

**DEVELOPMENT FUND FOR IRAQ  
UNAUDITED INTERIM FINANCIAL TATEMENTS  
30 JUNE 2012**

## **Report On Review Of Interim Financial Statements To The Government Of Iraq And Committee Of Financial Experts Of The Development Fund For Iraq**

### **Introduction**

We have reviewed 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 six months period ended 30 June 2012, and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and presentation of these interim financial statements in accordance with International Public Sector Accounting Standard “Financial Reporting under the Cash Basis of Accounting”. Our responsibility is to express a conclusion on these interim financial statements based on our review.

### **Scope of Review**

Except as explained in the following paragraph, we conducted our review in accordance with International Standard on Review Engagements 2410, Review of interim Financial Information performed by the independent Auditor of the Entity.

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Basis of Qualifications**

1. As explained in note (4) to the interim financial statements, production reports for oil produced in Kurdistan region were not received by the Ministry of Oil during the six months period ended 30 June 2012. In addition, the Ministry of Oil started in the year 2008 a project to operate a full operational loading and metering system. The status for the installation of a comprehensive oil metering system in Iraq in accordance with standard oil industry practices as at 30 June 2012 was 97% (30 June 2011: 72%) for the fiscal application which measures quantities of crude oil and petroleum products delivered to or received from the oil companies or transferred between the oil companies and other companies outside the oil sector or the quantities exported through the ports of export, and 42% (30 June 2011: 25%) for the internal custody transfer for the measurement of quantities of crude oil and petroleum products transferred or consumed within the same oil company and which do not have financial impact between companies.

2. As explained in note (5) to the interim 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 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 (collectively referred to as '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 six months period ended 30 June 2012, 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. The Central Bank of Iraq sent a confirmation to Federal Reserve Bank of New York (FRBNY), however, we did not receive this confirmation from FRBNY, as a result, we were unable to verify the completeness of the bank balances and treasury bills held with FRBNY as at 30 June 2012.

#### **Conclusion**

Based on our review, with the exception of the matters described in the preceding paragraphs, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not prepared, in all material respects, in accordance with International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting".

#### **Basis of preparation**

Without further qualifying our opinion, we draw attention to Note 2 to the interim financial statements; which describes the basis of preparation of the interim financial statements in accordance with the International Public Sector Accounting Standard (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.

A stylized, handwritten-style signature of 'Ernst & Young' in blue ink.

Ernst & Young Iraq  
10 January 2013  
Baghdad - Iraq

Development Fund For Iraq  
Interim Statement of Cash Receipts and Payments  
For The Six Months Period Ended 30 June 2012  
In Thousand U.S. Dollars

	Notes	2012 (Unaudited) U.S. \$	2011 (Audited) U.S. \$
<b>Cash Receipts</b>			
Export sales of petroleum and petroleum products	4	44,149,063	36,423,761
Proceeds from frozen assets in foreign countries	5	330	112,962
United Nations Oil for Food Program	6	-	105,535
Interest received	7	7,274	9,425
Other receipts	8	134,652	142,129
<b>Total cash receipts</b>		<b>44,291,319</b>	<b>36,793,812</b>
<b>Cash Payments</b>			
Transfers to the Iraqi Ministry of Finance	9	26,500,318	21,000,000
Letters of credit for the benefit of Iraqi governmental entities	10	9,696,706	7,553,276
Contracts administered by U.S. Agencies.	11	-	1,357
Other payments	13	3,719,671	563
<b>Total cash payments</b>		<b>39,916,695</b>	<b>28,555,196</b>
<b>Surplus</b>		<b>4,374,624</b>	<b>8,238,616</b>
Purchased treasury bills during the period		(22,187,886)	(11,892,986)
Proceeds from treasury bills on maturity		14,886,878	6,555,208
Cash and cash equivalents at 1 January		4,310,479	1,797,055
<b>Cash and cash equivalents at 30 June</b>	14	<b>1,384,095</b>	<b>4,697,893</b>
Treasury bills at 30 June	15	19,598,206	11,093,471
<b>Cash and cash equivalents, and treasury bills at 30 June before restricted other receipts</b>		<b>20,982,301</b>	<b>15,791,364</b>
Restricted other receipts	8	-	(96,886)
<b>Cash and cash equivalents, and treasury bills at 30 June, net</b>		<b>20,982,301</b>	<b>15,694,478</b>

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

  
Dr. Rafi Al Esawi  
Minister of Finance  
Ministry of Finance

## Development Fund for Iraq

### Interim Statement of Proceeds of Oil Export Sales

For the six months period ended 30 June 2012

In Thousand U.S. Dollars

	<u>Notes</u>	<u>2012</u> <u>(Unaudited)</u>	<u>2011</u> <u>(Audited)</u>
Total export sales of petroleum as reported by SOMO during the period		43,733,904	40,378,102
<b>Less:</b>			
Demurrage claims deducted from export sales invoices		(5,936)	(10,011)
Proceeds deposited in Oil Proceeds Receipts Account after end of the period		(6,048,757)	(6,962,329)
Price differential		-	(1,327)
<b>Add:</b>			
Proceeds deposited in Oil Proceeds Receipts Account related to prior export sales invoices		6,331,172	4,936,361
Amounts transferred by the Central Bank of Iraq for crude oil shipments by international oil companies	4	2,445,832	-
Interest on delayed bank transfers		-	5
Total Proceeds deposited in Oil Proceeds Receipts Account during the period		46,456,215	38,340,801
Amounts transferred to the United Nations Compensation Fund (5%)		(2,322,811)	(1,917,040)
Net proceeds deposited in the Development Fund for Iraq (95%) reported by SOMO		44,133,404	36,423,761
Differences*		15,659	-
Net proceeds deposited in the Development Fund for Iraq (95%) as reported by Central Bank of Iraq		44,149,063	36,423,761

(\*) The total amount of net proceeds deposited during the period in the OPRA account, as per the records of SOMO, is less by U.S. \$ 15,659 than the total amount in the records of the Central Bank of Iraq. This difference is due to incorrect posting to the Oil Proceeds Receipts Account on 18 May 2012 by the Federal Reserve Bank.

On 27 May 2012, in its letter referenced 5/2/1468, the Central Bank of Iraq requested the Ministry of Finance to transfer the amount to its account at the Federal Reserve Bank of New York (FRBNY). The transfer was not approved yet by the Ministry of Finance.

## Development Fund for Iraq

Notes To The Interim Financial Statements

For the six months period ended 30 June 2012

In Thousand U.S. Dollars

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### 1. GENERAL

The United Nations 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 the 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.

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. U.S. Agencies management of the DFI sub-account expired on 31 December 2006.

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.

The UNSCR 1905 (2009) extended on the arrangements established in paragraph 20 of resolution 1483 (2003) for the depositing into the DFI the 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. After that date, the above mentioned arrangements shall no longer apply and Iraq shall finalize transition to successor arrangements for the Development Fund for Iraq and the IAMB.

## Development Fund for Iraq

### Notes To The Interim Financial Statements

For the six months period ended 30 June 2012

In Thousand U.S. Dollars

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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. Also, the Iraqi Government resolved to continue using the same arrangements in managing the DFI after 30 June 2011.

## 2. BASIS OF PREPARATION

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

The accounting policies have been applied consistently throughout the period.

The Interim financial statements have been presented in United States Dollars (U.S. \$) 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 interim financial statements have been authorized for publication on 10 January 2013 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.

### 3.2 Treasury bills

Treasury bills are debt securities issued by the U.S. Treasury and purchased through the FRBNY for the DFI benefit. 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 Proceed Receipt Account (OPRA) held

## Development Fund for Iraq

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### Notes To The Interim Financial Statements

For the six months period ended 30 June 2012

In Thousand U.S. Dollars

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**

Cash received from export sales of petroleum products during the period from 1 January 2012 until 30 June 2012 amounting to U.S. \$ 36,117 (from inception to 30 June 2012: U.S. Dollars 3,439,682) 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.

#### **Oil production reports from Kurdistan Region**

The Ministry of Oil did not receive production reports from Kurdistan region during the six months period ended 30 June 2012. The Ministry of Oil received reports which include the quantities pumped in the pipelines and do not include any information about the quantities of produced oil.

#### **Operational loading and metering systems**

the Ministry of Oil started in the year 2008 a project to operate a full operational loading and metering system. The status for the installation of a comprehensive oil metering system in Iraq in accordance with standard oil industry practices as at 30 June 2012 was 97% (30 June 2011: 72%) for the fiscal application which measures quantities of crude oil and petroleum products delivered to or received from the oil companies or transferred between the oil companies and other companies outside the oil sector and measures the quantities exported through the ports of export, and 42% (30 June 2011: 25%) for the internal custody transfer for the measurement of quantities of crude oil and petroleum products transferred or consumed within the same oil company which does not have financial impact.

#### **Oil Shipments Lifted by International Oil Companies (IOC's) and amounts transferred by the Central Bank of Iraq to OPRA**

Crude oil shipments lifted by the international oil companies during the six months period ended on 30 June 2012 (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 since these proceeds will not be collected in cash. 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 DFI 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. During the six month period ended 30 June 2012 the Central Bank of Iraq transferred an amount of U.S. \$ 2,445,832 to the OPRA which represents the value of in-kind oil lifted by international oil companies during 2011 amounting to U.S. \$ 2,190,877 and part of the value of in-kind oil lifted during the first half of 2012 amounting to U.S. \$ 254,955.

#### **Signature Bonus Paid IOCs**

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.



## Development Fund for Iraq

Notes To The Interim Financial Statements

For the six months period ended 30 June 2012

In Thousand U.S. Dollars

### 5. PROCEEDS FROM FROZEN ASSETS IN FOREIGN COUNTRIES

The released proceeds from frozen funds for the period ended 30 June are as follows:

	<u>2012</u>	<u>2011</u>
	Unaudited	Audited
Rafidain Bank	224	112,943
Central Bank of Iraq	106	19
	<u>330</u>	<u>112,962</u>

Out of the total released proceeds of the frozen funds for the six months ended 30 June 2012, an amount of U.S. \$ 106 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.

On 16 July 2012 an amount of U.S. \$ 106 has been transferred to the Central Bank of Iraq account, according to the approval of Ministry of Finance numbered 11691 dated 3 July 2012.

The cumulative amount that should be refunded to the CBI, as per the CBI claims, as at 30 June 2012 amounts to U.S. \$ 344,084. Some of the 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.

According to the UNSCR 1958 (2010), a new escrow account was established to ensure a retention of U.S. \$ 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 U.S. \$ 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.

## Development Fund for Iraq

### Notes To The Interim Financial Statements

For the six months period ended 30 June 2012

In Thousand U.S. Dollars

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.

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.

#### 7. INTEREST RECEIVED

	<u>2012</u> Unaudited	<u>2011</u> Audited
U.S. Treasury bills *	4,067	7,532
Overnight repurchase agreement pool facility **	2,287	1,222
Letter of credit cash margins	920	671
	<u>7,274</u>	<u>9,425</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>2012</u> Unaudited	<u>2011</u> Audited
Interest from DFI main account	3,161	4,752
Interest from Foreign Military Sales account (FMS)	906	2,780
	<u>4,067</u>	<u>7,532</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>2012</u> Unaudited	<u>2011</u> Audited
DFI Main account	2,000	938
Foreign Military Sales account (FMS)	225	238
PCO - Transition account	62	46
	<u>2,287</u>	<u>1,222</u>

#### 8. OTHER RECEIPTS

	<u>2012</u> Unaudited	<u>2011</u> Audited
Refunded letters of credit cash margins	125,407	26,172
Loan from IMF*	-	96,886
Others	9,245	19,071
	<u>134,652</u>	<u>142,129</u>

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

## Development Fund for Iraq

Notes To The Interim Financial Statements

For the six months period ended 30 June 2012

In Thousand U.S. Dollars

### 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.

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

	2012	2011
	<u>Unaudited</u>	<u>Audited</u>
Ministry of Electricity	3,327,373	1,506,429
Ministry of Oil	2,599,449	2,699,898
Ministry of Trade	2,552,894	2,249,268
Ministry of Health	411,648	393,068
Basra Governorate	286,631	-
Ministry of Transportation	159,531	70,242
Ministry of Telecommunications	96,695	53,631
Ministry of Municipality and Public Works	85,613	5,790
Ministry of Industry and Minerals	71,723	4,272
Ministry of Water Resources	50,333	72,646
Ministry of Defense	24,420	52,500
Ministry of Interior	10,015	-
Karkuk Governorate	8,547	-
Ministry of Justice	5,658	1,709
Ministry of Construction and Housing	4,898	-
Ministry of Finance	700	427,491
Ministry of Higher Education and Scientific Research	578	-
Council of Ministers	-	16,161
Ministry of Science and Technology	-	171
	<u>9,696,706</u>	<u>7,553,276</u>

### 11. CONTRACTS ADMINISTERED BY U.S. AGENCIES

The 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 expired and was 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.

## Development Fund for Iraq

Notes To The Interim Financial Statements

For the six months period ended 30 June 2012

In Thousand U.S. Dollars

### 12. IRAQI EXTERNAL DEBT REPAYMENT

During the six months period ended 30 June 2012, no payments were transferred from DFI to Bank of England (30 June 2011: no payments were transferred from DFI to Bank of England).

During the six months period ended 30 June 2012, the MOF transferred an amount of U.S. \$ 500,000 from MOF's account at the CBI to Bank of England (2011: MOF transferred an amount of U.S. \$ 431,739 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>2012</u> Unaudited	<u>2011</u> Audited
OPRA account*	2,445,832	-
FMS account	1,273,733	-
Others	106	107
The Independent Electoral Commission of Iraq	-	456
	<u>3,719,671</u>	<u>563</u>

\* This amount represents the transferred amounts made by the Central Bank of Iraq to the OPRA account during the six month period ended 30 June 2012 according to the agreed mechanism between Ministry of Finance, Central Bank of Iraq and Ministry of Oil in respect of the oil shipments lifted by the international oil companies (IOCs) as detailed in note (4).

### 14. CASH AND CASH EQUIVALENTS

	<u>2012</u> Unaudited	<u>2011</u> Audited
<b>Accounts held with FRBNY</b>		
Overnight placements	1,384,000	4,697,800
Operating accounts	95	93
	<u>1,384,095</u>	<u>4,697,893</u>
<b>Accounts at FRBNY are classified as follows:</b>		
CBI/DFI	1,281,946	4,592,654
Transition Account - U.S. Agencies	102,149	105,239
	<u>1,384,095</u>	<u>4,697,893</u>

### 15. TREASURY BILLS

	<u>2012</u> Unaudited	<u>2011</u> Audited
Face value	19,609,500	11,100,000
Discount	(11,294)	(6,529)
	<u>19,598,206</u>	<u>11,093,471</u>

## Development Fund for Iraq

Notes To The Interim Financial Statements

For the six months period ended 30 June 2012

In Thousand U.S. Dollars

The movement on Treasury bills for the six months period ended 30 June as follows:

	<u>2012</u>	<u>2011</u>
	Unaudited	Audited
Treasury bills at 1 January	12,297,198	5,755,693
Purchased treasury bills during the period	22,187,886	11,892,986
Proceeds from matured treasury bills during the period	(14,886,878)	(6,555,208)
	<u>19,598,206</u>	<u>11,093,471</u>

### 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 expired and was 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.

On 18 May 2012 the president of the United State of America (President Obama) issued a decision to continue the American protection of the Development Fund for Iraq starting from 22 May 2012 and for one year.

### 18. TAXATION

The DFI is not subject to taxation.

## Development Fund for Iraq

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### 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. This account is not part of the DFI balances, however, 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>2012</u> Unaudited	<u>2011</u> Audited
Treasury bills	2,848,251	2,298,431
Overnight placements	1,785,900	335,200
Operating accounts	68	100
	<u><u>4,634,219</u></u>	<u><u>2,633,731</u></u>

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

As at 30 June 2012 (Unaudited)	Government of Iraq Main Accounts	U.S. Agencies Sub accounts	Total
<b>CASH RECEIPTS</b>			
Export sales of petroleum and petroleum products	44,149,063	-	44,149,063
Proceeds from frozen assets in foreign countries	330	-	330
Interest received	7,212	62	7,274
Other receipts	134,652	-	134,652
<b>Total cash receipts</b>	<b>44,291,257</b>	<b>62</b>	<b>44,291,319</b>
<b>CASH PAYMENT</b>			
Transfers to the Iraqi Ministry of Finance	26,500,318	-	26,500,318
Letters of credit for the benefit of Iraqi governmental entities	9,696,706	-	9,696,706
Other payments	3,719,671	-	3,719,671
<b>Total cash payments</b>	<b>39,916,695</b>	<b>-</b>	<b>39,916,695</b>
<b>Surplus of cash receipts over cash payments</b>	<b>4,374,562</b>	<b>62</b>	<b>4,374,624</b>
Purchased treasury bills during the period	(22,187,886)	-	(22,187,886)
Proceeds from treasury bills on maturity during the period	14,886,878	-	14,886,878
Cash and cash equivalents at 1 January	4,208,330	102,149	4,310,479
Transfers between accounts	62	(62)	-
<b>Cash and cash equivalents at 30 June</b>	<b>1,281,946</b>	<b>102,149</b>	<b>1,384,095</b>
Treasury bills at 30 June	19,598,206	-	19,598,206
<b>Cash, cash equivalents, and treasury bills at 30 June 2012,</b>	<b>20,880,152</b>	<b>102,149</b>	<b>20,982,301</b>

## Development Fund for Iraq

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As at 30 June 2011 (Audited)	Government of Iraq Main Accounts	U.S. Agencies Sub accounts	Total
<b>CASH RECEIPTS</b>			
Export sales of petroleum and petroleum	36,423,761	-	36,423,761
Proceeds from frozen assets in foreign countries	112,962	-	112,962
United Nations Oil for Food program	105,535	-	105,535
Interest received	9,379	46	9,425
Other receipts	142,129	-	142,129
<b>Total cash receipts</b>	<b>36,793,766</b>	<b>46</b>	<b>36,793,812</b>
<b>CASH PAYMENTS</b>			
Transfers to the Iraqi Ministry of Finance	21,000,000	-	21,000,000
Letters of credit for the benefit of Iraqi governmental entities	7,553,276	-	7,553,276
Contracts administered by U.S. Agencies	-	1,357	1,357
Other payments	563	-	563
<b>Total cash payments</b>	<b>28,553,839</b>	<b>1,357</b>	<b>28,555,196</b>
<b>Surplus (Deficit) of cash receipts over</b>	<b>8,239,927</b>	<b>(1,311)</b>	<b>8,238,616</b>
Purchased treasury bills during the period	(11,892,986)	-	(11,892,986)
Proceeds from treasury bills on maturity during the period	6,555,208	-	6,555,208
Cash and cash equivalents at 1 January	1,690,459	106,596	1,797,055
Transfers between accounts	46	(46)	-
<b>Cash and cash equivalents at 30 June</b>	<b>4,592,654</b>	<b>105,239</b>	<b>4,697,893</b>
Treasury bills at 30 June	11,093,471	-	11,093,471
<b>Cash and cash equivalents, and treasury bills at 30 June</b>	<b>15,686,125</b>	<b>105,239</b>	<b>15,791,364</b>
Restricted other receipts	(96,886)	-	(96,886)
<b>Cash and cash equivalents, and treasury bills at 30 June 2011, Net</b>	<b>15,589,239</b>	<b>105,239</b>	<b>15,694,478</b>