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Our presentation is intended solely for the information and use of the IAMB, COFE and Iraqi Ministry of Finance and is not intended to be and should not be used by anyone other than these specified parties. Ernst & Young therefore assumes no responsibility to any user of the report other than these parties. Any other parties who choose to rely on our report do so entirely at their own risk.

This presentation contains a summary of the key findings only. The full findings of our audit are contained in separate reports provided to the IAMB and COFE.
Scope of Work and Deliverables

**Scope of work**

**Interim Review**
- Review Interim Financial Statement as of June 30, 2007
- Oil Production Quantity Reconciliation (Additional Request)

**Final Review**
- Audit DFI Financial Statement
- Audit the Disbursements of US Agencies
- Funds Disbursed by all Spending entities
- Testing Oil Proceeds Receipt Account (OPRA)

**Deliverables**

- Review Report on DFI Interim Financial Statement
- Results of Review Procedures, Key Findings and Recommendations
- Presentation to the COFE and IAMB

- Audit report on DFI Financial Statement including Oil Export Sales, Oil Proceeds Receipts Account (OPRA)
- Management Letter Report on Internal Controls related to spending Entities
- Report on Oil Production and Consumption – High Level Analysis
- Presentation to the COFE and IAMB

**Reporting Date**
- October, 2007
- April, 2008
Entities covered

- Ministry of Finance (MoF)
- Central Bank of Iraq (CBI)
- Ministry of Oil (MO)
- Oil Marketing Company (SOMO)
- Iraqi Ministries in Baghdad
- Iraqi Ministries in Sulaimanya & Erbil
- US agencies
Financial statement  
Statement of cash receipts and payments

<table>
<thead>
<tr>
<th>Description</th>
<th>January 1 to December 31, 2007 U.S. $ Million</th>
<th>January 1 to December 31, 2006 U.S. $ Million</th>
<th>From inception to December 31, 2007 U.S. $ Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Receipts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude Oil Exports</td>
<td>35,883</td>
<td>28,311</td>
<td>106,325</td>
</tr>
<tr>
<td>UN Oil for Food Program</td>
<td>186</td>
<td>185</td>
<td>10,411</td>
</tr>
<tr>
<td>Proceeds from Frozen Assets</td>
<td>5</td>
<td>17</td>
<td>1,552</td>
</tr>
<tr>
<td>Interest Received</td>
<td>561</td>
<td>453</td>
<td>1,327</td>
</tr>
<tr>
<td>Other Receipts</td>
<td>883</td>
<td>589</td>
<td>2,065</td>
</tr>
<tr>
<td>Total Cash Receipts</td>
<td>37,518</td>
<td>29,555</td>
<td>121,680</td>
</tr>
</tbody>
</table>
Financial statement
Statement of cash receipts and payments (Cont’d)

<table>
<thead>
<tr>
<th>Description</th>
<th>January 1 to December 31, 2007 U.S. $ Million</th>
<th>January 1 to December 31, 2006 U.S. $ Million</th>
<th>From inception to December 31, 2007 U.S. $ Million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Payments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers to MoF</td>
<td>26,700</td>
<td>18,000</td>
<td>74,079</td>
</tr>
<tr>
<td>LC’s to the Benefit of Iraqi entities</td>
<td>7,559</td>
<td>9,889</td>
<td>28,169</td>
</tr>
<tr>
<td>Contracts Administered by US Agencies</td>
<td>116</td>
<td>251</td>
<td>7,541</td>
</tr>
<tr>
<td>Iraqi External Debt Repayments</td>
<td>142</td>
<td>539</td>
<td>1,285</td>
</tr>
<tr>
<td>Other Payments</td>
<td>151</td>
<td>103</td>
<td>700</td>
</tr>
<tr>
<td><strong>Total Cash Payments</strong></td>
<td>34,668</td>
<td>28,782</td>
<td>111,774</td>
</tr>
<tr>
<td>Excess of Receipts Over Payments</td>
<td>2,850</td>
<td>773</td>
<td>9,906</td>
</tr>
<tr>
<td>Purchased Treasury Bills During the Period</td>
<td>(14,516)</td>
<td>(9,910)</td>
<td>(26,394)</td>
</tr>
<tr>
<td>Proceeds From Treasury Bills on maturity During the Period</td>
<td>12,746</td>
<td>6,289</td>
<td>19,035</td>
</tr>
<tr>
<td>Cash and Cash Equivalent, Beginning of the Period</td>
<td>1,467</td>
<td>4,315</td>
<td>-</td>
</tr>
<tr>
<td>Net Cash Available For Use</td>
<td>2,547</td>
<td>1,467</td>
<td>2,547</td>
</tr>
<tr>
<td>Treasury Bills, End of Period</td>
<td>7,359</td>
<td>5,589</td>
<td>7,359</td>
</tr>
<tr>
<td><strong>Cash, and Cash Equivalents and Treasury Bills, End of Period</strong></td>
<td>9,906</td>
<td>7,056</td>
<td>9,906</td>
</tr>
</tbody>
</table>
Outstanding data

- Detailed schedule related to contracts administrated by U.S. agencies during the year.
Key issues

► DFI accounting records are maintained by MoF as part of its records and DFI is not recognized as a separate reporting entity. In addition MoF does not maintain a separate bank account for DFI at CBI.

► MoF records does not include a complete set of accounting records to support DFI’s financial statement figures and related notes disclosures. Accordingly data obtained may not be tested for completeness.

► DFI’s statement of cash receipts and disbursements was compiled from the following records which has not been officially reconciled:
  ► Monthly statements of DFI’s main account prepared by CBI,
  ► DFI’s sub-account maintained by US Agencies and CBI,
  ► FRBNY statements,
  ► MoF manual records and Access Database.

► During 2007, the MoF has established a designated database for DFI to collect all transactions and accounting records in.
Key issues (Cont’d)

► A substantial part of the DFI receipts is from the export sales of petroleum. The IAMB recommended in March 2004 the expeditious installation of a comprehensive oil metering system in Iraq and in accordance with standard oil industry practices. While the Iraqi Government supports oil metering, progress has been slow. Some metering has been installed at oil terminals, but there continues to be no metering in the oil fields. Because of the absence of an overall comprehensive system of controls over oil, there are unreconciled differences between oil extraction, production, export sales and internal usage.

► Cash received from export sales of petroleum products of U.S. $ 770 million for this year is deposited in SOMO’s bank accounts instead of OPRA as required by UNSCR 1483.
Key issues (Cont’d)

► SOMO was engaged in barter transactions with the Syrian Government valued at U.S. $ 217 million in exchange for electricity and petroleum products. These transactions are not reported in DFI records. Cumulatively barter transactions since inception amounts to U.S. $ 1,033 million.

► MoF paid an amount of US$ 891 million from DFI accounts for LCs related to self financing entities that are paid back to MoF by the entities. Moreover, MoF has received advances of U.S. $ 1,170 million from these entities to cover their LCs. This amount has not been deposited in DFI accounts; it was deposited in MoF account. As a result, DFI cash payments balance during the year is overstated and the cash balance as of 31 December 2007 by U.S. $ 891 million.
Key issues (Cont’d)

► Total cash transfers from DFI to MoF account for this year amounting to U.S. $ 26,700 million has been recorded as cash payments in DFI financial statement before the amounts were transferred to the entities. Moreover the total amount transferred to the entities during this year by MoF is U.S. $ 30,518 million, (Exceeds MoF receipts by U.S. $ 3,818 million).

► The accumulated excess of funds transferred to MoF over amounts transferred to entities is U.S. $ 2,219 million as of 31 December 2007.
Key issues (Cont’d)

► According to UNSCR 1483 (2003), 5% of the proceeds of export sales of oil and oil products shall be deposited into United Nations’ Compensation Fund, however MoF has no information on the following:

► The balance available at the Compensation Fund.
► The remaining outstanding amounts due to United Nations Compensation Fund.
► The estimated date of the final payment to Compensation Fund.

Following the meeting with IAMB and COFE, we received a letter from the United Nations providing us with the following information:

- Balance available at the Compensation fund: U.S.$ 0.36 billion.
- As of December 31, 2007 about U.S. $ 23.43 billion had been paid out to award recipients.
- At the present rate of Iraqi oil sales, it would take approximately 17 years for the compensation award to be fully paid.
Internal control material weaknesses

Cash margins at corresponding banks

► CBI and MoF do not maintain any records of the outstanding entities’ cash margins against LCs. There is a large number of long outstanding cash margin balances with TBI’s corresponding bank for LCs that were opened through TBI for the benefit of entities’.
Internal control material weaknesses (Cont’d)

CBI Transfers to MoF’s Current IQD Account

► There is currently no written agreement between MoF and CBI as to the arrangements to be followed to finance MoF’s Iraqi Dinar current account at CBI from DFI FRBNY account.

► CBI is financing MoF’s current account by withdrawing the amount from DFI account at FRBNY in U.S. Dollar and then transferring an equivalent amount in Iraqi Dinar to MoF’s current account at CBI.

► The exchange rate used is CBI’s formal exchange rate plus a commission of IQD 15 for each US Dollar.
US agencies contracts

- US Agencies does not maintain a complete set of DFI accounting records, they maintain two separate Excel databases for each of payment transactions and contracts. However, these databases are not integrated.
Reconciliation between MoF and Other governmental entities

► Differences between amounts transferred to entities and amounts recorded in MoF records as transfers have been noticed.

► MoF does not carry out monthly reconciliations of the payments transferred from the DFI to the ministries and government entities between the MoF records and the records of the other ministries and government entities records.

► Due to the absence of formal reconciliations, these differences can not be reliably justified. However, timing differences and/or currency exchange rates differences were major reasons Iraqi governmental entities justified these differences by.
Crude oil usage – high level analysis

Oil Production

Stage I
- South Oil Company
  - Internal Consumption: 1.75 mbpd
  - Export Sales: 1.9 mbpd

Stage II
- Internal Consumption: 0.22 mbpd
- Export Sales: 1.53 mbpd
- South Refineries: 0.20 mbpd
- Power Stations: 0.02 mbpd
- Basrah Port: 1.53 mbpd

Stage II
- Internal Consumption: 0.17 mbpd
- Export Sales: 0.12 mbpd
- North Oil Company: 0.29 mbpd
- 0.3 mbpd

Stage III
- Internal Consumption: 0.13 mbpd
- Power Stations & Others: 0.04 mbpd
- North Refineries: 0.07 mbpd
- Barter Trade (Syria): 0.01 mbpd
- Ceyhan Port (Turkey): 0.03 mbpd

Stage IV
- Distribution Companies
This diagram represents crude oil production, exports and internal consumption extracted from data provided to EY.
Crude oil usage–high level analysis (Cont’d)

This diagram represents a comparison between crude oil production data as provided by EIA, and data provided to EY from January to December 2007 (mbpd).
This diagram represents a comparison between Iraqi Actual Oil Price and Weighted Average Quoted international Oil price During 2007.

Actual price is different from PLATTS price mainly due to API, Price Differential and freight.
Crude oil usage—high level analysis (Cont’d)

Quantities for the year ended December 31, 2006

<table>
<thead>
<tr>
<th>Category</th>
<th>Ministry of Oil Data</th>
<th>North &amp; South Oil Companies’ Data</th>
<th>Export and Internal Consumption (SOMO, Power Station &amp; Refineries Reports)</th>
<th>Petroleum Products By Refineries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Barrel 000'</td>
<td>Barrel 000'</td>
<td>Barrel 000'</td>
<td>Barrel 000'</td>
</tr>
<tr>
<td>Crude Oil Produced</td>
<td>713,594</td>
<td>713,595</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Crude Oil Exports</td>
<td>550,986</td>
<td>550,986</td>
<td>549,395</td>
<td>-</td>
</tr>
<tr>
<td>Available for Internal Consumption</td>
<td>162,608</td>
<td>162,609</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Quantities Received by refineries</td>
<td>126,990</td>
<td>124,304</td>
<td>126,335</td>
<td>124,188</td>
</tr>
<tr>
<td>Quantities Received by Power stations</td>
<td>16,498</td>
<td>14,614</td>
<td>16,486</td>
<td>-</td>
</tr>
<tr>
<td>Internal Consumption</td>
<td>143,488</td>
<td>138,918</td>
<td>142,821</td>
<td>-</td>
</tr>
<tr>
<td>Net Crude Oil After Export &amp; Internal Consumption</td>
<td>19,120</td>
<td>23,691</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Crude oil - high level analysis

Quantities for the period from January 1, 2007 to December 31, 2007 (Table 1)

<table>
<thead>
<tr>
<th>Description / Source of Data</th>
<th>Ministry of Oil</th>
<th>North &amp; South Oil Companies’</th>
<th>Export and Internal Consumption (SOMO, Power Station &amp; Refineries Reports)</th>
<th>Petroleum Products By Refineries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Barrel 000'</td>
<td>Barrel 000'</td>
<td>Barrel 000’</td>
<td>Barrel 000’</td>
</tr>
<tr>
<td>Crude Oil Produced</td>
<td>742,890</td>
<td>742,890</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Crude Oil Exports</td>
<td>599,642</td>
<td>599,642</td>
<td>599,642</td>
<td>-</td>
</tr>
<tr>
<td>Available for Internal Consumption</td>
<td>143,248</td>
<td>143,248</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Quantities Received / Produced by Refineries</td>
<td>120,957</td>
<td>120,957</td>
<td>121,005</td>
<td>111,693</td>
</tr>
<tr>
<td>Refineries’ Waste Blended with Exported Oil</td>
<td>(9,579)</td>
<td>(9,579)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Quantities Received by Power Stations</td>
<td>17,988</td>
<td>17,988</td>
<td>21,023</td>
<td>-</td>
</tr>
<tr>
<td>Internal Consumption</td>
<td>129,366</td>
<td>129,366</td>
<td>142,028</td>
<td>-</td>
</tr>
<tr>
<td>Net Crude Oil After Export &amp; Internal Consumption</td>
<td>13,882</td>
<td>13,882</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
## Oil products – high level analysis

Oil products quantities for the period from January 1, 2007 to December 31, 2007 (Table 2)

<table>
<thead>
<tr>
<th>Category Description / Source of Data</th>
<th>Refineries' Barrel 000'</th>
<th>Pipelines' Barrel 000'</th>
<th>Distribution Company Barrel 000'</th>
<th>Power Stations' Barrel 000'</th>
<th>SOMO's Barrel 000'</th>
<th>Difference Barrel 000'</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refined Products Received by Pipelines Company/ Sent By Refineries</td>
<td>(34,358)</td>
<td>46,079</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>11,721</td>
</tr>
<tr>
<td>Refined Products Received by Distribution Company / Sent By Refineries</td>
<td>(44,988)</td>
<td>-</td>
<td>41,816</td>
<td>-</td>
<td>-</td>
<td>(3,172)</td>
</tr>
<tr>
<td>Refined Products Received by Power Generating Companies / Sent By Pipelines Company</td>
<td>-</td>
<td>(12,987)</td>
<td>-</td>
<td>15,572</td>
<td>-</td>
<td>2,585</td>
</tr>
<tr>
<td>Fuel Oil Exports Quantities Reported By SOMO / Sent By Pipelines Company</td>
<td>-</td>
<td>(9,964)</td>
<td>-</td>
<td>-</td>
<td>15,804</td>
<td>5,840</td>
</tr>
<tr>
<td>Refined Products Sent by Pipeline Company/ Received By Distribution Company</td>
<td>-</td>
<td>(41,793)</td>
<td>42,537</td>
<td>-</td>
<td>-</td>
<td>744</td>
</tr>
<tr>
<td><strong>Net Total</strong></td>
<td>(79,346)</td>
<td>(18,665)</td>
<td>84,353</td>
<td>15,572</td>
<td>15,804</td>
<td>17,718</td>
</tr>
</tbody>
</table>
Oil production & consumption
Significant findings & limitations to reconciliation of oil

► Other than export sales, most of the parties involved in the oil industry in Iraq depend on the “Reverse Measurement Method” in recording the quantities of oil and oil products. (i.e. no metering system is in place). Additionally, some of the refineries have reported that even when they have metering systems, these metering systems are not utilized because they require calibration or repair.

► The report provided by MO in relation to oil production and consumption does not add up. The net crude oil after export & internal consumption quantity of 13,882 thousand barrel (table 1) cannot be allocated accurately to specific uses. The following quantities were reported by MO in relation to the aforementioned quantity:

► Injection to wells: 12,102 thousand barrel
► Change in inventory : (411) thousand barrel
► Other Usages : 2,687 thousand barrel

► We have noticed significant differences in relation to oil products movements between Refineries, Pipelines, Distribution, and Power Stations (table 2).
Oil production & consumption
Significant findings & limitations to reconciliation of oil (Cont’d)

► Refineries' Data (table 1) indicates that 111,693 thousand barrel of oil products is produced, while refineries as per table (2) also reported that only 79,346 thousand barrels were sent for internal usage. In addition to that the quantity received by Distribution Company was 84,353 thousand barrel. This difference cannot be explained only by changes in Inventory at the beginning and end of the year.

► The previous tables show discrepancies in oil data between different official sources. In addition, the actual usage of crude oil destined for domestic consumption is not clearly understood.

► Reports provided by different entities are not standardised. Accordingly some information needed for the reconciliation is not available or partially available (i.e. Injection, storage, pipeline waste information).
Oil production & consumption
Significant findings & limitations to reconciliation of oil (Cont’d)

- Due to lack of a comprehensive metering system, crude oil production cannot be reliably measured.
- There should be a technical reconciliation between crude oil delivered to refineries and their output.
- We have noticed that no reconciliation is being officially prepared in order to control the quantities of oil blended with exports and/or injected to wells.
- Oil Reconciliation is not officially prepared and checked by an independent party.
- Oil Industry benchmarks indicate that the normal output of Oil refining process is between 102% to 105% of the crude oil refined, however, Iraqi refineries have operated only at 92% (table 1).
- The Government’s priority in this regard should therefore be to properly designing, installing, operating and maintaining measurement equipment sufficient to accurately determine produced, transported, refined, imported, consumed, and sold products at all points along Iraq’s oil product related networks.