

**DEVELOPMENT FUND FOR IRAQ  
AND SUCCESSOR ACCOUNT  
FINANCIAL STATEMENTS FOR  
THE YEAR ENDED DECEMBER 31, 2016  
TOGETHER WITH THE INDEPENDENT  
AUDITOR'S REPORT**

**DEVELOPMENT FUND FOR IRAQ AND SUCCESSOR ACCOUNT  
FANIANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

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### **Independent Auditors' Report**

**To The Government of Iraq and Committee of Financial Experts of the Development Fund for Iraq and Successor Account**

#### **Qualified Opinion**

We have audited the accompanying Statement of Cash Receipts and Payments and the Statement of Proceeds of oil Export Sales for Development Fund for Iraq and Successor Account ("The Fund"), for the year ended 31 December 2016 and a summary of significant accounting policies and other explanatory information ("Financial Statements").

In our opinion, except for the possible effects of the matters described in the basis of qualified opinion paragraphs, the accompanying financial statements present fairly, in all material respects, the Statement of Cash Receipts and Payments and the Statement of Proceeds of oil Export Sales for the year ended 31 December 2016 in accordance with International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting".

#### **Basis of Qualified Conclusion**

1. As disclosed in note (4) to the financial statements, the Ministry of Oil did not receive the oil production reports for Kurdistan region for the year ended 31 December 2016. In addition the Ministry of Oil did not receive the oil production reports for Kirkuk governorate for the period from October 2015 to August 2016. The Ministry of Oil received reports for the quantities pumped in the pipeline only, but not the actual quantities produced. We were not able to satisfy ourselves regarding the quantities of oil produced for the year ended 31 December 2016 in Kurdistan region and Kirkuk governorate and the effect on the enclosed financial statements.
2. As disclosed in note (5), to the financial statements, according to the United Nations Security Council Resolution (UNSCR) 1483 for 2003, all member states of the United Nations as of the resolution date shall freeze all funds (collectively referred to as 'the frozen funds') which compromise funds or other financial assets or economic resources located outside Iraq that belongs to the former Government of Iraq, its state bodies, corporations, or agencies. The Government of Iraq cannot reliably estimate the amount of the frozen funds that may be recoverable, as there are no enough and accurate information about the frozen funds. Since it is subject to judicial, administrative or arbitral lien or judgment. As a result, we were not able to determine whether all proceeds from the frozen funds have been received by the Fund or any proceeds have also been remitted to other Government bodies.
3. As disclosed in note (15), we have not received the confirmation of main account balance held with Federal Reserve Bank of New York (FRBNY) as of December 31, 2016, with a balance of U.S. \$ 60 thousand .We were not able to obtain sufficient and appropriate audit evidence through performing alternative audit procedures to cover these balances and any other related accounts, accordingly we were not able to determine if any adjustments might be necessary to the accompanying financial statements.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with International Ethics Standards Board of Accountant Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



### **Emphasis of matters**

Without further qualification in our opinion, we draw attention to below notes:

- 1- As disclosed in note (4) Crude oil shipments lifted by the international oil companies during the year ended 31 December 2016 and 2015 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) for the year ended 31 December 2016.

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 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 the OPRA. The total value of oil exports by international oil companies amounted to U.S. \$ 12.40 billion during the year ended 31 December 2016 (31 December 2015: U.S. \$ 13.6 billion). During the year ended 31 December 2015 the Central Bank of Iraq transferred an amount of U.S. \$ 5.7 billion to the OPRA against the value of in-kind oil lifted by international oil companies during the previous years, there were no amounts transferred to the OPRA during the year ended 31 December 2016.

- 2- As disclosed in note (4) in year 2008, the Ministry of Oil started a project to operate a full operational loading and metering system in accordance with standard oil industry practices. The percentage of completion of the first phase for the fiscal settlement was 111%(31 December 2015: 97%), 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. The percentage of completion for internal custody transfer metering as at 31 December 2016 was 97 % (31 December 2015: 93%) of the quantities of crude oil and petroleum products transferred or consumed within the same oil company. During 2012 the Ministry of Oil prepared an additional plan for 2013 and 2014 for the entry borders that has been established for the development operations in the oil sector, the percentage of completion of the first phase was 125% as at 31 December 2016 (31 December 2015: 84%) for the purpose of the fiscal settlement and the percentage of completion was 27 % (31 December 2015: 19%) for the purpose of internal transportation.

### **Other matter**

The financial statements of the Fund as at December 31, 2015 were audited by another auditor, who issued a qualified opinion on those statements on October 18, 2016 as Ministry of Oil did not receive production reports from Kurdistan region for the year ended in December 31, 2015, in addition to not having an accurate report for the frozen funds which belongs to the former Government of Iraq, its state bodies, corporations, or agencies exists outside Iraq.

### **Basis of preparation and restriction of use**

Without further qualification in our opinion ,we would like to draw attention to note (2) to the financial statements, the Statement of Cash Receipts and Payments is prepared in accordance with International Public Sector Accounting Standard “Financial Reporting under the Cash Basis of Accounting”. This financial statements and attached report may not be suitable for another purpose.

Our report including our opinion are 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 any responsibility for any other purpose or entity to whom this report is shown or into whose hands it may come.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standard “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.



In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

#### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Kawasmy and Partners  
KPMG

Hatem Kawasmy



Amman- Jordan  
2 November 2017

**Development Fund for Iraq and Successor Account  
Statement of Cash Receipts and Payments  
For The Year Ended 31 December 2016  
In Thousand U.S. Dollars**

	Note	As at 31 December	
		2016	2015
<b>Cash Receipts</b>			
Export sales of oil and petroleum products	4	28,094,562	43,045,225
Receipts from Interests	7	18,636	6,691
Receipts from Loans	8	1,259,645	3,242,800
Other receipts	9	441,971	2,397,168
<b>Total cash receipts</b>		<b>29,814,814</b>	<b>48,691,884</b>
<b>Cash Payments</b>			
Transfers to the Iraqi Ministry of Finance	10	29,828,415	33,850,000
Payments through Letters of credit for Iraqi governmental entities	11	549,881	7,068,194
Other payments	14	5	6,099,357
<b>Total cash payments</b>		<b>30,378,301</b>	<b>47,017,551</b>
(Deficit) surplus of cash and cash equivalents		(563,487)	1,674,333
Cash and cash equivalents at 1 January		2,369,281	694,948
<b>Cash and cash equivalents as at 31 December</b>	15	<b>1,805,794</b>	<b>2,369,281</b>

**Riad Mohamad Ibrahim**  
Acting General Manager of Accounting Department  
Ministry of Finance

**Dr. Haider Al-Abadi**  
Acting Minister of Finance  
Ministry of Finance

The accompanying notes on pages from (6) to (15) are an integral part of these financial statements.

**Development Fund for Iraq and Successor Account  
Statement of Proceeds of oil Export Sales  
For The Year Ended 31 December 2016  
In Thousand U.S. Dollars**

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Gross export sales of petroleum as reported by State Oil Marketing Organization during the year on accrual basis		30,684,570	35,457,722
<b>Add:</b>			
Amounts transferred by the Central Bank of Iraq for crude oil lifted by international oil companies	4	-	5,698,776
Deposits from sales of prior year export oil sales		2,026,487	3,993,419
Interest on delayed bank transfers		21	8
<b>Deduct:</b>			
Demurrage claims excluded from sales invoices		(91,011)	(80,508)
Sales collected after end of the year		(4,525,505)	(2,024,192)
<b>Total Proceeds deposited in Oil Proceeds Receipts Account during the year</b>		<b>28,094,562</b>	<b>43,045,225</b>
Amounts transferred to the United Nations Compensation Fund (5%)	1	-	-
<b>Net proceeds deposited in the Development Fund for Iraq and Successor Account</b>		<b>28,094,562</b>	<b>43,045,225</b>

**Riad Mohamad Ibrahim**  
Acting General Manager of Accounting Department  
Ministry of Finance

**Dr. Haider Al-Abadi**  
Acting Minister of Finance  
Ministry of Finance

The accompanying notes on pages from (6) to (15) are an integral part of these financial statements.

**Development Fund for Iraq and Successor Account  
Notes on the Financial Statements  
For the Year Ended 31 December 2016  
In Thousand U.S. Dollars**

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**1. GENERAL**

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

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

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 Fund 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) in addition to the Ministry of Finance account number 300600 at the Central Bank of Iraq (the Successor account) which opened at 27 May 2014. The Fund sub-account was established at the FRBNY 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 Fund sub-account expired on 31 December 2006.

The Fund sub-account is closed at 10 July 2014 and its balance transferred to MoF's successor account number 300600 at the CBI.

In accordance with UNSCR 1483 (2003), 95% of the proceeds from export sales of oil, petroleum products and natural gas from Iraq are to be deposited in the Fund. Furthermore, all Member States are obligated to freeze and transfer funds and other financial assets of the former Iraqi regime to the Fund. In addition, surplus funds from the Oil for Food program, established by UNSCR 986 (1995), are to be transferred to the Fund.

The Republic of Iraq's Council of Ministers resolved in its (23)meeting held on 19 October 2006 to form Committee of Financial Experts (COFE) to take over the tasks of the IAMB in monitoring the Fund 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.

The UNSCR 1905 (2009) extended on the arrangements established in paragraph 20 of resolution 1483 (2003) for the depositing into the Fund the proceeds from export sales of oil 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 Fund 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, taking into consideration the expectations mentioned in paragraph 27 of UNSCR 1546 for the year 2004 in this regards.



**Development Fund for Iraq and Successor Account**  
**Notes on the Financial Statements**  
**For the Year Ended 31 December 2016**  
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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 oil, petroleum products and natural gas shall be deposited into the Compensation Fund established in accordance with resolution 687 (1991) shall continue to apply.

The UNSCR 1956 (2010) further extended the arrangements in the preceding paragraph until 30 June 2011.

On 30 June 2011, the COFE took over the tasks of the IAMB in monitoring the Fund. Details in note (4) to the financial statements. 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 (CBI 2) in the federal reserve bank of New York, and then after transfer the amounts deposited in the Central Bank of Iraq account 2 to the ministry of finance U.S. \$ account at the Central Bank of Iraq (Successor account number is 300600).

**Postpone the 5% deduction related to the United Nations compensation fund**

United Nations Compensation Commission issued a ruling No. 272 for the year 2014 to postpone the 5% deduction from the export sales of petroleum, which belongs to the United Nations compensation fund for the period from 1 October 2014 to 31 December 2015, and to apply the deduction again starting from the year 2016.

The United Nations Compensation Commission issued a ruling No. 273 for the year 2015 which granted an extension to the mentioned letter and therefore the postpone of the 5% deduction is effective until 1 January 2017.

The postponement extended for one year according to the United Nations Compensation Commission issued a ruling No. 274 for the year 2016, therefore the postpone of the 5% deduction is effective until 1 January 2018.

**2. BASIS OF PREPARATION**

The financial statements have been prepared in accordance with International Public Sector Accounting Standard (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 (U.S. \$) which is the functional currency of the Development Fund for Iraq and the Successor Account.

All amounts in the financial statements are in thousands of U.S. Dollars.

The financial statements have been authorized for publication on 2 November 2017 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. Cash margins of the letters of credit at banks are not included as part of the Fund cash and cash equivalent balances these balances are restricted for the payment of the outstanding letters of credit to suppliers.

**3.2 Treasury bills**

Treasury bills are debt securities issued by the U.S. Treasury and purchased through the FRBNY for the Fund benefit. 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 Fund bank accounts at the FRBNY.

### **3.4 Cash payments**

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

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

### **4.1 Export sales allocation for oil, 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 oil, 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 Fund 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 Fund's statement of cash receipts and payments.

### **4.2 Petroleum products sales export agreements**

Cash received from export sales of petroleum products during the year ended 31 December 2016 amounting to U.S. \$ 60 million (from inception to 31 December 2016: U.S. \$ 4.020 billion) were not deposited into OPRA and are not recorded in the Fund's financial statements. These amounts were deposited in bank accounts controlled by SOMO and then recorded as final revenues in the public treasury.

### **4.3 Oil production reports from Kurdistan Region and Kirkuk Governorate**

The Ministry of Oil did not receive the oil production reports for Kurdistan region for the year ended 31 December 2016. In addition the Ministry of Oil did not receive the oil production reports for Kirkuk governorate for the period from October 2015 to August 2016, The Ministry of Oil received reports for the quantities pumped in the pipeline only, but not the actual quantities produced in Kurdistan region and Kirkuk governorate.

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

In year 2008, the Ministry of Oil started a project to operate a full operational loading and metering system in accordance with standard oil industry practices. The first phase for the fiscal settlement was completed with a percentage of completion of 111%(31 December 2015: 97%), 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 . The percentage of completion for internal custody transfer metering as at 31 December 2016 were 97 % (31 December 2015: 93%) of the quantities of crude oil and petroleum products transferred or consumed within the same oil company. During 2012 the Ministry of Oil prepared an additional plan for 2013 and 2014 for the entry borders that has been established for the development operations in the oil sector, the first phase were completed as at 31 December 2016 (31 December 2015: 84%) for the purpose of the fiscal settlement and the percentage of completion were 27 % (31 December 2015: 19%) for the purpose of internal transportation.

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**4.5 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 during the year ended 31 December 2016 and 2015 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). 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 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 the OPRA. The total value of oil exports by international oil companies amounted to U.S. \$ 12.40 billion during the year ended 31 December 2016 (31 December 2015: U.S. \$ 13.6 billion). During the year ended 31 December 2015 the Central Bank of Iraq transferred an amount of U.S. \$ 5.7 billion to the OPRA against the value of in-kind oil lifted by international oil companies during the previous years..

**4.6 Payment using crude oil**

During the year 2016, the Ministry of Finance instructed the Oil Marketing Company to pay U.S. \$ 345 Million in crude oil for Karbala refinery contract and an amount of U.S. \$ 194 Million in crude oil for joint sales partnership with ENI Italian Company. These amounts have not been transferred to Oil Proceeds Receipts account during the year ended in 31, December 2016.

**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 Fund. 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 Fund, as some of these frozen funds are subject to prior judicial, administrative or arbitral lien or judgment. No released proceeds from frozen funds for the year ended 31 December 2016 and 2015.

**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 Fund 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 U.S. \$ 20 million 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

**Development Fund for Iraq and Successor Account**  
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member State proceedings related to the Program, and the expenses of the high-level coordinator's office. In addition, an amount of U.S. \$ 131 million is 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.

In 5th of June 2017, the Fund received all remaining amounts in the escrow account amounted U.S. \$ 135 million.

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. RECIPTS FROM INTEREST**

	<u>As at 31 December</u>	
	<u>2016</u>	<u>2015</u>
Interest on American treasury bonds*	13,196	1,452
Overnight repurchase agreement pool facility**	-	1,015
Overnight repurchase agreement pool facility/ Central Bank of Iraq	5,440	3,442
Cash margins on Letter of credit	-	782
	<u>18,636</u>	<u>6,691</u>

\* This amount represents interest on US Treasury bills received on maturity date. These interest are from the military sales account (FMS) in FRBNY, and it may be reinvested in American treasury bonds.

\*\*This amount represents interest received on overnight repurchase agreements. The Fund received interest from the military sales account (FMS) in FRBNY, and it may be reinvested in overnight repurchase agreement according to FRBNY investment discretion.

**8. RRECIPTS FROM LOANS**

	<u>As at 31 December</u>	
	<u>2016</u>	<u>2015</u>
International Monetary Fund*	1,252,549	1,242,800
Refunded loans**	7,096	-
Trade Bank of Iraq***	-	2,000,000
	<u>1,259,645</u>	<u>3,242,800</u>

\*On 29 July 2015, the Executive Board of the International Monetary Fund approved the provision of financial assistance to Iraq worth U.S. \$ 1.242 Billion to cover the deficit in the state budget for the year 2015, in the form of the purchase of a treasury bill directly and that payments are made from October 1, 2018 until 3 August 2020. During 2016, the fund received an amount of U.S. \$ 1.253 Billion in four installments from the International Monetary Fund

\*\* During the year 2016, the Fund received an amount of U.S. \$ 6,700 Million as a repayment installment of the Iraq loan to Madagascar, also, the Fund received an amount of U.S. \$ 396 Thousand as a repayment installment of the Iraq loan to Mauritania.

\*\*\*On 15 January 2015, the Iraqi Minister of Finance and the General Manager of the Trade Bank of Iraq agreed to lend the Iraqi Ministry of Finance Loan amounted to U.S. \$ 2 billion with a yearly interest rate 2% for one year and renewable to be paid in U.S. \$ to cover the deficit in the Iraqi Budget for the year 2015.

**Development Fund for Iraq and Successor Account**  
**Notes on the Financial Statements**  
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**In Thousand U.S. Dollars**

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**9. OTHER RECEIPTS**

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
Refunded letters of credit cash margins	228,698	1,208,737
Returned amounts from the UN compensation fund deductions*	-	960,878
Receipts from oil for food program	337	-
Others**	212,936	227,553
	<b>441,971</b>	<b>2,397,168</b>

\* This amount represents the 5% deduction from the export sales petroleum belonging to the UN compensation fund for the period from 1 October 2014 to 31 December 2014, were refunded according to the United Nation ruling issued by the Compensation Commission No. 272 for the year 2014.

\*\* This amount represent the receipts deposited in the Fund accounts which belong to Iraqi embassies, Cultural Mission, governmental banks and others.

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

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

**11. LETTERS OF CREDIT FOR THE BENEFIT OF IRAQI GOVERNMENTAL ENTITIES**

Letters of credit payments are in accordance with the approved budgets of the Iraqi ministries and its departments and business units, they facilitated by the Trade Bank of Iraq (TBI), and authorized by the MoF from the Fund'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 Fund cash balances as they are not controlled by the Fund and are restricted for the payment of the outstanding letters of credit to the suppliers.

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

	<u>As at 31 December</u>	
	<u>2016</u>	<u>2015</u>
Ministry of Interior	315,830	479,596
Ministry of Defense	131,028	1,796,650
Ministry of Oil	50,567	1,908,127
Ministry of Health	36,726	749,428
Ministry of Electricity	10,000	680,019
Ministry of Finance	2,000	3,500
Ministry of Industry and Minerals	1,898	3,997
Ministry of Justice	1,715	1,125
General Tax Commission	117	431
Ministry of Trade	-	1,188,231
Ministry of Agriculture	-	119,091
Babel Governorate	-	42,241
Ministry of Municipalities and Public Works	-	40,874
Kurdistan Region	-	21,331
Basra Governorate	-	9,370
Ministry of Water Resources	-	8,269
Muthanna Governorate	-	6,244
National Security Council	-	6,000
Dhi Qar Governorate	-	1,640
Council of Ministers	-	1,487
Ministry of Construction and Housing	-	499
Ministry of Transportation	-	44
	<u>549,881</u>	<u>7,068,194</u>

**12. CONTRACTS ADMINISTERED BY U.S. AGENCIES**

The 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 Fund account. On 31 December 2007, this authority expired and was not renewed.

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

**13. IRAQI EXTERNAL DEBT REPAMENT**

During 2016, the MoF transferred an amount of U.S. \$ 1.186 billion from MoF's account at the CBI to Bank of England (U.S. \$ 1.144 billion for the year ended 31 December 2015), the account held at the Bank of England is used to settle principal and interest amount due on debt bilateral agreements with Paris Club creditors and non-Paris Club creditors.

**14. OTHER PAYMENTS**

	<u>As at 31 December</u>	
	<u>2016</u>	<u>2015</u>
Oil Proceeds Receipt Account (OPRA)*	-	5,698,776
Military Sales Account (FMS)	-	400,394
Others	5	187
	<u>5</u>	<u>6,099,357</u>

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\*This amount represents the transferred amount made by the Central Bank of Iraq to the OPRA account during the year ended 31 December 2015 according to the agreed mechanism between Ministry of Finance, Central Bank of Iraq and Ministry of Oil in respect of the oil shipment lifted by the international oil companies (IOCs) as detailed in note (4).

**15. CASH AND CASH EQUIVALENTS**

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
<b>Accounts held with FRBNY</b>		
Overnight placements	-	-
Operating accounts	60	59
	<b>60</b>	<b>59</b>
<b>Accounts held with CBI:</b>		
The balance of successor account (Account No. 300600)	1,805,734	2,369,222
	<b>1,805,734</b>	<b>2,369,222</b>
<b>Fund's Balance:</b>		
The balance at FRBNY	60	59
The balance at CBI	1,805,734	2,369,222
	<b>1,805,794</b>	<b>2,369,281</b>

**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 Fund.

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 Fund sub-account. On 31 December 2007, this authority expired and was 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 22 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 for one year.

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 starting from 27 May 2015.

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**18. TAXATION**

The Fund is not subject to any kind of taxation in Iraq.

**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 Fund account. This account is designated to the security expenditures of the Ministry of Justice, Ministry of Interior and Ministry of Defense. This account is not part of the Fund balances, however, interest earned from investments in overnight repurchase agreements from the FMS account since its inception are transferred to the main Fund account quarterly (note 7 to the financial statements). The balance of the FMS account is allocated as follows:

	<u>As at 31 December</u>	
	<u>2016</u>	<u>2015</u>
Treasury bills	2,593,381	2,496,846
Overnight placements	1,558,391	3,144,000
Operating accounts	91	45
	<u>4,151,863</u>	<u>5,640,891</u>

**20. ANALYSIS OF RECEIPTS AND PAYMENTS**

	<u>Government of Iraq Main Accounts</u>	<u>Successor Account*</u>	<u>Total</u>
<b>For the year ended 31 December 2016</b>			
<b><u>Cash Receipts</u></b>			
Export sales of oil and petroleum products	-	28,094,562	28,094,562
Receipts from Interests	13,196	5,440	18,636
Receipts from Loans	7,096	1,252,549	1,259,645
Other receipts	8,314	433,657	441,971
<b>Total cash receipts</b>	<u>28,606</u>	<u>29,786,208</u>	<u>29,814,814</u>
<b><u>Cash Payments</u></b>			
Transfers to the Iraqi Ministry of Finance	-	29,828,415	29,828,415
Payments through Letters of credit for Iraqi governmental entities	-	549,881	549,881
Other payments	5	-	5
<b>Total cash payments</b>	<u>5</u>	<u>30,378,296</u>	<u>30,378,301</u>
Transfer Between accounts	(28,600)	28,600	-
<b>Surplus (Deficit) of cash and cash equivalents</b>	<u>1</u>	<u>(563,488)</u>	<u>(563,487)</u>
Cash and cash equivalents at 1 January	59	2,369,222	2,369,281
<b>Cash and cash equivalents as at 31 December 2016</b>	<u>60</u>	<u>1,805,734</u>	<u>1,805,794</u>



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**20. ANALYSIS OF RECEIPTS AND PAYMENTS (CONTINUED)**

For the year ended 31 December 2015	Government of Iraq Main Accounts	Successor Account*	Total
<b><u>Cash Receipts</u></b>			
Export sales of oil and petroleum products	-	43,045,225	43,045,225
Receipts from Interests	3,249	3,442	6,691
Received loans	-	3,242,800	3,242,800
Other receipts	166,314	2,230,854	2,397,168
<b>Total cash receipts</b>	<b>169,563</b>	<b>48,522,321</b>	<b>48,691,884</b>
<b><u>Cash Payments</u></b>			
Transfers to the Iraqi Ministry of Finance	-	33,850,000	33,850,000
Payments through Letters of credit for Iraqi governmental entities	-	7,068,194	7,068,194
Other payments	3	6,099,354	6,099,357
<b>Total cash payments</b>	<b>3</b>	<b>47,017,548</b>	<b>47,017,551</b>
Transfer between accounts	(169,801)	169,801	-
<b>(Deficit) Surplus of cash and cash equivalents</b>	<b>(241)</b>	<b>1,674,574</b>	<b>1,674,333</b>
Cash and cash equivalents at 1 January	300	694,648	694,948
<b>Cash and cash equivalents as at 31 December 2015</b>	<b>59</b>	<b>2,369,222</b>	<b>2,369,281</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 U.S. \$ account at the Central Bank of Iraq (Successor account number 300600).