

**DEVELOPMENT FUND FOR IRAQ  
AND SUCCESSOR ACCOUNT**

**FINANCIAL STATEMENTS FOR THE  
YEAR ENDED 31 DECEMBER 2017**

**(TRANSLATED FROM THE ORIGINAL ARABIC VERSION)**

**DEVELOPMENT FUND FOR IRAQ  
FINANCIAL STATEMENT FOR THE YEAR ENDED  
31 DECEMBER 2017**

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## **INDEPENDENT AUDITORS' REPORT**

**To Government of Iraq and Committee of Financial Experts of the Development Fund of Iraq And Successor Account.**

### **Report on the Financial Statements**

#### **Our qualified opinion**

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the financial statements present fairly, in all material respect the Statement of Cash Receipts and Payments and the Statement of Proceeds of Oil Export Sales of Development Fund of Iraq and Successor Account ("The Fund") for the year ended 31 December 2017 in accordance with International Accounting Standards for Public sector "Financial Reporting Under Cash Basis of Accounting".

#### **What we have audited**

The Fund's financial statements comprise:

- the statement of cash receipts and payments for the year ended 31 December 2017;
- the statement of proceeds of oil export sales for the year ended 31 December 2017;
- the notes to the financial statements, which include a summary of significant accounting policies.

#### **Basis for Qualified Opinion**

- 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 2017. 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 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 2017 in Kurdistan region and Kirkuk governorate and the effect on the enclosed financial statements.
- As disclosed in note (5) to the financial statements, according to the United Nations Security Council Resolution (UNSCR) 1483 for the year 2003, all member states of the United Nations as of the resolution dates shall freeze all funds (collectively referred to as 'the frozen funds') which comprise 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 not 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.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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



## **INDEPENDENT AUDITORS' REPORT (CONTINUED)**

### **Independence**

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

### **Basis of accounting and restriction on distribution and use**

We draw attention to Note (2) to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Government of Iraq and Committee of Financial Experts to comply with International Accounting Standards for Public sector "Financial Reporting Under Cash Basis of Accounting". As a result, the financial statements may not be suitable for another purpose.

Our report is intended solely for Government of Iraq and Committee of Financial Experts and should not be distributed to or used by parties other Government of Iraq and Committee of Financial Experts. Our opinion is not modified in respect to this matter.

### **Other matter**

The financial statements of the Fund for the year ended 31 December 2016 and interim financial statements for the period six months of the year 2016 were audited and reviewed by another auditor, who issued a qualified opinion and qualified conclusion on those statements on 2 November 2017 and 21 June 2017 respectively, as Ministry of Oil did not receive production reports from Kurdistan region for the year ended 31 December 2016 and for the period six months of the year 2016, in addition to not having an accurate report for the frozen funds which belongs to former Government of Iraq, Its state bodies, corporations, or agencies exist outside Iraq.

### **Responsibilities of management and those charged with governance for the financial statement**

Management is responsible for preparation and fair presentation of the financial statement in accordance with international accounting standards for public sector and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating 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 Company's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statement**

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 this financial statement.



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 statement, 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.
- 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 auditor's report to the related disclosures in the financial statement 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 auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents 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.

PricewaterhouseCoopers Iraq

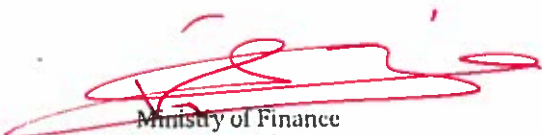


Baghdad, Iraq  
1 August 2019

**DEVELOPMENT FUND FOR IRAQ  
STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017  
IN THOUSANDS U.S DOLLARS**

	Note	As at 31 December		As at 1
		2017	2016	January
<b>Cash Receipts</b>				Restated
Export sales of oil	4	46,513,192	28,094,562	Restated
Receipts from loans	8	7,095	7,096	2016
Proceeds from frozen assets in foreign countries	5	75,123	-	
Receipts from interest	7	43,077	18,636	
Other receipts	9	326,056	441,971	
<b>Total cash receipts</b>		<u>46,964,543</u>	<u>28,562,265</u>	<u>45,449,084</u>
<b>Cash Payments</b>				
Transfers to the Iraq ministry of Finance	10	46,818,000	29,828,415	33,850,000
Payment through Letters of credit for Iraqi government entities	11	-	549,881	7,068,194
Other Payments	14	108,633	5	6,099,357
<b>Total cash Payment</b>		<u>46,926,633</u>	<u>30,378,301</u>	<u>47,017,551</u>
(Surplus) deficit of cash equivalents		37,910	(1,816,036)	(1,568,467)
Cash and cash equivalents at 1 January		(2,689,555)	(873,519)	694,948
<b>Cash and cash equivalents as at 31 December</b>	15	<u>(2,651,645)</u>	<u>(2,689,555)</u>	<u>(873,519)</u>

\* The cash and cash equivalents for the years ended 31 December 2017 and 2016, in terms of nature was include deficit rather than surplus and the deficit is financed by International Monetary Fund Loan and Trade Bank of Iraq loan, as shown in note (19).

  
Ministry of Finance  
Ministry of Finance

2019/12/27  
  
Director General of Accounting Department  
Ministry of Finance

**DEVELOPMENT FUND FOR IRAQ  
STATEMENT OF PROCEEDS OF OIL EXPORT SALES  
FOR THE YEAR ENDED 31 DECEMBER 2017  
IN THOUSANDS U.S DOLLARS**

	<u>Note</u>	<u>AS at 31 December</u>	
		<u>2017</u>	<u>2016</u>
Total export sales of petroleum as reported by Oil Marketing Company (SOMO) during the year on accrual basis		48,943,351	30,684,570
<b>Add:</b>			
Amounts transferred by the central bank of Iraq for crude oil shipments by the International companies	4	4,525,505	2,026,487
Deposits from sales of prior year export oil sales		-	2,026,487
Interest on delayed bank transfers		121	21
<b>Deduct:</b>			
Demurrage claims excluded from sales invoices		(84,457)	(91,011)
Sales collected after end of the year		<u>(6,871,328)</u>	<u>(4,525,505)</u>
<b>Net proceeds deposited in the Development Fund for Iraq and Successor Account</b>		<u>46,513,192</u>	<u>28,094,562</u>

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NOTES TO THE FINANCIAL STATEMENTS  
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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 of 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 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 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 payments for contracts signed by the former CPA requiring payment subsequent to 28 June 2004.

The U.S Agencies include the JCC, PCO, IRMO, the JASG financial 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 Ministries resolved in its (23) meeting held on 19 October 2006 to establish the Committee of Financial Experts (COFE) to maintain 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



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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.

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 (CBI2) in the federal reserve bank of New York, and then after transfer the amount deposited in the Central Bank of Iraq account 2 to the ministry of finance in U.S dollars account at the Central Bank of Iraq (Successor account number is 300600).

**Postpone the 5% deduction related 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 2017. The total remaining amount none deducted for the years ended 31 December 2015, 2016 and 2017 USD 4.6 Billion, which expected to deduct in the beginning of the year 2018.

**2. Basis of accounting**

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 (USD) which is the functional currency of the Development Fund for Iraq and Successor Account. 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 1 August 2019 by Ministry of Finance.

**DEVELOPMENT FUND FOR IRAQ  
NOTES TO THE FINANCIAL STATEMENTS  
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**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 Cash margins of the letters of credit at banks are not included as part of the Fund cash and cash equivalents balances as they are not controlled by the Fund and 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 account at the FRBNY.

**3.4 Cash payments**

Cash payments including transfers to Iraqi MOF.

**3.5 Tax**

The fund is not subject to taxation.

**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. The cash collection from Export Sales of Oil and deposited in sales oil collection account for the year ended 31 December 2017 USD 46.5 Billion (USD 28 Billion for the year ended 31 December 2016).

**4.2 Petroleum products sales export agreements**

Cash received from export sales of petroleum products during the year ended 31 December 2017 amounting to USD 170 million (from inception to 31 December 2017: USD 4.399 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 Oil Marketing Company 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 2017. In addition the Ministry of Oil did not receive the oil production report

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for Kirkuk governorate for the period from July 2017, 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 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 2017 and 2016 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 working in Iraq.

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 USD 10.617 Billion during the year ended 31 December 2017 (31 December 2016: USD 12.4 Billion).

**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 state 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 found of the former Iraq 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, during the year ended 31 December 2017 the Fund received USD 75 Million.

**6. United nations oil for food program**

The UN Oil food program (OFFP) was established in accordance with UNSCR 986 (1995), and subsequent relevant resolution. According to UNSCR 1483 (2003), all surplus fund 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 activities under the OFFP, noting that all letter 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 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.

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According to operative paragraph 2 of the UNSCR 1958 (2010), noting the Government of Iraq's provision of certificate of arrival of 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 documented.

According to the UNSCR 1958 (2010), a new escrow account was established to ensure a retention of USD 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 organizations support to member state investigations and member state proceedings related to the program, and the expenses of the high-level coordinators office. In addition an amount of USD 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 year with regards to all activities in connection with the (OFF) program since its inception.

According to UNSCR 1958 (2010), the Security Council has requested the Secretary-General to take all necessary action to enter into all necessary agreement 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. During the year ended 31 December 2017 reimburse the amount of escrow account in two payments (USD 135 Million in 5 July 2017 and USD 16 Million in 29 September 2017) by JP Morgan Bank and interest received on the escrow account amount during the year ended 31 December 2017 USD 3.33 Million.

**7. Receipts from interest**

	For the year ended 31 December	
	2017	2016
Interest on American treasury bonds*	24,699	13,196
Overnight repurchase agreement pool facility/ Central Bank of Iraq	17,545	5,440
Letter of credit cash margins	833	-
	<u>43,077</u>	<u>18,636</u>

\* This amount represents interest recorded on U.S. Treasury bills received upon maturity. The Fund received interest from accounts held with Military Sales Account (FMS) in FRBNY, and are subject to investment in U.S. Treasury bills.

**8. Receipts from loans**

	For the year ended 31 December	
	2017	2016
Refunded loans*	7,095	7,096
	<u>7,095</u>	<u>7,096</u>

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\* On 19 May 2017, the Fund received USD 6.7 Million from Republic of Madagascar as a repayment of Iraq's loan, and on 17 November 2017 the Fund received USD 395 thousands from The Islamic Republic of Mauritania during the year 2017 as an interest payment on loan granted.

**9. Other**

	For the year ended 31 December	
	2017	2016
Refunded letters of credit cash margins	315,109	228,698
Receipts from oil for food program	-	337
Receipts from Iraqi embassies, cultural missions, governmental banks and others	10,947	212,936
	<u>326,056</u>	<u>441,971</u>

**10. Transfers to the ministry of finance**

The Ministry of finance transfers the fund received from Development Fund of Iraq and Successor Accounts (300600) to the Iraqi ministries and its governmental units based on the approved annual budget.

During the year ended 31 December 2017, an amount of USD 46.8 Billion was transferred from the Development Fund of Iraq and Successor Account (300600) to Ministry of Finance .

The following table details the payments of letters of credit during the year ended 31 December 2017 in favor of Iraqi government entities and their affiliated services:

	For the year ended 31 December	
	2017	2016
Ministry of Oil	1,564,421	250,268
Ministry of Trade	1,382,827	-
Ministry of Electricity	1,311,024	223,483
Ministry of Health	800,063	639,787
Ministry of Municipalities and Public Works	161,539	30,098
Ministry of Defense	135,940	842,325
Ministry of Education	60,312	-
Ministry of Interior	31,723	4,861
Ministry of transportation	21,629	537
Council of Ministers	13,924	-
Ministry of Agriculture	7,350	44,685
Ministry of Justice	1,000	-
Ministry of Finance	1,000	502,500
Ministry of Communications	43	441
Water Resources	-	8,602
	<u>5,492,795</u>	<u>2,547,587</u>

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**11. Letters of credit for the benefit of Iraqi Governmental entities**

Letters of credit payments are in accordance with approved budgets of the Iraqi ministries and its departments and governmental 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 account 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 intended Iraqi ministry in accordance with terms of the letters of credit. The cash 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.

During the year ended 31 December 2017, the payment of letters of credit made through transfers to the ministry of finance instead of the successor account. Therefore, the payments of letters of credit was not included in the Letters of credit and included in the transfers to the ministry of finance. For comparative figures, the mechanism of the payments adapted during the second quarter of the year ended 31 December 2016. Therefore, the payments for 2016 included in both letters of credit and transfers to the ministry of finance.

	For the year ended 31 December	
	2017	2016
Ministry of Interior	-	315,830
Ministry of Defense	-	131,028
Ministry of Oil	-	50,567
Ministry of Health	-	36,726
Ministry of Electricity	-	10,000
Ministry of Finance	-	2,000
Ministry of Industry and Minerals	-	1,898
Ministry of Justice	-	1,715
General Tax Authority	-	117
	-	-
	-	<u>549,881</u>

**12. Contractors administration by U.S Agencies**

The US Agencies have been granted limited authority by the Government of Iraq to Administer ongoing outstanding contracts entered into 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 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 by the US agencies from the Fund and the amounts disbursed to the reconstruction contracts.

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NOTES TO THE FINANCIAL STATEMENTS  
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**13. Iraqi external debt repayment**

The Ministry of Finance transferred USD 1,049 million from the Ministry of Finance accounts held by Central Bank of Iraq during the year ended 31 December 2017 to external parties (USD 1,186 million during the year ended 31 December 2016). USD 375 Thousands was paid to the Bank of England in 2017 through the Central Bank of England's account where the funds deposited with the Bank of England are used to pay interest on bilateral debt agreements with Paris Club creditors and other club members. In addition, USD 162 Million was transferred from the accounts of the Ministry of Finance of the Central Bank of Iraq to the Bank of New York during the year ended 31 December 2017, which was repaid in two installments every six months and payable on November 1 and December 7 of each year until the end of 2020. The amounts deposited with Bank of New York are used to pay interest on the coupon (interest of Iraqi bonds to major commercial creditors) reached with creditors in the Paris Club and other members of the club and according to the agreement concluded, the Central Bank is obliged to pay this debt after one year 2020 according to the terms of the agreement.

**14. Other payments**

Represents the value of the payments made by the Central Bank of Iraq during the year ended 31 December 2017 based on the mechanism agreed between the Ministry of Finance and the Central Bank of Iraq and the amounts deposited incorrectly in the Development Fund for Iraq account.

**15. Cash and cash equivalents**

	For the year ended 31 December	
	2017	2016
<b>Accounts held with FRBNY</b>		
Operating accounts	63	60
	<u>63</u>	<u>60</u>
<b>Accounts held with Central Bank of Iraq</b>		
Successor Account (300600)	(2,689,618)	(873,579)
	<u>(2,689,618)</u>	<u>(873,579)</u>
<b>Fund's Balance</b>		
At FRBNY	63	60
At Central Bank of Iraq	(2,689,618)	(873,579)
	<u>(2,689,555)</u>	<u>(873,519)</u>

**16. Commitments, contingencies and immunity**

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

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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 and up to date financial statement

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.

**17. 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 expenditure 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:

	For the year ended 31 December	
	2017	2016
Treasury bills	2,583,677	2,593,381
Overnight placements	1,567,200	1,558,391
Operating accounts	86	91
	<u>4,150,963</u>	<u>4,151,863</u>

The movement below shows foreign military sales to the Iraqi government during the last four years:

	2017	2016	2015	2014
The Begging balance	4,151,863	5,640,891	6,476,619	6,127,935
Additions during the period	2,463	1,772	452,108	1,406,622
Drawings during the period	(3,363)	(1,490,800)	(1,287,836)	(1,057,938)
The Ending balance	<u>4,150,963</u>	<u>4,151,863</u>	<u>5,640,891</u>	<u>6,476,619</u>



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**18. Analysis of receipts and payments**

<b>As at 31 December 2017</b>	<b>Main Accounts</b>	<b>Successor Account*</b>	<b>Total</b>
<b><u>Cash Receipts</u></b>			
Export sales of oil	-	46,513,192	46,513,192
Receipts from Interests	24,701	18,376	43,077
Receipts from Loans	7,095	-	7,095
Receipts of assets frozen outside of Iraq	-	75,123	75,123
Other receipts	7	326,049	326,056
<b>Total cash receipts</b>	<b><u>31,803</u></b>	<b><u>46,932,740</u></b>	<b><u>46,964,543</u></b>
<b><u>Cash Payments</u></b>			
Transfers to the Iraqi Ministry of Finance	-	46,818,000	46,818,000
Other payments	-	108,633	108,633
<b>Total cash payments</b>	<b><u>-</u></b>	<b><u>46,926,633</u></b>	<b><u>46,926,633</u></b>
Transfer between accounts	(31,800)	31,800	-
<b>Surplus (Deficit) of cash and cash equivalents</b>	<b><u>3</u></b>	<b><u>37,907</u></b>	<b><u>37,910</u></b>
Cash and cash equivalent at 1 January	60	(2,689,615)	(2,689,555)
<b>Cash and cash equivalent as at 31 December 2017</b>	<b><u>63</u></b>	<b><u>(2,651,645)</u></b>	<b><u>(2,651,645)</u></b>

\* According to the mechanism adopted by the Iraqi government on 22 May 2014, oil revenues are transferred daily from the oil sales account to the CBI 2 account in the Federal Reserve Bank of New York, and then after transfer the amounts deposited to the Ministry of Finance USD account at the Central Bank of Iraq (Account No. 300600).

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**18. Analysis of receipts and payments (continued)**

<b>As at 31 December 2016</b>	<b>Main Accounts</b>	<b>Successor Account*</b>	<b>Total</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	-	7,096
Other receipts	8,314	433,657	441,971
<b>Total cash receipts</b>	<b><u>28,606</u></b>	<b><u>28,533,659</u></b>	<b><u>28,562,265</u></b>
<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>	<b><u>5</u></b>	<b><u>30,378,296</u></b>	<b><u>30,378,301</u></b>
Transfer between accounts	(28,600)	28,600	-
<b>Surplus (Deficit) of cash and cash equivalents</b>	<b>1</b>	<b>(1,816,037)</b>	<b>(1,816,036)</b>
Cash and cash equivalent at 1 January	59	(873,578)	(873,519)
<b>Cash and cash equivalent as at 31 December 2016</b>	<b><u>60</u></b>	<b><u>(2,689,615)</u></b>	<b><u>(2,689,555)</u></b>

\*\* According to the mechanism adopted by the Iraqi government on 22 May 2014, oil revenues are transferred daily from the oil sales account to the CBI 2 account in the Federal Reserve Bank of New York, and then after transfer the amounts deposited to the Ministry of Finance USD account at the Central Bank of Iraq (Account No. 300600).

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**19. Restatement**

During the year ended 31 December 2017, the Ministry of Finance recorded an amount totaled to USD 1.25 Billion (2015: USD 1.24Billion) related to International Monetary Fund (IMF) loan and an amount totaled to USD 2 Billion related Trade Bank of Iraq loan, in order to finance transfers to The Ministry of Finance account.

According to United Nations Security Council Resolution (UNSCR) 1483 for (2003), these amounts are not considered part of Fund's account and should not be recorded within the funds accounts. As results, these amounts had been reclassified and excluded from Funds accounts.

The following table shows the effect of recording loans received on the cash receipts and payments list:

	For the year ended 31 December		
	2017	2016	2015
Transfers to the Ministry of Finance according to cash receipts and payments list	46,818,000	29,828,415	33,850,000
<b>Exclude:</b>			
loans received	(803,666)	(1,252,549)	(3,242,800)
Transfer to the Ministry of Finance after excluding loans received	<u>460,014,334</u>	<u>28,575,866</u>	<u>30,607,200</u>