

Development Fund for Iraq

STATEMENT OF CASH RECEIPTS AND PAYMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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

We have audited the accompanying statement of cash receipts and payments (the "financial statement") of the Development Fund for Iraq (DFI) for the year ended 31 December 2006 and a summary of significant accounting policies and other explanatory notes. The financial statement of the DFI for the period from 1 January 2005 to 30 June 2005 was audited by another auditor whose report dated 29 September 2005 expressed a qualified audit opinion on the completeness of cash receipts, the completeness of export sales of petroleum and petroleum products and the completeness and accuracy of contractual commitments. Also, our auditors' report dated 13 September 2006 on the DFI financial statement for the period from 1 July 2005 to 31 December 2005 was qualified on the same matters included in the qualifications section of this report.

Government of Iraq Responsibility for the Financial Statement

The Government of Iraq is responsible for the preparation and fair presentation of this financial statement in accordance with International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting". This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. Except as discussed in the following paragraphs, we conducted our audit in accordance with International Standards on Auditing and International Organization of Supreme Audit Institutions (INTOSAI) Standards on Government Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Government of Iraq's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DFI's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

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

Qualifications

1. As further explained in note 2 to the financial statement, the DFI's accounting records are not complete, as these records do not include all the information required to support the statement of cash receipts and payments and the related disclosure notes for the year ended 31 December 2006. The accompanying financial statement is compiled from the monthly statement of cash receipts and payments of the DFI's main bank account managed by the Central Bank of Iraq (CBI), the DFI's sub-account maintained by the U.S. Agencies, the Federal Reserve Bank of New York (FRBNY) statements and other financial information maintained by the Ministry of Finance and other parties. Due to weaknesses in the internal control systems, we could not extend our audit procedures to determine the effect of the incomplete accounting records on the financial statement and the related disclosures for the year ended 31 December 2006.
2. As further explained in note 3 to the financial statement, a substantial part of the DFI receipts is from the export sales of petroleum. The internal controls over the Iraqi oil industry were not sufficient and we could not rely on those internal controls for the purposes of our audit to ensure the completeness of the export sales of petroleum and petroleum products for the year ended 31 December 2006 from which proceeds were required to be deposited in the DFI in accordance with United Nations Security Council Resolution (UNSCR) 1483 (2003). Due to weaknesses in the internal control systems, insufficient information is available to extend our audit procedures to ensure the completeness of export sales of petroleum and petroleum products and the compliance with UNSCR 1483 (2003).
3. As further explained in note 3 to the financial statement, cash received from export sales of petroleum products during the year ended 31 December 2006 amounting to U.S. \$ 638,193 thousand has been deposited in bank accounts controlled by the Oil Marketing Company (SOMO). According to UNSCR 1483 (2003), 95% of the proceeds of export sales of petroleum and petroleum products should be deposited in the DFI account. Accordingly, the cash receipts for the year ended 31 December 2006 and the cash balance as of 31 December 2006 are understated by U.S. \$ 606,283 thousand (from inception to 31 December 2006: U.S. \$ 975,738 thousand).
4. As further explained in note 16 to the financial statement, the former Coalition Provisional Authority did not maintain complete accounting records for contractual commitments entered into by the U.S. Agencies for the period from inception to 28 June 2004. Due to weaknesses in the internal control systems, we could not extend our audit procedures to ensure the completeness and accuracy of the outstanding contractual commitments balance as of 31 December 2006.
5. As further explained in note 9 to the financial statement, the letters of credit cash payments during the year ended 31 December 2006 include payments amounting to U.S. \$ 363,781 thousand related to certain self-financing governmental entities that are not covered by the DFI. Conversely, the MOF received advance payments from these entities to fund their letters of credit payments amounting to U.S. \$ 534,554 thousand, which have been deposited in the MOF accounts at the CBI and have not been transferred to the DFI account at the FRBNY. Accordingly, the DFI's total cash payments for the year ended 31 December 2006 are overstated and the cash balance as of 31 December 2006 is understated by U.S. \$ 363,781 thousand (from 1 July 2005 to 31 December 2006: U.S. \$ 594,828 thousand)

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

Opinion

In our opinion, except for the effects of the matters referred to in the preceding paragraphs, the statement of cash receipts and payments presents fairly, in all material respects, the recorded cash receipts and payments of the Development Fund for Iraq for the year ended 31 December 2006, in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting".

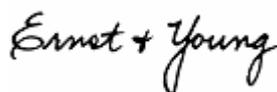
Emphasis of Matters

Without further qualifying our opinion, we draw attention to note 3 to the financial statement, which states that there were barter transactions for exports of petroleum and petroleum products during the year ended 31 December 2006 amounting to U.S. \$ 175,537 thousand (from inception to 31 December 2006: U.S. \$ 815,207 thousand). According to UNSCR 1483 (2003), 95% of the proceeds of export sales of petroleum and petroleum products should be deposited in the DFI accounts. As these were non-cash transactions, these barter transactions are not recorded in the DFI's statement of cash receipts and payments.

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

Our report is intended solely for the information and use of the Government of Iraq and the International Advisory and Monitoring Board of the Development Fund for Iraq and should not be used for any other purpose. We do not, in giving our report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our consent in writing. However, the distribution of this report is not limited.

Ernst & Young



Date: 5 July 2007

Baghdad, Iraq

Development Fund for Iraq

STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

	<i>Notes</i>	<i>1 January to 31 December 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>
Cash Receipts				
Export sales of petroleum	3	28,311,557	12,704,059	9,209,911
United Nations Oil for Food program	4	185,000	62,321	750,000
Proceeds from frozen assets in foreign countries	5	16,748	286,828	118,690
Interest received	6	456,705	126,354	71,520
Other receipts	7	589,112	345,826	139,420
Total Cash Receipts		29,559,122	13,525,388	10,289,541
Cash Payments				
Transfers to the Ministry of Finance	8	18,000,000	7,750,000	7,001,258
Letters of credit for the benefit of Iraqi ministries	9	8,338,661	4,435,174	2,491,174
Contracts administered by U.S. Agencies	10	251,120	116,603	302,446
Iraqi external debt repayments	11	538,968	159,315	362
Other payments	12	103,583	112,027	86,401
Total Cash Payments		27,232,332	12,573,119	9,881,641
Excess of cash receipts over cash payments		2,326,790	952,269	407,900
Purchased Treasury bills during the year/period		(9,910,324)	(2,312,156)	-
Proceeds from Treasury bills on maturity during the year/period		6,289,308	344,165	-
Cash and cash equivalents, beginning of year/period		4,314,696	5,330,418	4,922,518
Cash and cash equivalents, end of year/period	13	3,020,470	4,314,696	5,330,418
Treasury bills, end of year/period	14	5,589,007	1,967,991	-
Cash and cash equivalents and Treasury bills, end of year/period		8,609,477	6,282,687	5,330,418


 Minister of Finance


 Director General of MOF
 Accounting Department
 GHAZI Faisal Abdul Hameed

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

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

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.

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

The DFI consists of bank accounts held with the Federal Reserve Bank of New York (FRBNY) and managed by the Central Bank of Iraq (CBI) on behalf of the Ministry of Finance (MOF). A DFI sub-account was established at the FRBNY during 2004 to be managed by the U.S. Agencies and monitored by the Iraqi MOF. The purpose of this sub-account is to facilitate disbursements for contracts signed by the former CPA, requiring payment subsequent to 28 June 2004. U.S. Agencies' management of the DFI sub-account expired on 31 December 2006. The U.S. Agencies include the Joint Contracting Command Iraq/Afghanistan, Project and Contracting Office, the Iraqi Reconstruction and Management Office, the JASG Comptroller, the DFI Disbursing Office, the Defense Contract Management Agency, the U.S. Army Corps of Engineers and Coalition Forces.

In accordance with UNSCR 1483 (2003), the proceeds from export sales of petroleum, petroleum products and natural gas from Iraq are to be deposited in the DFI. Furthermore, all Member States are obligated to freeze and transfer funds and other financial assets of the former Iraqi regime to the DFI. In addition, surplus funds from the United Nations' (UN) Oil for Food (OFF) program, established by UNSCR 986 (1995), are to be transferred to the DFI.

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

UNSCR 1723 (2006) extended until 31 December 2007 the arrangements established in Paragraph 20 of UNSCR 1483 (2003) for the depositing proceeds from export sales of petroleum, petroleum products, and natural gas into the DFI and the arrangements referred to in paragraph 12 of UNSCR 1483 (2003) and paragraph 24 of UNSCR 1546 (2004) for the monitoring of the DFI by the IAMB. Further, UNSC 1723 (2006) states that these arrangements shall be reviewed at the request of the Government of Iraq or by no later than 15 June 2007.

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

The statement of cash receipts and payments was authorised for issue in accordance with His Excellency Minister of Finance approval on 5 July 2007.

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The statement of cash receipts and payments (the “financial statement”) has been prepared in accordance with the International Public Sector Accounting Standard “Financial Reporting under the Cash Basis of Accounting” issued by the International Federation of Accountants in January 2003.

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

The DFI’s accounting records for the year ended 31 December 2006 are not complete. The DFI’s statement of cash receipts and payments has been compiled from the monthly statements of cash receipts and payments of the DFI’s main bank account managed by the CBI, the DFI’s sub-account maintained by the U.S. Agencies, the FRBNY bank statements and other financial information maintained by the MOF and other parties.

The DFI’s initial reporting period was determined by the Government of Iraq and the IAMB to be semi-annual reporting from 1 January to 30 June and from 1 July to 31 December. However, during 2006 the reporting period has been changed to be annually from 1 January to 31 December.

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

Cash receipts

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

Cash payments

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and overnight repurchase agreement pool facilities. The letters of credit cash margins at banks are not included as part of the DFI cash and cash equivalent balances as they are not controlled by the DFI and are restricted for the payment of the outstanding letters of credit to the suppliers.

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

3 EXPORT SALES OF PETROLEUM

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

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

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

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

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

	<i>1 January to 31 December 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>
Total export sales of petroleum during the year/period	30,397,044	12,872,974	10,395,418
Less: Demurrage claims deducted from export sales invoices	(15,633)	(15,419)	(12,952)
Proceeds deposited in OPRA after end of year/period	(2,068,606)	(1,499,352)	(2,014,395)
Seized amount by Court of Roma *	(10,886)	-	-
Add: Proceeds deposited during the current year related to prior period export sales invoices	1,499,351	2,014,395	1,326,527
Interest on delayed bank transfers	369	96	45
Proceeds deposited in OPRA during the year/period	29,801,639	13,372,694	9,694,643
Less: Amounts transferred to the Compensation Fund (5%)	(1,490,082)	(668,635)	(484,732)
Net proceeds deposited in the DFI during the year/period (95%)	28,311,557	12,704,059	9,209,911

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

Net cash received from export sales of petroleum products during the year ended 31 December 2006 amounting to U.S. \$ 638,193 thousand (from inception to 31 December 2006: U.S. \$ 1,027,093 thousand), were not deposited into OPRA and are not recorded in the DFI's financial statement. These funds were deposited in bank accounts controlled by SOMO. Based on the amount of net cash received from export sales of petroleum products as recorded by SOMO, payments to the DFI bank account and the UN Compensation Fund for the year ended 31 December 2006 would amount to U.S. \$ 606,283 thousand and U.S. \$ 31,910 thousand respectively (from inception to 31 December 2006: U.S. \$ 975,738 thousand and U.S. \$ 51,355 thousand respectively).

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

3 EXPORT SALES OF PETROLEUM (CONTINUED)

SOMO also engages in barter transactions with the Syrian Government for exports of petroleum and petroleum products. Barter transactions consist mainly of exports of fuel oil in exchange for light petroleum products, and exports of petroleum in exchange for electricity and light petroleum products. The value of these barter transactions, as recorded by SOMO, for the year ended 31 December 2006 is U.S. \$ 175,537 thousand (from inception to 31 December 2006: U.S. \$ 815,207 thousand). As these barter transactions were non-cash, they are not recorded in the DFI's financial statement. Based on the value of the barter transactions as recorded by SOMO, payments to the UN Compensation Fund for the year ended 31 December 2006 would amount to U.S. \$ 8,777 thousand (from inception to 31 December 2006: U.S. \$ 40,760 thousand).

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

4 UNITED NATIONS OIL FOR FOOD PROGRAM

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

OFF transfers to the DFI during the year ended 31 December 2006 amounted to U.S. \$ 185,000 thousand (1 July 2005 to 31 December 2005: U.S. \$ 62,321 thousand and 1 January 2005 to 30 June 2005: U.S. \$ 750,000 thousand).

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

	<i>31 December 2006 U.S. \$ 000'</i>	<i>31 December 2005 U.S. \$ 000'</i>	<i>30 June 2005 U.S. \$ 000'</i>
Includes UNMOVIC			
Total cash held with the United Nations Escrow Account	1,220,401	1,561,251	1,962,538
Obligated for letters for credit	915,654	1,261,841	1,599,713
Other obligations and liabilities	5,606	30,568	34,201
Excluding UNMOVIC			
Operating reserve	204,037	147,792	191,468
Cumulative surplus	41,456	15,162	60,564
Reserve and cumulative surplus	245,493	162,954	252,032
Remaining balance in UNMOVIC	66,430	113,928	121,195

Letters of credit obligations of U.S. \$ 674,682 thousand expired before 31 December 2006 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.

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

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

5 PROCEEDS FROM FROZEN ASSETS IN FOREIGN COUNTRIES

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

	<i>1 January to 31 December 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>
United States of America	1,437	163	75
Luxembourg	7,982	-	-
Italy	6,598	9,387	-
Jordan	346	828	-
Lebanon	67	2,016	71,949
Japan	181	4,627	-
Sweden	21	2,566	-
Syria	-	261,000	45,360
Switzerland	-	3,112	1,269
Russia	-	1,285	-
South Africa	-	1,059	-
Egypt	-	551	-
Others	116	234	37
	<u>16,748</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 2006 and prior periods include assets relating to the CBI and other governmental institutions. On 22 November 2005, the Iraqi Council of Ministers requested the MOF to make the necessary arrangements to refund all CBI balances at foreign countries that have been transferred to the DFI. Based on the CBI records the total balance that should be refunded is amounting to U.S. \$ 332,405 thousand. However, to the financial statement date, the MOF has not yet confirmed the amounts that will be refunded from the DFI to the CBI.

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

6 INTEREST RECEIVED

	<i>1 January to 31 December 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>
Overnight repurchase agreement pool facility	232,014	106,898	52,268
U.S. Treasury bills	106,303	2,335	-
Letters of credit cash margins	118,388	17,121	19,252
	<u>456,705</u>	<u>126,354</u>	<u>71,520</u>

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

7 OTHER RECEIPTS

	<i>1 January to 31 December 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>
Refunded letters of credit cash margins	491,824	235,786	136,299
Refunds from the CBI	17,806	77,695	-
Food and Agricultural Organization and World Food Program	40,000	-	-
Transfer form OPRA*	4,750	-	-
Others	34,732	32,345	3,121
	<u>589,112</u>	<u>345,826</u>	<u>139,420</u>

* On 10 October 2006 an amount of U. S. 5,000 thousand was erroneously deposited in OPRA instead of the CBI account at the FRBNY and 95% of the amount was transferred from OPRA to the DFI account at FRBNY. Subsequently on 29 January 2007, the amount was refunded to the CBI account at the FRBNY.

8 TRANSFERS TO THE MINISTRY OF FINANCE

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

In the DFI's financial statement for the year ended 31 December 2006, the cash transferred from the DFI account at the FRBNY to the MOF current account at the CBI of U.S. \$ 18,000,000 thousand was recorded immediately as cash payments before transferring the cash to the intended ministry (1 July 2005 to 31 December 2005: U.S. \$ 7,750,000 thousand) . Based on the MOF records, the total amounts transferred to the Iraqi ministries and related entities and Kurdistan Region during the year ended 31 December 2006 in accordance with the MOF's records amounted to U.S. \$ 17,722,315 thousand (1 July 2005 to 31 December 2005: 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 the TBI's accounts at JP Morgan Chase Bank and Citibank, N.A. These letters of credit are charged to the budget of the intended ministry or governmental entity and the related contracts are managed by these ministries

The transferred cash is held at JP Morgan Chase Bank and Citibank, N. A. until evidence of completion of service or receipt of goods is confirmed by the intended Iraqi ministry in accordance with the terms of the letters of credit. The cash margins held at JP Morgan Chase Bank and Citibank, N. A. as of 31 December 2006 amounted to U.S. \$ 3,169,397 thousand (31 December 2005: U.S. \$ 3,166,190 thousand and 30 June 2005 : U.S. \$ 2,750,714 thousand) for the outstanding 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 outstanding letters of credit to the suppliers.

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

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

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

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

<i>Ministry of:</i>	<i>1 January to 31 December 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>
Oil	4,660,666	2,582,834	1,195,526
Trade	2,413,393	1,199,493	973,974
Electricity	484,618	142,641	67,089
Municipality and Public Works	286,391	8,712	800
Health	268,543	211,793	99,594
Transportation	73,260	15,817	-
Industry and Minerals	40,761	9,787	4,113
Finance	45,187	-	19,006
Water Resources	34,023	47,858	-
Agriculture	13,855	15,110	105,399
Telecommunications	13,729	80,167	3,970
Construction and Housing	3,314	3,534	647
Justice	919	2,118	42
Defence	-	95,199	-
Kurdistan Region Ministries	-	17,857	-
Science and Technology	-	870	-
Interior	-	864	-
Foreign Affairs	-	480	-
Labour and Social Affairs	-	-	5,547
Others	2	40	15,467
	8,338,661	4,435,174	2,491,174

The above letters of credit cash payments includes payments for letters of credit of certain self-financing governmental entities that are not covered by the DFI amounting to U.S. \$ 363,781 thousand (from 1 July 2005 to 31 December 2006: U.S. \$ 594,828 thousand). Conversely, the MOF received advance payments from these entities to fund their letters of credit payments amounting to U.S. \$ 534,554 thousand (from 1 July 2005 to 31 December 2006: U.S. \$ 594,828 thousand), which have been deposited in the MOF accounts at the CBI and have not been transferred to the DFI account at the FRBNY during the year ended 31 December 2006.

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

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

10 CONTRACTS ADMINISTERED BY U.S. AGENCIES

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

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

<i>Ministry of:</i>	<i>1 January to 31 December 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>
Oil	94,588	52,278	37,324
Interior	61,000	25,792	-
National Security and Defence	28,652	22,511	201,966
Transportation	17,231	-	-
Industry and Minerals	10,735	-	-
Electricity	9,190	86	23,589
Baghdad Municipality	8,982	-	-
Water Resources	4,231	-	-
Construction and Housing	2,749	-	-
Municipality and Public works	2,588	-	-
Education	1,704	-	-
Justice	1,377	1,243	-
Health	1,002	-	-
Agriculture	-	3,190	2,344
Various ministries and governmental entities	7,091	11,503	37,223
	<u>251,120</u>	<u>116,603</u>	<u>302,446</u>

11 IRAQI EXTERNAL DEBT REPAYMENTS

	<i>1 January to 31 December 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>
Citibank, N. A.*	393,712	121,194	-
Interest paid to JP Morgan Chase Bank**	87,190	-	-
Islamic Development Bank***	58,066	38,121	-
World bank	-	-	362
	<u>538,968</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, there is insufficient information available regarding the Iraqi external debt balances that will be settled from the DFI accounts.

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NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

11 IRAQI EXTERNAL DEBT REPAYMENTS (CONTINUED)

During 2005, the Government of Iraq has engaged Citibank, N. A. to act as Settlement Agent for the settlement of the reconciled eligible claims based on the Iraqi External Debt Reconciliation Project. During the year ended 31 December 2006 the net amounts transferred to Citibank, N.A. were U.S. \$ 393,712 thousand (from 1 July 2005 to 31 December 2005: U.S. \$ 121,194 thousand and 1 January 2005 to 30 June 2005: nil).

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

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

The interest paid to JP Morgan Chase Bank during the year ended 31 December 2006 amounted to U. S. \$ 87,190 thousand.

*** On 18 July 2005, a memorandum of understanding has been signed between the Republic of Iraq and Islamic Development Bank (the Bank) for the settlement of the total balance due from the Government of Iraq to the Bank amounting to Islamic Dinar 106,330 thousand. During 2005, the Government of Iraq paid Islamic Dinar 26,330 thousand (equivalent to U.S. \$ 38,121 thousand), and the remaining balance of Islamic Dinar 80,000 thousand will be paid in four equal semi-annual installments starting on 31 March 2006 and last payment is due on 30 September 2007. During 2006, the Government of Iraq paid two installments in the total amount of Islamic Dinar 40,000 thousand (equivalent to U.S. \$ 58,066 thousand) from the DFI.

12 OTHER PAYMENTS

	<i>1 January to 31 December 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>
Inter-Arab Investment Guarantee Corporation *	46,000	-	-
The Independent Electoral Commission of Iraq	12,873	58,575	-
Iraqi Media Network	2,704	935	5,786
Consulting and outsourcing (MOF)	1,995	14,729	-
Baghdad Municipality	4,692	3,196	-
OPEC membership	26	1,852	2,064
High Committee for Relief (Donation to Lebanon)	35,000	-	-
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
Others	293	9,154	11,709
	103,583	112,027	86,401

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

12 OTHER PAYMENTS (CONTINUE)

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

13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are as follow:-

	<i>31 December 2006 U.S. \$ 000'</i>	<i>31 December 2005 U.S. \$ 000'</i>	<i>30 June 2005 U.S. \$ 000'</i>
Accounts maintained at FRBNY:			
Overnight repurchase agreement pool facility	2,996,000	4,271,500	5,236,400
Operating accounts	134	153	359
	2,996,134	4,271,653	5,236,759
Cash on hand held centrally by U.S. Agencies*	24,336	43,043	93,659
	3,020,470	4,314,696	5,330,418

Accounts at the FRBNY are detailed as follows:-

	<i>31 December 2006 U.S. \$ 000'</i>	<i>31 December 2005 U.S. \$ 000'</i>	<i>30 June 2005 U.S. \$ 000'</i>
CBI/DFI	869,952	3,430,750	4,334,992
CBI/DFI (Transition Account - U.S. Agencies)*	572,363	804,515	866,362
CBI/FMS (Foreign Military Sales Account)**	1,553,819	-	-
Others	-	36,388	35,405
	2,996,134	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 outstanding contractual commitments as of 31 December 2006 according to the U.S. Agencies records amounted to U.S. \$ 103,050 (Note 16).

** This account was opened on 4 December 2006 at the request of the CBI and initially funded by U.S. \$ 1,550,000 thousand from the DFI main account. This account will be designated for the benefit of the Ministry of Defense.

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

14 TREASURY BILLS

	<i>31 December 2006 U.S. \$ 000'</i>	<i>31 December 2005 U.S. \$ 000'</i>	<i>30 June 2005 U.S. \$ 000'</i>
Face Value	5,724,100	2,002,000	-
Discount	(135,093)	(34,009)	-
Treasury bills cost	<u>5,589,007</u>	<u>1,967,991</u>	<u>-</u>

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

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

15 RELATED PARTY TRANSACTIONS

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

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

The U.S. Agencies, the IAMB and key management of the DFI did not receive compensation or fees directly from the DFI during the year ended 31 December 2006.

16 COMMITMENTS AND CONTINGENCIES

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

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

The former CPA did not maintain complete accounting records in respect of contractual commitments entered into by the U.S. Agencies for the period from inception to 28 June 2004. The outstanding contractual commitments balance in accordance with the U.S. Agencies records amounted to U.S. \$ 103,050 as of 31 December 2006. The U.S. Agencies' management of the DFI sub-account expired on 31 December 2006.

On 11 December 2006, the U.S. Agencies submitted the contracts files and other supporting documents of the former CPA and the U.S. Agencies to the BSA. According to the BSA letter dated 25 February 2007, the BSA informed the U.S. Agencies that they found financial and legislative violations, which lead the BSA to review all the submitted documents and the Iraqi entities retained their right to request compensation for any financial damage to the Iraqi budget due to any financial or administrative actions taken by the U.S. Agencies during the execution of the contracts.

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

17 LITIGATIONS

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

Many of the lawsuits are being reconciled and settled under the Government of Iraq's External Debt Reconciliation Project. However, to the financial statement date, there is not sufficient information available regarding the balances that have been reconciled or settled as of 31 December 2006, and the balances that will be reconciled and settled subsequent to the year end.

Due to the unavailability of sufficient information, the final outcome of these lawsuits is uncertain and cannot be quantified as of 31 December 2006.

18 IMMUNITY

In accordance with UNSCR 1483 (2003), certain Member States have taken legal steps, as considered necessary, to ensure immunity of the petroleum and petroleum products originating in Iraq, until title passes to the initial purchaser, from legal proceedings against them so as not to be subject to any form of prior judicial, administrative or arbitral lien or judgment. This immunity expires on 31 December 2007 unless the United Nations Security Council decides otherwise.

19 GOING CONCERN

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

UNSCR 1723 (2006) extended until 31 December 2007 the arrangements established in paragraph 20 of UNSCR 1483 (2003) for depositing proceeds from export sales of petroleum, petroleum products, and natural gas into the Development Fund for Iraq and the arrangements referred to in paragraph 12 of UNSCR 1483 (2003) and paragraph 24 of UNSCR 1546 (2004) for the monitoring of the DFI by the IAMB.

20 TAXATION

The DFI is not subject to taxation.

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

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

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

	<i>Government of Iraq (main accounts) U.S. \$ 000'</i>	<i>U.S. Agencies (sub-account) U.S. \$ 000'</i>	<i>Total U.S. \$ 000'</i>
Cash Receipts			
Export sales of petroleum	28,311,557	-	28,311,557
United Nations Oil for Food Program	185,000	-	185,000
Proceeds from frozen assets at foreign countries	16,748	-	16,748
Interest received	423,595	33,110	456,705
Other receipts	589,112	-	589,112
Total Cash Receipts	29,526,012	33,110	29,559,122
Cash Payments			
Transfers to the Ministry of Finance	18,000,000	-	18,000,000
Letters of credit for the benefit of Iraqi ministries	8,338,661	-	8,338,661
Contracts administered by U.S. Agencies	-	251,120	251,120
Iraqi external debt repayments	538,968	-	538,968
Other payments	103,583	-	103,583
Total Cash Payments	26,981,212	251,120	27,232,332
Excess (deficit) of receipts over payments	2,544,800	(218,010)	2,326,790
Purchased Treasury bills during the year	(9,910,324)	-	(9,910,324)
Proceeds from Treasury bills on maturity during the year	6,289,308	-	6,289,308
Cash and cash equivalents, beginning of year	3,467,138	847,558	4,314,696
Transfers	32,849	(32,849)	-
Cash and cash equivalents, end of year	2,423,771	596,699	3,020,470
Treasury bills	5,589,007	-	5,589,007
Cash and cash equivalents and Treasury bills, end of year	8,012,778	596,699	8,609,477

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

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

Analysis for the period from 1 July 2005 to 31 December 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	12,704,059	-	12,704,059
United Nations 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 (deficit) of receipts over payments			
	1,043,147	(90,878)	952,269
Purchased Treasury bills during the year	(2,312,156)	-	(2,312,156)
Proceeds from Treasury bills on maturity during the year	344,165	-	344,165
Cash and cash equivalents, beginning of year	4,370,398	960,020	5,330,418
Transfers	21,584	(21,584)	-
Cash and cash equivalents, end of year	3,467,138	847,558	4,314,696
Treasury bills	1,967,991	-	1,967,991
Cash and cash equivalents and Treasury bills, end of year	<u>5,435,129</u>	<u>847,558</u>	<u>6,282,687</u>

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NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2006

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
United Nations Oil for Food program	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 (deficit) of receipts over payments	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

Due to the fact that the DFI's financial statement for the period from 1 July 2005 to 31 December 2005 and the period from 1 January 2005 to 30 June 2005 were prepared on a semi-annual basis, the comparative figures are not comparable to the financial statement for the full year ended 31 December 2006.

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 year. Such reclassifications do not affect previously reported total cash receipts and payments.