

DEVELOPMENT FUND FOR IRAQ

**OIL PRODUCTION & CONSUMPTION
HIGH LEVEL ANALYSIS**

31 DECEMBER 2007

30 April 2008

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International Advisory and Monitoring Board
Committee of Financial Experts
Development Fund for Iraq
Baghdad - Iraq

Dear Sirs,

Oil Production & Consumption – High Level Analysis

As requested by the Committee of Financial Experts during our initial project meetings, we have undertaken the procedures described in the Work Performed section of this document.

Because the procedures, which are detailed in Work Performed section of this document, do not constitute an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance in relation to the outcome of the analysis.

Had we performed additional procedures or had we performed an audit or review made in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for the information of the Committee of Financial experts and International Advisory and Monitoring Board and is not to be used for any other purpose or to be distributed to any other parties.

For Ernst & Young
Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Bishr Baker'.

Bishr Baker
Partner

Oil Production & Consumption – High Level Analysis

Work Performed:

1. We have obtained oil production and consumption data available at the Ministry of Oil (MO) Research and Studies Department for the year ending 31 December 2007.
2. We have requested confirmations from the following parties regarding corresponding data provided by MO.
 - Oil Marketing Company (SOMO).
 - All Iraqi Refinery Companies.
 - Pipeline Company.
 - Distribution Company.
 - Oil Producing Companies.
 - Power station.
3. We have conducted a comparison between data provided by MO and the corresponding party. Following is an analysis of the information which we received:

Crude Oil Data:

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

Table (1)

Oil Production & Consumption – High Level Analysis

Oil Products Data:

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

Table (2)

Oil Production & Consumption – High Level Analysis

Significant Findings & Limitations to Reconciliation of Oil Data

- 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) can not 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).
- Refineries' Data (table 1) indicates that 111,691 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 can not be only explained 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).
- 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 Production & Consumption – High Level Analysis

- 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.