

**DEVELOPMENT FUND FOR IRAQ**

**UNAUDITED INTERIM STATEMENT OF  
CASH RECEIPTS AND PAYMENTS**

**30 JUNE 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**

***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 2007 to 30 June 2007. Management is responsible for the preparation and presentation of these interim financial statements in accordance with International Public Sector Accounting Standard “Financial Reporting under the Cash Basis of Accounting”. Our responsibility is to express a conclusion on this interim financial statement based on our review.

***Scope of Review***

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 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.

***Qualifications***

1. As further explained in note 2 to the interim financial statement, the DFI’s accounting records are not complete, as these records do not include all the information required to support the interim statement of cash receipts and payments and the related disclosure notes for the period from 1 January 2007 to 30 June 2007. The accompanying interim 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 review procedures to determine the effect of the incomplete accounting records on the interim financial statement and the related disclosures for the period from 1 January 2007 to 30 June 2007.
2. 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 internal controls over the Iraqi oil industry were not sufficient and we could not rely on those internal controls for the purposes of our review to ensure the completeness of the export sales of petroleum and petroleum products for the period from 1 January 2007 to 30 June 2007 from which proceeds were required to be deposited in the DFI in accordance with United Nations Security Council Resolution (UNSCR) 1483 (2003). Due to weaknesses in the internal control systems, insufficient information is available to extend our review procedures to ensure the completeness of export sales of petroleum and petroleum products and the compliance with UNSCR 1483 (2003).
3. As further explained in note 3 to the financial statement, cash received from export sales of petroleum products during the period from 1 January 2007 to 30 June 2007 amounting to U.S. \$ 375,147 thousand has been deposited in bank accounts controlled by the Oil Marketing Company (SOMO). According to UNSCR

**INDEPENDENT AUDITORS' REPORT TO THE  
GOVERNMENT OF IRAQ AND THE INTERNATIONAL ADVISORY AND MONITORING  
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FOR IRAQ (CONTINUED)**

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 from 1 January 2007 to 30 June 2007 and the cash balance as of 30 June 2007 are understated by U.S. \$ 356,390 thousand (from inception to 30 June 2007: U.S. \$ 1,332,128 thousand).

4. As further explained in note 16 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. Due to weaknesses in the internal control systems, we could not extend our review procedures to ensure the completeness and accuracy of the outstanding contractual commitments balance as of 30 June 2007.
5. As further explained in note 8 to the interim financial statement, the letters of credit cash payments during the period from 1 January 2007 to 30 June 2007 include payments amounting to U.S. \$ 594,576 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. \$ 909,956 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 period from 1 January 2007 to 30 June 2007 are overstated and the cash balance as of 30 June 2007 is understated by U.S. \$ 594,576 thousand (from 1 July 2005 to 30 June 2007: U.S. \$ 1,189,404 thousand)

***Bases of Qualified Conclusion***

Based on our review, except for the effects of the matters referred to in the preceding paragraphs, nothing has come to our attention that causes us to believe that the accompanying interim financial statement are 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 qualifying our review report, we draw attention to note 3 to the interim financial statement, which states that there were barter transactions for exports of petroleum and petroleum products during the period from 1 January 2007 to 30 June 2007 amounting to U.S. \$ 110,828 thousand (from inception to 30 June 2007: U.S. \$ 926,035 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 interim statement of cash receipts and payments.

Without qualifying our review report, we draw attention to note 19 to the interim financial statement, which states that the DFI's statement of cash receipts and payments has not been prepared on a going concern basis. UNSCR 1723 (2006) extended until 31 December 2007 the arrangements established in paragraph 20 of UNSCR 1483 (2003) for the depositing of proceeds from export sales of petroleum, petroleum products and natural gas into the DFI.

Our report is intended solely for the information and use of the Government of Iraq and the International Advisory and Monitoring Board of the Development Fund for Iraq 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. However, the distribution of this report is not limited.



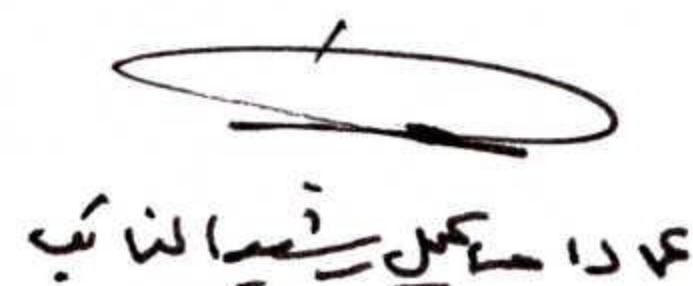
## INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

30 June 2007

		<i>1 January to 30 June 2007</i>	<i>1 January to 30 June 2006</i>
	<i>Notes</i>	<i>U.S. \$ 000'</i>	<i>U.S. \$ 000'</i>
		<b>Unaudited</b>	
<b>Cash Receipts</b>			
Export sales of petroleum	3	13,813,989	12,569,474
Proceeds from frozen assets in foreign countries	4	1,174	9,473
Interest received	5	308,864	172,068
Other receipts	6	568,229	195,075
<b>Total Cash Receipts</b>		<u>14,692,256</u>	<u>12,946,090</u>
<b>Cash Payments</b>			
Transfers to the Ministry of Finance	7	8,900,000	5,900,000
Letters of credit for the benefit of Iraqi ministries	8	3,525,443	4,598,139
Contracts administered by U.S. Agencies	9	41,313	140,644
Iraqi external debt repayments	10	111,180	352,986
Other payments	11	180,432	63,216
<b>Total Cash Payments</b>		<u>12,758,368</u>	<u>11,054,985</u>
<b>Excess of cash receipts over cash payments</b>		<b>1,933,888</b>	<b>1,891,105</b>
Purchased Treasury bills during the period		(6,567,908)	(1,954,861)
Proceeds from Treasury bills on maturity during the period		6,640,772	1,967,991
Cash and cash equivalents, beginning of period		1,466,657	4,314,696
Cash and cash equivalents, end of period	12	<u>3,473,409</u>	<u>6,218,931</u>
Treasury bills, end of period	13	<u>5,516,143</u>	<u>1,954,861</u>
<b>Cash and cash equivalents and Treasury bills, end of period</b>		<u><u>8,989,552</u></u>	<u><u>8,173,792</u></u>



Minister of Finance


Director General of MOF  
Accounting Department

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

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NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

30 June 2007

**1 ENTITY'S INFORMATION**

The interim 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. Further, UNSC 1723 (2006) states that these arrangements shall be reviewed at the request of the Government of Iraq or by no later than 15 June 2007.

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.

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NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

30 June 2007

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES**

**Basis of preparation**

The interim 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 interim 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 period from 1 January 2007 to June 2007 are not complete. 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. However, during 2006 the reporting period has been changed to be annually from 1 January to 31 December.

The accounting policies are consistent with those used during the year ended 31 December 2006. During the 6 months ended 30 June 2005, the DFI benefited from deposits made by the Iraqi ministries and other governmental entities for payments on their behalf. Cash receipts and payments which passed through bank accounts administered by the DFI were included in the financial statement on a net basis. However, these deposits ceased during April 2005 and the related bank account was closed.

**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 the suppliers.

## NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

30 June 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 period.

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 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>1 January to 30 June 2007 U.S. \$ 000'</i>	<i>1 January to 30 June 2006 U.S. \$ 000'</i>
Total export sales of petroleum during the period	<b>15,392,313</b>	14,827,160
Less: Demurrage claims deducted from export sales invoices	<b>(8,502)</b>	(13,323)
Proceeds deposited in OPRA after end of period	<b>(2,914,558)</b>	(3,071,466)
Seized amount by Court of Roma *	-	(10,886)
Add: Proceeds deposited during the current year related to prior period export sales invoices	<b>2,071,531</b>	1,499,351
Interest on delayed bank transfers	<b>258</b>	189
<b>Proceeds deposited in OPRA during the period</b>	<b>14,541,042</b>	13,231,025
Less: Amounts transferred to the Compensation Fund (5%)	<b>(727,053)</b>	(661,551)
<b>Net proceeds deposited in the DFI during the period (95%)</b>	<b>13,813,989</b>	12,569,474

\* 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 cash received from export sales of petroleum products during the period from 1 January 2007 to 30 June 2007 amounting to U.S. \$ 375,147 thousand (from inception to 30 June 2007: U.S. \$ 1,402,240 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. Based on the amount of net cash received from export sales of petroleum products as recorded by SOMO, payments to the DFI bank account and the UN Compensation Fund for the period from 1 January 2007 to 30 June 2007 amount to U.S. \$ 356,390 thousand and U.S. \$ 18,757 thousand respectively (from inception to 30 June 2007: U.S. \$ 1,332,128 thousand and U.S. \$ 70,112 thousand respectively).



## NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

30 June 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 period from 1 January 2007 to 30 June 2007 is U.S. \$ 110,828 thousand (from inception to 30 June 2007: U.S. \$ 926,035 thousand). As these barter transactions were non-cash, they are not recorded in the DFI's interim 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 2006 would amount to U.S. \$ 5,541 thousand (from inception to 30 June 2007: U.S. \$ 46,302 thousand).

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 sabotage 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.

**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 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 30 June 2007 U.S. \$ 000'</i>	<i>1 January to 30 June 2006 U.S. \$ 000'</i>
United Kingdom	322	-
Switzerland	14	-
Sweden	7	-
United States of America	-	1,349
Luxembourg	-	7,982
Lebanon	-	67
Others	831	75
	<u>1,174</u>	<u>9,473</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 during 2007 and prior periods 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 is amounting 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 amount of these transfers.



## NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

30 June 2007

**5 INTEREST RECEIVED**

This amount consists of

	<i>1 January to 30 June 2007 U.S. \$ 000'</i>	<i>1 January to 30 June 2006 U.S. \$ 000'</i>
Overnight repurchase agreement pool facility	99,034	86,436
U.S. Treasury bills	143,328	51,623
Letters of credit cash margins	66,502	34,009
	<u>308,864</u>	<u>172,068</u>

**6 OTHER RECEIPTS**

This amount consists of

	<i>1 January to 30 June 2007 U.S. \$ 000'</i>	<i>1 January to 30 June 2006 U.S. \$ 000'</i>
Refunded letters of credit cash margins	549,823	190,477
Refunds from the CBI	-	108
Others	18,406	4,490
	<u>568,229</u>	<u>195,075</u>

**7 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 interim financial statement for the period from 1 January 2007 to 30 June 2007, the cash transferred from the DFI account at the FRBNY to the MOF current account at the CBI of U.S. \$ 8,900,000 thousand was recorded immediately as cash payments before transferring the cash to the intended ministry (1 January 2006 to 30 June 2006: U.S. \$ 5,900,000). Based on the MOF records, the total amounts transferred to the Iraqi ministries and related entities and Kurdistan Region during the period from 1 January 2007 to 30 June 2007 in accordance with the MOF's records amounted to U.S. \$ 12,953,292 thousand (1 January 2006 to 30 June 2006: U.S. \$ 6,840,004 thousand).

**8 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 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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NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS  
30 June 2007
**8 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 30 June 2007 U.S. \$ 000'</i>	<i>1 January to 30 June 2006 U.S. \$ 000'</i>
Oil	1,398,893	2,246,315
Trade	757,907	1,409,315
Electricity	345,874	365,190
Health	281,658	168,355
Municipality and Public Works	261,559	222,116
Interior	176,319	-
Defence	153,136	-
Water Resources	46,198	57,246
Telecommunications	45,029	10,921
Industry and Minerals	29,545	10,756
Transportation	18,645	64,077
Agriculture	9,967	6,782
Construction and Housing	713	1,843
Finance	-	34,302
Justice	-	919
Others	-	2
	<u>3,525,443</u>	<u>4,598,139</u>

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 amounting to U.S. \$ 594,576 thousand (from 1 July 2005 to 30 June 2007: U.S. \$ 1,189,404 thousand). Conversely, the MOF received advance payments from these entities to fund their letters of credit payments amounting to U.S. \$ 909,956 thousand (from 1 July 2005 to 30 June 2007: U.S. \$ 1,504,784 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 period from 1 January 2007 to 30 June 2007.

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, shovels and garbage collecting vehicles and spare parts.

## NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

30 June 2007

**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. 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 30 June 2007 U.S. \$ 000'</i>	<i>1 January to 30 June 2006 U.S. \$ 000'</i>
Development of Provinces	32,841	-
Interior	4,078	40,435
Baghdad Municipality	1,979	-
Municipality and Public works	778	-
Education	100	-
Oil	-	65,969
National Security and Defence	-	13,055
Transportation	-	9,400
Electricity	-	5,110
Justice	-	535
Finance	-	10
Various ministries and governmental entities	1,537	6,130
	<u>41,313</u>	<u>140,644</u>

**10 IRAQI EXTERNAL DEBT REPAYMENTS**

	<i>1 January to 30 June 2007 U.S. \$ 000'</i>	<i>1 January to 30 June 2006 U.S. \$ 000'</i>
Citibank, N. A.*	-	324,285
Interest paid to JP Morgan Chase Bank**	80,898	-
Islamic Development Bank***	30,282	28,701
	<u>111,180</u>	<u>352,986</u>

\* 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.

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS  
30 June 2007

**11 IRAQI EXTERNAL DEBT REPAYMENTS (CONTINUED)**

During 2005, the Government of Iraq has engaged Citibank, N. A. to act as Settlement Agent for the settlement of the reconciled eligible claims based on the Iraqi External Debt Reconciliation Project.

\*\* During 2005, the Ministry of Finance and the Central Bank of Iraq engaged with Citigroup Global Markets Inc. and JP Morgan Securities Inc. to act as the joint lead managers to restructure the eligible claims based on the Iraqi External Debt Reconciliation Project for commercial creditors with due balance exceeding U.S. \$ 35,000 thousand (Debt Exchange Offer).

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 30 June 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 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. \$ was paid during 2005 and the remaining balance is to be paid in four equal semi-annual installments starting on 31 March 2006 and last payment is due on 30 September 2007.

**11 OTHER PAYMENTS**

	<i>1 January to 30 June 2007 U.S. \$ 000'</i>	<i>1 January to 30 June 2006 U.S. \$ 000'</i>
Baghdad Municipality	172,518	842
Consulting and outsourcing (MOF)	2,627	1,350
The Independent Electoral Commission of Iraq	471	12,014
Inter-Arab Investment Guarantee Corporation *	-	46,000
Iraqi Media Network	-	2,704
OPEC membership	-	26
Others	4,816	280
	<b>180,432</b>	<b>63,216</b>

\* 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 INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

30 June 2007

**12 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are as follow:-

	<i>30 June 2007 U.S. \$ '000'</i>	<i>30 June 2006 U.S. \$ '000'</i>
Accounts maintained at FRBNY:		
Overnight repurchase agreement pool facility	3,448,900	6,186,100
Operating accounts	<u>54</u>	<u>346</u>
	<b>3,448,954</b>	<b>6,186,446</b>
Cash on hand held centrally by U.S. Agencies	<u>24,455</u>	<u>32,485</u>
	<b><u>3,473,409</u></b>	<b><u>6,218,931</u></b>

Accounts at the FRBNY are detailed as follows:-

	<i>30 June 2007 U.S. \$ '000'</i>	<i>30 June 2006 U.S. \$ '000'</i>
CBI/DFI	2,918,016	5,474,786
Transition Account - U.S. Agencies	530,938	674,430
Others	<u>-</u>	<u>37,230</u>
	<b><u>3,448,954</u></b>	<b><u>6,186,446</u></b>

**13 TREASURY BILLS**

	<i>30 June 2007 U.S. \$ '000'</i>	<i>30 June 2006 U.S. \$ '000'</i>
Face Value	5,640,000	2,002,000
Discount	<u>(123,857)</u>	<u>(47,139)</u>
Treasury bills cost	<b><u>5,516,143</u></b>	<b><u>1,954,861</u></b>

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

## NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

30 June 2007

**14 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.

Based on the United Nations confirmation of the OFF's Escrow Account, the obligations and the cash held at period end was as follows:

	<i>30 June 2007 U.S. \$ 000'</i>	<i>31 December 2006 U.S. \$ 000'</i>
Includes UNMOVIC		
Total cash held with the United Nations Escrow Account	<u>1,266,269</u>	<u>1,220,401</u>
Obligated for letters for credit	<u>711,114</u>	<u>915,654</u>
Other obligations and liabilities	<u>6,207</u>	<u>5,606</u>
Excluding UNMOVIC		
Operating reserve	<u>202,725</u>	<u>204,037</u>
Cumulative surplus	<u>292,616</u>	<u>41,456</u>
Reserve and cumulative surplus	<u>495,341</u>	<u>245,493</u>
Remaining balance in UNMOVIC	<u>61,063</u>	<u>66,430</u>

Letters of credit obligations of U.S. \$ 454,949 thousand expired before 1 January, 2007 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 has been designated as a reserve to meet the estimated liquidation costs pertaining to UNMOVIC, including the settlement of debts owed to the Government of Germany and archiving and staff related costs. The remaining cumulative surplus in the amount of U.S. \$ 25,104 thousand was transferred to DFI on 28 September 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 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 and key management of the DFI did not receive compensation or fees directly from the DFI during the period from 1 January 2007 to 30 June 2007.

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NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

30 June 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. The outstanding contractual commitments balance in accordance with the U.S. Agencies records amounted to U.S. \$ 149,299 as of 30 June 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 LITIGATIONS**

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 30 June 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. This immunity expires on 31 December 2007 unless the United Nations Security Council decides otherwise.

**19 GOING CONCERN**

The DFIs' interim statement of cash receipts and payments has not been prepared on a going concern basis.

UNSCR 1723 (2006) extended until 31 December 2007 the arrangements established in paragraph 20 of UNSCR 1483 (2003) for depositing proceeds from export sales of petroleum, petroleum products, and natural gas into the Development Fund for Iraq 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.

**20 TAXATION**

The DFI is not subject to taxation.

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS  
30 June 2007

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

Analysis for the period from 1 January 2007 to 30 June 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>
<b>Cash Receipts</b>			
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
<b>Total Cash Receipts</b>	<b>14,678,348</b>	<b>13,908</b>	<b>14,692,256</b>
<b>Cash Payments</b>			
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
<b>Total Cash Payments</b>	<b>12,717,055</b>	<b>41,313</b>	<b>12,758,368</b>
<b>Excess (deficit) of receipts over payments</b>	<b>1,961,293</b>	<b>(27,405)</b>	<b>1,933,888</b>
Purchased Treasury bills during the period	(6,567,908)	-	(6,567,908)
Proceeds from Treasury bills on maturity during the period	6,640,772	-	6,640,772
Cash and cash equivalents, beginning of period	869,952	596,706	1,466,657
Transfers	(13,908)	13,908	-
Cash and cash equivalents, end of period	2,890,201	583,209	3,473,409
Treasury bills	5,516,143	-	5,516,143
<b>Cash and cash equivalents and Treasury bills, end of period</b>	<b>8,406,344</b>	<b>583,209</b>	<b>8,989,552</b>



NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS  
30 June 2007

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

Analysis for the period from 1 January 2006 to 30 June 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>
<b>Cash Receipts</b>			
Export sales of petroleum	12,569,474	-	12,569,474
Proceeds from frozen assets at foreign countries	9,473	-	9,473
Interest received	155,779	16,289	172,068
Other receipts	195,075	-	195,075
<b>Total Cash Receipts</b>	<u>12,929,801</u>	<u>16,289</u>	<u>12,946,090</u>
<b>Cash Payments</b>			
Transfers to the Ministry of Finance	5,900,000	-	5,900,000
Letters of credit for the benefit of Iraqi ministries	4,598,139	-	4,598,139
Contracts administered by U.S. Agencies	-	140,644	140,644
Iraqi external debt repayments	352,986	-	352,986
Other payments	63,216	-	63,216
<b>Total Cash Payments</b>	<u>10,914,341</u>	<u>140,644</u>	<u>11,054,985</u>
<b>Excess (deficit) of receipts over payments</b>	2,015,460	(124,355)	1,891,105
Purchased Treasury bills during the period	(1,954,861)	-	(1,954,861)
Proceeds from Treasury bills on maturity during the period	1,967,991	-	1,967,991
Cash and cash equivalents, beginning of period	3,467,138	847,558	4,314,696
Transfers	16,289	(16,289)	-
Cash and cash equivalents, end of period	<u>5,512,017</u>	<u>706,914</u>	<u>6,218,931</u>
Treasury bills	1,954,861	-	1,954,861
<b>Cash and cash equivalents and Treasury bills, end of period</b>	<u>7,466,878</u>	<u>706,914</u>	<u>8,173,792</u>