

DEVELOPMENT FUND FOR IRAQ

**STATEMENT OF
CASH RECEIPTS AND PAYMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2007

**INDEPENDENT AUDITORS' REPORT TO THE
GOVERNMENT OF IRAQ AND THE INTERNATIONAL ADVISORY AND MONITORING
BOARD AND COMMITTEE OF FINANCIAL EXPERTS OF THE DEVELOPMENT FUND
FOR IRAQ**

We have audited the accompanying statement of cash receipts and payments (the “financial statement”) of the Development Fund for Iraq (DFI) for the year ended 31 December 2007 and a summary of significant accounting policies and other explanatory notes.

Government of Iraq Responsibility for the Financial Statement

The Government of Iraq 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 DFI’s policy is to prepare the accompanying financial statement on the cash receipts and payments basis. On this basis revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred.

Auditors’ Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. Except as discussed in the following paragraphs, 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 comply with 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 the auditors’ judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

Except for the qualifications discussed in the following paragraphs, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITORS' REPORT TO THE
GOVERNMENT OF IRAQ AND THE INTERNATIONAL ADVISORY AND MONITORING
BOARD AND COMMITTEE OF FINANCIAL EXPERTS OF THE DEVELOPMENT FUND
FOR IRAQ (Continued)**

Qualifications

- 1) As further explained in note 2 to the financial statement, the DFI's accounting records are not complete, as these records do not include all the information required to support the statement of cash receipts and payments and the related disclosure notes for the year ended 31 December 2007. The accompanying financial statement is compiled from the monthly statement of cash receipts and payments of the DFI's main bank account managed by the Central Bank of Iraq (CBI), the DFI's sub-account maintained by the U.S. Agencies, the Federal Reserve Bank of New York (FRBNY) statements and other financial information maintained by the Ministry of Finance and other parties. Due to weaknesses in the internal control systems, we could not extend our audit procedures to determine the effect of the incomplete accounting records on the financial statement and the related disclosures for the year ended 31 December 2007.
During 2007, the MOF has established a designated database for DFI to collect all transactions and accounting records in. Up to the date of this financial statement, MOF is working on reconciling DFI opening balances.
- 2) As further explained in note 3 to the financial statement, a substantial part of the DFI receipts is from the export sales of petroleum. The IAMB recommended in March 2004 the expeditious 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. Some metering has been installed at oil terminals, but there continues to be no metering in the oil fields. Because of the absence of an overall comprehensive system of controls over oil, there are un-reconciled differences between oil extraction, production, export sales and internal usage.
- 3) As further explained in note 3 to the financial statement, cash received from export sales of petroleum products during the year ended 31 December 2007 amounting to U.S. \$ 770,166 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 2007 and the cash balance as of 31 December 2007 are understated by U.S. \$ 731,658 thousand (from inception to 31 December 2007: U.S. \$ 1,707,396 thousand).
- 4) As further explained in note 16 to the financial statement, the former Coalition Provisional Authority did not maintain complete accounting records for contractual commitments entered into by the U.S. Agencies for the period from inception to 28 June 2004. Due to weaknesses in the internal control systems, we could not extend our audit procedures to ensure the completeness and accuracy of the outstanding contractual commitments balance as of 31 December 2007.

**INDEPENDENT AUDITORS' REPORT TO THE GOVERNMENT OF IRAQ AND
TO THE INTERNATIONAL ADVISORY AND MONITORING BOARD AND
COMETTEE OF FINANCIAL EXPERS OF THE DEVELOPMENT FUND FOR IRAQ
(continued)**

- 5) As further explained in note 9 to the financial statement, the letters of credit cash payments during the year ended 31 December 2007 include payments amounting to U.S. \$ 890,824 thousand related to certain self-financing governmental entities that are not covered by the DFI. Conversely, the MOF received advance payments from these entities to fund their letters of credit payments amounting to U.S. \$ 1,169,524 thousand, which have been deposited in the MOF accounts at the CBI and have not been transferred to the DFI account at the FRBNY. Accordingly, the DFI's total cash payments for the year ended 31 December 2007 are overstated and the cash balance as of 31 December 2007 is understated by U.S \$ 890,824 thousand (from 1 July 2005 to 31 December 2007: U.S. \$ 1,485,652 thousand)

Opinion

In our opinion, except for the effects of the matters referred to in the preceding paragraphs, the statement of cash receipts and payments presents fairly, in all material respects, the recorded cash receipts and payments of the Development Fund for Iraq for the year ended 31 December 2007, 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 attention to note 3 to the financial statement, which states that there were barter transactions for exports of petroleum and petroleum products during the year ended 31 December 2007 amounting to U.S. \$ 217,391 thousand (from inception to 31 December 2007: U.S. \$ 1,032,598 thousand). According to UNSCR 1483 (2003), 95% of the proceeds of export sales of petroleum and petroleum products should be deposited in the DFI accounts. As these were non-cash transactions, these barter transactions are not recorded in the DFI's statement of cash receipts and payments.

Without further qualifying our opinion, we draw attention to note 18 to the financial statement which explains that in accordance with UNSCR 1790 (2007) it was decided to extend until 31 December 2008 the arrangements established by UNSCR 1483 (2003) for depositing the proceeds from export sales of petroleum, petroleum products and natural gas to the DFI.

Our report 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, in giving our report, 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 save where expressly agreed by our consent in writing.

Baghdad - Iraq
12 June 2008

Ernst + Young

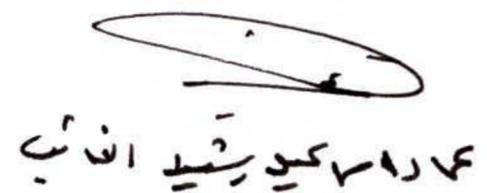
STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

		<i>1 January to 31 December 2007</i>	<i>1 January to 31 December 2006</i>
	<i>Notes</i>	<i>U.S. \$ 000'</i>	<i>U.S. \$ 000'</i>
Cash Receipts			
Export sales of petroleum	3	35,882,755	28,311,557
United Nations Oil for Food program	4	186,105	185,000
Proceeds from frozen assets in foreign countries	5	5,150	16,748
Interest received	6	560,756	452,886
Other receipts	7	883,543	589,112
Total Cash Receipts		37,518,309	29,555,303
Cash Payments			
Transfers to the Ministry of Finance	8	26,700,000	18,000,000
Letters of credit for the benefit of Iraqi ministries	9	7,559,070	9,888,661
Contracts administered by U.S. Agencies	10	115,522	251,120
Iraqi external debt repayments	11	142,301	538,968
Other payments	12	151,004	103,583
Total Cash Payments		34,667,897	28,782,332
Excess of cash receipts over cash payments		2,850,412	772,971
Purchased Treasury bills during the year		(14,515,848)	(9,910,324)
Proceeds from Treasury bills on maturity during the year		12,746,116	6,289,308
Cash and cash equivalents, beginning of year		1,466,651	4,314,696
Cash and cash equivalents at year end	13	2,547,331	1,466,651
Treasury bills at year end	14	7,358,739	5,589,007
Cash and cash equivalents and Treasury bills at year end		9,906,070	7,055,658



Minister of Finance


Director General of MOF
Accounting Department


The attached notes 1 to 21 form part of this interim financial statement.

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

1 ENTITY'S INFORMATION

The statement of cash receipts and payments was authorised for issue in accordance with His Excellency Minister of Finance approval on 12 June 2008.

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

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

The International Advisory and Monitoring Board of the DFI (IAMB) was appointed in accordance with UNSCR 1483 (2003), and subsequent resolutions. The IAMB is an audit oversight body for the DFI, its purpose is to promote the objectives set forth in UNSCR 1546 (2004), and UNSCR 1483 (2003), of ensuring that the DFI is used in a transparent and equitable manner and through the Iraqi budget including to satisfy outstanding obligations against the DFI and that all proceeds of export sales of petroleum, petroleum products and natural gas from Iraq are deposited into the DFI in accordance with the provisions of UNSCR 1483 (2003).

The DFI consists of bank accounts held with the Federal Reserve Bank of New York (FRBNY) and managed by the Central Bank of Iraq (CBI) on behalf of the 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 Joint Contracting Command Iraq/Afghanistan, Project and Contracting Office, the Iraqi Reconstruction and Management Office, 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), 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 United Nations' (UN) Oil for Food (OFF) program, established by UNSCR 986 (1995), are to be transferred to the DFI.

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

UNSCR 1723 (2006) extended until 31 December 2007 the arrangements established in Paragraph 20 of UNSCR 1483 (2003) for the depositing proceeds from export sales of petroleum, petroleum products, and natural gas into the DFI and the arrangements referred to in paragraph 12 of UNSCR 1483 (2003) and paragraph 24 of UNSCR 1546 (2004) for the monitoring of the DFI by the IAMB. In accordance with UNSC 1723 (2006) The IAMB's mandate was due to expire on 31 December 2007. The UNSCR 1790 dated on 18 December 2007 extended the IAMB mandate through December 2008 subject to review by the Government of Iraq by 15 June 2008

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

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The statement of cash receipts and payments (the “financial statement”) 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 financial statement has been presented in United States Dollars (U.S. \$), which is the functional currency of the DFI.

Accounting Policies

The DFI’s accounting records for the year ended 31 December 2007 are not complete. The DFI’s statement of cash receipts and payments has been compiled from the monthly statements of cash receipts and payments of the DFI’s main bank account managed by the CBI, the DFI’s sub-account maintained by the U.S. Agencies, the FRBNY bank statements and other financial information maintained by the MOF and other parties.

During 2007, The MOF has established a designated database for DFI to collect all transactions and accounting records in. Up to the date of this financial statement, MOF is working on reconciling DFI opening balances.

The accounting policies are consistent with those used during the year ended 31 December 2006.

Cash receipts

Cash receipts are recorded when funds are deposited in the DFI bank accounts at FRBNY. Non-cash transactions, including barter transactions, are not recorded.

Cash payments

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and overnight repurchase agreement pool facilities. 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.

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

3 EXPORT SALES OF PETROLEUM

Export sales of petroleum and petroleum products are arranged and invoiced exclusively by the Oil Marketing Company (SOMO), the sales arm of the Ministry of Oil. There were no export sales of natural gas from Iraq during the year.

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

As OPRA is not legally a DFI account, it does not form part of the records of the DFI. Accordingly, only 95% of export sales proceeds are recorded in the DFI's financial statement.

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

Export sales and proceeds of petroleum deposited in OPRA were as follows:

	<i>1 January to 31 December 2007</i>	<i>1 January to 31 December 2006</i>
	<i>U.S. \$ 000'</i>	<i>U.S. \$ 000'</i>
Total export sales of petroleum during the year	39,833,938	30,397,044
Less: Demurrage claims deducted from export sales invoices	(8,332)	(15,633)
Proceeds deposited in OPRA after end of year	(4,123,319)	(2,068,606)
Seized amount by Court of Roma *	-	(10,886)
Add: Proceeds deposited during the current year related to prior year export sales invoices	2,068,606	1,499,351
Interest on delayed bank transfers	428	369
Proceeds deposited in OPRA during the year	37,771,321	29,801,639
Less: Amounts transferred to the Compensation Fund (5%)	(1,888,566)	(1,490,082)
Net proceeds deposited in the DFI during the year (95%)	35,882,755	28,311,557

* This amount was seized based on Court of Roma – Italy seizure order on 23 March 2006 as a result of a lawsuit against the Iraqi Ministry of Planning. The Iraqi Government is following up the collection of this amount and believes that the court order violates UNSCR 1483 (2003).

Net funds received from export sales of petroleum products during the year ended 31 December 2007 amounting to U.S. \$ 770,166 thousand (since inception to 31 December 2007: U.S. \$ 1,797,259 thousand), were not deposited to OPRA and are not recorded in the DFI's financial statement. These funds were deposited in bank accounts controlled by SOMO. Based on the amount of net cash received from export sales of petroleum products as recorded by SOMO, payments that shall have been made to the DFI bank account and the UN Compensation Fund for the year ended 31 December 2007 amount to U.S. \$ 731,658 thousand and U.S. \$38,508 thousand respectively (since inception to 31 December 2007: U.S. \$ 1,707,396 thousand and U.S. \$ 89,863 thousand respectively).

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

3 EXPORT SALES OF PETROLEUM (CONTINUED)

SOMO also engages in barter transactions with the Syrian Government for exports of petroleum and petroleum products. Barter transactions consist mainly of exports of fuel oil in exchange for light petroleum products, and exports of petroleum in exchange for electricity and light petroleum products. The value of these barter transactions, as recorded by SOMO, for the year ended 31 December 2007 is U.S. \$ 217,391 thousand (from inception to 31 December 2007: U.S. \$ 1,032,598 thousand). As these barter transactions were non-cash, they are not recorded in the DFI's financial statement. Based on the value of the barter transactions as recorded by SOMO, payments to the UN Compensation Fund for the year ended 31 December 2007 would have amounted to U.S. \$ 10,870 thousand (since inception to 31 December 2007: U.S. \$ 51,630 thousand).

Oil Metering

The IAMB recommended in March 2004 the expeditious installation of a comprehensive oil metering system in Iraq and in accordance with standard oil industry practices. Oil metering is a key factor to achieve financial transparency and accountability over oil resources in Iraq. While the Iraqi Government supports oil metering, progress has been slow.

Some metering has been installed at oil terminals, but there continues to be no metering in the oil fields. Because of the absence of an overall comprehensive system of controls over oil, there are un-reconciled differences between oil extraction, production, export sales and internal usage.

4 UNITED NATIONS OIL FOR FOOD PROGRAM

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

OFF transfers to the DFI during the year ended 31 December 2007 amounts to U.S. \$ 186,105 thousand (2006: U.S. \$ 185,000 thousand). Based on the United Nations confirmation of the OFF's Escrow Account, the obligations and the cash held at year end were as follows:

	<i>1 January to 31 December 2007 U.S. \$ 000'</i>	<i>1 January to 31 December 2006 U.S. \$ 000'</i>
Includes UNMOVIC		
Total cash held with the United Nations Escrow Account	<u>1,044,762</u>	<u>1,220,401</u>
Obligated for letters for credit	<u>656,254</u>	<u>915,654</u>
Other obligations and liabilities	<u>5,398</u>	<u>5,606</u>
Excluding UNMOVIC		
Operating reserve	<u>211,434</u>	<u>204,037</u>
Cumulative surplus	<u>170,162</u>	<u>41,456</u>
Reserve and cumulative surplus	<u>381,596</u>	<u>245,493</u>
Remaining balance in UNMOVIC	<u>6,335</u>	<u>66,430</u>

Letters of credit obligations of U.S. \$ 656,254 thousand expired before 1 January, 2008 have not yet been cancelled due to document discrepancies, stop payment requests from the CBI, outstanding arrival of goods confirmations, and partially delivered contracts. Any residual related balances after settlement of the remainder of the invoices will be transferred to the DFI.

As per the United Nations confirmation, an amount of U.S. \$ 35,959 thousand as of 30 June 2007 has been designated as a reserve to meet the estimated liquidation costs pertaining to UNMOVIC, during the period from July 2007 to 31 December 2007, the reserve was utilized to settle the debts owed to the Government of Germany of

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

U.S \$ 23,888 thousand, for staff related disbursement of U.S. \$ 6,618 thousand, and U.S. \$ 2,463 thousand was returned to Cumulative Surplus. The remaining reserve amounts to U.S. \$ 2,989 thousand as of 31 December 2007.

5 PROCEEDS FROM FROZEN ASSETS IN FOREIGN COUNTRIES

According to UNSCR 1483 (2003), all member states in which there are funds or other financial assets or economic resources of the previous Government of Iraq or its state bodies, corporations, or agencies, located outside Iraq as of 22 May 2003 shall freeze those funds or other financial assets or economic resources and, unless these funds or other financial assets or economic resources are themselves the subject of a prior judicial, administrative, or arbitral lien or judgment, immediately shall cause their transfer to the DFI.

Amounts of frozen assets at foreign countries deposited in the DFI account were as follows:

	<i>1 January to 31 December 2007</i>	<i>1 January to 31 December 2006</i>
	<i>U.S. \$ 000'</i>	<i>U.S. \$ 000'</i>
United Kingdom	322	-
Switzerland	14	-
Sweden	7	21
Luxembourg	-	7,982
Italy	-	6,598
United States of America	-	1,437
Jordan	-	346
Japan	-	181
Lebanon	-	67
Others*	4,807	116
	<u>5,150</u>	<u>16,748</u>

* Due to CBI fire incident on 28 January 2008, the proper classification of these receipts as of 31 December 2007 could not be obtained, however, receiving these balances was confirmed by FRBNY. Accordingly, these amounts were included in aggregate.

Other financial assets 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 such financial assets that may eventually be transferred to the DFI, as some of these assets are subject to prior judicial, administrative or arbitral lien or judgment.

The amounts of frozen assets at foreign countries deposited in the DFI account during 2007 and prior years include assets relating to the CBI and other governmental entities. On 22 November 2005, the Iraqi Council of Ministers requested the MOF to make the necessary arrangements to refund all CBI balances at foreign countries that have been transferred to the DFI. Based on the CBI records the total balance that should be refunded amounts to U.S. \$ 332,713 thousand. However, to the financial statement date, the MOF has not yet confirmed the amounts that will be refunded from the DFI to the CBI.

In addition, certain frozen assets of the CBI are being transferred directly to the CBI accounts without passing through DFI. However, there is not sufficient information to reliably determine the cumulative amount of these transfers.

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

6 INTEREST RECEIVED

This amount consists of

	<i>1 January to 31 December 2007 U.S. \$ 000'</i>	<i>1 January to 31 December 2006 U.S. \$ 000'</i>
U.S. Treasury bills	272,484	102,484
Overnight repurchase agreement pool facility	159,893	232,014
Letters of credit cash margins	128,379	118,388
	<u>560,756</u>	<u>452,886</u>

7 OTHER RECEIPTS

This amount consists of

	<i>1 January to 31 December 2007 U.S. \$ 000'</i>	<i>1 January to 31 December 2006 U.S. \$ 000'</i>
Refunded letters of credit cash margins	834,017	491,824
Refunds from the CBI	-	17,806
Food and Agricultural Organization and World Food Program	-	40,000
Transfer form OPRA (Note 12)	-	4,750
Others	49,526	34,732
	<u>883,543</u>	<u>589,112</u>

8 TRANSFERS TO THE MINISTRY OF FINANCE

The MOF is mainly funded by the DFI. After funds are transferred from the DFI to the MOF, funds are distributed to other Iraqi ministries and related entities in accordance with their individual budgets.

In the DFI's financial statement for the year ended 31 December 2007, the cash transferred from the DFI account at the FRBNY to the MOF current account at the CBI of U.S. \$ 26,700,000 thousand was recorded immediately as cash payments before transferring the cash to the intended ministry (2006: U.S. \$ 18,000,000 thousand, since inception to 31 December 2007 U.S. \$ 74,079,000 thousand). Based on the MOF records, the total amounts transferred to the Iraqi ministries and related entities and Kurdistan Region during the year ended 31 December 2007 amounted to U.S. \$ 30,518,015 thousand (2006: U.S. \$ 17,722,315 thousand, since inception to 31 December 2007 U.S. \$ 71,860,015 thousand).

9 LETTERS OF CREDIT FOR THE BENEFIT OF IRAQI MINISTRIES

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. These letters of credit are charged to the budget of the intended ministry or governmental entity and the related contracts are managed by these ministries.

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 outstanding cash margins for letters of credit have not been included as part of the DFI cash balances as they are not controlled by the DFI and are restricted for the payment of the outstanding letters of credit to the suppliers.

Interest received on the letters of credit cash margins is disclosed in Note 6 to the statement of cash receipts and payments.

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

9 LETTERS OF CREDIT FOR THE BENEFIT OF IRAQI MINISTRIES (CONTINUED)

Payments for letters of credit were made for the benefit of the following ministries:

<i>Ministry of:</i>	<i>1 January to 31 December 2007 U.S. \$ 000'</i>	<i>1 January to 31 December 2006 U.S. \$ 000'</i>
Trade	2,218,496	2,413,393
Oil	1,897,944	4,660,666
Defence*	1,298,096	1,550,000
Electricity	688,657	484,618
Health	500,715	268,543
Municipality and Public Works	351,773	286,391
Interior*	335,648	-
Water Resources	90,380	34,023
Communications	57,059	13,729
Justice*	48,817	919
Industry and Minerals	36,087	40,761
Transportation	23,953	73,260
Agriculture	9,993	13,855
Construction and Housing	716	3,314
Environment	696	-
Planning	40	-
Finance	-	45,187
Others	-	2
	<u>7,559,070</u>	<u>9,888,661</u>

* Included in these balances an amount of U.S. \$ 1,317,786 thousand transferred to the Foreign Military Sales Account held with FRBNY which is designated to the security expenditures by the Ministry of Interior, Ministry of Defense and Ministry of Justice. During 2007, amounts transferred from Ministry of Interior, Ministry of Defense and Ministry of Justice were U.S. \$ 169,000 thousand, U.S. \$1,100,000 thousand and 48,817 respectively (2006: U.S. \$ 0, U.S. \$ 1,550,000 thousand and U.S. \$ 0). The cumulative amount transferred to the account since its inception on 4 December 2006 is U.S. \$ 2,867,786 thousand.

The above letters of credit cash payments include payments for letters of credit of certain self-financing governmental entities that are not covered by the DFI amounting to U.S. \$ 890,824 thousand (from 1 July 2005 to 31 December 2007: U.S. \$ 1,485,652 thousand). Conversely, the MOF received advance payments from these entities to fund their letters of credit payments amounting to U.S. \$ 1,169,524 thousand (from 1 July 2005 to 31 December 2007: U.S. \$ 1,764,352 thousand), which have been deposited in the MOF accounts at the CBI and have not been transferred to the DFI account at the FRBNY during the year ended 31 December 2007.

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

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

10 CONTRACTS ADMINISTERED BY U.S. AGENCIES

U.S. Agencies have been granted limited authority by the Government of Iraq to administer outstanding contracts entered into by the former CPA, requiring payment subsequent to 28 June 2004. This authority expired on 31 December 2006. During 2004, U.S. \$ 2,800,000 thousand was transferred to the DFI sub-account to meet the commitments entered into by the former CPA.

The payments from the U.S. Agencies sub-account were for the benefit of the following Iraqi ministries:

<i>Ministry of:</i>	<i>1 January to 31 December 2007 U.S. \$ 000'</i>	<i>1 January to 31 December 2006 U.S. \$ 000'</i>
Industry and Mineral	60,720	10,735
Rebuilding of commission / Najaf	21,250	-
Water Resources	9,946	4,231
Electricity	6,410	9,190
Baghdad Municipality	5,929	8,982
Municipality and Public works	4,595	2,588
Interior	4,078	61,000
Education	2,500	1,704
Higher Education and Scientific Research	94	-
Oil	-	94,588
National Security and Defence	-	28,652
Transportation	-	17,231
Construction and Housing	-	2,749
Justice	-	1,377
Health	-	1,002
Various ministries and governmental entities	-	7,091
	<u>115,522</u>	<u>251,120</u>

11 IRAQI EXTERNAL DEBT REPAYMENTS

	<i>1 January to 31 December 2007 U.S. \$ 000'</i>	<i>1 January to 31 December 2006 U.S. \$ 000'</i>
Interest paid to JP Morgan Chase Bank*	80,898	87,190
Islamic Development Bank**	61,403	58,066
Citibank, N. A.***	-	393,712
	<u>142,301</u>	<u>538,968</u>

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

11 IRAQI EXTERNAL DEBT REPAYMENTS (CONTINUED)

* During 2006, the Government of Iraq has engaged JP Morgan Chase Bank to issue debt Instruments to finance the settlement of creditors' eligible claims based on the Debt Exchange Offer with a limit of U.S. \$ 3,500,000 thousand for a fixed interest rate of 5.8% annually. As of 31 December 2007, the total issued Debt Instruments amounted to U.S. \$ 2,789,593 thousand. The issued Debt Instruments will be settled by the Government of Iraq to JP Morgan Chase Bank in semi-annual instalments starting on 15 July 2020 and the last payment will be due on 15 January 2028.

** On 18 July 2005, a memorandum of understanding has been signed between the Republic of Iraq and Islamic Development Bank (the Bank) for the settlement of the total balance due from the Government of Iraq to the Bank amounting to Islamic Dinar 106,330 thousand. The first payment of Islamic Dinar 26,330 (equivalent to U.S. \$ 38,121 thousand) was paid during 2005 and the remaining balance of Islamic Dinar 80,000 thousand is to be paid in four equal semi-annual installments starting on 31 March 2006. The final payment of Islamic Development Bank's was early settled on 30 September 2007.

*** This item represents payments for the settlement of the Iraqi external debt that existed under the previous Iraqi regime and settled according to the Iraqi External Debt Reconciliation Project and its related agreements. However, to the financial statement date, there is insufficient information available regarding the Iraqi external debt balances that will be settled from the DFI accounts.

12 OTHER PAYMENTS

	<i>1 January to 31 December 2007 U.S. \$ 000'</i>	<i>1 January to 31 December 2006 U.S. \$ 000'</i>
Baghdad Municipality*	134,233	4,692
Consulting and outsourcing (MOF)	10,739	1,995
Transfer to CBI**	4,750	-
The Independent Electoral Commission of Iraq	1,215	12,873
Inter-Arab Investment Guarantee Corporation ***	-	46,000
High Committee for Relief (Donation to Lebanon)	-	35,000
Iraqi Media Network	-	2,704
OPEC membership	-	26
Others	67	293
	151,004	103,583

* Payments under this category are related to solid waste sorting and processing factory, water purification projects, and other projects related to civil works maintenance and tools.

** During 2006 an amount of U. S. \$ 5,000 thousand was erroneously deposited in OPRA instead of the CBI account at the FRBNY and 95% of the amount was transferred from OPRA to the DFI account at FRBNY amounted to U.S. \$ 4,750 (Note 7). During 2007, the amount of U.S. \$ 4,750 was reversed back to the CBI account at the FRBNY.

*** This amount was paid to Inter-Arab Investment Guarantee Corporation for partial settlement of the total amount of U.S. \$ 120,983 thousand that is due to the Corporation based on the agreement with Ministry of Finance signed during December 2005. However, the paid amount of U.S. \$ 46,000 thousand has been recorded by the Ministry of Finance as suspended advance payment until the completion of further investigations and approvals.

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

13 CASH AND CASH EQUIVALENTS AT YEAR END

Cash and cash equivalents are as follow:-

	<i>1 January to 31 December 2007 U.S. \$ 000'</i>	<i>1 January to 31 December 2006 U.S. \$ 000'</i>
Accounts maintained at FRBNY:		
Overnight repurchase agreement pool facility	2,522,800	1,442,200
Operating accounts	76	115
	<u>2,522,876</u>	<u>1,442,315</u>
Cash on hand held centrally by U.S. Agencies	24,455	24,336
	<u>2,547,331</u>	<u>1,466,651</u>

Accounts at the FRBNY are detailed as follows:-

	<i>1 January to 31 December 2007 U.S. \$ 000'</i>	<i>1 January to 31 December 2006 U.S. \$ 000'</i>
CBI/DFI	2,398,653	869,952
Transition Account – U.S. Agencies	124,223	572,363
	<u>2,522,876</u>	<u>1,442,315</u>

14 TREASURY BILLS

	<i>1 January to 31 December 2007 U.S. \$ 000'</i>	<i>1 January to 31 December 2006 U.S. \$ 000'</i>
Face Value	7,500,000	5,724,100
Discount	(141,261)	(135,093)
Treasury bills cost	<u>7,358,739</u>	<u>5,589,007</u>

Treasury bills are debt securities issued by the U.S. Treasury and purchased through the FRBNY. The Treasury bills have original maturities of 3 to 6 months. The Treasury bills are purchased at a discount from face value and do not pay interest before maturity. The interest is the difference between the purchase price of the bill and the amount paid back at maturity or when sold prior to maturity. The DFI's intent is to hold all Treasury bills until maturity dates.

The follow table represents movement on Treasury bills during the year:

	<i>1 January to 31 December 2007 U.S. \$ 000'</i>	<i>1 January to 31 December 2006 U.S. \$ 000'</i>
Treasury bills at year beginning	5,589,007	1,967,991
Purchased Treasury bills during the year	14,515,848	9,910,324
Proceeds from Treasury bills on maturity during the year	(12,746,116)	(6,289,308)
Treasury bills at year end	<u>7,358,739</u>	<u>5,589,007</u>

Interest received on matured Treasury bills is disclosed in Note 6 to the statement of cash receipts and payments.

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

15 RELATED PARTY TRANSACTIONS

Senior management of the CBI and the MOF, together with the Ministers and Deputy Ministers of the Iraqi ministries (including the offices of the President and the Prime Minister) are considered to be related parties. In addition, key officials of the U.S. Agencies and members of the IAMB and the members of COFE are considered to be related parties.

All the transactions with the CBI, MOF, the Iraqi ministries and the TBI, which are disclosed in various notes to the financial statement, are considered related party transactions.

The U.S. Agencies, the IAMB, the COFE and key management of the DFI did not receive compensation or fees directly from the DFI during the year ended 31 December 2007.

16 COMMITMENTS AND CONTINGENCIES

Contractual commitments consist of open contracts, signed by the former CPA and the U.S. Agencies.

Contractual commitments entered into by the Iraqi ministries are considered to be committed through the Iraqi budget, and are not directly committed from the DFI.

The former CPA did not maintain complete accounting records in respect of contractual commitments entered into by the U.S. Agencies for the period from inception to 28 June 2004. Outstanding contractual commitments were not quantified as of 31 December 2007. The U.S. Agencies' management of the DFI sub-account expired on 31 December 2006.

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.

17 LITIGATION

There are lawsuits in different countries against the Government of Iraq for the settlement of past due debts of the Iraqi ministries and other governmental institutions.

Many of the lawsuits are being reconciled and settled under the Government of Iraq's External Debt Reconciliation Project.

Due to the unavailability of sufficient information, the final outcome of these lawsuits is uncertain and cannot be quantified as of 31 December 2007.

18 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 until 31 December 2007.

In accordance with UNSCR 1790 (2007) it was decided to extend until 31 December 2008 the above mentioned arrangements.

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

19 TAXATION

The DFI is not subject to taxation.

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

Analysis for the year ended 31 December 2007 is as follows:

	<i>Government of Iraq (main accounts) U.S. \$ 000'</i>	<i>U.S. Agencies (sub-account) U.S. \$ 000'</i>	<i>Total U.S. \$ 000'</i>
Cash Receipts			
Export sales of petroleum	35,882,755	-	35,882,755
United Nations Oil for Food program	186,105	-	186,105
Proceeds from frozen assets at foreign countries	5,150	-	5,150
Interest received	540,288	20,468	560,756
Other receipts	883,543	-	883,543
Total Cash Receipts	37,497,841	20,468	37,518,309
Cash Payments			
Transfers to the Ministry of Finance	26,700,000	-	26,700,000
Letters of credit for the benefit of Iraqi ministries	7,559,070	-	7,559,070
Contracts administered by U.S. Agencies	-	115,522	115,522
Iraqi external debt repayments	142,301	-	142,301
Other payments	151,004	-	151,004
Total Cash Payments	34,552,375	115,522	34,667,897
Excess (deficit) of receipts over payments	2,945,466	(95,054)	2,850,412
Purchased Treasury bills during the year	(14,515,848)	-	(14,515,848)
Proceeds from Treasury bills on maturity during the year	12,746,116	-	12,746,116
Cash and cash equivalents, beginning of year	869,952	596,699	1,466,651
Transfers	352,968	(352,968)	-
Cash and cash equivalents at year end	2,398,654	148,677	2,547,331
Treasury bills at year end	7,358,739	-	7,358,739
Cash and cash equivalents and Treasury bills at year end	9,757,393	148,677	9,906,070

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2007

20 ANALYSIS OF RECEIPTS AND PAYMENTS MANAGED BY THE GOVERNMENT OF IRAQ AND U.S. AGENCIES (CONTINUED)

Analysis for the year ended 31 December 2006 is as follows:

	<i>Government of Iraq (main accounts) U.S. \$ 000'</i>	<i>U.S. Agencies (sub-account) U.S. \$ 000'</i>	<i>Total U.S. \$ 000'</i>
Cash Receipts			
Export sales of petroleum	28,311,557	-	28,311,557
United Nations Oil for Food Program	185,000	-	185,000
Proceeds from frozen assets at foreign countries	16,748	-	16,748
Interest received	419,776	33,110	452,886
Other receipts	589,112	-	589,112
Total Cash Receipts	<u>29,522,193</u>	<u>33,110</u>	<u>29,555,303</u>
Cash Payments			
Transfers to the Ministry of Finance	18,000,000	-	18,000,000
Letters of credit for the benefit of Iraqi ministries	9,888,661	-	9,888,661
Contracts administered by U.S. Agencies	-	251,120	251,120
Iraqi external debt repayments	538,968	-	538,968
Other payments	103,583	-	103,583
Total Cash Payments	<u>28,531,212</u>	<u>251,120</u>	<u>28,782,332</u>
Excess (deficit) of receipts over payments	990,981	(218,010)	772,971
Purchased Treasury bills during the year	(9,910,324)	-	(9,910,324)
Proceeds from Treasury bills on maturity during the year	6,289,308	-	6,289,308
Cash and cash equivalents, beginning of year	3,467,138	847,558	4,314,696
Transfers	32,849	(32,849)	-
Cash and cash equivalents at year end	869,952	596,699	1,466,651
Treasury bills at year end	5,589,007	-	5,589,007
Cash and cash equivalents and Treasury bills at year end	<u>6,458,959</u>	<u>596,699</u>	<u>7,055,658</u>

21 COMPARATIVE FIGURES

The financial statement as at 31 December 2006 was adjusted as a result of exclusion of the Foreign Military Sales Account balance and its related interest from DFI records and as follows:

	Amount U.S. \$ 000'
Interest received	(3,819)
Letters of credit for the benefit of Iraqi ministries	(1,550,000)
Net effect on cash and cash equivalents at year end	<u>(1,553,819)</u>