

Translated from original Arabic Unaudited Interim Statement of Cash Receipts and Payments

DEVELOPMENT FUND FOR IRAQ

Unaudited Interim Statement of Cash Receipts and Payments

30 June 2008

Translated from original Arabic Unaudited Interim Statement of Cash Receipts and Payments

DEVELOPMENT FUND FOR IRAQ

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Independent Auditors' Report on Review of Interim Financial Statement

To The Government of Iraq, International Advisory and Monitoring Board of the Development Fund for Iraq and Committee of Financial Experts.

Introduction

We have reviewed the accompanying interim statement of cash receipts and payments (the "interim financial statement") of the Development Fund for Iraq (DFI) for the period from 1 January 2008 to 30 June 2008 and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial statement in accordance with International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting". Our responsibility is to express a conclusion on this interim financial statement based on our review. The statement of cash receipts and payments for the period from 1 January till 30 June 2007 was reviewed by other auditors whose report dated 12 June 2008 expressed a qualified conclusion on completeness of accounting records, completeness of export sales of petroleum and petroleum products, understatement of cash receipt and cash balances and overstatement of cash payment.

Scope of Review

Except as described in paragraphs 1, 2, 3 and 4 below, 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 and consequently 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.

The DFI's policy is to prepare the accompanying interim 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.

Basis for Qualified Conclusion

- 1 As further explained in note 3 to the interim financial statement, a substantial part of the DFI receipts is from the export sales of petroleum. 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. Some metering has been installed at oil terminals, but metering systems in the oil fields have not been installed yet. Because of 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.

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Independent Auditors' Report on review of Interim Financial Statement (continued)

- 2 As further explained in note 5 to the interim financial statement, in accordance with the provisions of UNSCR 1483, all frozen assets in foreign countries and their economic resources shall be transferred to the DFI. Our inquiries revealed that the DFI does not maintain complete records of all frozen assets which it is entitled to receive. Accordingly, we could not extend our review procedures sufficiently to satisfy ourselves over the completeness of proceeds from frozen assets in foreign countries in the interim financial statement.
- 3 As further explained in note 14 to the interim 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. Accordingly, we could not extend our review procedures sufficiently to satisfy ourselves over the completeness and accuracy of the outstanding contractual commitments balance as of 30 June 2008.
- 4 As further explained in note 8 to the interim financial statement, the letters of credit cash payments during the period from 1 January 2008 to 30 June 2008 and from 1 January 2007 to 30 June 2007 include payments 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 which have been deposited in the MOF accounts at the CBI and have not been transferred to the DFI account at the FRBNY. Management could not assess the amounts that were received by the Ministry of Finance from these self financing entities nor could assess the amounts paid by the DFI to finance the letters of credits issued for the benefit of these self financing entities. Accordingly, we could not extend our review procedures sufficiently to satisfy ourselves over the completeness and accuracy of amounts received by the Ministry of Finance from these self financing entities and the amounts paid by the DFI to finance the letters of credits issued for the benefit of these self financing entities.
- 5 Barter sales of petroleum and petroleum products were not recorded in the interim financial statements, consequently receipts and payments were unrecorded for an amount of U.S. Dollars 426,050 thousand from inception till 30 June 2008.
- 6 As further explained in note 6 to the interim financial statement, cash receipts amounting to U.S. Dollars 1,312,005 thousands relating to License fee of mobile telecommunication were incorrectly recorded in the DFI, accordingly cash balances as at 30 June 2008 and cash receipts for the period from 1 January 2008 till 30 June 2008 are overstated by the same amount.
- 7 As further explained in note 3 to the interim financial statement, cash received from export sales of petroleum products during the period ended 30 June 2008 amounting to U.S. Dollars 644,178 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 period ended 30 June 2008 and the cash balance as of 30 June 2008 are understated by U.S. Dollars 611,970 thousand.



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Independent Auditors' Report on review of Interim Financial Statement (continued)

Qualified Conclusion

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situation described in paragraphs 1, 2, 3 and 4 above and except for the effects of the matters referred to in the paragraphs 5, 6 and 7 above, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Public sector Accounting Standard "Financial Reporting Under the Cash Basis of accounting".

Emphasis of Matters

Without further qualifying our conclusion, we draw the attention that the DFI is a bank account and not an entity where a double entry system is always implemented to create a general ledger. The accompanying interim statement of cash receipts and payments is prepared from various banks statements and other related financial information to show the sources of cash deposited in the DFI bank account and uses of the cash disbursed from the DFI bank account.

Other Matters – Restriction on Use

As indicated above, the interim statement of cash receipt and payment is prepared in accordance with the International Public sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting". This interim 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.

KPMG

30 November 2008

This interim statement of Cash Receipts and Payments is unaudited

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In thousands of U.S. Dollar

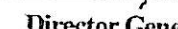
<i>In thousands of U.S. Dollar</i>	Notes	2008	2007
Cash receipts			
Export sales of petroleum and petroleum products	3	31,236,926	13,813,989
Proceeds from frozen assets in foreign countries	4	833	1,174
Interest received	5	347,329	308,864
Other receipts	6	1,728,091	568,229
Total cash receipts		33,313,179	14,692,256
Cash payments			
Transfers to the ministry of finance	7	21,500,000	8,900,000
Letters of credit for the benefit of Iraqi ministries	8	6,366,403	3,525,443
Contracts administered by U.S. Agencies	9	281,225	41,313
Iraqi external debt repayments	10	80,918	111,180
Other payments	11	22,927	180,432
Total cash payments		28,251,473	12,758,368
Excess of cash receipts over cash payments		5,061,706	1,933,888
Purchased treasury bills during the period		(15,219,879)	(6,567,908)
Proceeds from treasury bills on maturity during the period		7,904,659	6,640,772
Cash and cash equivalents at 1 January		2,547,331	1,466,657
Cash and cash equivalents at 30 June	12	293,817	3,473,409
Treasury bills at 30 June	13	14,673,959	5,516,143
Cash and cash equivalents and treasury bills at 30 June		14,967,776	8,989,552

The notes on pages 5 to 15 are an integral part of this interim financial statement.

Dr. Fadkil. N. Osman

Deputy Minister

30/11/2008


 ۱۱/۲ معاون مدیر عامل دایرة الحسابات
 Director General of MoF
 Accounting Department

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1 Entity Information

The interim statement of cash receipts and payments was authorised for issue in accordance with His Excellency Minister of Finance approval on 30 November 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 (IAMB) of the DFI 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 1483 (2003) and UNSCR 1546 (2004) of ensuring that the DFI is used in a transparent and equitable manner and through the Iraqi budget and to satisfy outstanding obligations against the DFI and that 95% of the 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), 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 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 UNSCR 1723 (2006) The IAMB's mandate was due to expire on 31 December 2007. The UNSCR 1790 dated 18 December 2007 extended the IAMB mandate to 31 December 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 is 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

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1 Entity Information (continued)

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.

2 Basis of preparation and significant accounting policies

a) Basis of preparation

The interim statement of cash receipts and payments (the "interim 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 and updated in 2006 and 2007.

b) Reporting Currency

The interim financial statement has been presented in United States Dollars (U.S. Dollars) which is different from the currency of the country where the DFI is domiciled which is the Iraqi Dinar due to the fact that most of the proceeds from petroleum and petroleum products are in U.S. Dollars.

c) Significant accounting Policies

The DFI's interim 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.

The DFI's initial reporting period was determined by the Government of Iraq and the IAMB to be semi-annual reporting from 1 January to 30 June and from 1 July to 31 December.

The accounting policies have been applied consistently throughout the period and in previous periods.

d) Cash receipts

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

e) Cash payments

Cash payments including transfers to the Ministry of Finance 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.

f) 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 Export sales of petroleum and petroleum products

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 six months ended 30 June 2008.

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

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3 Export sales of petroleum and petroleum products (continued)

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 interim 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>In thousands of U.S. Dollar</i>	1 January to 30 June 2008	1 January to 30 June 2007
Total export sales of petroleum during the period	35,732,106	15,392,313
Less: Demurrage claims deducted from export sales invoices	(13,758)	(8,502)
Proceeds deposited in OPRA after end of period	(6,960,833)	(2,914,558)
Add: Proceeds deposited during the current year related to prior period export sales invoices	4,123,319	2,071,531
Interest on delayed bank transfers	140	258
Proceeds deposited in OPRA during the period	32,880,974	14,541,042
Less: Amounts transferred to the Compensation Fund (5%)	(1,644,048)	(727,053)
Net proceeds deposited in the DFI during the period (95%)	31,236,926	13,813,989

Net cash received from export sales of petroleum products during the period from 1 January 2008 to 30 June 2008 amounting to U.S. Dollars 644,178 thousand (from inception to 30 June 2008: U.S. Dollars 2,441,437 thousand), were not deposited into OPRA and are not recorded in the DFI's interim financial statement. These funds were deposited in bank accounts controlled by SOMO.

Prior to 31 December 2007, SOMO engaged in barter transactions with the Syrian Government for exports of petroleum and petroleum products. Barter transactions consisted 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 those barter transactions, as recorded by SOMO, from inception till 31 December 2007 is U.S. Dollars 750,865 thousand. No Barter transactions were done during the six months ended 30 June 2008. These barter transactions were not recorded in the DFI. As per SOMO, the value of products received from the Syrian government from inception till 31 December 2007 was U.S. Dollars 448,474 thousand. The Iraqi government is claiming an amount of U.S. Dollars 302,391 thousand. To date of this report, the Syrian government has not responded to the Iraqi government's claims. According to UNSCR 1483 (2003), 95% of the proceeds of export sales of petroleum and petroleum products should be deposited in the DFI accounts.

The Ministry of Oil does not operate a full operational loading and metering system for export sales of petroleum and petroleum products at loading and extraction points to ensure that all export sales are properly recorded. In the absence of a fully operational metering system and continued disruption of the pipelines, it is not possible to reliably determine the volume of all exports of petroleum and petroleum products, for which proceeds are to be deposited in OPRA and the DFI accounts.

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4 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 be transferred to the DFI.

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

In thousands of U.S. Dollar

	1 January to 30 June 2008	1 January to 30 June 2007
United Kingdom	—	322
Switzerland	—	14
Sweden	724	7
Lebanon	109	—
Others	—	831
	<u>833</u>	<u>1,174</u>

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 until now 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. As of 30 June 2008 and based on the CBI records the total balance that should be refunded is amounting to U.S. Dollars 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 amount of these transfers.

5 Interest received

In thousands of U.S. Dollar

	1 January to 30 June 2008	1 January to 30 June 2007
Overnight repurchase agreement pool facility	157,199	99,034
U.S. Treasury bills	144,931	143,328
Letters of credit cash margins	45,199	66,502
	<u>347,329</u>	<u>308,864</u>

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6 Other receipts

In thousands of U.S. Dollar

	1 January to 30 June 2008	1 January to 30 June 2007
Refunded letters of credit cash margins	355,657	549,823
License fee of mobile telecommunication	1,312,005	—
Others	60,429	18,406
	<u>1,728,091</u>	<u>568,229</u>

The license fees transferred by the Communications and Media Commission in February 2008 were deposited in the DFI account at the FRBNY by mistake. They were supposed to be deposited in the Ministry of Finance's account at the CBI.

7 Transfers to the Ministry of Finance

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.

8 Letters of credits 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.

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 of the outstanding letters of credit to the suppliers. Interest received on the letters of credit cash margins is disclosed in Note 5.

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8 Letters of credits for the benefit of Iraqi Ministries (continued)

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

In thousands of U.S. Dollar

	1 January to 30 June 2008	1 January to 30 June 2007
Ministry of:		
Oil	1,720,999	1,398,893
Trade	2,200,500	757,907
Electricity	1,124,412	345,874
Health	136,084	281,658
Municipality and Public Works	99,568	261,559
Interior	405,285	176,319
Defence	239,144	153,136
Water Resources	19,234	46,198
Telecommunications	11,970	45,029
Industry and Minerals	—	29,545
Transportation	588	18,645
Agriculture	19,069	9,967
Construction and Housing	145	713
Finance	6,680	—
Education	4,254	—
Council of ministries	378,471	—
	<u>6,366,403</u>	<u>3,525,443</u>

Included in the payments for the benefit of the ministry of interior is an amount of U.S. Dollars 374,381 thousand transferred to the Foreign Military Sales Account held with FRNBY which is designated for security expenditures by the ministry of interior, ministry of defense and ministry of justice. The cumulative amount transferred to the account since its inception on 4 December 2006 is U.S. Dollars 3,242,167 thousand.

The above letters of credit cash payments includes payments for letters of credit of 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 which have been deposited in the MOF accounts at the CBI and have not been transferred to the DFI account at the FRBNY. Management could not assess the amounts that were received by the Ministry of Finance from these self financing entities nor could assess the amounts paid by the DFI to finance the letters of credits issued for the benefit of these self financing entities.

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

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9 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. In September 2007, the Joint Contracting Command-Iraq/Afghanistan was granted interim authority by the Ministry of Finance to disburse the remaining funds from the DFI account. On 31 December 2007, this authority was expired and not renewed. The Ministry of Finance was not able to confirm the cash on hand held by U.S. agencies which they claim was transferred in January 2008 to the Ministry of Finance.

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

In thousands of U.S. Dollar

	1 January to 30 June 2008	1 January to 30 June 2007
Ministry of:		
Development of Provinces	270,000	32,841
Interior	—	4,078
Baghdad Municipality	769	1,979
Municipality and Public works	1,106	778
Education	—	100
Various ministries and government entities	9,350	1,537
	<u>281,225</u>	<u>41,313</u>

10 Iraqi external debt repayments

In thousands of U.S. Dollar

	1 January to 30 June 2008	1 January to 30 June 2007
Interest paid to JP Morgan Chase Bank	80,918	80,898
Islamic Development Bank	—	30,282
	<u>80,918</u>	<u>111,180</u>

11 Other payments

In thousands of U.S. Dollar

	1 January to 30 June 2008	1 January to 30 June 2007
Baghdad Municipality	—	172,518
Consulting and outsourcing (MOF)	—	2,627
The Independent Electoral Commission of Iraq	906	471
Others	22,021	4,816
	<u>22,927</u>	<u>180,432</u>

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12 Cash and cash equivalents

In thousands of U.S. Dollar

	As at 30 June 2008	As at 30 June 2007
Accounts maintained at FRBNY:		
Overnight placements	269,200	3,448,900
Operating accounts	162	54
	<u>269,362</u>	<u>3,448,954</u>
Cash on hand held centrally by U.S. Agencies	24,455	24,455
	<u>293,817</u>	<u>3,473,409</u>

Accounts at FRBNY are detailed as follows:

CBI/DFI	126,364	2,918,016
Transition Account - U.S. Agencies	142,998	530,938
	<u>269,362</u>	<u>3,448,954</u>

13 Treasury bills

In thousands of U.S. Dollar

	2008	2007
Face value	14,800,000	5,640,000
Discount	(126,041)	(123,857)
Treasury bills cost at 30 June	<u>14,673,959</u>	<u>5,516,143</u>

Treasury bills are debt securities issued by the U.S. Treasury and purchased through the Federal Reserve Bank of New York (FRNBY). 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. Interest received on matured Treasury bills is disclosed in Note 5.

The following table represents the movement in Treasury Bills during the period from 1 January till 30 June:

In thousands of U.S. Dollar

	2008	2007
Treasury bills at 1 January	7,358,739	5,589,007
Purchased treasury bills	15,219,879	6,567,908
Proceeds from matured treasury bills	(7,904,659)	(6,640,772)
Treasury bills at 30 June	<u>14,673,959</u>	<u>5,516,143</u>

DEVELOPMENT FUND FOR IRAQ
THIS INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS IS UNAUDITED
NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS
30 June 2008

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

15 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 1790 (2007) it was decided to extend until 31 December 2008 the above mentioned arrangements.

16 Taxation

The DFI is not subject to taxation.

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17 Analysis of receipts and payments managed by the Government of Iraq and US Agencies

Analysis for the period from 1 January 2008 to 30 June 2008 is as follows:

In thousands of U.S. Dollar

	Government of Iraq	U.S. agencies	Total
Cash receipts			
Export sales of petroleum	31,236,926	–	31,236,926
Proceeds from frozen assets at foreign countries	833	–	833
Interest received	224,273	123,056	347,329
Other receipts	1,728,091	–	1,728,091
Total cash receipts	<u>33,190,123</u>	<u>123,056</u>	<u>33,313,179</u>
Cash payments			
Transfers to the ministry of finance	21,500,000	–	21,500,000
Letters of credit for the benefit of Iraqi ministries	6,366,403	–	6,366,403
Contracts administered by U.S. Agencies	–	281,225	281,225
Iraqi external debt repayments	80,918	–	80,918
Other payments	22,927	–	22,927
Total cash payments	<u>27,970,248</u>	<u>281,225</u>	<u>28,251,473</u>
Excess (deficit) of receipts over payments	5,219,875	(158,169)	5,061,706
Purchased treasury bills during the period	(15,219,879)	–	(15,219,879)
Proceeds from treasury bills during the period	7,904,659	–	7,904,659
Cash and cash equivalents at 1 January	2,398,653	148,678	2,547,331
Transfers	(176,944)	176,944	–
Cash and cash equivalents at 30 June	126,364	167,453	293,817
Treasury bills at 30 June	14,673,959	–	14,673,959
	<u>14,800,323</u>	<u>167,453</u>	<u>14,967,776</u>

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**17 Analysis of receipts and payments managed by the Government of Iraq and US Agencies
(continued)**

Analysis for the period from 1 January 2007 to 30 June 2007 is as follows:

<i>In thousands of U.S. Dollar</i>	Government of Iraq	U.S. agencies	Total
Cash receipts			
Export sales of petroleum	13,813,989	–	13,813,989
Proceeds from frozen assets at foreign countries	1,174	–	1,174
Interest received	294,956	13,908	308,864
Other receipts	568,229	–	568,229
Total cash receipts	14,678,348	13,908	14,692,256
Cash payments			
Transfers to the Ministry of Finance	8,900,000	–	8,900,000
Letters of credit for the benefit of Iraqi ministries	3,525,443	–	3,525,443
Contracts administered by U.S. Agencies	–	41,313	41,313
Iraqi external debt repayments	111,180	–	111,180
Other payments	180,432	–	180,432
Total cash payments	12,717,055	41,313	12,758,368
Excess (deficit) of receipts over payments	1,961,293	(27,405)	1,933,888
Purchased treasury bills during the period	(6,567,908)	–	(6,567,908)
Proceeds from treasury bills during the period	6,640,772	–	6,640,772
Cash and cash equivalents at 1 January	869,952	596,706	1,466,658
Transfers	(13,908)	13,908	–
Cash and cash equivalents at 30 June	2,890,201	583,209	3,473,410
Treasury bills at 30 June	5,516,143	–	5,516,143
	8,406,344	583,209	8,989,553