

**DEVELOPMENT FUND FOR IRAQ AND SUCCESSOR ACCOUNT  
FINANCIAL STATEMENTS  
31 DECEMBER 2014**

## **INDEPENDENT AUDITORS' REPORT TO GOVERNMENT OF IRAQ AND COMMITTEE OF FINANCIAL EXPERTS OF THE DEVELOPMENT FUND FOR IRAQ AND SUCCESSOR ACCOUNT**

### **Report on the financial statements**

We have audited the accompanying statement of cash receipts and payments and the statement of proceeds of oil export sales ("the financial statements") of the Development Fund for Iraq and successor account ("DFI") for the year ended 31 December 2014, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards "Financial Reporting Under the Cash Basis of Accounting" and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### **Basis for Qualified Opinion**

1. As explained in note (4) to the financial statements, the Ministry of Oil did not receive production reports from Kurdistan region during the year ended 31 December 2014. The Ministry of Oil received reports which included only the quantities pumped in the pipelines. We were not able to satisfy ourselves regarding the produced oil quantities during the year 2014 in Kurdistan region.
2. As explained in note (5) to the financial statements, according to the UNSCR 1483 (2003), all member states of the UN in which there are funds or other financial assets or economic resources (collectively referred to as "the frozen funds ") of the previous Government of Iraq or its state bodies, corporations, or agencies, located outside Iraq as of the resolution date shall

freeze the frozen funds. The frozen funds 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 the frozen funds that may eventually be transferred to the DFI, as some of these frozen funds are subject to prior judicial, administrative or arbitral lien or judgment. As a result, as noted in Note 5 to the financial statements, although we were able to verify the accuracy of the proceeds received from the frozen funds during the year ended 31 December 2014, we were unable to determine whether all proceeds from the frozen funds have been received by DFI or any proceeds have also been remitted to other Government bodies.

### **Qualified Opinion**

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves in respect of the matters referred to in the preceding paragraphs, the financial statements of DFI for the year ended 31 December 2014 are prepared, in all material respects, in accordance with the International Public Sector Accounting Standards (IPSAS) "Financial Reporting under the Cash Basis of Accounting".

### **Emphasis of matters**

1. Without further modifying our opinion, we draw attention to note (4), where crude oil shipments lifted by the international oil companies during the year ended 31 December 2014 (in accordance with their service contracts) were not included as part of total export sales of petroleum in the statement of proceeds of oil export sales. These lifted quantities were not collected in cash and were not deposited at the Oil Proceeds Receipt Account (OPRA) during the year ended 31 December 2014. A committee was formed which was chaired by the Ministry of Finance and membership of Central Bank of Iraq and Ministry of Oil to decide on the suitable mechanism to ensure the payment of amounts due to OPRA in respect of the crude oil shipments lifted by the international oil companies. The Committee resolved that the Central Bank of Iraq is to transfer the full value of oil lifted to OPRA. The total value of oil exports by international oil companies amounted to US\$ 13.14 billion during the year ended 31 December 2014 (31 December 2013: US\$ 8.46 billion). During the year ended 31 December 2014 the Central Bank of Iraq transferred an amount of US\$ 11.75 billion to OPRA against the value of in-kind oil lifted by international oil companies during 2014 and previous years.
2. The signature bonus paid by the international oil companies to obtain rights to the Iraqi oilfields, were transferred to the Ministry of Finance accounts. These amounts were not transferred to the DFI.
3. The Ministry of Oil started in the year 2008 a project to operate a full operational loading and metering system. The status for the installation of a comprehensive oil metering system in Iraq in accordance with standard oil industry practices as at 31 December 2014 was 100% (31 December 2013: 100%) for the fiscal settlement which measures quantities of crude oil and petroleum products delivered to or received from the oil companies or transferred between the oil companies and other companies outside the oil sector or the quantities exported through the ports of export, and 90% (31 December 2013: 85%) for the internal custody transfer for the measurement of quantities of crude oil and petroleum products transferred or consumed within the same

oil company and which do not have financial impact between companies. During 2013, the Ministry of Oil prepared an additional plan for the entry borders that has been established for the development operations in the oil sector, the completion rate was 60% as of 31 December 2014 for the purpose of the fiscal settlement and 18% for the purpose of internal transportation.

## **Other matters**

### **Basis of preparation**

Without further modifying our opinion, we draw attention to Note 2 to the financial statements; which describes the basis of preparation in accordance with the International Public Scoter Accounting Standards (IPSAS) (Financial Reporting under the Cash Basis of Accounting).

### **Restriction on use**

Our report is intended solely for the information and use of the Government of Iraq and the Committee of Financial Experts and should not be distributed to any other parties or used for any other purpose. We do not accept or assume responsibility for any other purpose or entity to whom this report is shown or into whose hands it may come.

The financial statements for the year ended 31 December 2013 were audited by another auditor who expressed a qualified dated 24 December 2014 due to the following:

- The Ministry of Oil did not receive production reports from Kurdistan region during the year ended 31 December 2013.
- There is no accurate report which identifies the frozen assets related to the previous regime of Iraq or its state bodies, corporations or agencies located outside Iraq.

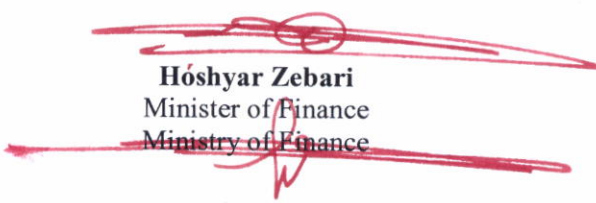


Ernst & Young Iraq  
Baghdad - Iraq  
15 December 2015

Development Fund for Iraq and Successor Account  
Statement of Cash Receipts and Payments  
For the year ended 31 December 2014  
In Thousand U.S. Dollars

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
<b>CASH RECEIPTS</b>			
Export sales of petroleum and petroleum products	4	79,273,209	84,796,454
Proceeds from frozen assets in foreign countries	5	466	2,019
United Nations Oil for Food program	6	-	-
Interest received	7	8,182	27,801
Other receipts	8	694,916	856,014
<b>Total cash receipts</b>		<u>79,976,773</u>	<u>85,682,288</u>
<b>CASH PAYMENTS</b>			
Transfers to the Iraqi Ministry of Finance	9	50,614,925	65,900,021
Letters of credit for the benefit of Iraqi governmental entities	10	21,899,630	20,943,866
Contracts administered by U.S. agencies	11	-	-
Other payments	13	13,160,736	10,602,440
<b>Total cash payments</b>		<u>85,675,291</u>	<u>97,446,327</u>
<b>(Deficit) of cash receipts over cash payments</b>		<b>(5,698,518)</b>	<b>(11,764,039)</b>
Purchased treasury bills during the year		(2,199,309)	(19,691,791)
Proceeds from treasury bills on maturity		6,697,687	33,169,908
Previous year adjustment		(3)	-
Cash and cash equivalents at 1 January		1,895,091	181,013
<b>Cash and cash equivalents at 31 December</b>	14	<u>694,948</u>	<u>1,895,091</u>
Treasury bills at 31 December	15	-	4,498,378
<b>Cash, cash equivalents, and treasury bills at 31 December</b>		<u>694,948</u>	<u>6,393,469</u>

  
**Riad Mohamad Ibrahim**  
Acting General Manager of Accounting  
Dep.  
Ministry of Finance

  
**Hoshyar Zebari**  
Minister of Finance  
Ministry of Finance

The above statement of cash receipts and payments should be read in conjunction with  
the accompanying notes from 1 to 20

Development Fund for Iraq and Successor Account  
Statement of Proceeds of Oil Export Sales  
For the year ended 31 December 2014  
In Thousand U.S. Dollars

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	<u>2014</u>	<u>2013</u>
Total export sales of petroleum as reported by SOMO	70,986,484	80,751,557
Less:		
Demurrage claims deducted from export sales invoices	(55,770)	(61,399)
Proceeds deposited in Oil Proceeds Receipts Account after end of period	(3,989,849)	(4,807,075)
Other	(6,109)	(25,000)
Add:		
Proceeds deposited in Oil Proceeds Receipts Account related to prior export sales invoices	4,755,938	5,749,161
Amounts transferred by the Central Bank of Iraq for crude oil shipments by international oil companies	4 11,754,779	7,648,520
Price differential	-	3,644
Interest on delayed bank transfers	11	17
Total Proceeds deposited in Oil Proceeds Receipts Account	<u>83,445,484</u>	<u>89,259,425</u>
Amounts transferred to the United Nation Compensation Fund (5%)	<u>(4,172,275)</u>	<u>(4,462,971)</u>
Net proceeds deposited in the Development Fund for Iraq (95%)	<u><u>79,273,209</u></u>	<u><u>84,796,454</u></u>

The above statement of cash receipts and payments should be read in conjunction with the accompanying notes from 1 to 20

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Development Fund for Iraq and Successor Account  
Notes To The Financial Statements  
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1. GENERAL

The United Nation Security Council Resolution (UNSCR) 1483 (2003), which was adopted by the Security Council on 22 May 2003, has called for the creation of the Development Fund for Iraq (DFI) to administer proceeds from all the export sales of petroleum and petroleum products in Iraq, remaining funds from Oil for Food Program, and proceeds from frozen assets seized from the previous regime. The DFI was placed under the control of the former Coalition Provisional Authority (CPA).

UNSCR 1483 also called for the creation of an International Advisory Monitoring Board (IAMB), to promote transparency and financial accountability of the DFI.

Under UNSCR 1546, the Security Council and the CPA order number 100 dissolved the CPA and transferred control to Interim Government of Iraq on 28 June 2004 and subsequently to the Transitional Government of Iraq and currently to the Government of Iraq.

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 Iraqi Ministry of Finance (MoF) as well as MoF's successor account # 300600 at the CBI. 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.

The U.S. Agencies include the JCC-I, PCO, IRMO, the JASG Comptroller, the DFI Disbursing Office, the Defense Contract Management Agency, the U.S. Army Corps of Engineers and Coalition Forces. U.S. Agencies management of the DFI sub-account expired on 31 December 2006. A DFI sub-account is closed and its balance transferred to MoF's successor account # 300600 at the CBI.

In accordance with UNSCR 1483 (2003), 95% of 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 Oil for Food program, established by UNSCR 986 (1995), are to be transferred to the DFI.

The Republic of Iraq's Council of Ministers resolved in its twenty third meeting held on 19 October 2006 to form Committee of Financial Experts (COFE) to take over the tasks of the IAMB in monitoring the DFI upon the termination of the IAMB by 31 December 2007. COFE is headed by the president of the Board of Supreme Audit (BSA) and includes two independent experts. COFE is responsible directly to the Council of Ministries.

The Republic of Iraq's Council of Ministers decided in their resolution number 82 of the year 2014 dated 18 November 2014 to extend the duties of Mr. Abdul Basit Turki Saeed in chairing the COFE till finalizing the works of the Committee of Compensation Fund.

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**1. GENERAL (continued)**

The UNSCR 1905 (2009) extended on the arrangements established in paragraph 20 of resolution 1483 (2003) for the depositing into the DFI of proceeds from export sales of petroleum and petroleum products and the arrangements referred to in paragraph 12 of resolution 1483 (2003) and paragraph 24 of resolution 1546 (2004) for the monitoring of the DFI by the IAMB and further decided that, subject to the exception provided for in paragraph 27 of UNSCR 1546 (2004), the provisions of paragraph 22 of UNSCR 1483 (2003) shall continue to apply until 31 December 2010, including with respect to funds and financial assets and economic resources described in paragraph 23.

The UNSCR 1956 (2010) also affirmed that the requirement established in paragraph 21 of UNSCR 1483 (2003) that 5% of the proceeds from all export sales of petroleum, petroleum products and natural gas shall be deposited into the Compensation Fund established in accordance with resolution 687 (1991) shall continue to apply.

On 30 June 2011, the COFE took over the tasks of the IAMB in monitoring the DFI. On 27 May 2014, the president of the United States has issued a ruling to stop the American protection on the Iraqi development fund, as a result the Iraqi government has set a new mechanism to transfer the oil revenues on a daily basis from OPRA to the Central Bank of Iraq account 2 in the Federal Reserve Bank of New York, and thereafter transfer the amounts deposited in the Central Bank of Iraq account 2 to the Ministry of Finance US\$ account at the Central Bank of Iraq (Successor account number is 300600).

**2. BASIS OF PREPARATION**

The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) under the cash basis of accounting.

The accounting policies have been applied consistently throughout the year.

The financial statements have been presented in United States Dollars (USD) which is the functional currency of the Development Fund for Iraq.

All amounts in the financial statements are in thousands of U.S. dollars unless indicated otherwise.

The financial statements have been authorized for publication on 15 December 2015 by the Ministry of Finance.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, bank balances and overnight placements. 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 suppliers.



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3.2 Treasury bills

Treasury bills are debt securities issued by the U.S. Treasury and purchased through the 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.

3.3 Cash receipts

Cash receipts are recorded when funds are deposited in the DFI bank accounts at the FRBNY.

3.4 Cash payments

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

#### 4. EXPORT SALES OF PETROLEUM AND PETROLEUM PRODUCTS

**Export sales allocation for petroleum, petroleum products, and natural gas in accordance with UNSCR 1483.**

According to the UNSCR 1483, which was adopted by the Security Council on 22 May 2003, all export sales of petroleum, petroleum products, and natural gas from Iraq following the above resolution date adoption shall be deposited into an Oil Proceeds Receipt Account (OPRA) held with the FRBNY and immediately thereafter, 95% is required to be deposited in the DFI at the FRBNY and the remaining 5% is required to be deposited in the United Nations' Compensation Fund as established by UNSCR 687 (1991), and subsequent relevant resolutions, and therefore will not be a part of the DFI's statement of cash receipts and payments. On 27 May 2014, the president of the united States has issued a ruling to stop the American protection on the Iraqi development fund, as a result the Iraqi government has set a new mechanism to transfer the oil revenues on a daily basis from OPRA to the Central Bank of Iraq account 2 in the federal reserve bank of New York, and thereafter transfer the amounts deposited in the Central Bank of Iraq account 2 to the ministry of finance US\$ account at the Central Bank of Iraq (Successor account number is 300600).

**Fuel oil sales export agreements**

Cash received from export sales of petroleum products during the year ended 31 December 2014 amounting to US\$ 145 million (from inception to 31 December 2014: US\$ 3.81 billion were not deposited into OPRA and were not recorded in the DFI's financial statements. These funds were deposited in bank accounts controlled by SOMO.

**Oil production reports from Kurdistan Region**

The Ministry of Oil did not receive production reports from Kurdistan region during the year ended 31 December 2014. The Ministry of Oil received reports which included the quantities pumped in the pipelines. The report did not include any information about production quantities related to Kurdistan Region.

### **Operational loading and metering systems**

The Ministry of Oil started in the year 2008 a project to operate a full operational loading and metering system. The status for the installation of a comprehensive oil metering system in Iraq in accordance with standard oil industry practices as at 31 December 2014 was 100% (31 December 2013: 100%) for the fiscal settlement which measures quantities of crude oil and petroleum products delivered to or received from the oil companies or transferred between the oil companies and other companies outside the oil sector or the quantities exported through the ports of export, and 90% (31 December 2013: 85%) for the internal custody transfer for the measurement of quantities of crude oil and petroleum products transferred or consumed within the same oil company and which do not have financial impact between companies. During 2013, the ministry of oil prepared an additional plan for the entry borders that has been established for the development operations in the oil sector, the completion rate was 60% as of 31 December 2014 for the purpose of the fiscal settlement and 18% for the purpose of internal transportation.

### **Oil Shipments Lifted by International Oil Companies (IOC's) and amounts transferred by the Central Bank of Iraq to OPRA**

Crude oil shipments lifted by the international oil companies working in Iraq during the year ended on 31 December 2014 (in accordance with their service contracts) were not included as part of total export sales of petroleum in the statement of proceeds of oil export sales since these proceeds will not be collected in cash. A committee was formed which was chaired by the Ministry of Finance and membership of Central Bank of Iraq and Ministry of Oil to decide on the suitable mechanism to ensure the payment of amounts due to the DFI in respect of the crude oil shipments lifted by the International Oil Companies working in Iraq. The Committee resolved that the Central Bank of Iraq is to transfer the full value of oil lifted to OPRA. The total value of oil exports by international oil companies amounted to US\$ 13.14 billion during the year ended 31 December 2014 (31 December 2013: US\$ 8.46 billion). During the year ended 31 December 2014 the Central Bank of Iraq transferred an amount of US\$ 11.75 billion (31 December 2013: US\$ 7.65 billion) to OPRA which represents the value of in-kind oil lifted by international oil companies during 2014 and prior years.

### **Signature Bonus Paid IOCs**

The signature bonus paid by the international oil companies to obtain rights to the Iraqi oilfields, were transferred to the Ministry of Finance accounts. These amounts were not transferred to the DFI.

## **5. PROCEEDS FROM FROZEN ASSETS IN FOREIGN COUNTRIES**

According to the UNSCR 1483 (2003), which were adopted by the Security Council on 22 May 2003, all member states of the UN in which there are funds or other financial assets or economic resources (collectively referred to as "the frozen funds") of the previous Government of Iraq or its state bodies, corporations, or agencies, located outside Iraq as of the resolution date shall freeze the frozen funds and, unless these frozen funds are themselves the subject of a prior judicial, administrative, or arbitral lien or judgment, immediately shall cause their transfer to the DFI. The frozen funds 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 the frozen funds that may eventually be transferred to the DFI, as some of these frozen

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funds are subject to prior judicial, administrative or arbitral lien or judgment. The released proceeds from frozen funds for the year ended 31 December are as follows:

	<u>2014</u>	<u>2013</u>
Rafidain Bank	404	2,019
Rasheed Bank	62	-
	<u>466</u>	<u>2,019</u>

## 6. UNITED NATIONS OIL FOR FOOD PROGRAM

The UN Oil for Food Program (OFFP) was established in accordance with UNSCR 986 (1995), and subsequent relevant resolutions. According to UNSCR 1483 (2003) all surplus funds in the OFFP program shall be transferred to the DFI at the earliest possible time.

According to the UNSCR 1958 (2010), the UN Security Council requested the Secretary-General to take all actions necessary to terminate all residual activities under the OFFP, noting that all letters of credit with outstanding claims of delivery, have expired according to their terms and that no confirmation of arrival will be provided to the Government of Iraq and are closed for all purposes under the OFFP, including for purposes of transferring the funds associated with such letters of credit from the collateral portion of the Iraq Account, without prejudice to any rights or claims that the suppliers with the claims of delivery may have for payment, or otherwise, against the Government of Iraq.

According to operative paragraph 2 of the UNSCR 1958 (2010), noting the Government of Iraq's provision of certificate of arrival on file with the United Nations as of 15 December 2010, the Security Council has called for the Government of Iraq to provide without delay direct payment if contacted by the beneficiaries or its representatives, for which payment has not been effected either as a result of the advising bank not being able to locate the relevant beneficiaries or as a result of the beneficiary not providing requisite documentation.

According to the UNSCR 1958 (2010), a new escrow account was established to ensure a retention of USD 20,000 to be held until 31 December 2016, exclusively for the purpose of the UN expenses related to the orderly termination of the residual activities, including the Organization's support to Member State investigations and member State proceedings related to the Program, and the expenses of the high-level coordinator's office. In addition an amount of up to USD 131,000 is to be retained in the escrow account for the purpose of providing indemnification to the UN, its representatives, agents, and independent contractors for a period of six years with regards to all activities in connection with the (OFF) program since its inception. By 31 December 2016 all the remaining funds in the escrow account are to be transferred to the Government of Iraq, unless otherwise authorized by the Security Council.

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According to UNSCR 1958 (2010), the Security Council has requested the Secretary-General to take all necessary actions to enter into all necessary agreements with the Government of Iraq (i) to provide appropriate indemnification to the United Nations, its representative, agents, and independent contractors with regard to all the activities in connection with the OFFP since its inception and (ii) to provide for a waiver of any future claims the Government of Iraq may have against the United Nations, its representatives, agents, and independent contractors with regard to all activities in connection with the OFFP since its inception.

**7. INTEREST RECEIVED**

	<u>2014</u>	<u>2013</u>
U.S. Treasury bills *	4,338	22,024
Overnight repurchase agreement pool facility **	1,401	4,378
Overnight repurchase agreement pool facility/CBI	1,490	-
Letters of credit cash margins	953	1,399
	<u><b>8,182</b></u>	<u><b>27,801</b></u>

\* This amount represents interest received on U.S. treasury bills upon maturity. The DFI received interest from accounts held with FRBNY that are subject to investment in the U.S. Treasury Bills. The following schedule shows the details of interest received from U.S Treasury bills generated from each of the following DFI accounts:

	<u>2014</u>	<u>2013</u>
Interest from DFI main account	2,074	17,881
Interest from Foreign Military Sales account (FMS)	2,264	4,143
	<u><b>4,338</b></u>	<u><b>22,024</b></u>

\*\* This amount represents interest received on overnight repurchase agreements. The DFI received interest from the following accounts held with FRBNY that are subject to investment in overnight repurchase agreement. The following schedule shows the details of interest received from overnight repurchase agreement generated from each of the following DFI accounts:

	<u>2014</u>	<u>2013</u>
Foreign Military Sales account (FMS)	1,127	1,804
DFI Main account	259	2,514
PCO - Transition account	15	60
	<u><b>1,401</b></u>	<u><b>4,378</b></u>

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**8. OTHER RECEIPTS**

	<u>2014</u>	<u>2013</u>
Refunded letters of credit cash margins	665,649	399,063
Others	<u>29,267</u>	<u>456,951</u>
	<u>694,916</u>	<u>856,014</u>

**9. TRANSFERS TO THE MINISTRY OF FINANCE**

After funds are transferred from the DFI to the Ministry of Finance, they are distributed to other Iraqi ministries and related entities in accordance with their individual budgets.

**10. LETTERS OF CREDITS FOR THE BENEFIT OF IRAQI GOVERNMENTAL ENTITIES**

The DFI finances letters of credit payments related to the ministries and its departments and business units in accordance with their approved budgets. 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.

The transferred cash is held at JP Morgan Chase Bank and Citibank, N.A. until evidence of completion of service or receipt of goods is confirmed by the intended Iraqi ministry in accordance with the terms of the letters of credit. The cash margins have not been included as part of the DFI cash balances as they are not controlled by the DFI and are restricted for the payment for the outstanding letters of credit to the suppliers.

The schedule below shows the payments made during the year for the benefit of the following Iraqi ministries and its governmental units:

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	<u>2014</u>	<u>2013</u>
Ministry of Defense	6,543,668	1,758,549
Ministry of Oil	5,171,276	6,620,987
Ministry of Trade	3,828,816	3,318,390
Ministry of Electricity	3,409,771	4,647,481
Ministry of Health	788,925	1,444,009
Ministry of Transportation	722,238	1,169,085
Ministry of Internal Affairs	412,265	132,978
Ministry of Municipality and Public Works	321,925	761,817
Council of Ministers	151,695	11,458
Ministry of Youth and Sport	114,701	-
Basrah Governorate	93,408	522,036
Ministry of Higher Education and Scientific Research	91,359	-
Ministry of Agriculture	79,255	-
Baghdad Governorate	46,928	40,950
Ministry of Telecommunications	42,832	47,091
Ministry of Water Resources	30,032	160,118
Ministry of Industry and Minerals	17,870	254,764
Council of Representative	11,747	-
Thiqar Governorate	6,774	16,580
Ministry of Justice	4,567	8,343
Babil Governorate	3,132	-
Ministry of Construction and Housing	3,036	2,104
Ministry of Environment	1,743	-
Ministry of Finance	1,000	-
Independent High Electoral Commission	667	22,254
Al-Diwaniyah Governorate	-	4,872
	<u><u>21,899,630</u></u>	<u><u>20,943,866</u></u>

## 11. CONTRACTS ADMINISTERED BY U.S. AGENCIES

U.S. Agencies have been granted limited authority by the Government of Iraq to administer ongoing outstanding contracts entered into by the former CPA in relation to payments subsequent to 28 June 2004. In September 2007, the Joint Contracting Command - Iraq was granted interim authority by the Ministry of Finance to disburse the remaining funds from the DFI account, On 31 December 2007, this authority was expired and not renewed.

Neither the U.S. Agencies nor the Ministry of Finance reconciled the proceeds made to the U.S. Agencies from the DFI and the amounts disbursed to the reconstruction contracts.

## 12. IRAQI EXTERNAL DEBT REPAYMENT

During the year ended 31 December 2014 and 2013, no payments were transferred from DFI to Bank of England.

During the year ended 31 December 2014: MOF transferred an amount of US\$ 1.212 billion from MOF's account at the CBI to Bank of England (During the year ended 31 December 2013, the MOF transferred an amount of US\$ 1.325 billion from MOF's account at the CBI to Bank of England).

The account held at the Bank of England is used to settle principal and interest due on debt bilateral agreements reached with Paris Club creditors and non-Paris Club creditors.

## 13. OTHER PAYMENTS

	<u>2014</u>	<u>2013</u>
OPRA account*	11,754,779	7,648,520
FMS account	1,405,950	2,526,543
Others	7	427,377
	<u>13,160,736</u>	<u>10,602,440</u>

\* This amount represents the transferred amounts made by the Central Bank of Iraq to the OPRA account during the year ended 31 December 2014 according to the agreed mechanism between Ministry of Finance, Central Bank of Iraq and Ministry of Oil in respect of the oil shipments lifted by the international oil companies (IOCs) as detailed in note (4).

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**14. CASH AND CASH EQUIVALENTS**

	<u>2014</u>	<u>2013</u>
<b>Accounts held with FRBNY</b>		
Overnight placements	300	1,895,091
Operating accounts	-	-
	<u>300</u>	<u>1,895,091</u>

**Accounts at FRBNY are classified as follows:**

CBI/DFI	300	1,792,942
Transition Account - U.S. Agencies	-	102,149
	<u>300</u>	<u>1,895,091</u>

**Accounts at Central Bank of Iraq:**

Successor Account (300600)	694,648	-
	<u>694,648</u>	<u>-</u>

DFI account at FRBNY	300	1,895,091
Successor account at CBI	694,648	-
	<u>694,948</u>	<u>1,895,091</u>

**15. TREASURY BILLS**

	<u>2014</u>	<u>2013</u>
Face value	-	4,500,000
Discount	-	(1,622)
	<u>-</u>	<u>4,498,378</u>



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The movement on Treasury bills for the year ended 31 December as follows:

	<u>2014</u>	<u>2013</u>
Treasury bills at 1 January	4,498,378	17,976,495
Purchased treasury bills during the year	2,199,309	19,691,791
Proceeds from matured treasury bills during the year*	<u>(6,697,687)</u>	<u>(33,169,908)</u>
	<u>-</u>	<u>4,498,378</u>

\*According to this new mechanism that has been used by the Iraqi government on 22 May 2014, the oil revenue is transferred on a daily basis from OPRA in the federal bank of New York to the Central Bank of Iraq account 2 in the federal bank of New York, and then after transfer the amounts deposited to the Ministry of Finance's US\$ account at the Central Bank of Iraq (Successor account number 300600), as a result treasury bills had been amortized and transferred to the successor account.

## 16. COMMITMENTS AND CONTINGENCIES

Contractual commitments consist of open contracts, signed by the former CPA and administered 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 through the DFI.

The former CPA did not maintain complete accounting records in respect of contractual commitments entered into by U.S. Agencies for the period from inception to 28 June 2004.

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.

In September 2007, the Joint Contracting Command - Iraq was granted interim authority by the Ministry of Finance to disburse the remaining funds from the DFI sub account. On 31 December 2007, this authority was expired and not renewed. The Ministry of Finance was not provided with sufficient data to be able to assess the outstanding contractual commitments balance.

## 17. 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. In accordance with UNSCR 1956 (2010), it was decided to extend the above mentioned arrangements until 30 June 2011. On 17 May 2013 the president of the United State of America (President Obama) issued a decision to continue the American protection of the Development Fund for Iraq starting from 22 May 2013 and for one year.

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On 27 May 2014 the president of the United State of America (President Obama) issued a decision to stop the American protection of the Development Fund for Iraq from 27 May 2014.

## 18. TAXATION

The DFI is not subject to taxation.

## 19. FOREIGN MILITARY SALES (FMS)

The FMS account was opened on 4 December 2006 at the request of the CBI and initially funded from the DFI account. This account is designated to the security expenditures of the Ministry of Justice, Ministry of Interior and Ministry of Defense. Interest earned from investments in overnight repurchase agreements from the FMS account since its inception are transferred to the main DFI account quarterly (note 7 to the financial statements). The balance of the FMS account is allocated as follows:

	<u>2014</u>	<u>2013</u>
Overnight placements	2,799,155	3,528,900
Treasury bills	3,677,400	2,598,997
Operating accounts	64	38
	<u>6,476,619</u>	<u>6,127,935</u>

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20. ANALYSIS OF RECEIPTS AND PAYMENTS MANAGED BY THE GOVERNMENT OF IRAQ AND US AGENCIES

For the year ended 31 December 2014	Government of Iraq	U.S. Agencies	Successor Account*	Total
<b>CASH RECEIPTS</b>				
Export sales of petroleum and petroleum products	45,416,568	-	33,856,641	79,273,209
Proceeds from frozen assets in foreign countries	466	-	-	466
Interest received	6,678	14	1,490	8,182
Other receipts	427,989	-	266,927	694,916
Transfers to successor account # 300600	(20,471,668)	-	20,471,668	-
<b>Total cash receipts</b>	<b>25,380,033</b>	<b>14</b>	<b>54,596,726</b>	<b>79,976,773</b>
<b>CASH PAYMENT</b>				
Transfers to the Iraqi Ministry of Finance	20,014,925	-	30,600,000	50,614,925
Letters of credit for the benefit of Iraqi governmental entities	6,566,196	-	15,333,434	21,899,630
Other payments	5,089,943	-	8,070,793	13,160,736
<b>Total cash payments</b>	<b>31,671,064</b>	<b>-</b>	<b>54,004,227</b>	<b>85,675,291</b>
<b>(Deficit) Surplus of cash receipts over cash payments</b>	<b>(6,291,031)</b>	<b>14</b>	<b>592,499</b>	<b>(5,698,518)</b>
Purchased treasury bills during the year	(2,199,309)	-	-	(2,199,309)
Proceeds from Treasury bills on maturity	6,697,687	-	-	6,697,687
Adjustment related to prior year	(3)	-	-	(3)
Transfers between accounts	14	(102,163)	102,149	-
Cash and cash equivalents at 1 January	1,792,942	102,149	-	1,895,091
<b>Cash and cash equivalents at 31 December 2014</b>	<b>300</b>	<b>-</b>	<b>694,648</b>	<b>694,948</b>

\* According to this new mechanism that has been used by the Iraqi government on 22 May 2014, the oil revenue is transferred on a daily basis from OPRA in the federal bank of New York to the Central Bank of Iraq account 2 in the federal bank of New York, and then after transfer the amounts deposited to the Ministry of Finance's US\$ account at the Central Bank of Iraq (Successor account number 300600).

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For the year ended 31 December 2013	Government of Iraq	U.S. Agencies	Total
<b>CASH RECEIPTS</b>			
Export sales of petroleum and petroleum products	84,796,454	-	84,796,454
Proceeds from frozen assets in foreign countries	2,019	-	2,019
Interest received	27,741	60	27,801
Other receipts	856,014	-	856,014
<b>Total cash receipts</b>	<b>85,682,228</b>	<b>60</b>	<b>85,682,288</b>
<b>CASH PAYMENT</b>			
Transfers to the Iraqi Ministry of Finance	65,900,021	-	65,900,021
Letters of credit for the benefit of Iraqi governmental entities	20,943,866	-	20,943,866
Other payments	10,602,440	-	10,602,440
<b>Total cash payments</b>	<b>97,446,327</b>	<b>-</b>	<b>97,446,327</b>
<b>(Deficit) Surplus of cash receipts over cash payments</b>	<b>(11,764,099)</b>	<b>60</b>	<b>(11,764,039)</b>
Purchased treasury bills during the year	(19,691,791)	-	(19,691,791)
Proceeds from Treasury bills on maturity	33,169,908	-	33,169,908
Cash and cash equivalents at 1 January 2013	78,864	102,149	181,013
Transfers between accounts	60	(60)	-
<b>Cash and cash equivalents at 31 December 2013</b>	<b>1,792,942</b>	<b>102,149</b>	<b>1,895,091</b>
Treasury bills at 31 December 2013	4,498,378	-	4,498,378
<b>Cash, cash equivalents, and treasury bills at 31 December 2013</b>	<b>6,291,320</b>	<b>102,149</b>	<b>6,393,469</b>