

Development Fund for Iraq
Statement of Cash Receipts and Payments
For the period from 1 January 2004 to 28 June 2004
(with Independent Auditors' Report)



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Independent Auditors' Report

To the International Advisory and Monitoring Board of the
Development Fund for Iraq
To the Project and Contracting Office
(successor to the Coalition Provisional Authority)

We have audited the accompanying statement of cash receipts and payments of the Development Fund for Iraq (the "Fund") for the period from 1 January 2004 to 28 June 2004. This financial statement is the responsibility of the Coalition Provisional Authority. Our responsibility is to express an opinion on the accompanying financial statement based on our audit.

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

As described in Note 4 to the financial statement, the internal control systems over the Iraqi oil industry were not sufficient to ensure the completeness of export sales of petroleum and petroleum products for the period from 22 May 2003 to 28 June 2004, of which the proceeds were required to be deposited in the Fund in accordance with United Nations Security Council Resolution 1483. It was not practicable to extend our auditing procedures sufficiently to quantify such amounts and accordingly we could not satisfy ourselves about the completeness of export sales.

Cash advances received for and proceeds of export sales of petroleum and petroleum products during the period from 1 January 2004 to 28 June 2004 amounting to \$20,038,000 were deposited in an Iraqi bank account controlled by the State Oil Marketing Organization, the sales arm of the Iraqi Ministry of Oil. In accordance with United Nations Security Council Resolution 1483, 95% of cash proceeds for export sales were required to be deposited in the Fund as described in Note 4. As a result, receipts for the period from 1 January 2004 to 28 June 2004 and cash as at 28 June 2004 are understated by \$19,036,100.

Independent Auditors' Report, continued

In our opinion, except for the effects of such adjustments, if any, of the matter referred to in the third paragraph above, and except for the understatement of the receipts and cash as referred to in the preceding paragraph, the accompanying statement of cash receipts and payments presents fairly, in all material respects, the receipts and payments of the Development Fund for Iraq for the period from 1 January 2004 to 28 June 2004 in accordance with the International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting".

Without further qualifying our opinion, we draw attention to Note 2 to the financial statement, which states that the Coalition Provisional Authority ceased to exist on 28 June 2004 and explains the transfer of the administration of the Fund to the Interim Government of Iraq.

Without further qualifying our opinion, we draw attention to the fact that due to the departure of the CPA Administrator, CPA Chief Financial Officer and CPA Comptroller, the statement of cash receipts and payments was approved by Colonel Sidney Heetland, DFI Fund Manager, who was not involved in the administration of the Coalition Provisional Authority.

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

Manama, Kingdom of Bahrain
30 September 2004

KPMG

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(all amounts are in thousands of US dollars)

| | Notes | 1 January to 28 June 2004 (6 months) | 22 May to 31 December 2003 (7.3 months) |
|--|-----------|--|---|
| Receipts | | | |
| Net proceeds from export sales of petroleum and petroleum products | 4 | \$ 7,636,390 | \$ 3,726,271 |
| UN Oil for Food program transfers | 5 | 2,500,000 | 5,600,000 |
| Deposits from assets frozen outside of Iraq | 6 | 298,546 | 757,550 |
| Net deposits by Iraqi Ministries for payments on their behalf | 7 | 140,574 | 76,596 |
| Food and Agricultural Organization and World Food Program | 8 | 25,879 | 120,000 |
| Interest on US Treasury bills | 12 | 29,715 | 3,780 |
| Interest on overnight deposits | 12 | 3,352 | 4,348 |
| Other | | <u>309</u> | <u>274</u> |
| Total receipts | | 10,634,765 | 10,288,819 |
| Payments | | | |
| Transfers to Iraqi Ministries | 9 | 6,834,788 | 1,375,950 |
| Projects administered by the CPA | 10 | 4,893,668 | 245,182 |
| Letters of credit | 11 | 725,730 | 57,154 |
| Food and Agricultural Organization and World Food Program | 8 | <u>17,976</u> | <u>125,400</u> |
| Total payments | | 12,472,162 | 1,803,686 |
| (Excess of payments over receipts) / excess of receipts over payments | | <u>(1,837,397)</u> | <u>8,485,133</u> |
| Cash and cash equivalents, beginning of period | | <u>8,485,133</u> | |
| Cash and cash equivalents, end of period | 4, 12, 15 | <u>\$ 6,647,736</u> | <u>\$ 8,485,133</u> |

This Statement of Cash Receipts and Payments was approved by the Project and Contracting Office 30 September 2004 and signed on its behalf by:

Sidney Heetland, Colonel, USAF
DFI Fund Manager

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments
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1 Organization of the Fund

The Development Fund for Iraq (the Fund or DFI) was established during May 2003 by the United States of America and recognized by United Nations Security Council Resolution (UNSCR) 1483. Power was delegated by the US President to the Administrator of the Coalition Provisional Authority (CPA).

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

Consistent with UNSCR 1483, the Fund is to be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration and for other purposes benefiting the people of Iraq.

In accordance with CPA Regulation 1 issued on 16 May 2003, the CPA was vested with all executive, legislative and judicial authority necessary to achieve its objectives, to be exercised under relevant UNSCRs, including UNSCR 1483, and the laws and usages of war. The CPA was responsible for the temporary governance of Iraq under the authority of the CPA Administrator.

In accordance with CPA Regulation 2 issued on 15 June 2003, the CPA Administrator oversaw and controlled the establishment, administration and use of the Fund for and on behalf of the Iraqi people, and directed disbursements from the Fund for those purposes he determined, in consultation with the Iraqi interim administration, to be for the benefit of the people of Iraq.

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

2. Going concern assumption

On 28 June 2004, the CPA ceased to exist and, in accordance with UNSCR 1546 of 8 June 2004, the disbursement of DFI funds became subject to the sole discretion of the Interim Government of Iraq. To complete transition efforts and continue with Iraqi Reconstruction, the Iraq Reconstruction Management Office was established by the US Government at that time.

Pursuant to UNSCR 1546, the proceeds of export sales of Iraqi petroleum and petroleum products shall continue to be deposited with the DFI and utilized in a transparent and equitable manner, through the Iraqi budget, until a government is constitutionally elected. The IAMB shall continue its activities in monitoring the Fund and shall include an additional full voting member designated by the Government of Iraq. These provisions can be reviewed at the request of the Transitional Government of Iraq to be elected by 31 January 2005, at the latest.

Development Fund for Iraq
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3. Summary of significant accounting policies

Statement of compliance

The Statement of Cash Receipts and Payments has been prepared in accordance with the International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting" issued by the International Federation of Accountants in January 2003. The effective date for the adoption of this standard is 1 January 2004 with early adoption encouraged. The CPA and the IAMB elected to adopt this standard for the reporting periods from inception (22 May 2003) to 31 December 2003 and 1 January 2004 to 28 June 2004.

Basis of presentation

The Fund consists of cash held on behalf of the Central Bank of Iraq. These funds are held at the Federal Reserve Bank in New York in an account entitled "Central Bank of Iraq / Development Fund for Iraq", at the Central Bank of Iraq and by Coalition Forces.

The accounting policies have been applied consistently throughout the period and are consistent with those used in the previous period. Certain prior period amounts have been reclassified to conform to current period presentation.

The reporting periods were determined by the IAMB and the CPA. These reporting periods are not comparable.

All amounts are in thousands of US dollars unless otherwise stated.

Receipts

The Fund records receipts when cash is received in bank accounts under the control of the DFI. Non-cash transactions, including barter transactions, are not recorded.

Payments

A payment occurred when funds were transferred from the control of the CPA to a non-Coalition Forces recipient (e.g. a contractor or an Iraqi Ministry).

Cash deposits with banks for issued irrevocable documentary letters of credit are also considered to be payments.

Commitments

The DFI allocates funds for specific budgetary items. These funds are considered to be committed and are not available for other spending.

Management estimates

Information disclosed in the notes required the CPA to make estimates and assumptions that affect the reported amounts of commitments, unrecorded assets and liabilities, and other note disclosures. Actual results could differ from those estimates.

Functional currency

The functional currency is the US dollar

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Cash equivalents

Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

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

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

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

Export sales of petroleum and petroleum products are paid for by irrevocable documentary letters of credit with proceeds received approximately 30 days after the petroleum or petroleum products have been lifted. In addition, a limited number of export sales of petroleum and most export sales of petroleum products were made through barter transactions.

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

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

Export sales and proceeds of petroleum for the period from inception to 31 December 2003 are as follows:

| | |
|---|---------------------|
| Total export sales of petroleum for the period (198,242,690 barrels) | \$ 5,076,634 |
| Less proceeds deposited in OPRA in early 2004 | <u>(1,154,243)</u> |
| Proceeds deposited in OPRA during 2003 for petroleum | 3,922,391 |
| Less amounts transferred to the Compensation Fund | <u>(196,120)</u> |
| Net proceeds deposited in the Fund for the period to 31 December 2003 | <u>\$ 3,726,271</u> |

As the OPRA account is technically not a DFJ account, it has been excluded from the Fund. Accordingly, only 95% of export sales receipts are included in Receipts.

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SOMO also engages in barter transactions (see note 13) for exports of petroleum and petroleum products. Barter transactions consist mainly of exports of residual fuel oil for light fuel products and exports of crude oil for electricity from Syria. The value of these barter transactions, as recorded by SOMO, for the period from 1 January 2004 to 28 June 2004 is \$209,881 (2003: \$120,907). As these were non-cash transactions, they are not recorded in the statement of cash receipts and payments.

The CPA believed that an unknown quantity of petroleum and petroleum products was illegally exported from Iraq (smuggling), especially in the early months of post-hostilities, by-passing the authorized processes of marketing, sales and cash collection. Despite the key internal controls put in place by the CPA and SOMO, the CPA also believed that internal control systems over the Iraqi oil industry were insufficient to ensure that all petroleum and petroleum products were accounted for in the absence of a metering system. The CPA was unable to reliably estimate the amounts of petroleum and petroleum products that were illegally exported for the period from 22 May 2003 to 28 June 2004.

5. UN Oil for Food program transfers

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

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

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

OFF transfers during the period from inception to 31 December 2003 are as follows:

| | |
|-------------|---------------------|
| 28 May | \$ 1,000,000 |
| 31 October | 1,000,000 |
| 18 November | 1,000,000 |
| 31 December | <u>2,600,000</u> |
| | <u>\$ 5,600,000</u> |

Subsequent to 28 June 2004, the United Nations transferred an additional amount of \$500,000 on 30 June 2004. In addition, the United Nations has notified the DFI that additional amounts may be transferred to the DFI subject to the completion of various OFF programs.

According to the United Nations, there are no restrictions, conditions or other covenants over the funds received from the OFF program. Further, the United Nations have confirmed that funds transferred to the DFI are not repayable under any circumstances.

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6. Deposits from assets frozen outside of Iraq

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

During the period from 1 January 2004 to 28 June 2004, amounts deposited by Member States into the DFI are as follows:

| | |
|--------------------------|--------------------------|
| Jordan | \$ 215,000 |
| Lebanon | 46,931 |
| Spain | 29,604 |
| Great Britain | 4,268 |
| United States of America | 984 |
| Cyprus | 729 |
| Norway | 377 |
| Finland | 140 |
| Croatia | 98 |
| Italy | 51 |
| Other | <u>364</u> |
| | <u>\$ 298,546</u> |

During the period from inception to 31 December 2003, amounts deposited by Member States into the DFI are as follows:

| | |
|--------------------------|--------------------------|
| Switzerland | \$ 211,077 |
| United States of America | 207,945 |
| Great Britain | 184,066 |
| Japan | 98,088 |
| Jordan | 35,000 |
| Tunisia | 8,006 |
| Kuwait | 6,963 |
| France | 4,188 |
| Italy | 2,198 |
| Australia | 17 |
| Vietnam | <u>2</u> |
| | <u>\$ 757,550</u> |

Other funds and financial assets of the former Iraqi regime are still held by various Member States, which the US Government and regulatory agencies in Member States are actively pursuing. The CPA cannot reliably estimate the amount of such funds that may eventually be transferred to the DFI as some of these assets are subject to prior judicial, administrative or arbitral lien or judgment.

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

Iraqi Ministries made deposits with the CPA for payments on their behalf. Most of these deposits were made to fund letters of credit as the Iraqi banking system does not have the capability to execute wire transfers for payment to international suppliers.

Iraqi Ministries' deposits and payments for the period from 1 January 2004 to 28 June 2004 are as follows:

| <i>Ministry of:</i> | <i>Deposits by:</i> | <i>Payments for:</i> |
|----------------------------------|---------------------|----------------------|
| Electricity | \$ 448,086 | \$ 336,405 |
| Health | 118,384 | 116,390 |
| Finance - Central Bank of Iraq | 37,482 | 22,768 |
| Interior | 34,640 | 29,887 |
| Agriculture | 16,000 | 15,956 |
| Transport | 12,807 | 12,807 |
| National Security and Defense | 11,400 | 11,089 |
| Communications | 9,380 | 6,141 |
| Housing and Construction | 4,815 | 4,817 |
| Industry and Minerals | 2,891 | 988 |
| Oil | 1,190 | 267 |
| Culture | 1,000 | - |
| Foreign Affairs | 437 | 423 |
| Other | <u>602</u> | <u>602</u> |
| | <u>\$ 699,114</u> | <u>\$ 558,540</u> |
| Net deposits by Iraqi Ministries | | <u>\$ 140,574</u> |

Iraqi Ministries' deposits and payments for the period from inception to 31 December 2003 are as follows:

| <i>Ministry of:</i> | <i>Deposits by:</i> | <i>Payments for:</i> |
|----------------------------------|---------------------|----------------------|
| Health | \$ 53,271 | \$ 8,082 |
| Electricity | 30,000 | 120 |
| Interior | 10,704 | 10,422 |
| Communications | 1,275 | |
| Other | <u>21</u> | <u>51</u> |
| | <u>\$ 95,271</u> | <u>\$ 18,675</u> |
| Net deposits by Iraqi Ministries | | <u>\$ 76,596</u> |

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8. Food and Agricultural Organization and World Food Program

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

9. Transfers to Iraqi Ministries

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

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

| | |
|------------------------------------|---------------------|
| <i>Ministry of Finance</i> | |
| January | \$ 727,776 |
| February | 508,812 |
| March | 900,000 |
| April | 600,000 |
| May | 530,000 |
| June | 1,791,400 |
| <i>Kurdish Regional Government</i> | |
| January | 21,300 |
| May | 120,000 |
| June | <u>1,635,500</u> |
| | <u>\$ 6,834,788</u> |

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

Payments for the period from inception to 31 December 2003 are as follows:

| | |
|----------------------------|---------------------|
| <i>Ministry of Finance</i> | |
| October | \$ 433,000 |
| November | 392,950 |
| December | <u>550,000</u> |
| | <u>\$ 1,375,950</u> |

During the period from post-hostilities to September 2003, the Iraqi Ministries were funded by other sources. These included funds of the former Iraqi regime in the USA, frozen under UNSCR 687 and subsequently vested under Executive Order 13290 of 20 March 2003 and transferred before the adoption of the UNSCR 1483, monies seized in Iraq under the laws and usages of war and US appropriated funds.

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10. Projects administered by the CPA

The CPA administered certain projects and the related payments on behalf of Iraqi Ministries

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

| <i>Ministry of:</i> | <i>Project:</i> | |
|-------------------------------|---|---------------------|
| Oil | Import of petroleum products | \$ 1,891,058 |
| Oil | Emergency pipeline repair | 81,842 |
| Oil | Restoration of oil infrastructure | 67,593 |
| Oil | Oil Infrastructure | 62,857 |
| Oil | Security | 42,811 |
| Electricity | Restoration of Iraqi electricity | 551,295 |
| Electricity | Reconstruction of power plants | 126,969 |
| Electricity | Purchase of electricity from Turkey | 31,350 |
| Electricity | Security of power lines | 8,968 |
| Trade | UN WFP food procurement | 910,000 |
| Trade | Food procurement | 33,500 |
| Trade | OFF - Wheat purchase | 28,241 |
| Trade | OFF - Certification | 6,294 |
| Trade | OFF - Coordination centers (refund) | (25,000) |
| Finance | OFF - Northern program | 118,483 |
| Finance | Iraqi media network | 37,464 |
| Finance | Iraqi banknote program | 26,970 |
| Finance | External debt reconciliation | 13,216 |
| Finance | Election assistance | 9,599 |
| National Security and Defense | Weapons & equipment | 43,257 |
| National Security and Defense | Firefighter equipment | 5,206 |
| Agriculture | Fertilizer | 18,942 |
| Agriculture | Credit program for local farmers | 10,000 |
| Agriculture | OFF - Equipment | 8,047 |
| Planning | PMO office construction | 5,558 |
| Awqaf (Religion) | Hajj pilgrimage | 50,633 |
| Various ministries | 40 programs | 64,877 |
| <i>Other:</i> | | |
| | Commander's Emergency Response Program (CERP) | 354,781 |
| | Rapid Response Regional Program (RRRP) | <u>308,857</u> |
| | | <u>\$ 4,893,668</u> |

CERP funds are provided to Coalition Forces to be disbursed for civil reconstruction and repair of infrastructure, including water and sanitation, education, police, roads and healthcare.

RRRP funds are provided to CPA Governorate Coordinators to be disbursed for projects similar to CERP. The CPA Governorate Coordinators work in conjunction with Iraqi counterparts and input from Coalition Forces.

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Payments for the period from inception to 31 December 2003 are as follows:

| <i>Ministry of:</i> | <i>Project:</i> | |
|-------------------------------|-------------------------------------|-------------------|
| Finance | Iraqi banknote purchase | \$ 116,593 |
| Finance | Iraqi banknote exchange | 31,154 |
| Finance | Iraqi currency exchange | 340 |
| Finance | OFF - Northern program | 13,462 |
| Finance | Trade Bank of Iraq | 1,100 |
| Oil | Import of petroleum products | 13,417 |
| Oil | Security | 12,560 |
| Oil | Restoration of oil infrastructure | 1,130 |
| Oil | Communications | 315 |
| Electricity | Purchase of electricity from Turkey | 11,393 |
| Electricity | Reconstruction of power plants | 4,919 |
| Electricity | Restoration of Iraqi electricity | 4,100 |
| National Security and Defense | Weapons | 2,832 |
| National Security and Defense | Equipment | 1,278 |
| Trade | OFF - Coordination centers | 25,000 |
| Awqaf (Religion) | Hajj pilgrimage | 5,000 |
| Housing and Construction | Security | 569 |
| Culture | Donation | 20 |
| | | <u>\$ 245,182</u> |

11. Letters of Credit

The CPA deposited cash with JP Morgan Bank on behalf of Iraqi Ministries, for issued irrevocable documentary letters of credit. The related contracts and programs are managed by the Iraqi Ministries, in consultation with the CPA. The cash is held at JP Morgan until evidence of the completion of the service, or receipt of goods, is received by the Iraqi Ministries.

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

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

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Payments for the period from inception to 31 December 2003 are as follows:

| | |
|--------------------------|------------------|
| <i>Ministry of:</i> | |
| Oil | \$ 45,850 |
| Housing and Construction | <u>11,304</u> |
| | <u>\$ 57,154</u> |

12. Cash and cash equivalents

Cash and cash equivalents as at 28 June 2004 are as follows:

| | |
|--|---------------------|
| US Federal Reserve Bank of New York: | |
| US Treasury bills | \$ 4,519,965 |
| Overnight repurchase agreement pool facility | 150,800 |
| Operating accounts | 79 |
| Central Bank of Iraq - operating account | 1,759,192 |
| Cash with Coalition Forces | <u>217,700</u> |
| | <u>\$ 6,647,736</u> |

Cash and cash equivalents as at 31 December 2003 are as follows:

| | |
|--|---------------------|
| US Federal Reserve Bank of New York: | |
| US Treasury bills | \$ 3,777,455 |
| Overnight repurchase agreement pool facility | 3,115,000 |
| Operating accounts | 78 |
| Central Bank of Iraq - operating account | 1,432,600 |
| Cash with Coalition Forces | <u>160,000</u> |
| | <u>\$ 8,485,133</u> |

Cash and cash equivalents include \$3,057,518 as at 28 June 2004 (2003: \$4,477,176) of cash committed for certain projects (see note 15). In addition, cash includes \$217,170 (2003: \$76,596) deposited by Iraqi Ministries, which is restricted for use only in accordance with instructions from the Iraqi Ministries (see note 7).

The return on US Treasury bills and the overnight facility ranged from approximately 0.5% to 1.04% (2003: 0.5% to 1.0%).

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Maturity dates and purchase prices of US Treasury bills as at 28 June 2004 are as follows:

| | |
|-------------------|---------------------|
| 12 August 2004 | \$ 213,087 |
| 19 August 2004 | 249,111 |
| 26 August 2004 | 269,144 |
| 2 September 2004 | 398,548 |
| 9 September 2004 | 284,415 |
| 16 September 2004 | 248,884 |
| 23 September 2004 | 275,329 |
| 30 September 2004 | 304,921 |
| 7 October 2004 | 283,467 |
| 14 October 2004 | 243,618 |
| 21 October 2004 | 262,942 |
| 28 October 2004 | 243,859 |
| 4 November 2004 | 252,402 |
| 12 November 2004 | 248,413 |
| 18 November 2004 | 253,158 |
| 26 November 2004 | 240,255 |
| 2 December 2004 | <u>248,412</u> |
| | <u>\$ 4,519,965</u> |

Maturity dates and purchase prices of US Treasury bills at 31 December 2003 are as follows:

| | |
|------------------|---------------------|
| 29 January 2004 | \$ 697,946 |
| 26 February 2004 | 697,944 |
| 25 March 2004 | 697,515 |
| 22 April 2004 | 697,022 |
| 27 May 2004 | 697,087 |
| 17 June 2004 | <u>289,941</u> |
| | <u>\$ 3,777,455</u> |

13. Unrecorded assets and liabilities

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

The identified assets and liabilities as at 28 June 2004 are as follows:

| | |
|--|---------------------|
| <i>Assets</i> | |
| Net receivables from export sales of petroleum | \$ 1,141,726 |
| Receivable from UN Oil for Food program | 500,000 |
| Accrued interest from US Treasury bills & overnight deposits | <u>9,893</u> |
| | <u>\$ 1,651,619</u> |
| <i>Liabilities</i> | |
| Deposits by Iraqi Ministries | \$ 217,170 |
| Other accruals and liabilities | <u>4,701</u> |
| | <u>\$ 221,871</u> |

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2004 to 28 June 2004
(all amounts are in thousands of US dollars)

The identified assets and liabilities as at 31 December 2003 are as follows:

| | |
|---|----------------------------|
| <i>Assets</i> | |
| Receivable from UN Oil for Food program | \$ 2,500,000 |
| Net receivables from export sales of petroleum | 1,096,531 |
| Advance payment to the Ministry of Trade for World Food Program | 5,400 |
| Accrued interest from US Treasury bills | <u>4,623</u> |
| | <u>\$ 3,606,554</u> |
| <i>Liabilities</i> | |
| Deposits by Iraqi Ministries | \$ 76,596 |
| Other accruals and liabilities | <u>6,737</u> |
| | <u>\$ 83,333</u> |

Barter transactions

Barter transactions for petroleum and petroleum products are non-cash transactions. Barter transactions are not recorded in the DFI Statement of Cash Receipts and Payments and are not considered unrecorded assets or liabilities, as these transactions will not materialize into cash at any time. Consequently, payments were not made to the Compensation Fund. However, based on the value of the barter transactions as recorded by SOMO, payments to the Compensation Fund for the period from 1 January 2004 to 28 June 2004 would amount to \$10,494 (2003: \$6,045).

14. Related parties

For the period from inception to 28 June 2004, key management of the Fund consisted of the CPA Administrator and CPA Senior Advisors and their staff, in consultation with the Iraqi interim administration. The Fund is monitored by the IAMB in accordance with UNSCR 1483. Key management and the IAMB receive no compensation or fees from the DFI.

Management control of the Fund was transferred to the Interim Government of Iraq on 28 June 2004.

15. Commitments and contingencies

The DFI uses commitments as a means of managing cash resources. Commitments may not be accurate as certain projects are not complete and the final costs are not known. However, the CPA did not believe that there will be material adjustments to the final costs of these projects.

Cash and cash equivalents less commitments as at 28 June 2004 are as follows:

| | |
|---|----------------------------|
| Cash and cash equivalents | \$ 6,647,736 |
| Contractual commitments | <u>(3,057,518)</u> |
| Amount not committed as at 28 June 2004 | <u>\$ 3,590,218</u> |

Contractual commitments include contracts signed by the CPA, which are managed by the Project and Contracting Office, a US Government agency. Commitments do not include contracts signed by the Interim Government of Iraq or future cash transfers for the Iraqi National Budget.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2004 to 28 June 2004
(all amounts are in thousands of US dollars)

Litigation

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

Immunity

In accordance with UNSCR 1483, certain Member States have taken legal steps as considered necessary, to ensure immunity of the petroleum and petroleum products originating in Iraq, until title passes to the initial purchaser, from legal proceedings against them so as not to be subject to any form of attachment, garnishment or execution. This immunity expires on 31 December 2007, unless the United Nations Security Council decides otherwise.

Taxation

The Fund is not subject to taxation.