

*Translated from original Arabic Statements of Cash Receipts and Payments*

**DEVELOPMENT FUND FOR IRAQ**

Statements of Cash Receipts and Payments

31 December 2008

(With Independent Auditors' Report Thereon)

**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
JASG	Joint Area Support Group
MOF	Ministry of Finance
OFF	Oil for Food Program
SOMO	State Oil Marketing Organization
TBI	Trade Bank of Iraq
UN	United Nations
UNSCR	United Nations Security Council Resolution

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## **Independent Auditors' Report**

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

We have audited the accompanying statements of cash receipts and payments (the "financial statements") of the Development Fund for Iraq (DFI) for the year ended 31 December 2008 and a summary of significant accounting policies and other explanatory notes. The statements of cash receipts and payments for the year ended 31 December 2007 was audited by other auditors whose report dated 12 June 2008 expressed a qualified opinion on completeness of accounting records, completeness of export sales of petroleum and petroleum products, understatement of cash receipt and cash balances and overstatement of cash payment.

### **Government of Iraq Responsibility for the Financial Statements**

The Government of Iraq is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting". This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The DFI's policy is to prepare the accompanying 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. Except as described in the Basis for Qualified Opinion paragraphs, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the DFI's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DFI's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Government of Iraq, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independent Auditors' Report (continued)**

**Basis for Qualified Opinion**

- 1 As further explained in note 3 to the 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. Our inquiries revealed that the overall metering system installation percentage was 33% as at 31 December 2008. 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.
- 2 As further explained in note 4 to the 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 in foreign countries which it is entitled to receive. Accordingly, we could not extend our audit procedures sufficiently to satisfy ourselves over the completeness of proceeds from frozen assets in foreign countries in the financial statements.
- 3 As further explained in note 15 to the financial statements, 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. Accordingly, we could not extend our audit procedures sufficiently to satisfy ourselves over the completeness and accuracy of the outstanding contractual commitments balance as of 31 December 2008.
- 4 As further explained in note 9 to the financial statements, the letters of credit cash payments during the year ended 31 December 2008 include payments related to certain self-financing governmental entities that are not covered by the DFI. Conversely, the Ministry of Finance ('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. The DFI could not assess the amounts that were received by the MOF 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. Accordingly, we could not extend our audit procedures sufficiently to satisfy ourselves over the completeness and accuracy of amounts received by the MOF from these self financing entities and the amounts paid by the DFI to finance the letters of credit issued for the benefit of these self financing entities.
- 5 As further explained in note 3 to the financial statements, Barter sales with the Syrian government amounting to U.S. Dollars 750,865 thousand from inception till 31 December 2008 and with private companies amounting to U.S. Dollars 348,815 thousand from inception till 31 December 2008 were not recorded in the financial statements. These amounts were not confirmed by the barter partners.
- 6 As further explained in note 7 to the 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 balances as at 31 December 2008 and cash receipts for the period from 1 January 2008 till 31 December 2008 are overstated by the same amount.

**Independent Auditors' Report (continued)**

- 7 As further explained in note 3 to the financial statements, cash received from export sales of petroleum products during the year ended 31 December 2008 amounting to U.S. Dollars 1,335,237 thousand (since inception till 31 December 2007: U.S. Dollars 1,797,259 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. Accordingly, the cash receipts for the year ended 31 December 2008 are understated by U.S. Dollars 1,268,475 thousand and the cash balance as of 31 December 2008 are understated by U.S. Dollars 2,975,871 thousand.

**Qualified Opinion**

In our opinion except for the effects of adjustments, if any, as might have been determined to be necessary for the situations described in paragraphs 1, 2, 3 and 4 above had we been able to satisfy ourselves as to the completeness of petroleum produced, completeness of proceeds from frozen assets in foreign countries, completeness and accuracy of the outstanding contractual commitments, completeness and accuracy of amounts received by the Ministry of Finance from self financing entities and the amounts paid by the DFI to finance the letters of credit issued for the benefit of these self financing entities, and except for the effects on the financial statements of the matters referred to in paragraphs 5, 6 and 7 above, the statements of cash receipts and payments present fairly, in all material respects, cash receipts and payments of the DFI for the year ended 31 December 2008, in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting".

**Emphasis of Matter**

Without further qualifying our opinion, 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 statements of cash receipts and payments 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.

**Other Matters – Restriction on Use**

As indicated above, the statements of cash receipts and payments are prepared in accordance with the International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" and 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.



29 April 2009

# DEVELOPMENT FUND FOR IRAQ

## Statement of Cash Receipts and Payments

*Translated from original Arabic Statements of Cash Receipts and Payments*

### For the year ended 31 December

*In thousands of U.S. Dollar*

	Notes	2008	2007
<b>Cash receipts</b>			
Export sales of petroleum and petroleum products	3	58,789,576	35,882,755
Proceeds from frozen assets in foreign countries	4	833	5,150
United Nations Oil for Food Program	5	5,860	186,105
Interest received	6	577,007	560,756
Other receipts	7	1,966,026	883,543
<b>Total cash receipts</b>		<b>61,339,302</b>	<b>37,518,309</b>
<b>Cash payments</b>			
Transfers to the Ministry of Finance	8	45,524,455	26,700,000
Letters of credit for the benefit of Iraqi ministries	9	14,846,387	7,559,070
Contracts administered by U.S. agencies	10	314,750	115,522
Iraqi external debt repayments	11	229,216	142,301
Other payments	12	27,330	151,004
<b>Total cash payments</b>		<b>60,942,138</b>	<b>34,667,897</b>
<b>Excess of cash receipts over cash payments</b>		<b>397,164</b>	<b>2,850,412</b>
Cash and cash equivalents at 1 January		2,547,331	1,466,651
Proceeds from treasury bills on maturity during the year		27,622,431	12,746,116
Total available cash and cash equivalents		30,566,926	17,063,179
Purchased treasury bills during the year		(30,436,640)	(14,515,848)
Cash and cash equivalents at 31 December	13	130,286	2,547,331
Treasury bills at 31 December	14	10,172,948	7,358,739
<b>Cash and cash equivalents and treasury bills at 31 December</b>		<b>10,303,234</b>	<b>9,906,070</b>

The notes on pages 5 to 17 are an integral part of this financial statement.

Director General MoF  
Accounting Department



Amaad Ismaail Al Naaib  
Director General MOF  
Accounting Department

Minister of Finance advisor  
on the Minister's behalf



Engineer Baker Jaber Al Zubidy  
Minister of Finance

# DEVELOPMENT FUND FOR IRAQ

31 December 2008

## NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

*Translated from original Arabic Statements of Cash Receipts and Payments*

### 1 Entity Information

The Development Fund for Iraq (DFI) was established during May 2003 by the United States of America and recognized by United Nations Security Council Resolution (UNSCR) 1483 (2003). Power was delegated by the U.S. President to the Administrator of the Coalition Provisional Authority (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 International Advisory and Monitoring Board (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 and through the Iraqi budget and to satisfy outstanding obligations against the DFI and that 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 Federal Reserve Bank of New York (FRBNY) and managed by the Central Bank of Iraq (CBI) on behalf of the Ministry of Finance (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 Joint Contracting Command Iraq/Afghanistan, Project and Contracting Office, the Iraqi Reconstruction and Management Office, 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 United Nations' (UN) Oil For Food (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. UNSCR 1790 (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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## **NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS**

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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 a Committee of Financial Experts (COFE) to takeover the tasks of the IAMB in monitoring the DFI upon the termination of the IAMB by 31 December 2007. The COFE is headed by the president of the Board of Supreme Audit (BSA) and includes two independent experts. The COFE is responsible directly to the Council of Ministries. On 1 April 2007, the President of the COFE issued his resolution confirming the names of the COFE members and announced the commencement of the COFE's activities, which will be in parallel with the IAMB activities.

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

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

The statements of cash receipts and payments (the "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 statements of cash receipts and payments was authorised for issue in accordance with His Excellency Minister of Finance approval on 29 April 2009

#### **b) Reporting currency**

The financial statements has 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, products and natural gas are in U.S. Dollars.

#### **c) Significant accounting policies**

The DFI's statements of cash receipts and payments has 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 Ministry of Finance 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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## NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

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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 the Oil Marketing Company (SOMO), the sales arm of the Ministry of Oil. There were no export sales of natural gas from Iraq during the years 2007 and 2008. According to UNSCR 1483 (2003), the proceeds of export sales of petroleum and petroleum products shall be deposited into the Oil Proceeds Receipts Account (OPRA) at 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 statements 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 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.

Export sales and proceeds of petroleum deposited in OPRA were as follows:

<i>In thousands of U.S. Dollar</i>	<b>2008</b>	<b>2007</b>
Total export sales of petroleum during the period	59,538,813	39,833,938
Less: Demurrage claims deducted from export sales invoices	(24,470)	(8,332)
Proceeds deposited in OPRA after end of period	(1,780,392)	(4,123,319)
Add: Proceeds deposited during the current year related to prior period export sales invoices	4,123,319	2,068,606
Price differential	26,287	—
Interest on delayed bank transfers	207	428
<b>Proceeds deposited in OPRA during the period</b>	<b>61,883,764</b>	<b>37,771,321</b>
Less: Amounts transferred to the Compensation Fund (5%)	(3,094,188)	(1,888,566)
<b>Net proceeds deposited in the DFI during the period (95%)</b>	<b>58,789,576</b>	<b>35,882,755</b>

Net cash received from export sales of petroleum products during the year ended 31 December 2008 amounting to U.S. Dollars 1,335,237 thousand, (from inception till 31 December 2007 U.S. Dollars 1,797,259 thousand) were not deposited into OPRA and are not recorded in the DFI's financial statements. These funds were deposited in bank accounts controlled by SOMO.

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 31 December 2008 is U.S. Dollars 750,865 thousand and the value of barter transaction with private companies from inception till 31 December 2008 is U.S. Dollars 348,815 thousand. No Barter transactions were done during the year ended 31 December 2008. These barter transactions were not recorded in the 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.

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### 3 Export sales of petroleum and petroleum products (continued)

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 accounts.

### 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 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:

*In thousands of U.S. Dollar*

	2008	2007
Sweden	724	7
Lebanon	109	–
Switzerland	–	14
United Kingdom	–	322
Others	–	4,807
	<u>833</u>	<u>5,150</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 31 December 2008 and based on the CBI records the total balance that should be refunded is amounting to U.S. Dollars 332,713 thousand. However, to the financial statements date, 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.

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### 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.

*In thousands of U.S. Dollar*

	2008	2007
Oil for Food transfers to the DFI	5,860	186,105

### 6 Interest received

*In thousands of U.S. Dollar*

	Notes	2008	2007
U.S. Treasury bills		314,466	272,484
Overnight repurchase agreement pool facility	(i)	201,836	159,893
Letters of credit cash margins		60,705	128,379
		577,007	560,756

(i) This amount includes interest earned on funds deposited in the Government of Iraq Foreign Military Sales (FMS) account and transferred to the DFI. 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). The amount of interest earned and accumulated since inception of the FMS account and transferred to the DFI account during 2008 amounted to U.S. Dollars 142,793 thousand. The interest earned on overnight repurchase agreements were from the following accounts:

*In thousands of U.S. Dollar*

	2008	2007
DFI - Main account	56,896	139,425
PCO - Transition account	2,147	20,468
Foreign Military Sales (FMS) Account	142,793	—
	201,836	159,893

### 7 Other receipts

*In thousands of U.S. Dollar*

	2008	2007
License fee of mobile telecommunication	1,312,005	—
Refunded letters of credit cash margins	536,189	834,017
Others	117,832	49,526
	1,966,026	883,543

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## **NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS**

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### **7 Other receipts (continued)**

The license fees transferred by the Communications and Media Commission in February 2008 were deposited erroneously in the DFI account at the FRBNY. They were supposed to be deposited in 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 budget. The transfers were as follows:

In March 2008, the remaining funds in the amount of U.S. Dollars 24,455 thousand held in the JASG vault were transferred to the Ministry of Finance's account held at the CBI.

### **9 Letters of credit 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 credits' 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:

<i>In thousands of U.S. Dollar</i>	<b>Notes</b>	<b>2008</b>	<b>2007</b>
Ministry of Oil		4,433,988	1,897,944
Ministry of Trade		4,100,500	2,218,496
Ministry of Defence	(i)	2,297,552	1,298,096
Ministry of Electricity		2,104,919	688,657
Ministry of Interior	(i)	726,717	335,648
Council of Ministries		430,081	—
Ministry of Health		374,427	500,715
Ministry of Municipality and Public Works		254,882	351,773
Ministry of Communications		40,002	57,059
Ministry of Water Resources		38,293	90,380
Ministry of Agriculture		19,069	9,993
Ministry of Transportation		16,288	23,953
Ministry of Education		4,254	—
Ministry of Justice	(i)	2,675	48,817
Ministry of Finance		2,480	—
Ministry of Construction and Housing		144	716
Ministry of Industry and Minerals		116	36,087
Ministry of Environment		—	696
Ministry of Planning		—	40
		<u>14,846,387</u>	<u>7,559,070</u>

- (i) Included in the payments for the benefit of the Ministries of Interior and Defense are the amounts of U.S. Dollars 645,399 thousand and 1,551,237 thousand respectively (2007: 169,000 thousand and 1,100,000 thousand, Ministry of Justice: 48,817 thousand) transferred to the Foreign Military Sales Account held with the FRBNY 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.

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## NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

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

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.

### 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/Afghanistan 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.

*In thousands of U.S. Dollar*

	2008	2007
Higher Council of Reconstruction	300,000	–
Ministry of Municipality and Public Works	12,323	4,595
Municipality of Baghdad	2,168	5,929
Ministry of Health	259	–
Ministry of Industry and Minerals	–	60,720
Ministry of Water Resources	–	9,946
Ministry of Electricity	–	6,410
Ministry of Interior	–	4,078
Ministry of Education	–	2,500
Ministry of Higher Education and Scientific Research	–	94
Commission of Reconstruction / Najaf	–	21,250
	<u>314,750</u>	<u>115,522</u>

### 11 Iraqi external debt repayments

*In thousands of U.S. Dollar*

	Notes	2008	2007
Bank of England	(i)	100,000	–
Interest paid to JP Morgan Chase Bank	(ii)	80,898	80,898
Commercial credit	(iii)	48,318	–
Islamic Development Bank		–	61,403
		<u>229,216</u>	<u>142,301</u>

# DEVELOPMENT FUND FOR IRAQ

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## NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

*Translated from original Arabic Statements of Cash Receipts and Payments*

### 11 Iraqi external debt repayments (continued)

- (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 4th coupon payment of U.S. Dollars 80,898 thousand was paid out of the Development Fund for Iraq while the 5th coupon was paid out of the Ministry of Finance's current account held at the Central Bank of Iraq.
- (iii) During 2008, the Government of Iraq settled 85 cash buyback reconciled eligible claims based on the Iraqi External Debt Reconciliation Project in the amount of U.S. Dollars 48,318 thousand.

### 12 Other payments

*In thousands of U.S. Dollar*

	2008	2007
Diwaniyah Governorate	16,601	—
Consulting and outsourcing (MOF)	6,200	10,739
The Independent Electoral Commission of Iraq	4,435	1,215
Others	94	67
Municipality of Baghdad	—	134,233
Transfer to Central Bank of Iraq	—	4,750
	<u>27,330</u>	<u>151,004</u>

### 13 Cash and cash equivalents

*In thousands of U.S. Dollar*

	2008	2007
<b>Accounts maintained at FRBNY:</b>		
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>
<b>Accounts at FRBNY are detailed as follows:</b>		
CBI/DFI	20,814	2,398,653
PCO - Transition Account - U.S. Agencies	109,472	124,223
	<u>130,286</u>	<u>2,522,876</u>

## DEVELOPMENT FUND FOR IRAQ

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### NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

*Translated from original Arabic Statements of Cash Receipts and Payments*

#### 14 Treasury bills

*In thousands of U.S. Dollar*

	2008	2007
Face value	10,262,400	7,500,000
Discount	(89,452)	(141,261)
Treasury bills cost at 31 December	<u>10,172,948</u>	<u>7,358,739</u>

Treasury bills are debt securities issued by the U.S. Treasury and purchased through the Federal Reserve Bank of New York (FRBNY). 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 31 December:

*In thousands of U.S. Dollar*

	2008	2007
Treasury bills at 1 January	7,358,739	5,589,007
Purchased treasury bills	30,436,640	14,515,848
Proceeds from matured treasury bills	(27,622,431)	(12,746,116)
Treasury bills at 31 December	<u>10,172,948</u>	<u>7,358,739</u>

#### 15 Commitments and contingencies

Contractual commitments consist of open contracts, signed by the former CPA and 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/Afghanistan 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.

# DEVELOPMENT FUND FOR IRAQ

31 December 2008

## NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

*Translated from original Arabic Statements of Cash Receipts and Payments*

### 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 until 31 December 2009 the above mentioned arrangements.

### 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 Central Bank of Iraq (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 were transferred to the main DFI account during 2008 (see note 6). The balance at year end of the FMS account is as follows:

*In thousands of U.S. Dollar*

	2008	2007
Overnight placements	2,819,500	2,702,000
Treasury bills	995,287	—
Operating accounts	85	39
	<u>3,814,872</u>	<u>2,702,039</u>

# DEVELOPMENT FUND FOR IRAQ

31 December 2008

## NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

*Translated from original Arabic Statements of Cash Receipts and Payments*

### 19 Analysis of receipts and payments managed by the Government of Iraq and U.S. Agencies

Analysis for the year ended from 31 December 2008 is as follows:

*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	58,789,576	–	58,789,576
Proceeds from frozen assets at foreign countries	833	–	833
United Nations Oil for Food program	5,860	–	5,860
Interest received	574,860	2,147	577,007
Other receipts	1,966,026	–	1,966,026
<b>Total cash receipts</b>	<b>61,337,155</b>	<b>2,147</b>	<b>61,339,302</b>
<b>Cash payments</b>			
Transfers to the Ministry of Finance	45,500,000	24,455	45,524,455
Letters of credit for the benefit of Iraqi ministries	14,846,387	–	14,846,387
Contracts administered by U.S. Agencies	–	314,750	314,750
Iraqi external debt repayments	229,216	–	229,216
Other payments	27,330	–	27,330
<b>Total cash payments</b>	<b>60,602,933</b>	<b>339,205</b>	<b>60,942,138</b>
<b>Excess (deficit) of receipts over payments</b>	<b>734,222</b>	<b>(337,058)</b>	<b>397,164</b>
Cash and cash equivalents at 1 January	2,398,654	148,677	2,547,331
Proceeds from treasury bills during the year	27,622,431	–	27,622,431
Total available cash and cash equivalents	30,755,307	(188,381)	30,566,926
Purchased treasury bills during the year	(30,436,640)	–	(30,436,640)
Transfers	(297,854)	297,854	–
Cash and cash equivalents at 31 December	20,813	109,473	130,286
Treasury bills at 31 December	10,172,948	–	10,172,948
	<b>10,193,761</b>	<b>109,473</b>	<b>10,303,234</b>

# DEVELOPMENT FUND FOR IRAQ

31 December 2008

## NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

*Translated from original Arabic Statements of Cash Receipts and Payments*

### 19 Analysis of receipts and payments managed by the Government of Iraq and U.S.

#### Agencies (continued)

Analysis for the year ended 31 December 2007 is as follows:

<i>In thousands of U.S. Dollar</i>	<b>Government of Iraq</b>	<b>U.S. agencies</b>	<b>Total</b>
<b>Cash receipts</b>			
Export sales of petroleum	35,882,755	–	35,882,755
Proceeds from frozen assets at foreign countries	5,150	–	5,150
United Nations Oil for Food program	186,105	–	186,105
Interest received	540,288	20,468	560,756
Other receipts	883,543	–	883,543
<b>Total cash receipts</b>	<b>37,497,841</b>	<b>20,468</b>	<b>37,518,309</b>
<b>Cash payments</b>			
Transfers to the Ministry of Finance	26,700,000	–	26,700,000
Letters of credit for the benefit of Iraqi ministries	7,559,070	–	7,559,070
Contracts administered by U.S. Agencies	–	115,522	115,522
Iraqi external debt repayments	142,301	–	142,301
Other payments	151,004	–	151,004
<b>Total cash payments</b>	<b>34,552,375</b>	<b>115,522</b>	<b>34,667,897</b>
<b>Excess (deficit) of receipts over payments</b>	<b>2,945,466</b>	<b>(95,054)</b>	<b>2,850,412</b>
Cash and cash equivalents at 1 January	869,952	596,699	1,466,651
Proceeds from treasury bills during the year	12,746,116	–	12,746,116
Total available cash and cash equivalents	16,561,534	501,645	17,063,179
Purchased treasury bills during the year	(14,515,848)	–	(14,515,848)
Transfers	352,968	(352,968)	–
Cash and cash equivalents at 31 December	2,398,654	148,677	2,547,331
Treasury bills at 31 December	7,358,739	–	7,358,739
	<b>9,757,393</b>	<b>148,677</b>	<b>9,906,070</b>