

Development Fund for Iraq

INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

**FOR THE PERIOD FROM
1 JANUARY 2006 TO 30 JUNE 2006
(UNAUDITED)**

**REPORT ON REVIEW OF INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS
TO THE GOVERNMENT OF IRAQ AND THE INTERNATIONAL ADVISORY AND
MONITORING BOARD 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 2006 to 30 June 2006. Management is responsible for the preparation and 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 of the DFI for the period from 1 January 2005 to 30 June 2005 was audited by another auditor whose report dated 20 September 2005 expressed a qualified audit opinion on the completeness of cash receipts, on the completeness of export sales of petroleum and petroleum products and on the completeness and accuracy of contractual commitments.

Scope of review

Except as discussed in the following paragraphs, 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.

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 statement of cash receipts and payments and the related disclosure notes for the period from 1 January 2006 to 30 June 2006. 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 2006 to 30 June 2006.

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 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 2006 to 30 June 2006 from which proceeds were required to be deposited in the DFI in accordance with United Nations Security Council Resolution (UNSCR) 1483. 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.
3. As further explained in note 3 to the interim financial statement, cash received from export sales of petroleum products during the period from 1 January 2006 to 30 June 2006 amounting to U.S. \$ 342,267 thousand has been deposited in bank accounts controlled by State Oil Marketing Organization (SOMO). According to UNSCR 1483, 95% of the proceeds of export sales of petroleum and petroleum products shall be deposited in the DFI bank accounts. Therefore, the cash receipts for the period from 1 January 2006 to 30 June 2006 and the cash balance as of 30 June 2006 are understated by U.S. \$ 325,154 thousand (from inception to 30 June 2006: U.S. \$ 694,609 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. The U.S. Agencies contractual commitments records as of 30 June 2006 were incomplete. Due to weaknesses in the internal control systems and the unavailability of sufficient information, we could not extend our review procedures to ensure the completeness and accuracy of the contractual commitments balance as of 30 June 2006.
5. As further explained in note 9 to the interim financial statement, letters of credit cash payments during the period from 1 January 2006 to 30 June 2006, include payments for letters of credit of certain Iraqi Ministries that are not covered by the DFI budget amounting to U.S. \$ 220,581 thousand. Conversely, the MOF received advance payments from these ministries to fund their letters of credit payments amounting to U.S. \$ 317,567 thousand, which have been deposited in the MOF accounts and have not been transferred to the DFI accounts at the FRBNY. Accordingly, the DFI's total cash payments for the period from 1 January 2006 to 30 June 2006 are overstated by U.S \$ 220,581 thousand.

Bases of Qualified Conclusion

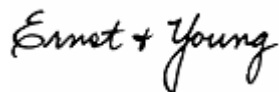
Based on our review, except for the effects of the matters referred to in the preceding paragraphs, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with the International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting”.

Emphasis of Matter

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 1637 (2005) extended until 31 December 2006 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.

Ernst & Young



6 June 2007
Baghdad, Iraq

Development Fund for Iraq

INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

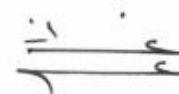
For the period from 1 January 2006 to 30 June 2006 (Unaudited)

		<i>1 January to 30 June 2006</i>	<i>1 July to 31 December 2005</i>	<i>1 January to 30 June 2005</i>
	<i>Notes</i>	<i>U.S. \$ '000' Unaudited</i>	<i>U.S. \$ '000' Audited</i>	<i>U.S. \$ '000' Audited</i>
Cash Receipts				
Export sales of petroleum	3	12,569,474	12,704,059	9,209,911
UN Oil for Food program	4	-	62,321	750,000
Proceeds from frozen assets in foreign countries	5	9,473	286,828	118,690
Interest received	6	172,068	126,354	71,520
Other receipts	7	195,075	345,826	139,420
Total Cash Receipts		12,946,090	13,525,388	10,289,541
Cash Payments				
Transfers to the Ministry of Finance	8	5,900,000	7,750,000	7,001,258
Letters of credit for the benefit of Iraqi ministries	9	4,598,139	4,435,174	2,491,174
Contracts administered by U.S. Agencies	10	140,644	116,603	302,446
Iraqi external debt repayments	11	352,986	159,315	362
Other payments	12	63,216	112,027	86,401
Total Cash Payments		11,054,985	12,573,119	9,881,641
Excess of cash receipts over cash payments		1,891,105	952,269	407,900
Proceed from matured prior period Treasury bills	13	1,967,991	-	-
Outstanding Treasury bills	13	(1,954,861)	(1,967,991)	-
Cash and cash equivalents, beginning of period		4,314,696	5,330,418	4,922,518
Cash and cash equivalents, end of period	14	6,218,931	4,314,696	5,330,418



Minister of Finance

DHIA. H. AL-KHAYOUN
D. f. MOF.



Director General of MOF
Accounting Department

GHAZI Faisak ABdul Hameed

The attached notes 1 to 22 form part of this interim financial statements.

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

1 ACTIVITIES

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.

UNSCR 1637 extended until 31 December 2006 the arrangements for depositing into the DFI of proceeds from export sales of petroleum, petroleum products, and natural gas, as well as the arrangements for the monitoring of the Development Fund for Iraq by the International Advisory and Monitoring Board.

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 will be expired on 31 December 2006. The U.S. Agencies include the Joint Contracting Command-Iraq, 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, 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 UN Oil for Food (OFF) program, established by UNSCR 986, are to be transferred to the DFI.

In accordance with UNSCR 1483, 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.

The International Advisory and Monitoring Board (IAMB) of the DFI was appointed in accordance with UNSCR 1483, UNSCR 1546, and UNSCR 1637. The IAMB is an audit oversight body for the DFI, its purpose is to promote the objectives set forth in UNSCR 1546, and UNSCR 1483, 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.

The interim statement of cash receipts and payments was authorised for issue in accordance with the Minister of Finance approval on 6 June 2007.

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim statement of cash receipts and payments (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.

The DFI's accounting records for the period from 1 January 2006 to 30 June 2006 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 IAMB changed the reporting period to be annually from 1 January to 31 December as a result the accompanying financial statement is considered to be an interim financial statement.

The interim financial statement contains all information and disclosures required for full financial statement prepared in accordance with International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting".

The results for the 6 months ended 30 June 2006 are not necessarily indicative of the results that may be expected for the full financial year ending 31 December 2006.

The accounting policies are consistent with those used during the 6 months ended 31 December 2005. For 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 passed through bank accounts administered by the DFI were included in the statement of cash receipts and payments 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 received in the DFI bank accounts. Non-cash transactions, including barter transactions, are not recorded.

Cash payments

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

Cash and cash equivalents

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

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

3 EXPORT SALES OF PETROLEUM

Export sales of petroleum and petroleum products are arranged and invoiced exclusively by the State Oil Marketing Organization (SOMO), the sales arm of the Ministry of Oil.

According to UNSCR 1483, the proceeds of export sales of petroleum and petroleum products shall be deposited into the Oil Proceeds Receipts Account (OPRA) 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 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 and subsequent relevant resolutions, as a result of the Iraqi invasion of Kuwait during 1990.

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 during the period from 1 January 2006 to 30 June 2006 were as follows:

	<i>1 January to 30 June 2006 U.S. \$ 000 Unaudited</i>	<i>1 July to 31 December 2005 U.S. \$ 000 Audited</i>	<i>1 January to 30 June 2005 U.S. \$ 000 Audited</i>
Total export sales of petroleum during the period	14,827,160	12,872,974	10,395,418
Less: Demurrage claims deducted from export sales invoices	(13,323)	(15,419)	(12,952)
Proceeds deposited in OPRA after end of period	(3,071,466)	(1,499,352)	(2,014,395)
Seized amount by Court of Roma *	(10,886)	-	-
Add: Proceeds deposited during the current period related to prior period export sales	1,499,351	2,014,395	1,326,527
Interest on delayed bank transfers	189	96	45
Proceeds deposited in the OPRA during the period	13,231,025	13,372,694	9,694,643
Less: Amounts transferred to the Compensation Fund (5%)	(661,551)	(668,635)	(484,732)
Net proceeds deposited in the DFI during the period (95%)	12,569,474	12,704,059	9,209,911

* This amount was seized based on Court of Roma – Italy seizure order on March 23, 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.

As the OPRA account 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.

Net cash received from export sales of petroleum products during the period from 1 January 2006 to 30 June 2006 amounted to U.S. \$ 342,267 thousand (from inception to 30 June 2006: U.S. \$ 731,167 thousand), were not deposited into the OPRA and are not recorded in the DFI's financial statement. These funds were deposited in bank accounts controlled by SOMO.

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

3 EXPORT SALES OF PETROLEUM (CONTINUED)

SOMO also engages in barter transactions 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 with the Syrian Government. The value of these barter transactions, as recorded by SOMO, for the period from 1 January 2006 to 30 June 2006 is U.S. \$ 52,592 thousand (from inception to 30 June 2006: U.S. \$ 692,262 thousand). As these barter transactions are non-cash, they were not recorded in the DFI's financial statement.

The Ministry of Oil does not operate a full operational loading and metering system for export sales at loading points to ensure that all export sales of petroleum and petroleum products 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 the OPRA account.

4 UN OIL FOR FOOD PROGRAM

The UN Oil for Food (OFF) program was established by UNSCR 986 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.

There were no OFF transfers to the DFI during the period from 1 January 2006 to 30 June 2006 (1 July 2005 to 31 December 2005 and 1 January 2005 to 30 June 2005: U.S. \$ 62,321 thousand and U.S. \$ 750,000 thousand respectively).

Based on the United Nations confirmation of the OFF's Escrow Account, the cash held as of 30 June 2006 as follows:

	<i>30 June 2006 U.S. \$ 000' Unaudited</i>	<i>Dec 31, 2005 U.S. \$ 000' Audited</i>	<i>30 June 2005 U.S. \$ 000' Audited</i>
Including UNMOVIC			
Total cash held with United Nations Escrow Account	<u>1,503,045</u>	<u>1,561,251</u>	<u>1,962,538</u>
Obligated for letter for credit	<u>1,036,569</u>	<u>1,261,841</u>	<u>1,599,713</u>
Obligated for other costs	<u>15,901</u>	<u>30,568</u>	<u>34,201</u>
Excluding UNMOVIC			
Operating reserve	<u>205,297</u>	<u>147,792</u>	<u>191,468</u>
Cumulative surplus	<u>142,325</u>	<u>15,162</u>	<u>60,564</u>
Reserve and cumulative surplus	<u>347,622</u>	<u>162,954</u>	<u>252,032</u>
Remaining balance in UNMOVIC	<u>109,652</u>	<u>113,928</u>	<u>121,195</u>

Letters of credit obligations of U.S. \$ 139,909 thousand expired before 30 June 2006 (1 July 2005 to 31 December 2005 and from 1 January 2005 to 30 June 2005: U.S. \$ 422,210 thousand and U.S. \$ 840,843 thousand respectively) 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.

There are no restrictions, conditions or other covenants over funds received from the OFF program. As of 30 June 2006, there were no pending transfers of the OFF program fund to the DFI.

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

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 May 22, 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 during the period were as follows:

	<i>1 January to 30 June 2006 U.S. \$ 000' Unaudited</i>	<i>1 July to 31 December 2005 U.S. \$ 000 Audited</i>	<i>1 January to 30 June 2005 U.S. \$ 000' Audited</i>
Luxembourg	7,982	-	-
United States of America	1,349	163	-
Lebanon	67	2,016	71,949
Syria	-	261,000	45,360
Italy	-	9,387	-
Japan	-	4,627	-
Switzerland	-	3,112	1,269
Sweden	-	2,566	-
Russia	-	1,285	-
South Africa	-	1,059	-
Jordan	-	828	-
Egypt	-	551	-
Others	75	234	112
	<u>9,473</u>	<u>286,828</u>	<u>118,690</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 2005 and prior periods include assets related to the Central Bank of Iraq and other governmental institutions. On November 22, 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. To the financial statement date, the MOF has not confirmed the amounts that may 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, the DFI management does not have sufficient information to reliably determine the amount of these transfers.

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

6 INTEREST RECEIVED

	<i>1 January to 30 June 2006 U.S. \$ 000' Unaudited</i>	<i>1 July to 31 December 2005 U.S. \$ 000 Audited</i>	<i>1 January to 30 June 2005 U.S. \$ 000' Audited</i>
Overnight repurchase agreement pool facility	86,436	106,898	52,268
Letters of credit cash margins	51,623	17,121	19,252
U.S. Treasury bills	34,009	2,335	-
	<u>172,068</u>	<u>126,354</u>	<u>71,520</u>

7 OTHER RECEIPTS

	<i>1 January to 30 June 2006 U.S. \$ 000' Unaudited</i>	<i>1 July to 31 December 2005 U.S. \$ 000 Audited</i>	<i>1 January to 30 June 2005 U.S. \$ 000' Audited</i>
Refunded letters of credit cash margins	190,477	235,786	136,299
Refunds from the CBI	108	77,695	-
Cash transferred from the U.S. Agencies during prior period and received during the period	-	30,088	-
Others	4,490	2,257	3,121
	<u>195,075</u>	<u>345,826</u>	<u>139,420</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 period from 1 January 2006 to 30 June 2006, the cash transferred from the DFI account at the FRBNY to the MOF current account at the CBI of U.S. \$ 5,900,000 thousand was recorded immediately as cash payments before transferring the cash to the intended ministry. Based on the MOF records, the total amounts transferred to the Iraqi Ministries and related entities during the period from 1 January 2006 to 30 June 2006 amounted to U.S. \$ 6,840,004 thousand.

During the period from July 1, 2005 to December 31, 2005 the cash transferred from the DFI account at the FRBNY to the MOF current account at the CBI amounted U.S. \$ 7,750,000 thousand, and the total amounts transferred to the Iraqi Ministries and related entities amounted U.S. \$ 6,742,132 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 JP Morgan Chase Bank. These letters of credit are charged to the budget of the intended ministry or government entity and the related contracts are managed by these ministries.

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

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

The transferred cash is held at JP Morgan Chase Bank 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 held at JP Morgan Chase Bank as of 30 June 2006 amounted to U.S. \$ 2,987,661 thousand (31 December 2005 and 30 June 2005: U.S. \$ 3,166,190 thousand and U.S. \$ 2,750,714 thousand respectively) for letters of credit opened on behalf of the Iraqi Ministries. 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 letters of credit to the suppliers.

Interest received on the letters of credit cash margins is disclosed in Note 6.

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

<i>Ministry of:</i>	<i>1 January to 30 June 2006 U.S. \$ '000' Unaudited</i>	<i>1 July to 31 December 2005 U.S. \$ '000 Audited</i>	<i>1 January to 30 June 2005 U.S. \$ '000' Audited</i>
Oil	2,246,315	2,582,834	1,195,526
Trade	1,409,315	1,199,493	973,974
Health	168,355	211,793	99,594
Electricity	365,190	142,641	67,089
Defence	-	95,199	-
Telecommunications	10,921	80,167	3,970
Water Resources	57,246	47,858	-
Kurdistan Region (Finance & Agriculture)	-	17,857	-
Transportation	64,077	15,817	-
Agriculture	6,782	15,110	105,399
Industry and Minerals	10,756	9,787	4,113
Municipality and Public Works	222,116	8,712	800
Construction and Housing	1,843	3,534	647
Justice	919	2,118	42
Finance	34,302	-	19,006
Iraqi Media Network	-	-	15,467
Labour and Social Affairs	-	-	5,547
Other ministries	2	2,254	-
	<u>4,598,139</u>	<u>4,435,174</u>	<u>2,491,174</u>

The above letters of credit cash payments includes payments for letters of credit of certain ministries that are not covered by the DFI budget amounting to U.S. \$ 220,581 thousand. However, the MOF also received advance payments from these ministries to fund the payments of their letters of credit amounting to U.S. \$ 317,567 thousand, which have not been deposited in the DFI accounts during the period from 1 January 2006 to 30 June 2006.

Letters of credit were opened on behalf of the Ministry of Oil, primarily for fuel imports 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; and the Ministry of Electricity, for the purchase and maintenance of power plant turbines, generators and electrical transmission lines.

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

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 will expire on 31 December 2006. During the prior periods, U.S. \$ 2,800,000 thousand was transferred to the DFI sub-account to meet the commitments entered into by the former CPA.

Payments for the period from 1 January 2006 to 30 June 2006 were for the benefit of the following Iraqi ministries:

<i>Ministry of:</i>	<i>1 January to 30 June 2006 U.S. \$ 000'</i>	<i>1 July to 31 December 2005 U.S. \$ 000</i>	<i>1 January to 30 June 2005 U.S. \$ 000'</i>
	<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>
Oil	65,969	52,278	37,324
Interior	40,435	25,792	-
National Security and Defence	13,055	22,511	201,966
Transportation	9,400	-	-
Electricity	5,110	86	23,589
Justice	535	1,243	-
Finance	10	-	1,210
Agriculture	-	3,190	2,344
Various ministries	6,130	11,503	36,013
	<u>140,644</u>	<u>116,603</u>	<u>302,446</u>

11 IRAQI EXTERNAL DEBT REPAYMENTS

	<i>1 January to 30 June 2006 U.S. \$ 000'</i>	<i>1 July to 31 December 2005 U.S. \$ 000</i>	<i>1 January to 30 June 2005 U.S. \$ 000'</i>
	<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>
Citibank, N. A.	324,285	121,194	-
Islamic Development Bank	28,701	38,121	-
World bank	-	-	362
	<u>352,986</u>	<u>159,315</u>	<u>362</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, the Iraqi External Debt Reconciliation Project is still ongoing and there is insufficient information available regarding the balances that will be settled from the DFI accounts.

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 the period from 1 January 2006 to 30 June 2006 the net amounts transferred to Citibank, N.A. was U.S. \$ 324,285 thousand (from 1 July 2005 to 31 December 2005: U.S. \$ 121,194 thousand).

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

12 OTHER PAYMENTS

Other payments during the period were as follows:

	<i>1 January to 30 June 2006 U.S. \$ 000' Unaudited</i>	<i>1 July to 31 December 2005 U.S. \$ 000 Audited</i>	<i>1 January to 30 June 2005 U.S. \$ 000' Audited</i>
Inter – Arab Investment Guarantee Corporation *	46,000	-	-
The Independent Electoral Commission of Iraq	12,014	58,575	-
Iraqi Media Network	2,704	935	5,786
Consulting and outsourcing (MOF)	1,350	14,729	-
Baghdad Municipality	842	3,196	-
OPEC membership	26	1,852	2,064
Other payments made by U.S. Agencies	-	20,169	-
Interest paid to the CBI	-	3,417	-
Cash in transit transferred from the U.S. Agencies to DFI main account	-	-	30,088
Emergency pipeline repair (Ministry of Oil)	-	-	17,213
New Iraqi currency	-	-	7,535
Import of Sugar (Ministry of Trade)	-	-	6,888
Transportation cost (Ministry of Trade)	-	-	5,118
Various contracts	280	9,154	11,709
	63,216	112,027	86,401

* This amount was paid to the Inter-Arab Investment Guarantee Corporation for partial settlement of the total amount of U.S. \$ 120,983 thousands 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 was recorded by the Ministry of Finance as suspended advance payment until the completion of further investigations and approvals.

13 TREASURY BILLS

	<i>30 June 2006 U.S. \$ 000' Unaudited</i>	<i>Dec 31, 2005 U.S. \$ 000' Audited</i>	<i>30 June 2005 U.S. \$ 000' Audited</i>
Face Value	2,002,000	2,002,000	-
Discount	(47,139)	(34,009)	-
Treasury bills cost	1,954,861	1,967,991	-

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, 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 intent is to hold all Treasury bills until maturity dates.

Interest received on matured Treasury bills during the period is disclosed in Note 6.

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are as follow:-

	<i>30 June 2006 U.S. \$ 000' Unaudited</i>	<i>Dec 31, 2005 U.S. \$ 000' Audited</i>	<i>30 June 2005 U.S. \$ 000' Audited</i>
Accounts maintained at FRBNY:			
Overnight repurchase agreement pool facility	6,186,100	4,271,500	5,236,400
Operating accounts	346	153	359
	6,186,446	4,271,653	5,236,759
Cash on hand held centrally by U.S. Agencies*	32,485	43,043	93,659
	6,218,931	4,314,696	5,330,418

Accounts at the FRBNY are detailed as follows:-

	<i>30 June 2006 U.S. \$ 000' Unaudited</i>	<i>Dec 31, 2005 U.S. \$ 000' Audited</i>	<i>30 June 2005 U.S. \$ 000' Audited</i>
CBI/DFI	5,474,786	3,430,750	4,334,992
CBI/DFI (Vested Assets Account)	2,296	2,246	1,984
CBI/DFI (Funds Received from Rafidain Bank Account)**	34,689	33,902	33,184
CBI/DFI (Funds Received from SOMO Account)**	245	240	237
CBI/DFI (Transition Account - U.S. Agencies)*	674,430	804,515	866,362
	6,186,446	4,271,653	5,236,759

* The cash on hand held by the U.S. Agencies and the DFI Transition Account are designated for the payment of contracts signed by the former CPA, requiring payment subsequent to 28 June 2004. However, the total amount of the outstanding contractual commitments as of 30 June 2006 has not yet been determined.

** These accounts were opened on behalf of the Central Bank of Iraq pursuant to letters from the Administrator of the Coalition Provisional Authority dated 28 November 2003.

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 key management of the DFI and therefore considered to be related parties. Additionally, key officials of the U.S. Agencies and members of the IAMB are considered to be related parties.

There were no related party transactions, other than transactions with the CBI, the Iraqi Ministries and U.S. Agencies, as disclosed in various notes to the financial statement, and debt repayments to the World Bank, which has a representative on the IAMB, as disclosed in Note 11.

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 2006 to 30 June 2006.

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

16 COMMITMENTS AND CONTINGENCIES

Contractual commitments consist of open contracts, signed by the former CPA and managed by 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. The U.S. Agencies do not maintain complete lists of contractual obligations as of 30 June 2006. The U.S. Agencies are in the process of compiling a list of all contractual commitments, which is expected to be handed over to the Government of Iraq by 31 December 2006.

17 LITIGATION

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

Many of the lawsuits could be reconciled or settled under the Government of Iraq's External Debt Reconciliation Project. However, to the financial statement date, there is not sufficient information regarding the balances that have been reconciled or settled as of 30 June 2006, and the balances that will be reconciled and settled subsequent to the period end.

Due to the unavailability of sufficient information, the final outcome of these lawsuits, and their effect on the DFI's interim financial statement, is uncertain and can not be quantified as of 30 June 2006.

A claim has been filed against one CPA contractor, Custer Battles, by non-governmental parties for false claims made to the former CPA. The U.S. Department of Justice issued a brief on April 1, 2005 noting their opinion that the CPA contractors could be prosecuted under U.S. legislation, in the U.S. courts, for violation of the False Claims Act. On July 8, 2005, a U.S. court ruled against the brief and noted that the claim does not extend to DFI funded contracts. An appeal against the court ruling has not been filed. The Government of Iraq believes the impact on the DFI will not be material.

18 IMMUNITY

In accordance with UNSCR 1483, certain Member States have taken legal steps, as considered necessary, to ensure immunity of the petroleum and petroleum products originating in Iraq, until title passes to the initial purchaser, from legal proceedings against them so as not to be subject to any form of 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 DFI's interim statement of cash receipts and payments has not been prepared on a going concern basis.

UNSCR 1637 (2005) extended until 31 December 2006 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 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.

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

20 TAXATION

The DFI is not subject to taxation.

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

Analysis for the period from 1 January 2006 to 30 June 2006 is as follows:

	<i>Government of Iraq (main accounts) U.S. \$ 000' Unaudited</i>	<i>U.S. Agencies (sub-account) U.S. \$ 000' Unaudited</i>	<i>Total U.S. \$ 000' Unaudited</i>
Cash Receipts			
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
Total Cash Receipts	12,929,801	16,289	12,946,090
Cash Payments			
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
Total Cash Payments	10,914,341	140,644	11,054,985
Excess of receipts over payments (excess of payments over receipts)	2,015,460	(124,355)	1,891,105
Proceed from matured prior period Treasury bills	1,967,991	-	1,967,991
Outstanding Treasury bills	(1,954,861)	-	(1,954,861)
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	5,512,017	706,914	6,218,931

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

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

Analysis for the period from July 1, 2005 to December 31, 2005 is as follows:

	Government of Iraq (main accounts) U.S. \$ 000'	U.S. Agencies (sub-account) U.S. \$ 000'	Total U.S. \$ 000'
Cash Receipts			
Export sales of petroleum	12,704,059	-	12,704,059
UN Oil for Food program	62,321	-	62,321
Proceeds from frozen assets at foreign countries	286,828	-	286,828
Interest received	110,541	15,813	126,354
Other receipts	315,745	30,081	345,826
Total Cash Receipts	<u>13,479,494</u>	<u>45,894</u>	<u>13,525,388</u>
Cash Payments			
Transfers to the Ministry of Finance	7,750,000	-	7,750,000
Letters of credit for the benefit of Iraqi Ministries	4,435,174	-	4,435,174
Contracts administered by U.S. Agencies	-	116,603	116,603
Iraqi external debt repayments	159,315	-	159,315
Other payments	91,858	20,169	112,027
Total Cash Payments	<u>12,436,347</u>	<u>136,772</u>	<u>12,573,119</u>
Excess of receipts over payments (excess of payments over receipts)	1,043,147	(90,878)	952,269
Outstanding Treasury bills	(1,967,991)	-	(1,967,991)
Cash and cash equivalents, beginning of period	4,370,398	960,020	5,330,418
Transfers	21,584	(21,584)	-
Cash and cash equivalents, end of period	<u>3,467,138</u>	<u>847,558</u>	<u>4,314,696</u>

Development Fund for Iraq

NOTES TO THE INTERIM STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from 1 January 2006 to 30 June 2006 (Unaudited)

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

Analysis for the period from 1 January 2005 to 30 June 2005 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	9,209,911	-	9,209,911
UN Oil for Food program transfers	750,000	-	750,000
Proceeds from frozen assets at foreign countries	118,690	-	118,690
Interest received	58,932	12,588	71,520
Other receipts	101,026	38,394	139,420
Total Cash Receipts	<u>10,238,559</u>	<u>50,982</u>	<u>10,289,541</u>
Cash Payments			
Transfers to the Ministry of Finance	7,001,258	-	7,001,258
Letters of credit for the benefit of Iraqi Ministries	2,491,174	-	2,491,174
Contracts administered by U.S. agencies	-	302,446	302,446
Iraqi external debt repayments	362	-	362
Other payments	53,779	32,622	86,401
Total Cash Payments	<u>9,546,573</u>	<u>335,068</u>	<u>9,881,641</u>
Excess of receipts over payments (excess of payments over receipts)	691,986	(284,086)	407,900
Cash and cash equivalents, beginning of period	3,667,739	1,254,779	4,922,518
Transfers	10,673	(10,673)	-
Cash and cash equivalents, end of period	<u>4,370,398</u>	<u>960,020</u>	<u>5,330,418</u>

22 COMPARATIVE FIGURES

Certain corresponding figures for the period from 1 July 2005 to 31 December 2005 and the period from 1 January 2005 to 30 June 2005 have been reclassified in order to conform to the presentation for the current period. Such reclassifications do not affect previously reported total cash receipts and payments.