

Development Fund for Iraq

FINANCIAL STATEMENTS

31 DECEMBER 2011

INDEPENDENT AUDITORS' REPORT TO GOVERNMENT OF IRAQ AND COMMITTEE OF FINANCIAL EXPERTS OF THE DEVELOPMENT FUND FOR IRAQ

Report on the financial statements

We have audited the accompanying statement of cash receipts and payments and the statement of proceeds of oil export sales ("the financial statements") of the Development Fund for Iraq ("DFI") for the year ended 31 December 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of these financial statements in accordance with International Public Sector Accounting Standards "Financial Reporting Under the Cash Basis of Accounting" and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as mentioned below 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 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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.

Basis for Qualified Opinion

1. As explained in note (4) to the financial statements, the Ministry of Oil does not operate a full operational loading and metering system for export sales of petroleum and petroleum products at extraction and loading points to ensure that all quantities extracted and pumped to export terminals are properly recorded. Although Oil Marketing Company's (SOMO) records reconcile with cash receipts from export sales of petroleum, we were not able to obtain comfort over the volume of all quantities extracted and pumped to export terminals and for internal use due to the absence of an overall comprehensive system of controls over petroleum and petroleum products. In addition, production reports for oil produced in Kurdistan region were not received by the Ministry of Oil during the year ended 31 December 2011. The status for installation of a comprehensive oil metering system in Iraq in accordance with standard oil industry practices was 95% for the fiscal application and 31% for the custody transfer at 31 December 2011 per the reports prepared by the Ministry of Oil.

2. As explained in note (5) to the financial statements, according to the UNSCR 1483 (2003), all member states of the UN in which there are funds or other financial assets or economic resources (collectively referred to as ‘the frozen funds’) of the previous Government of Iraq or its state bodies, corporations, or agencies, located outside Iraq as of the resolution date shall freeze the frozen funds. The frozen funds 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 the frozen funds that may eventually be transferred to the DFI, as some of these frozen funds are subject to prior judicial, administrative or arbitral lien or judgment. As a result, as noted in Note 5 to the financial statements, although we were able to verify the accuracy of the proceeds received from the frozen funds during the year ended 31 December 2011, we were unable to determine whether all proceeds from the frozen funds have been received by DFI or any proceeds have also been remitted to other Government bodies
3. We did not receive confirmation from the Federal Reserve Bank of New York (FRBNY), as a result, we were unable to verify the completeness of the bank balances and treasury bills held with FRBNY at 31 December 2011.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves in respect of the matters referred to in the preceding paragraphs, the financial statements of DFI for the year ended 31 December 2011 are prepared, in all material respects, in accordance with the International Public Sector Accounting Standards (IPSAS) “Financial Reporting under the Cash Basis of Accounting”.

Other matters

1. Without further modifying our opinion, we draw attention to note (4), where crude oil shipments lifted by the international oil companies during the year ended 31 December 2011 (in accordance with their service contracts) were not included as part of total export sales of petroleum in the statement of proceeds of oil export sales. These lifted quantities were not collected in cash and were not deposited at the Oil Proceeds Receipt Account (OPRA) as at 31 December 2011. A committee was formed which was chaired by the Ministry of Finance and membership of Central Bank of Iraq and Ministry of Oil to decide on the suitable mechanism to ensure the payment of amounts due to the OPRA in respect of the crude oil shipments lifted by the international oil companies. The Committee resolved that the Central Bank of Iraq is to transfer the full value of oil lifted to the OPRA. Subsequent to the financial statements date an amount of USD 2,199,711,645 was transferred to the OPRA which represents the value of in-kind lifted oil.

The signature bonus paid by the international oil companies to obtain rights to the Iraqi oilfields, were transferred to the Ministry of Finance accounts. These amounts were not transferred to the DFI.

2. The financial statements for the year ended 31 December 2010 were audited by another auditor whose report dated 27 June 2011 expressed a qualified opinion on the absence of a full operational loading and metering system for export sales of petroleum and petroleum products at loading and extraction points and reliable estimate of the amount of financial assets or economic resources of the previous Government of Iraq or its state bodies, corporations, or agencies located outside Iraq.

Basis of preparation

Without further modifying our opinion, we draw attention to Note 2 to the financial statements; which describes the basis of preparation in accordance with the International Public Sector Accounting Standards (IPSAS) (Financial Reporting under the Cash Basis of Accounting).

Restriction on use

Our report is intended solely for the information and use of the Government of Iraq and the Committee of Financial Experts and should not be distributed to any other parties or used for any other purpose. We do not accept or assume responsibility for any other purpose or entity to whom this report is shown or into whose hands it may come.

Ernst & Young Iraq

Baghdad - Iraq

26 June 2012

A handwritten signature in blue ink that reads 'Ernst + Young'.

Development Fund for Iraq
STATEMENT OF PROCEEDS OF OIL EXPORT SALES
For the year ended 31 December 2011
IN THOUSAND USD

	Notes	2011	2010
CASH RECEIPTS			
Export sales of petroleum and petroleum products	4	75,416,425	48,824,737
Proceeds from frozen assets in foreign countries	5	113,280	523
United Nations Oil for Food program	6	105,535	656,000
Interest received	7	21,193	25,898
Other receipts	8	294,779	288,594
Total cash receipts		75,951,212	49,795,752
CASH PAYMENTS			
Transfers to the Iraqi Ministry of Finance	9	52,000,000	41,000,000
Letters of credit for the benefit of Iraqi governmental entities	10	13,390,674	11,223,074
Contracts administered by U.S. agencies	11	4,446	2,025
Other payments	13	1,501,161	3,543
Total cash payments		66,896,281	52,228,642
Surplus (Deficit)		9,054,931	(2,432,890)
Purchased treasury bills during the period		(26,189,692)	(18,383,796)
Proceeds from treasury bills on maturity		19,648,186	19,122,667
Cash and cash equivalents at 1 January		1,797,055	3,491,073
Cash and cash equivalents at 31 December	14	4,310,480	1,797,054
Treasury bills at 31 December	15	12,297,199	5,755,693
Cash, cash equivalents, and treasury bills at 31 December before restricted other receipts		16,607,679	7,552,747
Restricted other receipts	8	(96,886)	-
Cash, cash equivalents, and treasury bills at 31 December, net		16,510,793	7,552,747



Imad Ismail Al Naaib
 General Manager of Accounting Dep.
 Ministry of Finance



Dr. Rafi Al Esawi
 Minister of Finance
 Ministry of Finance

The above statement of cash receipts and payments should be read in conjunction with the accompanying notes from 1 to 20

Development Fund for Iraq
STATEMENT OF PROCEEDS OF OIL EXPORT SALES
For the year ended 31 December 2011
IN THOUSAND USD

	Note	<u>2011</u>	<u>2010</u>
Total export sales of petroleum as reported by SOMO		80,796,735	52,202,645
Less:			
Demurrage claims deducted from export sales invoices		(14,896)	(31,672)
Proceeds deposited in Oil Proceeds Receipts Account after end of period		(13,293,501)	(4,936,362)
Price differential		(1,327)	
Add:			
Proceeds deposited in Oil Proceeds Receipts Account related to prior export sales invoices		11,898,690	4,156,197
Price differential		-	3,648
Interest on delayed bank transfers		9	4
Total Proceeds deposited in Oil Proceeds Receipts Account		<u>79,385,710</u>	<u>51,394,460</u>
Amounts transferred to the United Nation Compensation Fund (5%)		<u>(3,969,285)</u>	<u>(2,569,723)</u>
Net proceeds deposited in the Development Fund for Iraq (95%)		<u><u>75,416,425</u></u>	<u><u>48,824,737</u></u>

The above statement of cash receipts and payments should be read in conjunction with the accompanying notes from 1 to 20

Development Fund for Iraq

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

IN THOUSAND USD

1. GENERAL

The United Nation Security Council Resolution (UNSCR) 1483 (2003), which was adopted by the Security Council on 22 May 2003, has called for the creation of the Development Fund for Iraq (DFI) to administer proceeds from all the export sales of petroleum and petroleum products in Iraq, remaining funds from Oil for Food Program, and proceeds from frozen assets seized from the previous regime. The DFI was placed under the control of the former Coalition Provisional Authority (CPA).

UNSCR 1483 also called for the creation of an International Advisory Monitoring Board (IAMB), to promote transparency and financial accountability of the DFI.

Under UNSCR 1546, the Security Council and the CPA order number 100 dissolved the CPA and transferred control to Interim Government of Iraq on 28 June 2004 and subsequently to the Transitional Government of Iraq and currently to the Government of Iraq.

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 Iraqi 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 JCC-I, PCO, IRMO, the JASG Comptroller, the DFI Disbursing Office, the Defense Contract Management Agency, the U.S. Army Corps of Engineers and Coalition Forces.

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

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

Development Fund for Iraq
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1. GENERAL (continued)

The UNSCR 1905 (2009) extended on the arrangements established in paragraph 20 of resolution 1483 (2003) for the depositing into the DFI of proceeds from export sales of petroleum and petroleum products and the arrangements referred to in paragraph 12 of resolution 1483 (2003) and paragraph 24 of resolution 1546 (2004) for the monitoring of the DFI by the IAMB and further decided that, subject to the exception provided for in paragraph 27 of UNSCR 1546 (2004), the provisions of paragraph 22 of UNSCR 1483 (2003) shall continue to apply until 31 December 2010, including with respect to funds and financial assets and economic resources described in paragraph 23.

The UNSCR 1956 (2010) further extended the arrangements mentioned in the previous paragraph until 30 June 2011.

The UNSCR 1956 (2010) also affirmed that the requirement established in paragraph 21 of UNSCR 1483 (2003) that 5% of the proceeds from all export sales of petroleum, petroleum products and natural gas shall be deposited into the Compensation Fund established in accordance with resolution 687 (1991) shall continue to apply.

On 30 June 2011, the COFE took over the tasks of the IAMB in monitoring the DFI and decided to continue with the same arrangement mentioned above.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) under the cash basis of accounting.

The accounting policies have been applied consistently throughout the year.

The financial statements have been presented in United States Dollars (USD) which is the functional currency of the Development Fund for Iraq.

All amounts in the financial statements are in thousands of U.S. dollars unless indicated otherwise.

The financial statements have been authorized for publication on 26 June 2012 by the Ministry of Finance.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 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.

Development Fund for Iraq

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

IN THOUSAND USD

3.2 Treasury bills

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.

3.3 Cash receipts

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

3.4 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.

4. EXPORT SALES OF PETROLEUM AND PETROLEUM PRODUCTS

Export sales allocation for petroleum, petroleum products, and natural gas in accordance with UNSCR 1483.

According to the UNSCR 1483, which was adopted by the Security Council on 22 May 2003, all export sales of petroleum, petroleum products, and natural gas from Iraq following the above resolution date adoption shall be deposited into an Oil Proceeds Receipt Account (OPRA) held with the FRBNY and immediately thereafter, 95% is required to be deposited in the DFI at the FRBNY and the remaining 5% is required to be deposited in the United Nations' Compensation Fund as established by UNSCR 687 (1991), and subsequent relevant resolutions, and therefore will not be a part of the DFI's statement of cash receipts and payments.

Fuel oil sales export agreements

Effective 1 April 2009 all export of fuel oil were stopped except for exports related to the joint agreement between the Iraqi Ministry of Electricity, SOMO, and the Turkish Companies IDIL and KARKEY "formerly known as KARTET", in addition to exports related to the Iraqi Oil Tanker Company. The joint agreement states that IDIL and KARKEY will provide electricity to the Ministry of Electricity in exchange for fuel oil sold by SOMO. This agreement expired on 31 December 2010. As a result of the agreement execution an amount of USD 5,862 (from inception of the agreement until 31 December 2010) was deposited directly to SOMO's account and represents price differences.

Cash received from export sales of petroleum products during the year ended 31 December 2011 amounting to USD 20,110 (from inception to 31 December 2011: U.S. Dollars 3,403,565 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.

According to the Minister of Oil's Memorandum No. 1691 on 26 March 2009, all export of fuel oil shall be stopped on 1 April 2009 except for exports related to the joint agreement between the Iraqi Ministry of Electricity, SOMO and the Turkish Companies IDIL and KARKEY and exports related to the Iraqi Oil Tanker Company. The joint agreement states that IDIL and KARKEY will provide electricity to the Ministry of Electricity in exchange for fuel oil sold by SOMO. This agreement expired on 31 December 2010.

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Barter transactions

Prior to 31 December 2007, SOMO was engaged in barter transactions with the Syrian Government for exports of petroleum and petroleum products. The value of the barter transactions with the Syrian Government and private companies as recorded by SOMO since inception to 31 December 2007 amounted to USD 750,865 and USD 348,815 respectively. No barter transactions were executed during the year ended 31 December 2011. These barter transactions were not recorded in the prior DFI financial statements and as per SOMO, the value of products received from the Syrian government since inception to 31 December 2007 was USD 448,516 and the value of products received from private companies under barter deals could not be determined. The Iraqi government is claiming an amount of USD 302,349 from the Syrian government, whereby the Syrian government has not responded to the Iraqi government's claims.

Operational loading and metering systems

The Ministry of Oil does not operate a full operational loading and metering system for export sales of petroleum and petroleum products at extraction and loading points to ensure that all quantities extracted and pumped to export terminals are properly recorded. In the absence of an overall comprehensive system of controls over petroleum and petroleum products, it is not possible to reliably determine the volume of all quantities extracted and pumped to export terminals and for internal use.

The status for installation of a comprehensive oil metering system in Iraq in accordance with standard oil industry practices was 95% for the fiscal application and 31% for the custody transfer at 31 December 2011 per the reports prepared by the Ministry of Oil.

Oil production reports from Kurdistan Region

The Ministry of Oil did not receive production reports from Kurdistan region during the year ended 31 December 2011. The Ministry of Oil received reports which include the quantities pumped in the pipeline.

Oil Shipments Lifted by International Oil Companies (IOC's) and Signature Bonus Paid IOCs

Crude oil shipments lifted by the international oil companies during the year ended 31 December 2011 (in accordance with their service contracts) were not included as part of total export sales of petroleum in the statement of proceeds of oil export sales. These lifted quantities were not collected in cash and were not deposited at the Oil Proceed Receipt Account (OPRA). A committee was formed which was chaired by the Ministry of Finance and membership of Central Bank of Iraq and Ministry of Oil to decide on the suitable mechanism to ensure the payment of amounts due to the OPRA in respect of the crude oil shipments lifted by the international oil companies. The Committee resolved that the Central Bank of Iraq is to transfer the full value of oil lifted to the OPRA. Subsequent to the financial statements date an amount of USD 2,199,711,645 was transferred to the OPRA which represents the value of in-kind lifted oil.

The signature bonus paid by the international oil companies to obtain rights to the Iraqi oilfields, were transferred to the Ministry of Finance accounts. These amounts were not transferred to the DFI.

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5. PROCEEDS FROM FROZEN ASSETS IN FOREIGN COUNTRIES

According to the UNSCR 1483 (2003), which were adopted by the Security Council on 22 May 2003, all member states of the UN in which there are funds or other financial assets or economic resources (collectively referred to as “the frozen funds”) of the previous Government of Iraq or its state bodies, corporations, or agencies, located outside Iraq as of the resolution date shall freeze the frozen funds and, unless these frozen funds are themselves the subject of a prior judicial, administrative, or arbitral lien or judgment, immediately shall cause their transfer to the DFI. The frozen funds 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 the frozen funds that may eventually be transferred to the DFI, as some of these frozen funds are subject to prior judicial, administrative or arbitral lien or judgment. The released proceeds from frozen funds for the year ended 31 December are as follows:

	2011	2010
Central Bank of Iraq	337	-
Rafidain Bank	112,943	42
Senegal Government	-	417
U.B.A.F Paris	-	64
	<u>113,280</u>	<u>523</u>

Out of the total released proceeds of the frozen funds for the year ended 31 December 2011, an amount of USD 337 belongs to the Central Bank of Iraq (CBI). The CBI has claimed back this amount based on the Iraqi Council of Ministers resolution dated 22 November 2005, which directs the refunding of all CBI balances at foreign countries that have been transferred to the DFI.

The cumulative amount that should be refunded to the CBI based on the CBI claims as of 31 December 2011 amounts to USD 343,660. Certain frozen funds of the CBI are being transferred directly to the CBI accounts without passing through DFI.

6. UNITED NATIONS OIL FOR FOOD PROGRAM

The UN Oil for Food Program (OFFP) was established in accordance with UNSCR 986 (1995), and subsequent relevant resolutions. According to UNSCR 1483 (2003) all surplus funds in the OFFP program shall be transferred to the DFI at the earliest possible time.

According to the UNSCR 1958 (2010), the UN Security Council requested the Secretary-General to take all actions necessary to terminate all residual activities under the OFFP, noting that all letters of credit with outstanding claims of delivery, have expired according to their terms and that no confirmation of arrival will be provided to the Government of Iraq and are closed for all purposes under the OFFP, including for purposes of transferring the funds associated with such letters of credit from the collateral portion of the Iraq Account, without prejudice to any rights or claims that the suppliers with the claims of delivery may have for payment, or otherwise, against the Government of Iraq.

According to operative paragraph 2 of the UNSCR 1958 (2010), noting the Government of Iraq’s provision of certificate of arrival on file with the United Nations as of 15 December 2010, the Security Council has called for the Government of Iraq to provide without delay direct payment if contacted by the beneficiaries or its representatives, for which payment has not been effected either as a result of the advising bank not being able to locate the relevant beneficiaries or as a result of the beneficiary not providing requisite documentation.

Development Fund for Iraq

NOTES TO THE FINANCIAL STATEMENTS

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6. UNITED NATIONS OIL FOR FOOD PROGRAM (continued)

According to the UNSCR 1958 (2010), a new escrow account was established to ensure a retention of USD 20,000 to be held until 31 December 2016, exclusively for the purpose of the UN expenses related to the orderly termination of the residual activities, including the Organization's support to Member State investigations and member State proceedings related to the Program, and the expenses of the high-level coordinator's office. In addition an amount of up to USD 131,000 is to be retained in the escrow account for the purpose of providing indemnification to the UN, its representatives, agents, and independent contractors for a period of six years with regards to all activities in connection with the (OFF) program since its inception. By 31 December 2016 all the remaining funds in the escrow account are to be transferred to the Government of Iraq, unless otherwise authorized by the Security Council.

During the year ended 31 December 2011 a total amount of USD 105,535 was transferred to the DFI account at the Federal Reserve Bank of New York, as part of UNSCR 1958 (2010) of facilitating the transfer of all funds remaining, beyond the retention amounts required by UNSCR 1958, from the Iraq account created pursuant to UNSCR 1483 (2003).

According to UNSCR 1958 (2010), the Security Council has requested the Secretary-General to take all necessary actions to enter into all necessary agreements with the Government of Iraq (i) to provide appropriate indemnification to the United Nations, its representative, agents, and independent contractors with regard to all the activities in connection with the OFFP since its inception and (ii) to provide for a waiver of any future claims the Government of Iraq may have against the United Nations, its representatives, agents, and independent contractors with regard to all activities in connection with the OFFP since its inception.

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For the year ended 31 December 2011

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7. INTEREST RECEIVED

	<u>2011</u>	<u>2010</u>
U.S. Treasury bills *	16,665	19,991
Letter of credit cash margins	2,378	1,456
Overnight repurchase agreement pool facility **	2,150	4,451
	<u>21,193</u>	<u>25,898</u>

* This amount represents interest received on U.S. treasury bills upon maturity. The DFI received interest from accounts held with FRBNY that are subject to investment in the U.S. Treasury Bills according to FRBNY investment discretion. The following schedule shows the details of interest received from U.S. Treasury bills generated from each of the following DFI accounts:

	<u>2011</u>	<u>2010</u>
Interest from DFI main account	11,774	16,466
Interest from Foreign Military Sales account (FMS)	4,891	3,525
	<u>16,665</u>	<u>19,991</u>

** This amount represents interest received on overnight repurchase agreements. The DFI received interest from the following accounts held with FRBNY that are subject to investment in overnight repurchase agreement according to FRBNY investment discretion. The following schedule shows the details of interest received from overnight repurchase agreement generated from each of the following DFI accounts:

	<u>2011</u>	<u>2010</u>
DFI Main account	1,755	3,020
PCO - Transition account	69	172
Foreign Military Sales account (FMS)	326	1,259
	<u>2,150</u>	<u>4,451</u>

Development Fund for Iraq

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IN THOUSAND USD

8. OTHER RECEIPTS

	<u>2011</u>	<u>2010</u>
Refunded letters of credit cash margins	133,194	185,755
Loan from IMF*	96,886	-
Others	64,699	102,839
	<u>294,779</u>	<u>288,594</u>

* This amount represents a loan granted by the IMF to the Iraqi Government, the loan amount was transferred to the DFI.

9. TRANSFERS TO THE MINISTRY OF FINANCE

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

10. LETTERS OF CREDITS FOR THE BENEFIT OF IRAQI GOVERNMENTAL ENTITIES

The DFI finances letters of credit payments related to the ministries and its departments and business units in accordance with their approved budgets. 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 for the outstanding letters of credit to the suppliers.

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The schedule below shows the payments made during the year for the benefit of the following Iraqi ministries and its governmental units:

	<u>2011</u>	<u>2010</u>
Ministry of Oil	5,387,579	3,103,788
Ministry of Electricity	3,140,823	2,928,572
Ministry of Trade	2,499,268	2,341,894
Ministry of Finance	879,141	7,731
Ministry of Health	738,429	1,125,571
Ministry of Defense	236,605	1,156,518
Ministry of Water Resources	181,444	188,712
Ministry of Transportation	88,256	175,243
Ministry of Telecommunications	74,519	95,636
Basrah Governorate	59,905	-
Ministry of Municipality and Public Works	37,985	27,499
Ministry of Education	36,977	-
Council of Ministers	16,161	4,941
Ministry of Construction and Housing	4,710	1,362
Ministry of Justice	4,309	5,969
Ministry of Industry and Minerals	4,272	12,077
Ministry of Culture	120	-
Ministry of Science and Technology	171	-
Ministry of Agriculture	-	22,705
Ministry of Internal Affairs	-	21,346
Babil Governorate	-	3,510
	<u>13,390,674</u>	<u>11,223,074</u>

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11. CONTRACTS ADMINISTERED BY U.S. AGENCIES

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

Neither the U.S. Agencies nor the Ministry of Finance reconciled the proceeds made to the U.S. Agencies from the DFI and the amounts disbursed to the reconstruction contracts.

Payments made from the U.S. Agencies sub-account were for the benefit of the committee western area for projects of reconstruction of Anbar province amounted to USD 3,089 and the electricity development project for Samarra city amounted to USD 1,357 (31 December 2010: USD 2,025 for the benefit of Baghdad Municipality for road constructions).

12. IRAQI EXTERNAL DEBT REPAYMENT

During the year ended 31 December 2011, no payments were transferred from DFI to Bank of England (During the year ended 31 December 2010: no payments were transferred from DFI to Bank of England).

During the year ended 31 December 2011, the MOF transferred an amount of USD 451,849 from MOF's account at the CBI to Bank of England (During the year ended 31 December 2010: MOF transferred an amount of USD 250,000 from MOF's account at the CBI to Bank of England)

The account held at the Bank of England is used to settle principal and interest due on debt bilateral agreements reached with Paris Club creditors and non-Paris Club creditors.

13. OTHER PAYMENTS

	<u>2011</u>	<u>2010</u>
The Independent Electoral Commission of Iraq	456	3,539
Others	705	4
Account FMS account (82)	1,500,000	-
	<u>1,501,161</u>	<u>3,543</u>

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14. CASH AND CASH EQUIVALENTS

	<u>2011</u>	<u>2010</u>
Accounts held with FRBNY		
Overnight placements	4,310,400	1,796,900
Operating accounts	80	154
	<u>4,310,480</u>	<u>1,797,054</u>
Accounts at FRBNY are classified as follows:		
CBI/DFI	4,208,330	1,690,460
Transition Account - U.S. Agencies	102,150	106,594
	<u>4,310,480</u>	<u>1,797,054</u>

15. TREASURY BILLS

	<u>2011</u>	<u>2010</u>
Face value	12,300,000	5,760,000
Discount	(2,801)	(4,307)
	<u>12,297,199</u>	<u>5,755,693</u>

The movement on Treasury bills for the year ended 31 December as follows:

	<u>2011</u>	<u>2010</u>
Treasury bills at 1 January	5,755,693	6,494,563
Purchased treasury bills during the year	26,189,692	18,383,797
Proceeds from matured treasury bills during the year	(19,648,186)	(19,122,667)
	<u>12,297,199</u>	<u>5,755,693</u>

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16. COMMITMENTS AND CONTINGENCIES

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

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

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

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

17. 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 1956 (2010), it was decided to extend the above mentioned arrangements until 30 June 2011.

18. TAXATION

The DFI is not subject to taxation.

19. FOREIGN MILITARY SALES (FMS)

The FMS account was opened on 4 December 2006 at the request of the CBI and initially funded from the DFI account. This account is designated to the security expenditures of the Ministry of Justice, Ministry of Interior and Ministry of Defense. Interest earned from investments in overnight repurchase agreements from the FMS account since its inception are transferred to the main DFI account quarterly (note 7 to the financial statements). The balance of the FMS account is allocated as follows:

	<u>2011</u>	<u>2010</u>
Overnight placements	300,100	367,900
Treasury bills	3,417,050	2,594,956
Operating accounts	53	70
	<u>3,717,203</u>	<u>2,962,926</u>

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20. ANALYSIS OF RECEIPTS AND PAYMENTS MANAGED BY THE GOVERNMENT OF IRAQ AND US AGENCIES

For the year ended 31 December 2011	Government of Iraq	U.S. Agencies	Total
CASH RECEIPTS			
Export sales of petroleum and petroleum products	75,416,425	-	75,416,425
Proceeds from frozen assets in foreign countries	113,280	-	113,280
United Nations Oil for Food program	105,535	-	105,535
Interest received	21,124	69	21,193
Other receipts	294,779	-	294,779
Total cash receipts	75,951,143	69	75,951,212
CASH PAYMENT			
Transfers to the Iraqi Ministry of Finance	52,000,000	-	52,000,000
Letters of credit for the benefit of Iraqi governmental entities	13,390,674	-	13,390,674
Contracts administered by U.S. agencies	-	4,446	4,446
Other payments	1,501,161	-	1,501,161
Total cash payments	66,891,835	4,446	66,896,281
Surplus (Deficit) of cash receipts over cash payments	9,059,308	(4,377)	9,054,931
Purchased treasury bills during the year	(26,189,692)	-	(26,189,692)
Proceeds from Treasury bills on maturity	19,648,186	-	19,648,186
Cash and cash equivalents at 1 January	1,690,459	106,596	1,797,055
Transfer	69	(69)	-
Cash and cash equivalents at 31 December	4,208,330	102,150	4,310,480
Treasury bills at 31 December	12,297,199	-	12,297,199
Cash, cash equivalents, and treasury bills at 31 December before restricted other receipts	16,505,529	102,150	16,607,679
Restricted other receipts	(96,886)	-	(96,886)
Cash, cash equivalents, and treasury bills at 31 December, net	16,408,643	102,150	16,510,793

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For the year ended 31 December 2010	Government of Iraq	U.S. Agencies	Total
CASH RECEIPTS			
Export sales of petroleum and petroleum products	48,824,737	-	48,824,737
Proceeds from frozen assets in foreign countries	523	-	523
United Nations Oil for Food program	656,000	-	656,000
Interest received	25,726	172	25,898
Other receipts	288,594	-	288,594
Total cash receipts	49,795,580	172	49,795,752
CASH PAYMENT			
Transfers to the Iraqi Ministry of Finance	41,000,000	-	41,000,000
Letters of credit for the benefit of Iraqi governmental entities	11,223,074	-	11,223,074
Contracts administered by U.S. agencies	-	2,025	2,025
Other payments	3,543	-	3,543
Total cash payments	52,226,617	2,025	52,228,642
Deficit of cash receipts over cash payments	(2,431,037)	(1,853)	(2,432,890)
Purchased treasury bills during the year	(18,383,796)	-	(18,383,796)
Proceeds from Treasury bills on maturity	19,122,667	-	19,122,667
Cash and cash equivalents at 1 January	3,382,453	108,620	3,491,073
Cash and cash equivalents at 31 December	1,690,287	106,767	1,797,054
Treasury bills at 31 December	5,755,693	-	5,755,693
Cash, cash equivalents, and treasury bills at 31 December	7,445,980	106,767	7,552,747