

Translated from original Arabic Statement of Proceeds of Oil Export Sales

DEVELOPMENT FUND FOR IRAQ

Statement of Proceeds of Oil Export Sales

31 December 2008

(With Independent Auditors' Report Thereon)

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

We have audited the accompanying statement of proceeds of oil export sales (the "financial statement") of the Development Fund for Iraq (DFI) for the year ended 31 December 2008. The statement of proceeds of oil export sales for the period from 1 January till 31 December 2007 was audited by other auditors whose report dated 12 June 2008 expressed a qualified opinion on completeness of export sales of petroleum and petroleum products.

Government of Iraq Responsibility for the Financial Statement

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

The GOI's policy is to prepare the accompanying financial statement on the cash receipt and disbursement basis. On this basis revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred.

Auditors' Responsibility

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

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



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Independent Auditors' Report (continued)

Basis for Qualified Opinion

- 1 The IAMB recommended the installation of a comprehensive oil metering system in Iraq and in accordance with standard oil industry practices, while the Iraqi Government supports oil metering, progress has been slow. Our inquiries revealed that the overall metering system installation percentage was 33% as at 31 December 2008. In the absence of an overall comprehensive system of controls over petroleum extraction, we were not able to reconcile extracted petroleum to SOMO's records of quantities received and quantities consumed internally, however we have reconciled the petroleum quantities received by SOMO to petroleum export sales.
- 2 Barter sales with the Syrian government amounting to U.S. Dollars 750,865 thousand from inception till 31 December 2008 and with private companies amounting to U.S. Dollars 348,815 thousand from inception till 31 December 2008 were not recorded in the financial statements. These amounts were not confirmed by the barter partners.
- 3 Cash received from export sales of petroleum products during the year ended 31 December 2008 amounting to U.S. Dollars 1,335,237 thousand (since inception till 31 December 2007: U.S. Dollars 1,797,259 thousand) has been deposited in bank accounts controlled by the Oil Marketing Company (SOMO). According to UNSCR 1483 (2003), 95% of the proceeds of export sales of petroleum and petroleum products should be deposited in the DFI account. Accordingly, the cash receipts for the year ended 31 December 2008 are understated by U.S. Dollars 1,268,475 thousand.

Qualified Opinion

In our opinion except for the effects of adjustments, if any, as might have been determined to be necessary for the situations described in paragraphs 1 above had we been able to satisfy ourselves as to the completeness of petroleum produced, and except for the effects on the financial statement of the matters referred to in paragraphs 2 and 3 above, the statement of proceeds of oil export sales presents fairly, in all material respects, proceeds of oil export sales of the Development Fund for Iraq for the year ended 31 December 2008, in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting".

Emphasis of Matters

Without further qualifying our opinion, we draw the attention that the oil export sales account (OPRA) is a bank account and not an entity where a double entry system is always implemented to create a general ledger. The accompanying statement of cash receipts and payments is prepared from bank statements and other related financial information to show the sources of cash deposited in the OPRA bank account.



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Independent Auditors' Report (continued)

Other Matters – Restriction on Use

As indicated above, the statement of proceeds of oil export sales is prepared in accordance with the International Public sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting". This financial statement and related auditor's report may not be suitable for another purpose.

This report including our opinion, is intended solely for the information and use of the Government of Iraq, the International Advisory and Monitoring Board of the Development Fund for Iraq and the Committee of Financial Experts and should not be used for any other purpose. We do not accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come.

29 April 2009

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31 December 2008

STATEMENT OF PROCEEDS OF OIL EXPORT SALES

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For the year ended 31 December

In thousands of U.S. Dollar

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