

Development Fund for Iraq

Statement of Cash Receipts and Payments

For the period from July 1, 2005 to December 31, 2005

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

We have audited the accompanying statement of cash receipts and payments (financial statement) of the Development Fund for Iraq (DFI) for the period from July 1, 2005 to December 31, 2005. This financial statement is the responsibility of the Government of Iraq. Our responsibility is to express an opinion on this financial statement based on our audit. The statement of cash receipts and payments of the DFI for the period from January 1, 2005 to June 30, 2005 was audited by another auditor whose report dated September 20, 2005 expressed a qualified audit opinion on the completeness of cash receipts, on the completeness of export sales of petroleum and petroleum products and on the completeness and accuracy of contractual commitments.

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 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As further explained in note 2 to the statement of cash receipts and payments, 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 balances and the related disclosure notes for the period from July 1, 2005 to December 31, 2005. 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 FRBNY bank 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 period from July 1, 2005 to December 31, 2005.
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 for the purposes of our audit to ensure the completeness of the sales of petroleum and petroleum products for the period from July 1, 2005 to December 31, 2005 from which proceeds were required to be deposited in the DFI in accordance with United Nations Security Council Resolution (UNSCR) 1483. Due to weaknesses in the internal control systems, insufficient information is available to extend our audit procedures to ensure the completeness of export sales of petroleum and petroleum products and the compliance with UNSCR 1483.

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

3. As further explained in note 3 of the financial statement, cash received from export sales of petroleum products during the period from July 1, 2005 to December 31, 2005 amounting to U.S. \$ 211,422 thousand has been deposited in bank accounts controlled by the State Oil Marketing Organization (SOMO). According to UNSCR 1483, 95% of the proceeds of export sales of petroleum and petroleum products shall be deposited in the DFI bank accounts. Therefore, the cash receipts for the period from July 1, 2005 to December 31, 2005 and cash as of December 31, 2005 are understated by U.S. \$ 200,851 thousand (from inception to December 31, 2005: U.S. \$ 604,437 thousand).
4. As further explained in note 17 to the statement of cash receipts and payments, 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 June 28, 2004. The U.S. Agencies list of contractual commitments as of December 31, 2005 was incomplete and inaccurate. Due to weaknesses in the internal control systems and the unavailability of sufficient information, we could not extend our audit procedures to ensure the completeness and accuracy of the contractual commitments balance as of December 31, 2005.
5. As further explained in note 9 to the statement of cash receipts and payments, letters of credit cash payments during the period from July 1, 2005 to December 31, 2005, includes payments for letters of credit of certain Iraqi Ministries that are not covered by the DFI budget in the amount of U.S. \$ 231,047 thousand. Conversely, the MOF received advance payments from these ministries to fund their letters of credit payments amounting to U.S. \$ 272,958 thousand, which have been deposited in the MOF accounts and have not been transferred to the DFI accounts at the FRBNY. Therefore, the DFI's total cash payments for the period from July 1, 2005 to December 31, 2005 are overstated by U.S. \$ 231,047 thousand.

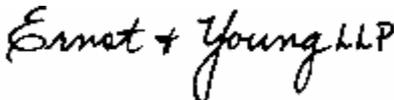
In our opinion, except for the effects of the matters referred to in the preceding, the statement of cash receipts and payments presents fairly, in all material respects, the recorded cash receipts and payments of the Development Fund for Iraq for the period from July 1, 2005 to December 31, 2005, in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting".

Without further qualifying our opinion, we draw attention to note 20 to the statement of cash receipts and payments, which states that the DFI's statement of cash receipts and payments has not been prepared on a going concern basis. UNSCR 1637 (2005) extended until December 31, 2006 the arrangements established in paragraph 20 of UNSCR 1483 (2003) for the depositing into the DFI of proceeds from export sales of petroleum, petroleum products, and natural gas 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.

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

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. 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 report is shown or into whose hands it may come save where expressly agreed by our consent in writing.

Ernst & Young



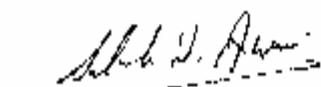
September 13, 2006
Baghdad, Iraq

Development Fund for Iraq

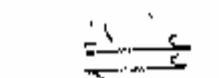
STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the period from July 1, 2005 to December 31, 2005

	Notes	July 1 to December 31, 2005 U.S. \$ '000'	January 1 to June 30, 2005 U.S. \$ '000'
Cash Receipts			
Export sales of petroleum	3	12,704,059	9,209,911
UN Oil for Food program	4	62,321	750,000
Proceeds from frozen assets at foreign countries	5	286,828	118,690
Interest received	6	126,354	71,520
Other receipts	7	345,826	139,420
Total Cash Receipts		13,525,388	10,289,541
Cash Payments			
Transfers to the Ministry of Finance	8	7,750,000	7,001,258
Letters of credit for the benefit of Iraqi ministries	9	4,435,174	2,491,174
Contracts administered by U.S. Agencies	10	116,603	302,446
Iraqi external debt repayments	11	159,315	362
Other payments	12	112,027	86,401
Total Cash Payments		12,573,119	9,881,641
Excess of cash receipts over cash payments		952,269	407,900
Purchased Treasury bills	13	(1,967,991)	-
Cash and cash equivalents, beginning of period		5,330,418	4,922,518
Cash and cash equivalent, end of period	14	4,314,696	5,330,418


Minister of Finance

Sabah Y. Awani
Consultant


Director General of MOF
Accounting Department

GHAZI Faisal ABDUL Hamid

The attached notes 1 to 23 form part of this statement of cash receipts and payments.

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NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

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

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

The DFI consists of bank accounts held with the Federal Reserve Bank of New York (FRBNY) and managed by the Central Bank of Iraq on behalf of the Ministry of Finance. In accordance with a memorandum issued by the Iraqi Ministry of Finance on June 15, 2004, a DFI sub-account was established at the FRBNY to be managed by the U.S. Agencies and monitored by the Iraqi Ministry of Finance (MOF). The purpose of this sub-account is to facilitate disbursements for contracts signed by the former CPA, requiring payment subsequent to June 28, 2004. U.S. Agencies' management of the DFI sub-account will be expired on December 31, 2006. The U.S. Agencies include the Joint Contracting Command-Iraq, Project and Contracting Office, the Iraqi Reconstruction and Management Office, the JASG Comptroller, the DFI Disbursing Office, the Defense Contract Management Agency, the U.S. Army Corps of Engineers and Coalition Forces.

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

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

The International Advisory and Monitoring Board (IAMB) of the DFI was appointed in accordance with UNSCR 1483, UNSCR 1546, and UNSCR 1637. The IAMB is an audit oversight body for the DFI, its purpose is to promote the objectives set forth in UNSCR 1546, and UNSCR 1483, of ensuring that the DFI is used in a transparent and equitable manner and through the Iraqi budget including to satisfy outstanding obligations against the DFI and that all proceeds of export sales of petroleum, petroleum products and natural gas from Iraq are deposited into the DFI in accordance with the provisions of UNSCR 1483.

The statement of cash receipts and payments was authorised for issue in accordance with the Minister of Finance approval on September 13, 2006.

NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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.

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

The DFI did not maintain a complete set of accounting records for the period from July 1, 2005 to December 31, 2005. The DFI’s statement of cash receipts and payments had been 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 FRBNY bank statements and other financial information maintained by the Ministry of Finance and other parties.

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

The accounting policies are consistent with those used in the previous year, with the exception of the treatment of the net deposits by Iraqi ministries for payments on their behalf. In prior period, the DFI benefits from deposits made by the Iraqi Ministries and other governmental entities for payments on their behalf. Cash receipts and payments passed through bank accounts administered by the DFI were included in the statement of cash receipts and payments of the prior period on a net basis. However, these deposits ceased during April 2005 and the related bank account was closed.

Cash receipts

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

Cash payments

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

Cash and cash equivalents

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

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

3 EXPORT SALES OF PETROLEUM

Export sales of petroleum and petroleum products are arranged and invoiced exclusively by the State Oil Marketing Organization (SOMO), the sales arm of the Ministry of Oil. 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 shall be deposited into the Oil Proceeds Receipts Account (OPRA) and immediately thereafter, 95% is required to be deposited in the DFI account at the FRBNY and the remaining 5% is required to be deposited in the Compensation Fund, and are not included in the DFI's statement of cash receipts and payments. The Compensation Fund was established in accordance with UNSCR 687 and subsequent relevant resolutions, as a result of the Iraqi invasion of Kuwait during 1990.

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

Export sales and proceeds of petroleum deposited in OPRA during the period from July 1, 2005 to December 31, 2005 were as follows:

	<i>July 1 to December 31, 2005 U.S. \$ 000'</i>
Total export sales of petroleum during the period	12,872,974
Less: Demurrage claims deducted from export sales invoices	(15,419)
Proceeds deposited in OPRA after December 31, 2005	(1,499,352)
Add: Proceeds deposited during the current period related to prior periods export sales	2,014,395
Interest on delayed bank transfers	96
Proceeds deposited in the OPRA during the period	13,372,694
Less: Amounts transferred to the Compensation Fund (5%)	(668,635)
Net proceeds deposited in the DFI during the period (95%)	12,704,059

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

	<i>January 1 to June 30, 2005 U.S. \$ 000'</i>
Total export sales of petroleum during the period	10,382,466
Less: Proceeds deposited in OPRA after June 30, 2005	(2,014,395)
Add: Cash deposited in 2005 from proceeds of 2004 export sales	1,326,527
Proceeds deposited in OPRA during the period for petroleum	9,694,598
Add: Interest on delayed bank transfers	45
Less: Amounts transferred to the Compensation Fund (5%)	(484,732)
Net proceeds deposited in the DFI during the period (95%)	9,209,911

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NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

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

Net cash advances received from export sales of petroleum products during the period from July 1, 2005 to December 31, 2005 amounted to U.S. \$ 211,422 thousand (from inception to December 31, 2005: U.S. \$ 388,900 thousand), were not deposited into the OPRA and they are not recorded in the statement of cash receipts and payments. These funds were deposited in bank accounts controlled by SOMO.

As explained in note 16, SOMO also engages in barter transactions for exports of petroleum and petroleum products. Barter transactions consist mainly of exports of fuel oil in exchange for light petroleum products, and exports of petroleum in exchange for electricity and light petroleum products with the Syrian Government. The value of these barter transactions, as recorded by SOMO, for the period from July 1, 2005 to December 31, 2005 is U.S. \$ 78,565 thousand (from inception to December 31, 2005: U.S. \$ 636,670 thousand). As these barter transactions were non-cash transactions, they are not recorded in the statement of cash receipts and payments.

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

4 UN OIL FOR FOOD PROGRAM

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

OFF transfers to the DFI during the period from July 1 to December 31, 2005 were as follows:

	<i>July 1 to December 31, 2005</i>
	<i>U.S. \$ 000'</i>
October 25	37,321
December 27	25,000
	<u>62,321</u>

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

	<i>January 1 to June 30, 2005</i>
	<i>U.S. \$ 000'</i>
March 3	50,000
March 4	400,000
April 12	100,000
June 30	200,000
	<u>750,000</u>

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

Based on the United Nations confirmation of the OFF's Escrow Account, the total cash held as of December 31, 2005 is U.S. \$ 1,446,456 thousand (June 30, 2005: U.S. \$ 1,962,538 thousand), of which U.S. \$ 1,261,841 thousand (June 30, 2005: U.S. \$ 1,599,713 thousand) is obligated for letters of credit, and U.S. \$ 28,370 thousand (June 30, 2005: U.S. \$ 34,201 thousand) for other costs related to the OFF program. Accordingly, amount of U.S. \$ 126,660 thousand and U.S. \$ 21,132 thousand represent operating reserves in the Humanitarian account and the Administrative account respectively; U.S. \$ 9,121 thousand represents remaining balances in the Humanitarian and Administrative accounts; and U.S. \$ 6,041, thousand represents the remaining balance in the Administrative and operational activities account.

Letters of credit obligations of U.S. \$ 422,210 thousand expired before December 31, 2005, cannot be canceled yet, given that there are document discrepancies, stop payments requests from the CBI, outstanding arrival of goods confirmations, and partially delivered contracts. Any residual related balances after settlement of the remainder of the invoice will be transferred to the DFI.

There are no restrictions, conditions or other covenants over funds received from the OFF program. As of December 31, 2005, there were no pending transfers of the OFF program fund to the DFI.

5 PROCEEDS FROM FROZEN ASSETS AT FOREIGN COUNTRIES

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

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

	<i>July 1 to December 31, 2005</i>	<i>January 1 to June 30, 2005</i>
	<i>U.S. \$ 000'</i>	<i>U.S. \$ 000'</i>
Syria	261,000	45,360
Italy	9,387	-
Japan	4,627	-
Switzerland	3,112	1,269
Sweden	2,566	-
Lebanon	2,016	71,949
Russia	1,285	-
South Africa	1,059	-
Jordan	828	-
Egypt	551	-
United States of America	163	75
Others	234	37
	<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

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NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

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

The amounts of frozen assets at foreign countries deposited in the DFI account during 2005 and prior periods include assets related to the Central Bank of Iraq and other governmental institutions. On November 22, 2005, the Iraqi Council of Ministers requested the MOF to make the necessary arrangements to refund all CBI balances at foreign countries that have been transferred to the DFI. To the financial statement date, the MOF has not confirmed the amounts that may be refunded from the DFI to the CBI.

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

6 INTEREST RECEIVED

	<i>July 1 to December 31, 2005</i> U.S. \$ 000'	<i>January 1 to June 30, 2005</i> U.S. \$ 000'
Overnight repurchase agreement pool facility	106,898	52,268
Letters of credit cash margins at JP Morgan	17,121	19,252
U.S. Treasury bills	2,335	-
	<u>126,355</u>	<u>71,520</u>

7 OTHER RECEIPTS

	<i>July 1 to December 31, 2005</i> U.S. \$ 000'	<i>January 1 to June 30, 2005</i> U.S. \$ 000'
Letters of credit cash margins refunded from JP Morgan	235,786	136,299
Refunds from the CBI	77,695	-
Cash transferred from the U.S. Agencies during prior period, deposited after June 30	30,088	-
Others	2,257	3,121
	<u>345,826</u>	<u>139,420</u>

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NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

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. Transfers from the DFI to the MOF during the period from July 1, 2005 to December 31, 2005 were as follows:

	<i>July 1 to December 31, 2005 U.S. \$ 000'</i>
July	1,100,000
August	1,200,000
September	400,000
October	1,700,000
November	1,850,000
December	1,500,000
	<u>7,750,000</u>

In the DFI's statement of cash receipts and payments, the cash transferred from the DFI account at the FRBNY to the MOF current account at the CBI of U.S. \$ 7,750,000 thousand were recorded immediately as cash payments before transferring the cash to the intended ministry. Based on the Ministry of Finance records, the total amounts transferred to the Iraqi Ministries and related entities during the period from July 1, 2005 to December 31, 2005 amounted U.S. \$ 6,742,132 thousand.

Transfers from the DFI, made directly and indirectly, to Iraqi Ministries during the period from January 1, 2005 to June 30, 2005 were as follows:

	<i>January 1 to June 30, 2005 U.S. \$ 000'</i>
January	1,200,000
February	2,000,000
April	851,258
May	2,297,600
June	652,400
	<u>7,001,258</u>

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

9 LETTERS OF CREDIT FOR THE BENEFITS OF IRAQI MINISTRIES

Letters of credit are facilitated by the Trade Bank of Iraq (TBI), authorized by the MOF and disbursed from the DFI's FRBNY account to JP Morgan Chase Bank. These letters of credit are charged to the budget of the intended ministry or governmental entity and the related contracts are managed by these ministries.

The transferred cash is held at JP Morgan Chase Bank until evidence of completion of service or receipt of goods is confirmed by the intended Iraqi ministry in accordance with the terms of the letters of credit. The cash margins held at JP Morgan Chase Bank as of December 31, 2005 amounted U.S. \$ 3,166,190 thousand (June 30, 2005: U.S. \$ 2,750,714 thousand) for letters of credit opened on behalf of the Iraqi Ministries. The cash margins have not been included as part of the DFI cash balances as it is not controlled by the DFI and restricted for the payment of the letters of credit to the suppliers.

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

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

	July 1 to December 31, 2005 U.S. \$ 000'	January 1 to June 30, 2005 U.S. \$ 000'
Oil	2,582,834	1,195,526
Trade	1,199,493	973,974
Health	211,793	99,594
Electricity	142,641	67,089
Defence	95,199	-
Telecommunications	80,167	3,970
Water Resources	47,858	-
Kurdistan Region (Finance & Agriculture)	17,857	-
Transportation	15,817	-
Agriculture	15,110	105,399
Industry and Minerals	9,787	4,113
Municipality and Public Works	8,712	800
Construction and Housing	3,534	647
Justice	2,118	42
Science and Technology	870	-
Interior	864	-
Foreign Affairs	480	-
Planning	23	-
Education	17	-
Finance	-	19,006
Iraqi media network	-	15,467
Labour and Social Affairs	-	5,547
	4,435,174	2,491,174

The above letters of credit cash payments balance includes payments for letters of credit of certain ministries that are not covered by the DFI budget in the amount of U.S. \$ 231,047 thousand. In contrast, the MOF received advance payments from these ministries to fund the payments of their letters of credit in the amount of U.S. \$ 272,958 thousand, which has not been deposited in the DFI accounts during the period from July 1, 2005 to December 31, 2005.

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For the period from July 1, 2005 to December 31, 2005

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

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 June 28, 2004. This authority will expire on December 31, 2006. During the prior periods, U.S. \$ 2,800,000 thousand were transferred to the DFI sub-account to meet the commitments entered into by the former CPA.

Payments for the period from July 1, 2005 to December 31, 2005 were as follows:

<i>Ministry of:</i>	<i>Contracts</i>	<i>July 1 to December 31, 2005 U.S. \$ 000'</i>
Oil	Professional services	52,278
Defence	Constructions	21,827
Defence	Professional services	684
Interior	Armored vehicles	11,178
Interior	Different contracts	14,614
Agriculture	Broiler Protein Concentrates	3,190
Justice	Different contracts	1,243
Electricity	Different contracts	86
Various ministries	Different contracts	11,503
		<u>116,603</u>

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

<i>Ministry of:</i>	<i>Contracts</i>	<i>January 1 to June 30, 2005 U.S. \$ 000'</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	32,605
		<u>302,446</u>

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For the period from July 1, 2005 to December 31, 2005

11 IRAQI EXTERNAL DEBT REPAYMENTS

	July 1 to December 31, 2005	January 1 to June 30, 2005
	U.S. \$ 000'	U.S. \$ 000'
City Bank	121,194	-
Islamic Development Bank	38,121	-
World Bank	-	362
	<u>159,315</u>	<u>362</u>

This item represents payments for the settlement of the Iraqi external debt that existed under the previous Iraqi regime and settled according to the Iraqi External Debt Reconciliation Project and its related agreements. However, to the financial statement date, the Iraqi External Debt Reconciliation Project still ongoing and there is insufficient information regarding the balances that will be settled from the DFI accounts.

During 2005, the Government of Iraq has engaged the Citibank, N. A. to act as Settlement Agent for the settlement of the reconciled eligible claims based on the Iraqi external debt reconciliation process. During September and November 2005 the net amounts transferred to Citibank was U.S. \$ 121,194 thousand.

12 OTHER PAYMENTS

Other payments during the period from July 1, 2005 to December 31, 2005 were as follows:

	July 1 to December 31, 2005
	U.S. \$ 000'
The Independent Electoral Commission of Iraq	58,575
Baghdad Municipality	3,196
Consulting and outsourcing (MOF)	14,729
Other payments made by U.S. Agencies	20,169
Interest paid to the CBI*	3,417
OPEC membership	1,852
Iraqi media network	935
Various contracts	9,154
	<u>112,027</u>

* The interest paid to the CBI is for the funds deposited by the CBI in the DFI account at the FRBNY during 2004 until the CBI obtained an approval to open an independent account under the name of the Central Bank of Iraq. The CBI claimed from the DFI a total interest of U.S. \$ 12,938 thousand, of which U.S. \$ 3,417 thousand have been paid. The payment of the remaining U.S. \$ 9,521 thousand has not been approved by the MOF yet.

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

Other payments during the period from January 1, 2005 to June 30, 2005 were as follows:

	<i>January 1 to June 30, 2005 U.S. \$ 000'</i>
Cash in transit transferred from the U. S. Agencies to DFI main account	30,088
New Iraqi currency	7,535
Iraqi media network	5,786
OPEC membership	2,064
Emergency pipeline repair (Ministry of Oil)	17,213
Import of sugar (Ministry of Trade)	6,888
Transportation cost (Ministry of Trade)	5,118
Various contracts	11,709
	<u>86,401</u>

13 TREASURY BILLS

Treasury bills are debt securities issued by the U.S. Treasury and held by the Federal Reserve Bank of New York. The Treasury bills have original maturities of 3 to 6 months, and 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, the cost and face value of Treasury bills as of December 31, 2005 amounted to U.S. U.S. \$ 1,967,991 thousand and U.S. \$ 2,002,000 thousand, respectively. Interest received on matured Treasury bills during the period is disclosed in Note 6.

14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are as follow:

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

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

Accounts at the FRBNY are detailed as follows:

	Dec 31, 2005 U.S. \$ 000'	June 30, 2005 U.S. \$ 000'
CBI/DFI	3,430,750	4,334,992
CBI/DFI (Vested Assets Account)	2,246	1,984
CBI/DFI (Funds Received from Rafidain Bank Account)**	33,902	33,184
CBI/DFI (Funds Received from SOMO Account)**	240	237
CBI/DFI (Transition Account - U.S. Agencies)*	804,515	866,362
	<u>4,271,653</u>	<u>5,236,759</u>

*The cash on hand held by the U.S. Agencies and the DFI Transition Account are designated for the payment of the contracts signed by the former CPA, requiring payment subsequent to June 28, 2004. However, the total amount of the outstanding contractual commitments as of December 31, 2005 have not been determined yet.

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

15 DFI UNRECORDED ASSETS AND LIABILITIES

Following is a list of the DFI identified major assets and liabilities, which would have been recorded, had the DFI presented accrual-based financial statements:

Unrecorded Assets

	December 31, 2005 U.S. \$ 000'
Cash margins held by JP Morgan Chase Bank for letters of credit	3,166,190
Net receivables from export sales of petroleum	1,499,352
Accrued interest	36,721
	<u>4,702,263</u>

Unrecorded Liabilities

	December 31, 2005 U.S. \$ 000'
Cash advances by the TBI on behalf of the DFI:	
to fund SOMO's fuel imports into Iraq	80,714
to fund the Ministry of Trade grains imports	253,236
Outstanding SOMO demurrage claims	7,346
	<u>341,296</u>

As the DFI does not maintain complete set of accounting reports, the DFI may have other major assets and liabilities that have not been identified as of December 31, 2005.

NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

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. Based on the value of the barter transactions as recorded by SOMO, payments to the Compensation Fund for the period from July 1, 2005 to December 31, 2005 would amount to U.S. \$ 3,928 thousand (from inception to December 31, 2005: U.S. \$ 31,833 thousand).

16 RELATED PARTY TRANSACTIONS

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

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

U.S. Agencies, the IAMB and key management of the DFI did not receive compensation or fees directly from the DFI during the period from July 1, 2005 to December 31, 2005.

17 COMMITMENTS AND CONTINGENCIES

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

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

The former CPA did not maintain complete accounting records in respect of contractual commitments. The U.S. Agencies do not maintain complete and accurate lists of contractual obligations as of December 31, 2005. The U.S. Agencies are in the process of compiling a list of all contractual commitments, which is expected to be handed over to the Government of Iraq by December 31, 2006.

18 LITIGATION

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

Many of the lawsuits could be reconciled or settled under the Government of Iraq's External Debt Reconciliation Project. However, to the financial statements date, there are no sufficient information regarding the balances that have been reconciled or settled as of December 31, 2005, and the balances that will be reconciled and settled subsequent to year end.

Due to the unavailability of sufficient information, the final outcome of these lawsuits and its effect on the DFI's financial statement, is uncertain and could not be quantified as of December 31, 2005.

NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

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

19 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 December 31, 2007 unless the United Nations Security Council decides otherwise.

20 GOING CONCERN

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

UNSCR 1637 (2005) extended until December 31, 2006 the arrangements established in paragraph 20 of UNSCR 1483 (2003) for the depositing into the DFI of proceeds from export sales of petroleum, petroleum products, and natural gas 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.

21 TAXATION

The DFI is not subject to taxation.

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

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

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

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

Development Fund for Iraq

NOTES TO THE STATEMENT OF CASH RECEIPTS PAYMENTS

For the period from July 1, 2005 to December 31, 2005

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

	Government of Iraq (main accounts) U.S. \$ 000'	U.S. Agencies (sub- account) U.S. \$ 000'	Total U.S. \$ 000'
Cash Receipts			
Export sales of petroleum	9,209,911	-	9,209,911
UN Oil for Food program transfers	750,000	-	750,000
Proceeds from frozen assets at foreign countries	118,690	-	118,690
Interest received	58,932	12,588	71,520
Other receipts	101,026	38,394	139,420
Total Cash Receipts	<u>10,238,559</u>	<u>50,982</u>	<u>10,289,541</u>
Cash Payments			
Transfers to the Ministry of Finance	7,001,258	-	7,001,258
Letters of credit for the benefit of Iraqi Ministries	2,491,174	-	2,491,174
Contracts administered by U.S. agencies	-	302,446	302,446
Iraqi external debt repayments	362	-	362
Other payments	53,779	32,622	86,401
Total Cash Payments	<u>9,546,573</u>	<u>335,068</u>	<u>9,881,641</u>
Excess of receipts over payments (excess of payments over receipts)	<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	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>

23 COMPARATIVE FIGURES

Due to the fact that the DFI's statement of cash receipts and payments is prepared on a semi-annual basis, the comparative figures may not be comparable.

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