

*Translated from original Arabic Financial Statements*

**DEVELOPMENT FUND FOR IRAQ**

Financial Statements

31 December 2009

(With Independent Auditors' Report Thereon)

*Translated from original Arabic Financial Statements*

## DEVELOPMENT FUND FOR IRAQ

### Glossary

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

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## **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 financial statements of the DFI, which comprise of the statements of cash receipts and payments and the statements of proceeds of oil export sales of the DFI for the year ended 31 December 2009 and a summary of significant accounting policies and other explanatory notes.

#### **Government of Iraq's 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. 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, to date this is not being achieved. 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 3 to the financial statements, cash received from export sales of petroleum products for the year ended 31 December 2009 amounting to U.S. Dollars 250,960 thousand (since inception till 31 December 2008: U.S. Dollars 3,132,496 thousand) has been deposited in bank accounts controlled by SOMO. The Iraqi Government considers that these sales fall outside the scope of UNSCR 1483(2003) and a letter was sent to the Controller of the United Nations explaining the Iraqi Government's position. No reply has been received to the date of our audit report and therefore we are unable to determine whether the sales of petroleum products should be included in the statements of cash and receipts and payments and statements of proceeds of oil export sales.

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

- 4 As further explained in note 7 to the financial statements, cash receipts amounting to U.S. Dollars 1,312,005 thousands relating to a license fee of mobile telecommunication were incorrectly recorded in the DFI, accordingly cash and cash equivalents as at 31 December 2008 and cash receipts for the period ended 31 December 2008 are overstated by the same amount. In 2009, as further explained in note 12 to the financial statements, the license fee was returned to the Ministry of Finance's account held at the CBI.

**Independent Auditors' Report (continued)**

**Qualified Opinion**

In our opinion except for the effects referred to in paragraph 4 and possible effects referred to in paragraphs 1, 2 and 3 above, the financial statements present fairly, in all material respects, cash receipts and payments of the DFI and proceeds of oil export sales for the year ended 31 December 2009, in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting".

**Emphasis of Matter**

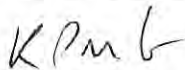
Without further qualifying our opinion, we draw the attention that the DFI is a Fund and not an entity where a double entry system is always implemented to create a general ledger. The accompanying financial statements are prepared from various banks statements and other related financial information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

As further explained in note 9 to the financial statements and without further qualifying our opinion, we draw the attention that the letters of credit cash payments during the year ended 31 December 2009 include payments related to certain self-financing governmental entities. Conversely, the MOF received advance payments from these entities to fund their letters of credit payments which have been deposited in the MOF accounts at the CBI and have not been transferred to the DFI account at the FRBNY.

**Other Matters – Restriction on Use**

As indicated above, the financial statements 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.



30 October 2010

# DEVELOPMENT FUND FOR IRAQ

## STATEMENTS OF CASH RECEIPTS AND PAYMENTS

*Translated from original Arabic Financial Statements*

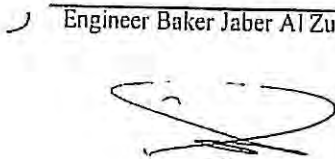
For the year ended 31 December	Notes	2009	2008
<i>In thousands of U.S. Dollar</i>			
<b>Cash receipts</b>			
Export sales of petroleum	3	37,016,434	58,789,576
Proceeds from frozen assets in foreign countries	4	47,817	833
United Nations Oil for Food Program	5	121	5,860
Interest received	6	128,569	577,007
Other receipts	7	457,292	1,966,026
<b>Total cash receipts</b>		<u>37,650,233</u>	<u>61,339,302</u>
<b>Cash payments</b>			
Transfers to the Ministry of Finance	8	23,000,000	45,524,455
Letters of credit for the benefit of Iraqi ministries	9	13,437,912	14,846,387
Contracts administered by U.S. agencies	10	852	314,750
Iraqi external debt repayments	11	100,000	229,216
Other payments	12	1,429,067	27,330
<b>Total cash payments</b>		<u>37,967,831</u>	<u>60,942,138</u>
<b>Excess (deficit) of cash receipts over cash payments</b>		(317,598)	397,164
Cash and cash equivalents at 1 January		130,286	2,547,331
Proceeds from treasury bills on maturity during the year		18,357,436	27,622,431
<b>Total available cash and cash equivalents</b>		18,170,124	30,566,926
Purchased treasury bills during the year		(14,679,051)	(30,436,640)
Cash and cash equivalents at 31 December	13	3,491,073	130,286
Treasury bills at 31 December	14	6,494,563	10,172,948
<b>Cash and cash equivalents and treasury bills at 31 December</b>		<u>9,985,636</u>	<u>10,303,234</u>

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

Director General MoF  
Accounting Department

  
Amaal Ismaail Al Naaib

Minister of Finance advisor  
on the Minister's behalf

  
Engineer Baker Jaber Al Zubidy

## DEVELOPMENT FUND FOR IRAQ

### STATEMENTS OF PROCEEDS OF OIL EXPORT SALES

*Translated from original Arabic Financial Statements*

**For the year ended 31 December**

*In thousands of U.S. Dollar*

	2009	2008
Total export sales of petroleum	41,329,854	59,538,813
Less:		
Demurrage claims deducted from export sales invoices	(2,782)	(24,470)
Proceeds deposited in OPRA after end-of-period	(4,156,197)	(1,780,392)
Add:		
Proceeds deposited related to prior period export sales invoices	1,780,392	4,123,319
Price differential	13,396	26,287
Interest on delayed bank transfers	4	207
<b>Proceeds deposited in OPRA</b>	<u>38,964,667</u>	<u>61,883,764</u>
Amounts transferred to the Compensation Fund (5%)	<u>(1,948,233)</u>	<u>(3,094,188)</u>
<b>Net proceeds deposited in the DFI (95%)</b>	<u><u>37,016,434</u></u>	<u><u>58,789,576</u></u>

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



# DEVELOPMENT FUND FOR IRAQ

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## NOTES TO THE FINANCIAL STATEMENTS

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### 1 Entity Information

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

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

The IAMB of the DFI was appointed in accordance with UNSCR 1483 (2003) and subsequent resolutions. The IAMB is an audit oversight body for the DFI, its purpose is to promote the objectives set forth in UNSCR 1483 (2003) and UNSCR 1546 (2004) of ensuring that the DFI is used in a transparent and equitable manner 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 FRBNY and managed by the CBI on behalf of the MOF. A DFI sub-account was established at the FRBNY during 2004 to be managed by the U.S. Agencies and monitored by the Iraqi MOF. The purpose of this sub-account is to facilitate disbursements for contracts signed by the former CPA, requiring payment subsequent to 28 June 2004. U.S. Agencies' management of the DFI sub-account expired on 31 December 2006. The U.S. agencies include the JCC-I, PCO, the IRMO, the JASG Comptroller, the DFI Disbursing Office, the Defense Contract Management Agency, the U.S. Army Corps of Engineers and Coalition Forces.

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

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

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.

On 21 December 2009 the UNSC adopted resolution 1905 to extend until 31 December 2010 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.

# DEVELOPMENT FUND FOR IRAQ

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## NOTES TO THE FINANCIAL STATEMENTS

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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 COFE to takeover the tasks of the IAMB in monitoring the DFI upon the termination of the IAMB. The COFE is headed by the president of the BSA and includes two members and 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 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 financial statements were authorised for issue in accordance with His Excellency Minister of Finance approval on 25 August 2010.

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

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

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

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

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

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

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

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

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## NOTES TO THE FINANCIAL STATEMENTS

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### 3 Export sales of petroleum

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

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

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

Net cash received from export sales of petroleum products during the year ended 31 December 2009 amounting to U.S. Dollars 250,960 thousand (from inception till 31 December 2008: U.S. Dollars 3,132,496 thousand). These funds were deposited in bank accounts controlled by SOMO.

According to the Minister of Oil's memo # 1691 dated 26 March 2009 which states that all export of fuel oil be stopped as at 1 April 2009 except for exports related to the joint agreement between the Iraqi Ministry of Electricity, SOMO and the Turkish Company KARTET and exports related to the Iraqi Oil Tanker Company. The joint agreement states that KARTET will provide electricity to the Ministry of Electricity in exchange for fuel oil sold by SOMO. This agreement expires on 31 December 2010.

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 2009 is U.S. Dollars 750,865 thousand and the value of barter transaction with private companies from inception till 31 December 2009 is U.S. Dollars 348,815 thousand. No barter transactions were done during the year ended 31 December 2009. These barter transactions were not recorded in the prior DFI financial statements. As per SOMO, the value of products received from the Syrian government from inception till 31 December 2007 was U.S. Dollars 448,474 thousand. The value of products received from private companies under barter deals from inception till 31 December 2007 could not be determined. The Iraqi government is claiming an amount of U.S. Dollars 302,391 thousand from the Syrian government.

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

The Ministry of Oil does not have in place an overall comprehensive system of controls over petroleum extraction, it is not possible to reconcile extracted petroleum to SOMO's records of quantities received and quantities consumed internally, however it is possible to reconcile the petroleum quantities received by SOMO to petroleum export sales.

# DEVELOPMENT FUND FOR IRAQ

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## NOTES TO THE FINANCIAL STATEMENTS

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### 4 Proceeds from frozen assets in foreign countries

According to UNSCR 1483 (2003), all Member States of the UN ('Member States') in which there are funds or other financial assets or economic resources of the previous Government of Iraq or its state bodies, corporations, or agencies, located outside Iraq as of 22 May 2003 shall freeze those funds or other financial assets or economic resources and, unless these funds or other financial assets or economic resources are themselves 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:

#### For the year ended 31 December

*In thousands of U.S. Dollar*

	2009	2008
Rafidain Bank	47,758	-
Tunisia	59	-
Sweden	-	724
Lebanon	-	109
	<u>47,817</u>	<u>833</u>

Other financial assets of the former Iraqi regime are still held by various Member States, which the GOI is actively pursuing. The GOI 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 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 2009 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.

### 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.

#### For the year ended 31 December

*In thousands of U.S. Dollar*

	2009	2008
Oil for Food transfers to the DFI	<u>121</u>	<u>5,860</u>

# DEVELOPMENT FUND FOR IRAQ

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## NOTES TO THE FINANCIAL STATEMENTS

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### 6 Interest received

<b>For the year ended 31 December</b>	<b>Notes</b>	<b>2009</b>	<b>2008</b>
<i>In thousands of U.S. Dollar</i>			
U.S. Treasury bills	(i)	111,566	314,466
Overnight repurchase agreement pool facility	(ii)	9,085	201,836
Letters of credit cash margins		7,918	60,705
		<u>128,569</u>	<u>577,007</u>

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

<b>For the year ended 31 December</b>	<b>2009</b>	<b>2008</b>
<i>In thousands of U.S. Dollar</i>		
DFI - Main account	104,836	314,466
FMS account	6,730	-
	<u>111,566</u>	<u>314,466</u>

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

<b>For the year ended 31 December</b>	<b>2009</b>	<b>2008</b>
<i>In thousands of U.S. Dollar</i>		
DFI - Main account	5,178	56,896
FMS Account	3,751	142,793
PCO - Transition account	156	2,147
	<u>9,085</u>	<u>201,836</u>

# DEVELOPMENT FUND FOR IRAQ

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## NOTES TO THE FINANCIAL STATEMENTS

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### 7 Other receipts

For the year ended 31 December

*In thousands of U.S. Dollar*

	2009	2008
Refunded letters of credit cash margins	411,501	536,189
Others	45,791	117,832
License fee of mobile telecommunication	–	1,312,005
	<u>457,292</u>	<u>1,966,026</u>

The license fees transferred by the Communications and Media Commission in February 2008 were deposited erroneously in the DFI account at the FRBNY. On 28 July 2009 the funds were paid out of the DFI and into the MOF'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.

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

Letters of credit are facilitated by the 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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## NOTES TO THE FINANCIAL STATEMENTS

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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:

For the year ended 31 December	Notes	2009	2008
<i>In thousands of U.S. Dollar</i>			
Ministry of Electricity		4,874,994	2,104,919
Ministry of Oil		4,060,449	4,433,988
Ministry of Trade		2,382,625	4,100,500
Ministry of Health		610,605	374,427
Ministry of Defence	(i)	586,255	2,297,552
Ministry of Interior	(i)	412,933	726,717
Ministry of Water Resources		171,018	38,293
Ministry of Transportation		122,488	16,288
Ministry of Communications		65,970	40,002
Ministry of Municipality and Public Works		53,714	254,882
Ministry of Finance		43,140	2,480
Ministry of Industry and Minerals		28,698	116
Ministry of Agriculture		15,339	19,069
Ministry of Construction and Housing		7,259	144
Ministry of Justice		2,425	2,675
Council of Ministries		–	430,081
Ministry of Education		–	4,254
		<u>13,437,912</u>	<u>14,846,387</u>

- (i) Included in the payments for the benefit of the Ministry of Interior is an amount of U.S. Dollars 403,515 thousand (2008: 645,399 thousand, Ministry of Defence: 1,551,237 thousand) transferred to the FMS Account held with 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. 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.

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

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## NOTES TO THE FINANCIAL STATEMENTS

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

U.S. Agencies have been granted limited authority by the GOI to administer outstanding contracts entered into by the former CPA, regarding payments subsequent to 28 June 2004. In September 2007, the Joint Contracting Command-Iraq was granted interim authority by the MOF 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.

#### For the year ended 31 December

*In thousands of U.S. Dollar*

	2009	2008
Higher Council of Reconstruction	852	300,000
Ministry of Municipality and Public Works	-	12,323
Municipality of Baghdad	-	2,168
Ministry of Health	-	259
	<u>852</u>	<u>314,750</u>

### 11 Iraqi external debt repayments

#### For the year ended 31 December

*In thousands of U.S. Dollar*

	Notes	2009	2008
Bank of England	(i)	100,000	100,000
Interest paid to JP Morgan Chase Bank	(ii)	-	80,898
Commercial credit	(iii)	-	48,318
		<u>100,000</u>	<u>229,216</u>

- (i) During December 2008, the MOF 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 2009, 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 4<sup>th</sup> payment was paid out of DFI while the 5<sup>th</sup>, 6<sup>th</sup> and 7<sup>th</sup> coupon payments of U.S. Dollars 80,898 thousand each were paid out of the Ministry of Finance's current account held at the CBI.
- (iii) During 2008, the GOI 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.



# DEVELOPMENT FUND FOR IRAQ

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## NOTES TO THE FINANCIAL STATEMENTS

*Translated from original Arabic Financial Statements*

### 12 Other payments

**For the year ended 31 December**

*In thousands of U.S. Dollar*

	2009	2008
License fee of mobile telecommunication	1,312,006	–
Municipality of Baghdad	87,057	–
The Independent Electoral Commission of Iraq	19,253	4,435
Diwaniyah Governorate	10,660	16,601
Others	85	94
Consulting and outsourcing (MOF)	6	6,200
	<u>1,429,067</u>	<u>27,330</u>

### 13 Cash and cash equivalents

**As at 31 December**

*In thousands of U.S. Dollar*

**Accounts maintained at FRBNY:**

	2009	2008
Overnight placements	3,491,000	130,200
Operating accounts	73	86
	<u>3,491,073</u>	<u>130,286</u>

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

CBI/DFI	3,382,453	20,814
PCO - Transition Account - U.S. Agencies	108,620	109,472
	<u>3,491,073</u>	<u>130,286</u>

# DEVELOPMENT FUND FOR IRAQ

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## NOTES TO THE FINANCIAL STATEMENTS

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### 14 Treasury bills

As at 31 December

*In thousands of U.S. Dollar*

	2009	2008
Face value	6,500,000	10,262,400
Discount	(5,437)	(89,452)
	<u>6,494,563</u>	<u>10,172,948</u>

Treasury bills are debt securities issued by the U.S. Treasury and purchased through the 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 for the year ended 31 December 2009:

*In thousands of U.S. Dollar*

	2009	2008
Treasury bills at 1 January	10,172,948	7,358,739
Purchased treasury bills	14,679,051	30,436,640
Proceeds from matured treasury bills	(18,357,436)	(27,622,431)
Treasury bills at 31 December	<u>6,494,563</u>	<u>10,172,948</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 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 MOF was not provided with sufficient data to be able to assess the outstanding contractual commitments balance.

# DEVELOPMENT FUND FOR IRAQ

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## NOTES TO THE FINANCIAL STATEMENTS

*Translated from original Arabic Financial Statements*

### 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 1905 (2009) it was decided to extend until 31 December 2010 the above mentioned arrangements.

### 17 Taxation

The DFI is not subject to taxation.

### 18 Foreign Military Sales

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

#### For the year ended 31 December

*In thousands of U.S. Dollar*

	2009	2008
Treasury bills	1,698,325	995,287
Overnight placements	1,474,200	2,819,500
Operating accounts	41	85
	<u>3,172,566</u>	<u>3,814,872</u>

# DEVELOPMENT FUND FOR IRAQ

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## NOTES TO THE FINANCIAL STATEMENTS

*Translated from original Arabic Financial Statements*

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

Analysis for the year ended 31 December 2009 is as follows:

*In thousands of U.S. Dollar*

	Government of Iraq	U.S. agencies	Total
<b>Cash receipts</b>			
Export sales of petroleum	37,016,434	–	37,016,434
Proceeds from frozen assets at foreign countries	47,817	–	47,817
United Nations Oil for Food program	121	–	121
Interest received	128,413	156	128,569
Other receipts	457,292	–	457,292
<b>Total cash receipts</b>	<b>37,650,077</b>	<b>156</b>	<b>37,650,233</b>
<b>Cash payments</b>			
Transfers to the Ministry of Finance	23,000,000	–	23,000,000
Letters of credit for the benefit of Iraqi ministries	13,437,912	–	13,437,912
Contracts administered by U.S. Agencies	–	852	852
Iraqi external debt repayments	100,000	–	100,000
Other payments	1,429,067	–	1,429,067
<b>Total cash payments</b>	<b>37,966,979</b>	<b>852</b>	<b>37,967,831</b>
<b>Excess (deficit) of cash receipts over cash payments</b>	<b>(316,902)</b>	<b>(696)</b>	<b>(317,598)</b>
Cash and cash equivalents at 1 January	20,813	109,473	130,286
Proceeds from treasury bills during the year	18,357,436	–	18,357,436
Total available cash and cash equivalents	18,061,347	108,777	18,170,124
Purchased treasury bills during the year	(14,679,051)	–	(14,679,051)
Transfers	157	(157)	–
Cash and cash equivalents at 31 December	3,382,453	108,620	3,491,073
Treasury bills at 31 December	6,494,563	–	6,494,563
	<b>9,877,016</b>	<b>108,620</b>	<b>9,985,636</b>

# DEVELOPMENT FUND FOR IRAQ

31 December 2009

## NOTES TO THE FINANCIAL STATEMENTS

*Translated from original Arabic Financial Statements*

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

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

*In thousands of U.S. Dollar*

	Government of Iraq	U.S. agencies	Total
<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 cash receipts over cash 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>