

Development Fund for Iraq
Statement of Cash Receipts and Payments
For the period from 1 January 2005 to 30 June 2005
(with Independent Auditors' Report)

KPMG Iraq
29 September 2005
This report contains 21 pages



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Independent Auditors' Report

To the Government of Iraq
To the International Advisory and Monitoring Board of
the Development Fund for Iraq

We have audited the accompanying statement of cash receipts and payments of the Development Fund for Iraq (DFI or the Fund) for the period from 1 January 2005 to 30 June 2005. This financial statement is the responsibility of the Government of Iraq. Our responsibility is to express an opinion on the accompanying financial statement based on our audit.

Except as discussed in the following three paragraphs, we conducted our audit in accordance with International Standards on Auditing and International Organization of Supreme Audit Institutions (INTOSAI) Standards on Government Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by the Government of Iraq, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 4 to the financial statement, the internal control systems over the Iraqi oil industry were not sufficient to ensure the completeness of export sales of petroleum and petroleum products for the period from inception (22 May 2003) to 30 June 2005, from which proceeds were required to be deposited in the Fund in accordance with United Nations Security Council Resolution (UNSCR) 1483. Due to weaknesses in the internal control systems, we could not extend our auditing procedures sufficiently to quantify such amounts and accordingly we could not satisfy ourselves over the completeness of export sales.

Export sales of fuel oil for the period from 1 January 2005 to 30 June 2005 have decreased substantially when compared with prior periods. We were not provided with access to the relevant accounting records of the Ministry of Oil. We could not extend our auditing procedures sufficiently to satisfy ourselves over the completeness of export sales.





Independent Auditors' Report, continued

As described in Note 18 to the financial statement, the former Coalition Provisional Authority did not maintain complete accounting records for contractual commitments entered into by US Agencies for the period from inception to 28 June 2004, therefore requiring US Agencies to prepare a list of all known contractual commitments as at 30 June 2005. Based on our testwork, the list was incomplete and contained material inaccuracies. Due to weaknesses in the internal control system, we could not extend our auditing procedures sufficiently to satisfy ourselves over the completeness and accuracy of contractual commitments.

As described in Note 4 to the financial statement, net cash advances received for, and proceeds of, export sales of petroleum and petroleum products for the period from 1 January 2005 to 30 June 2005 amounting to \$79,716,000 (from inception to 30 June 2005: \$177,478,000) were deposited in bank accounts controlled by the State Oil Marketing Organization, the sales arm of the Ministry of Oil. In accordance with UNSCR 1483, 95% of proceeds for export sales were required to be deposited in the Fund. As a result, receipts for the period from 1 January 2005 to 30 June 2005 and cash as at 30 June 2005 are understated by \$75,730,000 (from inception to 30 June 2005: \$168,604,000).

In our opinion, except for the effects of the adjustments, if any, for the completeness of export sales of petroleum and petroleum products as referred to in the third and fourth paragraphs, and for the completeness and accuracy of contractual commitments as referred to in the fifth paragraph, and except for the understatement of receipts and cash as referred to in the sixth paragraph, the accompanying statement of cash receipts and payments presents fairly, in all material respects, the receipts and payments of the Development Fund for Iraq for the period from 1 January 2005 to 30 June 2005, in accordance with the International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting".

Without further qualifying our opinion, we draw attention to Note 3 to the financial statement, which states that complete accounting records were not maintained for the Fund during the period from 1 January 2005 to 30 June 2005. The statement of cash receipts and payments has been prepared from monthly reports from the Central Bank of Iraq, bank statements and related financial information, together with a database administered by US Agencies for certain DFI funded contracts.

Without further qualifying our opinion, we also draw attention to Note 2 to the financial statement, which states that in accordance with UNSCR 1546, the obligation for the deposit of 95% of oil proceeds into the DFI will expire upon election of a constitutional government, expected by 31 December 2005, or before that date at the request of the Transitional Government of Iraq.

This report, including our opinion, 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. However, this report is a matter of public record and its distribution is not limited. We do not, in giving our opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our consent in writing.


Baghdad, Iraq
29 September 2005


K P M G

Development Fund for Iraq
Statement of Cash Receipts and Payments
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

	Note	1 January to 30 June 2005 (181 days)	29 June to 31 December 2004 (186 days)
Receipts			
Net proceeds from export sales of petroleum and petroleum products	4	\$ 9,209,911	\$ 8,854,315
UN Oil for Food program transfers	5	750,000	1,128,000
Deposits from assets frozen outside of Iraq	6	118,690	68,323
Net deposits by Iraqi Ministries for payments on their behalf	7	136,299	5,243
CERP program funded by the Government of Iraq	11	-	86,000
Interest received	8	71,520	73,998
Other receipts		<u>3,121</u>	<u>10,770</u>
Total Receipts		<u>10,289,541</u>	<u>10,226,649</u>
Payments			
Transfers to Iraqi Ministries	9	7,001,258	6,750,000
Letters of credit	10	2,491,174	1,861,983
Contracts administered by US Agencies	11	302,446	1,616,147
Fuel imports into Iraq	12	-	1,150,000
Iraqi debt repayments	13	362	444,364
Net payments on behalf of Iraqi Ministries	7	-	25,696
Other payments	14	<u>86,401</u>	<u>103,677</u>
Total Payments		<u>9,881,641</u>	<u>11,951,867</u>
Excess of receipts over payments (excess of payments over receipts)		407,900	(1,725,218)
Cash and cash equivalents, beginning of period		<u>4,922,518</u>	<u>6,647,736</u>
Cash and cash equivalents, end of period	4, 15	<u>\$ 5,330,418</u>	<u>\$ 4,922,518</u>

This Statement of Cash Receipts and Payments was approved by the Ministry of Finance on 29 September 2005 and signed on its behalf by:


Karim Husein Faraj
Deputy Minister
 Ministry of Finance


Mohib Abd Al-Razak
Director General of the
Accounting Department
 Ministry of Finance

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

1. Organization of the Fund

The Development Fund for Iraq (DFI or the Fund) was established during May 2003 by the United States of America and recognized by United Nations Security Council Resolution (UNSCR) 1483. Power was delegated by the US President to the Administrator of the Coalition Provisional Authority (CPA). In accordance with CPA Regulations, the Fund was vested with appropriate authority to achieve its objectives and was overseen and controlled by the CPA Administrator.

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

The Fund consists of bank accounts with the US Federal Reserve Bank of New York (FRBNY) and Central Bank of Iraq (CBI). In accordance with a memorandum issued by the Ministry of Finance on 15 June 2004, a DFI sub-account was established at the FRBNY, to be managed by US Agencies (including 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 US Army Corps of Engineers and Coalition Forces) and to be monitored by the Ministry of Finance, to facilitate disbursements for contracts signed by the former CPA, requiring payment subsequent to 28 June 2004. US Agencies' management of the DFI sub-account will expire on 31 December 2005.

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. In addition, surplus funds from the UN Oil for Food (OFF) program, established by UNSCR 986, are to be transferred to the Fund. Furthermore, all Member States are obligated to freeze and transfer funds and other financial assets of the former Iraqi regime to the DFI.

Consistent with UNSCR 1483, the Fund is 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.

An International Advisory and Monitoring Board (IAMB) for the Fund was appointed in accordance with UNSCR 1483 and UNSCR 1546, to perform functions similar to those of an audit committee.

2. Going concern assumption

Pursuant to UNSCR 1546, the proceeds of export sales of Iraqi petroleum and petroleum products shall continue to be deposited in the DFI and utilized in a transparent and equitable manner, through the Iraqi budget, and monitored by the IAMB. These obligations will expire upon election of a constitutional government, expected by 31 December 2005, or before that date at the request of the Transitional Government of Iraq.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

3. Summary of significant accounting policies

Statement of compliance

The statement of cash receipts and payments 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.

Basis of presentation

The statement of cash receipts and payments has been prepared from accounting records of the DFI sub-account maintained by US Agencies, and from CBI monthly reports, bank statements and other financial information, as complete accounting records for the DFI main accounts were not maintained during the period from 1 January 2005 to 30 June 2005.

The Fund consists of cash held at the CBI and at the FRBNY on behalf of the CBI.

The current reporting period was determined by the Government of Iraq and the IAMB. The accounting policies have been applied consistently throughout the period. Prior period amounts are not comparable due to different disbursement authorities, classification and period duration.

Receipts

Receipts are recorded when funds are received in the DFI bank accounts. Non-cash transactions, including barter transactions, are not recorded.

Payments

Payments, including issued irrecoverable documentary letters of credit (LCs), are recorded when funds are transferred from the DFI bank accounts or from cash held centrally by US Agencies.

Net deposits by Iraqi Ministries for payments on their behalf

The Fund benefits from deposits made by the Iraqi Ministries and other entities for payments on their behalf. Cash receipts and payments pass through bank accounts administered by the Fund are included in the statement of cash receipts and payments on a net basis.

Contractual commitments

Contractual commitments consist of open contracts, signed by the former CPA.

Management estimates

Information disclosed in the notes requires estimates and assumptions to be made that affect the reported amounts of contractual commitments, unrecorded assets and liabilities, and other note disclosures. Actual results could differ materially from those estimates.

Functional and reporting currency

The functional and reporting currency is the US dollar. All amounts are reported in thousands of US dollars.

Cash equivalents

Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

4. Net proceeds from export sales of petroleum and petroleum products

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. There were no export sales of natural gas from Iraq, as there is no infrastructure in Iraq for the export of natural gas.

According to UNSCR 1483, the proceeds of export sales of petroleum and petroleum products are required to be deposited into the Oil Proceeds Receipts Account (OPRA) and immediately thereafter, 95% is required to be deposited in the Fund and the remaining 5% is required to be deposited in the Compensation Fund. 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 and petroleum products are paid for by LCs with proceeds deposited in OPRA approximately 30 days after the petroleum or petroleum products have been lifted. In addition, a limited number of export sales of petroleum are made through barter transactions, while export sales of petroleum products are mainly through cash payments, with proceeds deposited in SOMO bank accounts at two Iraqi banks and one Jordanian branch of an Iraqi bank, and through barter transactions.

Export sales and proceeds of petroleum, deposited in OPRA, for the period from 1 January 2005 to 30 June 2005 are as follows:

Total export sales of petroleum for the period (255,398,698 barrels)	\$ 10,382,466
Less proceeds deposited in OPRA after 30 June 2005	(2,014,395)
Plus cash deposited in 2005 from proceeds of 2004 export sales	<u>1,326,527</u>
Proceeds deposited in OPRA during the period for petroleum	9,694,598
Plus interest on delayed bank transfers	45
Less amounts transferred to the Compensation Fund	<u>(484,732)</u>
Net proceeds deposited in the Fund for the period to 30 June 2005	<u>\$ 9,209,911</u>

Export sales and proceeds of petroleum and petroleum products, deposited in OPRA, for the period from 29 June 2004 to 31 December 2004 are as follows:

Total export sales of petroleum for the period (280,532,536 barrels)	\$ 9,444,178
Less proceeds deposited in OPRA after 31 December 2004	(1,326,527)
Plus cash deposited after 28 June 2004 from proceeds of export sales during the prior period	<u>1,201,817</u>
Proceeds deposited in OPRA during the period for petroleum	9,319,468
Plus proceeds deposited during the period for petroleum products	820
Plus interest on delayed bank transfers	44
Less amounts transferred to the Compensation Fund	<u>(466,017)</u>
Net proceeds deposited in the Fund for the period to 31 December 2004	<u>\$ 8,854,315</u>

As the OPRA account is technically not a DFI account, it has been excluded from the Fund. Accordingly, only 95% of export sales proceeds are recorded in the statement of cash receipts and payments.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

Net cash advances received for, and proceeds of, export sales of petroleum and petroleum products during the period from 1 January 2005 to 30 June 2005 amounted to \$79,716 (from inception to 30 June 2005: \$177,478), were not deposited into the OPRA account and they are not recorded in the statement of cash receipts and payments. These funds were deposited in bank accounts controlled by SOMO, of which \$58,355 were transferred to the Ministry of Oil during the current period (from inception to 30 June 2005: \$82,533).

SOMO also engages in barter transactions (see Note 16) 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 crude oil in exchange for electricity and light petroleum products with the Government of Syria. The value of these barter transactions, as recorded by SOMO, for the period from 1 January 2005 to 30 June 2005 is \$99,896 (from inception to 30 June 2005: \$561,105). As these barter transactions were non-cash transactions, they are not recorded in the statement of cash receipts and payments.

In the absence of a fully operational metering system and continued sabotage of the pipelines, it is not possible to determine the volume of all exports of petroleum and petroleum products, for which proceeds are to be deposited in the OPRA account.

5. UN Oil for Food program transfers

The OFF program was established by UNSCR 986 and subsequent relevant resolutions. UNSCR 1483 directed that all surplus funds in the OFF program were to be transferred to the DFI at the earliest possible time.

OFF transfers during the period from 1 January 2005 to 30 June 2005 are as follows:

3 March	\$ 50,000
4 March	400,000
12 April	100,000
30 June	<u>200,000</u>
	<u>\$ 750,000</u>

OFF transfers during the period from 29 June 2004 to 31 December 2004 are as follows:

30 June	\$ 500,000
3 November	428,000
30 December	<u>200,000</u>
	<u>\$ 1,128,000</u>

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

The United Nations has notified the Government of Iraq that cash held for the OFF program as at 30 June 2005 is \$1,962,538 (31 December 2004: \$3,538,934), of which \$1,599,713 (31 December 2004: \$2,854,003) is obligated for LCs, and \$34,201 (31 December 2004: \$88,564) for other costs related to the OFF program. Of the balance (\$328,624) between the cash held and the recognized obligations: \$159,971 and \$31,497 represent operating reserves in the Humanitarian account and the Administrative account respectively; \$16,844 represents remaining balances in the Humanitarian and Administrative accounts; and \$120,312, represents the remaining balance in the UNMOVIC account.

LC obligations of \$840,843 expired on or before 30 June 2005, and any residual related balances after settlement of the remainder of the invoices will be transferred to the DFI. Any pending transfers of unencumbered funds to the DFI is subject to such additional time as may be required for the satisfactory resolution of certain items, including documentary discrepancies, stop payment requests from the CBI, outstanding goods received notes and ongoing contracts, and LC extensions.

There are no restrictions, conditions or other covenants over funds received from the OFF program.

6. Deposits from assets frozen outside of Iraq

In accordance with UNSCR 1483, all Member States were obligated to freeze and transfer funds and other financial assets of the former Iraqi regime to the DFI unless those assets were subject to prior judicial, administrative or arbitral lien or judgment.

Amounts deposited by Member States are as follows:

	1 January to 30 June 2005	29 June to 31 December 2004
Lebanon	\$ 71,949	\$ 32,023
Syria	45,360	3,488
Switzerland	1,269	3,411
United States of America	75	1,860
Spain	36	-
Italy	-	25,180
United Kingdom	-	2,277
Other	<u>1</u>	<u>84</u>
	<u>\$ 118,690</u>	<u>\$ 68,323</u>

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

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

7. Net deposits by Iraqi Ministries for payments on their behalf

The Iraqi banking system does not have the capability to execute wire transfers for LCs to international suppliers. As a result, Iraqi Ministries deposited funds in the DFI account at the CBI to fund these wire transfers from the DFI account at the FRBNY. As from April 2005, this process was changed and payments for LCs are made directly from the DFI account at the FRBNY and recorded against the related line Ministry budget. Accordingly, these deposits ceased during April 2005 and the CBI bank account was closed.

Net deposits by Iraqi Ministries and US Agencies for payments on ministries' behalf for the period from 1 January 2005 to 30 June 2005 are \$136,299.

Deposits by, and payments on behalf of, the Iraqi Ministries for the period from 1 January 2005 to 30 June 2005 are as follows:

<i>Ministry / Financial institution:</i>	<i>Deposits</i>	<i>Payments</i>
Oil	\$ 100,256	\$ 100,256
Finance	97,905	-
Municipality and Public Works	72,622	72,622
Al-Warka Investment Bank, commercial	47,000	47,000
Transport	39,107	39,107
Industry and Minerals	4,836	4,836
Board of Supreme Audit	3,425	3,425
Electricity	1,630	1,630
Health	1,256	1,256
Trade	600	600
Justice	494	494
Baghdad Mayoralty	296	296
Construction and Housing	262	262
Interior	105	105
Science and Technology	8	8
	<u>\$ 369,802</u>	<u>\$ 271,897</u>

Net deposits by Iraqi Ministries \$ 97,905

Deposits by the Ministry of Finance of \$97,905 represent funds returned by JP Morgan Bank to the DFI for unutilized excess funds, and cancelled or expired LCs initiated by the Iraqi Ministries. This amount will remain in the DFI, until re-allocated in accordance with the Iraqi budget.

On 11 January 2005, an international payment of \$47,000 was made on behalf of Al-Warka Investment Bank. This amount was subsequently deposited in the Fund on 7 March 2005.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

Deposits by, and payments on behalf of, Iraqi Ministries arranged by US Agencies for the period from 1 January 2005 to 30 June 2005 are as follows:

<i>Ministry of:</i>	<i>Deposits</i>	<i>Payments</i>
Trade	\$ 49,246	\$ -
Electricity	309	91
Transport	-	11,000
National Security and Defense	-	70
	<u>\$ 49,555</u>	<u>\$ 11,161</u>
Net deposits by Iraqi Ministries		<u>\$ 38,394</u>

Deposits by the Ministry of Trade of \$49,246 represent funds returned by JP Morgan Bank to the DFI sub-account for expired LCs initiated by the US Agencies on behalf of the Ministry of Trade.

Deposits by, and payments on behalf of, the Iraqi Ministries for the period from 29 June 2004 to 31 December 2004 are as follows:

<i>Ministry / Financial institution:</i>	<i>Deposits</i>	<i>Payments</i>
Electricity	\$ 204,878	\$ 346,702
Finance	131,271	2,276
Health	114,902	114,359
Oil	61,985	61,985
Agriculture	73,784	73,784
National Security and Defense	58,416	58,416
Al-Warka Investment Bank, commercial	50,578	50,578
Baghdad Mayoralty	43,627	43,627
Municipality and Public Works	36,395	30,849
Transport	26,172	26,172
Planning	12,577	-
Industry and Minerals	9,751	11,333
Trade	5,673	5,673
Construction and Housing	5,184	5,184
Central Bank of Iraq	4,608	4,608
Interior	2,856	2,094
Sport and Youth	2,372	2,372
Board of Supreme Audit	2,000	2,000
Al-Rasheed Bank, state-owned	2,000	2,000
Justice	1,663	1,437
Communication	1,000	1,000
Basrah National Bank, state-owned	790	790
Science and Technology	570	570
	<u>\$ 853,052</u>	<u>\$ 847,809</u>
Net deposits by Iraqi Ministries		<u>\$ 5,243</u>

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

Deposits by the Ministry of Finance of \$131,271 include funds returned by JP Morgan Bank to the DFI for expired LCs initiated by the Iraqi Ministries, amounting to \$127,219.

Deposits by, and payments on behalf of, Iraqi Ministries arranged by US Agencies for the period from 29 June 2004 to 31 December 2004 are as follows:

<i>Ministry of:</i>	<i>Deposits</i>	<i>Payments</i>
Electricity	\$ 3,156	\$ 4,780
Interior	46	5,814
Finance: Central Bank of Iraq	-	17,088
Oil	-	920
National Security and Defense	-	182
Health	-	114
	<u>\$ 3,202</u>	<u>\$ 28,898</u>
Net payments on behalf of Iraqi Ministries		<u>\$ 25,696</u>

8. Interest received

Interest received is as follows:

	1 January to 30 June 2005	29 June to 31 December 2004
Overnight repurchase agreement pool facility	\$ 52,268	\$ 45,158
Funds for LCs	19,252	4,005
US Treasury bills	-	24,835
	<u>\$ 71,520</u>	<u>\$ 73,998</u>

The interest rate on the overnight repurchase agreement pool facility as at 30 June 2005 is 2.85% (31 December 2004: 1.61%). The interest rates for the period from 1 January 2005 to 30 June 2005 ranged from 1.59% to 3.11% (period to 31 December 2004: 1.03% to 2.2%). Interest earned of \$415 on the overnight deposit on 30 June 2005 was deposited in the DFI on 1 July 2005 (31 December 2004: \$206 deposited on 3 January 2005).

The interest rate on funds for LCs held by JP Morgan Bank as at 30 June 2005 is 2.88% (31 December 2004: 1.975%). The interest rates for the period from 1 January 2005 to 30 June 2005 ranged from 1.975% to 2.88% (period to 31 December 2004: 1.075% to 1.975%). Interest earned of \$17,121 for the period from 1 April 2005 to 30 June 2005 was deposited in the DFI in July 2005 (period from 1 October 2004 to 31 December 2004: \$6,335 deposited in January 2005).

The Fund did not hold any US Treasury bills during the period from 1 January 2005 to 30 June 2005. The interest rate on US Treasury bills for the period from 29 June 2004 to 31 December 2004 ranged from 0.97% to 1.48%.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

9. Transfers to Iraqi Ministries

The Ministry of Finance is mainly funded by the DFI. After funds are transferred from the DFI to the Ministry of Finance, funds are distributed to other Iraqi Ministries in accordance with their individual budgets.

Transfers from the DFI, made directly and indirectly, to the Ministry of Finance for the period from 1 January 2005 to 30 June 2005 are as follows:

January	\$ 1,200,000
February	2,000,000
April	400,000
April (see Note 15)	451,258
May	2,297,600
June	<u>652,400</u>
	<u>\$ 7,001,258</u>

Transfers from the DFI, made directly and indirectly, to the Ministry of Finance for the period from 29 June 2004 to 31 December 2004 are as follows:

July	\$ 1,550,000
August	350,000
December	<u>4,850,000</u>
	<u>\$ 6,750,000</u>

Payments for the period from 1 January 2005 to 30 June 2005 include \$4,550,000 (period from 29 June 2004 to 31 December 2004: \$4,450,000) paid to the CBI, for advances made by the CBI to the Ministry of Finance on behalf of the DFI.

10. Letters of credit

The CBI, at the request of the Ministry of Finance and US Agencies, deposited cash with JP Morgan Bank on behalf of the Iraqi Ministries for LCs. The related contracts and programs are managed by the Iraqi Ministries. LCs are facilitated by the Trade Bank of Iraq, authorized by the Ministry of Finance and disbursed by the CBI. These LCs are charged to the related line Ministry budget. The cash is held at JP Morgan Bank until evidence of completion of service or receipt of goods is confirmed in accordance with the terms of the LC.

A similar arrangement is in place with three Lebanese banks.

As at 30 June 2005, JP Morgan Bank held \$2,750,714 (31 December 2004: \$2,328,217) for LCs opened on behalf of the Iraqi Ministries. Interest received on funds related to LCs is disclosed in Note 8.

As at 30 June 2005, three Lebanese banks held \$147,902 (31 December 2004: \$211,749) for LCs opened on behalf of the Ministry of Trade. There were no deposits for LCs at these Lebanese banks during the period from 1 January 2005 to 30 June 2005.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

Payments for LCs for the period from 1 January 2005 to 30 June 2005 are as follows:

<i>Ministry of:</i>	<i>Government of Iraq</i>	<i>US Agencies</i>
Oil	\$ 1,195,526	\$ -
Trade	973,974	-
Agriculture	105,399	-
Health	99,594	-
Electricity	67,089	-
Finance	19,006	-
Iraqi media network	15,467	-
Labor and Social Affairs	5,547	-
Industry and Minerals	4,113	-
Telecommunications	3,970	-
Municipality and Public Works	800	-
Construction and Housing	647	-
Justice	42	-
	<u>\$ 2,491,174</u>	<u>\$ -</u>

Payments for the period from 29 June 2004 to 31 December 2004 of \$1,861,983 are as follows:

<i>Ministry of:</i>	<i>Government of Iraq</i>	<i>US Agencies</i>
Trade	\$ 894,613	\$ 164,025
Electricity	311,159	-
Health	183,722	-
Oil	166,925	37,000
Independent Electoral Commission	28,420	-
Municipality and Public Works	13,000	-
Communications	17,644	5,788
Finance	11,587	-
Agriculture	7,529	-
Industry and Minerals	6,017	-
Transport	2,561	-
Water Resources	2,520	-
Science and Technology	1,640	-
Finance: OFF Northern program	-	7,833
	<u>\$ 1,647,337</u>	<u>\$ 214,646</u>

LCs were opened on behalf of the Ministry of Oil, primarily for fuel imports into Iraq (see Note 12), 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.

Payments for LCs funded by deposits from the Iraqi Ministries are included in Note 7.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

11. Contracts administered by US Agencies

US Agencies have been granted limited authority by the Government of Iraq to administer contracts entered into by the former CPA, requiring payment subsequent to 28 June 2004. This authority will expire on 31 December 2005. During the prior period, \$2,800,000 was transferred to the DFI sub-account to meet the commitments entered into by the former CPA.

Payments for the period from 1 January 2005 to 30 June 2005 are as follows:

<i>Ministry of:</i>	<i>Contracts</i>	
National Security and Defense	Weapons & equipment	\$ 201,966
Oil	Restoration of oil infrastructure	35,507
Oil	Emergency pipeline repair	1,817
Electricity	Reconstruction of power plants	23,589
Finance	OFF: Northern program	863
Finance	OFF: Audit	347
Agriculture	OFF: Equipment	2,344
Various ministries	10 programs	2,779
Various ministries	CERP	629
Various ministries	RRRP	<u>32,605</u>
		<u>\$ 302,446</u>

Payments for the period from 29 June 2004 to 31 December 2004 are as follows:

<i>Ministry of:</i>	<i>Contracts</i>	
National Security and Defense	Weapons & equipment	\$ 411,132
Oil	Import of petroleum products	337,027
Oil	Restoration of oil infrastructure	83,919
Oil	Security	20,128
Oil	Emergency pipeline repair	12,207
Electricity	Restoration of Iraqi electricity	207,560
Electricity	Reconstruction of power plants	37,013
Electricity	Purchase of electricity from Turkey	7,432
Finance	Iraqi media network	59,373
Finance	OFF: Northern program	23,872
Finance	OFF: Audit	18,154
Transport	Baghdad International Airport security	25,000
Agriculture	Poultry production	7,883
Agriculture	OFF: Equipment	5,349
Agriculture	Fertilizer	3,511
Interior	Passport system	9,153
Planning	PMO office construction	5,863
Trade	OFF: Certification	3,761
Various ministries	55 programs	46,180
Various ministries	CERP	87,467
Various ministries	RRRP	<u>204,163</u>
		<u>\$ 1,616,147</u>

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

As in prior periods, Commander's Emergency Response Program (CERP) and Rapid Response Regional Program (RRRP) funds are provided to US Agencies to be disbursed for civil reconstruction and repair of infrastructure, including projects for water and sanitation, education, police, roads and healthcare.

During August 2004, the Ministry of Finance increased funding of the CERP program by \$86,000 from the Iraqi budget. There were no funds for CERP or RRRP programs provided by the Iraqi Government during the current period.

12. Fuel imports into Iraq

Fuel imports are arranged by SOMO, with payments authorized by the Ministry of Oil, and by US Agencies.

During the period from 29 June 2004 to 31 December 2004, \$1,150,000 was transferred from the DFI to a bank account, controlled by the Ministry of Oil, in a Jordanian bank. This account was established for the procurement of light petroleum products for import, due to a shortage of Iraqi refining capacity.

Commencing in 2005, the Ministry of Oil arranged payments for imports of light petroleum products through JP Morgan Bank. During the period from 1 January 2005 to 30 June 2005, \$870,000 was transferred from the DFI to JP Morgan Bank for the procurement of light petroleum products for import.

Additional Information

Total payments made to suppliers and financial institutions for fuel imported into Iraq included in other financial statement captions and from non-DFI funds are as follows:

	Note	1 January to 30 June 2005	29 June to 31 December 2004
<i>DFI main account:</i>			
Letters of credit	10	\$ 870,000	\$ 160,000
Fuel imports into Iraq	12	-	1,150,000
<i>DFI sub-account:</i>			
Contracts administered	11	-	337,027
Letters of credit	10	-	37,000
<i>Non-DFI funds:</i>			
CBI	-	450,000	-
Ministry of Finance	-	50,000	-
		<u>\$ 1,370,000</u>	<u>\$ 1,684,027</u>

Payments include advance payments for fuel imported for the current and subsequent periods.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

13. Iraqi debt repayments

Iraqi debt and interest repayments are as follows:

	1 January to 30 June 2005	29 June to 31 December 2004
World Bank	\$ 362	\$ 110,548
International Monetary Fund	<u>-</u>	<u>333,816</u>
	<u>\$ 362</u>	<u>\$ 444,364</u>

The debt and interest repayments are for the reduction of arrears on the Iraqi national debt.

14. Other payments

Other payments for the period from 1 January 2005 to 30 June 2005 are as follows:

<i>Ministry of:</i>	<i>Contracts</i>	
Finance	Cash in transit	\$ 30,088
Finance	Iraqi currency	7,535
Finance	Iraqi media network	5,786
Finance	OPEC membership	2,064
Oil	Emergency pipeline repair	17,213
Trade	Import of sugar	6,888
Trade	Transportation costs	5,118
Various ministries	Various contracts	<u>11,709</u>
		<u>\$ 86,401</u>

Other payments for the period from 29 June 2004 to 31 December 2004 are as follows:

<i>Ministry of:</i>	<i>Contracts</i>	
Finance	Independent Electoral Commission	\$ 75,084
Awqaf	Hajj	16,000
CBI	Al-Warka Investment Bank	3,000
Various ministries	Various contracts	<u>9,593</u>
		<u>\$ 103,677</u>

On 27 December 2004, an international payment of \$3,000 was made on behalf of Al-Warka Investment Bank. This amount was subsequently deposited in the Fund by Al-Warka Investment Bank on 28 February 2005 and is included in other receipts for the period from 1 January 2005 to 30 June 2005.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

15. Cash and cash equivalents

Cash and cash equivalents held are as follows:

	30 June 2005	31 December 2004
FRBNY:		
Overnight repurchase agreement pool facility	\$ 5,236,400	\$ 4,611,900
Operating accounts	359	197
CBI: Operating account	-	181,380
Cash held centrally by US Agencies	<u>93,659</u>	<u>129,041</u>
	<u>\$ 5,330,418</u>	<u>\$ 4,922,518</u>

Cash and cash equivalents include \$870,081 as at 30 June 2005 (31 December 2004: \$1,386,181) of cash committed for contracts administered by US Agencies (see Note 18). Interest received on the overnight facility is disclosed in Note 8.

The CBI operating account was closed in April 2005 and the remaining balance of \$451,258 was transferred to the Ministry of Finance (see Note 9).

16. Unrecorded assets and liabilities

The Fund records accounting transactions on a cash basis and has commenced the process of identifying and valuing major classes of assets and liabilities which would have been recorded had the Fund presented accrual-based financial statements.

The identified assets and liabilities are as follows:

	30 June 2005	31 December 2004
Assets		
Funds held by JP Morgan Bank for LCs	\$ 2,750,714	\$ 2,328,217
Net receivables from export sales of petroleum	1,913,676	1,260,200
Receivable from the OFF program	-	550,000
Funds held by Lebanese banks for LCs	147,902	211,749
Cash in transit	30,088	-
Accrued interest	17,536	6,541
Receivable from the US Army Corps of Engineers	<u>5,688</u>	<u>-</u>
	<u>\$ 4,865,604</u>	<u>\$ 4,356,707</u>
Liabilities		
Cash advances by the CBI on behalf of the DFI:		
to fund fuel imports into Iraq	\$ 450,000	\$ -
to fund the Ministry of Finance	100,000	500,000
Payments in transit arising from the DFI sub-account	15,367	78,193
Net deposits by Iraqi Ministries	-	18,504
Outstanding SOMO demurrage claims	9,289	10,563
Other accruals and liabilities	<u>2,503</u>	<u>9,008</u>
	<u>\$ 577,159</u>	<u>\$ 616,268</u>

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

Barter transactions

Barter transactions for petroleum and petroleum products are non-cash transactions. Barter transactions are not recorded in the statement of cash receipts and payments and are not considered unrecorded assets or liabilities, as these transactions will not materialize into cash at any time. Consequently, payments were not made to the Compensation Fund. However, based on the value of the barter transactions as recorded by SOMO, payments to the Compensation Fund for the period from 1 January 2005 to 30 June 2005 would amount to \$4,994 (from inception to 30 June 2005: \$28,055).

17. Related parties

During the period from inception to 28 June 2004, the Fund was managed by the CPA in consultation with the Iraqi Interim Administration. Subsequent to the dissolution of the CPA, management control of the Fund was transferred to the Government of Iraq.

DFI funds are held in CBI bank accounts and distributed to the Iraqi Ministries in accordance with funding requests as approved by the Ministry of Finance. Accordingly, senior management of the CBI and the Ministry of Finance, 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 Fund and therefore considered to be related parties. Additionally, key officials of the US 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 US Agencies, as disclosed in various Notes to the financial statement, and debt repayments to the International Monetary Fund and World Bank, each of whom have a representative on the IAMB, as disclosed in Note 13.

US Agencies, the IAMB and key management of the Fund receive no compensation or fees directly from the Fund other than administration fees of \$2,450 charged by the US Army Corps of Engineers, for the administration of certain DFI funded contracts for the period from 1 January 2005 to 30 June 2005 (from inception to 30 June 2005: \$36,375).

18. Commitments and contingencies

Contractual commitments consist of open contracts, signed by the former CPA and managed by US 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. A US Agency provided the Government of Iraq with a list of contractual obligations amounting to \$870,081, for reporting purposes, which was found to be incomplete and inaccurate. This US Agency is in the process of compiling a new list of all contractual commitments, which is expected to be completed by 31 December 2005.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

Litigation

In the normal course of its activities, the Fund is party to various disputes and complaints. It is not possible to predict with certainty whether or not the Fund will ultimately be successful in any of these legal matters or, if not, what the impact might be. However, the Government of Iraq does not expect that the results in any of these legal proceedings will have a material adverse effect on the Fund's activities.

The Government of Iraq has not asserted claims or been the subject of any claims regarding DFI funded contracts.

A claim has been filed against one CPA contractor, Custer Battles, by non-governmental parties for false claims made to the former CPA. The US Department of Justice issued a brief on 1 April 2005 noting their opinion that CPA contractors could be prosecuted under US legislation, in US courts, for violation of the False Claims Act. On 8 July 2005, a US 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 Fund will not be material.

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.

Taxation

The Fund is not subject to taxation.

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

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

Analysis for the period from 1 January 2005 to 30 June 2005 is as follows:

	Government of Iraq <small>(main accounts)</small>	US Agencies <small>(sub-account)</small>	Total
Receipts			
Net proceeds from export sales of petroleum and petroleum products	\$ 9,209,911	\$ -	\$ 9,209,911
UN Oil for Food program transfers	750,000	-	750,000
Deposits from assets frozen outside of Iraq	118,690	-	118,690
Net deposits by Iraqi Ministries	97,905	38,394	136,299
Interest received	58,932	12,588	71,520
Other receipts	<u>3,121</u>	<u>-</u>	<u>3,121</u>
Total Receipts	<u>10,238,559</u>	<u>50,982</u>	<u>10,289,541</u>
Payments			
Transfers to Iraqi Ministries	7,001,258	-	7,001,258
Letters of credit	2,491,174	-	2,491,174
Projects administered by US agencies	-	302,446	302,446
Iraqi debt repayments	362	-	362
Other payments	<u>53,779</u>	<u>32,622</u>	<u>86,401</u>
Total 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)	<u>691,986</u>	<u>(284,086)</u>	<u>407,900</u>
Cash and cash equivalents, beginning of period	3,667,739	1,254,779	4,922,518
Transfers of interest received	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>
Contractual commitments	<u>\$ -</u>	<u>\$ 870,081</u>	<u>\$ 870,081</u>

Development Fund for Iraq
Notes to the Statement of Cash Receipts and Payments, continued
For the period from 1 January 2005 to 30 June 2005
(all amounts are in thousands of US dollars)

Analysis for the period from 29 June 2004 to 31 December 2004 is as follows:

	Government of Iraq (main accounts)	US Agencies (sub-account)	Total
Receipts			
Net proceeds from export sales of petroleum and petroleum products	\$ 8,854,315	\$ -	\$ 8,854,315
UN Oil for Food program transfers	1,128,000	-	1,128,000
Deposits from assets frozen outside of Iraq	68,323	-	68,323
Net deposits by Iraqi Ministries	5,243	-	5,243
CERP funded by the Government of Iraq	-	86,000	86,000
Interest received	70,401	3,597	73,998
Other receipts	<u>6,799</u>	<u>3,971</u>	<u>10,770</u>
Total Receipts	<u>10,133,081</u>	<u>93,568</u>	<u>10,226,649</u>
Payments			
Transfers to Iraqi Ministries	6,750,000	-	6,750,000
Letters of credit	1,647,337	214,646	1,861,983
Projects administered by US agencies	-	1,616,147	1,616,147
Fuel imports into Iraq	1,150,000	-	1,150,000
Iraqi debt repayments	444,364	-	444,364
Net payments on behalf of Iraqi Ministries	-	25,696	25,696
Other payments	<u>103,677</u>	<u>-</u>	<u>103,677</u>
Total Payments	<u>10,095,378</u>	<u>1,856,489</u>	<u>11,951,867</u>
Excess of receipts over payments (excess of payments over receipts)	<u>37,703</u>	<u>(1,762,921)</u>	<u>(1,725,218)</u>
Cash and cash equivalents, beginning of period	-	6,647,736	6,647,736
Transfer on dissolution of CPA	6,430,036	(6,430,036)	-
Transfers to fund remaining CPA contracts	(2,800,000)	2,800,000	-
Cash and cash equivalents, end of period	<u>\$ 3,667,739</u>	<u>\$ 1,254,779</u>	<u>\$ 4,922,518</u>
Contractual commitments	<u>\$ -</u>	<u>\$ 1,386,181</u>	<u>\$ 1,386,181</u>