly Members. Accordingly, the Interim Government of Iraq retains authority over the Fund.

The Fund consists of bank accounts with the US Federal Reserve Bank of New York (FRBNY) and Central Bank of Iraq (CBI). In accordance with a memorandum issued by the Ministry of Finance on 15 June 2004, a DFI sub-account was established at the FRBNY, to be managed by US Agencies (including the Project and Contracting Office, the Iraqi Reconstruction and Management Office, the JASG Comptroller and DFI Disbursing Office, the Defense Contract Management Agency, the US Army Corps of Engineers and Coalition Forces) and to be monitored by the Ministry of Finance, to facilitate disbursements for contracts signed by the former CPA, requiring payment subsequent to 28 June 2004. US Agencies' management of the sub-account will expire on 31 December 2005.

In accordance with UNSCR 1483, the proceeds from export sales of petroleum, petroleum products and natural gas from Iraq are to be deposited in the DFI. In addition, surplus funds from the UN Oil for Food program, established by UNSCR 986, are to be transferred to the Fund. Furthermore, all Member States are obligated to freeze and transfer funds and other financial assets of the former Iraqi regime to the DFI.

Consistent with UNSCR 1483, the Fund is 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.

An International Advisory and Monitoring Board (IAMB) for the Fund was appointed in accordance with UNSCR 1483 and UNSCR 1546, to perform functions similar to those of an audit committee.

2. Going concern assumption

Pursuant to UNSCR 1546, the proceeds of export sales of Iraqi petroleum and petroleum products shall continue to be deposited in the DFI and utilized in a transparent and equitable manner, through the Iraqi budget, and monitored by the IAMB. These obligations will expire upon election of a constitutional government, expected by 31 December 2005. Additionally, the obligation will be reviewed on 8 June 2005, or before that date at the request of the Transitional Government of Iraq.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
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(all amounts are in thousands of US dollars)

3. Summary of significant accounting policies

Statement of compliance

The statement of cash receipts and payments has 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.

Basis of presentation

The statement of cash receipts and payments has been prepared from accounting records of the DFI sub-account maintained by US Agencies, and from bank statements and other financial information, as complete accounting records for the main DFI accounts were not maintained during the period from 29 June 2004 to 31 December 2004.

The Fund consists of cash held at the CBI and at the FRBNY on behalf of the CBI.

The current reporting period was determined by the Government of Iraq and the IAMB. The accounting policies have been applied consistently throughout the period. Prior period amounts are not comparable due to different disbursement authorities, classification and period duration. Certain amounts have been reclassified to conform to the current period presentation.

Receipts

Receipts are recorded in the DFI when funds are received in the DFI accounts. Non-cash transactions, including barter transactions, are not recorded in the DFI.

Payments

Payments, including issued letters of credit, are recorded in the DFI when funds are transferred from the DFI accounts or from cash held centrally by Coalition Forces.

Net deposits by Iraqi Ministries for payments on their behalf

The Fund benefits from deposits made by the Iraqi Ministries and other entities for payments on their behalf. Cash receipts and payments pass through bank accounts administered by the Fund are included in the statement of cash receipts and payments on a net basis.

Contractual commitments

Contractual commitments consist of open contracts, signed by the former CPA. Funds committed are not considered available for other spending.

Management estimates

Information disclosed in the notes requires estimates and assumptions to be made that affect the reported amounts of contractual commitments, unrecorded assets and liabilities, and other note disclosures. Actual results could differ materially from those estimates.

Functional and reporting currency

The functional and reporting currency is the US dollar. All amounts are reported in thousands of US dollars.

Cash equivalents

Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 29 June 2004 to 31 December 2004
(all amounts are in thousands of US dollars)

4. Net proceeds from export sales of petroleum and petroleum products

Export sales of petroleum and petroleum products are arranged and invoiced exclusively by the State Oil Marketing Organization (SOMO), the sales arm of the Ministry of Oil. There were no export sales of natural gas from Iraq, as there is no infrastructure in Iraq for the export of natural gas.

According to UNSCR 1483, the proceeds of export sales of petroleum and petroleum products are required to be deposited into the Oil Proceeds Receipts Account (OPRA) and immediately thereafter, 95% is required to be deposited in the Fund and the remaining 5% is required to be deposited in the Compensation Fund. The Compensation Fund was established in accordance with UNSCR 687 and subsequent relevant resolutions, as a result of the Iraqi invasion of Kuwait during 1990.

Export sales of petroleum and petroleum products are paid for by irrevocable documentary letters of credit (LCs) with proceeds deposited in OPRA approximately 30 days after the petroleum or petroleum products have been lifted. In addition, a limited number of export sales of petroleum are made through barter transactions, while export sales of petroleum products are mainly through cash payments, with proceeds deposited in two Iraqi bank accounts and one Jordanian bank account controlled by SOMO, and through barter transactions.

Export sales and proceeds of petroleum and petroleum products, deposited in OPRA, for the period from 29 June 2004 to 31 December 2004 are as follows:

Total export sales of petroleum for the period (280,532,536 barrels)	\$ 9,444,178
Less proceeds deposited in OPRA after 31 December 2004	(1,326,527)
Plus cash deposited after 28 June 2004 from proceeds of export sales during the prior period	<u>1,201,817</u>
Proceeds deposited in OPRA during the period for petroleum	9,319,468
Plus proceeds deposited during the period for petroleum products	820
Plus interest on delayed bank transfers	44
Less amounts transferred to the Compensation Fund	<u>(466,017)</u>
Net proceeds deposited in the Fund for the period to 31 December 2004	<u>\$ 8,854,315</u>

Export sales and proceeds of petroleum and petroleum products, deposited in OPRA, for the period from 1 January 2004 to 28 June 2004 are as follows:

Total export sales of petroleum for the period (277,694,869 barrels)	\$ 8,085,193
Less proceeds deposited in OPRA after 28 June 2004	(1,201,817)
Plus cash deposited in 2004 from proceeds of 2003 export sales	<u>1,154,243</u>
Proceeds deposited in OPRA during the period for petroleum	8,037,619
Plus proceeds deposited during the period for petroleum products	686
Less amounts transferred to the Compensation Fund	<u>(401,915)</u>
Net proceeds deposited in the Fund for the period to 28 June 2004	<u>\$ 7,636,390</u>

As the OPRA account is technically not a DFI account, it has been excluded from the Fund. Accordingly, only 95% of export sales proceeds are recorded in the statement of cash receipts and payments.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 29 June 2004 to 31 December 2004
(all amounts are in thousands of US dollars)

Cash advances received for, and proceeds of, export sales of petroleum products during the period from 29 June 2004 to 31 December 2004 amounted to \$77,724 (from inception to 31 December 2004: \$97,762), were not deposited into the OPRA account and they are not recorded in the statement of cash receipts and payments. These funds were deposited in bank accounts controlled by SOMO, of which \$24,178 were transferred to the Ministry of Oil during the current period.

SOMO also engages in barter transactions (see Note 17) for exports of petroleum and petroleum products. Barter transactions consist mainly of exports of fuel oil in exchange for light petroleum products, and exports of crude oil in exchange for electricity and light petroleum products with the Government of Syria. The value of these barter transactions, as recorded by SOMO, for the period from 29 June 2004 to 31 December 2004 is \$134,729 (period from inception to 31 December 2004: \$461,209). As these barter transactions were non-cash transactions, they are not recorded in the statement of cash receipts and payments.

A reconciliation of quantities of fuel oil produced, consumed locally, injected in the pipeline and wells, and exported, as prepared by the Ministry of Oil, during the period from 29 June 2004 to 31 December 2004, contained unreconciled quantities of fuel oil (618,203 tons). Consistent with these unreconciled quantities, recorded export sales of fuel oil, as recorded by SOMO, decreased by 561,596 tons, when compared with the prior period. The estimated value of the unreconciled quantities of fuel oil is approximately \$69,000, when calculated using an average price per ton of fuel oil exports for the current period.

The former CPA believed that an unknown quantity of petroleum and petroleum products was smuggled from Iraq, bypassing the authorized processes of marketing, sales and cash collection. Despite the key internal controls put in place by the Ministry of Oil, SOMO and the former CPA, the Government of Iraq believes that in the absence of a fully operational metering system, it is not possible to determine the volume of all exports of petroleum and petroleum products, for which proceeds are to be deposited in the OPRA account.

The Government of Iraq is unable to reliably estimate the amount of petroleum and petroleum products that may have been illegally exported for the period from inception to 31 December 2004.

5. UN Oil for Food program transfers

The UN Oil for Food (OFF) program was established by UNSCR 986 and subsequent relevant resolutions. UNSCR 1483 directed that all surplus funds in the OFF program were to be transferred to the DFI at the earliest possible time.

OFF transfers during the period from 29 June 2004 to 31 December 2004 are as follows:

30 June	\$ 500,000
3 November	428,000
30 December	<u>200,000</u>
	<u>\$ 1,128,000</u>

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OFF transfers during the period from 1 January 2004 to 28 June 2004 are as follows:

31 March	\$ 2,000,000
19 April	<u>500,000</u>
	<u>\$ 2,500,000</u>

The United Nations has notified the Government of Iraq that cash held for the OFF program as at 31 December 2004 is \$3,538,934, of which \$2,854,003 is obligated for LCs, and \$88,564 for other costs related to the OFF program.

LC obligations of \$990,541 expired on or before 31 December 2004, and will be transferred to the DFI. This transfer is subject to a 90 day grace period and the resolution of certain items, including documentary discrepancies, stop payment requests from the CBI, outstanding goods received notes and ongoing contracts.

Subsequent to 31 December 2004, the United Nations transferred \$450,000 on 3 March 2005, and \$100,000 on 12 April 2005, to the DFI as a result of an ongoing analysis of OFF LCs and their related contracts. The United Nations has notified the Government of Iraq that additional amounts may be transferred to the DFI subject to the completion of various OFF programs.

There are no restrictions, conditions or other covenants over OFF program funds received.

6. Deposits from assets frozen outside of Iraq

In accordance with UNSCR 1483, all Member States were obligated to freeze and transfer funds and other financial assets of the former Iraqi regime to the DFI unless those assets were subject to prior judicial, administrative or arbitral lien or judgment.

Amounts deposited by Member States are as follows:

	29 June to 31 December 2004	1 January to 28 June 2004
Lebanon	\$ 32,023	\$ 46,931
Italy	25,180	51
Syria	3,488	-
Switzerland	3,411	-
United Kingdom	2,277	-
United States of America	1,860	984
Jordan	-	215,000
Spain	-	29,604
Great Britain	-	4,268
Cyprus	-	729
Norway	-	377
Finland	-	140
Croatia	-	98
Other	<u>84</u>	<u>364</u>
	<u>\$ 68,323</u>	<u>\$ 298,546</u>

Development Fund for Iraq
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Other funds and 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 funds that may eventually be transferred to the DFI, as some of these assets are subject to prior judicial, administrative or arbitral lien or judgment.

7. Net deposits by Iraqi Ministries for payments on their behalf

As the Iraqi banking system does not have the capability to execute wire transfers for LCs to international suppliers, Iraqi Ministries, and governmental and non-governmental entities deposited funds in the DFI account at the CBI to fund wire transfers from the DFI account at the FRBNY.

Deposits by, and payments on behalf of, the Iraqi Ministries for the period from 29 June 2004 to 31 December 2004 are as follows:

<i>Ministry / Financial institution:</i>	<i>Deposits</i>	<i>Payments</i>
Electricity	\$ 204,878	\$ 346,702
Finance	131,271	2,276
Health	114,902	114,359
Oil	61,985	61,985
Agriculture	73,784	73,784
National Security and Defense	58,416	58,416
Al Warka Investment Bank, commercial	50,578	50,578
Baghdad Mayoralty	43,627	43,627
Municipality and Public Works	36,395	30,849
Transport	26,172	26,172
Planning	12,577	-
Industry and Minerals	9,751	11,333
Trade	5,673	5,673
Construction and Housing	5,184	5,184
Central Bank of Iraq	4,608	4,608
Interior	2,856	2,094
Sport and Youth	2,372	2,372
Board of Supreme Audit	2,000	2,000
Al Rasheed Bank, state-owned	2,000	2,000
Justice	1,663	1,437
Communication	1,000	1,000
Basrah National Bank, state-owned	790	790
Science and Technology	570	570
	<u>\$ 853,052</u>	<u>\$ 847,809</u>
Net deposits by Iraqi Ministries		<u>\$ 5,243</u>

Deposits by the Ministry of Finance include funds returned by JP Morgan Bank to the DFI for expired LCs initiated by the Iraqi Ministries, amounting to \$127,219. This amount will remain in the DFI, until allocated in accordance with the Iraqi budget.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
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Deposits by, and payments on behalf of, Iraqi Ministries arranged by US Agencies for the period from 29 June 2004 to 31 December 2004 are as follows:

<i>Ministry of:</i>	<i>Deposits</i>	<i>Payments</i>
Electricity	\$ 3,156	\$ 4,780
Interior	46	5,814
Finance: Central Bank of Iraq	-	17,088
Oil	-	920
National Security and Defense	-	182
Health	-	114
	<u>\$ 3,202</u>	<u>\$ 28,898</u>

Net payments on behalf of Iraqi Ministries \$ 25,696

Deposits and payments arranged by the former CPA for the period from 1 January 2004 to 28 June 2004 are as follows:

<i>Ministry of:</i>	<i>Deposits</i>	<i>Payments</i>
Electricity	\$ 448,086	\$ 336,405
Health	118,384	116,390
Finance: Central Bank of Iraq	37,482	22,768
Interior	34,640	29,887
Agriculture	16,000	15,956
Transport	12,807	12,807
National Security and Defense	11,400	11,089
Communications	9,380	6,141
Construction and Housing	4,815	4,817
Industry and Minerals	2,891	988
Oil	1,190	267
Culture	1,000	-
Foreign Affairs	437	423
Other	602	602
	<u>\$ 699,114</u>	<u>\$ 558,540</u>

Net deposits by Iraqi Ministries \$ 140,574

8. Food and Agricultural Organization and World Food Program

The Food and Agricultural Organization, the World Food Program and the former CPA agreed that the Ministry of Trade would act as the procurer for the 2003 Iraqi wheat and barley harvest. During the period from inception to 31 December 2003, receipts from these programs amounted to \$120,000 and payments to the Ministry of Trade amounted to \$125,400. Although these programs were completed during 2003, a final receipt of \$25,879 and a payment of \$17,976 occurred in the period from 1 January 2004 to 28 June 2004. As at 31 December 2004 and 28 June 2004, there was \$2,503 which had not been disbursed from the DFI regarding these programs.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 29 June 2004 to 31 December 2004
(all amounts are in thousands of US dollars)

9. Interest received

Interest received is as follows:

	29 June to 31 December 2004	1 January to 28 June 2004
Overnight repurchase agreement pool facility	\$ 45,158	\$ 2,772
US Treasury bills	24,835	29,715
Funds held in relation to letters of credit	<u>4,005</u>	<u>580</u>
	<u>\$ 73,998</u>	<u>\$ 33,067</u>

The interest rate on the overnight repurchase agreement pool facility as at 31 December 2004 is 1.61% (28 June 2004: 1.03%). The interest rates for the period from 29 June 2004 to 31 December 2004 ranged from 1.03% to 2.20% (period to 28 June 2004: 0.5% to 1.04%). Interest earned of \$206 for the overnight deposit on 31 December 2004 was deposited in the DFI on 3 January 2005.

The interest rate on US Treasury bills for the period from 29 June 2004 to 31 December 2004 ranged from 0.97% to 1.48% (period to 28 June 2004: 0.81% to 1.09%).

The interest rate on funds held by JP Morgan Bank for LCs as at 31 December 2004 is 1.975% (28 June 2004: 0.85%). The interest rates for the period from 29 June 2004 to 31 December 2004 ranged from 1.075% to 1.975% (period to 28 June 2004: 0.85%). Interest earned of \$6,335 for the period from 1 October 2004 to 31 December 2004 was deposited in the DFI in January 2005.

10. Transfers to Iraqi Ministries

The Ministry of Finance is mainly funded by the DFI. After funds are transferred from the DFI to the Ministry of Finance, funds are distributed to other Iraqi Ministries in accordance with their individual budgets. During the prior period, DFI funds were also transferred directly to the Kurdish Regional Government by the former CPA.

Transfers from the DFI, made directly and indirectly, to the Ministry of Finance for the period from 29 June 2004 to 31 December 2004, are as follows:

July	\$ 1,550,000
August	350,000
December	<u>4,850,000</u>
	<u>\$ 6,750,000</u>

The December payment includes \$4,450,000 paid to the CBI treasury, for advances made by the CBI to the Ministry of Finance on behalf of the DFI.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
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Payments from the DFI for the period from 1 January 2004 to 28 June 2004 are as follows:

Ministry of Finance:

January	\$ 727,776
February	508,812
March	900,000
April	600,000
May	530,000
June	1,791,400

Kurdish Regional Government:

January	21,300
May	120,000
June	<u>1,635,500</u>
	<u>\$ 6,834,788</u>

Transfers in June 2004 were larger than prior months to ensure the Government of Iraq had sufficient funds to meet obligations subsequent to the transfer of authority on 28 June 2004.

11. Letters of credit

The CBI, at the request of the Ministry of Finance and US Agencies, deposited cash with JP Morgan Bank on behalf of the Iraqi Ministries for LCs. The related contracts and programs are managed by the Iraqi Ministries and US Agencies. LCs are facilitated by the Trade Bank of Iraq, authorized by the Ministry of Finance and disbursed by the CBI. These LCs are charged to the related Iraqi Ministry budget. The cash is held at JP Morgan Bank until evidence of completion of service or receipt of goods is confirmed in accordance with the terms of the LC.

A similar arrangement is in place with three Lebanese banks.

As at 31 December 2004, JP Morgan Bank held \$2,328,217 (28 June 2004: \$1,046,810) for LCs opened on behalf of the Iraqi Ministries. Interest received on funds related to LCs is disclosed in Note 9.

As at 31 December 2004, three Lebanese banks held \$211,749 (28 June 2004: nil) for LCs opened on behalf of the Ministry of Trade.

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Payments for LCs for the period from 29 June 2004 to 31 December 2004 of \$1,861,983 are as follows:

<i>Ministry of:</i>	<i>Government of Iraq</i>	<i>US Agencies</i>
Trade	\$ 894,613	\$ 164,025
Electricity	311,159	-
Health	183,722	-
Oil	166,925	37,000
Independent Electoral Commission	28,420	-
Municipality and Public Works	13,000	-
Communications	17,644	5,788
Finance	11,587	-
Industry and Minerals	6,017	-
Agriculture	7,529	-
Transport	2,561	-
Water Resources	2,520	-
Science and Technology	1,640	-
Finance: OFF Northern program	-	7,833
	<u>\$ 1,647,337</u>	<u>\$ 214,646</u>

LCs were opened on behalf of the Ministry of Trade for imports of food and other essential commodities for public distribution. Of these LCs, \$525,345 was deposited with JP Morgan Bank, the authorized LC agent, and \$369,268 was deposited with three Lebanese banks. The Ministry of Trade bypassed the authorized agent, with the approval of the Government of Iraq.

LCs were opened on behalf of the Ministry of Electricity, for the purchase of generators, power plants, electrical transmission lines, cables and spare parts; the Ministry of Health, for imports of ambulances, medicine and medical equipment; and the Ministry of Oil, primarily for imports of petroleum products.

Payments for the period from 1 January 2004 to 28 June 2004 are as follows:

<i>Ministry of:</i>	<i>Former CPA</i>
Trade	\$ 438,280
Finance: OFF Northern program	140,847
Oil	90,250
Electricity	29,516
State Company for Communications and Post	12,045
Finance	9,364
Construction and Housing	3,787
State Company for Internet Services	1,641
	<u>\$ 725,730</u>

Additionally, LCs for cash deposited by the Iraqi Ministries are included in Note 7, and LCs for contracts administered by US Agencies are included in Note 12.

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12. Contracts administered by US Agencies

US Agencies have been granted limited authority by the Government of Iraq to administer contracts entered into by the former CPA, requiring payment subsequent to 28 June 2004. This authority will expire on 31 December 2005. During the period from 29 June 2004 to 31 December 2004, \$2,800,000 was transferred to the DFI sub-account, of which \$1,616,147 was disbursed regarding these contracts.

Payments for the period from 29 June 2004 to 31 December 2004 are as follows:

<i>Ministry of:</i>	<i>Contracts</i>	
Oil	Import of petroleum products	\$ 337,027
Oil	Restoration of oil infrastructure	83,919
Oil	Security	20,128
Oil	Emergency pipeline repair	12,207
National Security and Defense	Weapons & equipment	411,132
Electricity	Restoration of Iraqi electricity	207,560
Electricity	Reconstruction of power plants	37,013
Electricity	Purchase of electricity from Turkey	7,432
Finance	Iraqi media network	59,373
Finance	OFF: Northern program	23,872
Finance	OFF: Audit	18,154
Transport	Baghdad International Airport security	25,000
Agriculture	Poultry production	7,883
Agriculture	OFF: Equipment	5,349
Agriculture	Fertilizer	3,511
Interior	Passport system	9,153
Planning	PMO office construction	5,863
Trade	OFF: Certification	3,761
Various ministries	55 programs	46,180
Various ministries	CERP	87,467
Various ministries	RRRP	204,163
		<u>\$ 1,616,147</u>

As in the prior period, Commander's Emergency Response Program (CERP) and Rapid Response Regional Program (RRRP) funds are provided to US Agencies to be disbursed for civil reconstruction and repair of infrastructure, including projects for water and sanitation, education, police, roads and healthcare.

During August 2004, the Ministry of Finance increased funding of the CERP program by \$86,000 from the Iraqi budget.

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Payments for the period from 1 January 2004 to 28 June 2004 are as follows:

<i>Ministry of:</i>	<i>Contracts</i>	
Oil	Import of petroleum products	\$ 1,891,058
Oil	Emergency pipeline repair	74,643
Oil	Restoration of oil infrastructure	67,593
Oil	Oil Infrastructure	62,857
Oil	Security	42,811
Electricity	Restoration of Iraqi electricity	551,295
Electricity	Reconstruction of power plants	126,969
Electricity	Purchase of electricity from Turkey	31,350
Electricity	Security of power lines	8,968
Trade	UN WFP food procurement	910,000
Trade	Food procurement	33,500
Trade	OFF: Wheat purchase	28,241
Trade	OFF: Certification	6,294
Trade	OFF: Coordination centers (refund)	(25,000)
Finance	OFF: Northern program	118,483
Finance	Iraqi media network	37,464
Finance	Iraqi banknote program	26,970
Finance	External debt reconciliation	13,216
Finance	Election assistance	9,599
National Security and Defense	Weapons & equipment	43,257
National Security and Defense	Firefighter equipment	5,206
Agriculture	Fertilizer	18,942
Agriculture	Credit program for local farmers	10,000
Agriculture	OFF: Equipment	8,047
Planning	PMO office construction	5,558
Awqaf (Religion)	Hajj pilgrimage	50,633
Various ministries	40 programs	64,877
Various ministries	CERP	354,781
Various ministries	RRRP	316,056
		<u>\$ 4,893,668</u>

13. Fuel imports into Iraq

Fuel imports are arranged by SOMO, with payments authorized by the Ministry of Oil, and by US Agencies.

During the period from 29 June 2004 to 31 December 2004, \$1,150,000 was transferred to a Jordanian bank account controlled by the Ministry of Oil. This account was established for the procurement of light petroleum products for import, due to a shortage of Iraqi refining capacity.

The balance of this bank account as at 31 December 2004 is \$302,969. Subsequent to 31 December 2004, further purchases of light petroleum products reduced the balance of the account to \$156.

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Commencing in 2005, the Ministry of Oil arranged payments for imports of light petroleum products through the Trade Bank of Iraq.

Additional Information

Total payments made for fuel imports into Iraq by the Ministry of Oil and US Agencies included in other financial statement captions, are as follows:

<i>Ministry of Oil:</i>	Note	29 June to 31 December 2004	1 January to 28 June 2004
Fuel imports into Iraq	13	\$ 1,150,000	\$ -
Letters of credit	11	160,000	-
 <i>US Agencies:</i>			
Contracts administered	12	337,027	1,891,058
Letters of credit	11	<u>37,000</u>	<u>90,250</u>
		<u>\$ 1,684,027</u>	<u>\$ 1,981,308</u>

Payments made by the Ministry of Oil and US Agencies included advance payments made to suppliers and financial institutions for fuel imported for the current and subsequent periods.

14. Iraqi debt repayments

Iraqi debt repayments for the period from 29 June 2004 to 31 December 2004 are as follows:

International Monetary Fund	\$ 333,816
World Bank	<u>110,548</u>
	<u>\$ 444,364</u>

The debt repayments are made to reduce arrears on the Iraqi national debt.

15. Other payments

Other payments for the period from 29 June 2004 to 31 December 2004 are as follows:

Independent Electoral Commission	\$ 75,084
Awqaf (Hajj)	16,000
Al Warka Investment Bank	3,000
Others	<u>9,593</u>
	<u>\$ 103,677</u>

On 27 December 2004, an international payment of \$3,000 was made on behalf of Al Warka Investment Bank. This amount was subsequently deposited in the Fund by Al Warka Investment Bank on 28 February 2005.

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16. Cash and cash equivalents

Cash and cash equivalents held are as follows:

	31 December 2004	28 June 2004
US Federal Reserve Bank of New York:		
Overnight repurchase agreement pool facility	\$ 4,611,900	\$ 150,800
Operating accounts	197	79
US Treasury bills	-	4,519,965
Central Bank of Iraq: Operating account	181,380	1,759,192
Cash held centrally by Coalition Forces	<u>129,041</u>	<u>217,700</u>
	<u>\$ 4,922,518</u>	<u>\$ 6,647,736</u>

Cash and cash equivalents include \$1,386,181 as at 31 December 2004 (28 June 2004: \$3,057,518) of cash committed for contracts administered by US Agencies (see Note 19). In addition, cash includes \$18,504 (28 June 2004: \$217,170) deposited by Iraqi Ministries, which is restricted for use only in accordance with instructions from the relevant Ministry (see Note 7). Interest received on the overnight facility and US Treasury bills is disclosed in Note 9.

US Treasury bills as at 28 June 2004 were held until their maturity with proceeds re-invested in the overnight facility. The Fund did not purchase any additional US Treasury bills during the period from 29 June 2004 to 31 December 2004 and there were no US Treasury bills held as at 31 December 2004.

17. Unrecorded assets and liabilities

The Fund records accounting transactions on a cash basis and has commenced the process of identifying and valuing major classes of assets and liabilities which would have been recorded had the Fund presented accrual-based financial statements.

The identified assets and liabilities are as follows:

	31 December 2004	28 June 2004
Assets		
Funds held by JP Morgan Bank for letters of credit	\$ 2,328,217	\$ 1,046,810
Net receivables from export sales of petroleum	1,260,200	1,141,726
Receivable from UN Oil for Food program	550,000	500,000
Funds held by Lebanese banks for letters of credit	211,749	-
Accrued interest	<u>6,541</u>	<u>10,866</u>
	<u>\$ 4,356,707</u>	<u>\$ 2,699,402</u>
Liabilities		
Payments in transit arising from the DFI sub-account	\$ 78,193	\$ -
Net deposits by Iraqi Ministries	18,504	217,170
Outstanding SOMO demurrage claims	10,563	-
Other accruals and liabilities	<u>9,008</u>	<u>4,701</u>
	<u>\$ 116,268</u>	<u>\$ 221,871</u>

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Barter transactions

Barter transactions for petroleum and petroleum products are non-cash transactions. Barter transactions are not recorded in the statement of cash receipts and payments and are not considered unrecorded assets or liabilities, as these transactions will not materialize into cash at any time. Consequently, payments were not made to the Compensation Fund. However, based on the value of the barter transactions as recorded by SOMO, payments to the Compensation Fund for the period from 29 June 2004 to 31 December 2004 would amount to \$6,736 (from inception to 31 December 2004: \$23,060).

18. Related parties

During the period from inception to 28 June 2004, the Fund was managed by the CPA in consultation with the Iraqi Interim Administration. Subsequent to the dissolution of the CPA, management control of the Fund was transferred to the Government of Iraq.

DFI funds are held in bank accounts by the CBI and distributed to the Iraqi Ministries in accordance with funding requests as approved by the Ministry of Finance. Accordingly, senior management of the CBI and the Ministry of Finance, together with the Ministers and Deputy Ministers of the Iraqi Ministries (including the offices of the President and the Prime Minister) are considered to be key management of the Fund and therefore considered to be related parties. Additionally, key management of the US Agencies and members of the IAMB are considered to be related parties.

The Fund has been monitored since inception by the IAMB in accordance with UNSCR 1483 and UNSCR 1546.

There were no related party transactions during the period from 29 June 2004 to 31 December 2004, other than transactions with the CBI, the Iraqi Ministries and US Agencies, as disclosed in various Notes to the financial statement, and loan repayments to the International Monetary Fund and World Bank, each of whom have a representative on the IAMB, as disclosed in Note 14.

US Agencies, the IAMB and key management of the Fund receive no compensation or fees directly from the Fund other than administration fees of \$33,925 charged by the USACE, for the administration of certain DFI funded contracts for the period from inception to 31 December 2004.

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19. Commitments and contingencies

Contractual commitments consist exclusively of open contracts, signed by the former CPA and managed by US Agencies.

Contractual commitments entered into by the Iraqi Ministries are considered to be committed under the Iraqi budget, and are not directly committed by the DFI.

The CPA did not maintain complete accounting records in respect of contractual commitments. US Agencies provided the Government of Iraq with a list of contractual obligations amounting to \$1,386,181, for reporting purposes. The Ministry of Finance believes that the list is incomplete and inaccurate.

A US Agency is in the process of compiling a new list of all financial obligations, using what it considers to be an appropriate methodology. In addition, the US Agency intends that all DFI-funded contract files will be properly documented by 30 September 2005.

Litigation

In the normal course of its activities, the Fund is party to various disputes and complaints. It is not possible to predict with certainty whether or not the Fund will ultimately be successful in any of these legal matters or, if not, what the impact might be. However, the Government of Iraq does not expect that the results in any of these legal proceedings will have a material adverse effect on the Fund's activities.

The Government of Iraq has not asserted claims or been the subject of any claims regarding DFI funded contracts.

A claim has been filed against one CPA contractor, Custer Battles, by non-governmental parties for false claims made to the former CPA. The US Department of Justice issued a brief on 1 April 2005 noting their belief that CPA contractors could be prosecuted under US legislation and in US courts for violation of the False Claims Act. The Government of Iraq believes the impact on the Fund will not be material.

Immunity

In accordance with UNSCR 1483, 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. This immunity expires on 31 December 2007, unless the United Nations Security Council decides otherwise.

Taxation

The Fund is not subject to taxation.

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20. Analysis of receipts and payments managed by the Government of Iraq and US Agencies

	Government of Iraq <small>(main accounts)</small>	US Agencies <small>(sub-account)</small>	Total
Receipts			
Net proceeds from export sales of petroleum and petroleum products	\$ 8,854,315	\$ -	\$ 8,854,315
UN Oil for Food program transfers	1,128,000	-	1,128,000
Deposits from assets frozen outside of Iraq	68,323	-	68,323
Net deposits by Iraqi Ministries	5,243	-	5,243
CERP funded by the Ministry of Finance	-	86,000	86,000
Interest received	70,401	3,597	73,998
Other receipts	<u>6,799</u>	<u>3,971</u>	<u>10,770</u>
Total Receipts	<u>10,133,081</u>	<u>93,568</u>	<u>10,226,649</u>
Payments			
Transfers to Iraqi Ministries	6,750,000	-	6,750,000
Letters of credit	1,647,337	214,646	1,861,983
Projects administered by US agencies	-	1,616,147	1,616,147
Fuel imports into Iraq	1,150,000	-	1,150,000
Iraqi debt repayments	444,364	-	444,364
Other payments	103,677	-	103,677
Net payments on behalf of Iraqi Ministries	<u>-</u>	<u>25,696</u>	<u>25,696</u>
Total Payments	<u>10,095,378</u>	<u>1,856,489</u>	<u>11,951,867</u>
Excess of payments over receipts	<u>37,703</u>	<u>(1,762,921)</u>	<u>(1,725,218)</u>
Cash and cash equivalents, beginning of period	-	6,647,736	6,647,736
Transfer on dissolution of CPA	6,430,036	(6,430,036)	-
Transfers to fund remaining CPA contracts	(2,800,000)	2,800,000	-
Cash and cash equivalents, end of period	<u>\$ 3,667,739</u>	<u>\$ 1,254,779</u>	<u>\$ 4,922,518</u>
Contractual commitments	<u>\$ -</u>	<u>\$ 1,386,181</u>	<u>\$ 1,386,181</u>